



SMART!

Saving money and reducing taxes



**City of Houston
May 2006
Healthcare
Flexible
Spending Account
Guide**

Suitable for all employees of all ages
1 or more enrollees required

You asked for it - a SMART new way to save money

Many of you have been asking for this. We are pleased to offer you a Healthcare Flexible Spending Account. With the HFSA benefit you save money for out-of-pocket medical, prescription, dental and vision expenses incurred by you and your family. This guide will help you use this pretax benefit to lower your family's tax bill.

What is the new HFSA?

The new HFSA is a voluntary pretax benefit plan that allows you to set aside money from your paycheck to be used to pay for out-of-pocket medical, prescription, dental and vision expenses. The money you contribute into 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.

What expenses are reimbursable?

- Copayments, coinsurance and insurance deductibles for hospital services.
- Copayments, coinsurance and insurance deductibles for medical, dental and vision services.
- Copayments for retail and mail-order prescriptions.
- Prescription drugs not covered in the medical plan.
- Orthodontia expenses.
- Eye glasses, contact lenses and contact lens solution.
- Corrective vision surgery, such as lasik.
- Over-the-counter medications, such as aspirin, cough, cold allergy and sinus medication, etc.
- Items and services that you can deduct from your income tax, according to Internal Revenue Code 213.
- See an expanded list of eligible items on page 6.

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.

Why should I participate in this benefit?

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 new HFSA will reimburse you for those expenses and may help you save tax dollars on these out-of-pocket expenses.

What do you spend?

In 2004, HMO plan members spent about \$350 in medical copayments and about \$200 in prescription copayments.

That doesn't count over-the-counter items like aspirin, cold medicines or that stomach stuff. These items are also eligible.

OK, I'm curious. How does this work?

1. You 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 each paycheck BEFORE taxes are calculated.
3. The per-pay-period deduction is credited to your personal reimbursement account.
4. You incur eligible expenses during the plan year through April.
5. Throughout the year, you submit claims to FLEXONE.
6. FLEXONE processes each claim for reimbursement.
7. If you have not claimed the full amount you elected to contribute to your HFSA, FLEXONE will reimburse you via mail or direct deposit. Yes, you are eligible to receive reimbursement even if you have not contributed for 24 pay periods.
8. You have 90 days after the plan year ends to file claims that were incurred during the plan year. July 29 is the final date.
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 is eligible for this benefit?

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.

Account – A SMART Choice



Why is HFSA a SMART choice for most employees?

In the example below, you earn \$35,000 per year 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 \$125 by lowering your taxable income and paying less tax.

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!

Example of Tax Savings in the HFSA

Annual Tax Savings Example*	With HFSA	Without HFSA
If your taxable income is:	\$35,000	\$35,000
And you deposit this annual amount into an HFSA:	-\$500	-\$0
Your taxable income is now:	\$34,500	\$35,000
Subtract federal and Social Security taxes:	-\$8,625	-\$8,750
If you spend after-tax dollars for eligible expenses:	-\$0	-\$500
Your net take-home pay is:	\$25,875	\$25,750

Your tax savings with an HFSA is: \$125

* 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?

Minimum and maximum: If you decide to participate in the new HFSA, you may contribute from \$120 to \$1,000 per year to pay for eligible health care expenses that you expect to incur during the plan year, May 1 – April 30. During open enrollment you will estimate next year's medical expenses and elect the amount you wish to put into the HFSA. This amount will be deducted over 24 paychecks in equal amounts. The worksheet on the back cover of this guide will help you estimate your eligible expenses.

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.

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Important Dates

- **March** - Annual open enrollment
- **May 1, 2006** - Beginning of the new plan year. The first day you can incur an eligible expense for this plan year.
- **April 30, 2007** - End of the plan year. The last day you can incur an eligible expense for this plan year.
- **July 29, 2007** - Last day to file a reimbursement claim for 2006 -2007 plan year.

SMART! facts, at a glance

About Your HFSA

- Minimum contribution = \$120 a year/\$5 per pay period
- Maximum contribution = \$1,000 a year/\$41.67 per pay period
- Plan year is May through April
- Incur claims May 1 through April 30
- File claims for 90 days beyond plan year, through July 29
- Claim administrator is FLEXONE
- Minimum claim reimbursement is \$10

SMART people know there are rules and regulations.

The Internal Revenue Service code section 125 spells out the regulations. In exchange for the favorable tax treatment of the HFSA, the IRS has a few rules.

Reimbursement of eligible expenses: You may incur expenses and request reimbursement from your HFSA as early as May 1. You can get reimbursement up to your 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 a prescription copayment of \$30. You will be reimbursed the entire expense of \$75, even though only \$20 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 enrollment, you can only change your HFSA election during the plan year, May 1 – April 30, 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 \$1,000. You may not reduce or stop contributing during the plan year.

Use it or lose it explanation: It is very important that you carefully calculate the amount you put into the HFSA. Here's why: If money is remaining in your HFSA account at the end of the plan year, 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 rollover to the next year. Because of the use-it-or-lose-it rule, it is very important for you to carefully estimate your out-of-pocket health care costs for the upcoming 12-month period.

While the plan year ends April 30, 2007, you will have until July 29, 2007, to file claims for any expense you incurred between May 1, 2006, and April 30, 2007.

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? Are you expecting to go to the hospital next year? Do you calculate your mileage to and from the 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 '06 through April '07. Any expense the IRS considers deductible, that is not reimbursed through a health plan, is eligible for reimbursement from your HFSA.

Some of the most common reimbursable expenses are annual 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.

I'm in! How do I enroll?

Enrollment is voluntary and is as easy as completing an enrollment form available from your HR liaison.

As an employee, 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. You will have to enroll every year during the annual open enrollment period.

Annual open enrollment for this plan is held during March. Employees wishing to participate in the next plan year, May 1, 2006 – April 30, 2007, **MUST** make an election during the 2006 open enrollment.

To enroll, you must complete the applicable form and submit the form to the Human Resources Department.



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 flexible spending account claim form from the benefits division or online at www.aflac.com/us/en/policyholders/claimforms.aspx and complete it. Provide the required documentation for your eligible health care expense.

Receipts from your health care provider must show:

- The name of the provider of the service.
- 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.

Send your completed form and receipts to:

FLEXONE
1932 Wynnton Road
Columbus, GA 31999-9950

or fax it to: (877) 353-9256

Claims are paid weekly, on Tuesdays.

You can expect to receive your reimbursement check within 10 days after the Tuesday processing schedule. Most claims are paid and mailed within 7 days. You can receive faster payments when you sign up for direct deposit.

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 last 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 may access reimbursement information via a toll-free number, (800) 323-5391 or via the interactive voice response system, (877) 353-9487.

Direct deposit sounds like a SMART idea.

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 which 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 one of your voided checks or a savings deposit slip.

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

SMART! idea

Staring at the computer screen eight hours a day is drying out your contacts. But you don't like wearing your glasses, which are a little 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, meaning 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.



Changes in family status

Because the plan allows you to reduce your taxable income, the IRS has some rules about changes during a plan year.

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

- Marriage or divorce,
- Gaining or losing a dependent,
- Termination or commencement of your spouse's employment, or
- A change in job status from full-time to part-time and 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 and would like to increase your contribution, 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:

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

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 Agreement, the Agreement governs.

SMART! idea

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.

Important Dates

Don't wait till 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.

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

- **You are in control.** You make the decision to participate. You are in control of how much you want to contribute to your HFSA account, up to \$1,000 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. It lowers your taxable income and saves you money in taxes.
- **Manage your money.** Contributions come out of your paycheck in equal installments. Now you can have money that has been set aside to pay for health care expenses that are not paid by your insurance plans. Having money set aside for health care expenses 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. 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, such as marriage, divorce or legal separation, birth or adoption of a child, your child no longer qualifies as a dependent, or your spouse gains or loses employment. Then, you can only increase your contribution, you cannot reduce or stop it.

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

- Page 6 of this brochure.
- IRS Publication 502 at www.irs.gov.
- You may also contact the plan administrator at www.aflac.com or by phone at (800) 992-3522.

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

No, you do not have to wait to file a reimbursement claim. You can 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. Unlike the Dependent Reimbursement Plan, you do not have to wait for money to be deposited in your account to file, and receive reimbursement for an eligible health care expense.

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 an eligible expense by the end of the plan year. You will forfeit any money left in your account if:

1. You do not incur enough eligible expenses within the plan year, May 1 – April 30, to use up the amount that you elected, or
2. You do not incur enough eligible expenses before your employment with the city ends, or
3. You do not claim your reimbursement within 90 days of the end of the plan year, July 29.

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, 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.

10. 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 Internal Revenue Service; and both are administered by FLEXONE.



However, these two benefits are separate plans, designed for two different purposes. The HFSA is a pretax savings account for health care expenses incurred by you and your family. The Dependent Care Reimbursement Plan is also a pretax savings account. Only expenses incurred for dependent day care can be reimbursed from this account. The DCRP will not reimburse you for any health care expenses, even if they are for your dependents.

Confusion by some people comes from the misunderstanding that the DCRP benefit is for dependent health care expenses while the HFSA is for your health care expenses. This is incorrect. Eligible DCRP expenses include:

- licensed nursery school and day-care centers for children,
- licensed day care centers for disabled elderly parents,
- food and education provided as part of preschool care services.

Please read your Dependent Care Reimbursement Program guide for more detailed information about the DCRP benefit. The plan year is January through December. Enrollment for that plan is in November.

11. 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.

12. If I terminate 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. Therefore to participate in the HFSA after termination, you must be in the medical or dental plan.

13. Will my pension benefit be affected by my participation in the Healthcare Flexible Spending Account?

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.

Where do I send my claims?

FLEXONE
1932 Wynnton Road
Columbus, Georgia 31999-9950
or fax to: (877) 353-9256

14. 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.

If your employment ends with the city during the plan year, there are two scenarios that can exist:

Scenario 1: You incurred more health care expenses than you had deducted from your paycheck.

You elected \$240 for the plan year, May 1 – April 30, and \$10 is being deducted from your paycheck over 24 pay periods.

On July 15, your spouse has office visits, laboratory and prescription expenses of \$200. You file claims and receive reimbursement for the full \$200.

On Nov. 1, six months into the plan year, your employment with the city ends. You have had \$120 deducted from your paychecks.

Although you cannot file claims for expenses incurred after your termination date, you will have received \$80 more than you have deposited into the plan; and you cannot be billed for the amount you did not contribute per IRS regulations.

Scenario 2: You have incurred less health care expenses than you had deducted from your paycheck.

You elected \$240 for the plan year, May 1 – April 30, and \$10 is being deducted from your paycheck over 24 pay periods.

On Nov. 1, you have incurred no health care expenses and your employment with the city ends. You have had \$120 deducted from your paychecks.

You incur expenses after your termination date. Therefore, you will forfeit \$120 in your account that cannot be returned to you, per IRS regulations. You have 90 days after termination to file claims for expenses incurred during the plan year in which you were employed.

15. 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 Apr. 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.

16. 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.

Eligible Expenses

You wondered what expenses are eligible - here are some examples

- 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 and from medical providers, 15 cents per mile in 2006
- 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



SMART! Tip

It's better to underestimate than overestimate next year's expenses.

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.

Susan is a SMART employee

Susan – Administrative Assistant

Susan, an administrative assistant with the city of Houston, is interested in the new 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, Susan gets a migraine headache, so she visits a primary care provider once a year and has one prescription filled. Susan 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, Susan realizes she will have health care expenses that can be reimbursed through the HFSA. This is what Susan determined she should put in the HFSA:

SMART! savings

Susan
Administrative Assistant
Combined tax rate: 23%
HFSA contribution: \$203
Annual savings: \$66.28

Type of Health care Expense	Quantity	Amount	Explanation
Gynecology exam visit	1	\$0	The medical plan covers well-woman exams at 100 percent with no copayment.
Prescription drug obtained at a participating pharmacy	1	\$30	Susan uses a brand-name.
Primary care provider office visit	1	\$20	The medical plan pays for the office visit after Susan 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	Susan buys an extra pair of contact lenses that are not covered by an insurance plan. Vision expenses are eligible for the HFSA.
Over-the-counter drugs: • Aspirin • Contact lens cleaning solution		\$60	Over-the-counter drugs are eligible expenses in the HFSA.
Total amount Susan puts in HFSA:		\$203	
Total savings: \$66.28			

Charlie - another SMART employee

Charlie - Financial Analyst III

Charlie 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. Charlie understands that he can put money in the HFSA for health care expenses for his family. Here are Charlie's figures:

SMART! savings

Charlie

Financial Analyst III

Combined tax rate: 24%

HFSA contribution: \$470

Annual savings: \$106.46

Type of Health care Expense	Quantity	Amount	Explanation
Charlie's physical exam	1	\$20	The HMO covers physicals 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: Charlie's blood pressure medication is a preferred brand-name drug he gets filled at a pharmacy every month	12	\$360	Preferred brand-name drugs have a \$30 copayment when bought from a participating pharmacy for a 30-day supply.
Prescription drugs: Charlie Jr. has allergies and takes over-the-counter allergy medication every day.	12	\$90	Charlie 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.
Total amount Charlie puts in HFSA:		\$470	
			Total savings: \$106.46

What you could buy with \$106

- A contribution to your 457 plan
- Five delicious chair massages
- A contribution to your kid's college savings
- Four grocery bags of vitamin-laden fresh fruits
- A portrait of your child
- A chair for your home office
- Recreational sailing in Galveston bay
- Donation to your favorite charity
- A pair of "ultimate basketball shoes"
- Swimming with the dolphins at SeaWorld
- A suit, on sale of course, from Men's Warehouse
- Sponsorship of a youth YMCA basketball team

SMART! idea

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

Worksheet for SMART Employees

HFSA Worksheet for estimating expenses for May 2006 - April 2007

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 your 2005 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 to calculate what you might spend from May 2006 to April 2007.

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

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

Annual estimated expenses for services expected in the upcoming plan year, May 2006 – April 2007, not reimbursed by your medical and dental plans	Annual Amount
Medical expenses, such as:	
Deductibles, coinsurance and copayments	\$
Routine exams, school physicals, etc.	\$
Prescription drug copayments	\$
Smoking cessation programs or prescription medicines	\$
Over-the-counter medications	\$
Other eligible expenses*	\$
Dental expenses, such as:	
Deductibles, coinsurance and copayments	\$
Orthodontia, braces, etc.	\$
Dentures, including replacements	\$
Vision care expenses, such as:	
Exams	\$
Eyeglasses or contacts	\$
Contact lens solutions	\$
Vision surgery	\$
Other qualified expenses	\$
TOTAL Annual Estimated Flexible Health Expenses:	\$

*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.**