

# SMART!

Saving money and reducing taxes

A close-up photograph of a brown leather baseball glove and a white baseball with red stitching, resting on a grassy field. The glove is open, and the baseball is positioned in the center of the glove's pocket. The background is a blurred green field under a clear sky.

**Minimize revenue sharing** pages 1-2

HFSA members get an advantage by paying less tax

**Common health-care items** page 6

Use the account on things you'll buy anyway

**Interest-free advance** page 7

Reimbursement even if the money's not in your account

SMART!  
**2009**  
Preview

# 1 Healthcare flexible spending account

## A SMART way to stay within your game plan

We all work with a financial game plan. The Healthcare Flexible Spending Account allows you to stretch your budget further. That's why participation among city employees increased 6 percent over last year. The HFSA is a voluntary pretax benefit plan that allows you to set aside money from your paycheck to be used to pay for the out-of-pocket medical, prescription, dental and vision expenses that you and your dependents incur. The money you contribute to the HFSA comes out of your paycheck before taxes, and you do not pay taxes on the reimbursements you receive for qualified health-care expenses. This means you get more bang for your buck.

Because you never pay taxes on this money, you can save up to 35 percent in federal taxes on the amount that you put into your HFSA. The amount you save will vary depending upon your individual income-tax bracket. See Example of Tax Savings in the HFSA on page 2.

What expenses are reimbursable?

- ▶ Copayments, coinsurance and insurance deductibles for medical, dental and vision services
- ▶ Copayments, coinsurance and insurance deductibles for prescriptions
- ▶ Prescription and over-the-counter drugs not covered in the medical plan
- ▶ Orthodontia and dental expenses
- ▶ Eye glasses, contact lenses and contact-lens solution
- ▶ Items and services that you can deduct from your income tax, according to Internal Revenue Code 213
- ▶ And many more. See an expanded list of eligible items on page 6.



### Why should I play this game?

The game of life can get rough sometimes. If you're like most of us, you and your family will have health-care expenses in the next 12 months.

Your medical and dental plans will pay the majority of those expenses. But what about the part that isn't covered, like copayments? Your HFSA will reimburse you for those expenses and may help you save tax dollars on these out-of-pocket expenses.

### How does this work?

1. Determine how much money you want to contribute to your account for the plan year, which runs May 1 - April 30.
2. This amount is then deducted in 24 equal deductions from your paychecks BEFORE taxes are calculated.
3. The per-pay-period deduction is credited to your personal reimbursement account.
4. When you incur eligible expenses during the plan year, you submit claims to FLEXONE.
5. FLEXONE processes each claim for reimbursement.
6. You are eligible to receive reimbursement for claims submitted, even if you have not yet contributed the amount of the claim.
7. FLEXONE will reimburse you via mail or direct deposit. After you have incurred claims equal to your annual election, FLEXONE will no longer pay claims.
8. You have until July 29, 2010, to file claims that were incurred during the plan year.
9. If you do not incur and claim expenses that equal your full elected amount, the balance in your account is forfeited. Similarly, if you are reimbursed for eligible expenses and leave the city before contributing the full elected amount, the city cannot seek reimbursement from you.
10. At the end of the calendar year, your W-2 will reflect a lower taxable income. That's when you really feel SMART!



### Who can play this game?

Any employee who is eligible for city benefits is eligible to participate in the HFSA. You do not have to be enrolled in the city's medical or dental plans.



## Why is HFSA a SMART play?

In the example below, you earn \$35,000 per year as a single person, and you decide to put \$500 into the HFSA to pay for medical and prescription copayments that you know you will incur in the next 12 months. You can save \$72 by lowering your taxable income.

Without the HFSA, you pay taxes on every dollar you earn, and then you pay for medical expenses. With the HFSA, you can set aside a portion of each paycheck for medical expenses. This amount is deducted from your paycheck before taxes are calculated, so the taxes you owe should decrease. In other words, you won't pay taxes on the money you spend on qualified out-of-pocket medical expenses through this plan!

Annual tax savings example*		
	With HFSA	Without HFSA
<b>If your taxable income is:</b>	\$35,000	\$35,000
<b>And you deposit this annual amount into an HFSA:</b>	-\$500	-\$0
<b>Your taxable income is now:</b>	\$34,500	\$35,000
<b>Subtract federal and Social Security taxes:</b>	-\$4,056	-\$4,128
<b>If you spend after-tax dollars for eligible expenses:</b>	-\$0	-\$500
<b>Your net take-home pay is:</b>	\$30,444	\$30,372

**Your tax savings with an HFSA is: \$72**

\* This example is for illustration only and assumes a combined tax rate (income, FICA, Medicare) of 25 percent. Your personal tax situation may differ. Check with your tax advisor to see how much the HFSA will benefit you.

## How much can I put in my HFSA?

If you decide to participate in the HFSA, you may contribute from \$240 to \$2,000 per year. The average contribution for city plan members increased from \$744 last year to \$1,120 this year. During open enrollment, you will estimate next year's medical expenses and elect the amount you wish to put into in the HFSA. The worksheet on the back cover of this guide will help. This amount will be deducted over 24 paychecks in equal amounts.

For example, if you decide to put \$240 into your HFSA, \$10 will be deducted from your paycheck for 24 paychecks from May through April. A \$500 annual contribution is \$20.83 from each paycheck.

## Contents

Enrolling in the HFSA	3
How to file a claim	4
Resources	5
Examples of eligible expenses	6
Questions & answers	7
SMART employees	9
HFSA worksheet	Back cover

## Important dates

**March:** Open enrollment

**May 1:** The first day you can incur an eligible expense for this plan year.

**April 30:** The last day you can incur an eligible expense for this plan year.

**July 29, 2010:** Last day to file a reimbursement claim for current plan year.

## Tale of the tape — SMART Facts

- **Minimum contribution:**
- \$240 a year / \$10 per pay period
- **Maximum contribution:**
- \$2,000 a year / \$83.33 per pay period
- **Plan year:** May through April
- **Incur claims:** May 1 through April 30
- **File claims:** Within 90 days beyond plan year, through July 29
- **Claim administrator:**  
FLEXONE
- **Minimum claim reimbursement:** \$10



# 3 Enrolling in the HFSA – SMART play

## Enrolling in the HFSA – a SMART play

All games have rules and regulations. So does the HFSA.

In exchange for the favorable tax treatment of the HFSA, the Internal Revenue Service has a few rules, which are spelled out in code section 125.

**Reimbursement of eligible expenses:** You may incur expenses and request reimbursement from your HFSA as early as May 1. You can be reimbursed up to the entire annual election, even if the entire amount has not been deducted.

**For example:** You elect \$240 for the year. Deductions of \$10 begin in May. On June 1, you incur an out-of-pocket expense of \$45 for an allergy-specialist office visit and \$30 for a prescription copayment. You will be reimbursed the entire \$75, even though only \$20 total has been deducted from your two paychecks in May. Payroll deductions of \$10 will continue for the rest of the year.

**Changing your election:** After the annual open enrollment, you can only change your HFSA election during the plan year if you have a change in family status. Events such as marriage, divorce, legal separation, or birth of a child allow you to increase your annual contribution, but only up to a maximum of \$2,000. You may not reduce or stop contributing during the plan year. See page 7 for more information.

**Use it or lose it:** It's important that you carefully calculate the amount you put into the HFSA. If money is remaining in your HFSA account at the end of the plan, April 30 and unclaimed through the 90-day claim period that ends July 29, it will not be returned to you. You will forfeit the account balance. Your balance will not roll over to the next year.

Don't let these rules scare you away from this important benefit, especially if you or your family will have unreimbursed health-care expenses in the next 12 months. Don't let the federal government take more than its fair share of your hard-earned dollars!

## How much should I contribute?

How much did you pay in copayments this year for doctor and dental visits? For prescriptions? Plan to get a new pair of glasses this year? Are you expecting to go to the hospital early next year? What's the mileage to and from your doctor? Use these questions to estimate your expenses for next year. Use the worksheet on the back cover to help you with your calculation.

To estimate how much you should contribute to your HFSA, add up the anticipated costs for routine medical and dental checkups and for major expenses, such as braces, for you and your family that will not be reimbursed by any other insurance plan. Estimate what you will spend May through April. Any expense the IRS considers deductible and that is not reimbursed through a

health plan is eligible for reimbursement from your HFSA.

Some of the most common reimbursable expenses are deductibles, copayments, contact lenses, glasses, hearing aids, and prescription-drug copayments.

Expenses not recognized by the IRS, and not reimbursable, include cosmetic surgery and health-club dues for general health purposes.

## Put me in, coach!

Enrollment is voluntary and is as easy as completing an enrollment form available from your HR liaison. You have to submit the form to the Human Resources Department, benefits division, 611 Walker, 4th Floor.

You can only enroll in this benefit during open enrollment, and your election is valid for the upcoming plan year. You will have to enroll every year during the annual open-enrollment period.

Employees who begin work after May 1 can enroll during the first 90 days of employment. Coverage is effective on the 1st or 16th of the month after 90 days of employment. Your enrollment is valid for the rest of that plan year.

## Insider's SMART tip

Staring at the computer screen eight hours a day is drying out your contacts. But you don't like wearing your glasses, which are crooked and pinch your nose. So you're considering laser eye surgery, but it seems a little expensive.

Laser eye surgery is one of many expenses eligible for HFSA. You can save money on the procedure if you allocate a portion of your paycheck to your personal account. It's like saving money on the procedure.



## Is it easy to file a claim?

It's as easy as sending a fax. To file a claim for reimbursement from your account, obtain the Healthcare Flexible Spending Account claim form from the benefits division or online at [www.aflac.com/us/en/docs/benefits/flexclaim.pdf](http://www.aflac.com/us/en/docs/benefits/flexclaim.pdf) and complete it. Provide the required documentation for your eligible health-care expense.

Receipts from your health-care provider must show the following:

- ▶ The name of the service provider
- ▶ A description of the service or a list of the supplies furnished
- ▶ The charge(s) for each service
- ▶ The date(s) of service
- ▶ The name of the person(s) receiving the service



Most official receipts from your doctor's office will work.

Fax your completed form and receipts to 877-353-9256, or mail them the address below:

FLEXONE  
1932 Wynnton Road  
Columbus, GA 31999-9950

Claims are paid every Tuesday, barring a holiday.

You can expect to receive your reimbursement check within 10 days after the Tuesday processing schedule. Most claims are paid and mailed within seven days. You can receive faster payments if you sign up for direct deposit.

## Spotlight: Participated last year?

You must re-enroll for this year and each plan year.

Reminder: July 29 is the last day to file a claim for the plan year ending April 30. The claim must be incurred by April 30.

## Where can I see how much money is in my account?

There are several ways that you can see your account balance:



1. Each reimbursement check contains account balance information.
2. A quarterly balance statement will be sent to you if you have not received a reimbursement check within the previous 45 days.
3. A balance statement will be sent to you prior to the end of the plan year and 90 days after the end of the plan year.
4. You can access reimbursement information by calling toll-free, 800-323-5391 or 877-353-9487.
5. For a sample log to maintain a record of your expenses, get a copy of IRS Publication 502. See page 21 of that document. You can get it at [www.irs.gov/pub/irs-pdf/p502.pdf](http://www.irs.gov/pub/irs-pdf/p502.pdf).

## Direct deposit sounds like a good play

Direct deposit is a simple, convenient and safe way to automatically deposit your reimbursements into your bank account. With each deposit, you'll receive a deposit notice that will contain the same information that comes with a check.

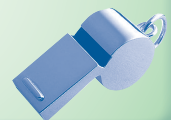
To enroll in direct deposit, just complete the direct-deposit authorization form and return it to FLEXONE. Be sure to include a voided check or a savings deposit slip.

After it receives your authorization agreement, FLEXONE will verify all information with a prenotification to your financial institution. Direct deposit will begin 10 calendar days following the prenotification.

## Insider's SMART tip

Use the following worksheet to track your eligible expenses.

[www.houstontx.gov/hr/oe09/files/HFSA-tracking-sheet.xls](http://www.houstontx.gov/hr/oe09/files/HFSA-tracking-sheet.xls)



# 5 Enrolling in the HFSA – SMART play

## Changes in family status

Because the plan allows you to reduce your taxable income, the IRS has some rules about making changes to your HFSA account outside of open enrollment.

During a plan year, you can increase your contribution amount only if you experience a change in family status. Changes in family status, as defined by the IRS, include the following:

- ▶ Marriage or divorce
- ▶ Gaining or losing a dependent
- ▶ Termination or commencement of your spouse's employment
- ▶ A change in job status from full-time to part-time or vice versa for you or your spouse

A child turning age 18 is not a change in family status.

If you have a change in family status, contact your HR liaison within 30 days of the change. The change must be consistent with the change in your family status. You may not reduce or stop contributing during the plan year.

Any change you make will apply for the rest of the plan year, unless you have another change in family status.

You can change your participation during the annual enrollment period for the upcoming plan year.

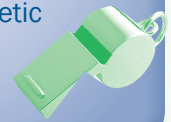
## How do I get more information?

You can learn more about the Healthcare Flexible Spending Account from the following resources:

## Insider's SMART tip

You've been allocating a portion of your paycheck into an HFSA to pay for over-the-counter medicines. But your doctor recently told you you've got diabetes.

Although you hadn't planned on this medical complication, you can use your HFSA to pay for your diabetic supplies. That'll lessen the wallop to your wallet.



## Spotlight: Prescription copayments

Your prescription-drug copayments are reimbursable under the HFSA. So are copayments for mail-order prescription drugs.

You can also be reimbursed for over-the-counter items like aspirin, cold/flu medicines or stomach remedies.

## HFSA resources

How to:	Source	Web site
see the IRS-approved list of eligible and ineligible expenses.	IRS	<a href="http://www.irs.gov/pub/irs-pdf/p502.pdf">www.irs.gov/pub/irs-pdf/p502.pdf</a>
calculate your tax savings using your total household income and personalized expenses.	Kiplinger	<a href="http://www.kiplinger.com/tools">www.kiplinger.com/tools</a>
learn about benefits of participating in an FSA and how it works.	USA Today	<a href="http://www.usatoday.com/money/perfi/columnist/block/2004-12-20-ym_x.htm">www.usatoday.com/money/perfi/columnist/block/2004-12-20-ym_x.htm</a>
download a claim form from FLEXONE.	AFLAC	<a href="http://www.aflac.com/us/en/docs/benefits/flexclaim.pdf">www.aflac.com/us/en/docs/benefits/flexclaim.pdf</a>

The Healthcare Flexible Spending Account is governed by the City of Houston Employees' Healthcare Reimbursement Arrangement. If there is any conflict between this Enrollment Guide and the Arrangement, the Arrangement governs.

## Examples of eligible expenses

- ▶ Acupuncture
- ▶ Air conditioners \*
- ▶ Ambulance expenses
- ▶ Automobile equipment to assist the physically disabled
- ▶ Birth control pills
- ▶ Braille books and magazines
- ▶ Child birth preparation classes, for the mother only
- ▶ Chiropractic
- ▶ Contact lenses and solutions
- ▶ Copayments under your insurance plan
- ▶ Coinsurance
- ▶ Cost of a note-taker for a hearing impaired child in school
- ▶ Crutches
- ▶ Deductibles for medical, dental, and vision plans
- ▶ Dental cleanings and fillings
- ▶ Detoxification or drug abuse centers
- ▶ Diabetic supplies
- ▶ Diagnostic tests and health screenings
- ▶ Drug addiction/alcoholism treatment
- ▶ Expenses in excess of medical, dental, or vision plan limits
- ▶ Expenses for services connected with donating an organ
- ▶ Eye exams
- ▶ Eyeglasses
- ▶ Guide or guide dogs and associated expenses for persons who are visually or hearing impaired
- ▶ Hearing aids
- ▶ Household visual alert system for hearing impaired persons
- ▶ Injections and vaccinations
- ▶ In vitro fertilization
- ▶ Laser eye surgery
- ▶ Massage therapy
- ▶ Medically necessary mattresses and boards\*
- ▶ Mileage to/from medical providers, 24 cents per mile in 2009.
- ▶ Nicotine patches and gum
- ▶ Orthodontia\*\*\*
- ▶ Orthopedic shoes
- ▶ Over-the-counter medicines\*\*
- ▶ Physical therapy
- ▶ Postage/handling fees
- ▶ Prescription drugs
- ▶ Psychotherapy
- ▶ Radiation treatments
- ▶ Remedial reading \*
- ▶ Respirators
- ▶ Routine physical exams
- ▶ Smoking cessation programs
- ▶ Specialized equipment for disabled persons
- ▶ Special devices, such as a tape recorder and typewriter, for people who are visually impaired
- ▶ Speech therapy
- ▶ Sterilization surgery
- ▶ Transportation expenses related to medical care
- ▶ Water fluoridation devices \*
- ▶ Weight reduction program for physician-diagnosed obesity or other medical condition\*
- ▶ Well-baby and well-child care office visits
- ▶ Wheelchairs
- ▶ Whirlpool\*
- ▶ Wigs for hair loss due to any disease\*
- ▶ X-rays

## Ineligible expenses

- ▶ Clip-on sunglasses
- ▶ Cosmetic expenses, including drugs – both prescription and over-the-counter – used for cosmetic purposes
- ▶ Expenses claimed on your income-tax return
- ▶ Expenses not eligible to be claimed as an income-tax deduction
- ▶ Expenses reimbursed by other sources, such as insurance companies
- ▶ Fees for exercise/athletic/health clubs where there is no specific medical reason for membership
- ▶ Hair transplants
- ▶ Illegal treatments, operations or drugs
- ▶ Insurance premiums
- ▶ Long-term-care expenses
- ▶ Marriage counseling
- ▶ Sundry items – soap, toothpaste, deodorant
- ▶ Teeth bleaching
- ▶ Varicose/spider-vein treatment
- ▶ Veneers
- ▶ Warranties
- ▶ Weight-reduction programs for general well being

\* Expenses noted by asterisk must be accompanied by a letter of medical necessity from your medical provider that indicates the medical disorder, the specific treatment needed, and how this treatment will cure, mitigate, treat or prevent a specific medical condition. In some cases, additional documentation may also be required to validate the expense for reimbursement. Additionally, items claimed for the home, such as air conditioning units, must have certification from a "knowledgeable person" stating that the purchase did not increase the value of the residence; or only the difference of the charge and the increase in the home's value may be claimed (i.e. if an air conditioning unit costs you \$1,000 and a knowledgeable person states that it increases the value of your home by \$300, you may only be reimbursed the \$700 difference.)

\*\* Participants submitting over-the-counter items for reimbursement must include a description of the medical condition they are treating with the item. For vitamins, herbs and nutritional supplements, a letter of medical necessity is required. The letter must come from your medical provider and must indicate the medical condition that is being treated and the specific over-the-counter items that must be taken to treat or mitigate the condition.

\*\*\*Orthodontic expenses are reimbursed according to the prorated monthly fee. The plan administrator can reimburse the initial down payment amount and then must break down the remainder of the charges according to the monthly fee assessed. In order to receive reimbursement for orthodontic work, a copy of the original contract must be submitted to the plan administrator showing the total dollar amount the participant is responsible for, less any down payment amount as well as the estimated length of time the treatment will last. For example, if the total participant responsibility for orthodontic work is \$2,000, the initial down payment amount is \$500 and the expected treatment time is 15 months, the plan administrator can reimburse the \$500 initially and then \$100 per month thereafter. Per IRS regulations, the plan administrator is required to see that the down payment and monthly payment(s) have been paid in order to issue the reimbursements. Please remember that even if you pay for the entire amount of the orthodontic work up front, the expenses will be reimbursed only on a monthly basis.

# 7 SMART questions and answers

## 1. What are the benefits of participating in the HFSA?

- ▶ You are in control. You make the decision to participate how much to contribute to your HFSA account, up to \$2,000 per year.
- ▶ Saves you money. Contributions to the plan are deducted from your paycheck before taxes. That means you will not pay taxes on the amount of money you deposit into your HFSA. That lowers your taxable income.
- ▶ Manage your money. Now you can have money that has been set up to pay for health-care expenses that are not paid by your insurance plans. This helps you better manage your money and budget.
- ▶ Tax-free withdrawals. Withdrawals are tax free if you use the money to pay qualified medical expenses. See page 6 for a list of qualified medical expenses.
- ▶ Interest-free loans. You can withdraw funds from the account to pay qualified medical expenses even if you have not yet placed the funds in the account. When you use the plan this way, it's like getting an interest-free loan for your out-of-pocket health-care expenses.

## 2. What's in it for the city?

There are tax advantages for you to participate, and there are tax advantages for the city. You win by reducing your taxable income. Plan participants are on track to save almost \$50,000 in FICA this plan year. The city benefits by reducing the amount of FICA tax it contributes on your behalf. We're both SMART.

## 3. Can I put money in this plan for my spouse and dependent children's out-of-pocket health-care expenses?

Yes. You may request reimbursement for your own eligible expenses as well as your spouse's, if you file a joint tax return. Expenses for a dependent child are eligible for reimbursement if you claim the dependent on your federal income-tax return, the dependent lives with you, and you provide more than half of the dependent's support. You or your dependents do not need to be covered by the city's medical or dental plans to participate in the HFSA.

## 4. What if I change my mind during the year?

You will have to decide how much to contribute to this plan during open enrollment. Once you make your election for the year, you cannot increase or decrease your contribution until open enrollment next year. The only exception to this rule is if you have a family-status change. See page 5 for more information.

## 5. Where can I find a list of reimbursable expenses?

- ▶ Page 6
- ▶ IRS Publication 502 at [www.irs.gov](http://www.irs.gov)
- ▶ By contacting the plan administrator at 800-992-3522 or [www.aflac.com](http://www.aflac.com)

### Insider's SMART tip

Don't wait until April to spend your money! Plan your visits throughout the year so you don't have a last-minute rush to get to the dentist.



## 6. Do I have to wait until my contribution is deducted from my paycheck before I can file a claim for reimbursement?

No. You can incur or file a claim for reimbursement up to the total amount you have elected for the year at any time after the beginning of the plan year, even if the money is not yet in your account. This is one of the best benefits of the HFSA.

## 7. What happens if I have money left over at the end of the year?

The IRS prohibits the plan from returning any money to you that you have not incurred and claimed by the end of the plan year. See page 3 for more information.



## 8. What if I overestimated my expenses and can't get to my dentist before April 30?

If you find that you have overestimated your health-care expenses for the year, there are many ways to use the money in your account before the plan year ends April 30. Remember, over-the-counter medications such as pain relievers and cold and sinus medications, and vision expenses such as an extra pair of glasses or contact lenses, are eligible expenses. So, it is rare that anyone leaves money in the account.

## 9. What is the difference between the Healthcare Flexible Spending Account and the Dependent Care Reimbursement Plan?

At first glance, the Healthcare Flexible Spending Account and the Dependent Care Reimbursement Plan look similar. Both save you money in taxes; both are flexible spending accounts as defined by the IRS; and both are administered by FLEXONE.

However, these two benefits are separate plans, designed for two different purposes. The HFSA is a pretax account for health-care expenses incurred by you and your family. The Dependent Care Reimbursement Plan is a pretax account for dependent daycare expenses. The DCRP will not reimburse you for health-care expenses, even if they are for your dependents.

## 10. Can I transfer money from my Dependent Care Reimbursement Plan to the HFSA?

No. While there are many similarities between the HFSA and the Dependent Care Reimbursement Plan, they are separate plans, and money cannot be transferred from one to the other, even if you made a mistake by electing the wrong plan. So, please be careful when enrolling in these reimbursement programs. Be sure that you are enrolling in the intended benefit plan.

## 11. If I terminate employment during the plan year before April 30, may I continue to participate?

Participation after termination requires election of COBRA continuation coverage. COBRA also applies to dependents losing eligibility as a result of a family-status change.

## 12. Will my pension benefit be affected by my participation in the HFSA?

No. Your city pension is calculated on your "base pay" prior to the HFSA deduction. Your retirement benefit from Social Security is calculated on your taxable earnings, meaning the lower amount.

## 13. What if I leave my job with the city? Can I get the balance left in my account?

Yes, if you have incurred eligible expenses and claim them in the proper time period. Your HFSA benefit ends on your last day of employment with the city. You will only be able to make claims on expenses that you have incurred prior to your last day of employment. Your deductions stop with your last paycheck unless you elect COBRA.

## 14. When do I have to file a claim?

Claims must be filed within 90 days of plan-year end, unless you cease to participate before April 30. In that case, you must file your claim within 90 days after your participation ends. All claims must be incurred while you are a participant.

## 15. Will FLEXONE reimburse me for every claim I submit?

Reimbursement is based on your annual election, amount previously reimbursed, proper documentation, and eligibility of the expense. If your claim is denied, FLEXONE will provide a specific reason in writing.

### Where do I send my claims?

Mail your claims to:  
FLEXONE  
1932 Wynnton Road  
Columbus, Georgia 31999-9950

Fax your claims to: 877-353-9256

See page 4 for information on filing a claim.

# 9 SMART players

## Angela is a SMART employee

### Angela – Administrative Assistant

Annual Salary - \$35,000

Angela, an administrative assistant with the city of Houston, is interested in the HFSA program and wants to take advantage of the tax savings in this plan. During open enrollment, she reflects on health care expenses she thinks she will have in the next 12 months. She is single and is generally very healthy. Every once in a while, Angela gets a migraine headache, so she visits a primary care provider once a year and has one prescription filled. Angela visits her gynecologist once a year for her well-woman exam. She also belongs to a local gym and works out three times a week to stay in shape. She goes to the dentist twice a year for cleanings and exams. She also gets her eyes examined and wears contact lenses.

After reading the HFSA guide, Angela realizes she will have health care expenses that can be reimbursed through the HFSA. This is what Angela determined she should put in the HFSA:

### SMART savings

Angela

Administrative Assistant

Combined tax rate: 15%

HFSA contribution: \$203

Annual savings: \$30.00

Type of health care expense	Quantity	Angela's out-of-pocket expense	Explanation
Gynecology exam visit	1	\$0	The HMO covers well-woman exams at 100 percent with no copayment.
Prescription drug obtained at a participating pharmacy	1	\$30	Copayment for brand-name prescription.
Primary care provider office visit	1	\$20	Angela pays a copayment of \$20.
Gym membership	1	\$0	Gym membership is not an allowable expense in the HFSA.
Dental exams and cleanings	2	\$0	The DHMO covers cleanings and exams up to twice per year at \$0 copayment.
Eye exam	1	\$3	HMO eye exam copayment.
Contact lenses	1	\$90	Angela buys an extra pair of contact lenses that is not covered by an insurance plan.
Over-the-counter drugs: Aspirin and contact lens cleaning solution		\$60	Over-the-counter drugs are eligible expenses in the HFSA.
<b>Total amount Angela puts in HFSA:</b>		<b>\$203</b>	\$8.46 per paycheck
<b>Total savings: \$30</b>			

### Insider's SMART tip

Spring fever got you sniffing? Are you taking a non-sedating antihistamine like Claritin or Zyrtec to get you through tree pollen season? This, and other over-the-counter medications, is an eligible expense.



## Herbert - another SMART employee

### Herbert - Financial Analyst III

Annual Salary - \$45,000

Herbert knows that he will have health care expenses next year and he wants to maximize his savings by taking advantage of the new Healthcare Flexible Spending Account. He is married with two children, 5 and 7. His wife does not work. Herbert understands that he can put money in the HFSA for health care expenses for his family. Here are Herbert's figures:

**SMART savings**

Herbert  
Financial Analyst III  
Combined tax rate: 25%  
HFSA contribution: \$470  
**Annual savings: \$156.00**

Type of health care expense	Quantity	Herbert's out-of-pocket expense	Explanation
Herbert's PCP office visit	1	\$20	The HMO covers PCP office visits after a \$20 copayment.
Wife's well-woman exam	1	\$0	The HMO covers well-woman exams at 100 percent with no copayment.
Children's routine exams	2	\$0	The HMO covers well-child exams at 100 percent with no copayment.
Prescription drugs: Herbert's blood pressure medication is a preferred brand-name drug he takes every month.	12	\$360	\$30 copayment for 12 months.
Prescription drugs: Herbert Jr. has allergies and takes over-the-counter allergy medication every day.	12	\$90	Herbert buys these over-the-counter.
Dental cleanings and exams	8	\$0	The DHMO covers cleanings and exams up to twice per year with no copayments.
<b>Total amount Herbert puts in HFSA:</b>		<b>\$470</b>	<b>\$19.58 per pay period.</b>
<b>Total savings: \$156</b>			

**Spotlight:**

**What you could do with \$156**

- Contribute to your 457 plan
- Get three full body massages
- Contribute to your child's college savings
- Buy six grocery bags of vitamin-laden fresh fruits
- 80 trips on a METRO bus
- Buy a chair for your home office
- Go sailing in Galveston bay
- Donate to your favorite charity
- Buy a pair of "ultimate basketball shoes"
- Swim with the dolphins at SeaWorld
- Buy a suit, on sale of course, from Men's Warehouse
- Sponsor a youth YMCA basketball team
- Buy an MP3 player

# Worksheet for SMART employees

## HFSA worksheet for estimating expenses for May - April

Now that you're curious, take a few minutes with this worksheet and calculate how much you could contribute to the HFSA. Make a couple of copies to play with.

Use your checkbook, credit card statement, the old receipt-filled shoebox, and last year's income tax folder to find all the expenses that could be tax-deductible. Those are the expenses that would qualify for HFSA reimbursement. Use these expenses and the lists on page 6 to calculate what you might spend from May to April.

Eligible expenses can be incurred by you and your legal dependents.

It may take a little time to find last year's expenses and to put them in this worksheet, but it could make a difference in your paycheck.

<b>Annual estimated expenses for services expected in the upcoming plan year, May – April, not reimbursed by medical and dental plans</b>	<b>Annual Amount</b>
<b>Medical expenses, such as:</b>	
<b>Deductibles, coinsurance and copayments</b>	\$
Routine exams, school physicals, etc.	\$
Prescription drug copayments	\$
Smoking cessation programs or prescription medicines	\$
Over-the-counter medications	\$
Other eligible expenses*	\$
<b>Dental expenses, such as:</b>	
Deductibles, coinsurance and copayments	\$
Orthodontia, braces, etc.	\$
Dentures, including replacements	\$
<b>Vision care expenses, such as:</b>	
Exams	\$
Eyeglasses or contacts	\$
Contact lens solutions	\$
Vision surgery	\$
Other qualified expenses (See page 6)	\$
<b>Total Annual Estimated Health Expenses:</b>	\$

\*Eligible expenses include any expenses considered deductible by the IRS for federal income tax purposes, other than insurance premiums and long-term care expenses. See IRS publication 502 for more information.

The total gives you a good idea of the amount you could elect to place into your HFSA. Consider all other factors that will affect your out-of-pocket health care costs during the upcoming plan year, adjust the amount if necessary, and then record your election on the HFSA enrollment form. It's better to underestimate next year's expenses than to overestimate.