Pre-Tax Flexible Spending Accounts

As part of your benefit package, West Linn-Wilsonville School District offers Flexible Spending Account (FSA) options and a premium conversion plan which can help you offset the increasing cost of health and child care. These are elective "cafeteria plan" plan benefits strictly regulated by Internal Revenue Code Section 125 rules.

There are three separate elections under our cafeteria plan are:

- **Premium Conversion** (pre-tax, salary reductions for employee health plan contributions). The company will deduct your portion of health insurance premiums from your gross salary before any taxes are deducted. This benefit effectively reduces the net cost of your insurance premium by decreasing your taxable salary.
- **Healthcare Flexible Spending Account**. Healthcare expenses that are either not covered or only partially covered by your health benefits can now be paid pre-tax. Examples include deductibles, copays, orthodontia, vision, over-the-counter drugs, and more. Employees may elect an annual contribution to the plan of up to $2,550.
- **Dependent Care Flexible Spending Account**. Child care and elder care expenses you incur while at work or school may be deducted from your paycheck before tax. In many cases this will be more advantageous than the federal tax credit. The money you contribute to this FSA can be used to reimburse you for expenses for your children under age 13 or for disabled dependents who require care while you (or you and your spouse if you're married) go to work or attend school full-time. The IRS limits the maximum amount you can contribute to $2,500 if you are married and file a separate tax return, or up to $5,000 if you are single/head of household or married/filing jointly. However, your contribution cannot exceed your annual income or your spouse's annual income, whichever is less. If you are married, but your spouse has no earned income and is either a full-time student or incapable of self-care, then your spouse is deemed to have earned income of $250 per month for one qualifying individual or $500 per month for two or more qualifying individuals. This adds up to be $3,000 per year for one dependent or $6,000 per year for two or more dependents.

Flexible spending accounts or "FSAs" allow you to set aside pre-tax dollars to reimburse yourself for qualifying expenses not covered by any insurance plan. When you contribute pre-tax salary to an FSA to reimburse yourself for out-of-pocket healthcare and dependent care expenses, it's as if you are paying for them at a discount because for every dollar you set aside in these accounts, you save federal, state, and FICA taxes. Note that you cannot be reimbursed for expenses under the FSA plans in addition to claiming a tax credit on your annual tax return.

Flexible Spending Accounts Are Governed by the IRS:

Flexible spending accounts are made possible under the Internal Revenue Code Section 125, which allows you to reduce your federal income, state income and FICA tax liabilities (if applicable) by participating in these special accounts. When you participate in one or both FSAs, you contribute part of your pay into your account(s) through pre-tax salary reductions. As you incur eligible out-of-pocket healthcare and dependent care expenses, you reimburse yourself throughout the plan year. As a result, you reduce your taxable income because your FSA contributions come out of your paycheck before taxes are deducted. When you are reimbursed, the money remains tax-free. Any benefits based on your pay will be based on your total annual pay before your FSA contributions. If you contribute over a long period of time, your contributions to the FSAs will reduce your Social Security benefit by a minimal amount.

There are strict IRS rules that govern these plans:

- **Reimbursements Only for Qualified Dependents**. Only eligible expenses incurred by employees, legal spouses, or federally qualified tax dependents may be reimbursed tax-free through these accounts. As a result, expenses for domestic partners and children of domestic partners may be considered for tax-free reimbursement only if they are federally tax-qualified dependents.

- **"USE OR LOSE IT"/Carryover**. To get the most out of your flexible spending accounts, you need to carefully estimate your expenses for the upcoming plan year. Be sure to contribute only those amounts you know will be incurred because there is only a certain amount that is able to carryover and the rest will be forfeited.

  The FSA Carryover Provision is permitted, unused amounts in a Participant's Healthcare FSA will carry forward and remain available to reimburse eligible healthcare expenses incurred in later years. The amount allowed to carryover is subject to a maximum dollar amount which could prevent a carryover of all unused amounts. The maximum allowed is $500. Amounts over this maximum will be subject to forfeiture per the current Treasury regulation FSA “Use It or Lose It” rule. You are not allowed to receive unused funds or transfer dollars from one account to another.

- **No Mid-Year Election Changes Unless Qualified Change in Status**. Another reason to estimate carefully is you cannot make changes to your elections during the plan year unless the change is on account of and is consistent with a qualifying family status change.

Enrolling in the Flexible Spending Accounts:

If you decide to participate in one or both FSAs, you must authorize West Linn-Wilsonville School District to make pre-tax payroll reductions for a specific amount for each plan year. Your annual election will be divided and spread over the number of annual pay periods beginning with your first paycheck in the plan year. **You must make an election for each plan year** as enrollment will not carry forward from one year to the next. Employees hired after the beginning of the plan year (January 1) may enroll on a prorated basis for the pay periods remaining in the plan year.

Employees may make mid-year changes in their elections if the change is consistent with, and on account of, a qualified change in family status.

Filing a Reimbursement Claim: Expenses are eligible for reimbursement in a plan year only if they have been incurred during a plan year. Employees will have 90 days following the end of each plan year to submit paper claims. Remember to submit your claim with the appropriate documentation as listed on the claim forms. Cancelled checks are not acceptable verification of expenses.

Eligible Expenses: Eligible Healthcare FSA expenses are those health expenses for services incurred during the plan year for the diagnosis, treatment or prevention of disease, and for treatments affecting any part or function of the body. The expense must be to alleviate or prevent a physical defect or illness.
Ineligible expenses include, but are not limited to, cosmetic services, insurance premiums, and travel to providers, fitness and health club dues, and nutritional supplements.

Eligible expenses are those which could otherwise be allowed as tax reductions under federal income tax Regulation and which are not covered by insurance. For example:

- Insurance deductibles and co-payments
- Alcohol, drug or chemical dependency treatment
- Prescription drug co-payments
- Chiropractic, naturopathic, osteopathic and/or acupuncture treatment
- Dental treatments (x-rays, fillings, crowns, etc.)
- Orthodontia, dental surgery, exams, cleanings
- Eyeglasses, contacts, vision exams
- Hearing aids, aids and assistance for the handicapped
- Doctor and hospitalization expenses and services
- Lab fees, physical exams, x-rays and vaccinations
- Nursing homes and nursing services
- Psychiatric, psychology and/or psychotherapy treatment
- Surgery, sterilization, gynecology, obstetrics, anesthesia;
- Over the counter medication or drugs used to alleviate or cure a sickness
- Weight loss services for morbid obesity (not including the cost of food and/or over the counter medications)
- Speech or physical therapy, transplants, and other medically necessary treatment.

See IRS Publication 502 for additional information about eligible dependent care expenses:
https://www.irs.gov/pub/irs-pdf/p502.pdf

Eligible **Dependent Care FSA** expenses include:

- Dependent care expenses for children under age 13 so that you and your spouse can work or go to school full-time
- Expenses for the care of a spouse, parent, or other eligible dependent who is incapable of self-care and qualifies as a dependent on your federal tax return

Some dependent care expenses are **not eligible** for reimbursement, such as:

- Babysitting during nonworking hours
- Transportation costs to and from a day care facility
- Education supplies and activities (such as field trips)
- In addition, you cannot be reimbursed for dependent care expenses if the services are provided by:
    - Anyone you claim as a dependent on your federal tax return
    - Your child or stepchild under age 20
    - Your child under age 20 may qualify as a caregiver under IRS rules if you do not claim him or her as a dependent on your federal tax return.

See IRS Publication 503 for additional information about eligible dependent care expenses: Link to Publication 503.

Know your Personal Income Tax Credits:

Before you decide to contribute money in the Dependent Care FSA, keep in mind that you also may be eligible for a federal Dependent Care Tax Credit, and in some states, a state Dependent Tax Credit. It may be to your advantage to take that credit rather than participate in the Dependent Care Assistance Plan. Any amounts that are reimbursed under this account reduce the maximum you can use to calculate the tax credit. Keep in mind that you cannot claim the same expenses twice. If you use the Dependent Care Assistance Account, you cannot take the tax credit, and vice versa. You should check with your tax advisor to see what makes the most sense for you.

In addition, the federal government permits you to take a deduction on your income tax return for certain health care expenses. While most people do not incur enough expenses to qualify for this tax deduction, you should remember that you cannot claim the same expenses twice. If you use the Healthcare FSA, you cannot take a tax deduction for those expenses, and vice versa.

Termination of Employment:

If you terminate employment or cease to be an eligible employee for any reason, your Healthcare FSA terminates on your last day of employment. You will only be able to seek reimbursement for expenses you incurred from January 1 of the plan year through your termination date, unless you have elected to continue your coverage under COBRA on an after-tax basis. If you are subsequently re-employed during the same plan year and have not elected to continue your medical reimbursement plan under COBRA on a post-tax contribution, no new election may be made until the next plan year.