

City of Tacoma

2017 Flexible Benefits Spending Plan

‘Pre-Tax Premium and Reimbursement Accounts’

Premium Payment Component (POP)

Pay your share of group insurance premiums with “pre-tax” dollars.
(This is an automatic function of our plan)

Health Flexible Spending Arrangement (Health FSA)

Pay your out-of-pocket health care expenses for yourself, spouse and dependents with “pre-tax” dollars.
Maximum \$2,600 per Plan Year

Dependent Care Assistance Program (DCAP)

Pay your baby sitter, day care and/or elder care provider up to *\$5,000 per Calendar Year* with “pre-tax” dollars.

Instructions



Review the attached benefit summary information. Questions?



Call TPSC (8:00 a.m. to 5:00 p.m. PST):
Local Area: 253-564-5611, Ext. 210 or toll-free 1-800-426-9786, Ext. 210



www.trustedplans.com – Register to:

- Access reimbursement Statements
- Check claim status
- Check your FSA/DCAP balance
- Access your Summary Plan Description
- Secure email access to Trusted Member Services



To Enroll:

- 1) Login through Employee Self Service (ESS) as a newly hired employee or during open enrollment at cityoftacoma.org/ess
- 2) If you have a qualifying life event change and wish to add or change your election, complete the FSA change of election form and submit it to the Benefits Office within 31 days of the qualifying event date.
- 3) Contact the Human Resources Benefits Office at benefits@cityoftacoma.org or at 253-573-2345 with questions.

City of Tacoma / Flexible Spending Account Choices
(for your payroll deducted contributions for your group insurance plans)

1. WHAT BENEFITS MAY BE ELECTED UNDER THE FLEXIBLE SPENDING ACCOUNT PLAN?

The Flexible Spending Account Plan includes the following benefit plan components:

- **Health Flexible Spending Account (Health FSA)**—also called a health expense reimbursement plan—permits an Employee to pay for his or her qualifying Health Care Expenses that are not otherwise reimbursed by insurance with pre-tax dollars. Benefits provided under the Health FSA are called “Health FSA Benefits.” The Health FSA election is for General Purpose Health FSA Coverage.
- **Dependent Care Assistance Program (DCAP)**—also called a dependent care flexible spending account—permits an Employee to pay for his or her qualifying Dependent Care Expenses with pre-tax dollars. Benefits provided under the DCAP are called “DCAP Benefits.”

If you select one or more of the above benefits, you will pay all of the contributions; the Employer will not contribute any portion to your Health FSA or DCAP

2. CAN I CHANGE MY ELECTIONS UNDER THE FLEXIBLE SPENDING ACCOUNT PLAN DURING THE PLAN YEAR?

You generally **cannot change** your election to participate in the Flexible Spending Account Plan or vary the salary reduction amounts that you have elected during the Plan Year (known as the irrevocability rule). Of course, you can change your elections for benefits and salary reductions during the open enrollment period, but those election changes will apply only for the following Plan Year. During the Plan Year, however, there are several important exceptions to the irrevocability rule. Ask the Plan Administrator for the attachment entitled “When Can I Change Elections Under the Flexible Spending Account Plan?”

3. WHAT IS THE “OPEN ENROLLMENT PERIOD” AND THE “PLAN YEAR”?

The Open Enrollment Period is the period during which you have an opportunity to participate under the Flexible Spending Account Plan by signing and returning an individual Election Form/Salary Reduction Agreement. You will be notified of the timing and duration of the open enrollment period by the Plan Administrator.

The Plan Year is the 12 months beginning on each January 1 and ending on December 31. The Plan Year is the same for the Flexible Spending Account Plan, the Health FSA, and the DCAP.

4. WHAT TAX SAVINGS ARE POSSIBLE UNDER THE FLEXIBLE SPENDING ACCOUNT PLAN?

You may save both federal income tax and FICA (Social Security and Medicare) taxes by participating in the Flexible Spending Account Plan. Here is an example of the possible tax savings of paying for your share of the contributions for you and your dependents group health insurance benefits under the Flexible Spending Account Plan.

Caution: The amount of the contributions used in this example is not meant to reflect *your* actual contributions—the actual contribution amounts will be described in a document provided separately to you by the Employer.

EXAMPLE

Jerry earns \$30,000 annually and his employer deducts \$200/month (\$2,400/year) from his pay check to pay the premiums for covering his wife and child under the company’s group insurance plan.

Without Premium Conversion

Gross (taxable) Pay	\$30,000
Taxes @ 25%	(- 7,500)
Insurance Deduction	<u>(- 2,400)</u>
Net Take Home	\$20,100

With Premium Conversion

Gross Pay	\$30,000
Pre-Tax Insurance Deduction	<u>(- 2,400)</u>
Taxable Pay	\$27,600
Taxes @ 25%	<u>(- 6,900)</u>

Net Take Home **\$20,700**

Jerry has **increased** his take home pay by **\$600 per year (\$50 per month)** by participating in his employer’s Premium Conversion Benefit.

City of Tacoma / Health FSA Benefit Information

(For you, your spouse, and dependents out-of-pocket health care expenses)

1. WHAT ARE “HEALTH FSA BENEFITS?”

A “Health FSA” permits eligible employees to pay for coverage with pre-tax dollars for themselves and their qualified tax dependents for eligible health care expenses that have not been reimbursed elsewhere. (For example, you cannot seek reimbursement under your Health FSA for the same expense that was paid by any other health insurance plan).

If you elect Health FSA Benefits, then you will be able to provide a source of pre-tax funds to reimburse yourself for your eligible Health Care Expenses by entering into an Election Form/Salary Reduction Agreement with your Employer. Because the share of the contributions that you pay will be with pre-tax funds, you will save on State income taxes (if applicable), Federal income taxes and Social Security and Medicare taxes.

Health FSA benefits are intended to pay benefits solely for health care expenses not reimbursed elsewhere. Accordingly, the Health FSA shall not be considered to be a group health plan for coordination of benefits purposes, and Health FSA benefits shall not be taken into account when determining benefits payable under any other plan.

2. WHAT IS MY “HEALTH FSA ACCOUNT”?

If you elect Health FSA benefits, then an account called a “Health FSA Account” will be set up in your name to keep a record of the reimbursements that you are entitled to, as well as the contributions that you have paid for such benefits during the Plan Year. Your Health FSA Account is merely a recordkeeping account; it is not funded (all reimbursements are paid from the general assets of the employer), and it does not bear interest.

The Health FSA election will be for General-Purpose Health FSA Coverage.

3. WHAT ARE THE MAXIMUM HEALTH FSA BENEFITS THAT I MAY ELECT?

You may choose any amount of health care expense reimbursement that you desire under the Health FSA, subject to the maximum amounts indicated on page one of this document and also on the Election Form/Salary Reduction Agreement. You will be required to pay the annual Health FSA contribution equal to the coverage level that you have chosen.

4. HOW ARE MY HEALTH FSA BENEFITS PAID FOR UNDER THE FLEXIBLE SPENDING ACCOUNT PLAN?

When you complete the Election Form/Salary Reduction Agreement, you specify the amount of Health FSA benefits that you wish to pay for with your salary reduction. From then on, you must pay a contribution for such coverage by having that portion deducted from each paycheck on a pre-tax basis (generally an equal portion from each paycheck or an amount otherwise agreed to or as deemed appropriate by the Plan Administrator). For example, suppose that you have elected to be reimbursed up to \$1,200 per year for health care expenses and that you have chosen no other benefits under the Flexible Spending Account Plan. If you pay all of your contributions, then your Health FSA Account would be credited with a total of \$1,200 during the Plan Year. If you are paid semi-monthly, then your Health FSA Account would reflect that you have paid \$50

(\$1,200 divided by 24) each pay period in contributions for the Health FSA benefits that you have elected.

The Employer makes no contribution to your Health FSA Account.

5. WHAT AMOUNTS WILL BE AVAILABLE FOR HEALTH FSA REIMBURSEMENT AT ANY PARTICULAR TIME DURING THE PLAN YEAR?

The full amount of Health FSA coverage that you have elected (reduced by prior reimbursements made during the same Plan Year) will be available to reimburse you for qualifying health care expenses incurred during the Plan Year, regardless of the amount that you have contributed when you submitted the claim (so long as you have continued to pay the contributions). For example, suppose that you elected \$1,200 of coverage and contributed to your Health FSA Account during January and February—that means that by March 1 you would have contributed \$200 (\$50 times four pay periods). You haven’t made any prior claims for reimbursement during the calendar year, but on March 6 you incur a health care expense in the amount of \$300. You submit that claim for reimbursement on March 7. So long as the claim meets all applicable requirements, the \$300 would be available to you for that expense, even though you have only contributed \$200 to your Health FSA Account at that point.

Effective with purchases on or after January 1, 2011 no reimbursement may be made for over-the-counter (OTC) medicines and drugs (except for insulin) without a prescription.

Examples of OTC items that ARE medicines or drugs include:

- Allergy and sinus medicines and nasal sprays
- Antacids
- Cough, cold and flu remedies
- Eye drops
- Laxatives
- Pain relievers such as ibuprofen and aspirin

Examples of OTC items that ARE NOT medicines or drugs:

- Bandages, band aids, gauze pads
- Blood pressure monitors
- Carpal tunnel wrists supports
- Contact lens solution
- Reading glasses

Please note that these items are examples only. It is anticipated that further guidance from the IRS on the definition of OTC and medicine and drugs will be forthcoming.

You may also be able to be reimbursed from unused amounts remaining in your Health FSA Account at the end of a Plan Year for health care expenses incurred during a “**grace period**” following the end of the Plan Year. (See Q-7).

6. WHAT ARE “HEALTH CARE EXPENSES” THAT MAY BE REIMBURSED FROM THE HEALTH FSA?

For purposes of the General-Purpose Health FSA Coverage Option, “health care expense” means expenses incurred by you,

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(For you, your spouse, and dependents out-of-pocket health care expenses)

your spouse, or your qualified tax dependents for “health care” as defined in Code § 213(d). Under the tax laws, “health care expenses” include expenses for **OTC** items that **ARE NOT** medicines or drugs, as well as expenses for prescribed drugs and medicines. However, only reasonable quantities of non-medicine and drug over-the-counter (**OTC**) items will be reimbursed from your Health FSA Account in a single calendar month. Stock piling is not permitted under the Health FSA benefit.

The following list specifies certain expenses that are not reimbursable, even if they meet the definition of “health care” under Code § 213(d) and may otherwise be reimbursable under regulations governing Health FSAs. Note that many expenses that are not on the list of exclusions below will still not be reimbursable if such expenses do not meet the definition of “health care” under Code § 213(d) and other requirements for reimbursement under the Health FSA.

EXCLUSIONS:

- Any item that does not constitute “health care” under Code § 213(d);
- Any item that is not reimbursable under applicable regulations;
- Automobile insurance premiums;
- Bottled water;
- Cosmetic surgery or other similar procedures, unless the surgery or procedure is necessary to ameliorate a deformity arising from or directly related to a congenital abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease. “Cosmetic surgery” means any procedure that is directed at improving the patient’s appearance and that does not meaningfully promote the proper function of the body or prevent or treat illness or disease;
- Cosmetics, toiletries, toothpaste, etc.;
- Costs for sending a problem child to a special school for benefits that the child may receive from the course of study and disciplinary methods;
- Custodial care;
- Funeral and burial expenses;
- Health insurance premiums for any other plan (including premiums for a plan sponsored by the employer, such as the medical or dental insurance plan);
- Household and domestic help (even if recommended by a qualified physician due to an employee’s or dependent’s inability to perform physical housework);
- Long-term care services;
- Marijuana and other controlled substances that are in violation of federal law, even if prescribed by a physician;
- OTC items that ARE considered medicines or drugs;
- Salary expenses of a nurse to care for a healthy newborn at home;
- Social activities, such as dance lessons (even if recommended by a physician for general health improvement);
- Uniforms or special clothing, such as maternity clothing;

For more information about what items are—and are not—health care expenses, consult IRS Publication 502 (“Medical and

Dental Expenses”) under the headings “What Medical Expenses Are Deductible?” and “What Expenses Are Not Deductible?” But use the publication with caution, because not all expenses that are deductible are reimbursable under a Health FSA.

Ask the Contract Administrator if you need further information about which expenses are—and are not—likely to be reimbursable, but remember that the Contract Administrator is not providing legal advice. If you need an answer upon which you can rely, you may wish to consult a tax advisor.

7. WHEN MUST THE HEALTH CARE EXPENSES BE INCURRED FOR THE HEALTH FSA?

For health care expenses to be reimbursed to you from your Health FSA Account for the Plan Year, they must have been incurred during that Plan Year. **The Plan Year for the Health FSA is the same as the Plan Year for the Flexible Spending Account Plan—it is the 12-month period beginning on January 1 and ending on December 31.** In addition, as discussed below, you may be able to be reimbursed from unused amounts remaining in your Health FSA Account at the end of a Plan Year for health care expenses incurred during a “grace period” following the end of the Plan Year. **Grace periods will begin on January 1 and will end two months and 15 days later. Accordingly, the grace period will be January 1 through March 15 and will apply to unused Health FSA amounts remaining at the end of the previous plan year.**

A health care expense is incurred when the service that causes the expense is provided, **not when the expense was paid.** If you have paid for the expense but the services have not yet been rendered, then the expense has not been incurred. For example, if you prepay on the first day of the month for health care that will be given during the rest of the month, the expense is not incurred until the end of that month (and cannot be reimbursed until after the end of that month). You may not be reimbursed for any expenses arising before the Health FSA or the Flexible Spending Account Plan became effective, before your Election Form/Salary Reduction Agreement became effective, for any expense incurred after the close of the Plan Year (except for certain expenses incurred during a grace period, as discussed below), or after a separation from service (except for Continuation Coverage).

In order to take advantage of the grace period, you must be:

- A participant in the Plan with Health FSA coverage that is in effect on the last day of the Plan Year to which the grace period relates; or
- A qualified beneficiary who has COBRA coverage under the Health FSA on the last day of the Plan Year to which the grace period relates.

8. WHAT MUST I DO TO BE REIMBURSED FOR HEALTH CARE EXPENSES FROM THE HEALTH FSA?

When you incur an expense that is eligible for payment, you must submit a claim to the Contract Administrator on a Reimbursement Request Form that will be supplied to you. You must include written statements and/or bills from independent third parties stating that the health care expenses have been incurred, the amount billed for these health care expenses, and

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(For you, your spouse, and dependents out-of-pocket health care expenses)

the amount all insurance companies paid for these health care expenses; along with the signed and dated Health FSA Reimbursement Request Form. Generally, this requires including an Explanation of Benefits (EOB) form from the health insurance carrier and/or a bill from the provider's office indicating your cost after the insurance payments (co-pay and/or co-insurance amounts). Further details about what must be provided are contained in the Health FSA Reimbursement Request Form.

If you have paid the contributions for the Health FSA coverage that you have elected, then you will be reimbursed for your eligible health care expenses within 30 days after the date you submit the Reimbursement Request Form (subject to a 15-day extension for matters beyond the Contract Administrator's control). Claims will be paid in the order in which they are approved. Remember though, you can't be reimbursed for any total expenses above the annual reimbursement amount that you have elected for the Plan Year.

You will have until April 30 following the end of the Plan Year to submit claims for reimbursement for health care expenses incurred during the previous Plan Year. You will be notified in writing if any claim for benefits is denied.

The following additional rules will apply to health care expenses that are incurred during a grace period or are submitted after the close of the Plan Year in which they were incurred:

- Health care expenses incurred during a grace period and approved for reimbursement will be paid first from available amounts that were remaining at the end of the preceding Plan Year and then from any amounts that are available to reimburse expenses incurred during the current Plan Year. For example, assume that \$200 remains in your Health FSA Account at the end of the 2012 Plan Year and that you have also elected \$2400 of Health FSA coverage for 2013. If you submit a \$500 Health Care Expense that was incurred on January 15, 2013, \$200 of your claim will be paid out of the unused amounts remaining in your Health FSA Account from the 2012 Plan Year and the remaining \$300 will be paid out of the amounts that are available to reimburse you for Health Care Expenses incurred in the 2013 Plan Year.
- Once paid, a claim will not be reprocessed or otherwise re-characterized so as to change the Plan Year from which funds are taken to pay it. For example, using the same facts in the example in the preceding paragraph, assume that a few days after being reimbursed for the \$500 grace period expense you discover \$200 of 2012 Health Care Expenses that have not been submitted for reimbursement. You cannot be reimbursed for the newly discovered expenses because no amounts remain to reimburse you for 2012 expenses. The Plan will not reprocess the \$500 grace period expense so as to pay it entirely from your 2013 Health FSA amounts. For this reason, if you also have health FSA coverage for the *current year*, you may want to wait to submit Health Care Expenses you incur during the grace period until you are sure you have no remaining unreimbursed expenses from the prior Plan Year.
- **Expenses incurred during a grace period must be submitted by April 30 following the close of the Plan Year to which the grace period relates in order to be**

reimbursed from amounts remaining at the end of the Plan Year. (As discussed above, **April 30** is also the deadline for submitting any claims for reimbursement of health care expenses incurred during the preceding Plan Year.)

To have your claims processed as soon as possible, please follow the reimbursement procedures explained above and on the reimbursement request form. *Note:* It is not necessary for you to have actually paid the amount due for a health care expense—only for you to have incurred the expense and that it is not being paid for or reimbursed from any other source.

In addition, the following are not acceptable receipts per IRS regulations:

- Bankcard statements or slips.
- Canceled checks are not acceptable receipts for Health Care or Dependent Care FSA.
- Charges submitted that are illegible.
- Estimates; such as a dental service pre-treatment plan. (A statement showing date of service and type of health expense (or daycare, if applicable), is required.)
- Statement balances and/or balance forwards are not an acceptable form of substantiation..

9. IS THERE ANY RISK OF LOSING OR FORFEITING THE AMOUNTS THAT I ELECT FOR HEALTH FSA BENEFITS?

Yes. If the health care expenses that you incur during the Plan Year or during the grace period immediately following the Plan Year (if you are eligible for the grace period) are less than the annual amount that you elected for Health FSA benefits, you will forfeit the rest of that amount—this is called the “**use-it-or-lose-it**” rule under applicable tax laws. In other words, you cannot be reimbursed for (or receive any direct or indirect payment of) any amounts that were not incurred for health care expenses during the Plan Year or its grace period (if applicable), even if amounts are still left in your Health FSA Account. The difference between what you elected and what health care expenses were reimbursed will be forfeited.

10. WHAT ARE THE TIME LIMITS THAT AFFECT FORFEITURE OF MY HEALTH FSA BENEFITS (AND WHAT HAPPENS TO AMOUNTS THAT ARE FORFEITED?)

You will forfeit any amounts in your Health FSA Account that are not applied to pay expenses submitted by April 30 following the end of the Plan Year for which the election was effective. Also, any Health FSA Account benefit payments that are unclaimed (for example, un-cashed benefit checks) by the close of the Plan Year following the Plan Year in which the health care expense was incurred shall be forfeited.

11. WILL I BE TAXED ON THE HEALTH FSA BENEFITS THAT I RECEIVE?

Generally, you will not be taxed on your Health FSA benefits, up to the limits set forth on page 1 of this document or on the Election Form/Salary Reduction Agreement. However, the employer cannot guarantee that specific tax consequences will flow from your participation in the Plan. The tax benefits that you receive depend on the validity of the claims that you submit.

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For example, to qualify for tax-free treatment, your health care expenses must meet the definition of “health care” as defined in the Code. If you are reimbursed for a claim that is later determined to not be for health care expenses, then you will be required to repay the amount.

Ultimately, it is your responsibility to determine whether any reimbursement under the Health FSA constitutes health care expenses that qualify for the federal income tax exclusion. Ask the Contract Administrator if you need further information about which expenses are—and are not—likely to be reimbursable, but remember that the Contract Administrator is not providing legal advice. If you need an answer upon which you can rely, you may wish to consult a tax advisor.

12. HOW WILL PARTICIPATING IN THE HEALTH FSA AFFECT MY SOCIAL SECURITY AND OTHER BENEFITS?

Participating in the Flexible Spending Account Plan, including the Health FSA will reduce the amount of your taxable compensation. Accordingly, there could be a decrease in your Social Security benefits and/or other benefits (e.g., pension, disability, and life insurance), which are based on taxable compensation. However, the tax savings that you realize through Flexible Spending Account Plan participation will often more than offset any reduction in other benefits.

13. WHAT CONTINUATION OF COVERAGE OPTIONS ARE AVAILABLE WHEN I CEASE TO BE A PARTICIPANT?

COBRA coverage under the Health FSA will be offered only to qualified beneficiaries losing coverage who have under spent accounts. A qualified beneficiary has an under spent account if the annual limit elected by the covered employee, reduced by reimbursements up to the time of the qualifying event, is equal to or more than the amount of the premiums for Health FSA COBRA coverage that will be charged for the remainder of the plan year.

COBRA coverage will consist of the Health FSA coverage in force at the time of the qualifying event (i.e., the elected annual limit reduced by expenses reimbursed up to the time of the qualifying event). The use-it-or-lose-it rule will continue to apply, so any unused amounts will be forfeited at the end of the Plan Year, and COBRA coverage will terminate at the end of the Plan Year (or at the end of any subsequent grace periods).

Unless otherwise elected, all qualified beneficiaries who were covered under the Health FSA will be covered together for Health FSA COBRA coverage.

Qualified beneficiaries who continue coverage under COBRA may not enroll in the Health FSA at open enrollment.

HEALTH CARE FLEXIBLE SPENDING ACCOUNT WORKSHEET	
	Estimated Annual Amount
MEDICAL:	
Deductibles	_____
Co-Payments	_____
Co-Insurance	_____
Doctor Visits	_____
Routine Exams	_____
Prescriptions	_____
Durable Medical Equipment	_____
Travel Costs Related to Care	_____
Other (miscellaneous)	_____
Total Estimated Medical Expenses	\$ _____
DENTAL:	
Annual Deductible	_____
Co-Payments	_____
Exams, fillings	_____
Crowns, bridges	_____
Orthodontia (self & deps)	_____
Other (miscellaneous)	_____
Total Estimated Dental Expenses	\$ _____
VISION:	
Exams	_____
Lenses, Frames	_____
Contact Lenses	_____
Contact Lens Solution, etc.	_____
Laser/Lasix Eye Surgery	_____
Total Estimated Vision Expenses	\$ _____
TOTAL HEALTH CARE EXPENSE (Line A)	\$ _____
Current Tax Percentages	
Federal Income Tax %	%
+ State Income Tax %	%
+ Social Security & Medicare Tax %	7.65%
TOTAL TAX PERCENTAGE (Line B)	%
ESTIMATED ANNUAL TAX SAVINGS	\$ _____
(Line A Multiplied by Line B)	
<i>* This is an example only - actual savings will vary depending on actual expenses and tax bracket.</i>	

City of Tacoma / Dependent Care FSA Information

(For your day care expenses that allow you to work)

1. WHAT ARE “DCAP BENEFITS”?

A DCAP permits eligible Employees to pay for coverage with pre-tax dollars that will reimburse them for dependent care expenses not reimbursed elsewhere (for example, you cannot be reimbursed for the same expense from your spouse’s DCAP).

If you elect DCAP benefits, then you will be able to provide a source of pre-tax funds to reimburse yourself for your eligible dependent care expenses by entering into an Election Form/Salary Reduction Agreement with your employer. Because the share of the contributions that you pay will be with pre-tax funds, you may save on State income taxes (if applicable), Federal income taxes, and Social Security and Medicare taxes.

2. WHAT IS MY “DCAP ACCOUNT”?

If you elect DCAP benefits, an account called a “DCAP Account” will be set up in your name to keep a record of the reimbursements that you are entitled to, as well as the contributions that you have paid for such benefits during the Plan Year. Your DCAP Account is merely a recordkeeping account; it is not funded (all reimbursements are paid from the general assets of the Employer), and it does not bear interest.

3. WHAT ARE THE MAXIMUM DCAP BENEFITS THAT I MAY ELECT UNDER THE FLEXIBLE SPENDING ACCOUNT PLAN?

You may choose any amount of dependent care expense reimbursement that you desire under the DCAP, subject to a maximum reimbursement amount described below and on page one of this document. You must commit to a salary reduction to pay the annual DCAP contribution equal to the coverage level that you have chosen (e.g., if you elect \$3,000 in DCAP benefits, you’ll pay for the benefits with a \$3,000 salary reduction).

The amount of dependent care expense reimbursement that you choose cannot exceed \$5,000 for a *calendar year* or, if lower, the maximum amount that you have reason to believe will be excludable from your income when your election is made. The \$5,000 maximum will apply to you if:

- You are married and file a joint federal income tax return;
- You are married and file a separate federal income tax return, and meet the following conditions: (1) you maintain as your home a household that constitutes (for more than half of the taxable year) the principal place of abode of a qualifying individual (i.e., the dependent for whom you are eligible to receive reimbursements under the DCAP); (2) you furnish over half of the cost of maintaining such household during the taxable year; and (3) during the last six months of the taxable year, your spouse is not a member of such household (i.e., your spouse maintained a separate residence); or
- You are single or the head of the household for federal income tax purposes.

If you are married and reside with your spouse but you file a separate federal income tax return, then the maximum DCAP benefit that you may exclude from your income is \$2,500 for a calendar year.

These maximums are just the largest amount that is possible; the maximum amount that you are able to exclude from your income may be less (for example, note that you cannot exclude more than the amount of your or your spouse’s earned income for the calendar year).

4. HOW ARE MY DCAP BENEFITS PAID FOR UNDER THE FLEXIBLE SPENDING ACCOUNT PLAN?

When you complete the Election Form/Salary Reduction Agreement, you specify the amount of DCAP benefits that you wish to pay with your salary reduction. From then on, you must pay a contribution for such coverage by having that portion deducted from each paycheck on a pre-tax basis (generally an equal portion from each paycheck or an amount otherwise agreed to or as deemed appropriate by the Plan Administrator). If you pay all of your contributions, then your DCAP Account will be credited with the portion of your gross income that you have elected to give up through salary reduction. These portions will be credited as of each pay period.

For example, suppose that you have elected to be reimbursed for \$2,400 per year for dependent care expenses and that you have chosen no other benefits under the Flexible Spending Account Plan. Your DCAP Account would be credited with a total of \$2,400 by the end of the Plan Year. If you are paid semi-monthly, then your DCAP Account would reflect that you have paid \$400 (\$2,400 divided by 24) each pay period in contributions for the DCAP Benefits that you have elected.

The employer makes no contributions to your DCAP Account.

5. WHAT AMOUNTS WILL BE AVAILABLE FOR DCAP REIMBURSEMENT AT ANY PARTICULAR TIME DURING THE PLAN YEAR?

The amount of coverage that is available for reimbursement of qualifying dependent care expenses at any particular time during the Plan Year will be equal to the amount credited to your DCAP Account at the time your claim is paid, reduced by the amount of any prior reimbursements paid to you during the Plan Year. Using the example in Q-4, suppose that you incur \$1,200 of dependent care expenses by April 5. At that time, your DCAP Account would only have been credited with \$600 (\$200 times six pay periods), so only \$600 would be available for reimbursement on April 5 (assuming that you had not received any prior reimbursements). You would have to wait to submit the remaining \$600 in dependent care expenses until after you had received the appropriate credits to your DCAP Account (you could request a \$100 reimbursement after each of the next six pay periods).

6. WHAT ARE “DEPENDENT CARE EXPENSES” THAT MAY BE REIMBURSED?

“Dependent Care Expense” means employment-related expenses incurred on behalf of a person who meets the requirements to be a “qualifying individual,” as defined in the first bulleted item below. All of the following conditions must be met for such expenses to qualify as dependent care expenses that are eligible for reimbursement:

- Each person for whom you incur the expenses must be a qualifying individual—that is, he or she must be:

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(For your day care expenses that allow you to work)

- ✓ A person under age 13 who is your “qualifying child” under the Code (in general, the person must: (1) have the same principal abode as you for more than half the year; (2) be your child or stepchild (by blood or adoption), foster child, sibling or step-sibling, or a descendant of one of them; and (3) not provide more than half of his or her own support for the year); or
- ✓ Your spouse or a person who is your dependent under federal tax law, but only if he or she is physically or mentally incapable of self-care and has the same principal abode as you for more than half the year.

Under a special rule for children of divorced or legally separated parents, a child is a qualifying individual with respect to the custodial parent, even if that parent is not entitled to claim the dependency exemption for the child. See the Plan Administrator for more information which individuals will qualify as your qualifying individuals.

No reimbursement will be made to the extent that such reimbursement would exceed the balance in your DCAP Account.

- The expenses are incurred for services rendered after the date of your election to receive DCAP Benefits and during the Plan Year to which the election applies.
- The expenses are incurred in order to enable you (and your Spouse, if you are married) to be gainfully employed, which generally means working or looking for work. There is an exception: If your Spouse is not working or looking for work when the expenses are incurred, he or she must be a full-time student or be physically or mentally incapable of self-care.
- The expenses are incurred for the care of a Qualifying Individual.
- If the expenses are incurred for services outside of your household, they are incurred for the care of (a) a person under age 13 who is your qualifying child; or (b) your Spouse or a person who is your dependent under federal tax law, is physically or mentally incapable of self-care, and regularly spends at least eight hours per day in your household.
- If the expenses are incurred for services provided by a dependent care center (that is, a facility that provides care for more than six individuals not residing at the facility), the center complies with all applicable state and local laws and regulations.
- The person who provided care was not your Spouse or a person for whom you are entitled to a personal exemption under Code § 151(c). If your child provided the care, then he or she must be age 19 or older at the end of the year in which the expenses are incurred.
- The expenses are not paid for services outside of your household at a camp where the dependent stays overnight.

For more information about what items are—and are not—deductible dependent care expenses, consult IRS Publication 503 (“Child and Dependent Care Expenses”) under the heading “Tests to Claim the Credit.”

Ask the Contract Administrator if you need further information about which expenses are—and are not—likely to be reimbursable, but remember that the Contract Administrator is not providing legal advice. If you need an answer upon which you can rely, you may wish to consult a tax advisor.

You will also be asked to certify that you have no reason to believe that the requested reimbursement, when added to your other reimbursements to date for dependent care expenses incurred during the same calendar year, will exceed the applicable statutory limit. Your statutory limit is the smallest of the following amounts:

- Your earned income for the calendar year (after your salary reductions under the Flexible Spending Account Plan);
- The earned income of your spouse for the calendar year (your spouse will be deemed to have earned income of \$250 (\$500 if you have two or more qualifying individuals) for each month in which your spouse is (a) physically or mentally incapable of self-care; or (b) a full-time student); or
- Either \$5,000 or \$2,500 for the calendar year, depending on your marital and tax filing status, as described further in Q-3.

Any reimbursement that the employer has reason to believe will exceed your statutory limit will be subject to FICA and income tax withholding. Note that if you are married and your spouse also participates in a DCAP, the maximum amount that you and your spouse together can exclude from income is \$5,000.

7. WHEN MUST THE DEPENDENT CARE EXPENSES BE INCURRED?

For dependent care expenses to be reimbursed to you from your DCAP Account for the Plan Year, the expenses must have been incurred during that Plan Year. (While a 2-1/2 month grace period is provided for the Health FSA, **NO** such grace period is provided for the DCAP.) **The Plan Year for the DCAP is the same as for the Flexible Spending Account Plan—it is the 12-month period beginning on January 1 and ending on December 31.**

A dependent care expense is incurred when the service that causes the expense is provided, **not when the expense is paid**. If you have paid for the expense but the services have not yet been rendered, then the expense has not been incurred. For example, if you pre-pay on the first day of the month for dependent care that will be given during the rest of the month, then the expense is not incurred until the end of that month (and cannot be reimbursed until after the end of that month). You may not be reimbursed for any expenses arising before the DCAP or Flexible Spending Account Plan became effective, for any expenses arising before your Election Form/Salary Reduction Agreement became effective, for any expenses incurred after the close of the Plan Year, or after a separation from service.

8. WHAT MUST I DO TO BE REIMBURSED FOR MY DEPENDENT CARE EXPENSES?

When you incur an expense that is eligible for payment, you must submit a claim to the Contract Administrator on a FSA Account Reimbursement Request Form that will be supplied to you. All DCAP claims must be substantiated with written

City of Tacoma / Dependent Care FSA Information

(For your day care expenses that allow you to work)

documentation from the provider describing the service, the eligible tax dependents name, the service date range, and the amount of the expense, and must be submitted along with the FSA Account Reimbursement Request Form. Further details about what must be provided are contained in the DCAP section of the FSA Account Reimbursement Request Form.

If there are enough credits to your DCAP Account, then you will be reimbursed for your eligible DCAP expenses within 30 days after the date you submitted the DCAP Reimbursement Request Form (subject to a 15-day extension for matters beyond the Contract Administrator's control. If a claim is for an amount larger than that remaining in your current DCAP Account balance, then the excess part of the claim will be carried over into the following months, to be paid out as your balance becomes adequate. Remember, though, that you can't be reimbursed for any total expenses above your available annual credits to your DCAP Account.

Note: It is not necessary for you to have actually paid the bill in an amount due for a dependent care expense only for you to have incurred the expense and that it is not being paid for or reimbursed from any other source.

9. IS THERE ANY RISK OF LOSING OR FORFEITING THE AMOUNTS THAT I ELECT FOR DCAP BENEFITS?

Yes. If the dependent care expenses that you incur during the Plan Year are less than the annual amount that you elected for DCAP benefits, you will forfeit the rest of that amount in your DCAP Account—this is called the “use-it-or-lose-it” rule under applicable tax laws. *(No grace period is provided under the DCAP.)* In other words, you cannot be reimbursed for (or receive any direct or indirect payment of) any amounts that were not incurred for dependent care expenses during the Plan Year, even if amounts are still left in your DCAP Account. The difference between what you elected and what dependent care expenses were reimbursed will be forfeited. **You must submit DPAC reimbursement requests by April 30 following the end of the Plan Year for which the election was effective**

10. WHAT ARE THE TIME LIMITS THAT AFFECT FORFEITURE OF MY DCAP BENEFITS?

You will forfeit any amounts in your DCAP Account that are not applied to pay dependent care expenses submitted by April 30 following the end of the Plan Year for which the DCAP election was effective. Also, any DCAP Account benefit payments that are unclaimed (for example, un-cashed benefit checks) by the close of the Plan Year following the Plan Year in which the dependent care expense was incurred shall be forfeited. **You must submit reimbursement claims by April 30.**

11. WILL I BE TAXED ON THE DCAP BENEFITS I RECEIVE?

Generally, you will not be taxed on your DCAP benefits, up to the limits set forth in Q-3. However, the employer cannot guarantee that specific tax consequences will flow from your participation in the DCAP. The tax benefits that you receive depend on the validity of the claims that you submit. If you are reimbursed for a claim that is later determined to not be for dependent care expenses, then you will be required to repay the amount.

Ultimately, it is your responsibility to determine whether any reimbursement under the DCAP constitutes dependent care expenses that qualify for the federal income tax exclusion. Ask the Contract Administrator if you need further information about which expenses are—and are not—likely to be reimbursable, but remember that the Contract Administrator is not providing legal advice. If you need an answer upon which you can rely, you may wish to consult a tax advisor.

12. IF I ELECT DCAP BENEFITS, CAN I STILL CLAIM THE DEPENDENT CARE TAX CREDIT ON MY FEDERAL INCOME TAX RETURN?

You may **not** claim any other tax benefit for the amount of your pre-tax salary reductions under the DCAP, although your dependent care expenses in excess of that amount may be eligible for the Dependent Care Tax Credit. For example, if you elect \$3,000 in coverage under the DCAP and are reimbursed \$3,000, but you had dependent care expenses totaling \$5,000, then you could count the excess \$2,000 when calculating the Dependent Care Tax Credit if you have two or more dependents.

13. WHAT IS THE DEPENDENT CARE TAX CREDIT?

The Dependent Care Tax Credit is a credit against your Federal income tax liability under the Code. It is a non-refundable tax credit, which means that any portion of it that exceeds your federal income tax liability will be of no value to you. The credit is calculated as a percentage of your annual dependent care expenses. In determining what the tax credit would be, you may take into account \$3,000 of such expenses for one dependent or \$6,000 for two or more dependents. Depending on your adjusted gross income, the percentage could be as much as 35% of your qualifying expenses (to a maximum credit amount of \$1,050 for one dependent or \$2,100 for two or more dependents), to a maximum of 20% of such expenses (producing a maximum credit of \$600 for one dependent or \$1,200 for two or more dependents). The maximum 35% rate is reduced by 1% (but not below 20%) for each \$2,000 portion (or any fraction of \$2,000) by which your adjusted gross incomes exceeds \$15,000.

For more information about how the Dependent Care Tax Credit works, see IRS Publication No. 503 (“Child and Dependent Care Expenses”). You may also wish to consult a tax advisor, as discussed below.

14. WOULD IT BE BETTER TO INCLUDE THE DCAP BENEFITS IN MY INCOME AND CLAIM THE DEPENDENT CARE TAX CREDIT, INSTEAD OF TREATING THE REIMBURSEMENTS AS TAX FREE?

For most individuals, participating in a DCAP will produce the greater federal tax savings, but there are some for whom the opposite is true. Because the preferable method for treating benefits payments depends on certain factors such as a person's tax filing status (e.g., married, single, head of household), number of dependents, earned income, etc., each participant will have to determine his or her tax position individually in order to make the decision. Use IRS Form 2441 (“Child and Dependent Care Expenses”) to help you.

DCAP vs. Dependent Care Credit; Married Filing Jointly. The following is a comparison for a married couple filing a joint return with two qualifying individuals for the DCAP/Dependent Care Tax Credit, EIC, Child Tax Credit, and ACTC, and **\$5,000 of dependent care expenses**, taking the standard deduction and claiming four exemptions. We also show results with one qualifying individual and the couple claiming three exemptions. The couple's wages are their only income (both spouses work, earning equal wages) and they claim no tax credits other than those listed. Only federal tax savings are considered (not state taxes or credits). The figures below are for the 2014 tax year. Some numbers have been rounded.

Participating in DCAP on a salary-reduced basis is better (or worse) than claiming the Dependent Care Tax Credit by this amount (<i>if negative, the Dependent Care Tax Credit is better</i>)			Participating in DCAP on a salary-reduction basis is better (or worse) than claiming the Dependent Care Tax Credit by this amount (<i>if negative, the Dependent Care Tax Credit is better</i>)		
Gross wages of employee and spouse	1 dependent child under age 13	2 dependent children under age 13	Gross wages of employee and spouse	1 dependent child under age 13	2 dependent children under age 13
\$10,000	(\$1,922)	(\$2,368)	\$60,000	\$533	\$133
\$15,000	\$383	(\$1,828)	\$70,000	\$533	\$133
\$18,000	\$383	(\$378)	\$80,000	\$533	\$133
\$20,000	\$383	\$183	\$90,000	\$533	\$133
\$25,000	\$661	\$749	\$100,000	\$728	\$133
\$30,000	\$1,107	\$1,436	\$125,000	\$1,283	\$883
\$35,000	\$932	\$1,236	\$150,000	\$1,033	\$883
\$40,000	\$1,022	\$836	\$175,000	\$1,090	\$633
\$45,000	\$1,042	\$936	\$200,000	\$1,183	\$783
\$50,000	\$533	\$947	\$225,000	\$1,183	\$783

DCAP vs. Dependent Care Credit; Head of Household. The following is a comparison for a taxpayer filing as head of household with two qualifying individuals for the DCAP/Dependent Care Tax Credit, EIC, Child Tax Credit, and ACTC, and **\$5,000 of dependent care expenses**, taking the standard deduction and claiming three exemptions. We also show results with one qualifying individual and the taxpayer claiming two exemptions. The taxpayer has no income other than wages and claims no tax credits other than those listed above. Only federal tax savings are considered (not state taxes or credits). The figures below are for the 2014 tax year. Some numbers have been rounded.

Participating in DCAP on a salary-reduced basis is better (or worse) than claiming the Dependent Care Tax Credit by this amount (<i>if negative, the Dependent Care Tax Credit is better</i>)			Participating in DCAP on a salary-reduction basis is better (or worse) than claiming the Dependent Care Tax Credit by this amount (<i>if negative, the Dependent Care Tax Credit is better</i>)		
Gross wages of employee	1 dependent child under age 13	2 dependent children under age 13	Gross wages of employee	1 dependent child under age 13	2 dependent children under age 13
\$10,000	(\$1,922)	(\$2,368)	\$60,000	\$533	\$133
\$15,000	\$383	(\$1,828)	\$70,000	\$893	\$133
\$18,000	\$410	(\$191)	\$80,000	\$283	\$883
\$20,000	\$729	\$703	\$90,000	\$283	\$883
\$25,000	\$882	\$1,436	\$100,000	\$1,033	\$883
\$30,000	\$874	\$1,001	\$112,000	\$1,033	\$883
\$35,000	\$1,182	\$766	\$125,000	\$723	\$323
\$40,000	\$1,034	\$1,086	\$150,000	\$873	\$368
\$45,000	\$533	\$772	\$175,000	\$873	\$473
\$50,000	\$533	\$133	\$200,000	\$873	\$473