

Flexible Spending Plan

Under Section 125 of the IRS code, an employee is allowed to pay for qualified group insurance premiums, unreimbursed medical costs (prescriptions and co-pays for example), child and dependent care costs and more... all with tax free dollars through a Flexible Spending Plan. Flexible Spending Plans are referred to by many names including Flexible Spending Accounts (FSA), Section 125 Plans and Reimbursement Accounts, just to name a few. By any name, participation in a Flexible Spending Plan can save you a significant amount of money.

How does a Flexible Spending Plan Work?

A Flexible Spending Plan lets you increase your take home pay by giving you a tax break on money used to pay for benefits. The benefits that you elect are paid for through a salary reduction agreement with your employer. Salary reduction means that you are able to use “pretax” dollars to pay for certain benefits that you may have previously paid for with “after-tax” dollars. By implementing this plan, your employer is helping you to reduce your taxes and to increase your spendable income. The cost saving advantage of the plan is simple. Any benefit cost or insurance premiums you pay for under the plan, are paid on a pretax basis. The result? Uncle Sam takes fewer taxes!

How does this affect my paycheck?

Take a look at the following Flexible Spending plan tax savings example for John to give you an idea.

	Before Joining The Flexible Spending Plan	After Joining The Flexible Spending Plan Medical & Day Care
Gross annual (taxable) income	\$24,000	\$24,000
Before tax – health insurance premiums	\$0	\$1,200
Before tax – medical expenses	\$0	\$1,000
Before tax – day care cost	\$0	\$3,000
Taxable pay (after medical cost)	\$24,000	\$18,800
Taxes – Federal, State, FICA (at 25%)	\$6,000	\$4,700
After tax – health insurance premiums	\$1,200	\$0
After tax – medical expenses	\$1,000	\$0
After tax – day care cost	\$3,000	\$0
Total annual take home pay	\$12,800	\$14,100
SAVINGS		\$1,300

Let’s assume John earns \$24,000 annually and his employer deducts \$1,200 annually from his paycheck to pay health insurance premiums for covering his wife and child under the group health plan.

Before joining the Flexible Spending plan John’s annual medical premium deduction of \$1,200 (+ his day care & out of pocket medical expense costs) were taken out of his check after-taxes. After joining the Flexible Spending plan his deductions are taken before taxes. **In this example, John increased his take home pay by \$1,300 per year!** John’s taxable income was reduced, his taxes decreased & he has more take home pay. *And remember, the more John elects to deduct, the more John’s taxable pay is reduced and the more John increases his take home pay!*

ELIGIBLE MEDICAL EXPENSES

EXAMPLES

- ✓ Adoption - medical expense for child (incurred before adoption is finalized)
- ✓ Alcoholism & drug addiction treatment
- ✓ Ambulance
- ✓ Chiropractic services
- ✓ Coinsurance amounts and deductibles
- ✓ Contact lenses and solution
- ✓ Dental treatment & artificial teeth
- ✓ Diagnostic tests
- ✓ Eye examinations and eyeglasses/sunglasses
- ✓ Hearing aids and examinations
- ✓ Hospital services
- ✓ Injections
- ✓ Insulin
- ✓ Laboratory fees and X-rays
- ✓ Medical monitoring and testing devices (if prescribed by physician)
- ✓ Medicines (if prescribed by physician to treat a specific ailment and if only available by prescription)
- ✓ Optometrist and Lasik eye surgery
- ✓ Over-the-counter drugs (some – please refer to IRS Publication 502)
- ✓ Periodontal fees
- ✓ Physical exams (except for employment related physicals)
- ✓ Physical therapy (for specified medical purpose)
- ✓ Private Hospital Room
- ✓ Psychiatric Care, psychoanalysis and psychologist
- ✓ Surgery, transplants and hospital services
- ✓ Vaccinations

NON-ELIGIBLE MEDICAL EXPENSES

EXAMPLES

- | | |
|---|-----------------------------|
| X Premiums | X Swimming lessons |
| X Liposuction | X Tattoos / tattoo removal |
| X Maternity clothes | X Medical savings accounts |
| X Over-the-counter drugs (Most no longer apply due to healthcare reform in 2010.) | X Personal hygiene products |
| X Pregnancy kits | X Hair transplant |
| X Vitamins without prescription | X Funeral expenses |