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# Health Care and Dependent Care Reimbursement Accounts

*Human Resources*
*Employee Benefits*
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# Agenda

- Benefits Overview
- What are Health Care and Dependent Care Reimbursement Accounts?
- How Much Can you Save?
- How HCRA and DCRA Work
- Eligible Expenses
- The Federal Dependent Care Tax Credit
- IRS Rules
- Keys to Success
- Filing HCRA and DCRA Claims
- Enrolling for 2012
- HCRA and DCRA Resources

# Benefits Overview

- This presentation is only meant to be an introduction to these plans. The IRS rules governing Section 125 plans such as the County's Health Care and Dependent Care Reimbursement Account plans are very complex. For proper guidance, please consult your tax advisor. Also, please refer to the County of Orange Section 125 Plan Document for further explanation.

- The Section 125 Plan Document can be found on the Benefit Center Web Site under Documents and Forms.

# What is a Health Care Reimbursement Account?

- A Health Care Reimbursement Account (HCRA) is an employer sponsored program that allows you to put aside a tax free portion of your biweekly income to pay for certain medical care expenses
- In most cases, you pay up front for the expense, then you file a claim to receive a tax-free reimbursement
- This program is allowed by the IRS and is a legal way to reduce your taxable income and therefore the amount of taxes you pay

# What is a Health Care Reimbursement Account?

- You set aside funds to pay for “eligible” health care expenses incurred for you, your spouse and your eligible tax dependents that benefit plans or insurance only partially pay or don’t pay, e.g.:
  - Copayments/Coinsurance
  - Deductibles
  - Medical Expenses
  - Dental Expenses
  - Vision Expenses

# What is a Dependent Care Reimbursement Account?

- A Dependent Care Reimbursement Account (DCRA) is an employer sponsored program that allows you to put aside a tax free portion of your biweekly income to pay for certain dependent care expenses
- In most cases, you pay up front for the expense, then you file a claim to receive a tax-free reimbursement
- This program is allowed by the IRS and is a legal way to reduce your taxable income and therefore the amount of taxes you pay

# What is a Dependent Care Reimbursement Account?

- You set aside funds to pay for “eligible” day care expenses for children age 12 and under and for eligible dependents who need care while you work
- You may submit expenses for eligible dependents under DCRA
- Please note that federal tax rules may differ for same sex spouses, domestic partners and their dependents

# What is a Dependent Care Reimbursement Account?

- Lets you use before-tax dollars to pay dependent care expenses such as day care for your child who is 12 years of age or younger or care for an eligible family member necessary while:
  - You work
  - Your spouse works
  - Your spouse seeks work
  - Your spouse is a full time student

# What are Health Care and Dependent Care Reimbursement Accounts?

- HCRA & DCRA dollars are not taxed
  - No federal income tax
  - No state income tax (most states)
  - No Medicare tax (FICA)
- Gives you a tax break on:
  - HCRA: Health care expenses that you don't itemize on your tax forms
  - DCRA: Dependent care expenses that you don't claim for a dependent care tax credit
- Allows you to stretch your dependent care dollars

# How Much Can You Save?

- Consider the effect on your taxes -
  - Because you pay for your contributions with before-tax dollars (your paycheck deductions are taken before any Federal, State, Medicare Tax or local taxes are calculated), it may help to reduce your income taxes for the year.
  - You should consult a tax advisor regarding your decisions.

# How HCRA and DCRA Work

- Decide during Open Enrollment in November how much to put in your account:
  - HCRA contributions: $26 to $5,000
  - DCRA contributions: $26 to $5,000 or $2,500 if spouse files separate tax return
  - Consult with a Tax Advisor
  - The limits noted may be lower for employees who are classified as “highly compensated employees” according to IRS rules

# How a HCRA and DCRA Works

- Accounts begin on January 1
- Payroll deductions start first payday in January and end last payday in December
- Annual contribution is spread out among your paychecks

# How a HCRA and DCRA Works

- Use your HCRA and/or DCRA to pay for expenses incurred on or after January 1
- After paying an eligible expense, fill out a reimbursement claim form and send it to SHPS along with documentation of your expense
- SHPS will send you payment by check or direct deposit (your choice)

# Eligible HCRA Expenses

- IRS governs all allowable expenses, which may include:
  - Health plan deductibles, copays, and what you owe after your health plan pays its share
  - Non-covered or partly covered medical, dental, vision, and other health care expenses that the IRS approves
  - Expenses above health plan limits

# Examples of Eligible HCRA Expenses

- Stop smoking programs and prescription drugs
- Extra eyeglasses
- Prescription sunglasses
- Contact lenses
- Contact Lens solution
- Chiropractic care
- Hearing aids and batteries
- Lasik eye surgery
- Orthodontia (braces)
- Acupuncture
- Insulin
- Prescriptions

# HCRA Expenses

- Over the Counter (OTC) medications can NOT be reimbursed by SHPS unless it is accompanied by a prescription from your doctor
- SHPS will review prescription and OTC medication expenses to determine if it may be eligible under your HCRA in accordance with the IRS rules

# Examples of Ineligible HCRA Expenses

- Health insurance premiums
- Elective cosmetic surgery
- Teeth whitening
- Toothpaste
- Dental floss
- Vitamins and dietary supplements
- Marriage counseling
- Cosmetics
- Contact lens insurance
- Health club dues
- Maternity clothes
- Diet food and beverages
- Exercise equipment
- Household help

# Eligible DCRA Expenses

- IRS governs all allowable expenses
- Dependent child care (age 12 or younger)
- Care for a disabled spouse, elderly parent, or dependent of any age who
  - Can't care for themselves
  - Lives in your home at least 8 hours a day
  - Is your dependent on your income tax return

Necessary so you can work, and spouse can work, look for work, or go to school full time

# Examples of Eligible DCRA Expenses

- Child care provided in your home
- After-school care for a child age 12 or younger
- Nursery school or a daycare center
- The part of private school fees that are for the after school care of your dependent
- A dependent child's expenses are no longer eligible as of his/her13th birthday. If you are estimating dependent care expenses during a year when your child turns 13, be sure to consider the impact this will have on your annual calculation

# Examples of Ineligible DCRA Expenses

- Expenses you claim for a child-care tax credit on your federal tax return
- The cost of food or schooling that can be separated from dependent care expenses
- Overnight camps
- Care provided by your:
  - Spouse
  - Relative you claim as a dependent on your taxes
  - Your child under age 19
- Transportation to and from a care facility
- Babysitting while you go to a movie

# The Federal Dependent Care Tax Credit

- If you pay for dependent care with after-tax dollars you may be able to take a credit on your income tax return
- You can't use a DCRA and get the tax credit for the same expenses
- Usually, if your family's total adjusted gross income is $40,000 or less, the tax credit can save you more money
- Ask a tax expert to help you decide which is better for you

# IRS Rules

- You can't use HCRA dollars to pay dependent care expenses
- You can't use DCRA dollars to pay health care expenses
- You can't stop, start, or change your HCRA/DCRA deposits outside Open Enrollment unless you have a qualifying life event such as:
  - Marriage, birth of a child, divorce, change in spouse's employment, etc.
  - Change in dependent care provider charges
  - Please consult the Plan Document regarding events that allow you to change your HCRA/DCRA deposits

# IRS Rules

- If you enroll for 2012
  - HCRA & DCRA contributions are intended to pay for expenses incurred between January 1 and December 31 of each calendar year
  - You must submit eligible expenses by March 31, 2012 for expenses incurred by December 31, 2011. If you don't file expenses by March 31, 2012 you will lose any 2011 money left in your accounts. "use it or lose"

# Keys to Success
# Before You Enroll in a HCRA

- Estimate your expenses carefully
  - Refer to:
    - Your Explanation of Benefits (EOBs)
    - Cancelled checks
    - Invoices from doctors, dentists, labs, etc.
- Take advantage of Reimbursement Calculator tool on Benefits Center Web Site

# Keys to Success
# Before You Enroll in a DCRA

- Ask your dependent care provider if costs will change in the near future
- If you are estimating dependent care expenses during a year when your child turns 13, be sure to consider the impact this will have on your annual calculation
- Ask your tax preparer or advisor if the DCRA or the federal dependent care tax credit will save you more
- Assess which dependent care expenses are reimbursable under DCRA
- Take advantage of Reimbursement Calculator tool on Benefits Center Web Site

# Keys to Success

## Before You Enroll in a HCRA and/or DCRA

Home > Health & Welfare > Planning Tools > Calculate Reimbursement Account Needs

- Coverage Details
- Change Coverage
- Planning Tools
  - Compare/Evaluate Health Plans
  - Research Medical Conditions & Find a Hospital
  - Calculate Life Insurance Needs
  - Calculate Reimbursement Account Needs
- Resource Materials

**See Also ...**

Review Plan Guidelines

Download and print claims forms and other benefit forms

Information about a health plan's services and costs, such as coinsurance and annual deductibles is available in the Health Plan Comparison Chart

### Calculate Reimbursement Account Needs

Printer Friendly Version | Page Help

You may be able to access one or two separate reimbursement accounts:

- The **Health Care Reimbursement Account** covers certain eligible health care expenses for yourself, your spouse, and your eligible children.
- The **Dependent Care Reimbursement Account** can only be used to reimburse certain qualified dependent care expenses.

This tool allows you to estimate the amount you should contribute to each one and the annual tax savings you would realize by using a flexible spending account to pay for out-of-pocket health care or dependent care expenses with pre-tax dollars.

**Instructions**

- Review "What You Should Know"
- Enter your annual wages.
- Select your tax filing status.
- Enter your estimated annual out-of-pocket health care expenses.
- Enter your estimated annual out-of-pocket dependent care expenses.
- To clear your entries, click **Clear**.
- Click **Calculate**.

**Income**

| | |
|---|---|
| Employee Wages: | 0 |
| Tax Filing Status: | --Select Filing Status-- |

**Estimated Health Care Expenses**

| | |
|---|---|
| Medical Care: | 0 |
| Prescription Drugs: | 0 |
| Allowable Over-the-Counter Medicines and Drugs: | 0 |

**Learn More**

- How can I calculate my Reimbursement Account Amounts?
- How does a Health Care Reimbursement Account work?
- How does a Dependent Care Reimbursement Account work?
- Need to speak with a Benefits Specialist?

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# Keys to Success

## After you enroll in a HCRA and/or DCRA

- SHPS – Administrator will process your claims and determine eligible expenses to be reimbursed

- Check your account balances periodically after January 1, 2012
  - By phone at **800-807-8847, press 1**
  - Online at www.myspendingaccount.shps.com

# Filing HCRA Claims

- You can receive up to the entire amount you agreed to deposit for the year as soon as you have an eligible expense
- ***First*** file a claim with your medical, dental, or vision plan
  - Plans will send you an Explanation of Benefits (EOB) statement
  - If you're in a medical HMO, ask the doctor's office, hospital, lab, etc. for a itemized receipt for any copayments/coinsurance

# Filing HCRA Claims

- Complete SHPS claim form and <u>include receipts</u> that show:
  - Patient or qualifying dependent's name
  - Service date or period of service
  - Description of service or item
  - Cost of the service or item
- Make and keep copies of the claim form and receipts for yourself
- Track claims processing from web site, www.myspendingaccount.shps.com

# Filing DCRA Claims

- You can receive no more than the amount in your account when SHPS receives your claim form
- File claims as you go
  - Obtain claim forms from the Benefits Center Web Site
- If you want automatic DCRA reimbursements, use a SHPS “Claim Reimbursement form”
  - You only have to complete it once during a dependent care service period with the same provider
  - Please consult SHPS for more information by calling 1-800-807-8847, press 1

# Filing DCRA Claims

- Complete claim form and <u>include receipts</u> that show:
  - Qualifying dependent's name
  - Date of service or period of service
  - Name and address of Dependent Care Provider
  - Social Security or tax ID number for Dependent Care Provider
  - Dollar amount of dependent care services
  - Signature of employee
- Make and keep copies of claim forms and receipts for your files

# Enrolling for 2012

- 2011 HCRA and/or DCRA contributions stop in December 2011
- New enrollment is required every year that you want to have a HCRA and/or DCRA; prior elections do <u>not</u> carry over
- To set up a HCRA and/or a DCRA for 2012, enroll in November during Open Enrollment
- Please review your Benefits Confirmation Statement. If there are errors regarding the HCRA and/or DCRA deductions or any other elections you have made, it is your responsibility to inform the Benefits Center within 10 business days from the date on your statement.

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# HCRA and DCRA Resources

- County of Orange Benefits Center
  - www.benefitsweb.com/countyoforange.html
  - 1-866-325-2345
- SHPS – Spending Account Administrator
  - www.myspendingaccount.shps.com
  - 1-800-807-8847, press 1
  - FSA Claims Administration
    - **P O Box 34700**
    - **Louisville, KY 40232**
  - Fax #: 1-866-643-2219

# HCRA and DCRA Resources

- IRS
  - **www.irs.gov**
  - **1-800-829-3676**

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# Any Questions?