Flexible Spending Accounts

Flexible spending accounts offer employees a great way to reduce their taxable income while at the same time paying for medical or child-care expenses they know they'll encounter during the year. Employees put money in these special accounts pre-tax; that is, it comes out before taxes are deducted so they don't have to pay taxes on it. This means Uncle Sam gets fewer taxes and the actual reduction in the paycheck will be less than the amount set aside for flexible spending.

**How it works**  When you sign up through a regular payroll contribution, Mercer puts the amount you select into a personal account for you to use to pay for medical expenses or dependent care costs not covered by insurance. Each category is separate, so if you want both, you have to establish two separate accounts. You will be issued a debit card to access your pre-taxed dollars set aside in your account. Rather than paying out-of-pocket money for qualified expenses, filling out claim forms, submitting them with covered expense receipts (may have to submit in some cases) and waiting for reimbursement, you will be able to utilize the card to pay for those qualified expenses. The debit card will transfer funds from your Flexible Spending or Dependent Care Account directly to the provider or merchant to cover the expense through the MasterCard network. Please be aware that you will still have the option of mailing a paper claim.

**Medical Spending**  The major appeal of medical accounts, in addition to the tax benefits, is added versatility in obtaining and paying for health-related services. You can, and should, use the money to pay for doctor co-payments, medications or insurance deductibles that otherwise would come out of your pocket. But you also can spend it on many medical expenses that don't require prior physician approval, or that may not be covered by Mercer's health plan. This means you could use the account to pay for eye exams-- not allowed by your insurance – and the contacts or glasses to go with it.

Say you elected to put $2,400 in your medical spending account. In early August your son fell off his bike and, in addition to breaking his arm, all his expensive orthodontia had to be redone. When all the damage was added up, you faced $950 in deductibles and co-pays not covered by your health insurance. Although you only had $200 in your account when the accident occurred, federal guidelines allow you to submit your out-of-pocket expenses immediately for repayment. This way, you get cash now against the total amount you pledged to pay in to the account.

Medical Flex Spending cards may be used for **ALLOWABLE EXPENSES ONLY**. For a list of those expenses please refer to IRS Publication 969.  [http://www.irs.gov/pub/irs-pdf/p969.pdf](http://www.irs.gov/pub/irs-pdf/p969.pdf)

Should any transaction be ineligible or lack sufficient documentation, the participant will be notified by CORE Administrative Services. Participants are allowed up to 60 days from the initial notification to provide the supporting documentation or to repay the cafeteria plan by making a check or money order payable for the amount of the ineligible transaction. At the end of that period (60 days from the initial notification), action may be
taken through the payroll office to reclaim the misappropriated funds. Intentional fraudulent use of the Flex Card can lead to the deactivation of your card and even affect future program eligibility.

**Dependent Care.** With a dependent care account, pre-tax money can be used to help pay the costs of any certified caregiver providing services while you're at work. This includes the nursery school for kids or the home health aide looking after a disabled spouse. However, unlike the medical spending accounts, with dependent care you may only use what you have accumulated in the fund.

**Here are the rules for participation...**

1. *The "use it or lose it" rule.* The major drawback is the system's use-it-or-lose-it design. The IRS says any flexible account funds must be used to pay for products/services before the plan year's end or you lose any funds greater than the carry over limit ($500). Therefore, the deadline date for treatment is the last day June (the last day of our fiscal year) even though an additional 45 days is provided to submit reimbursement forms.

   This means you shouldn't decide how much to contribute without first carefully reviewing your family's medical needs. A quick review of last year's medical costs is a good place to start.

2. *Limited Flexibility* There is also limited opportunity to refine your spending plan participation. Unless there is a major change in your life -- marriage, divorce, birth of a child, reduction in work hours, or job loss or change by your spouse -- you're stuck with putting in what you chose during the enrollment period. This means that even if your mother comes to live with you and now takes care of the kids, you still must make your regular dependent care contributions.

   Only a life-change event will get you into a flexible spending account plan if you miss the sign-up deadline. For regular full time employees at Mercer, the sign-up deadline is always the last day of the open enrollment period. This period lasts for one month and runs late April to mid May each year. *These accounts last only one year. Therefore, you must re-establish a new account each year during open enrollment.*

3. **There's a limit on the amount of money you can contribute.** The IRS limits the annual contribution for dependent care accounts to **$5,000.** This is a family limit, meaning that even if both parents have access to flexible care accounts, their combined contributions cannot exceed $5,000. And, the medical spending limit is **$2,550.** Careful computations mean no wasted plan money. It does require some extra work, but most employees agree that the time spent is a small price to pay in exchange for accessible expense cash in these tax-advantaged accounts.