



Preferred Blue[®]
Accounts
More Choices for Consumers

Health FSA

A Preferred Health FSA Can Save You Money

As part of your benefits program, you may use pre-tax payroll deductions to set aside cash for many health care and dental expenses not covered by the company's insurance plans. You can set up a Flexible Spending Account (FSA) during your open enrollment period.

Money set aside in your Health FSA will reduce your taxable income, providing you and your family more value for your dollar.

Health FSA

This account can be used to pay for most health care expenses not covered by your health or dental insurance. Money from this account is best used for regular, predictable health expenses.

Participation in this account is voluntary. Setting up a Health FSA can have tax advantages that your tax advisor may confirm and explain for you.

While a Health FSA can save you money by using pre-tax dollars, it requires careful planning. Keep in mind that money deducted from your pay and deposited in your Health FSA must be used for appropriate expenses during the year while you have an active account. Money left in an account does not carry over to the next year, and it is not refundable to you at the end of the year. In other words, if you don't use it, you'll lose it!

Eligible expenses that can be paid from the Health FSA include:

- Prescription drug copays and over-the-counter medications
- Vision care
- Deductible
- Coinsurance
- Orthodontia
- Hearing care

Expenses that are not eligible include:

- Special treatment programs such as health clubs, spas, etc.
- Expenses reimbursed by a third-party health insurance
- Expenses incurred before the effective date or after the cancellation date of the account. This includes services received: before you enrolled in the account, before or after the current plan year, or after your termination date.
- Cosmetic surgery, electrolysis, teeth-whitening
- Hair transplants, hair removal and prescription drugs when the primary use is to promote hair growth.
- Over-the-counter medications that are used primarily for general health and well being and cosmetic purposes.

Helpful Information From the Internal Revenue Service

IRS publication 502 offers a general guideline of eligible expenses for your Health FSA and can help you decide whether to use this account. You may call the IRS at the toll-free number listed in your local telephone directory or visit them on the web at www.irs.gov for a copy of this publication

How Does the Account Work?

During open enrollment, you decide if you would like to enroll in the Health FSA and how much to contribute for the upcoming year. Contributions must be in whole dollars. The amount you elect will be broken down into equal amounts (depending on your pay schedule). These funds are deducted from your pay before taxes are withheld and deposited in your account.

Your Health FSA is administered by Blue Cross and Blue Shield of Alabama. Once you enroll, you will receive a welcome letter from Blue Cross with information about your account.

If your medical and/or dental insurance is with Blue Cross and Blue Shield of Alabama, your out of pocket expenses for medical and/or dental services will automatically apply to your Health FSA. If you have medical, dental or secondary coverage with another carrier then you will need to file a Request for Reimbursement form with appropriate documentation and what the other carrier paid.

The money you have paid out of pocket is reimbursed to you from your account. You can even elect to have it deposited directly into your checking or savings account.

You may receive reimbursements from your Health FSA for the entire annual election amount regardless of how much you have actually had payroll deducted. In effect, you can receive reimbursement advances on what you will contribute through payroll deductions later in the year.

All eligible expenses must be received or postmarked no later than three months following the end of the year in order to be processed.

The company will pay the cost of administering your account. There are no user fees or service charges to the member.

How Can a Spending Account Reduce My Taxes?

Spending accounts reduce your taxes by reducing your taxable income. Using these pre-tax accounts can make a significant difference in your take-home pay. The chart below illustrates what would happen if your annual pay is \$45,000 and you have to pay \$2,000 in eligible health expenses not covered by any other benefit plan.

Example	After-tax (without account)	Pre-tax (with account)
Annual pay	\$45,000	\$45,000
Pre-tax contribution used for expenses	<u>0</u>	<u>2,000</u>
Sub-total	\$45,000	\$43,000
Standard deduction	-\$9,700	-\$9,700
Exemptions	<u>-12,400</u>	<u>-12,400</u>
Sub-total	\$22,900	\$20,900
Federal income taxes*	-2,716	-2,416
Social Security taxes	-3,443	-3,290
After-tax payment for expenses	<u>-2,000</u>	<u>-0</u>
Take-home pay	\$36,841	\$37,294
Total tax savings from using pre-tax dollars		\$453

*Based on 2004 tax laws. Assumes you are married, file jointly with your spouse and take the standard deductions and four exemptions. For illustration purposes only. Please consult your tax advisor for your specific tax situation.

Example: Health FSA

John's daughter needs braces next year that will cost \$1,200. John also knows he needs new glasses which are going to cost \$212. John has a \$200 calendar year deductible under his health care plan.

John's Medical Expenses

Calendar Year Deductible	\$200
Dental Care	1,200
Vision Care	+ 212
Total	<u>\$1,612</u> for the year (or \$31 per week)

John estimated that he will spend at least \$1,612 on non-covered medical expenses over the course of the year. The following will show how a Health FSA can increase John's sendable income.

Employee Status: Married, three federal exemptions
 Weekly Salary: \$500

	Without Health FSA	With Health FSA
Gross Pay	\$500.00	\$500.00
Pre-tax FSA deduction	<u>- 0</u>	<u>- 31.00</u>
Taxable Gross Income	\$500.00	\$469.00
Less Taxes:		
FICA (7.65%)	38.25	35.88
Federal (15.0%)	75.00	70.35
State (4.4%)	<u>22.00</u>	<u>20.64</u>
Net Pay	\$364.75	\$342.14
Reimbursement from Health FSA	\$0	\$31.00
Spendable Income	\$364.75	\$373.14

As the example shows, John's taxes are lower. And although John's net pay is less than before, he now has contributed money toward the Health FSA and will be reimbursed during the year as he incurs medical expenses. By the end of the year, John's **spendable income** increases by \$436.28. ($\$373.14 - \$364.75 = \$8.39 \times 52 \text{ weeks} = \436.28)

Employee Savings Work Sheet

Spending Account vs. Income Tax Return

Health care expenses exceeding 7.5% of Adjusted Gross Income (AGI) may be taken as itemized deductions on your federal income tax return. Only expenses over 7.5% of AGI can be deducted. If you use the Health FSA, all eligible expenses are paid with tax-free dollars. Your tax savings start with the very first dollar you spend on health care.

	Using the Income Tax Itemized Deduction	Using the Spending Account
Adjusted gross income	\$20,000	\$20,000
7.5% AGI maximum amount	\$1,500	Not applicable
Medical expenses	\$1,500	\$1,500
Amount allowed as an itemized deduction on tax return	0	Not applicable
Reimbursed from Spending Account pre-taxed*	Not applicable	\$1,500
Tax savings assuming 15% bracket	0	\$225
Tax savings assuming 28% bracket	0	\$420

*Assuming that the Health FSA is limited to \$1,500

Health FSA Questions and Answers

Q What are Flexible Spending Accounts?

A Flexible Spending Accounts are governed by IRS Code section 125 and allow you to pay unreimbursed medical expenses with pre-tax dollars. This helps make these expenses more affordable while providing a tax savings.

Q How does a Health FSA work?

A If you decide to participate in a Health FSA, during open enrollment you will elect an annual contribution amount. This amount will be deducted from your pay each applicable pay period during the plan year. This information is forwarded to Blue Cross and Blue Shield of Alabama. The money is held in your account. When an eligible expense is applied to the account, you are reimbursed by the plan. Therefore, the actual cost of paying for such services is less than it would be if after-tax dollars are used.

Q What are the advantages of a Health FSA?

A A Health FSA offers substantial benefits. Because the money comes out of pay before taxes, taxable income decreases and you pay less in federal, state, local and Social Security taxes.

Q What are the disadvantages of a Health FSA?

A It is very important that you estimate your expenses carefully, because amounts deposited to your account that are not used in the calendar year cannot be returned to you. Also, because you are reducing your Social Security contribution, there could be an effect on your future Social Security benefit. These reductions usually are not significant, but you need to be aware of them.

Q Who can participate in a Health FSA?

A All eligible employees, their spouses and IRS eligible dependents can participate.



Q **What is the maximum or minimum I can contribute to my account?**

A The maximum or minimum contribution requirement is determined by your employer.

Q **Can I change the amount I elect to contribute to my Health FSA?**

A Yes, you can change the amount you contribute annually, prior to the beginning of each calendar year. During the calendar year you may change your contribution only if you experience a change in your family status, as defined in the plan document.

Q **What happens if I have not used all the money in my account by the end of the year?**

A IRS regulations dictate that the money left in the account at the end of the year is forfeited. This is commonly known as the “use it or lose it” rule. Although you will have a 90-day grace period to file for reimbursement for expenses incurred in the previous calendar year, it is recommended that you file your expenses as early as possible.

Q **What can I do to insure that I don't lose money in my account?**

A To insure that you will not lose money, base your contribution on last year's expenses. Budget conservatively, but don't overlook all those little incidental expenses like copays, over-the-counter medications and deductibles that add up. And remember, if a small amount is forfeited, it's often outweighed by the tax savings and increased spending money you'll net.

Q **Does an employee have to participate in a medical insurance plan to contribute to a Health FSA?**

A No, all qualified medical expenses are eligible for reimbursement under a Health FSA regardless of an employee's participation in a medical or dental insurance plan.

Q **Does a Health FSA affect my Tax Deductions?**

A Yes, the IRS allows you to pay for eligible health care expenses, including those expenses that are not reimbursed under an insurance plan, with tax-free dollars through a Health FSA. You can only claim health care expenses exceeding 7.5% of your adjusted gross income as an income tax deduction on your return. With a Health FSA, a participant is able to receive his/her tax savings immediately when the services are rendered as opposed to waiting until the tax returns are filed.

Q **Can I receive the full amount of my election in my Health FSA at anytime?**

A Yes, you can receive the full amount of the election in the Health FSA at the time the expenses are incurred even if the payroll deductions have not been taken.



Q
A

How do I file for reimbursement?

If your medical and/or dental insurance is with Blue Cross and Blue Shield of Alabama, your out of pocket expenses for medical services will automatically apply to your account. If you have medical, dental or secondary coverage with another carrier, then you will have to file a Request for Reimbursement form with appropriate documentation about the services rendered and what the other carrier paid in benefits. Contact customer service at 1 800 213-7930, or visit our web site at www.bcbsal.com. Click "Preferred Blue Accounts," then select Health FSA to download a form.

All requests should be mailed to:

Blue Cross and Blue Shield of Alabama
P. O. Box 11586
Birmingham, Alabama 35202-1586
Or faxed to: 205 220-7991
Toll-Free Fax: 1 877 889-3610



Q
A

Do I have to keep track of how much money is in my account during the year?

No, Blue Cross and Blue Shield of Alabama will do it for you. You will receive a statement of your account balance with each reimbursement. Statements are also sent quarterly when there is no recent reimbursement to advise you of your account balances. This is an added step to help plan expenses and reduce the amount of unused funds at the end of the year. You can also view your account balance by visiting www.bcbsal.com, logging into CustomerAccess and selecting "View my Preferred Blue Account."

Q
A

Do I need receipts in order to receive reimbursement?

Yes, health reimbursement request should be accompanied by Claims Processed Reports from the insurance carrier and receipts from the provider. If Blue Cross and Blue Shield of Alabama is the insurance carrier for all means of reimbursement, no explanation or filing is necessary.

Q
A

Can the Health FSA reimburse my provider directly?

No, the Health FSA cannot make a payment on your behalf. All reimbursements must go directly to the member.

Q
A

Can I claim my insurance premium or my spouse's insurance premium through my Health FSA?

No, premiums are not an eligible Health FSA expense. However, premiums for programs offered by an employer may be a separate pre-tax deduction through your cafeteria plan.

Q
A

If I leave my job, may I still participate in the Health FSA program?

Yes, you can continue your Health FSA under COBRA. You continue to make contributions directly to your employer for your Health FSA, but on an after-tax basis.

Q
A

If I have a question regarding my spending account, who do I call?

Contact Customer Service department
1 800 213-7930.



Your Health FSA

To help you decide whether and how much to contribute to your Health FSA:

- Look carefully at your yearly expenses for medical care not covered by your employer's medical plan or any other medical plan through which you have coverage.
- Will this year's expenses be about the the same as last year? More? Less?
- Think about the amount to set aside each pay period to reach the annual total you estimate.

**If you have any questions about your
Preferred Blue Account call:
1 800 213-7930**

File reimbursement requests to:

**Blue Cross and Blue Shield of Alabama
Benefits Service Center
P. O. Box 11586
Birmingham, Alabama 35202-1586
or Fax to: 205 220-7991
1 877 889-3610**



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