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FLEXIBLE SPENDING ACCOUNTS

HDHP PLAN

Your employer is giving you the opportunity to enroll in an employee benefit plan called a flexible spending account (FSA) through Section 125 of the Internal Revenue Code. An FSA is an employer-established benefit plan that is generally funded with pretax contributions by employees. Employers may also contribute to an FSA, and these contributions can be excluded from your gross income for tax purposes. The Internal Revenue Service (IRS) sets a maximum amount of money that you can contribute to an FSA, and your employer may set a minimum contribution. The main disadvantage of an FSA is the use-or-lose rule, which states that any unspent funds remaining at the plan year's end will revert back to the plan, not to you. You may minimize this potential risk by allocating only enough pretax dollars to cover expenses that you expect to incur in the coming plan year.

MEDICAL FSA

A medical FSA covers eligible health-care expenses not reimbursed by any medical, dental, or vision care plan you or your dependents may have (but not health insurance premiums). An employer may set the annual maximum contribution no higher than \$2,600, per federal law. You may submit claims for yourself and your eligible dependents, including your spouse, children, and any other person who is a qualified IRS dependent.

The medical FSA operates much like a bank account. Deposits are made into the account in the form of pretax payroll deductions. You can withdraw funds from the account to pay for qualified medical expenses even if you have not yet placed the funds in the account. Withdrawals from the account are made using a flex reimbursement form. You should submit the reimbursement form and a copy of your receipt or bill to ASR Health Benefits, who will then issue you a check. You can manage your account at www.asrhealthbenefits.com.

Review your past medical expenses and plan your future needs carefully to decide if the medical FSA is right for you. Also, note the deductible, coinsurance, and co-payment amounts required in the health plan option that you have selected, as they can also be reimbursed from your medical FSA. For a complete list of eligible and ineligible medical expenses, refer to Internal Revenue Publication 502 at www.irs.gov.

Here is an illustration of the savings under a medical FSA, which assumes a 28% federal tax rate and a 7.65% social security tax rate*:

	Without Medical FSA (After Tax)	With Medical FSA (Before Tax)	Amount of Savings
Dental Expenses	\$500.00	\$322.00	\$178.00
Co-payments and Deductibles	\$400.00	\$257.00	\$143.00
Contacts and Glasses	\$300.00	\$193.00	\$107.00

You can see by these examples that you pay less than the actual expense because you are not taxed on the reimbursed amount. If you participate in the medical FSA, the money you designate for health-care expenses will purchase more. For example*, if you estimate that you will spend \$1,200.00 for health care expenses in the 2017-18 plan year, the table below illustrates the amount you will have available to you to spend on health-care expenses both with and without a medical FSA (assuming the same tax rates as above):

	Without Medical FSA	With Medical FSA
Annual Salary	\$30,000.00	\$30,000.00
Medical FSA Annual Contribution	\$0.00	\$1,200.00
Taxable Income	\$30,000.00	\$28,800.00
Amount Available for Health Care Expenses	\$772.00	\$1,200.00

*These examples are not intended to offer legal or tax advice. Consult your tax advisor before enrolling in the FSA.

If you participate in a health savings account (HSA), you may be reimbursed under the medical FSA only for uninsured dental and vision care expenses, preventive care (such as annual physicals and routine tests), and other expenses incurred after the minimum annual deductible under your high-deductible health plan is satisfied. Further, you cannot submit claims to both your medical FSA and your HSA for the same expense.

If your participation is terminated, and the contributions made to your medical FSA as of the date of termination exceed the claims submitted, you may continue participation through COBRA.

MEDICAL FSA ELECTION WORKSHEET AND ELIGIBLE EXPENSES

Estimate Your <i>Uninsured</i> Medical Expenses			Estimate Your <i>Uninsured</i> Dental Expenses		
Medical deductibles:	\$	per year	Dental deductibles:	\$	per year
Medical coinsurance:	\$	per year	Dental coinsurance:	\$	per year
Vision care:	\$	per year	Exams/Cleanings:	\$	per year
Routine examinations:	\$	per year	Orthodontia:	\$	per year
Prescription drugs:	\$	per year	Fillings/Crowns/Bridges:	\$	per year
Co-payments:	\$	per year	Dentures:	\$	per year
Other:	\$	per year	Other:	\$	per year
Subtotal:	\$	per year	Subtotal:	\$	per year
Total Annual Medical FSA Contribution (combine both Subtotal amounts):			\$		per year

Eligible Expenses			Ineligible Expenses
Acupuncture	Health care equipment	Sterilization	Bottled water
Alcoholism or drug treatment	Hearing aids	Surgery (general)	Cosmetics, toiletries, toothpaste, etc.
Ambulances	Hypnosis (for treatment of disease)	Syringes	Custodial care in an institution
Birth control	Immunizations	Teeth whitening (to correct discoloration caused by disease, birth defect, or injury)	Electrolysis
Body scans	Lab fees	Television (closed captioned)	Food for weight-loss programs
Car controls (handicapped equipment)	Lasik (Laser) eye surgery	Vitamins and minerals (prescription only)	Funeral and burial expenses
Chiropractors	Learning disabilities (instructional fees)	Weight loss programs (only as treatment for obesity, heart disease, or diabetes; includes fees and expenses)	Health club dues
Contact lenses	Lifetime care	Well-baby care	Household and domestic help
Cosmetic surgery (medically necessary)	Massage therapy (prescribed by a physician to treat a specific medical condition)	Wheelchairs	Insurance premiums
Crutches	Nursing services (medically necessary)	X-rays	Long-term care
Deductibles and co-payments	Optometrist's fees		Marriage or family counseling
Dental and vision expenses	Over-the-counter drugs (if prescribed to alleviate or treat illness or injury)		Maternity clothes, diaper services, etc.
Diagnostic tests (pregnancy tests, ovulation monitors, cholesterol and blood pressure tests)	Physical therapy		Meals and general lodging
Doctor's fees	Prescription drugs		Uniforms
Eyeglasses	Smoking cessation aids/programs		Vitamins taken for general health purposes
Guide dogs			

HEALTH SAVINGS ACCOUNT

A health savings account (HSA) is a savings product that offers a different way for you to pay for your health care. HSAs enable you to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis. You must be covered by a high-deductible health plan (HDHP) to be able to take advantage of an HSA.

The U.S. Department of the Treasury and the IRS set HSA maximum contribution amounts each year for individuals and families (plus an additional catch-up contribution for participants aged 55 or older). You own and control the money in your HSA. You decide how to spend the money on

qualified medical expenses and how to invest the money in your account to make it grow. The unused balance in an HSA automatically rolls over year after year.

HSA funds can pay for any qualified medical expense, even if the expense is not covered by your HDHP. A partial list of qualified medical expenses is provided in IRS Publication 502 (available at www.irs.gov). You may also withdraw funds without tax penalty to pay for the qualified medical expenses of your spouse or dependents. If the money from the HSA is used for qualified medical expenses, then the money spent is tax-free. If HSA funds are used for other than qualified medical expenses, the expenditures will be taxed and, for individuals who are not disabled or over age 65, subject to a 20 percent tax penalty.

DEPENDENT CARE FSA

With the dependent care FSA, you can reduce your tax burden by using pretax dollars to pay expenses for eligible child care or adult care for senior-citizen dependents that live with you. Federal law also allows you to claim a direct credit against federal income taxes for eligible child or dependent care expenses. However, any amount you claim under the dependent care tax credit will be reduced by the amount you are reimbursed under the dependent care FSA. The amount reimbursed under the dependent care FSA reduces, dollar-for-dollar, the amount of dependent care expenses that are eligible for the dependent care tax credit; therefore, you should either participate in the dependent care FSA to the fullest extent possible or claim the tax credit.

The dependent care FSA operates much like a bank account. Deposits are made into the account in the form of pretax payroll deductions. Withdrawals from the account are made using a flex reimbursement form. You should submit the reimbursement form and a copy of your receipt or bill to ASR Health Benefits, who will then issue you a check. You can manage your account at www.asrhealthbenefits.com.

Dependent care expenses are expenses you incur to enable you to work. If you are married, the expenses must be incurred to enable you and your spouse to work, or to enable your spouse to attend school on a full-time basis. The expenses must be for the care of your dependent who is under age 13 and for whom a personal-exemption deduction is allowed for federal income tax purposes, for the care of your dependent or spouse who is physically or mentally incapable of self-care, or for household services in connection with the care of a qualifying dependent.

The maximum amount that can be reimbursed (i.e., deposited) is the lowest of your earned income, your spouse's earned income, or \$5,000.00 (\$2,500.00 if you are married and you file a separate tax return). If your spouse is a full-time student or is incapable of self-care, your spouse's earned income is assumed to be not less than \$250.00 if you provide care for one dependent, or \$500.00 for two or more dependents, for each month that your spouse is a student or incapable of self-care. Please refer to Internal Revenue Publication 503 for more information on eligible and ineligible expenses at www.irs.gov.

GRACE PERIOD

Your medical FSA has a two and one-half month grace period at the end of the plan year. This grace period is a period of time when you may incur qualified medical expenses and pay them from any amounts left in your FSA at the end of the previous year. The grace period ends on the 15th day of the third month of the next plan year, but you will have a time period after that in which to submit (but not incur) the claims. You must forfeit any funds remaining in your FSA at the end of the grace period. Here is an example of how the grace period works:

Your plan year runs on a July 1 to June 30 basis and has a two and one-half month grace period. You have three months after the grace period to submit claims incurred during the plan year and the grace period. At the end of June 2019, you have \$250 left in your medical FSA. You incur \$250 of qualified medical expenses during July 1 through September 15 of 2019, the grace period for the 2018-19 plan year. You may submit these expenses by December 15, 2019 in order to receive reimbursement.