

# **FLEXIBLE SPENDING ACCOUNT FREQUENTLY ASKED QUESTIONS**

## **WHAT ARE FLEXIBLE SPENDING ACCOUNTS?**

A Flexible Spending Account (FSA) is a way to pay out-of-pocket, unreimbursed health care expenses and dependent daycare expenses on a BEFORE-TAX basis!

## **WHAT DOES “BEFORE TAX” OR “PRE-TAX” MEAN?**

FSA deductions from your paycheck are exempt from federal and state income tax and Social Security tax. These deductions reduce your **taxable** income reported on your W-2 and on your income tax returns.

## **WHY SHOULD I PARTICIPATE?**

Depending on your tax bracket, the Health Care FSA can possibly save you up to 40% in taxes on each dollar that you spend for your share of insurance deductibles, co-pays, or other eligible health care expenses. Also, the Dependent Care FSA may save you more in taxes than the daycare tax credit (filed with your federal income tax return).

## **WHOSE EXPENSES QUALIFY FOR THESE PLANS?**

Since these plans are authorized by the Internal Revenue Code, eligible expenses of any family member who is a dependent for tax purposes (special rules apply to children of divorced parents) qualify for the tax savings under the FSA, even if they are not covered under one of the medical or dental plans offered by the university.

## **WHY SHOULD I PARTICIPATE IN THE HEALTH CARE REIMBURSEMENT ACCOUNT IF I ALREADY HAVE MEDICAL INSURANCE?**

The Health Care Spending Account offers a tax break on medical care expenses NOT reimbursed by insurance. For example: co-pays for office visits, eye exams, glasses, prescribed medicine, qualified over-the-counter medicine and hospital care.

## **HOW MUCH DOES IT COST?**

Administrative costs of the plan are paid by the university and the Arizona Board of Regents.

## **WHAT IS THE CATCH?**

No catch. Congress approved FSA's in 1978; the Tax Reform Act of 1986 reaffirmed their legitimacy. The plans have long been in many Fortune 500 companies' benefit packages. Many state governments also include the plans in their benefit packages.

## **WHAT IF I DON'T USE ALL OF THE MONEY IN MY FSA ACCOUNT?**

You need to carefully estimate your allowable expenses for the plan year. If you do not incur enough qualified expenses by December 31 to equal the amount you contributed, you will lose the remaining balance in your account.

## **ARE THERE ANY NEGATIVES THAT I SHOULD KNOW ABOUT?**

Yes. 1) Because you are not paying Social Security tax on that portion of your income that has been redirected, your Social Security benefits may be slightly reduced. However, if you invest your tax savings, in many cases you would have more money available at retirement than the benefit you would have received from the amount not paid into Social Security. 2) If you do not use all the money in your account, you will forfeit it.

### **WHAT IF I'M ALREADY IN THE FSA?**

Participation in both accounts terminates at the end of each December 31. You must re-enroll each year to continue your participation.

### **ARE THERE ANY RESTRICTIONS IF MY SPOUSE ALSO CONTRIBUTES THROUGH HIS/HER EMPLOYER'S FSA PLAN?**

The reimbursement limit for an FSA Health Care Spending Account Plan is established by each employer, so you may each contribute an amount up to your respective employer's plan limit. However, you may only claim reimbursement of each expense from one plan, not the same expense under both plans.

The FSA Dependent Care Spending Account Plan maximum limit is established by the IRS. Therefore, you and your spouse may together elect a maximum of \$5,000 per plan year.

### **WHEN CAN I MAKE CHANGES?**

You can change benefits during open enrollment prior to the start of each calendar year. Generally, you will not be able to change your election during the plan year. However, if you plan well, that should not be a problem since you will only elect deductions equal to expenses that you know you will have.

To make an eligible change during the plan year, contact your Human Resources Office within 31 days of a qualifying life event. You will need to complete a change form and provide proof of the qualifying life event. Election changes are effective the first day of the month following receipt of your paperwork. If you are increasing your deductions due to a qualifying life event, keep in mind the new deductions only apply to expenses that occur after the date of the qualifying life event. Previous expenses would not be covered by the new deductions.

All changes to the plan must be consistent with the qualifying life event. For example, suppose you adopt a two-year-old child during the plan year. Since your number of dependents changes due to the adoption, you experience a status change event. Your child is now eligible for coverage under the Health Care Spending Account and the Dependent Care Spending Account. You would be allowed to increase the amount you set aside in the Health Care Spending Account and Dependent Care Spending Account, or enroll in those plans if you are not already enrolled. However, you would not be able to decrease or drop either category because there was only a gain of eligibility, and not a loss of eligibility.

In addition, the change in status event must result in a gain or loss of eligibility for coverage under this plan or a plan maintained by your dependent's employer.

The following circumstances may qualify as a life event:

1. You have a change in status if:

- Your legal marital status changes through marriage, annulment, legal separation, divorce, or death.
- Your number of dependents changes because of birth, adoption, placement for adoption, death, student status, or age. If your child no longer qualifies for day care because of turning age 13, that is a loss of a dependent eligibility under the Dependent Care Spending Account, but not under the Health Care Spending Account.

- You have a change in employment status that affects eligibility under this plan, including a change from full-time to part-time. If your spouse or any of your dependents have an employment status change that causes a loss of coverage under a plan maintained by their employer, then you may increase or add coverage under this plan.

If participation terminates due to a separation of service and you return to employment within 30 days in the same plan year, then your election will automatically be reinstated. If you return to employment after 30 days in the same plan year, then you may make a new election for the remainder of the plan year. You will not be able to claim reimbursement for medical or dependent care expenses incurred during the separation, unless you continue to contribute to the plan while separated.

2. You are served with a judgment, decree, or court order resulting from a divorce, legal separation, annulment, or change in legal custody (including a qualified medical child support order) that requires health coverage for your child. You are allowed to make an election change to your Health Care Spending Account a) to provide coverage for the child, if the order requires coverage under your plan; or b) to cancel coverage for the child, if the order requires your former spouse to provide coverage.
3. You change dependent care providers. You may make an election change to reflect the cost of the new provider. Election decreases are allowed when your child is no longer in childcare or is only in after school care due to entering kindergarten or first grade. (This is considered a provider change.)
4. You take Leave of Absence. Circumstances regarding leaves, including Family & Medical Leave, are so diverse that it is best to contact your Human Resources Office to discuss with a representative your own special situation.

#### **WHO IS THE PLAN ADMINISTRATOR?**

ASI, Inc.

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