

# **FLEXIBLE SPENDING ACCOUNT (FSA) SUMMARY AND FAQs**

## **Flexible Spending Account Summary**

### **Flexible Spending (Flex) Accounts will be administered by BPC in 2020**

The Internal Revenue Code allows you to have money deducted from your paycheck on a pre-tax basis to pay certain medical and dependent care expenses. Contributions to a flexible spending (flex) account are exempt from all income taxes and from Social Security and Medicare taxes. When you pay with pre-tax dollars, you realize substantial savings.

The Internal Revenue Code authorizes and regulates two kinds of accounts. These two accounts are separate, and cannot be used interchangeably.

1. Health Care Flexible Spending Account, which covers out-of-pocket medical expenses such as deductibles, copays, co-insurance and uncovered medical, dental and vision expenses.

#### Key Points:

- You may contribute any amount between \$260 and \$2,500 annually to your 2020 account (\$10.00 to \$96.15 bi-weekly).
- You will receive a debit card to use for eligible expenses. Claims may require documentation.
- Your debit card will be worth the full value of your medical flex account. The total of your planned contributions for 2020 will be available January 1, 2020.
- Medical flex accounts are subject to a use-it-or-lose-it provision. All 2020 health care flex money must be spent by February 28, 2021, or it will be forfeited. Therefore, you should be conservative and contribute only for predictable expenses.
- Eligible expenses may be incurred by you or your eligible dependents (spouse or children), whether or not they are enrolled in the health insurance plan.

2. Dependent Care Flexible Spending Account, which covers dependent care expenses such as daycare and babysitters that allow you and your spouse to work or to actively seek employment.

#### Key Points:

- You may contribute any amount between \$260 and \$5,000 annually to your 2020 account (\$10.00 to \$192.30 bi-weekly).
- All dependent care claims must be filed manually. There is no debit card.
- Dependent care expenses are eligible for reimbursement only up to the level of contributions you have already made to the account.
- Dependent care flex accounts are subject to a use-it-or-lose-it provision. There is no grace period. All 2020 flex money must be spent by December 31, 2020, or it will be forfeited. Therefore, you should be conservative and contribute only for predictable expenses.

Plan A participants are not eligible for a health care flex account, but they may establish a dependent care flex account. Plan B participants, and those who choose no medical coverage at all through the City, are eligible for both types of flex accounts.

## **Flex Account FAQs**

### **Why should I participate in a flexible spending (flex) account when I already have health insurance?**

This account is used to pay expenses not covered by insurance—copayments and deductibles, for example. It can be especially helpful for vision or dental expenses that are not covered 100% by insurance. The flex account allows you to pay these out-of-pocket expenditures with pre-tax dollars. Because the money in your flex account isn't taxed, you save about 1/3 of the cost, depending on your tax bracket.

A flex account also helps you finance out-of-pocket medical expenses over time. With a health care flex account (but not a dependent care flex account), all the money you will contribute throughout the year is available to you on January 1<sup>st</sup>. You can spend any or all of that money any time after January 1<sup>st</sup>, and have until the end of the year to pay it back through payroll deduction.

### **When can I enroll in a flex account?**

A new employee can enroll in a health care flex account and/or a dependent care flex account within 30 days of hire. Elections are valid through the end of the calendar year. All other employees can enroll during the specified open enrollment period each year, to be effective January 1<sup>st</sup> of the following year. Elections are valid for the entire calendar year, and may be renewed, changed or canceled each year.

### **Are there any situations that allow me to change my flex account elections without waiting until the end of the year?**

Your flex account election must be made before the beginning of the plan year and is irrevocable during the year, unless you experience a life event or a change in family status, and any changes in your election must be consistent with that life event or change in family status. Qualifying changes include:

- Marriage, divorce, death of a spouse or dependent;
- Birth or adoption of a child by the employee;
- Termination or commencement of employment by the employee's spouse;
- The employee's spouse changing from part-time to full-time, or full-time to part-time employment;
- Significant changes in the health coverage of the employee or spouse attributable to the spouse's employment.

### **If my spouse or dependent children are not on the City's health plan, can I still get their health or dependent care expenses reimbursed through a flex account?**

Yes, as long as your dependent is a "qualified dependent" under the Internal Revenue Code guidelines (i.e., can be declared a dependent on your tax returns) and meets any other qualifying requirements under the plan, his or her eligible expenses are reimbursable. Even if you are not on the City's health plan, but are an eligible employee, you may still participate in the flex account program.

**If I have secondary coverage under my spouse's medical plan, when do I submit claims for reimbursement?**

The Internal Revenue Code specifies that health care expenses are reimbursable only if they are not covered under any plan or program. Therefore, if you have secondary coverage, you must submit medical bills to your secondary payer for any benefit payment before submitting the claim for reimbursement. If your claim is an eligible expense, you will be reimbursed from your account for any balance not paid by either the primary or secondary plan.

**Is there any cost to me to participate in either of the flex account programs?**

No. The cost of the flex accounts is absorbed by the City. You are not responsible for monthly fees or other administrative charges.

**It's my money, why can't I use it for anything I want?**

Flex accounts are regulated by the Internal Revenue Service, which places restrictions on what can and cannot be reimbursed. You give up some of your options in exchange for the tax benefits of the plan.

**What taxes are eliminated by participating in a flex account program?**

Your flex account contributions do not have federal, state, local, Social Security or Medicare taxes deducted.

**How do "pre-tax" contributions to my flex accounts affect my Social Security benefits?**

Social Security benefits are based, in part, on the amount of your earnings over your working life. When you have a "pre-tax" deduction, the amount of your taxable income decreases by the amount of that deduction. This could potentially affect your Social Security benefits.

**What if I currently take the dependent care credit on my annual tax return?**

The amount you contribute to your dependent care flex account reduces the amount, dollar for dollar, that you can claim as a credit on your tax return. You cannot apply the same expenses to both the dependent care flex account and the tax credit on your income tax return—you must choose one or the other. You may wish to consult your tax advisor.

**How long does it take to get a reimbursement from my flex account?**

If you elect to have a health care flex account, you will receive a debit card to use for eligible medical expenses. You will not have to pay anything out of your own pocket as long as you have funds available in your flex account, so you will not have to wait for reimbursement.

Debit cards are not available for dependent care flex accounts. Reimbursement checks will typically be generated within a few days of submittal.

**What if my employment with the City ends?**

If you leave the City's employment during the plan year, your flex account contributions will cease (although you may be eligible to extend your coverage by making after-tax contributions through COBRA). Any balance in your flex account(s) may be disbursed to you for claims for eligible expenses incurred prior to your termination date. If there is an unused balance and you have incurred no claims during that period of eligibility, the balance is forfeited.

### **How can I keep track of my flex account expenditures and my balance?**

You can get all the details on your account—annual contributions, expenditures and current balance—from the BPC web portal, [www.bpcinc.com](http://www.bpcinc.com).

### **Can unused flex account contributions roll over from one year to the next?**

Generally, flex funds must be used the same year they are deducted from your pay or they will be forfeited. There is a small exception for health care flex accounts only—expenses incurred through the final day of February in the year after the deductions are made will be eligible for reimbursement if you have money remaining in your account. All medical claims not paid with a debit card must be filed by April 30 of the year following the deduction to avoid forfeiture.

### **What happens to flex account contributions that are forfeited?**

Forfeiture of unused funds is required under IRS regulations. Forfeited funds are used to pay plan expenses. However, the City does not want to take your money, so we encourage you to plan your contributions carefully in order to avoid any forfeiture.

### **Can I get additional debit cards for my spouse/ex-spouse/college-age children?**

Yes, you can order additional cards through the BPC web portal, [www.bpcinc.com](http://www.bpcinc.com).