



FSAs, HSAs and Limited Purpose FSAs - What's Right For You?

Flexible Spending Account (FSA) - the all-purpose spending account

What is an FSA?

An FSA is a flexible spending account, which is authorized by the IRS and available through your employer. This type of account allows you to set aside money for non-reimbursed health care and/or dependent day care expenses on a pre-tax basis. As you incur health care and/or dependent day care expenses throughout the year, you submit a claim for those expenses, and you are reimbursed with tax-free dollars from your spending account.

A health care account reimburses you for out-of-pocket medical, dental, vision, hearing and pharmaceutical expenses such as deductibles, co-pays, co-insurance, eligible over-the-counter medications, eyeglasses, contacts, eye care solutions and even laser-vision correction.

The dependent day care account reimburses you for dependent day care expenses you incur to allow you and, if married, your spouse to work. These dependent day care expenses include day care, before-and-after school programs, nursery school or preschool, summer day camp and even adult day care.

When you use either one, or both of these accounts, you reduce your taxable income so you pay less in income taxes. To see a list of all eligible expense items for either a health care or a dependent day care account, visit our website at www.mypayflex.com.

Contributing to your FSA

To determine your annual contribution, you will need to estimate the amount you will spend annually on out-of-pocket health care expenses and dependent day care expenses, if you are electing to participate in the dependent day care account. Your annual contribution will be deducted from your paycheck on a pre-tax basis in equal amounts each pay period. The maximum contribution for your health care account is determined by your employer while the

current IRS maximum contribution for a dependent care account is set at \$5000.

Using your PayFlex™ Card with an FSA

You will receive a PayFlex™ Card in the mail to use for eligible expenses. The PayFlex™ Card is a MasterCard and therefore accepted at the majority of merchants. As you use your card for eligible purchases, the money is automatically deducted from your spending account.

Beginning January 1, 2008, when you use your PayFlex™ Card for qualified expenses at a merchant who has implemented an inventory information approval system, your purchases will automatically be approved at the point-of-sale. To view a listing of merchants that have or will be implementing an IRS-approved inventory information approval system, please visit www.mypayflex.com.

Getting reimbursed

If for some reason you did not use your PayFlex™ Card for your purchase, you will need to submit your receipt along with a claim form for reimbursement either online, via fax or mail. The quickest and easiest way to submit your claims is online at www.mypayflex.com using Express Claims. You can also elect to have your reimbursement deposited directly into your checking or savings bank account by enrolling in direct deposit online.

Keeping track of your balance

To check the balance in your account, view transactions, or check the status of a claim, simply access your plan information at www.mypayflex.com.

Health Savings Account (HSA) - the savings account that is available if you have a High Deductible Health Plan (HDHP)

What is an HSA?

An HSA is a health savings account that is tax-exempt for contributions, earnings and

withdrawals for qualified medical expenses. An HSA is only offered in conjunction with a high deductible health plan (HDHP) and is used to save and pay for qualified medical expenses.

The major differences between an HSA and a flexible spending account (FSA) are the following:

- An HSA is portable, meaning that if you leave your employer, you can take your HSA funds with you.
- There is no "use or lose it" provision with an HSA. If you don't use the money in your account by the end of the year, it just stays there and collects interest on a tax-deferred basis.
- An HSA includes a banking partner that offers you investment options. UMB, your banking partner, offers you three investment options to suit your needs.
- An HSA does not require third party substantiation for transactions; however, you should keep records of these transactions in the event of an IRS audit.

Am I eligible for an HSA?

In order to be eligible for an HSA, you must be enrolled in a HDHP and have no other health coverage that reimburses you for the deductible. Other coverage that is not permissible includes a general purpose FSA, however, you can enroll in a limited purpose FSA (LPFSA).

Coordination with a limited purpose FSA

Your HSA will be used to pay for all medical expenses, therefore, you are eligible to enroll in a LPFSA to pay for eligible dental and vision expenses, thereby preserving your HSA funds for savings and investment opportunities.

Contributing to your HSA

The maximum amount that can be contributed to an HSA in a tax year is established by the IRS and is dependent on whether you have single or family coverage for the high deductible health plan. For 2008, the contribution limits are: \$2900 for single coverage and \$5800 for family coverage.

If you enroll in an HSA based on the IRS eligibility regulations anytime between January 1 and December 1 of the current tax year, you are allowed to make the full contribution regardless of the date you actually enroll in the HDHP.

Rollovers from an HRA or FSA

It is permissible for your employer to make a one-time, tax-free rollover of unused healthcare FSA or HRA balances to your HSA provided they comply with IRS regulations. Most importantly, you must remain covered under a HDHP for 12 months after the rollover occurs. Otherwise, the funds rolled over will be treated as taxable income and subject to a 10% excise tax. The transferred funds are not subject to the annual maximum contribution limits, and therefore, will not reduce your annual contributions to your HSA.

Transferring funds from an IRA

You are allowed a one-time, tax-free trustee-to-trustee transfer of IRA funds into an HSA. Funds transferred from an IRA are subject to the maximum contribution limits and should be included in your total annual contribution. In addition, you must remain covered under a HDHP for 12 months after the transfer occurs. Otherwise, the funds transferred will be treated as taxable income and subject to a 10% excise tax.



Using your PayFlex™ Card with an HSA

With PayFlex, you will receive one PayFlex™ Card regardless of the number of spending accounts that you enroll in with PayFlex. For example, if you enroll in an HSA and also a LPFSA, you will receive one PayFlex™ Card. The PayFlex™ Card is a MasterCard which can be used for all qualified expenses. When you use your PayFlex™ Card, the merchant code determines which account the money will be deducted from, either your HSA or your LPFSA.

If you elect both an HSA and a LPFSA, the LPFSA will be used for dental and vision merchant codes only. All other merchant codes will be applied toward your HSA account. Once the LPFSA has been exhausted, all future transactions will automatically be applied to your HSA account. If you do not elect a LPFSA, then all eligible expenses will be applied toward your HSA account.

Investment Options

With UMB, a participant has the following investment options:

- Interest Bearing Account - you will automatically be enrolled in this option.
- Money Market Sweep – using Fidelity Money Market Mutual Funds.
- Brokerage Investment – choose from 185 funds.

Both the Money Market and Brokerage investment options require maintaining a \$1,000 minimum balance in the account along with any minimum investment amounts required by the fund. After your initial \$1,000 investment, you are able to establish an automated recurring purchase into your brokerage account with a minimum of \$100 for each additional purchase. For detailed information on these investment options, please visit www.mypayflex.com.

Keeping track of your balance?

You can view your account information by logging onto www.mypayflex.com and selecting myHSA from the left-hand tool bar. In addition, statements will be mailed to you by UMB on a monthly basis.

At myHSA you will be able to:

- Check your HSA balance
- Obtain HSA reimbursement for medical expenses incurred without the debit card
- View interest rates
- Roll over funds from another HSA
- Enroll in a brokerage account
- Change beneficiaries
- Print various forms
- Link to outside resources

Limited Purpose Flexible Spending Account (LPFSA) - the spending account that coordinates with a health saving account (HSA)

What is a limited purpose FSA?

PayFlex's limited purpose FSA (LPFSA) is a flexible spending account that only reimburses you for eligible dental and vision expenses. A LPFSA is available to employees who are enrolled in a high deductible health plan (HDHP) as well as an HSA. By establishing a LPFSA, you can save money on taxes by using your LPFSA dollars for your dental and vision expenses while preserving your HSA funds for other purposes, including simply saving those funds for the future.

Contributing to your LPFSA

When determining your contributions, please remember that PayFlex's LPFSA can only be used for dental and vision expenses. In addition, once the funds have been exhausted in your LPFSA, all future purchases with your PayFlex™ Card for dental and vision will automatically be deducted from your HSA.

Using your PayFlex™ Card with a LPFSA

When you use your PayFlex™ Card, the bar code or merchant code identifies the type of expense and then applies the expense towards the appropriate account. Dental and vision expenses purchased with your PayFlex™ Card will be deducted from your LPFSA until exhausted. All other qualified expenses will be deducted from your HSA balance.

Getting reimbursed

If you did not use your PayFlex™ Card for your LPFSA purchases, you will need to submit a claim

form for reimbursement either online, via fax or mail. The quickest and easiest way to submit your claims is online at www.mypayflex.com using Express Claims. You can also elect to have your reimbursement deposited directly into your checking or savings bank account by enrolling in direct deposit online.

Keeping track of your account balance

To check the balance in your account, view transactions, or check the status of a claim, simply access your plan information at www.mypayflex.com.

Tools you can use

Spending Account Buying Center

PayFlex has established partnerships with various online vendors to help you spend your spending account dollars more wisely. Accessible at www.mypayflex.com, you can buy items such as over-the-counter medications, prescriptions, vision products and hearing aids using your PayFlex™ Card or any other major credit card. When using your own credit card, you will receive a receipt to use for reimbursement.

Online Account Access at www.mypayflex.com

- Account information
- The accounts you are enrolled in
- Your current account balance
- Chronological listing of your claims, contributions, point-of-sale transactions

Online Educational Tools at www.mypayflex.com

- FSA Tutorial
- Savings Calculator
- Dependent Care Tax Wizard
- Expense Planning Worksheets
- Listing of Eligible & Ineligible Expense Items
- Frequently Asked Questions

"Need to know" information

Reduced receipt requests

The Internal Revenue Service (IRS) recently issued rules specifying where healthcare debit cards, like the PayFlex™ Card, can be used.

As of January 1, 2008, the PayFlex™ Card will only be accepted at:

- Healthcare-related merchants, such as physician and dentist offices, vision care providers and hospitals.
- Non-healthcare related merchants, such as grocery stores, discount stores, wholesale clubs, web-based merchants that use an IRS-approved inventory information approval system.
- Drug stores and retail pharmacies through the 2008 calendar year. These merchants have until January 1, 2009 to implement an IRS-approved inventory information approval system.

This means that PayFlex will no longer require receipts for these purchases since they will automatically be approved at the point-of-sale. To view a listing of merchants that have or will be implementing an IRS-approved inventory information approval system, please visit www.mypayflex.com.

Grace period claims

If your employer offers a grace period, you have an additional 2 ½ months to use your 2008 contributions. This means that even claims incurred between January 1, 2009 and March 15, 2009 will be eligible for reimbursement using your 2008 contributions, but they still must be filed by March 31, 2009.

Questions?

Beginning January 1, 2008, our customer service hours will be 7 a.m. – 7 p.m. CST, Monday – Friday. PayFlex has also implemented an enhanced Integrated Voice Response (IVR) system providing immediate access to your account information. If you have questions or wish to access the IVR system, please call PayFlex at [800.284.4885](tel:800.284.4885).

