

Flexible Spending Accounts

How to use your Health Care and Dependent
Care Flexible Spending Accounts



What is a Flexible Spending Account (FSA)?

An FSA is an account which reduces an employee's taxable income by allowing him to fund an account on a pre-tax basis. An FSA is part of a suite of tax-reducing vehicles governed by the Internal Revenue Code.

An employer may already reduce the employee's taxable income by allowing the employee to pay for medical, dental and vision premiums on a pre-tax basis.

Additionally, employers may set up Flexible Spending Account plan which lets an employee take advantage of two accounts: A Health Care Flexible Spending Account (HCFSA) and a Dependent Care Flexible Spending Account (DCFSA).

An HCFSA will let you set aside on a tax-free basis a portion of your annual earnings to spend on expenses not paid by your health insurance plan, such as deductibles, copayment and coinsurance on medical, dental and vision plans.

A DCFSA will let you set aside on a tax-free basis a portion of your annual earnings to spend on dependent care that is only custodial not educational. Some elder care such as nursing homes may be a reimbursable expense under the HCFSA as well.

A&R Benefits maintains these accounts, adjudicates the claims and pays the money to you directly. You can elect to have the checks mailed to you or direct deposited into any bank account you choose. A debit card may also be issued for reimbursement. We will also run your Open Enrollment period so that you can sign up for the next plan year, if you choose.

Why would I want to participate in an HCFSA?

If your employer has any type of health plan (medical, dental and vision) that has a deductible, copayment or coinsurance, you are able to reduce your taxable income and save for these occurrences instead of paying these expenses with out of pocket, post-tax dollars. There is a dollar-for-dollar savings by depositing money into an HCFSA plan as opposed to paying, say 25% tax (depending on your tax bracket) for every dollar earned using post tax money to pay these bills.

With an HCFSA, you have access to your entire election amount on day one of the plan year.

For example, you decide to set aside \$1000 for the plan year. Now, you have an accident that requires you to pay a \$200 deductible before the plan pays anything. Even though you might not have contributed any money or only have contributed a portion of your \$1000 election, you can leverage that \$1000 election to pay for the \$200 deductible and any subsequent expenses that are not paid by your health insurance plan.

Here's another example:

	With FSA	Without FSA
Annual Income:	\$60,000	\$60,000
Estimated Health Care Expenses:	-\$2,800	\$0
Taxable Income:	\$57,200	\$60,000
Estimated Federal Withholding:	-\$7,850	-\$8,330
Estimated FICA	-\$4,375	-\$4,590
Health Care Expenses	\$0	-\$ 2,800
Net Pay	\$44,975	\$44,280

With a salary of \$60,000 and setting aside \$2,800 in an HCFSA, you will realize a savings of \$695 by using the HCFSA!

So, what's the catch?

The benefits of this plan far outweigh the limitations:

- You save money by reducing your taxable income;
- You have money for these unexpected expenses anytime during the year.

Sure, there are limitations:

- You can only set aside up to your plan's maximum limit in any plan year –that's per family unit, as well.
- You can only get reimbursed for medically necessary items –vitamins and personal care items are generally not covered expenses.
- You can only set aside for the expenses of your spouse and children –expenses for domestic partners and same-sex spouses do not qualify for reimbursement under the Internal Revenue Code.

This is also a use-it-or-lose it plan which means that you need to incur expenses against your election prior to the end of the plan year and you may have a time limit after that to file a claim for reimbursement.

Use it or Lose It? What does that mean?

Just like the paragraph above...

You need to make sure whenever you elect to participate in an HCFSA that you have looked over your medical, dental and vision bills for the previous year and carefully decided to set aside money based upon what you may spend this year in deductibles, copayments and coinsurances.

Any portion of the election against which you have not incurred claims by the end of the plan year as stated in your plan document will be forfeited and you cannot seek reimbursement against it.

For example, your plan year runs from January 1 through December 31 and you have elected to set aside \$1,000. You have been submitting claims against your election throughout the year. On December 31, you tally up your expenses and realize that you have only incurred \$850 against that \$1000 election. If you do not incur expenses against the remaining amount by the end of that day, you will lose \$150.

What kind of expenses may I use this account for?

On pages 12 through 18, there is a list of eligible/ineligible expenses. This list is rarely exhaustive as the IRS may add or subtract from the list.

Generally, though, you can be reimbursed for most everything that is medically necessary but not paid for by your insurance company. For guidance on this, we use the Internal Revenue Code 213 in its definition of medical care, but such things as deductibles, drug copayment or coinsurance, doctors' visit, immunizations: Mostly anything that is covered by your insurance company that requires you to share the cost is reimbursable under the plan.

NEW FOR 2011:

The Internal Revenue Service (Notice 2010-59) has released guidance updating its definition of prescriptions and a restriction on reimbursement for prescription and over the counter drugs. These new rules go into effect January 1, 2011.

In a nutshell, drugs or medications may only be reimbursed by a Flexible Spending Account if: (1) the medicine or drug requires a prescription, (2) is an over-the-counter medicine or drug and the individual obtains a prescription, or (3) is insulin.

Beginning January 1, 2011, therefore, unless the participant obtains a prescription from his or her healthcare provider for any drug or over-the-counter medication (such as aspirin or cold medications), the purchase will not be honored as reimbursable under the FSA account.

Participants have two ways of substantiating the claim: (1) by submitting a paper claim along with a copy of the receipt showing the participant's name (or the name of the person for whom the drug was prescribed), the Rx number, and the date and amount of the purchase; or (2) submitting a paper claim along with both the receipt (even if it does not show the Rx number) and the accompanying prescription or other evidence that a prescription has been written or electronically transmitted to the pharmacy.

New IRS Guidance about over-the-counter medicines using debit cards (Notice 2011-5):

“After January 15, 2011, health FSA debit cards may continue to be used to purchase over-the-counter medicines or drugs at drug stores and pharmacies, at non-health care merchants that have pharmacies and at mail order and web-based vendors that sell prescription drugs, if: (1) prior to purchase, (i) the prescription (as defined in Notice 2010-59) for the over-the-counter medicine or drug is presented (in any format) to the pharmacist; (ii) the over-the-counter medicine or drug is dispensed by the pharmacist in accordance with applicable law and regulations pertaining to the practice of pharmacy; and (iii) an Rx number is assigned; (2) the pharmacy or other vendor retains a record of the Rx number, the name of the purchaser (or the name of the person for whom the prescription applies), and the date and amount of the purchase in a manner that meets IRS recordkeeping requirements¹; (3) all of these records are available to the employer or its agent upon request; (4) the debit card system will not accept a charge for an over-the-counter medicine or drug unless an Rx number has been assigned; and (5) the requirements of the guidance of this notice are satisfied. If these requirements are met, the debit card transaction will be considered fully substantiated at the time and point-of-sale.”

“After January 15, 2011, health FSA debit cards may also continue to be used to purchase over-the-counter medicines or drugs from vendors (other than drug stores and pharmacies, non-health care merchants that have pharmacies, and mail order and web-based vendors that sell prescription drugs) having health care related Merchant Codes, as described in Rev. Rul. 2003-43, 2003-1 C.B. 935, if all requirements in the preceding paragraph are satisfied, other than the requirements in clause (1) and clause (4) of the preceding paragraph and the requirement in clause (2) of the preceding paragraph that a record of the Rx number be retained. If these requirements are satisfied, these debit card transactions will be considered fully substantiated at the time and point-of-sale.”

“Health FSA debit cards may be used to purchase over-the-counter medicines and drugs at “90 percent pharmacies” but only as provided in Notice 2010-59.”

“For all other providers and merchants, other than those described in this notice, health FSA debit cards may not be used to purchase over-the-counter medicines or drugs after January 15, 2011.”

What about Orthodontia?

Under IRS rules, the cost of orthodontia must be reimbursed over the entire course of treatment. And it may be reimbursed only if you provide a written statement from your provider with your initial claim submission:

- That a medically necessary procedure has been performed;
- The date the appliance was placed (either banding or the date the service was initiated);
- The length of the treatment;
- Total amount of treatment;
- The amount that will be paid by the insurance company;
- The amount of the initial down payment; and
- The payment schedule.

The initial down payment is reimbursable in full upon the initial claim submission once the appliance is placed. The remaining balance for which you are responsible (that is, the total amount minus any insurance payments) will be paid over the life of the service in equal amounts.

Please note that since the payments may extend over more than one plan year you must carefully choose your election amount.

Let us give you an example:

Your employer has chosen a January 1 to December 31 Plan Year. Your son is getting braces over the course of eighteen months. The total bill is \$4000, of which your insurance will pay \$1000, leaving you with \$3000 in out of pocket expenses. The orthodontist started work and charged you a down payment of \$500. Here is your reimbursement schedule:

First Plan Year		Second Plan Year	
January 1	\$500.00	January 1	\$138.88
February 1	\$138.88	February 1	\$138.88
March 1	\$138.88	March 1	\$138.88
April 1	\$138.88	April 1	\$138.88
May 1	\$138.88	May 1	\$138.88
June 1	\$138.88	June 1	\$138.88
July 1	\$138.88	July 1	\$139.04
August 1	\$138.88		
September 1	\$138.88		
October 1	\$138.88		
November 1	\$138.88		
December 1	\$138.88		

Plan on setting aside \$2,027.68 for orthodontia alone for the first plan year.

Plan on setting aside \$972.32 for orthodontia alone for the second plan year.

If you pay the total amount of treatment upfront, it will be reimbursable up to your annual election amount provided that treatment will have been completed within the plan year.

Note: You cannot use your debit card for orthodontia.

Can you tell me about the DCFSA?

On the front end, the DCFSA works the same way as the HCFSA.

You set an annual election amount and you contribute on a per-paycheck basis pre-tax dollars to your account. There is a maximum of \$5000 per family which you can set aside annually. Additionally, if you are divorced from your spouse, only the custodial spouse may set up this type of account.

The difference lies in what you may use the money for and how you get reimbursed for your expenses.

You may use your contributions for expenses related to child care that is strictly custodial in nature. Kindergarten or educational expenses are not reimbursed under the plan.

Also, you can only file for reimbursement for an amount that is in your account at the time you file the claim.

For example, you decide to set aside \$1000 for dependent care expenses which means that, if you are paid semi-monthly, you contribute on a pre-tax basis \$41.66 per paycheck or \$83.33. You begin those deductions on your January 15 paycheck. If you file on February 1 for \$100, which represents your January expenses, you will only be reimbursed up to the \$83.33 that you have already contributed. As you contribute each pay period, we will continue to pay against this claim.

Is this plan a Use It or Lose It plan?

Yes, it works much like the HCFSA in that regard except that you have to incur expenses against your contributions (unlike the annual election amount on the HCFSA) before the end of the plan year. You may also have a time limit set by your employer to file claims for reimbursement.

What kind of expenses may I file a claim for?

There is a list of eligible/ineligible expenses on pages 19 & 20. These expenses have to be for custodial care and not for education expenses.

These expenses also must allow you (and your spouse) to work or look for work. If one party is not working, whether due to lack of employment or a leave of absence, expenses incurred during those periods cannot be reimbursed.

Are there restrictions for certain expenses?

Note: Section 125 of the Internal Revenue code states that if you have a child in this program that reaches the age of 13 during the plan year the expense incurred for any daycare/after school/summer camp, etc. is no longer eligible for reimbursement. Effective within 30 days of your child's 13th birthday, you may modify your contributions for your dependent care FSA by notifying A&R Benefits.

Kindergarten expenses are not reimbursable for the education/school portion of the day. Kindergarten tuition expenses are eligible for reimbursement out of the dependent care FSA only if the expenses are for the "custodial care" of the dependent. Again, these expenses are

not eligible for reimbursement if they are for the education of the dependent. If the facility provides both services, an allocation must be made for each service and the portion that is allocated for the care of the dependent is the only portion that is reimbursable.

Dependent care expenses can only be reimbursed from the dependent care FSA after the service has already been provided. For example, a claim submitted on the first of the month for dependent care expenses for the coming month cannot, according to IRS regulations, be reimbursed until the end of the month even if the fee has already been paid.

Custodial care (no medical services) for an elderly or a disabled adult dependent who is unable to care for him or herself is eligible for reimbursement. The dependent must live in your residence for at least eight hours each day. If medical services are required you must use the health care FSA.

If your dependent care provider does not sign the claim form, appropriate receipts must be submitted showing the federal tax ID/Social Security Number (if not already on the claim form), date(s) of service and the charge for the care of your dependent. Cancelled checks, credit card receipts/statements are not acceptable receipts.

How does the Federal Child Care Tax Credit work with the DCFSA?

You should read IRS Publication 503 to get more information on the interaction between the DCFSA and the Federal Child Care Tax Credit. You should consult your tax advisor for guidance.

Dependent Care Worksheet

Type of Qualifying Expense	Estimated Expense During Plan Year
Amount paid to the care for children under age 5 (e.g., nursery school or daycare):	\$ _____
Amount paid for nanny or daycare inside your home for children under age 13:	\$ _____
Latchkey programs before and after school for children under age 13:	\$ _____
Summer daycare/day camp programs:	\$ _____
Other (adult daycare programs, etc.):	\$ _____
ANNUAL ELECTION TOTAL:	\$ _____ (A)
Number of pay periods in a year:	_____ (B)
Divide A by B to determine your pre-tax DCFSA Contribution per pay period:	\$ _____

Can I change my election on either of these accounts during the year?

Generally, no, unless you experience a life status change that allows you to decrease, stop, increase or start participation.

Events such as marriage, divorce, acquisition of additional dependents through marriage, adoption or placement for adoption, annulment of a marriage or legal separation are life status changes.

If you or a dependent terminates or commences employment, begins or returns from an unpaid FMLA leave, experiences a strike or lockout, or experiences any change in your employment that changes or affects your eligibility for participation in your company's benefit plans.

You may also experience a life status change if one of your dependents becomes eligible or ceases to become eligible for student status under your health plans.

For the DCFSA plan, if there is a change in dependent care providers (who is not a relative) or there is a significant change in rates charged by the provider, this may constitute a life status change.

How do I get reimbursed?

You should complete the appropriate reimbursement form and send it to A&R Benefits, 4340 Almaden Expressway, Suite 100, San Jose, CA 95118 or fax your form along with copies of your receipts to 408-266-1831.

If you are seeking reimbursement for an ongoing issue, such as physical therapy, you should include a doctor's note or prescription stating the type of care provided (physical therapy, chiropractic), the total number of visits for the plan year and the frequency. We will keep your doctor's note or Rx valid during the plan year so you only need to submit receipts after the first submission.

So how long does it take to get reimbursed?

A&R Benefits will reimburse you within two business days on your HCFSA and within five business days on your DCFSA.

What about the FSA Debit Card?

If your employer has elected to provide you with a debit card for your FSA expenses, you may only use this card for your HCFSA. IRS, which governs these plans, has not authorized its use for DCFSA plans.

You may use your FSA Debit Card in place of filing a claim for unreimbursed medical expenses. IRS has placed limitations on which store you may visit to use the card, but generally most large chain stores are participating. Please go to www.arbenefitsinc.com under "Library" for a list of participating merchants.

You would use your FSA Debit Card as you would any personal debit or credit card but for covered expenses only. Purchase of personal items with the FSA Debit Card may be declined or you may need to send back up paperwork to verify the covered expenses.

So, now I also need to keep records?

As you would for items you deduct on your annual tax returns, the IRS recommends that you keep all receipts related to FSA purchases for up to seven years.

While we sometimes throw our receipts away, it's a good idea if you keep the receipts you receive as part of your FSA Debit Card transaction as A&R Benefits may require submission of those receipts to prove an eligible expense reimbursement. If you cannot submit receipts, you may be required to reimburse A&R Benefits for an ineligible expense.

Additionally, if you don't use the FSA Debit Card, you will need to attach the originals or copies of the receipts to the claim form to obtain reimbursement.

So, what are the limitations on these accounts?

If you are divorced from your spouse yet have children, only the custodial spouse may elect to participate in these plans.

If you or your spouse participate in a Consumer Driven Health Plan or high deductible health plan that uses an HSA (Health Savings Account), neither of you is eligible to participate in a Flexible Spending Account.

If your domestic partner or same-sex spouse incurs expenses, his/her expenses are not eligible for reimbursement under your FSA accounts.

Other than that, as we said above, the benefits far outweigh the limitations.

Now, I have elected participation in these accounts and I have decided to terminate my employment. What happens?

With both accounts, expenses that you incurred prior to your termination date may be eligible for reimbursement:

- On the HCFSA, you may incur expenses prior to your termination date up to your annual election amount;
- On the DCFSA, you may incur expenses prior to your termination date up to the amount that you have already contributed.

With both accounts, you may have a time limit before which you may seek reimbursement for expenses incurred prior to your termination date:

- On the HCFSA, you generally have 60 days after your termination to seek reimbursement;
- On the DCFSA, you have until the end of the plan year to seek reimbursement.

You may, however, extend the time in which you can incur expenses against your HCFSA. The Consolidated Omnibus Budget Reconciliation Act of 1985, commonly called COBRA, allows you to fund your HCFSA for the remainder of the plan year using post-tax dollars. This allows you to incur expenses up to the end of the plan year and still have the advantage of additional time to seek reimbursement within the plan guidelines.

You should read your COBRA notification carefully.

If you have been reimbursed up to your annual election amount on the HCFSA, have not contributed up to your annual election amount and you terminate employment, your employer cannot require you to repay your account for the difference between your annual election amount and the amount you have contributed.

List of Eligible and Ineligible Expenses for Health Care Flexible Spending Account (HCFSA)

Please note that this is not an exhaustive list. The Internal Revenue Service may update this list as often as it deems necessary. A&R Benefits will keep you up to date on any changes to this list. Please see IRS Publication 502 for additional information

Abdominal disorders: Medical expenses, including prescription drugs, associated with healing or relieving of abdominal disorders are reimbursable. Over-the-counter remedies are reimbursable only with a prescription.

Abortion: Medical expenses associated with a legal abortion are reimbursable. **See Family planning, Pregnancy termination.**

Acupuncturist's fees are reimbursable expenses.

Airplane fare: **See Transplants and Transportation.**

Air purifier, humidifier, and home window air conditioner, prescribed by physician for allergy sufferer, are reimbursable (refer to Capital expenses). Physician Rx note must accompany claim.

Alcoholism and drug abuse: Medical expenses paid to a treatment center for alcohol or drug abuse are reimbursable. This includes meals and lodging provided by the center during treatment. Also reimbursable are transportation costs to attend AA meetings if attendance is based on medical advice as necessary for the treatment of the disease.

Anesthesiologist's fees: Costs incurred by anesthesiology are reimbursable.

Artificial limb: Expenses paid for an artificial limb are reimbursable.

Attendant: **See Nursing services.**

Automobile: **See Car.**

Birth control pills and devices: Medical expenses paid for birth control pills and devices are reimbursable. This includes over-the-counter items with a prescription. Medical expenses associated with a legal abortion are reimbursable. **See Family planning, Pregnancy termination.**

Braces: **See Orthodontics.**

Braille books and magazines: The amount by which the cost of Braille books and magazines for use by a person who is visually impaired exceeds the price for regular books and magazines is reimbursable.

Breast augmentation: Expenses related to breast augmentation (such as implants or injections) are not reimbursable because the procedure is cosmetic in nature. However, medical costs related to the removal of breast implants that are defective or are causing a medical problem are reimbursable.

Breast reduction: Medical expenses related to breast reduction surgery are reimbursable only if a physician substantiates (note required) that the procedure is medically necessary (that is, to prevent or treat an illness or disease) and not for cosmetic purposes.

Capital expenses: If their main purpose is medical care, capital expenses paid for special equipment installed in a participant's home or for improvements to the home are reimbursable. For further details see discussion under the heading **Capital expenses.**

Car: Medical expenses are reimbursable for special hand controls and other special equipment installed in a car for the use of a person with disabilities. Also, the amount by which the cost of a car specially designed to hold a wheelchair exceeds the cost of a regular car is reimbursable. However, the cost of operating a specially equipped car is not reimbursable. **See Transportation.**

Chair: The cost difference of a reclining chair purchased on the advice of a physician (note required) to alleviate a heart, back or other condition is reimbursable. **See Personal use items.**

Child care: **See eligible and ineligible expenses for DCFSA on pages 19 & 20.**

Childbirth classes: Expenses for childbirth classes are reimbursable, but are limited to expenses incurred by the mother-to-be. Expenses incurred by a "coach"—even if that is the father-to-be—are not reimbursable. To qualify as medical care, the classes must address specific medical issues, such as labor, delivery and breathing techniques.

Chiropractist's fees are reimbursable expenses.

Chiropractor's fees are reimbursable expenses.

Christian Science practitioner's fees are reimbursable expenses.

Clinic: Medical expenses for treatment at a health clinic are reimbursable.

Coinsurance amounts: Medical coinsurance amounts and deductibles are reimbursable.

Contact lenses: See Vision care.

Cosmetic surgery needed to improve congenital abnormality, personal injury, or disfiguring disease is reimbursable. Expenses for other types of cosmetic surgery are not reimbursable. This applies to any procedure that is directed at improving the patient's appearance and does not meaningfully promote the proper functions of the body or prevent or treat illness or disease. For example, face lifts, hair transplants, hair removal (electrolysis), teeth bleaching and liposuction are not reimbursable. If there is a concern that a medical or dental surgery could be considered cosmetic, a doctor's certification should be obtained explaining how the procedure meaningfully promotes the proper function of the body or prevents or treats an illness or disease.

Crutches: Medical expenses paid to buy or rent crutches are reimbursable.

Deductibles, medical: Insurance deductibles and coinsurance amounts under the employer's plan are reimbursable. They must be associated with services and service dates. Insurance premiums are not reimbursable through a health care FSA.

Dental services: Expenses for medically necessary dental treatment are reimbursable. This includes fees paid for X-rays, fillings, braces, extractions, dentures, etc. **Also see Cosmetic surgery.**

Dermatologist's fees are reimbursable expenses.

Diabetes management: See Insulin, Medicines.

Diaper service: Payments for diapers or diaper service are not reimbursable unless they are needed to relieve the effects of a particular disease.

Diagnostic services are eligible expenses.

Diets: See Special foods.

Drugs: See Medicines.

Drug addiction: See Alcoholism and drug abuse.

Elastic hosiery: for a medical condition are reimbursable.

Employment taxes: See Nursing services.

Eye examination fees: See Vision care.

Eyeglasses: See Vision care.

Family or group counseling or therapy is not an eligible expense unless verified by a physician's written statement of medical necessity for the treatment of a medical condition. Physician's note must accompany claim. **See Marriage counseling, Psychiatrist's fees, Psychoanalysis, Psychologist's fees, Psychotherapist's fees.**

Family planning: Medical expenses paid for birth control pills and devices are reimbursable. This includes over-the-counter items. **See Birth control pills and devices, Pregnancy termination, Vasectomy.**

Fertility treatment: Medical expenses related to the treatment of infertility, including in vitro fertilization, are reimbursable.

Group medical insurance: See Insurance premiums.

Guide dog or other animal: The cost of a guide dog or other animal used by a person who is visually or hearing impaired is reimbursable. Costs associated with a dog or other animal trained to assist persons with other physical disabilities are also reimbursable, as are amounts paid for the care of these specially trained animals.

Gynecologist's fees are reimbursable expenses.

Healing ceremonies by Native American medicine man: Expenses incurred are reimbursable.

Healthy baby care: See Nursing services.

Hearing aids: Medical expenses for a hearing aid and batteries are reimbursable. Hearing aid insurance is not reimbursable.

Hospital: Expenses incurred as a hospital in-patient or out-patient for laboratory, surgical and diagnostic services qualify for reimbursement.

Human guide: Expenses for a human guide—to take a child who is visually impaired to school, for example, are reimbursable.

Impotence or sexual inadequacy: Medical expenses related to the treatment of impotence are reimbursable if substantiated by a physician.

In vitro fertilization: See Fertility treatment.

Infertility: See Fertility treatment.

Insulin: The cost of insulin and other diabetic treatment aids is reimbursable.

Insurance premiums: No premiums for any health plan, including health plans maintained by a spouse's employer, are reimbursable through a health care FSA.

Laboratory service fees are reimbursable expenses.

Laser eye surgery: Medical expenses associated with laser eye surgery are reimbursable. **See Lasik surgery, Radial keratotomy.**

Lasik surgery: **See Laser eye surgery, Radial keratotomy.**

Lead-based paint removal: The cost of removing lead-based paints from surfaces in a home to prevent a child who has (or has had) lead poisoning from eating the paint are reimbursable. These surfaces must be in poor repair (cracking or peeling) or within the child's reach. The cost of repainting, however, is not reimbursable. Physician's note required with claim.

Learning disabilities: Tuition payments to a special school for a child, who has severe learning disabilities caused by mental or physical impairments, including nervous system disorders, are reimbursable. A doctor must recommend that the child attend school. **See Schools.**

Also, tutoring fees paid on a doctor's recommendation for a child's tutoring by a teacher who is specially trained and qualified to work with children who have severe learning disabilities are reimbursable. Physician's note required with claim.

Legal fees paid to authorize treatment for mental illness are reimbursable. However, any part of a legal fee that is a management fee—for example, a guardianship or estate management fee, is not reimbursable.

Lifetime care: Part of a life-care fee or "founder's fee" paid either monthly or as a lump sum under an agreement with a retirement home is reimbursable if it is allocable to medical care. The agreement must require a specified fee payment as a condition for the home's promise to provide lifetime assistance that includes medical care. Also, advance payments to a private institution for the lifetime care, treatment and training of an employee's physically or mentally impaired dependent upon the employee's death or inability to provide care are reimbursable. The payments must be a condition for the institution's future acceptance of the dependent and must not be refundable.

Lodging: The costs of lodging at a hospital or similar institution are reimbursable if the employee's (or dependent's) main reason for being there is to receive medical care. **See also Nursing home.** The cost of lodging not provided in a hospital or similar institution while an employee (or dependent) is away from home is reimbursable if four requirements are met: (1) the lodging is primarily for and essential to medical care; (2) medical care is provided by a doctor in a licensed hospital or in a medical care facility related to, or the equivalent of, a licensed hospital; (3) the lodging is not lavish or extravagant under the circumstances; and (4) there is no significant element of personal pleasure, recreation or vacation in the travel away from home. **See Meals.**

NOTE: The reimbursable amount cannot exceed \$50 per night per person. Lodging is included for a person whose transportation expenses count as medical expenses, due to the fact that they are traveling with the person receiving the medical care. For example, a parent traveling with a sick child, up to \$100 per night.

Marriage counseling is not reimbursable.

Massage: Fees paid for massage are not reimbursable unless prescribed and substantiated by a physician with the claim to treat a physical defect or illness. Physician's note required with the claim.

Mattresses: A mattress used exclusively to treat a medical condition such as arthritis is reimbursable. A special mattress must be documented by a physician's note. Only the difference between the special mattress and a comparable quality mattress is reimbursable.

Meals: Meals for the traveling patient only at a hospital or medical institution are reimbursable.

Medical information plan: Amounts paid to a plan that keeps medical information so that it can be retrieved from a computer bank for medical care are reimbursable.

Medical services: Only legal medical services if they bear a direct relationship to the provision of medical care to a taxpayer are reimbursable.

Medicines: Amounts paid for prescribed medicines and drugs are reimbursable. A prescribed drug is one which requires a prescription by a doctor for its use by an individual and is medically necessary. The cost of insulin and other diabetic care supplies and birth control supplies and devices are also reimbursable.

Prescriptions that are cosmetic related are not reimbursable i.e., Retina-A, Propecia, Vaniqa, etc.

Mental health: **See Psychiatrist's fees, etc.**

Mentally retarded, special home for: The cost for a mentally retarded person to reside in a special home (not the home of a relative) on the recommendation of a psychiatrist to help the person adjust from life in a mental hospital to community living is reimbursable.

Native American healing ceremonies by medicine man: Expenses incurred are reimbursable.

Neurologist's fees are reimbursable expenses.

Nursing home: Cost of medical care in a nursing home or home for the aged is reimbursable. This includes the cost of meals and lodging in the home if the main reason for being there is for medical care.

Nursing services: Wages and other amounts paid for nursing services are reimbursable. The services do not have to be provided by a nurse as long as they are the kind of services generally performed by a nurse, such as giving medication or changing dressings, bathing and grooming the patient. Personal services or household services are not reimbursable. If these services are provided, the amounts must be divided between the time spent on each.

- Meals: Amounts paid for an attendant's meals are also reimbursable. Divide the food expense among the household members to find the cost of the attendant's food.
- Upkeep: Additional amounts paid for household upkeep because of an attendant are also reimbursable. This includes extra rent or utilities due to the need to move to a larger home to provide space for the attendant.
- Infant care: Nursing or babysitting services for a normal, healthy infant are not reimbursable.
- Taxes: Social Security, unemployment (FUTA) and Medicare taxes paid for a nurse, attendant or other person who provides medical care are reimbursable.

Obstetrical expenses are reimbursable expenses.

Optometrist's fees: See Vision care.

Ophthalmologist's fees: See Vision care.

Orthodontics: Braces or orthodontics which are not cosmetic are reimbursable on a monthly basis as services/appointments are rendered. See page 5.

Orthopedic shoes: Costs of specialized orthopedic items can only be reimbursed to the extent that they exceed comparable shoes. Difference is reimbursed; physician's note is required.

Organ donor: See Transplants.

Osteopath's fees are reimbursable expenses.

Over-the-Counter Drugs and Medicines: See page 4 for updated rules on OTC medications.

Oxygen: Amounts paid for oxygen or oxygen equipment to relieve breathing problems caused by a medical condition are reimbursable.

Parking: See Transportation.

"Patterning" exercises: See Therapy, physical.

Pediatrician's fees are reimbursable expenses.

Personal use items: Items that are ordinarily used for personal, living, and family purposes are not reimbursable unless they are used primarily to alleviate a physical or mental defect or illness. For example, the cost of a wig purchased at the advice of a physician for the mental health of a patient who has lost all of his or her hair from disease is reimbursable. If an item purchased in a special form primarily to alleviate a physical defect is one that in normal form is ordinarily used for personal, living, or family purposes, the cost of the special form in excess of the cost of the normal form is reimbursable. **Also see**

Braille books and magazines.

Physical exams are generally reimbursable, except for employment-related physicals.

Podiatrist's fees are reimbursable expenses.

Pregnancy termination: Medical expenses associated with the termination of a pregnancy, including legal abortion are reimbursable.

Prescription drugs: See Medicines.

Private hospital room: The extra cost of a private room is reimbursable.

Prosthesis: See Artificial limb.

Psychiatric social worker's fees: Expenses incurred for recommendation of an individual's specific treatment by psychiatrist are reimbursable.

Psychiatrist's fees for individual counseling are reimbursable expenses. Family counseling is not an eligible expense unless verified by a doctor's written statement of medical necessity for the treatment of a medical condition. Marriage counseling is not an eligible expense.

Psychoanalysis: Medical costs associated with individual psychoanalysis, even if it fulfills requirement for admission to a school of psychoanalysis training, are reimbursable. **See Psychiatrist's fees.**

Psychologist's fees for individual counseling are reimbursable expenses. **See Psychiatrist's fees.**
Psychotherapist's fees for individual counseling are reimbursable expenses. **See Psychiatrist's fees.**
Radial keratotomy: **See Laser eye surgery.**

Reasonable and customary charges, amounts in excess of: Medical expenses in excess of the plan's reasonable and customary charges are reimbursable.

Schools, special: Expenses paid to a special school for a person who is mentally impaired or physically disabled are reimbursable if the main reason for using the school is its resources for treating the disability. This includes a school that:

- teaches Braille to a child who is visually-impaired;
- teaches speech-reading or American Sign Language to a child who is hearing-impaired; or
- provides remedial language training to correct a condition caused by a birth defect.

The cost of meals, lodging and ordinary education supplied by a special school is reimbursable only if the main reason for using the school is its resources for treating the mental or physical disability. The cost of sending a non-disabled child with behavioral problems to a special school, though the child may benefit from the course of study or discipline, is not reimbursable. **See also Learning disabilities.**

Sexual inadequacy and incompatibility treatment: Expenses for counseling provided to a husband and/or wife conducted by a psychiatrist are reimbursable.

Smoking program: The cost of a program to stop smoking for the improvement of general health is reimbursable, if doctor prescribed.

Special foods: The costs of special foods and/or beverages, even if prescribed, that substitute for other foods or beverages which a person would normally consume and which satisfy nutritional requirements (such as the consumption of bananas for potassium, for example) are not reimbursable. However, prescribed special foods or beverages are reimbursable if they are consumed primarily to alleviate or treat an illness or disease, and not for nutritional purposes. Special foods and beverages are reimbursable only to the extent that their cost is greater than the cost of the commonly available version of the same product.

Sterilization: Cost of a legal sterilization (operation performed to make a person unable to have children) is reimbursable. **See Vasectomy.**

Student health fee: No, if fee is simply the cost of belonging to the program—such fees aren't reimbursed because they are generally premiums for medical care. They may be reimbursable if the expenses are separately broken down and are for specific medical services.

Substance abuse: **See Alcoholism and drug abuse.**

Telephone: The costs of purchasing and repairing special telephone equipment that allows a person who is hearing-impaired to communicate over a regular telephone are reimbursable.

Television: The cost difference between specially equipped television set in excess of the cost of the same model regular set. (Refer to capital expenses.)

Therapy, physical: Amounts paid for therapy received as medical treatment are reimbursable. Payments made to an individual for special exercises administered to a child who is mentally retarded are also reimbursable. These "patterning" exercises consist mainly of coordinated physical manipulation of the child's arms and legs to imitate crawling and other normal movements. **See Mental health.**

Transplants: Payments for surgical, hospital, laboratory and transportation expenses for a prospective or actual donor of an organ are reimbursable.

Transportation: Amounts paid for transportation primarily for and essential to medical care are reimbursable (except as provided below). These include:

- bus, taxi, train or plane fare, or ambulance service;
- parking fees and tolls;
- transportation expenses of a parent who must accompany a child who needs medical care;
- transportation expenses of a nurse or other person who can give injections, medications or other treatment required by a patient who is traveling to get medical care and is unable to travel alone; and
- transportation expenses for regular visits to see a dependent who is mentally ill if these visits are recommended as a part of treatment. Mileage to and from medically necessary trips are reimbursable at a flat rate of 14 cents per mile. The cost of tolls and parking may be added to this amount.

Reimbursable expenses do not include:

- transportation expenses to and from work, even if a medical condition requires an unusual means of transportation; or
- transportation expenses incurred if, for non-medical reasons, a participant chooses to travel to another location (or to a resort or spa) for an operation or other medical care prescribed by a doctor.

Trips: Amounts paid for transportation to another location, if the trip is primarily for and essential to receiving medical services, are reimbursable. A trip or vacation taken for a change in environment, improvement of morale or general improvement of health, is not reimbursable, even if it is taken at the advice of a doctor.

Tutor's fees: See Learning disabilities.

Vacation: See Trips.

Vaccines: Expenses for vaccines are reimbursable.

Vasectomy: Expenses for vasectomy are reimbursable.

See Family Planning, Sterilization.

Vision care: Optometry services and medical expenses for eyeglasses and contact lenses needed for medical reasons are reimbursable. Eye exams and expenses for eyeglasses and contact lens solutions are also reimbursable. However, clip-on sunglasses and premiums for contact lens replacement insurance are not reimbursable.

Vitamins: No, if they are used to maintain general health. Yes, under narrow circumstances, if recommended by a physician for a specific medical condition. Because this is a dual-purpose item, a physician's note with the claim evidencing that the pills are used to treat a specific medical condition is required.

Weight loss program: The cost of a weight loss program for general health is not reimbursable even if a doctor prescribes the program; however, if attendance at a weight loss program is prescribed by a physician to treat a medical illness (e.g. heart disease), the expense should be reimbursable after the service takes place. The physician must substantiate the necessity of this treatment and must be included with the claim.

Wheelchair: Amounts paid for a wheelchair used mainly for the relief of sickness or disability, and not just to provide transportation to and from work, are reimbursable. The cost of operating and maintaining the wheelchair is also reimbursable.

X-rays and X-ray treatments: Amounts paid for X-rays and X-ray treatments for medical reasons are reimbursable.

Other expenses not eligible for reimbursement

- Breast pump
- Contact lenses, glasses and sunglasses that are non-prescription
- Contact lens replacement insurance
- Cosmetic surgery, procedures, prescriptions
- Dancing or swimming lessons
- DNA collection
- Domestic help fees of a non-medical nature
- Ear piercing
- Electrolysis or hair removal
- Exercise equipment
- Funeral expenses
- Health club memberships/fitness programs
- Life insurance premiums
- Long-term/Lifetime care insurance premiums
- Marriage counseling
- Massage (unless prescribed by a physician to treat a medical condition)
- Medical Savings Accounts
- Medicare Part A, B & D

Over the counter drugs not accompanied by a prescription
Over-the-counter drugs that are for general health purposes, cosmetics, skin care, toiletries, hygiene products
Over-the-counter vitamins, supplements or dietary supplements
Personal use expenses (i.e. toothbrushes, electric toothbrushes, clothing, home items, pillows, etc.)
Physical therapy treatments for general well-being
Scientology “audits”
Surrogate expenses
Supplements/Herbal treatments prescribed by an alternative provider (e.g. naturopath, homeopath, acupuncturist, chiropractor, etc.)
Teeth whitening/Bleaching
Union dues
Vision discount programs or breakage coverage

Capital expenses

Medical expenses incurred by participants for special equipment installed in the home or for improvements are reimbursable if their main purpose is medical care. The cost of permanent improvements that increase the value of the property may be partly deducted as a medical expense. The cost of the improvement is reduced by the increase in the value of the property; the difference is a reimbursable medical expense.

If the value of the property is not increased by the improvement, the entire cost is reimbursable as a medical expense.

Improvements made to accommodate a residence for a person’s disability do not usually increase the value of the residence, and the full cost is usually reimbursable.

These improvements include, but are not limited to: ramps, widening doorways and hallways, installing rails and support bars in bathrooms, lowering cabinets in the kitchen, moving electrical outlets and fixtures, installing porch lifts (but generally not elevators), modifying stairways, adding handrails and grab bars, modifying hardware on doors and re-grading the ground to provide access to the residence.

Insurance premiums

NOTE: Insurance premiums paid through your employer’s plans are automatically reimbursed through the Automatic Pre-tax Employer Premium Account and should not be added to the Health Care Flexible Spending Account for reimbursement.

Insurance premiums are never eligible to be reimbursed through a health care FSA.

Insurance premiums are eligible to be reimbursed through an “Outside Premium Reimbursement Account,” if the employer sponsors this separate and specialized type of account. Expenses eligible to be reimbursed through an “Outside Premium Reimbursement Account” include personally paid, eligible health insurance premiums and COBRA health insurance premiums from a previous employer.

Premiums not eligible for reimbursement include premiums paid to a spouse’s employer and COBRA life insurance premiums.

List of Eligible and Ineligible Expenses for the Dependent Care Flexible Spending Account (DCFSA)

Please note that this is not an exhaustive list. The Internal Revenue Service may update this list as often as deems necessary. A&R Benefits will keep you up to date on any changes to this list:

After school care: After school care that is primarily custodial in nature is reimbursable. **See extended day programs.**

After school enrichment classes: Programs and lessons that are primarily for education or are skill oriented are not reimbursable.

Au Pair: amounts paid to an au pair for the care of a child are reimbursable. Transportation and other fixed cost related to the employment of an au pair are not reimbursable.

Baby-sitter: Amounts paid to a baby-sitter who is not a dependent of the participant or the participant's spouse, either inside or outside the participant's home, are reimbursable. **See Au Pair, Relatives.**

Camp: See overnight camp, Summer day camp.

Deposits: Deposits that are specifically allocated to the care of a dependent are reimbursable after the service has been provided. **See Registration fees.**

Educational expenses: Educational expenses for a child in Kindergarten or higher grades are not reimbursable.

See Kindergarten tuition, Tuition.

Elder care: amounts paid for the care of a dependent adult who is unable to care for him or herself that are not associated with medical expenses are reimbursable through the dependent daycare FSA. The dependent must live in your residence for at least eight hours each day.

Extended day programs: Supervised activities for children after the regular school program, which are primarily custodial in nature, are reimbursable. **See After school care.**

Kindergarten tuition: Kindergarten tuition expenses are not eligible for reimbursement out of the dependent daycare FSA. These expenses are eligible only if the expenses are for the care of the dependent. These expenses are not eligible for reimbursement if they are for education of the dependent. If the facility provides both services, an allocation must be made for each service and the portion that is allocated for the care of the dependent is the only portion that is reimbursable.

See Educational expenses, Tuition.

Looking for work: Amounts for dependent daycare so that the participant, or the participant's spouse, is able to look for work are reimbursable.

Nanny fees: Amounts paid to a nanny for the care of a child are reimbursable. Registration fees paid to a nanny service are not reimbursable unless they are specifically allocated to the care of a child and not to materials or other fees. **See Registration fees.**

Nursing home: Expenses related to the nursing home care of a dependent are not reimbursable through a dependent care FSA, but may be reimbursable through a health care FSA.

Nursery school/ Pre-kindergarten: Expenses for nursery school and pre-kindergarten are reimbursable.

Overnight camp: Overnight camp expenses are not eligible for reimbursement; even if the day and night activities are separately allocated. **See Summer day camp.**

Registration fees for care: a registration fee may qualify as a child care expense if it is an expense that must be paid in order to obtain care, but will not be reimbursed until the care has been provided or would have to be prorated over the duration of the agreement with the provider.

Relative of participant, expenses paid to – e.g. parent or grandparent of participant: Yes, unless the relative is a dependent for whom the participant/participant's spouse can claim an exemption, or is a child or stepchild of the participant under age 19.

See Baby-sitter, Au Pair.

Sick-child center: Amounts paid to sick-child center are eligible if they enable the participant to go to work when the child is ill.

Sick employee: Amounts paid to care for a dependent while the participant stays home from work due to illness are not reimbursable.

Summer day camp: Summer day camp fees are eligible for reimbursement AFTER the child has attended the camp. Supplies, registration, deposit, food, activities, transportation and other costs related to the summer day camp are not eligible for reimbursement.

Taxes: FICA and FUTA taxes paid to a dependent care provider are reimbursable.

Volunteer work – expenses incurred to enable employee to volunteer: No, even if the volunteer work is for nominal pay.

Other expenses not eligible for reimbursement:

- Diaper Fee
- Meals, snacks and beverages
- Activity supply fees that are not related to care
- Field trips
- Lessons, e.g. music, sports, education, etc.
- Transportation