



## Section 125 Plan & Flexible Spending Accounts

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a different opinion



# Section 125 Plan & Flexible Spending Accounts

Plan today for tomorrow's expenses.

## Learn How to Save Money

If there was a program available that could save you money on your taxes and help you proactively plan for out-of-pocket expenses, would you take advantage of it? That's exactly what a **Section 125 Plan** does – reduces your tax and increases your spendable income. Under a Section 125 Plan, employers can offer eligible benefits to employees, through payroll deduction, on a pre-tax basis.

This employer-sponsored program is designed to help you save money on important expenses like eligible insurance premiums, health-related expenses, and dependent care expenses.

## How Does It Work?

This example shows what a sample employee's bi-weekly paycheck could look like when using a Section 125 Plan. The sample is based on 24 pay periods.



With a Section 125 Plan		Without a Section 125 Plan	
Gross Bi-Weekly Income	\$2,000.00	Gross Bi-Weekly Income	\$2,000.00
Insurance Premiums		Less Tax	
- Medical insurance	-\$250.00	- Federal & State at 20%	-\$400.00
- Dental insurance	-\$30.00	- FICA at 7.65%	-\$153.00
- Vision insurance	-\$25.00		
- Cancer insurance	-\$20.00		
- Accident insurance	-\$15.00		
- Health Flexible Spending Acct	-\$50.00		
Taxable Bi-Weekly Income	\$1,610.00	Bi-Weekly Income Before Benefits	\$1,447.00
Less Tax		Insurance Premiums	
- Federal & State at 20%	-\$322.00	- Medical insurance	-\$250.00
- FICA at 7.65%	-\$123.17	- Dental insurance	-\$30.00
		- Vision insurance	-\$25.00
		- Cancer insurance	-\$20.00
		- Accident insurance	-\$15.00
		- Out-of-pocket medical expenses	-\$50.00
Net Bi-Weekly Salary	\$1,164.83	Net Bi-Weekly Salary	\$1,057.00

Based on this example, the sample employee could save \$2,587.92 a year by participating in a Section 125 Plan!

*If you are subject to FICA tax, there might be a slight reduction in your social security benefit due to the reduction of FICA contributions. Example is for illustrative purposes only. Please consult your tax advisor for actual tax savings.*



# Section 125 Plan & Flexible Spending Accounts

## What Are My Benefit Options?

Available benefits vary from employer to employer. Some of the benefits that may be part of your employer's Section 125 Plan include:

- Accident Only Insurance
- Cancer Insurance
- Critical Illness Insurance
- Dental Insurance
- Disability Income Insurance
- Group Life Insurance
- Gap Insurance
- Medical Insurance
- Vision Insurance
- Health Flexible Spending Account
- Dependent Day Care Flexible Spending Account
- Health Savings Account

## Flexible Spending Accounts

You can continue to save money on taxes when you participate in Flexible Spending Accounts (FSAs). These accounts allow you to set aside money from your paycheck, pre tax, to use for both qualified medical expenses and dependent care expenses. You elect the amount you wish to put aside prior to your employer's plan year. That amount cannot be changed unless an allowable election change event occurs. When utilizing the FSA properly, you can save hundreds of dollars in tax each year.

### There are Two FSAs Available to You:

- Health Flexible Spending Account
- Dependent Day Care Flexible Spending Account

## Participating in a Section 125 Plan

### Enrolling in Your Plan

During the enrollment period, you will be able to select which benefits you would like to be pre-taxed. It's important to know that this is your only chance to enroll or make changes for the plan year. The benefits you select will be in effect during the entire plan year.

### Making Changes

You cannot always control the events that occur in your life. Therefore, regulations under Internal Revenue Code (IRC) Section 125 may allow you to make a change during the Plan Year if you experience an allowable election change event. It's important to know that not all benefits can be changed even if you experience an allowable change event.

Some examples of an allowable change event include:

- Change in legal marital status
- Termination or commencement of employment
- Change in number of dependents

### Did You Know?

With a Section 125 Plan and Flexible Spending Account, employees may save an average of **30%** in federal, state, and local tax on items they already pay out of pocket.<sup>1</sup>



<sup>1</sup>Ceridian: FSA Calculator; accessed December 15, 2014.

## Health Flexible Spending Accounts

### How It Works

A Health Flexible Spending Account (Health FSA) may be used to pay for common medical expenses throughout the year. You determine how much money you may spend on eligible medical expenses and then set that amount aside pre tax in a Health FSA account. Throughout the year, when you purchase those items, you will reimburse yourself from the account by filing a claim.

### Eligible and Ineligible Expenses

You may use your Health FSA Account to pay for a wide variety of common medical expenses for you, your spouse, and your eligible tax dependents. The Internal Revenue Service (IRS) determines which expenses are eligible for reimbursement. The following are common types of eligible and ineligible expenses.

#### Examples of Eligible Expenses:

- Medical expenses, including medical bills to cover deductibles and copayments
- Prescriptions drugs and over-the-counter medicines prescribed by your doctor
- Vision expenses, including eye exams, glasses, contact lenses, and Lasik surgery
- Dental expenses, including dental exams, fillings, and orthodontia expenses<sup>1</sup>
- Transportation expenses relative to medical care, including mileage at the IRS allowable rate

#### Examples of Ineligible Expenses:

- Cosmetic procedures
- Toothbrushes
- Insurance premiums
- Vitamins for general wellness
- Any expenses reimbursed under other health plans

For a complete list of eligible expenses and help determining how much money to set aside, go to [americanfidelity.com](http://americanfidelity.com).

### “Use or Lose”

It is important that you carefully choose your election amount each year. Under IRC Section 125 regulations, if you don't use your full election amount during the plan year any remaining funds are forfeited. Check with your employer to see if your plan offers a Runoff Period, Carryover Provision, and/or Grace Period.

#### • Runoff Period

A period after the plan year ends when you are able to submit claims that you incurred during the previous plan year, but have not yet been submitted.

#### • Carryover Provision

You are able to carry over up to \$500 of unused contributions from one plan year to the next, which may be used to reimburse eligible medical expenses incurred anytime during the next plan year.

#### • Grace Period

An additional two and a half months following the end of the plan year in which you are allowed to incur Health FSA claims and still receive reimbursements.

### Limited Purpose Health Flexible Spending Account

An option for Health Savings Account (HSA) participants is a Limited Purpose Health FSA (LPHFSA). A LPHFSA may reimburse out-of-pocket vision and dental expenses while core medical expenses, including vision and dental expenses, would be reimbursed from your HSA. If your employer participates in an HSA program, see if a LPHFSA is available to you.

<sup>1</sup>Future service dates require proof of payment.

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## How Do I Get Reimbursed?

When it's time to make a purchase for an eligible expense, you can either pay out of pocket or use your Health FSA Card<sup>2</sup>. Paying out of pocket allows you to choose your form of payment. Upon making your purchase, you'll submit a claim, along with documentation of the expense to receive reimbursement.

If you choose to use your Health FSA Card, payment will come directly from your account, and you will not be out of pocket at the time of purchase. However, you will still need to submit documentation to show proof of purchase of an eligible expense.

No matter how you're paying for your expense, out of pocket or with the Health FSA Card, the mobile app helps you manage your FSA. When you're ready to submit documentation for a card purchase or file a claim for an out-of-pocket expense, we'll receive your documentation or claim right away when you file through the mobile app.

1. Use your Health FSA Card to pay for your eligible expense, or pay out of pocket.
2. Snap a photo of the itemized documentation.
3. Submit the photo of the documentation and any necessary claim form if you paid out of pocket.

By enrolling in direct deposit, you can ensure a quicker reimbursement! You may sign up for direct deposit through your online or mobile account, or by completing a paper request form available on [americanfidelity.com](http://americanfidelity.com).

### FSA Store

FSAstore.com gives you an easy way to purchase Health FSA eligible expenses online. All of the items you see are eligible and if you use your Health FSA card there is no need to submit documentation!



- When may I use my Health FSA funds?**  
*With your Health FSA, you have access to your full election amount at the beginning of the plan year for reimbursement of eligible expenses.*
- Where can I use the Health FSA Card?**  
*Medical-related facilities, including doctor's offices and hospitals, will accept your Health FSA Card. Retailers, such as drugstores and pharmacies whose computer systems recognize eligible expenses when scanned, will also accept your card.*
- What over-the-counter expenses are eligible without a prescription?**  
*All over-the-counter drugs and medicines require a prescription for reimbursement. Other eligible items not considered a drug or medicine may be reimbursed with itemized documentation (e.g., Band-Aids, contact solution, heating/cooling pads, etc.).*
- How do I know which over-the-counter items require a prescription in order for me to make a claim on my Health FSA?**  
*Generally, if an item has "drug facts," it is considered a medicine and will require a prescription.*

<sup>1</sup>Future service dates require proof of payment. <sup>2</sup>Check with your employer to see if the Health FSA Card is offered.

## Dependent Day Care Flexible Spending Account



### ? Why didn't my dependent care claim pay out in full?

*The dependent care expense reimbursement will be for the services provided, limited to the amount you have in the account. If the dependent care expenses claim is in excess of your account balance, the balance of the claim will be paid to you as additional contributions are received.*

### ? When can I get reimbursed?

*You must receive the dependent care service before you may submit a claim for reimbursement (i.e., you are not able to reimburse yourself for the expense of June day care in May.)*

### How It Works

A Dependent Day Care Flexible Spending Account (Dependent Day Care FSA) works similar to a Health FSA, but for day care expenses. You determine how much money you believe you will spend on day care expenses and set that amount aside pre-tax in a Dependent Day Care FSA. Throughout the year when you pay for day care expenses and the services have been received, you reimburse yourself from the account.

### Who May Participate

Any employee who meets certain eligibility requirements and who has a qualifying dependent may participate in a Dependent Day Care FSA. If you are considering participating, you should be aware that you may be able to take a federal and/or state tax credit instead of participating in the Dependent Day Care FSA. Consult your tax advisor to review your options.

### What Expenses Are Eligible and Ineligible

The following are examples of some of the most common types of eligible and ineligible expenses for Dependent Day Care FSA reimbursements. For a more complete list of eligible expenses, please visit [americanfidelity.com](http://americanfidelity.com).

#### Examples of Eligible Expenses:

- After-school care or extended day care programs
- Babysitter during work hours inside or outside participant's household
- Custodial or elder care expenses if the qualifying individual still spends at least eight hours each day in the employee's household

#### Examples of Ineligible Expenses:

- Educational expenses (kindergarten and above)
- Custodial elder care (not work-related, for other purpose)
- Nursing home care
- Transportation to and from eligible care (not provided by the care provider)



# Section 125 Plan & Flexible Spending Accounts



## Who is a Qualifying Dependent\*

- A tax dependent of the employee who is under the age of 13 who spends at least eight hours per day in the employee's household.
- A spouse or dependent who is physically or mentally incapable of self-care and has the same principal place of residence as the employee for more than half of the year and spends at least eight hours per day in the employee's household.

## Did You Know?

You may access your Dependent Day Care FSA funds by filing a claim online, through our mobile app, or by completing a paper claim form.

## Understanding Your Account

As Dependent Day Care FSA contributions are withheld from your paycheck and placed into the account, these funds become available for reimbursement requests. Submit the entire amount of your dependent care expense after the care is provided, even if it exceeds your monthly contribution amount, to maximize reimbursement opportunities. This allows you to build up a "pool" of submitted expenses, with pending amounts ready for reimbursement as soon as your next contribution is received and deposited into your account.

Unlike a Health FSA, with a Dependent Day Care FSA, your election amount is not available in full at the beginning of the plan year. You only have access to your funds as they are deducted from each paycheck and deposited into your account.

*\*The Internal Revenue Code determines dependent qualifications. See IRS Code Section 152 (c) for complete definitions of qualifying dependent.*

# Manage Your Account and File a Claim

We offer two ways for you to access your personal account, online or through our mobile app. Once you've created your account, you can file a claim, check account balances, sign up for direct deposit, and submit documentation. If you choose to not create an account, you may complete a paper claim form.

## 1. Mobile App

Download our mobile app, AFmobile®, in the Apple App Store or Google Play Store.

## 2. Online: Create an account at [americanfidelity.com](http://americanfidelity.com)

To create an account, you'll need to register with your email address and social security number. TIP! Make sure the email address you provide is the same one you gave when you signed up for your benefits.

## 3. Paper

Complete and submit an FSA Expense Reimbursement Voucher by mail or fax, along with your itemized documentation, to American Fidelity. Expense Reimbursement Vouchers can be found on [americanfidelity.com](http://americanfidelity.com).

We receive claims filed through the mobile app right away and claims filed online the next day. The quickest way for you to get your money is by filing through the mobile app and signing up to receive your reimbursement through direct deposit. You may update your reimbursement method anytime through your account or by calling our customer care team at 800-662-1113.



American Fidelity Assurance Company  
9000 Cameron Parkway  
Oklahoma City, Oklahoma 73114  
800-662-1113  
[americanfidelity.com](http://americanfidelity.com)

Reno Branch Office  
1890 Donald St, Suite B  
Reno, NV 89502  
775-829-1313 800-365-1314  
Fax 775-829-1398