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## *Tucker Administrators Medical Spending Account*

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**Plan Year: January 1, 2010 - December 31, 2010**

**Medical Reimbursement Plan Maximum: \$2,500**

**Medical Reimbursement Plan Minimum: \$200**

The Medical Spending Account offers a real advantage for your pocketbook. Many people find this a cost effective way to pay for such items as medical and dental plan deductibles/co-payments, eyeglasses, contact lenses, orthodontics and other health-related expenses that may not be covered by insurance. Even taxpayers who do not itemize can take advantage of this tax break by using the Medical Spending Account.

### **WHO SHOULD ENROLL?**

The Medical Spending Account is beneficial for anyone who has eligible out-of-pocket medical, dental, vision, or hearing expenses beyond what their insurance plan covers.

### **IS THIS A GOOD PROGRAM FOR ME?**

It's easy to determine if the Medical Spending Account can save you money. Before the plan year begins, you will need to determine your annual election. It's a good idea to estimate the expenses that you will incur during the plan year.

You are allowed to include eligible out-of-pocket expenses for you, your spouse, and anyone claimed as a dependent for tax purposes. Review your health care expenses from the previous year. If you find you had \$150 or more in recurring or predictable expenses, this account can help you stretch your income.

A worksheet is provided in this booklet to help you calculate your estimated eligible expenses.

### **HOW DOES IT WORK?**

After you determine your annual expenses, identify an annual Medical Spending Account election that you are comfortable with. This amount will be deducted in even amounts from each of your paychecks. **You will need to plan carefully as the IRS requires that any unused money left in your account at the end of the plan year will be forfeited.**

## HOW IS A CLAIM FILED?

a. Please attach all back up documentation to your claim form. Make sure that the original date of service appears on your documentation. Balance due statements and paid on account receipts usually do not contain the original date of service, therefore you may need to include additional documentation to show when the service was incurred. Remember that you must incur the service within each applicable plan year. **The important date is when the service was incurred - not when it was paid.**

b. Make sure the claim form is signed when submitting a request for reimbursement. Claim forms are available from the website listed on the front cover of this booklet.

c. Some of the acceptable documentation for medical spending accounts would include the following:

- Explanations of Benefits from health plans
- Walk out statements from health providers
- Bills from medical providers and suppliers
- Copies of prescription receipts

**Note: Itemized cash register receipts would be acceptable documentation for contact lens solutions and other allowable Over The Counter items.**

d. Reimbursement Account checks are mailed out each week. Please have your requests to Tucker Administrators by Wednesday, the week before the check run to make sure your claim is processed and your check can be mailed to you the following week.

e. Remember, you may submit claims for yourself and any dependent family members. You may submit claims for deductibles, coinsurance and doctor's office copays for your spouse's health insurance as long as those expenses have not been reimbursed by another pre-tax medical spending account.

You may send all requests for reimbursement directly to Tucker Administrators at the following address:

**Tucker Administrators, Inc.  
3800 Arco Corporate Dr., Suite 450  
Charlotte, NC 28273  
Telephone: (800) 347-1232  
Fax: (704) 525-9534  
[www.tuckeradministrators.com](http://www.tuckeradministrators.com)**

## CAN I CHANGE MY ELECTION?

In line with Internal Revenue Service guidelines, you can change your election if you have a **qualifying status change** during the plan year. This includes change in legal marital status, change in number of tax dependents, termination or commencement of employment, dependent satisfies or ceases to satisfy dependent eligibility requirements, or a judgment, decree or order. However, the adjustment in your election must be relevant to the change in status and the requested election change has to be in line and consistent with the event. All requests must be submitted to Johnson County Schools for approval.

## WHAT ARE THE ADVANTAGES OF THE MEDICAL SPENDING ACCOUNT?

Most important, the net cost of your required out-of-pocket health care expenses is reduced and made more affordable. The amount you contribute to your Medical Spending Account and the amount you are reimbursed from your Medical Spending Account are income tax-free. The amount you contribute to your Medical Spending Account is not subjected to Federal, State, or FICA taxes. Generally, this will mean a tax savings of 15% to 40% depending on your tax bracket. As a direct result of your personal tax savings, you will actually reduce the cost of required expenses and thus, increase your spendable income.

## HOW THE MEDICAL SPENDING ACCOUNT SAVES YOU MONEY...

Let's look at an example. As shown below, Ben E. Fits makes \$26,000 a year, and elects to contribute \$500 to his Medical Spending Account. He then files eligible claims for the \$500 in his account. As the example shows, Ben E. Fits will save \$139 in taxes.

	<b>Without a Medical Spending Account</b>	<b>With a Medical Spending Account</b>	<b>Tax Savings with a Medical Spending Account</b>
<b>Annual Pay</b>	\$26,000	\$26,000	
<b>Subtract Out-of-Pocket Medical Expense (Pretaxed)</b>	\$0	-\$500.00	
<b>Federal Taxes 15%</b>	\$3,900	\$3,825	\$75
<b>State Taxes (Based on 5.3%)*</b>	\$1,378	\$1,352	\$26
<b>FICA Taxes (Based on 7.65%)</b>	\$1,989	\$1,951	\$38
<b>Out-of-Pocket Medical Expense (After-Tax)</b>	-\$500	-\$0	
<b>Annual Tax Savings</b>			<b>\$139</b>
<i>The above figures assume taxes for an employee who is single, using the standard deduction, no dependents and only includes wage income.</i>			
<i>*State taxes where applicable.</i>			

## WHAT ARE THE DISADVANTAGES OF THE MEDICAL SPENDING ACCOUNT?

Generally speaking, there are none with a bit of careful planning. However, we do want you to know that when you reduce your FICA taxes, you will be reducing your Social Security contribution. Research studies on this matter indicate that your tax savings generally outweigh any Social Security benefit reduction.

Based on group participation, key employees' participation may be restricted. You will be notified if this applies to you.

**As required by law, any money in your Medical Spending Account not used by the end of the plan year will be forfeited. Therefore, it is in your best interest to be conservative when estimating your contribution.** But keep in mind that your tax savings may more than make up for any extra dollars you leave in your account at the end of the year.

If you are in doubt about an expense, please contact Tucker Administrators for assistance. You will want to have your annual election as much in line with your medical out-of-pocket costs as possible.

### Medical Spending Account Tax-Free Worksheet Illustration

*This worksheet will help you estimate your annual uninsured medical expenses for the upcoming plan year, and your estimated tax savings realized through your participation in your Medical Spending Account. Remember to estimate conservatively, considering only those expenses you are confident will be incurred during the plan year, and that will not be covered by any insurance plan.*

	<b>Projected Plan Year Expenses (not covered by insurance)</b>
1. Medical and Dental Deductible	\$ _____
Medical insurance co-payments and co-insurance	\$ _____
Dental insurance co-payments and co-insurance	\$ _____
Immunizations, injections and vaccinations	\$ _____
Routine examinations	\$ _____
Dental and orthodontic expenses not covered by insurance	\$ _____
Prescription drugs or co-payments	\$ _____
Eye examinations, glasses and contacts not covered by insurance	\$ _____
Hearing examinations	\$ _____
Transportation to and from medical provider	\$ _____
Medically necessary elective surgery	\$ _____
Other expenses	\$ _____
2. Total estimated, uninsured medical expenses for the plan year	\$ _____
	<b>Estimated Contribution and Tax Savings</b>
3. Write down your desired MSA plan year contribution.	\$ _____
4. You will have equal amounts taken out of each regular paycheck and deposited into your Medical Spending Account.	\$ _____
5. Multiply your per pay contribution by your total tax bracket (the sum of Federal, State, FICA tax rates). See the previous page for an example.	
Your Tax Rate: _____	\$ _____

## **FLEXIBLE SPENDING ACCOUNT PLAN ELIGIBLE EXPENSES**

Medical care expenses are defined by the Internal Revenue Service (IRS) as amounts paid for the diagnosis, cure, mitigation or treatment of a disease, and for treatments affecting any part or function of the body. The expenses must be primarily to alleviate a physical or mental defect or illness.

With that in mind, we have listed below many of the medical expenses eligible for payment under the Medical Spending Account, to the extent such expenses are not covered by your medical or dental insurance. This list is not meant to be all-inclusive. Other expenses not specifically mentioned may also qualify. For additional information, please refer to IRS Publication 502 Medical and Dental Expenses. However, the two exceptions to be aware of are: 1) Insurance premiums are not reimbursable under a Medical Spending Account, and 2) The reimbursement under a Medical Spending Account is based only upon when the expense was incurred; i.e., date of service, not the date paid. To be eligible, the service has to be provided in your plan year.

### **HEALTH CARE/MEDICAL**

#### **MEDICATIONS**

Aspirin, if plan allows  
Insulin  
Nicotine Gum or Patches, if plan allows  
OTC Medicines, if plan allows  
Prescribed Birth Control  
Prescribed Vitamins  
(to treat specific disease)  
Prescription Drugs

#### **OBSTETRIC SERVICES**

Mid-Wife Expenses  
OB/GYN Exams  
OB/GYN Prepaid Maternity Fees  
(reimbursable after date of birth)  
Post-Natal/Pre-Natal Treatment  
Pre-Natal Vitamins

#### **PRACTITIONERS**

Allergist  
Chiropractor  
Christian Science  
Dermatologist  
Homeopath  
Naturopath  
Osteopath  
Physician  
Psychiatrist  
Psychologist

#### **DENTAL SERVICES**

Crowns/Bridges  
Dental X-Rays  
Dentures  
Exams/Teeth Cleaning  
Extractions  
Fillings  
Gum Treatment  
Oral Surgery  
Orthodontia/Braces

#### **INSURANCE-RELATED ITEMS**

Copay Amounts  
Deductibles  
Pre-existing Condition Expenses  
(medical)  
Private Hospital Room Differential

#### **LAB EXAMS/TESTS**

Blood Tests  
Cardiographs  
Diagnostic  
Laboratory Fees  
Metabolism Tests  
Spinal Fluid Tests  
Urine/Stool Analyses  
X-Rays

## **OTHER MEDICAL TREATMENTS/PROCEDURES**

Acupuncture  
Alcoholism (inpatient treatment)  
Cosmetic Surgery (if medically necessary)  
Drug Addiction  
Hearing Exams  
Hospital Services  
Infertility  
In-vitro Fertilization  
Norplant Insertion or Removal  
Patterning Exercises  
Physical Examination  
(not employment related)  
Physical Therapy  
Pregnancy Tests  
Rolfing  
Smoking Cessation Programs  
Speech Therapy  
Sterilization  
Transplants (includes organ donor)  
Treatment for Handicapped  
Vaccinations/Immunizations  
Vasectomy  
Well Baby Care

Syringes  
Transportation Expenses (essential to medical care)  
Tuition Fee at Special School for Disabled Child  
Wheelchair  
Wigs (hair loss due to disease)

## **VISION SERVICES**

Artificial Eyes  
Contact Lenses  
Contact Lens Solution  
Eye Examinations  
Eyeglasses  
Laser Eye Surgeries  
Ophthalmologist  
Optometrist  
Prescription Sunglasses  
Radial Keratotomy

## **OTHER MEDICAL EQUIPMENT, SUPPLIES and SERVICES**

Abdominal/Back Supports  
Ambulance Services  
Arches/Orthopedic Shoes  
Contraceptives  
Counseling  
Crutches  
Guide Dog (for visually/hearing impaired person)  
Hearing Aids & Batteries  
Hospital Bed  
Learning Disability (special school/ teacher)  
Medic Alert Bracelet or Necklace  
Oxygen Equipment  
Prescribed Medical and Exercise Equipment  
Prosthesis  
Splints/Casts  
Support Hose (if medically necessary)

## INELIGIBLE EXPENSES

The IRS does not allow the following expenses to be reimbursed under the Medical Spending Account. Expenses to promote general health are not eligible expenses. This is not an inclusive listing.

Babysitting & Child Care	Lamaze Class***
Breast Pumps*	Marriage Counseling
Calcium Supplements	Massage Therapy**
Canceled Appointment Fees	Maternity Clothes
Contact Lens Insurance	Personal Trainer
Cosmetic Surgery/Procedures	Prescription Drug Discount
Custom Fit overs (clip-ons)	Program Premiums
Dancing Lessons	Retin-A*
Diaper Service	Rogaine*
Discounted Fees/Write-offs	Special Foods* (cost difference of common product)
Electrolysis	Student Health Fee
Exercise Equipment*	Swimming Lessons
Eyeglass Insurance	Tattoo Removal
Fitness Programs*	Teeth Whitening/Bleaching
Hair Loss Medication	Toiletries, Toothpaste, etc.
Hair Transplant	Varicose Vein Treatment*
Health Club Dues	Vision Discount Program
Treatment Program (at a Health Club)*	Premiums
Herbs & Herbal Medicines	Vitamins*
Homeopathic Drugs	Weight Loss Programs &/or Drugs*
Illegal Operation or Treatment	Prescription drugs purchased outside the United States
Insurance Premium Interest Charge	
Insurance Premiums	

*\*Eligible only with Doctor's certification identifying the medical condition and length of treatment program.*

*\*\*Eligible only with Doctor's certification identifying the physical nature of the medical condition and length of treatment program. Massage therapy for the sole purpose of tension/stress relief or depression (even with a Doctor's statement) does not qualify as an eligible expense.*

*\*\*\*Eligible expenses are limited to the mother's instruction related to birth.*

*Please be aware that the Internal Revenue Service looks to the reasonableness of the cost of the treatment.*

## **Over the Counter Drug Ruling Questions & Answers**

### **Q. Can I be reimbursed for all over-the-counter (OTC) drugs?**

A. No, only drugs for use by the participant, or the participant's spouse or dependents, to alleviate or treat personal injuries or sickness are eligible for reimbursement. Therefore, dietary supplements such as vitamins for general well-being are not eligible. Cosmetic purchases continue to be an ineligible expense.

### **Q. Why did the IRS make this change?**

A. The IRS realizes that many drugs that were available only by prescription have become available over-the-counter, and that this is likely to continue. Over-the-counter drugs could actually cost the participant more than the copay for the prescription. Therefore, allowing these types of expenses to be reimbursed on a pre-tax basis should help people manage their health care costs.

### **Q. If I don't have a headache and I buy a bottle of aspirin to put in my medicine cabinet (to have some on hand for my next headache), is the cost of the aspirin a reimbursable expense? Or must the participant, spouse, or dependent have a headache at the time the aspirin is purchased?**

A. Although the OTC Drug Ruling does not answer these questions, the Employee Benefits Institute of America states that the OTC Drug Ruling realizes that some sort of advance purchase of medicines and drugs for use in the near future is reasonable—that the advance purchase of medicines and drugs is permitted to treat a medical condition that has a strong likelihood of occurring.

### **Q. Can a reimbursement account reimburse a participant for the cost of 48 bottles of aspirin purchased at the end of the plan year?**

A. Again, the OTC Drug Ruling does not answer this question. However, IRS officials have informally indicated that participants may be reimbursed for a reasonable quantity of OTC drugs to have on hand for use during the plan year, if the OTC drugs qualify as an eligible medical expense. In fact, even year-end purchases should be permissible in small quantities.

### **Q. What are the substantiation requirements for eligible OTC drugs?**

A. It is permissible to reimburse with an adequate receipt and a participant's statement. The receipt must state the name of the medicine or drug, the date and the amount paid. The patient's name is not required on the receipt. But the participant statement needs to include the name of the employee, spouse or dependent.

### **Q. Is there a list of eligible and ineligible over-the-counter drugs that I can refer to?**

A. The IRS has not developed such a list. However, the list on the following pages should serve as a guide to the type of expenses that are ineligible, eligible, and those that may be eligible with a doctor's letter of medical necessity.

**The IRS has recently ruled that certain over-the-counter drugs can now be reimbursed through your Medical Spending Account. Following is a list of eligible and ineligible expenses:**

### **Over-the-Counter Drugs Eligible Expenses**

Eligible over-the-counter drugs include, but are not limited to the following:

- Allergy medicines
- Antacids
- Anti-diarrhea medicines
- Bactine
- BenGay, Tiger Balm and similar products for muscle or joint pain
- Bug bite medications
- Calamine lotion
- Cold medicines
- Cough drops, throat lozenges
- First aid creams
- Laxatives
- Menstrual cycle products for pain and cramp relief
- Motion sickness pills
- Nasal sinus sprays
- Nicotine gum or patches for stop-smoking purposes
- Pain relievers
- Pedialyte for ill child's dehydration
- Sinus medications
- Special diaper rash ointments
- Special ointments or creams for sunburn (not just regular skin moisturizers)
- Suppositories and creams for hemorrhoids
- Visine and other such eye products
- Wart remover treatments

### **Over-the-Counter Drugs - Dual Purpose Expenses Requiring a Letter of Medical Necessity**

Dual purpose over-the-counter drugs include, but are not limited to the following:

- Acne treatments
- Dietary supplements or herbal medicines to treat a specific medical condition
- Fiber supplements to treat a specific medical condition for a limited time
- Glucosamine/Chondroitin for arthritis or other medical condition
- Lactose intolerance pills
- Menopause treatments for hot flashes, night sweats
- Nasal sprays for snoring
- OTC hormone therapy
- Prenatal vitamins
- Sleeping aids
- Sunscreens
- St. John's Wort for depression
- Weight-loss drugs to treat obesity

### **Over-the-Counter Drugs Ineligible Expenses**

Ineligible over-the-counter expenses include, but are not limited to the following:

- Chapstick
- Deodorants
- Eye and facial makeup preparations
- Face creams
- Feminine hygiene products
- Fingernail polishes
- Hair colors
- Hand lotions
- Lipsticks
- Medicated shampoos
- Medicated soaps
- Perfumes
- Permanent waves
- Shaving creams
- Shaving lotions
- Skin moisturizers
- Suntan lotions
- Toothpaste
- Vitamins

## MEDICAL SPENDING ACCOUNT MOST QUESTIONED EXPENSES

IRS regulations periodically change, affecting the eligibility of certain expenses in Flexible Spending Account Plans. The following will assist you in making your elections for the plan year based on the **most current rulings** regarding some of the **most questioned expenses**. As a third party administrator, Tucker Administrators follows Internal Revenue Service Guidelines as provided in IRS Publication 502 Medical and Dental Expenses. There are two exceptions: 1) Insurance premiums are not reimbursable under a Medical Spending Account; and 2) The tax credit as outlined in IRS Publication 502 allows the tax credit in the year the expense is paid; **the reimbursement under a Medical Spending Account is based only upon when the expense was incurred; i.e., date of service, not the date paid.**

<b>Canceled Appointments</b>	Fees for missed appointments are <b>not eligible</b> .
<b>Cosmetic Treatments</b>	Only qualify if they are medically necessary. Electrolysis is <b>not</b> an eligible expense. Cosmetic surgery simply to enhance bodily features is <b>not eligible</b> . Cosmetic surgery which is necessary due to an accident, disease, illness or congenital abnormality <b>is eligible</b> .
<b>Custom Fitovers (Clip-Ons)</b>	Are <b>not eligible</b> as they do not correct vision.
<b>Counseling</b>	Family counseling is only eligible for the family member who is the patient with a specific medical condition. Marriage counseling is <b>not eligible</b> .
<b>Dentistry</b>	Monthly orthodontic expenses are eligible, but only for those months within the plan year. Only expenses for orthodontic services incurred in the plan year are eligible; the months before or after the plan year are not eligible. Reimbursement is available by providing a treatment plan. <b>Teeth Bleaching/Whitening is not eligible</b> .
<b>Diabetic Supplies</b>	Insulin, syringes, test tapes, and needle boxes <b>are eligible</b> .
<b>Dietary Needs/Special Foods</b>	Special foods are eligible if prescribed to treat a specific illness to the extent the cost exceeds cost of commonly available versions of the same product. Special foods to promote general health are <b>not eligible</b> .
<b>Discount Fees/Write Offs</b>	Are <b>not eligible</b> .
<b>Drugs</b>	Over-the-counter drugs such as aspirin, antacids, allergy medicines, pain relievers or cold medicines <b>are eligible, if allowed by your plan</b> . Dietary supplements without a medical condition <b>are not eligible</b> . Non-prescription drugs for general well being like vitamins, herbal supplements or cosmetic purchases <b>are not eligible</b> . <b>Date ordered is the date of service</b> . Drugs that are legal at state or local level, but illegal at federal level are not medical expenses and are <b>not eligible</b> .
<b>Health Club Membership Dues</b>	Are <b>not eligible</b> , even when prescribed by a physician. Treatment programs at a health club, exercise equipment, and exercise programs <b>are only eligible</b> if the doctor prescribes them to treat a disease or illness.

<b>Insurance Estimates</b>	Services must be incurred before reimbursement through the spending account. Pre-certification and estimates are <b>not eligible</b> for reimbursement under the HCRA.
<b>Insurance Premiums</b>	Your portion of a company sponsored and/or individual insurance premium is <b>not eligible</b> for reimbursement under a health care spending account. Your portion of premiums for employer sponsored insurance is pre-taxed through the Premium Expense Account, not the HCRA. Student health fees are similar to insurance premiums and are <b>not eligible</b> for reimbursement under the HCRA.
<b>Interest Charges</b>	Are <b>not eligible</b> .
<b>Lamaze Classes</b>	Only expenses for instruction related to the birth are eligible. Child rearing instruction is <b>not eligible</b> . The fee will have to be apportioned to exclude instruction in topics such as newborn care. Also, amounts for the coach or significant other are <b>not eligible</b> .
<b>Maternity Fees—Prepaid</b>	In line with insurance companies, the date of child's birth is considered date of service.
<b>Massage Therapy</b>	Is eligible with a doctor's statement of medical necessity. It is <b>not eligible</b> if therapy is solely for the purpose of tension/stress.
<b>Mileage</b>	Mileage is eligible for the miles driven to and from the doctor's office. The amount that can be reimbursed is twelve (12) cents per mile.
<b>Rogaine</b>	Is <b>not eligible</b> , unless accompanied by a letter of medical necessity.
<b>Vision</b>	Contact lens solution and sales tax are eligible expenses. Contact lens insurance is <b>not eligible</b> . The date the glasses or contacts are ordered, <b>not picked up</b> , is considered the date of service. Radial Keratotomy, LASIK and other laser eye surgeries are eligible. Vision Discount Program Fees are <b>not eligible</b> .
<b>Vitamins</b>	Dietary supplements (for example, vitamins) to maintain general health are <b>not eligible</b> . Dietary supplements or herbal medicines to treat a specific medical condition are <b>eligible with a doctor's letter stating medical necessity</b> .
<b>Weight Loss</b>	<b>Physician prescribed</b> weight loss programs necessary to treat <b>physician diagnosed</b> obesity is an eligible expense. Health clubs and spas are not viable treatment options. Weight loss programs attended to improve general health or appearance are <b>not eligible</b> . Special diet food that is a substitute for the food normally consumed is <b>not eligible</b> . If the same results can be obtained from a program that costs less, such as walking, the IRS may look to the reasonable cost of the prescribed exercise program.

## **MID-YEAR ELECTION CHANGES MEDICAL SPENDING ACCOUNT**

**You are allowed to change your annual election for a Medical Spending Account ONLY if you have a qualifying status change such as the following:**

- Change in employee's legal marital status
  - Marriage
  - Divorce
  - Death of a Spouse
  - Legal Separation or Annulment of Marriage
- Change in number of dependents (Note: gaining or losing an individual who is not a tax dependent does not allow an election change; this is in line with the tax definition of dependent under Section 152.)
- Change in employment status
  - Termination or Commencement of Employment by the Employee, Spouse or Dependent
  - Change in Work Schedule (reduction or increase in hours by employee, spouse or dependent, including a change between part-time and full-time, a strike or lockout, or commencement or return from unpaid Leave of absence)
- Dependent satisfies (or ceases to satisfy) dependent eligibility requirements
  - Attainment of limiting age, change in student status, or marriage
- Commencement or termination of adoption proceedings
- FMLA leave for you or your spouse
- Judgment, Decree or Order resulting from a divorce, legal separation, annulment or change in legal custody {includes a Qualified Medical Child Support Order (QMCSO)}
- Entitlement of Medicare or Medicaid

**PLEASE NOTE THAT SIGNIFICANT COST OR COVERAGE CHANGES DO NOT APPLY TO HEALTH FSAs!!**

The following are **NOT** qualifying events that trigger a mid-year change to a health FSA election:

- Over or under-estimated expenses for the year
- Services planned for the year are no longer needed
- A significant change in your insurance coverage
- Financial hardship

Two important facts must be considered when allowing a status change mid-year:

1. Participants may make changes to their elections “on account of, and corresponding with, a change in status that affects eligibility for coverage.” In other words, a change in status must have occurred.
2. The change in election must be “consistent with the reason that such change was permitted.” Example, increasing coverage due to a marriage, or decreasing coverage due to a death.

## **ORTHODONTIA GUIDELINES - FLEXIBLE SPENDING ACCOUNT**

**Please read this notice before making your annual election**

Orthodontia expenses are reimbursed over the period of time the appliances are worn. The treatment plan and/or contract from the Orthodontist will state the length of time the appliances/braces will be worn by the patient. The IRS recognizes that orthodontia services are continuous from the installation to the removal of the appliances, therefore you may have services spanning 1-3 plan years. In line with those guidelines, your orthodontic reimbursements need to be in accordance with the length of time you will have services. The total fee owed to the Orthodontist will be pro-rated by the number of months the appliances will be worn. If you make a lump sum payment to receive a discount, the above still applies; therefore, you will not be reimbursed a lump sum payment. **You can be reimbursed monthly based on the expected length of treatment.**

**Example 1:** Plan year begins January, 2009. Orthodontia begins in January with treatment lasting 36 months. Total fee is \$4600.00. Down payment of \$1000.00 is due in January. \$3600.00 will be divided by 36 months. First payment is due February, 2009. The amount that can be reimbursed in the 2009 plan year is the \$1000.00 down payment plus eleven (11) monthly reimbursements of \$100.00 totaling \$1100.00.

**Example 2:** Orthodontist offers a 10% discount if you pay in one lump sum payment. Total fee is \$4140.00. There is no down payment. \$4140.00 will be divided by 36 months. The amount that can be reimbursed in the 2009 plan year is twelve (12) monthly reimbursements of \$115.00 totaling \$1380.00.

**\*\*Note\*\* Above example uses appliances placed in January. Appliances placed in a different month would need to be pro-rated using remaining months in the plan year. Example: For appliances placed in September, the amount that can be requested is the down payment and three months of Orthodontia payments. Reimbursements cannot be paid out prior to the services rendered, even if you paid up front.**

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## **VISION EXPENSE GUIDELINES - FLEXIBLE SPENDING ACCOUNT**

**Please read this notice before making your annual election**

Vision bills/expenses must include the name of the patient and provider, the type of service, the date the service was incurred/provided, and your out-of-pocket expense. **Balance due statements, charge card receipts, and canceled checks are not acceptable documentation for reimbursement.** The date the glasses or contacts are ordered is considered the date of service, **not the pick up date.**

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## *Tucker Administrators* *Dependent Care Account*

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**Plan Year: January 1, 2010 - December 31, 2010**  
**Dependent Care Reimbursement Plan Maximum: \$5,000.00**

Extend your income by using the Dependent Care Account to pay for work-related dependent care expenses with income tax-free dollars. You may save a significant amount of money by participating in this account.

If you are paying for day care expenses now, you are paying in taxable dollars and probably taking the Federal Tax Credit at the end of the year. If you use the Dependent Care Reimbursement Account, you will pay these expenses in pre-tax dollars throughout the year, eliminating the need to use the tax credit at the end of the year.

### **WHO SHOULD ENROLL?**

The Dependent Care Reimbursement Account is generally beneficial to any eligible employee who has a qualified dependent and eligible day care expenses.

### **WHO IS A QUALIFIED DEPENDENT?**

Dependents are defined as children under 13 years of age, or children 13 or over who are physically or mentally unable to care for themselves. A spouse or an elderly parent residing in your home, who is physically, or mentally unable to care for himself or herself, also qualifies.

### **WHAT EXPENSES ARE ELIGIBLE?**

Expenses incurred which allow you (and your spouse, if married) to work, look for work or attend school as a full-time student are eligible. Below are expenses which qualify.

- Day care facility fees (excluding transportation, lunches, educational services)
- Before-school and after-school care
- Local day camp
- In-home babysitting fees (income must be claimed by your care provider)
- Nursery school and preschool (preschool expenses are eligible if the amount you pay for schooling cannot be separated from the cost of care)

### **WHO IS AN ELIGIBLE PROVIDER?**

You may use any care provider you choose, except a dependent child who is claimed as a dependent and is under the age of 19. The care provider must meet the requirements of your state. The services may be as informal as care provided by your neighbor, as long as the provider claims the money received for services as income when determining their taxes at the end of the year. **You will need to obtain the provider's federal identification/social security number for inclusion on your tax filing.**

## HOW DOES IT WORK?

The program is simple. Decide how much money you want to place in your account based on your estimate of work-related dependent care expenses for the coming plan year. Keep in mind the time in which your dependent is not receiving care, such as vacation or sick time. The amount to be deducted from your pay cannot be greater than your income or that of your spouse, whichever is lower. The maximum contribution allowed by the IRS is \$5,000 (\$2,500 each for married individuals filing separate returns). **You will need to plan carefully as the IRS requires that any unused money left in your account at the end of the plan year will be forfeited.** Identify an annual election that you are comfortable with. This amount will be deducted on a pre-tax basis each pay period and contributed to your Dependent Care Reimbursement Account.

When you have expenses to be reimbursed, simply complete a claim form indicating that the expense has been **incurred during the plan year**, along with a bill or **itemized** receipt from the provider. Copies of the bill or an itemized receipt are good examples of proof of your dependent care expenses. If none of these are available, you may have the care provider acknowledge receipt by signing directly on the claim form. That's it! Mail or fax your claim and your claim will be processed on your next reimbursement date. Advance reimbursement of future or projected dependent care expenses is not permitted. **Accordingly, you will receive Dependent Care Reimbursement up to the amount that has been deducted from your payroll earnings and contributed to your Dependent Care Reimbursement Account.**

## CAN I CHANGE MY ELECTION?

In line with Internal Revenue Service guidelines, you can change your election if you have a **qualifying change in status** during the plan year. This includes marriage, divorce, death, change in coverage, change in cost (except when the provider is a relative), dependent enrolled in school, birth/adoption or a change in employment. However, the adjustment in your election must be relevant to the change in status and the requested election change has to be in line and consistent with the event. All requests must be submitted to Johnson County Schools for approval.

## WHAT ARE THE ADVANTAGES OF THE DEPENDENT CARE REIMBURSEMENT ACCOUNT?

Most important, your personal taxes will be reduced. The amount you contribute to your Dependent Care Account is not subject to Federal, State, or FICA taxes. Generally, this will mean a tax savings of 15% to 40% depending on your tax bracket. As a direct result of the personal tax savings, you can actually increase your spendable income by changing the payment of those expenses from an after-tax to a pre-tax basis.

Participation in Dependent Care Account will reduce or in some cases, may eliminate the ability to use the Federal Tax Credit for Dependent Care. However, as you can determine from the comparison worksheets shown later in this booklet, for most taxpayers the Dependent Care Account results in a greater tax savings. **If you participate in a Dependent Care Reimbursement Account, IRS Form 2441 must be completed as part of your tax return.**

## WHAT ARE THE DISADVANTAGES OF THE DEPENDENT CARE REIMBURSEMENT ACCOUNT?

By not paying FICA taxes, you will be reducing your Social Security contribution. Studies on this matter have determined that your tax savings generally outweigh your Social Security benefit reduction.

Any money in your Dependent Care Account that is not used by the end of the plan year will be **forfeited**. Therefore, it is in your best interest to be conservative when estimating your contribution.

Based on group participation, highly compensated and/or key employees' participation may be restricted. You will be notified if this applies to you.

## DEPENDENT CARE WORKSHEETS

### ESTIMATE YOUR SAVINGS

The following worksheets allow you the opportunity to compare the potential tax savings available through the Dependent Care Account vs. Federal Income Tax Credit. The general rule of thumb is that if your adjusted gross family income exceeds approximately \$39,000 to \$41,000, you will receive a greater tax savings through the Dependent Care Account. The tax credit applies to federal taxes while the Dependent Care Account saves you federal income taxes, state and local income taxes, and Social Security (FICA) taxes. You are encouraged to discuss the Dependent Care Account with a tax expert to determine the method which best serves your needs. The better "value" must also consider number of dependents, amount of dependent care expenses, your Adjusted Gross Income, and the effect of state and local tax laws.

<b>Federal Income Tax Credit Worksheet</b>			
1. The amount of expenses for work related dependent care (cannot exceed your income or that of your spouse, whichever is less)		\$ _____	
2. Maximum expenses eligible for tax credit (\$3,000 for one dependent; \$6,000 for more than one dependent)		\$ _____	
3. Estimated Adjusted Gross Income for you (and spouse if applicable)		\$ _____	
4. Percentage from table below based on Adjusted Gross Income		_____ %	
5. Estimated tax credit (multiply line 4 by the smaller of line 1 or line 2)		\$ _____	
<b>Adjusted Gross Income</b>	<b>Percentage</b>	<b>Adjusted Gross Income</b>	<b>Percentage</b>
Up to \$15,000	35%	\$29,001 - \$31,000	27%
\$15,001 - \$17,000	34%	\$31,001 - \$33,000	26%
\$17,001 - \$19,000	33%	\$33,001 - \$35,000	25%
\$19,001 - \$21,000	32%	\$35,001 - \$37,000	24%
\$21,001 - \$23,000	31%	\$37,001 - \$39,000	23%
\$23,001 - \$25,000	30%	\$39,001 - \$41,000	22%
\$25,001 - \$27,000	29%	\$41,001 - \$43,000	21%
\$27,001 - \$29,000	28%	\$43,001 and Over	20%

*This is for illustration purposes only.*

## Dependent Care Reimbursement Worksheet

1. The amount of deposit to your Dependent Care Reimbursement Account (must not exceed your income, your spouse's income, or \$5,000 or \$2,500, if married and filing a separate return) \$ \_\_\_\_\_
  
2. Your Federal Tax Rate from the table below (using combined income for you and your spouse) \_\_\_\_\_%
  
3. Social Security tax rate:
  - Enter 7.65% for earnings up to \$84,900\* (2002 limit) \_\_\_\_\_%
  - Enter 1.45% for earnings over \$84,900\* (2002 limit) \_\_\_\_\_%
  
4. State and City tax rate\*\* \_\_\_\_\_%
  
5. Total tax rate savings (line 2 + line 3 + line 4) \_\_\_\_\_%
  
6. Estimated tax savings (multiply line 5 by line 1) \$ \_\_\_\_\_

*The table amounts are based on Adjusted Gross Income (after exemptions and deductions). Do not confuse Adjusted Gross Income with gross income. NOTE – Based on 2002 Federal Income Tax Rates*

Federal Tax Rate	Single	Married Filing Jointly
15%	Up to \$27,950	Up to \$46,700
27%	\$27,951 - \$67,700	\$46,701 - \$112,850
30%	\$67,701 - \$141,250	\$112,851 - \$171,950

*\*This amount is adjusted annually by the Federal Government.*

*\*\*Deposits to your Dependent Care Reimbursement Account are generally exempt from state and city taxes. This exemption is dependent, however, on the state and city in which you reside.*

If line 6 on the Dependent Care Reimbursement Account Worksheet is larger than line 5 on the Federal Income Tax Credit Worksheet, then the Dependent Care Reimbursement Account can be expected to provide you a greater tax savings than the tax credit.

If your contributions to your Dependent Care Reimbursement Account are less than the amount of your actual dependent care expenses, you may, based on income, be able to use the Federal Income Tax Credit for the balance, however, the total amount of your expenses reimbursed under the plan and those claimed on the Tax Credit cannot exceed the limits set forth in the Tax Credit (\$3,000/\$6,000). Consult your tax adviser for further clarification.

## **You Have a Choice to Make!**

### **DEPENDENT CARE REIMBURSEMENT ACCOUNT OR DEPENDENT CARE TAX CREDIT**

The increased dependent care tax credit, as provided under the Economic Growth and Tax Relief Reconciliation Act ( EGTRRA), became effective January 1, 2003.

#### **What are the changes to the dependent care tax credit?**

The maximum amount of dependent care expenses eligible for credit increased from \$2,400 to \$3,000 for one dependent and \$4,800 to \$6,000 for two or more dependents.

#### **How do I take advantage of this tax credit?**

The dependent care tax credit applies ONLY to federal taxes, so you calculate the tax credit with your income tax filings after year end.

**Good News! You may still choose the Dependent Care Account to provide a way to pay for work-related dependent care expenses with income tax-free dollars. The maximum annual benefit remains at \$5,000 for one or more dependents.**

#### **How do I take advantage of the DCRA benefit?**

Decide how much money you would like placed in your dependent care account based upon your estimated work-related dependent care expenses for the coming year. Simply make this election on your enrollment form, and it will be deducted on a pre-tax basis for each pay period and contributed to your dependent care account.

#### **Like the tax credit, will the Dependent Care Account save me from federal taxes?**

Yes, and it will do more than that! The Dependent Care Account may save you federal, state and local income taxes, and Social Security (FICA) taxes. In addition, you receive the pre-tax advantage immediately, lowering taxable income and providing timely reimbursements.

#### **How do I decide which benefit is right for me?**

The general rule is that if your adjusted gross income exceeds approximately \$39,000 you will receive a greater tax savings through the Dependent Care Account. However, since many other factors should also be considered, you are encouraged to seek the advice of a tax expert to determine which method is best for you.

## **MOST QUESTIONED EXPENSES DEPENDENT CARE ACCOUNT**

Dependent Care expenses are not considered incurred until the child care is actually provided. Reimbursement may not exceed year-to-date deductions. Divorced parents should be aware that the Dependent Care Reimbursement Account is only **available to the custodial parent**, as it can only be used to allow the parent to be gainfully employed.

Fees for the following are **not eligible**:

- Diaper Changing Fees
- Discounts
- Entertainment
- Expenses paid to child of participant – ineligible unless child is age 19 or older and cannot be claimed as a dependent of the participant or participant's spouse
- Fees for Lessons (i.e., dance, piano or swim, etc.)
- Field Trips
- Household Services (housekeeper, maid, cook) – generally ineligible, except where incidental to child care
- Kindergarten (IRS views Kindergarten as educational)
- Late Fees
- Lunches/Food
- Maternity Leave – If you, or your spouse, are on maternity leave and you place your other children in day care, those day care expenses are not eligible. Only day care expenses incurred while at work/school are eligible.
- Overnight Camp Expenses – The cost of sending your child to an overnight camp is not eligible. This is not considered a work-related expense.
- Transportation for day care

## MID-YEAR ELECTION CHANGES DEPENDENT CARE ACCOUNT

You are allowed to change your annual election for a Dependent Care Reimbursement Account **ONLY** if you have a qualifying status change such as the following:

Change in Status – changes generally restricted to events related to a gain or loss of coverage eligibility.

- Change in employee’s legal marital status
- Change in number of dependents
- Change in employment status
- Dependent satisfies (or ceases to satisfy) dependent eligibility requirements
- Commencement or termination of adoption proceedings
- FMLA leave for you or your spouse

Cost or Coverage Changes – changes generally allowed whenever scope of care or care provider changes. Please Note: Rate changes due to changing providers are eligible.

- Significant change in cost, except when a relative provides the service
- Curtailment or improvement of coverage
- Open enrollment under other employer plan

Two important facts must be considered when allowing a status change mid-year.

1. Participants may make changes to their elections “on account of, and corresponding with, a change in status that affects eligibility for coverage.” In other words, a change in status must have occurred.
2. The change in election must be “consistent with the reason that such change was permitted.” Example, increasing coverage due to a marriage, or decreasing coverage due to a death.

**Reminders:** Canceled checks are not an acceptable receipt, as they do not satisfy the requirement that a statement be submitted from a third party provider.

Dependent care claims will not be processed based solely upon quarterly statements submitted by participants, unless documentation clearly indicates that the services have already been incurred. According to cafeteria plan regulations, an expense is “incurred” when the services have been performed, not when the bill or charge for such service is paid.

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