

KNOW YOUR BENEFITS.

Brought to you by the insurance professionals at Laymon Group.



The example that follows illustrates how an FSA can save money.

* Assumes standard deductions and four exemptions

** Varies, assumes 3 percent

This example is for illustrative purposes only. Every situation varies and it is recommended you consult a tax advisor for all tax advice.

Bob and Jane's combined gross income is \$30,000. They have two children and file their income taxes jointly. Since Bob and Jane expect to spend \$2,000 in adult orthodontia and \$3,000 for day care in the next plan year, they decide to direct a total of \$5,000 (both contributing the maximum amount of \$2,500) into their FSAs. (See table)

Flexible Spending Accounts

Information for Employees

Flexible spending accounts, or FSAs, provide you with an important tax advantage that can help you pay health care and dependent care expenses on a pretax basis. By anticipating your family's health care and dependent care costs for the next plan year, you can lower your taxable income.

Essentially, the Internal Revenue Service (IRS) set up FSAs as a means to provide a tax break to employees and their employers. As an employee, you agree to set aside a portion of your pretax salary in an account, and that money is deducted from your paycheck over the course of the year. The amount you contribute to the FSA is not subject to social security (FICA), federal, state or local income taxes—effectively adjusting your annual taxable salary. The taxes you pay each paycheck and collectively each plan year can be reduced significantly, depending on your tax bracket. As a result of the personal tax savings you incur, your spendable income will increase.

	Without FSA	With FSA
Gross Income	\$30,000	\$30,000
FSA Contributions	\$0	-\$5,000
Gross Income	\$30,000	\$25,000
Estimated Taxes		
Federal	-\$2,550*	-\$1,776*
State	-\$900**	-\$750**
FICA	-\$2,295	\$1,913
After-Tax Earnings	\$24,255	\$20,561
Eligible out-of-pocket and dependent care expenses	-\$5,000	\$0
Remaining spendable income	\$19,255	\$20,561
Spendable income increase	--	\$1,306

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Flexible Spending Accounts

The Health Care Reimbursement FSA

The health care reimbursement FSA lets you pay for certain IRS-approved medical care expenses not covered by your insurance plan with pretax dollars. For example, cash that you now spend on deductibles, copayments or other out-of-pocket medical expenses can instead be placed in the health care reimbursement FSA pretax. The annual maximum contribution to the health care reimbursement FSA is **\$2500**.

Health FSAs employ a “use-it-or-lose-it” model. If you do not use the funds that you contribute to your FSA within the end of the year, you will have to forfeit those funds.

Eligible Expenses

Eligible health care expenses for the health care reimbursement FSA include more than just your deductible and copayments. You can also reimburse items such as prescription drugs, dental expenses, eye glasses and contacts, certain medical equipment and many more items. For more information about eligible medical expenses, please refer to IRS Publication 502, Medical and Dental Expenses, available at www.irs.gov/publications/p502/index.html.

Over-the-counter drugs used to be eligible expenses, but a law effective Jan. 1, 2011, only allows claims for over-the-counter medication or drug expenses (other than insulin) to be reimbursed **if the patient has a prescription**. This new rule does not apply to items for medical care that are not considered medication or drugs. Equipment such as crutches, supplies such as bandages and diagnostic devices such as blood sugar test kits still qualify for reimbursement without a prescription.

The Dependent Care FSA

The Dependent Care FSA lets you use pretax dollars toward qualified dependent care. The annual maximum amount you may contribute is \$5,000 (or \$2,500 if married and filing separately) per calendar year. If you elect to contribute to the dependent care FSA, you may be reimbursed for:

- The cost of child or adult dependent care
- The cost for an individual to provide care either in or out of your house
- Nursery schools and preschools (excluding kindergarten)

Eligible Expenses

In order for dependent care services to be eligible, they must be for the care of a tax-dependent child under age 13 who lives with you, or a tax-dependent parent, spouse or child who lives with you and is incapable of caring for himself or herself. The care must be needed so that you and your spouse (if applicable) can go to work. Care must be given during normal working hours (instances such as Saturday night babysitting does not qualify) and cannot be provided by another of your dependents.

Is the FSA program right for me?

Flexible spending accounts are beneficial for anyone who has out-of-pocket medical, dental, vision, hearing or dependent care expenses beyond what his or her insurance plan covers.

It's easy to determine if an FSA will save you money. At enrollment time, you will need to determine your annual election amount. Estimate the expenses that you know will occur during the year. These include out-of-pocket expenses for yourself and anyone claimed as a dependent on your taxes. If you had \$100 or more in recurring or predictable expenses, the accounts can help you stretch your dollars.

How do the accounts work?

If you decide to enroll in one or both of the accounts, your contributions are taken out of each paycheck—before taxes—in equal installments throughout the plan year. These dollars are then placed into your FSA. When you have an eligible health care or dependent care expense, you must submit a claim form along with an itemized receipt to be reimbursed from your account.

The health care reimbursement FSA will reimburse you for the full amount of your annual election (less any reimbursement already received), at any time during the plan year, **regardless of the amount actually in your account**. The dependent care FSA will only reimburse you for the amount that is in your account at the time you make a claim.

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Flexible Spending Accounts administered by Laymon Group

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