



How To Save On Medical & Child Care Expenses

A Gift from the IRS... Section 125 is an important part of the Internal Revenue Act of 1978 which Congress created to help make benefits more affordable.

How does it work?

When you participate in either or both plans, you choose a set dollar amount to have deducted from your gross income before any taxes are taken out! When you pay for an eligible expense, send your receipt to ABS and you will be reimbursed.

- Health Care Reimbursement (HCR) - Use this plan to pay for unreimbursed medical and dental expenses for you, your spouse, your dependents, and adult children who have not turned 27 during the employee's tax year.
- Dependent Care Reimbursement (DCR) - Use this plan for child or eldercare expenses. Eligibility is based upon your employment and/or student status.
- Limited Health Care Reimbursement (LMT) – Use for vision and dental claims in conjunction with a Health Savings Account (HSA).

How does my income increase?

The IRS lets you make deductions on a "pre-tax" basis. For example, if you contribute \$600 to an HCR and \$3,000 to a DCR that is \$3,600 of your annual salary that will not be taxed. You will not pay Federal, State (if applicable) and Social Security or Medicare taxes. For most people, that is a combined savings of 30%!

Use It or Lose It?

Because of the tax advantages, the IRS has strict guidelines as to how money in HCR and DCR may be spent. Plan wisely – you must use the money set aside during the plan year only for claims incurred during that plan year. Contact your employer to see if your company has implemented the optional 2 ½ Month Grace Period Rule or the \$500.00 Carry Over. These rules allow a bit more flexibility for claim reimbursement after the end of the plan year. The 2 ½ month grace period acts as an extension allowing you to incur claims up to 2 ½ months after the plan year has ended. See below for Carry Over Rule. Ask ABS for advice when you are planning your deductions. If you have enrolled in a Health Savings Account (HSA) for the first time you may **not** contribute to the HSA during a Plan Year that you are enrolled in an HCR even if that account is reduced to zero dollars.

Carry Over Rule?

The IRS allows for a maximum of \$500.00 per year to be carried over into the next Plan Year for continued use after the 90 day runoff period. You do not have to re-enroll or make a new annual election for the next Plan Year to have access to any funds that may have been carried over into the new Plan Year. *Contact your employer to see if your company has implemented this optional Carry Over Rule.*

What is the 90 day runoff?

The 90 day runoff is the time you have to submit claims after your Plan Year has ended. For example if your Plan Year ends on December 31st you have from January 1st – March 31st to submit claims for reimbursement to ABS. All Plans have a 90 day runoff.

Examples of Expenses Eligible for Reimbursement

This is a partial list of expenses that may be reimbursed through Health Care Reimbursement and Dependent Care Reimbursement. Employees can deduct expenses for themselves, their spouses, their eligible dependents and adult children who have not turned 27 during the employee's tax year! Sorry, but cosmetic services and/or items **cannot** be reimbursed.

Eligible Health Care Reimbursements: (abbreviated list)

<i>Acupuncture</i>	<i>Fees for healing services</i>
<i>Alcoholism Treatment</i>	<i>Fees for practical nurses</i>
<i>Artificial teeth</i>	<i>Hearing aids, devices & batteries</i>
<i>Chiropractic Care</i>	<i>Infertility treatment</i>
<i>Co-Insurance</i>	<i>Laboratory fees</i>
<i>Contact lenses and solution</i>	<i>Laser eye surgery</i>
	<i>Mileage to and from medical appts.</i>
<i>Copays: Office, prescription, hospital (inpatient & outpatient), etc.</i>	
<i>Contraceptives</i>	<i>Orthodontia (braces, etc.)</i>
<i>Deductibles – medical and dental</i>	<i>Psychiatric care</i>
<i>Dental work (un-reimbursed and non cosmetic)</i>	<i>Psychologist fees</i>
<i>Diabetic supplies and insulin</i>	<i>Routine physicals</i>
<i>Diagnostic fees</i>	<i>Substance abuse treatment</i>
<i>Durable medical supplies</i>	<i>X-rays</i>
<i>Eldercare expenses</i>	
<i>Eyeglasses, prescription sunglasses</i>	

Common claims for reimbursement that are not allowed!!!

Eyewear protection plans or warranties
Teeth whitening

These Health Care Reimbursements REQUIRE A DOCTOR'S NOTE stating the specific medical condition that requires the recommended treatment:

<i>Braille books, magazines, keyboard, phones, etc.</i>	<i>Mouth guards</i>
<i>Companion dog for sight or hearing disabled</i>	<i>Orthopedic shoes</i>
<i>Electrolysis</i>	<i>Prosthetics</i>
<i>Health Club membership</i>	<i>Over the Counter medicines (things that you ingest, inhale or rub on require a prescription)</i>
<i>Home Improvements</i>	<i>Swimming pool / spa installation & maintenance</i>
<i>Hypnosis</i>	<i>Telephone equipment for the hearing impaired</i>
<i>Lead based paint removal</i>	<i>Vitamin and Nutritive supplements</i>
<i>Massage Therapy</i>	<i>Weight loss programs</i>

**This is only a partial list. Other expenses may require documentation from your physician.*

Eligible Dependent Care Account Reimbursements:

(Dependent children must be under age 13)

Before/after school programs
Care for the mentally and physically disabled (See IRS eligibility guidelines).
Child care expenses
Day camp

Preschool

For a complete listing and explanation of eligible charges for these plans, please see IRS Publication 502 "Medical and Dental Expenses;" and 503 "Child and Dependent Care Expenses" or visit the website www.IRS.gov

Calculate Your Expenses

Estimate your "out-of-pocket" medical, dental, vision expenses and over the counter medications (prescription required) for the coming year. Remember: you can include unreimbursed expenses for your spouse, dependents and adult children who have not turned 27 during the tax year of the employee.

Focus on the kinds of expenses you and your family normally schedule during the year. Remember that you **will not** get your unused funds back if you do not spend them on expenses incurred during that plan year.

Key Rules for Health Care and Dependent Care Reimbursement Accounts

HCR and DCR plans are a great way to s-t-r-e-t-c-h your paycheck and save on the cost of unreimbursed medical, dental and child or eldercare expenses for you and your family. The IRS has rules for these plans, as they involve tax savings. For example, dependent children who are in daycare, after school care or day camps must be *under* the age of thirteen (13). In order to participate in the Dependent Care Program (DCR) parent/s must be gainfully employed, seeking gainful employment, or be full time students. We encourage you to visit us on the web at www.abs125.com or call ABS at (877) 732-8125 with your questions.

Limited Health Care Reimbursement versus Health Care Reimbursement

If you or your spouse is enrolled in a High Deductible Health Plan (HDHP) and a Health Savings Account (HSA) you may enroll in the Limited HCR for vision, dental claims and certain health screenings (see IRS Publication 969 and 502 for details) until the IRS statutory annual minimum HDHP deductible is met. After the IRS annual minimum HDHP deductible is met your Limited HCR turns into a full use Health Care Reimbursement and you can submit all qualified medical expenses from the date that the deductible was met.

1. **SAVE ALL RECEIPTS for qualified expenses!**

Submit your receipt(s) along with ABS's Pre-tax Plan Reimbursement Request form. Your request may be mailed or faxed to ABS. ABS will reimburse you from your account. We recommend you save all your receipts in one place, perhaps in a file or envelope, to help you stay organized throughout the plan year. If you participate in a debit card program, you may be required to submit a receipt, so the same recommendation applies. It is important to save your *original* receipts as you would save any tax document. Send **copies** of receipts for submitting reimbursement requests.

Copies of Receipts must show:

- Name and address of the service provider
- Date service/expense was incurred
- Name of the person for whom the service/expense was provided
- Detailed description of the service/expense provided
- Amount charged for the service and what dollar amount is your responsibility

Acceptable receipts include:

- Receipts for office co-payments
- Receipts for prescriptions
- Explanation of Benefit (EOB) statements from your insurance carrier showing the amount or percentage of a dental or medical charge you owe (i.e. deductibles, co-insurance, co-payments, etc.)
- Receipts from daycare, home daycare, preschool programs, before & after school care, day camps, or eldercare facilities

Please note: The IRS does NOT consider credit card receipts, cancelled checks or balance forward statements as acceptable forms of receipts. For over-the-counter items, clarify the specific item.

2. Submit copies of your qualified receipts with ABS's Pre-tax Plan Reimbursement Request form.

Receipts are required to verify that you are spending the money from your account on eligible expenses. You can submit your receipts once or as often as you like. However, processing of reimbursements require a minimum of \$20.00 of receipts. You may visit us on the web at www.abs125.com to download this form and to review your account activity.

3. Debit card users:

The IRS allows some transactions to be automatically marked as eligible but others will require detailed receipts.

The debit card eliminates the need to take money out of your pocket; however the IRS controls what items can automatically be approved as eligible. The vendor/merchant has been paid for the item you purchased but, per IRS guidelines sometimes a detailed receipt is required.

The IRS allows the following items to clear automatically:

- ◆ A transaction that matches a co-pay table - Medical expenses that do not fit into a co-pay table will also need further documentation.
- ◆ A recurring expense – previously approved as eligible, recurring at the same vendor for the same dollar value.
- ◆ A transaction processed at an IIAS inventory controlled merchant (drug store, mass merchant)

Dental and vision transactions will require receipts 99.99% of the time.

You will receive an email or a letter via the post office requesting receipts. The email received from noreply@abs125.com is encrypted; follow the instructions to open using the last 4 digits of your card number. Submit the receipts with a copy of the email attachment or submit the Debit Card Submittal of Receipts form that can be found at www.abs125.com, attach your receipt/s and return by fax or regular mail.

Visit www.abs125.com and click on “For Employees” then “Log in to your Personal Account” to view your debit card transactions in great detail. When you see the words “documentation required” this means we need a receipt.

Your debit card is reloaded with your new annual election for the next five (5) years if you participate in the Plan, therefore it is important that you do not throw away or destroy your debit card. A fee is levied by the debit card company should the card need to be replaced for any reason.

4. Watch for quick reimbursement from ABS!

ABS is committed to sending your reimbursements quickly, usually within 10 business days of receiving your signed Pre-tax Plan Reimbursement Request form and receipts. You can view your

account 24/7 by visiting www.abs125.com and clicking on “For Employees”. Sign up to have your reimbursement directly deposited into your bank account via ACH services. Your reimbursement transmits over three business days and is secure.

5. Spend all your money -You cannot get back what you do not spend.

The IRS has strict rules regarding reimbursement. When you enrolled, you told the IRS you were reducing your taxable salary by \$X for the plan year. According to IRS guidelines, your unspent money is forfeited, so avoid overestimating! It’s easy to save money with this benefit as long as you plan wisely. When you enroll, ask questions. ABS and your benefits point person are more than willing to help you take full advantage of this important benefit!

6. You cannot change or stop deductions during the plan year unless there exists any of the following circumstance(s):

- The birth or adoption of a child
- Marriage, divorce or legal separation
- Death of spouse
- Termination of your or your spouse’s employment
- Change of your or your spouse’s employment status from full-time to part-time or vice versa; or if either of you take an unpaid leave of absence from work

***A change in your group health plan such as opening an HSA in conjunction with a High Deductible Health Plan is not a qualifying event to change your election. You may not contribute to an HSA plan while contributing to an all purpose Section 125 HCR plan.**

7. You can only sign up once a year during open enrollment (unless you are a new employee, in which case you will have a limited enrollment period).

These plans work on a 12 month "plan year". The dates depend upon how your company has set up the benefit period, therefore it MAY NOT always be January 1- December 31. The plan year is renewed every 12 months. At this time, you may sign up, change, or waive participation.

8. In order to participate everyone must complete an enrollment form annually.

Submit a completed enrollment form to your Human Resource before the new plan year starts. It is up to your Human Resource as to the need for a form indicating that you have elected to waive participation. Your employer may require you to enroll electronically; doing so will eliminate the need for a form.

9. If you terminate your employment, you cannot submit receipts for expenses incurred after you leave your company.

You have 60 days after you leave the company to submit your receipts to ABS for reimbursement. Expenses will only be reimbursed for services incurred up to and including the date of termination. (See your benefits department to discuss possible COBRA options.)

10. Questions on how to save with this benefit?

ABS manages this benefit for many companies and can answer all of your questions. Visit us on the web at www.abs125.com or call ABS at (860) 675-2261 or (877) 732-8125.

Here's an example of how to keep more of your hard earned dollars by contributing to the HCR Plan for health care expenses:

	<u>After-Tax</u>	<u>Pre-Tax</u>
Your Semi-Monthly Salary	\$1200.00	\$1200.00
Pre-Tax Contribution	\$0.00	\$-50.00
<i>(Redirected from salary on pre-tax basis)</i>		
Your Taxable Income is now...	\$1200.00	\$1150.00
Federal, State & FICA Taxes	\$360.00	\$345.00
<i>(Average 30%)</i>		
Your Take Home Paycheck is now..	\$840.00	\$855.00
Your Per Period Take Home Pay Is Now Increased By...		\$15.00

Your Annual Net Income Increase: \$360.00

If you add pre tax contributions for DCR or Dependent Care Reimbursement for daycare, pre-school services etc. your net income will increase that much more.

The content of this booklet is informational and does not replace a Summary Plan Description provided to participants after the Plan is designed.

The Plan is intended to constitute a cafeteria plan within the meaning of section 125 of the IRS Code, and the applicable portions of the Plan are intended to constitute an accident and health plan within the meaning of section 105 of the IRS Code and a dependent care assistance program as defined in section 129 of the IRS Code. To the extent not preempted by ERISA, this Plan shall be interpreted and construed in accordance with, but not limited to, the above-referenced sections of the IRS Code and the law.

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