



## Section 125 Plan & Flexible Spending Accounts

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# Section 125 Plan & Flexible Spending Accounts

Plan today for tomorrow's expenses.

## Learn How to Save Money

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

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

## How Does It Work?

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



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

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

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

# Section 125 Plan & Flexible Spending Accounts

## What Are My Benefit Options?

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

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

## Participating in a Section 125 Plan

### Enrolling in Your Plan

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

### Making Changes

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

Some examples of an allowable change event include:

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

## Flexible Spending Accounts

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

### There are Two FSAs Available to You:

- Healthcare Flexible Spending Account
- Dependent Care Account

#### Did You Know?

The money that goes into your FSA is deducted from your income on a pre-tax basis, which saves you money and gives you more buying power for your money.<sup>1</sup>

<sup>1</sup><https://www.cnn.com/2015/10/29/stretch-your-tax-savings-with-a-flexible-spending-account.html> (accessed 9-21-17)

# Section 125 Plan & Flexible Spending Accounts

## Healthcare Flexible Spending Accounts

### How It Works

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

### Eligible and Ineligible Expenses

You may use your HCFSA to pay for a wide variety of common medical expenses for you, your spouse, and your eligible tax dependents. The Department of Treasury determines which expenses are eligible for reimbursement. The following are common types of eligible and ineligible expenses.

#### Examples of Eligible Expenses:

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

#### Examples of Ineligible Expenses:

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

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

### “Use or Lose”

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

#### • Runoff Period

A period after the plan year ends when you are able to submit claims that you incurred during the previous plan year, but have not yet been submitted. The Runoff Period applies to both HCFSA and DCA.

#### • Carryover Provision

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

#### • Grace Period

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

### Limited Purpose Flexible Spending Account

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

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

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## How Do I Get Reimbursed?

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

If you choose to use your Benefits Debit Card, payment will be deducted directly from your account, and you will not be out of pocket at the time of purchase. However, you may still need to submit your receipts\* to show proof of purchase of an eligible expense.

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

## Snap. Submit. And Go!

When using your Benefits Debit Card to pay for an eligible expense, you may need to retain documentation to verify the expense. The AFmobile® app makes this easy.

**Snap** a photo of the itemized receipt\* with your phone.

**Submit** the photo of the itemized receipt within the app when you receive notification that a receipt is needed to verify your expense.

**Go!** After submitting your verification and it being reviewed, you will be able to view the status of your reimbursement within the app.

\*IRC regulations require proof of the eligible expenses using itemized receipts or other documentation showing the date of service, person for whom service was provided and description of the expense. Depending on the type of expense, documentation may come in the form of third party itemized statements or Explanation of Benefits.



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

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



## Dependent Care Account



**? Why didn't my dependent day care claim pay out in full?**  
*The dependent day care expense reimbursement will be for the services provided, limited to the amount you have in the account. If the dependent day care expenses claim is in excess of your account balance, the balance of the claim will be paid to you as additional contributions are received.*

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

### How It Works

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

### Who May Participate

Any employee who meets certain eligibility requirements and who has a qualifying dependent may participate in a DCA. If you are considering participating, you should be aware that you may be able to take a federal and/or state tax credit instead of participating in the account. DCAs may only be used for expenses incurred to allow you to work and, if married, your spouse to work or look for work. Consult your tax advisor to review your options.

### What Expenses Are Eligible and Ineligible

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

#### Examples of Eligible Expenses:

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

#### Examples of Ineligible Expenses:

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

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## Who is a Qualifying Dependent\*

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

## Understanding Your Account

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

### Did You Know?

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

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

\*The Internal Revenue Code (IRC) determines dependent qualifications. See IRC Section 21(b)(1) for complete definitions of qualifying dependent.

# Manage Your Account and File a Claim

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

## 1. Mobile App

Download our mobile app, AFmobile®, in the Apple App Store or Google Play Store. Functionality will not be available until the first date of your plan year.

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

To create an account, you'll need to register with your email address and social security number.

## 3. Paper

Complete and submit an FSA Expense Reimbursement Voucher or Dependent Day Care Reimbursement/Provider Acknowledgement Form by mail or fax, along with your itemized documentation, to American Fidelity. These forms can be found at [americanfidelity.com](https://americanfidelity.com).

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



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