



Horizon Blue Cross Blue Shield of New Jersey

*Making Healthcare Work®*

# Tax Savings You Can Bank On

*Flexible Spending Accounts*



## Flexible Spending Accounts

Flexible Spending Accounts (FSAs) are a convenient, before-tax way to pay for eligible out-of-pocket health care expenses, as well as dependent care expenses. Money from each paycheck is deposited into your account(s) before federal income, Social Security and Medicare taxes\* are withheld. You are then reimbursed for eligible expenses using before-tax dollars from your account(s). Of course, participation in the plans is totally voluntary.

### Effective date

The Unreimbursed Medical and Dependent Care FSAs are plan-year programs. Employees currently eligible for these programs must enroll during the Open Enrollment period. New employees can join the plans once they satisfy their employer's waiting period.

### Contribution amount

You can contribute up to the specified maximum each plan year in the Unreimbursed Medical Account and up to \$5,000 each plan year in the Dependent Care Account, regardless of when you first become eligible during the year.

### Reimbursements

Reimbursement checks are mailed to your home address or can be directly deposited into your bank account. Please contact your employer for details on your run-off period and to determine if your employer has adopted the grace period allowed by the IRS (up to 2 1/2 months). Funds not used during the plan year or grace period are forfeited. In effect, you must "use it or lose it."

### Changing or terminating participation

Your election must remain in effect for the plan year. You may change your election during the plan year only under certain circumstances (e.g., a qualified change in status) defined by the IRS and allowed by your employer. Participation terminates each plan year. **You must re-enroll in the plans each plan year.**

**\* Unreimbursed Medical FSAs are exempt from state tax everywhere except New Jersey. Dependent Care FSAs are exempt from state tax everywhere except New Jersey and Pennsylvania.**



# Unreimbursed Medical

## *What if I have an out-of-pocket health care expense?*

The Unreimbursed Medical FSA plan helps you pay for out-of-pocket health care (medical, dental and vision) expenses incurred by you and your family members with before-tax dollars. This may be the only tax advantage available to you for these kinds of expenses. Few people can ever qualify to deduct these expenses on their tax returns.

## What's eligible?

### *Expenses eligible for reimbursement include:*

- Medical fees.
- Annual physical examinations.
- Dental examinations.
- Contact lenses and solutions.
- Diabetic supplies.
- Eyeglasses.
- Eligible over-the-counter drugs with a prescription.\*
- Prescription drugs (except cosmetic prescriptions).
- X-rays/lab fees.
- Hospital services.
- Chiropractor's fees.
- Hearing aids and their batteries.
- Surgery.
- Ambulance service.
- Dentures.
- LASIK eye surgery.
- Smoking cessation programs/Rx.

- Psychiatrist's and psychologist's fees.
- Acupuncturist's fees.
- Orthodontia.
- Periodontics.
- Orthopedic shoes/orthotics.
- Durable medical equipment.
- Travel to and from a physician's office.
- Weight loss programs (requires a physician's note).

## Not eligible

Expenses that are not eligible for reimbursement through the Unreimbursed Medical FSA include:

- Expenses incurred before you become eligible to participate in the account.
- Expenses incurred after your termination date.
- Expenses that are paid by health insurance. Only necessary medical and dental expenses **NOT** paid by health insurance will be reimbursed under the Unreimbursed Medical FSA.
- Expenses for cosmetic surgery.
- Eligible over-the-counter drugs without a prescription.
- Insurance premiums.
- Cosmetic prescriptions.
- Teeth whitening.
- Vitamins.
- Gym memberships.

## *How It Works*

- Money is withheld from your salary and deposited into your account.  
Minimum: Determined by your employer.  
Maximum: Determined by your employer.
- You incur out-of-pocket health care expenses.
- You receive a receipt and an Explanation of Benefits (EOB) from your insurance carrier.

- You file a claim electronically via the website, [www.HorizonBlue.com/FSA](http://www.HorizonBlue.com/FSA) or by submitting a completed claim form to:  
Horizon BCBSNJ  
P.O. Box 1369  
Newark, NJ 07105-2200  
Fax: 1-973-274-2215 or 1-973-274-4185
- You receive reimbursement from your account.

\* Effective January 1, 2011, most of these eligible drugs will require a prescription to be reimbursable.

# Dependent Care

## Do I need a Dependent Care FSA?

- Do you have children under age 13 years who are in day care/after-school programs or summer camp while you work?
- Do you pay for the care of disabled dependents so that you can work?

If you answered *yes* to either of the above questions, then the Dependent Care FSA may be right for you.

## What's eligible?

You can use the Dependent Care FSA to pay yourself back with before-tax dollars for day care expenses incurred for your children under age 13 years, or for any other person considered your dependent for tax purposes who is physically or mentally incapable of self-care, regardless of age.

## Eligible expenses

Expenses eligible for reimbursement through the Dependent Care FSA include:

- Dependent care (including wages and related taxes) provided in your home by a babysitter, housekeeper or relative who is not your dependent.
- Dependent care provided outside your home, including qualified day care, day camp or other outside dependent/child care services, such as before- and after-school programs.
- Payment made for dependent care services outside your home for a dependent who spends an average of eight hours a day in your home.
- Preschool/nursery school.

Generally, eligible child care costs include only those for the actual care of your dependent, not costs for education, supplies or meals – unless those costs cannot be separated.

Refer to IRS Publication 503 for a complete list of eligible expenses. The website address is <[www.irs.ustreas.gov](http://www.irs.ustreas.gov)>.

## Not eligible

Expenses that are not eligible for reimbursement through the Dependent Care FSA include:

- Dependent care provided by another dependent or your child under age 19 years.
- Dependent care obtained for nonwork-related reasons.
- Expenses for overnight camp.
- Dependent care expenses incurred if your spouse does not work, unless your spouse is a full-time student or disabled.
- Any expenses you claim for the dependent care tax credit on your federal income tax return.
- Care provided in a group care center that does not comply with state and local laws.
- Costs for after-school educational programs (i.e., tutoring).
- Educational expenses (such as those for private school) for kindergarten or higher.
- Expenses incurred before you become eligible to participate in the account.

# Federal Tax Credit vs. Dependent Care FSA

## Federal Tax Credit vs. Dependent Care Spending: Which is right for you?

Your federal income tax return allows you to take a credit for dependent care expenses. Generally speaking, the Dependent Care FSA provides more tax savings than the federal tax credit. Keep in mind that you save tax dollars no matter which option works better for you.

### Comparison

You should consider whether using the federal tax credit for dependent care expenses can save you more in taxes than using the Dependent Care FSA.

Because you cannot claim the same expenses in both places, your choices are:

- Claim your eligible dependent care expenses under the dependent care tax credit on your federal income tax return, or
- Use the Dependent Care FSA for reimbursement of your eligible dependent care expenses.

Visit our website, [www.HorizonBlue.com/FSA](http://www.HorizonBlue.com/FSA), for an online worksheet to compare the Dependent Care FSA vs. the Federal Child Care Credit.

The dependent care tax credit higher limit on qualifying expenses changed how the tax credit and Dependent Care FSA are used together. **An employee with two children and \$6,000 in dependent care expenses will be able to use both the Dependent Care Credit and Dependent Care FSA.**

The employee will first optimize participation in the Dependent Care FSA at \$5,000 and then take the Dependent Care Credit on the remaining \$1,000 (\$6,000 reduced by FSA deferrals of \$5,000) of eligible expenses.

### Tax savings

When you establish a Dependent Care FSA, the money you contribute to your account is free from federal income, Social Security, state and Medicare taxes and remains tax free when you receive it. This results in savings for you!

Getting started is easy. First, estimate how much you will spend on dependent care for the plan year. Based on the amount you elect, contributions will be taken out of your paycheck each pay period throughout the plan year. Then, you file a claim for the expense and are reimbursed from your account. You are reimbursed up to your account balance at the time of reimbursement. If there is an outstanding balance, this will automatically pend until additional payroll deductions are accrued.

It's important to remember that expenses eligible for reimbursement through the Dependent Care FSA are the same expenses that are eligible for tax credit on your federal income tax return. You will have to decide which method is better for you, based on your income and personal tax status.

## How It Works

- Money is withheld from your salary and deposited in your account.  
Minimum: Determined by your employer.  
Maximum: \$5,000 per plan year.
- You incur dependent care expenses.
- You file a claim electronically via the

website, [www.HorizonBlue.com/FSA](http://www.HorizonBlue.com/FSA) or by submitting a completed claim form to:

Horizon BCBSNJ  
P.O. Box 1369  
Newark, NJ 07105-2200  
Fax: 1-973-274-2215 or 1-973-274-4185

- You receive reimbursement from your account.

# Worksheet

Please read the enclosed information before completing the worksheet. Remember, if you overestimate, the amount you don't use will be forfeited.

## Unreimbursed Medical FSA

| <b>List the amount you spent for:</b>                                                        | <b>Prior Year<br/>Actual Expenses</b> | <b>Projected<br/>Expenses</b> |
|----------------------------------------------------------------------------------------------|---------------------------------------|-------------------------------|
| Deductibles/coinsurance/copayments                                                           | \$ _____                              | \$ _____                      |
| Eligible over-the-counter drugs with a prescription*                                         | \$ _____                              | \$ _____                      |
| Vision care/LASIK eye surgery<br>(eye exams, contact lenses and solutions and<br>eyeglasses) | \$ _____                              | \$ _____                      |
| Routine exams if not covered by insurance<br>(Ob/Gyn, well visits, etc.)                     | \$ _____                              | \$ _____                      |
| Prescription drugs<br>(Does not include cosmetic prescriptions)                              | \$ _____                              | \$ _____                      |
| Wheelchair, crutches and durable medical equipment                                           | \$ _____                              | \$ _____                      |
| Chiropractor/Acupuncturist/Mental health visits                                              | \$ _____                              | \$ _____                      |
| Travel costs related to medical care                                                         | \$ _____                              | \$ _____                      |

## **List the amount you spent for out-of-pocket dental expenses:**

|                                               |                |                |
|-----------------------------------------------|----------------|----------------|
| Examinations, cleanings and X-rays            | \$ _____       | \$ _____       |
| Fillings, crowns and bridges                  | \$ _____       | \$ _____       |
| Orthodontics                                  | \$ _____       | \$ _____       |
| Dentures, implants, periodontics              | \$ _____       | \$ _____       |
|                                               | Total \$ _____ | Total \$ _____ |
| Projected Unreimbursed Medical<br>FSA Deposit | \$ _____       |                |

## Dependent Care FSA

|                                               | <b>Prior Year<br/>Actual Expenses</b> | <b>Projected<br/>Expenses</b> |
|-----------------------------------------------|---------------------------------------|-------------------------------|
| Dependent care services provided in your home | \$ _____                              | \$ _____                      |
| Day care center                               | \$ _____                              | \$ _____                      |
| Preschool/Nursery school                      | \$ _____                              | \$ _____                      |
| Before- or after-school care                  | \$ _____                              | \$ _____                      |
| Summer day camp facility                      | \$ _____                              | \$ _____                      |
|                                               | Total \$ _____                        | Total \$ _____                |
| Projected Dependent Care FSA Deposit          | \$ _____                              |                               |

\* Effective January 1, 2011, most of these eligible drugs will require a prescription to be reimbursable.

# *Rules for Unreimbursed Medical and Dependent Care FSAs*

## **IRS rules for Unreimbursed Medical and Dependent Care FSAs**

### *Unreimbursed Medical*

- Expenses must be incurred during the plan year. The amount you contribute into the account can **ONLY** be applied for services performed or materials purchased during the plan year unless your employer has adopted the grace period (up to 2 1/2 months) allowed by the IRS.
- If your expenses are covered by a health care plan, you must attach a copy of the Explanation of Benefits (EOB) from the insurance carrier when you submit an Unreimbursed Medical FSA claim.
- Medical and dental expenses paid with your Unreimbursed Medical FSA reimbursement cannot be claimed as a deduction for federal income tax purposes.

### *Dependent Care*

- Your total contribution to the Dependent Care FSA cannot be greater than your earned income or your spouse's, whichever is lower. For example, if your spouse's salary is \$4,000 and your salary is \$30,000, the most you can contribute is \$4,000.
- If you and your spouse file a joint income tax return and both have a Dependent Care FSA, your total combined limit is \$5,000 per plan year. Likewise, if you and your spouse file separate income tax returns, your individual Dependent Care FSA limit is \$2,500. If you are single with an eligible dependent, you can elect up to \$5,000 per plan year.
- You must report the name, address and Social Security number or taxpayer ID number of each Dependent Care provider when you submit a Dependent Care FSA claim.

## **Making changes during the year**

To qualify for the special tax treatment of the FSA programs, you cannot make changes to your election amount during the plan year unless you experience a qualified change in status, or certain other events, recognized by the IRS. Changes in family status include:

- Marriage or divorce.
- Birth or adoption of a child.
- Death of a spouse or dependent.
- Termination of your or your spouse's employment.
- The switching from part-time to full-time or from full-time to part-time employment status by you or your spouse.
- Significant change in your spouse's health coverage due to change in employment.
- Unpaid leave of absence by you or your spouse.
- Residence change.

## **If money is left over**

Make sure you estimate accurately how much you'll spend during each plan year. Any amount remaining in your spending account(s) at the end of the plan year (or the end of the grace period, if available) will be forfeited. If you overestimate how much you'll spend, federal law states that you must forfeit any amount that's left in the account.

On the other hand, don't worry if you have estimated accurately but haven't filed claims yet. If your employer has chosen to elect a grace period, you have until three months after the plan year ends to file claims for this money.

# Enrollment and Filing Claims

## Filing claims

When you incur an eligible expense for the Unreimbursed Medical or Dependent Care FSA, submit a signed claim form along with the required backup documentation to:

**Horizon BCBSNJ**  
**P.O. Box 1369**  
**Newark, NJ 07105-2200**

You can also visit our website at [www.HorizonBlue.com/FSA](http://www.HorizonBlue.com/FSA) to file FSA claims electronically.

The minimum amount for which you are reimbursed is \$25 (except when annual election minus claims paid is less than \$25). All reimbursement checks are mailed to the participant's home address. You also have the option to elect direct deposit of FSA reimbursements into a checking or savings account.

The maximum amount available for reimbursement during the plan year for the Unreimbursed Medical FSA is the annual election (minus claims paid).

You must have enough money in your Dependent Care FSA to cover the amount of your claim(s) before full payment occurs. For example, if your account balance is \$150 and you submit child care expenses of \$275, you would receive a check for \$150. The \$125 balance would automatically be paid as soon as you accumulate more money in your Dependent Care FSA.

## Should you enroll?

The worksheet included in this booklet assists you in calculating how much of your annual salary you would like deducted and allocated to the Unreimbursed Medical and/or Dependent Care FSA.

Because you are not paying Social Security tax on the portion of your income deposited into your spending account(s), your Social Security benefits may be slightly reduced. However, the tax savings you gain will more than offset any reduction in your Social Security benefits.



# Available Services

## Interactive Website

Horizon BCBSNJ offers secure online services through our website at [www.HorizonBlue.com/FSA](http://www.HorizonBlue.com/FSA).

- **Online Worksheets**
  - Dependent Care vs. Federal Tax Credit.
  - Unreimbursed Medical Worksheet.
- **Online Account Balance Inquiry**
  - Receive up-to-date account balance information.
- **Online Claim List**
  - Provides information on the most recent claims submitted.
- **Online Payment List**
  - Details the most recent FSA payments issued from your account(s).
- **Online Claim Entry Module**
  - Submit your Unreimbursed Medical and Dependent Care claims over the Internet.
- **Downloadable Forms**
  - Download and print Flexible Spending Account forms directly to your computer:
    - FSA Election Form,
    - Direct Deposit Enrollment,
    - Change in Status,
    - ... and more.

## Payment Option

### Direct Deposit

You can elect to direct deposit FSA reimbursements into a checking or savings account.

### Fax Service

Fax your Unreimbursed Medical and Dependent Care claims to our office at **1-973-274-2215** or **1-973-274-4185**.

## 24-hour Voice Response System

### Account Balance Inquiry

Receive up-to-date account balance information with the ease of a touch-tone phone. Call toll free at **1-800-224-4426**.

Horizon BCBSNJ Flexible Spending Accounts website screenshot. The page includes a navigation bar, a sidebar with links to various services, and a main content area titled 'Flexible Spending Accounts'. The main content area contains a section 'How does a Flexible Spending Account (FSA) work?' and a table with five columns: 'New Over the Counter Drug Changes as of January 1, 2011', 'Benny™ Card', 'IRS Regulations', 'Select to go Direct', and 'Downloadable Forms'. Each column contains a brief description and a 'Learn More...' link. At the bottom, there is a footer with legal disclaimers and accreditation logos for URAC and PBP.

| New Over the Counter Drug Changes as of January 1, 2011                                   | Benny™ Card                                                                                                                                                            | IRS Regulations                                                                                                                                | Select to go Direct                                                                                                                                                                         | Downloadable Forms                      |
|-------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
| Click here to view the changes for Over the Counter (OTC) drugs effective January 1, 2011 | Special card that draws on the value of your annual Unreimbursed Medical Spending Account.<br><a href="#">Learn More...</a><br>Click here to activate your Benny Card. | New FSA OTC Changes as of 01/01/2011<br>IRS Regulation Affecting Debit Cards as of 7/1/09<br>IRS 90% Rule Regulation Registered Merchants List | You can now elect to have your Unreimbursed Medical and/or Dependent Care Spending Account payments directly deposited into a checking or savings account.<br><a href="#">Learn more...</a> | Click here to access Downloadable Forms |



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Horizon Blue Cross Blue Shield of New Jersey

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