

Guide To **BASICFLEX™**



What is BASICFLEX?

BASICFLEX is a flexible spending account, established as part of Section 125 of the Internal Revenue Code (IRC), which allows you to keep more of your income. It also allows your employer to offer you a choice of benefits customized to suit your needs. You assign certain dollar amounts to be transferred from your gross pay. These dollars are set aside in a special account and used to reimburse you for expenses. You save by not paying federal, Social Security, or state taxes on the amount set aside. In effect, you create a tax shelter for these dollars. The result is that you have more SPENDABLE income by participating in a flexible spending account.

What's in it for Me?

1. If you pay a portion of your and/or your family's health insurance coverage, **PREMIUM CONTRIBUTION** is for you.
2. If you have out-of-pocket medical expenses not covered under your health plan (e.g. office and prescription co-pays, dental, glasses/contacts, over-the-counter medicines), check out the **MEDICAL REIMBURSEMENT ACCOUNT (MRA)**.
3. If you pay a day care provider or nursery school to watch your dependent(s) (children under the age of 13 or a legal dependent) while at work, don't pass up the **DEPENDENT CARE ACCOUNT (DCA)**. The savings can be significant!

How do I Save \$\$\$ Using a Flexible Spending Account (FSA)?

When you choose to set aside money in an FSA, those dollars are set aside before your paycheck is taxed. **A DOLLAR IS WORTH A DOLLAR!**

EXAMPLE

Sarah's gross annual income is \$30,000.

- She claims head of household with one dependent.
- She anticipates the following eligible out-of-pocket expenses during the next plan year, which will not be not covered under her health plans:
 - \$2,000 for out-of-pocket medical, dental, and vision expenses
 - \$3,000 for day care for her daughter
 - \$1,800 for her portion of health insurance

	<u>Without FSA</u>	<u>With FSA</u>
Gross Pay	\$30,000	\$30,000
Pre-tax, out-of-pocket medical deduction	\$0	(\$2,000)
Pre-tax, dependent care deduction	\$0	(\$3,000)
Pre-tax, health insurance deduction	\$0	(\$1,800)
Adjusted taxable income	\$30,000	\$23,200
Federal income taxes (net of child care credit)	\$1,139*	\$953*
FICA: (Social Security/Medicare)	\$2,295*	\$1,775*
After-tax, out-of-pocket medical expenses	(\$2,000)	(\$0)
After-tax, dependent care expenses	(\$3,000)	(\$0)
After-tax, health insurance expenses	(\$1,800)	(\$0)
Sarah's spendable income	\$19,766	\$20,472

Sarah saves approximately \$706 in taxes, annually!

**This example is based on a federal income tax rate of 10 percent. FICA (Social Security/Medicare) taxes are calculated at 7.65 percent. Since tax rates vary per state, these savings (if any) are not included. Each employee's savings will vary based on his/her tax filing status.*

When Can I Join?

NOW! Each year you are eligible to enroll for the next plan year during open enrollment. If you do not participate when eligible, you must wait until the next open enrollment unless there is a qualified status change. New hires can join once eligibility requirements are met. Consult your benefits coordinator for eligibility requirements.

Can Elections be Changed During the Plan Year?

Generally, your decision regarding BASICFLEX participation is a commitment for the entire plan year. The IRS has established status changes that allow changes to your contribution and/or participation during the plan year. Examples include marriage, divorce, birth/adoption of a child, death, and/or legal spouse changes employment or has an increase/decrease in work hours that impacts his/her benefits. The change you request must be consistent with the event. Personal financial hardship is not a status change.

Changes in contribution and/or participation must be made within 30 days of the event. The change is effective when you sign the Participant Change Form. The change cannot be retroactive. The exception is the birth/adoption of a dependent. These changes can be effective on the birth/adoption date.

You can change your DCA deduction if there is an increase or decrease in costs. However, you cannot change a DCA if a relative caring for your dependent increases fees.

How do I Get Started?

1. Review Options 1, 2, and 3.
2. Complete the Enrollment Form.
3. Turn in the completed Enrollment Form to your benefits coordinator.

Option 1 - Premium Contribution

Under Section 125 of the IRS Code, you can deduct your employer-sponsored premiums on a pre-tax basis. Deductions are paid directly to the insurance company.

- Health insurance plans.
- Dental and vision plans.
- Prescription drug plans.
- The first \$50,000 of group term life insurance (on the employee only).
- Accidental death and dismemberment insurance.
- Group short-term and long-term disability. Income benefits will be taxable as income at the time of disability.
- Other accident or health benefits established under IRC Section 106.
- HSA employee contributions if payroll deducted.



On the Enrollment Form, under **PREMIUM CONTRIBUTION**, check “Yes” next to “I elect to participate.” You will not pay taxes on your premiums during the plan year.

Option 2 Medical Reimbursement Account (MRA)

How it Works

You elect to have an amount transferred from your gross paycheck, before taxes are calculated. This annual amount will be divided by the number of pay periods and transferred into your MRA. When you incur an eligible out-of-pocket expense, submit your documentation and receive TAX-FREE dollars from your account. If you have a medical expense and it is more than the amount in your account at that time, your employer advances the difference up to the annual amount you elected. You cannot elect more than your employer's plan year limit.

Calculate Out-of-Pocket Expenses

Use the Worksheet to the right to estimate out-of-pocket expenses for you and your dependent(s) for the plan year. Base the estimate on KNOWN expenses. Leftover money can not be returned to you.

EXAMPLE

	Charges*	Amount you would save*
Chiropractor	\$300	\$107
Co-pays & deductibles	\$400	\$143
Contacts, glasses	\$300	\$107

*Assuming 28% federal tax; 7.65% Social Security tax.

IRS regulations govern the eligibility of claims, which include those that are not fully covered by a health care plan and are prescribed by a physician or other licensed professional—primarily for prevention, treatment, or mitigation of physical defect or illness.

Ineligible Items (but not limited to):

- Prepayment of Services
- Cosmetic Surgery
- Teeth Bleaching/Whitening
- Nutritional Supplements/Vitamins
- Eyeglass Sun Clips
- Dietary Supplements (weight-loss items)
- Eyeglass or Contact Warranty
- Personal Care Items (deodorant, mouthwash, toothpaste, face wash, etc.)
- Insurance Premiums
- Health Club Fees
- Marriage Counseling
- Rogaine
- Sanitary Products
- Diapers
- Chapstick

Out-of-Pocket MRA Expense Worksheet

MEDICAL		BIRTH CONTROL DEVICES	
Acupuncture	_____	Prescription	_____
Artificial Limbs	_____	Sterilization	_____
Chiropractor	_____	Home Pregnancy Tests	_____
Podiatrist	_____		
Deductibles	_____	THERAPY	
Co-Pays	_____	Physical Therapy	_____
Doctor Fees	_____	Learning Disability	_____
Office Visit(s)	_____	Psychologist Fees	_____
Prescriptions	_____	for Medical Care	_____
Hospital Bills	_____	Psychiatric Care	_____
Laboratory Fees	_____		
Medic Alert	_____	EDUCATION	
Bracelet	_____	Braille Books/	_____
Dermatologist	_____	Magazines	_____
Immunizations	_____	Special Education	_____
Obstetrical	_____	for the Blind	_____
Expenses	_____		
Routine Physical(s)	_____	SPECIAL NEEDS²	
X-Rays	_____	Stop-Smoking	_____
Well Baby Checkups	_____	Programs	_____
		Weight-Loss	_____
DENTAL		Programs	_____
Dental Fees &	_____	Massage Therapy	_____
Deductibles	_____		
Orthodontics ¹	_____	DIABETIC SUPPLIES	
Dentures/Bridge/	_____	Insulin	_____
Crowns	_____	Glucometer	_____
Fluoride Treatments	_____	Syringes/Needles	_____
& Seals	_____	Test Strips	_____
Cleaning & Filling	_____		
Root Canal	_____	OTC³ (UNTIL 12/31/2010)	
Extractions	_____		
		MENTAL/PHYSICAL/	
VISION		IMPAIRMENTS	
Glasses	_____	Car Controls	_____
Eye Exam	_____	Service Animals	_____
Contact Lenses	_____	Special Plumbing	_____
Contact Lens	_____	Special Telephone	_____
Supplies	_____	Wheelchair	_____
Prescription	_____	Crutches	_____
Sunglasses	_____	Walker	_____
Lasik Surgery	_____		
		Transportation	_____
HEARING		Mileage to and	_____
Hearing Exam	_____	from Doctor	_____
Hearing Aids	_____		
Special Batteries	_____	TOTAL ANNUAL	
Phone for Hearing	_____	ESTIMATE	\$ _____
Impaired	_____		

For more details, refer to IRS Publication No. 502.

¹ Reimbursement can only be made in accordance with the orthodontia contract (i.e. monthly quarterly, etc.). The orthodontia contract must be provided.

² The service must be prescribed by a physician to treat a medical condition. Treatment cannot be for general health and/or well being.

³ **Important: See OTC Handout for explanation.** Items must be purchased to alleviate or treat illness. If the cash register receipt does not show the item description, a copy of the product packaging with price tag is needed with the receipt.

Option 3 Dependent Care Account (DCA)

A DCA can help make dependent care expenses more affordable. This section explains how a DCA can help pay your dependent care costs while increasing your spendable income.

How it Works

You elect to have an amount up to \$5,000 annually transferred from your paycheck, before taxes are taken out, and put into a DCA. If you qualify for the Child Care Credit, the same IRS rules apply. However, the IRS has set additional requirements, see opposite column for explanations. Remember, leftover money cannot be returned.

How do I Get my Money Back?

Submit your documentation along with a signed Reimbursement Form. You will receive a TAX-FREE reimbursement.

Calculate Out-of-Pocket Expenses

Use the Worksheet to the right and estimate your total annual expenses. On the Enrollment Form, in **SECTION 3** under **DEPENDENT CARE ACCOUNT**, write in the amount in the space provided.



Tax Savings Calculator

Visit www.basiconline.com/employees to use our calculator to estimate the size of your tax savings, annually or per pay check, when you choose to participate in BASIC Flex!

Out-of-Pocket DCA Expense Worksheet

Estimate your annual dependent care expenses.

DEPENDENT CARE

Child Day Care Expenses _____
 In-Home Dependent Care Expenses _____
 Nursery School Expenses _____
 Adult Day Care Expenses _____

TOTAL ANNUAL ESTIMATE \$ _____

DCA Guidelines

The IRS has set the maximum allowable contributions for a DCA at \$5,000 per family for a married couple filing jointly or for a single parent. The limit is \$2,500 for a married person filing separately. You can use this plan for expenses that meet these qualifications:

- You and your legal spouse must be employed or actively seeking employment or attending school full time.
- Dependent care provider must claim payments as income.
- Dependent care expenses paid during a sick leave, holiday, or vacation are not eligible.
- Expenses must be for the care of a qualified person. A qualified person is defined as one of the following:
 1. Child must be a dependent under 13 years of age and in your custodial care for more than 50% of the calendar year. If your child turns 13 during the plan year, expenses are no longer eligible.
 2. A legal spouse or dependent who is incapable of self-care and regularly spends at least eight hours per day in your home (e.g. an invalid parent). The same rules that apply for child care apply to the care of other dependents, except the dependent need not be under 13 years old.
- The services may be provided in your home or another location, but not by someone who is your minor child or dependent for income tax purposes.
- If the services are provided by a day care facility, the facility must comply with state day care regulations.
- Services must be for the physical care of the dependent, not for education, meals, registration, etc.
- Overnight camps and lessons in lieu of day care are not eligible for reimbursement.
- This is a pay-as-you-go account. Your employer will not advance any money.
- If you have two or more children and spend more than \$5,000, additional tax credits may be available. Consult with your tax advisor. See IRS Publication 503.
- You must complete an IRS Form 2441 with your income tax return.

HSA Impact

If your employer's FSA is NOT "limited purpose" and/or you or your legal spouse plan to open an HSA fund BEFORE the next FSA open enrollment, please note:

- Participation in an MRA is considered "other medical coverage" by the HSA regulations. Consequently, you will be considered ineligible to contribute or accept Employer contributions to an HSA fund. The regulations do NOT permit you to drop out of the MRA midyear to establish an HSA fund.

Important Facts

- IRS regulations require that any money left in your FSA must be forfeited. Most people use up their money by good planning, such as getting a physical or dental checkup, new glasses, or OTCs in reasonable quantities in the last month. Rarely is there more than five percent left in an account. The tax savings more than outweigh this amount.
- Services must be rendered during the plan year, unless your plan includes the 2½-month grace period.
- If you are a new employee entering the plan midyear, services must be rendered after your eligibility date. However, you can contribute the annual plan limits.
- To receive reimbursement after your plan year has ended or after termination of employment, refer to the Summary Plan Description to find out how long you have to submit remaining claims.
- If an expense is covered by your health insurance, first submit your bills to the carrier, and then submit your Explanation of Benefits (EOB) along with your Reimbursement Form to BASIC
- To receive reimbursement for expenses not covered by your health/dental or vision plans, you must submit the bill you received when the service was provided. This bill must show the date of service (NOT the date of payment), name of the provider, type of service, charge for the service, and the patient's name.
- Premiums paid for insurance cannot be reimbursed through the Medical Reimbursement Account (MRA). This exclusion applies to all types of insurance policies, even individual coverage.
- Your pre-tax contributions through BASICFLEX could reduce your future FICA benefits. However, studies show the reduction is usually less than one percent.
- FSA benefits end upon termination of employment and/or participation in the plan. If you work for a COBRA-required company and elect to continue the MRA, the contributions are made on a post-tax basis.
- If your employer has "Limited Purpose" FSA, you must submit an EOB with your Reimbursement Form when you submit MEDICAL receipts for payment. (This is explained on the Reimbursement Form.) The premium and dependent care accounts of the FSA are not impacted by your HSA fund.
- This booklet provides general information about your employer's FSA; your Summary Plan Description contains more details. If you have specific questions regarding your situation, you may want to consult an attorney or accountant.





PLEASE PRINT CLEARLY TO ENSURE ACCURATE ENROLLMENT AND FUTURE COMMUNICATION

Employer Name: _____
Participant First Name: _____ Last Name _____
Social Security #: _____ Date of Birth: _____ / _____ / _____
Address: _____
City, State, Zip: _____ Phone Number: _____
Email Address: _____ (Notification of direct deposit payments are only sent via e-mail)
Pay Period: [] Weekly [] Semi-Monthly (twice a month) [] Bi-Weekly (every other week) [] Monthly

PREMIUM CONTRIBUTION

I elect to participate. [] Yes [] No

The amount of salary reduction needed to pay premiums under the insured portions of the plan will be determined by my employer. This amount will be changed as necessary, if premium charged by the insurance company changes.

Check all that apply:

- [] Health Insurance [] Dental Insurance [] Group Life Insurance [] Disability Insurance
[] Vision Insurance [] HSA Fund Contributions [] Other(s) _____

MEDICAL REIMBURSEMENT ACCOUNT (MRA)

I elect to participate. [] Yes [] No

(not to exceed employer limit: _____)

\$ _____ per pay x _____ (# of pays) = \$ _____ Annually (do not round)

Do you or your legal spouse contribute to an HSA? [] Yes [] No

Do you or your legal spouse accept employer HSA contributions? [] Yes [] No

Please re-read "HSA Impact" on page 6.

EMPLOYER MUST COMPLETE FOR MIDYEAR ENROLLMENTS
Date of First Deduction: _____
Eligibility Date: _____

DEPENDENT CARE ACCOUNT (DCA)

I elect to participate. [] Yes [] No

(not to exceed \$5,000 or \$2,500 if married filing separately)

\$ _____ per pay x _____ (# of pays) = \$ _____ Annually (do not round)

EMPLOYER MUST COMPLETE FOR MIDYEAR ENROLLMENTS
Date of First Deduction: _____
Eligibility Date: _____

DIRECT DEPOSIT (not all employers allow direct deposit as a reimbursement option)

- [] I elect to participate (there is no need to complete this section, unless you are changing accounts)
[] checking account OR [] savings account

CHECK EXAMPLE routing number account number check number

Financial Institution (name of bank): _____

Routing Number (always 9 digits): _____ Account Number: _____

If you would prefer, you can attach a voided check.

I request that my periodic paychecks for the plan year be reduced on a prorated, pre-tax basis by the sum of my medical reimbursement, dependent care, and premium contributions to the plan, with such amount to be allocated among the benefits I selected above. I understand this Enrollment Form cannot be revoked or changed during the plan year unless there is a qualified change in status as defined in the Summary Plan Description (SPD). I certify that I will only claim reimbursement for eligible expenses for myself and/or qualified dependent(s) as defined in the SPD. I further certify that these expenses will not be reimbursed under any other benefit plan. I understand any unused dollars remaining in my account(s) at the end of the plan year will be forfeited. I have examined this agreement and to the best of my knowledge, it is true, correct, and complete.

Employee Signature: _____ Date: _____

Complete and return to your Benefits Department.

Please DO NOT submit requests for reimbursement until you receive your confirmation packet.