

# 2005 Open Enrollment For Flexible Spending Accounts

Brookhaven offers two flexible spending accounts (FSAs), the **health care account**, to help you offset rising medical costs, and the **dependent day care account**, to help you with day care costs. Flexible Spending Accounts, also known as reimbursement accounts, allow you to allocate pre-tax dollars from your paycheck into an account to cover eligible out-of-pocket health care or dependent day care expenses. By withholding pre-tax dollars from your paycheck, you reduce the amount of Federal, State, Social Security, and Medicare taxes that you pay. You can then be reimbursed tax-free for eligible expenses.

You must enroll each year in the flexible spending accounts to obtain these savings. Your enrollment does not carry over from one year to the next. **During this year's open enrollment period, November 1 through November 12, 2004**, consider whether you have out-of-pocket health care and/or dependent day care expenses. If you do and you want to save money, enroll in the FSAs.

## What's Changed?

There have been no changes to the flexible spending accounts for January 1, 2005.

## Here's An Example of How the Flexible Spending Account(s) Work

Let's say you have an annual base salary of \$34,000, and you are in the 32% income-tax bracket. You estimate that you will have \$2,400 in out-of-pocket health care expenses next year, so you decide to enroll in the health care FSA and contribute \$2,400. In this example, you're paid on a monthly basis, so your monthly contribution to the FSA will be \$200 per month. That's the \$2,400 divided over twelve monthly paychecks. Let's see how this saves you money.

	Without a Health Care FSA	With a Health Care FSA
Annual Base Salary	\$34,000	\$34,000
- Annual Health Care FSA Contribution	-	\$ 2,400
= Gross Income	\$34,000	\$31,600
- Taxes (at 32%)	\$10,880	\$10,112
= Net Take-Home Pay	\$23,120	\$21,488
- After-tax Health Care Expenses	\$ 2,400	-
= Net Spendable Income	\$20,720	\$21,488
<b>Tax Savings</b>	-	<b>\$ 768</b>

Without the FSA, you would have paid for those health care expenses with after-tax dollars, and you would have \$20,720 remaining after paying such expenses. With the FSA, you have the \$2,400 withheld from your pay pre-tax, and you would have \$21,488 remaining. In this example, your spendable income has increased by \$768 by paying health care expenses with before-tax contributions. The money that you set aside in the FSA is available to you when you have out-of-pocket health care expenses during the year. When you are reimbursed for those expenses, you are paid with tax-free dollars.

*The assumptions used in the calculations above may not apply to you. Do not consider them to be tax advice. Always ask your tax advisor for the appropriate tax advice for your situation.*

The following pages provide more information on the flexible spending accounts.

## Health Care Account

- ❖ The maximum amount you can contribute to the health care account is \$3,500 per year. The minimum contribution allowed is \$300 per year.
- ❖ The health care account is for qualified medical and dental care expenses for you and your eligible family members that are not reimbursed by health insurance. Eligible family members include your spouse, your unmarried children up to age 19, your unmarried children age 19 or over who are full-time students at an accredited college or university, and your unmarried children who are mentally or physically incapable of earning their own living.

Examples of eligible health care expenses include:

- Medical and dental deductibles, coinsurance, and co-payments
- Eye exams, eyeglasses, and contact lenses
- Laser eye surgery
- Hearing tests and hearing aids
- Prescription drugs, including birth control pills
- Over-the-counter medications used to alleviate or treat personal illness or injuries. Dietary supplements to maintain one's health (such as vitamins) are not reimbursable.
- Physical examinations
- Approved weight-loss and smoking-cessation programs, excluding the cost of drugs that do not require a prescription (such as nicotine gum or patches). The cost of weight-loss programs for the purpose of maintaining your general good health is excluded.
- Certain transportation expenses primarily for, and essential to medical care
- Other out-of-pocket health care expenses that the Internal Revenue Service (IRS) considers tax-deductible. (Refer to IRS Publication 502 for additional guidance on the type of expenses that may be eligible for reimbursement. This Publication is available on the Web at [www.irs.gov/pub/irs-pdf/p502.pdf](http://www.irs.gov/pub/irs-pdf/p502.pdf) Not all items in this Publication are eligible for reimbursement under the health care account.

Examples of ineligible health care expenses include:

- Cosmetic surgery
- Dancing or swimming lessons, even if they are recommended by a physician
- Funeral expenses
- Hair transplant
- Health club dues
- Health care premiums paid for on a pre-tax basis
- Certain non-prescription drugs (see above for eligible expenses)
- Nutritional supplements

## Dependent Day Care Account

- ❖ The maximum you can contribute to the dependent day care account is \$5,000 per year if you are married and file a joint income tax return, or \$2,500 per year if you are single or if you are married and file separate tax returns. The minimum contribution allowed is \$300 per year.
- ❖ The dependent day care account is for childcare expenses (excluding health care expenses) for children under age 13 or disabled dependents. This is for child or adult dependent care expenses that allow you to work or attend full-time school. If you are married, your spouse must be employed (unless disabled or attending full-time school), and the dependent care expense must be for the specific purpose of allowing both you and your spouse to work, attend full-time school, or to care for your spouse in the case of disability.

Examples of eligible day care expenses include:

- Care at a licensed nursery school
- Day camp
- Before- and after-school programs
- Charges of a person you legally employ who cares for your child(ren) under age 13, either in your home or outside your home
- The cost of a legal employee in-home caregiver and day care services for elderly or disabled adult dependents that are qualified individuals as defined below
- Other day care expenses that satisfy the requirement for the federal child care tax credit and are necessary for employment (and your spouse's employment, if you are married). (Refer to IRS Publication 503 for additional guidance on the type of expenses that may be eligible for reimbursement. This Publication is available on the Web at [www.irs.gov/pub/irs-pdf/p503.pdf](http://www.irs.gov/pub/irs-pdf/p503.pdf). Not all items in this Publication are eligible for reimbursement under the dependent day care account.

Examples of ineligible day care expenses include:

- Care provided by your child who is under age 19, your spouse, or anyone you claim as a dependent on your income tax return
- Charges for an overnight camp
- Charges for babysitting provided so that you can attend a social event
- Food and education expenses for a child in the first grade or higher
- Expenses for kindergarten if the primary purpose is educational. The IRS allows the cost of school to be reimbursable only if the child is in a grade level below the first grade and the amount you pay for schooling is incident to and cannot be separated from the cost of care.

You must be able to identify the day care provider's tax identification number or Social Security Number when you submit your claims for reimbursement.

## How The Accounts Work

- ❖ First, estimate your out-of-pocket qualified expenses for calendar year 2005. Use your past year's record to help you make a reasonable estimation. There is a program to help you estimate your expenses and determine your potential tax savings on the following website: [http://www.bnl.gov/hr/Benefits/linkable\\_files/FSA\\_Withholding\\_calculator\\_djd.xls](http://www.bnl.gov/hr/Benefits/linkable_files/FSA_Withholding_calculator_djd.xls)
- ❖ Then, make your election to participate in the flexible spending account(s) for 2005 by completing an enrollment form or enrolling on-line during the open enrollment period, November 1 through November 12, 2004. To access online enrollment, log into PeopleSoft and click on the following links: Employee Self Service, Benefits, Open Enrollment, and Flexible Spending Accounts.
- ❖ Beginning with your first paycheck for 2005, a pre-tax deduction for the flexible spending account(s) will be withheld from your paychecks based on your election. The amount you elected will be divided equally across your paychecks for 2005. These withholdings will be deposited into an account at CIGNA for you.
- ❖ If you have health care expenses, you must first submit them to the medical and or dental plan(s) and then submit the explanation of benefits, or itemized co-payment receipts with a Health Care Reimbursement Account Request form to CIGNA Reimbursement Accounts. If you have health care expenses that are not covered by your medical and dental plans, you must provide itemized bills. You will be reimbursed pre-tax for up to the full amount that you have elected for the calendar year, even if you have not yet contributed enough to cover the expenses for which you are seeking reimbursement. Please use a separate form for the expenses of each family member.
- ❖ If you have dependent day care expenses, you must submit receipts, cancelled checks, or paid bills from the dependent day care provider with a Dependent Day Care Reimbursement Account Request form to CIGNA Reimbursement Accounts. You will be reimbursed pre-tax for up to the amount that you have contributed out of your paycheck(s) at that point in time during the calendar year. You cannot be reimbursed for more than you have contributed. This differs from the health care reimbursement account.
- ❖ CIGNA pays claims on the 16<sup>th</sup> of each month. Claims must be received during the first week of the month to be eligible for reimbursement during that month; otherwise CIGNA will process them in the next month.

## Internal Revenue Service Rules Governing FSAs

- ❖ One Election Per Year. Once you enroll in the FSA(s) for a calendar year, you cannot change or discontinue your contributions unless you have a Qualifying Event and notify the BSA Benefits Office within 31 days of the occurrence of the event. Your change in contribution must relate to and be consistent with the Qualifying Event. Qualifying events may include changes in: legal marital status, number of dependents, dependent status, employment status, work schedule, place of residence or work site.
- ❖ Unused Contributions Are Forfeited. Your contributions to the FSA(s) must be spent on expenses incurred during the calendar year for which you have enrolled. For instance, if you enroll for calendar year 2005, the expenses for which you may be reimbursed must occur between January 1 and December 31, 2005. Reimbursement is not based on the date you pay for the expense, but the date that the expense was incurred. You will forfeit any unused balances remaining in your account. You have until March 31, 2006 to submit for reimbursement of expenses incurred during calendar year 2005.
- ❖ Health Care and Dependent Day Care Accounts Are Separate. You cannot use contributions in the health care account to pay for dependent day care expenses, and you cannot use contributions in the dependent day care account to pay for health care expenses. Also, funds may not be transferred between the two accounts.
- ❖ Cannot Claim Same Expense Twice. You cannot claim as deductions or credits on your income tax return those expenses for which you are reimbursed through the health care and/or dependent day care FSAs.

## Additional Information

Additional information is available at the Benefits Office, Building 185 or at x2877 or x5126.

*Please note that this is a summary of the benefits provided through the flexible spending accounts and thus is not an all-inclusive description of coverage. Only covered expenses are reimbursed through the accounts. If there is a discrepancy, the actual terms of the programs will apply.*