



Flexible Spending Accounts – Healthcare and Dependent Care

❖ **What is a Flexible Spending Account Plan?**

Often referred to as “Section 125 plan”, “Cafeteria Plan” or “FSA account/plan”, this is a program originated by the IRS that enables employees to set-aside money pre-tax from their gross payroll for certain expenses, such as health insurance, child care, adoption expense and unreimbursed medical expenses.

❖ **If I set aside part of my pay, won't I make less money?**

No. Your net take-home pay will reflect the deduction that you have elected. But the net reduction is never as great as the amount that you elect, due to the tax savings. More importantly, when you receive reimbursement for the expenses that you anticipated, this money will be paid with no tax withholding. Therefore, you ultimately gain income via the pre-tax savings.

❖ **Can I change my contributions during the year?**

Contributions are determined at the company's open enrollment period annually. No changes are allowed during the year, unless you experience an “eligible change in status”, e.g., the birth of a child.

❖ **Why should I participate in the Healthcare reimbursement Account when I already have health insurance?**

Most insurance plans, both health and dental, have some co-payments and/or deductibles in addition to non-covered services. When these expenses occur for you, you have to pay out-of-pocket. By using money set-aside pre-tax, you will save federal, state and FICA taxes, typically starting in the range of 25%. It simply becomes a matter of estimating the amount of these expenses that you incur annually, and electing to set aside that money.

In the past few years, the popularity of laser eye corrective surgery (Lasix) as well as the new inclusion of over-the-counter medications have increased the ability to use a Health reimbursement account.

❖ **Can I submit over-the-counter drugs for reimbursement?**

Yes. A recent interpretation by the IRS now allows for over-the-counter drugs to be reimbursed. The process to consider is “do I medically need this”? Items such as Claritin and Prilosec for acid reduction are properly reimbursed. Even items such as cough syrup and nasal decongestants may be submitted. Other items however, such as teeth whitening strips, massage oils and hair regrowth products are NOT allowed.

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❖ **What if I currently take the dependent care credit on my annual tax return?**

If your family income is over \$20,000, you will most likely benefit from this plan rather than taking advantage of the current income tax credit. The amount you deposit in your Dependent Care Account reduces the amount, dollar for dollar, that you can claim as a credit on your tax return.

❖ **How do I get reimbursed for my expenses?**

MedSoft will provide you with an on-line account login. Upon entering the system, you will find a menu option "Submit a Claim". Complete the information in the form, and then print the form out (NOTE: the form is NOT able to be submitted on-line).

Mail or fax the form with all associated receipts to MedSoft. All claims are adjudicated within 48 hours, and posted on-line to individual participants' accounts. Payments are distributed on the next authorized date via your company's payment schedule, and usually coincides with your payroll cycle. Direct deposit is made on the payment date; those requesting checks will have them mailed on that date.

❖ **Do I have to wait for the money to be deposited in my account in order to make a claim for reimbursement?**

Healthcare account – your election amount is available to you as of the beginning of the plan year. Regardless on the timing of your use of this account, e.g., funds used early in the year, your payroll contributions will remain constant throughout the year. Dependent care – this account works on a "dollar in- dollar out" process. You are only reimbursed for the amount that has been withheld to the date of request.

❖ **How do I know how much is available in my account?**

Each time you receive a reimbursement, a statement (attached to your reimbursement check/direct deposit advice) will show the dollar amount you have set aside as well as the amount you have been paid to date. Or you may check your account online any time - www.medsoftcom.com - enter your company code, then access your individual account.

❖ **What happens to my accounts if I terminate my employment?**

You may submit incurred expenses through your date of termination for both the Healthcare and Dependent care accounts. You also have the opportunity to elect COBRA on the Healthcare (only) account, if you have funds remaining that you'd like to access. The Summary Plan Description outlines the benefits and rights that you may elect.



❖ **What if I don't use all of the money I set aside in my account(s)?**

This is the most common challenge for those unfamiliar with these accounts. MedSoft stresses the importance of carefully thinking about your expenses for the upcoming year. Particularly those with regular medical or dental expenses, as well as those using Dependent care find these accounts very beneficial.

The rule of "Use it or Lose it" is still in place; although in the past several years Congress has considered allowing a rollover of unused funds. At the present time however, this still means that if you do not have enough eligible expenses to match what you have set-aside, you lose access to the money at the end of the year.

Those who have used this type of account, and particularly the Healthcare reimbursement, typically will under-estimate what their total expenses will be. It is better to be conservative, than to risk loss of the funds.

❖ **What if I am not covered under my company's health insurance plan?**

Any employee that is eligible for benefits with a company may participate in a Healthcare and Dependent care Reimbursement accounts through a company's authorized FSA plans.

❖ **How do I benefit by participating?**

Your biggest advantage is the tax savings. Every dollar you set aside in your account reduces how much you pay in federal and state income taxes, as well as FICA (Social Security). Plus, you are reimbursed for qualified expenses that you are already paying for. So why NOT take advantage of the tax savings?

❖ **Are there any negatives that I should know about?**

Yes. The amount you set-aside is reduced from your gross earnings. The adjusted gross earnings is the amount that Social security (FICA) benefits are based upon. Consequently, the amount of social security benefits that you earn will be reduced slightly by the amount that you have set-aside.