



## Flexible Benefits: Medical Reimbursement Account

### What is a Medical Reimbursement Account?

A Medical Reimbursement Account is a plan that allows you to pay for certain health care expenses with pre-tax dollars. Your existing health plan may already cover most of your medical expenses; but there still may be some extra, unavoidable costs. Deductibles, copayments, vision care, dental care, and prescription drug expenses are just a few examples of the costs you may have to pay out of your own pocket either in part or full depending upon the type of health care plan.

### How much money do I need to contribute to my account?

The amount of money you put into your Medical Reimbursement Account depends on how much you believe your medical expenses will be for the year. Use the worksheet provided to estimate your out-of-pocket medical expenses.

You estimate your medical expenses for the upcoming year. Money is taken out of your paycheck before taxes are withheld and placed in your account throughout the year. Your taxable income is reduced and results in more take-home pay for you. You are reimbursed from your account for qualified health care expenses.

### Can I really save money?

	<b>Without Medical Reimbursement Account</b>	<b>With Medical Reimbursement Account</b>
Gross Monthly Salary	\$1,667.67	\$1,666.67
Reimbursement Account Deposit	<u>0.00</u>	<u>- 66.67</u>
Taxable Pay	\$1,666.67	\$1,600.00
Federal Income Tax	- 250.00	- 240.00
Social Security (7.65%)	<u>- 127.50</u>	<u>- 122.40</u>
Pay After Taxes	\$1,289.17	\$1,237.60
Medical Expenses	<u>- 66.67</u>	<u>0.00</u>
Take-Home Pay	\$1,222.50	\$1,237.60

Monthly Savings \$15.10

Yes. In this example you'd save \$15.10 per month or \$181.20 per year by using your Medical Reimbursement Account. If you consider state taxes, you could save even more. It's important to remember your level of savings depends upon a number of factors, including your:

- Earnings
- Current tax status
- Other income
- Deductions and medical costs

Another thing to consider is the potential impact on your post-retirement income. Because your taxable income is less with the Medical Reimbursement Account, it's possible your future Social Security benefits might be a little lower when you retire. Most of the time your tax savings will more than make up for any reduction in Social Security benefits. Consult a qualified tax advisor for more information.

### **How do I access my money?**

When you have an eligible medical expense, submit a claim form and a third party verification of the expense. Once approved, you will be reimbursed with tax-free dollars from your account. However, the amount you set aside in your account can only be used to reimburse expenses *incurred* in the plan year. An expense is incurred when the service that gives rise to the expense is provided. When the expense is paid is irrelevant. If you terminate your employment with the company, you may only request reimbursement for medical expenses with a service date incurred while you were employed – unless you are eligible to elect continuation coverage.

### **What does the IRS say?**

You *cannot* claim medical expenses reimbursed under your Medical Reimbursement Account as a deductible expense on your income tax return. When you use your account, you receive the tax advantage for all eligible expenses immediately without having to file a tax return. Estimating your expenses as accurately as possible is very important. Why? Because any extra money left in your account at the end of the year *cannot* be returned to you. The Internal Revenue Service (IRS) has placed this strict rule on Medical Reimbursement Accounts, which are made possible by Section 125 of the Internal Revenue code, because of the special tax treatment they receive.

### **How do I enroll?**

The worksheet is designed to help you determine how much to contribute to your Medical Reimbursement Account. Once you're satisfied with the amounts on the worksheet, complete an enrollment form.

### **Can I enroll later or change my mind?**

To gain the tax advantages of this plan, you must enroll before your benefit "plan year" begins. You may then change your election prior to each plan year or when there is a qualifying status change. Qualifying status changes are governed by your plan and may include changes in:

- Marital status (marriage, death, divorce, etc.)
- Number of dependents (birth, adoption, placement for adoption, etc.)
- Employment status (termination, commencement of employment. etc.)
- Dependent ceasing to satisfy eligibility requirements.
- Residence

A change must be consistent with the event that is occurring. Please contact your personnel office with any questions you may have as to whether your situation qualifies.

*Contact your First Administrators representative today if you have any questions regarding Medical Reimbursement Accounts or need assistance with the enrollment process.*

## **What are eligible expenses?**

Here is a partial list of expenses eligible for reimbursement under a Medical Reimbursement Account.

- Acupuncture\*
- Ambulance
- Birth control pills
- Chiropractic care
- Contact lenses and solutions
- Deductibles and copayments
- Dental fees (except cosmetic procedures)
- Eyeglasses
- Hearing aids and batteries
- In vitro fertilization
- Insulin
- Laser eye surgery
- Learning disability\*
- Medical conferences\*
- Optometrist fees
- Orthodontic fees\*
- Over-the-counter drugs
- Physician fees
- Prescription drugs and medicines
- Smoking cessation programs and related prescription drugs\*
- Special schools for learning disabilities\*
- Sterilization
- Therapy – physical or occupational therapy by a licensed therapist
- Weight loss expenses for treating a disease (food not included)
- Wheelchairs – includes rental or purchase
- Vaccinations and immunizations
- X-ray fees

*\*Medical condition substantiation must be met for these items to be reimbursed.*

## **What are NOT eligible expenses?**

Here is a partial list of ineligible expenses.

- Insurance premiums
- Warranties (service contracts)
- Cosmetic procedures
- Late payment fees

A Medical Reimbursement Account is a great way to put your benefit money back to work for you.

Take a moment to complete the enrollment form.

The key is to take action today and get your money working for you!

## Medical Reimbursement Account Worksheet

Use this worksheet to help estimate your unreimbursed medical expenses for the coming year and determine how much you need to set aside in a Medical Reimbursement Account.

In the left hand column fill in the amounts you incurred last year on the types of expenses listed. Then use these figures to estimate your expenses for the coming year. Incurred expenses are based on those services *received* in the plan year. When the expense is paid is irrelevant.

Remember to list only those expenses you pay out of your pocket. Expenses covered by your medical plan or items that are medically unnecessary are not eligible for reimbursement from this account.

TYPE OF EXPENSE	LAST YEAR	COMING YEAR ESTIMATE
Medical Care Expenses	\$ _____	\$ _____
Prescription Drug Expenses	\$ _____	\$ _____
Vision Expenses	\$ _____	\$ _____
Hearing Expenses	\$ _____	\$ _____
Dental Expenses	\$ _____	\$ _____
Chiropractic Care Expenses	\$ _____	\$ _____
Other	\$ _____	\$ _____
Other	\$ _____	\$ _____
<b>For additional eligible expenses, refer to the above list.</b>		
<b>TOTAL</b>	\$ _____	\$ _____

*NOTE: The Medical Reimbursement Account is made possible by Section 125 of the Internal Revenue Code.*