



Flexible Spending Accounts

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You've just been looking at your "Guide to Benefits Open Enrollment" (which, by the way, was due by October 31, 1999), and you saw something called Flexible Spending Accounts. Do you know what these are and what you can use them for?

A flexible spending account is a way to put aside money from your paycheck *before taxes are taken* to be used for unreimbursed medical expenses or for dependent care (day care). These accounts were established by the Internal Revenue Code under Section 125. Let's take a minute to examine each of the two accounts.

Health care spending account

If you claim your unreimbursed medical expense on your income tax return, you must exceed 7.5 percent of your adjusted gross income. That's \$11,250 in medical expenses for someone making \$150,000 per year and, unless you've been very ill or your doctors charge well above the Usual Customary and Reasonable (UCR), it's a high number to reach. If you have expenses but cannot reach the 7.5 percent threshold, you might want to consider a Health Care Spending Account.

With a health care spending account, you can set aside up to \$2,500 per year *pre-tax* to be used for unreimbursed medical expenses. This can include expenses for dental and vision care expenses as well. How does it work?

You enroll and tell the Company how much money to set aside each pay up to the \$2,500 per year limit. You don't even have to be enrolled in the Company's medical/dental plans to participate. You could be covered under a spouse's plan and use the account to be reimbursed for covered items. If you have a qualifying work or family status change during the year, such as the birth of a child, marriage, divorce, or a change in work hours, you may be able to change your election within the 31-day notification period. Even though your contribution is deducted

throughout the year in equal amounts, the *total* amount is available for immediate use at the beginning of the year to reimburse you for eligible expenses when you sign up during open enrollment. If you are terminated, furloughed, or take a leave of absence during the year, and you had used up your annual amount without having had deductions to match it, the US Airways booklets state that, "If you have filed claims for amounts in excess of your contributions to the account, you will be required to reimburse the plan administrator."

Eligible expenses (per IRS Publication 502) include:

- Medical deductibles, medical and dental coinsurance, copayments, amounts paid above Usual Customary and Reasonable, transportation costs for treatment.
- Vision exams, contact lenses, lens solutions, eyeglasses.
- Birth Control Pills, sterilization surgery.
- Hearing aids, respirators, crutches.
- Stop-smoking programs and prescription drugs to alleviate nicotine withdrawal.

Some items NOT covered include vitamins (unless prescribed by a physician), over-the-counter non-prescription drugs, cosmetic prescriptions, cosmetic surgery (unless restorative surgery following an accident), health clubs or weight reduction programs.

How does it work? Here's an example. You go to the hospital and you have a \$100 deductible plus your 20 percent share of the hospital bill adds up to \$500. You submit copies of the Explanation of Benefits (EOB) from the insurance company along with a claim form to Aetna USHealthcare. Claims forms are available by calling 800-831-3665. They will then send you a check for the amount of your claim as long as it does not exceed the amount you have agreed to set aside for the year.

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Warning, Will Robinson!

There are one or two words of caution here, however. **YOU MUST PLAN YOUR CONTRIBUTION CAREFULLY** as it is a use-it-or-lose-it situation. If you don’t claim all of the money you’ve had set aside, you lose it. Also, you must submit all claims for the current year no later than *March 31, of the following year. That means claims for calendar year 2000 must be RECEIVED by March 31, 2001.*

It is highly recommended that you submit your claims periodically rather than waiting until March 31 to submit all the claims for that year. The processors tend to be swamped near the end of the claims period and there’s more chance for error or worse, loss of your entire packet! It’s also a good idea to keep copies of every claim you send and send the claim via certified, return receipt US Mail or Federal Express so that you have the signature of the receiver on the other end. This is the **ONLY** way you’ll have a defense before the Retirement & Insurance Board if your claim is lost and not paid.

If you retire during the year, obviously your deductions stop with your final paycheck. You can claim up to the amount that has been withheld, but no more. If you exceed what you have actually contributed, Aetna USHealthcare can request that you repay any excess amount. Some retirees have actually received statements showing the availability of the **FULL YEAR’s** balance. **DON’T BE MISLED** by this, since you don’t really have access to the full annual benefit, only to the amount you have actually paid up to and including your final paycheck. This is just an administrative error at Aetna USHealthcare. They haven’t changed your status to retired.

Dependent Day Care Account

The open enrollment kit states, “The IRS allows you to claim work-related, dependent day care expenses for credit when you file your income tax return. In some cases, you may save more money that way. You can use a Dependent Day Care Spending Account and a tax credit, provided you do not claim the same expense for both. If you plan to use both, federal law requires that whatever amount you have directed into a Spending Account be subtracted from the maximum eligible expenses for the tax credit.”

You may set aside \$5,000 for unreimbursed dependent day care expense in the Dependent Day Care Account. This is more than the tax credit, which allows \$2,400 for one dependent or \$4,800 for two or more dependents. The tax credits are generally only of benefit if your family income is below \$24,000.

The types of expenses you can claim include Licensed Day Care Centers, Nursery School, Baby-Sitting, and Care for Elderly or Disabled Dependents. The claims process is the same – attach receipts to a claim form and send it to Aetna US Healthcare via certified, return-receipt mail or Federal Express by the March 31 deadline. Again, if you don’t use all the funds in your account, you forfeit them.

If there is any assistance we can provide during this often confusing process, please don’t hesitate to contact a member of your Retirement & Insurance Committee as listed in the gray pages in the center of this magazine, or your Benefits Specialist, Karen Browne at the MEC office at 800-872-4763 or ASPEN 2146. We look forward to hearing from you.

