

SECTION 125 FLEXIBLE BENEFIT PLANS

A Summary of the Reimbursement Account Arrangement



Unreimbursed Medical Expense Account
Dependent Day Care Expense Account
AFES rev 12/12

HOW YOUR PLAN WORKS



Flexible spending accounts allow you to direct a part of your pay, on a pre-tax basis, into special accounts that can be used throughout the year to reimburse yourself for certain out-of-pocket medical expenses and/or dependent day care expenses. Because your money goes into your reimbursement accounts before federal and state income taxes are withheld, you pay less in taxes, and ultimately have more disposable income. There are two separate accounts: The Unreimbursed Medical Expense Account and the Dependent Day Care Expense Account.

Unreimbursed Medical Expense Account (URM)

Your Unreimbursed Medical Expense Account (Health FSA) may be used to reimburse yourself for eligible medical expenses incurred for yourself, your spouse, your eligible dependents, and/or your adult children* who have not reached age 27 before the end of the calendar year. Your employer establishes your maximum for each plan year.

You may only be reimbursed for expenses incurred for services rendered during the plan year, or if applicable, during the grace period immediately after the end of your plan year. Not all employers offer the grace period; please check with your employer to see if this applies to you. You may also submit your claim for reimbursement on or before the run-off period ends, for claims incurred during the plan year or grace period (if applicable). The length of the run-off period may vary so please consult your employer for details. **Refer to our [website](#) for a listing of eligible and ineligible expenses.**

*As a general rule, employees pay no FICA, federal, or state income taxes on employer or employee Health FSA contributions. However, some state tax rules do not allow the tax-free treatment that applies under federal law and, therefore, Health FSA benefits may need to be included in your income for state tax purposes. For more information, consult with your tax advisor.

Dependent Day Care Expense Account (DDC)

Your Dependent Day Care Expense Account may be used to reimburse yourself for eligible dependent day care expenses incurred to allow you (and your spouse if you are married) to work, or for your spouse to look for work, go to school full-time, or who is incapable of self-care. Work may include actively looking for work, yet unpaid volunteer work or volunteer work for a nominal salary does not qualify. You may allocate up to \$5,000 per tax year for reimbursement of dependent day care services (\$2,500 if you are married and file a separate return).

Special Rules for Dependent Day Care Include:

- You must have income from work during the year.
- You (and your spouse if you are married) must have the same principal place of abode with the dependent for more than half of the taxable year and the dependent must stay in your home at least 8 hours per day.
- You must have made payments for dependent day care to someone you could not claim as a dependent, and, if the person you made payments to was your child, he or she must have been age 19 or over by the end of the tax year.
- Child support payments and child care payments qualifying as alimony are not qualified expenses for reimbursement.

deduction allowable under Code Section 151 for the child, or the custodial parent will sign a written declaration that the custodial parent will not claim the child as a dependent for the year.

Earned Income Limit:

Your eligible expenses during a calendar year may not be more than your earned income for the year, if you are single at the end of the calendar year, or the smaller of your earned income or your spouse's earned income for the year, if you are married at the end of the calendar year.

Dependent Care Tax Credit Alternative:

- You should be aware that you may be able to take a federal tax credit, depending on your adjusted gross income, ranging from 20% to 35% of the amount you pay for dependent day care expenses instead of participating in the Dependent Day Care Expense Reimbursement Account.
- You may use up to \$3,000 of dependent day care expenses to figure your credit if you have one qualifying dependent and up to \$6,000 if you have two or more qualifying dependents.
- The tax credit is a direct reduction of the tax you owe to the federal government, unlike the income exclusion of participating in the Dependent Day Care Expense Account. Many states also provide a state tax credit for dependent day care expenses.
- You should consult with your tax advisor as to whether the tax credit may be more favorable for you than participating in the Dependent Day Care Expense Account. You may also wish to obtain IRS Publication 503 for more information about the federal tax credit.

Important Tax Information for Dependent Care:

Regardless of whether you participate in the Dependent Day Care Expense Account under Section 125 or claim the dependent care tax credit on your income tax, **you must provide the IRS with the name, address and taxpayer identification number (TIN) of your dependent care provider(s) by completing Schedule 2 of Form 1040A or Form 2441 and attaching it to your annual income tax return.** Be sure that you follow the current instructions given by the IRS for preparing your annual income tax return. Failure to provide this information to the IRS could result in loss of the pre-tax exemption for your dependent care expenses.

Options at Employment Termination:

Upon termination of employment an employee may elect to discontinue participation in the Unreimbursed Medical Expense Account or to continue the payment, if eligible, either by pre-taxing the remaining contributions for the plan year from W-2 taxable income or paying for them on an after-tax basis (COBRA) through the end of the plan year. If you elect to continue all remaining contribution on an after-tax basis, the coverage under the Unreimbursed Medical Expense Account will continue until the premium ceases and expenses incurred during the period of coverage (including grace period) will be reimbursed.

If you do not elect to continue the payments on an after-tax basis, only expenses incurred during the period of coverage will be reimbursed (grace period provision will not apply). **Coverage under the Unreimbursed Medical Expense Account ceases when the payments cease.**



HOW TO FILE A CLAIM

1. **Complete an Expense Reimbursement Voucher**, along with the third party documentation. See list of acceptable documentation below.
2. **Submit your completed form and documentation** to American Fidelity's Flex Department. You can either mail it to the address located on the bottom of the voucher or fax it toll-free to **1-800-543-3539**.
3. **American Fidelity's Flex Team will process the voucher** and you will be reimbursed for your eligible expenses. The medical expense reimbursement will be for the amount of the eligible expenses claimed up to the maximum benefit amount you elected for the plan year. The dependent day care expense reimbursement will be for the amount of the eligible expense you claimed up to the amount you have accumulated in your account. If the dependent day care expense claim is in excess of your account balance, the balance of the amount due will be forwarded to you as additional contributions are received.
4. You can choose to have your reimbursement mailed to you or electronically deposited into your checking account.

Unreimbursed Medical Acceptable Documentation with a Voucher Form:

1. Professional bill or receipt that includes provider of service, type of service rendered, original date of service and charge for the service. NOTE: the date of service, not the date of payment, must fall within the plan year for which you are enrolled.
2. Insurance Company Explanation of Benefits (EOB).
3. Pharmacy statement that includes Rx number and the name of prescription, along with amount charged.
4. Over-the-counter drugs and medicine require a medical practitioner's prescription and receipt

Dependent Care Acceptable Documentation with a Voucher Form:

1. Dependent Day Care Provider Acknowledgment Form.

Unreimbursed Medical Unacceptable Documentation with a Voucher Form:

1. Cancelled checks / credit card receipts.
2. Bill or receipt that shows a balance forward / previous balance or payment.
3. Documentation that is not legible.

QUESTIONS & ANSWERS:



Q: Can I view my account on-line?

Yes, simply go to our web site at americanfidelity.com. To sign up for access to our secured Online Service Center. You will then be able to securely review your account, including deposits, reimbursement requests, reimbursements issued and balance.

Q: How long will it take for my claim to be processed?

Once the first deposit is received, claims are processed within an average of 5-7 business days from the received date. If you fax your claim, you will save on mail time. You can also sign up to have your reimbursement deposited directly into your checking account.

Q: How often do I need to submit my claims?

You may submit your claims as often as is convenient for you. Because of the increased volume of claims submitted at the end of the calendar year, the processing time may be longer than during the rest of the year. We would suggest submitting claims all throughout the plan year to avoid delays.

Q: What paperwork is required for an unreimbursed medical claim?

We need a professional receipt or an itemized statement from the medical provider of service that includes:

- 1. Original date of service, 2. Type of service rendered, 3. Charge for the service, and 4. Provider of service.*

Effective January 1, 2011, you must provide a medical practitioner's prescription in order to be reimbursed for over-the-counter drugs or medicines. Please refer to the eligible expense chart located at the back of this booklet for additional information.

Some expenses require a doctor's statement to justify the expense. When a doctor's statement is required, it should be on the doctor's letterhead (or prescription pad) and should state that the treatment or expense is necessary to treat the specified medical condition. Please refer to the eligible expense chart located at the back of this booklet for additional information.

Q: How can I find out if you received my fax?

We receive a very large volume of faxes daily. They are tracked in our system by the date received. You can include your e-mail address on your election form or reimbursement voucher. Once your e-mail address has been entered into our system, you will receive notifications when your claim is received, when it has been processed, and of a direct deposit.

Q: The run-off period for my plan will end very soon. Does my claim have to be in your office by the last day of the run-off period, or just postmarked by this date?

*Claims **must be received** in our office on or before the last day of the run-off period. American Fidelity will **not** honor claims received after the run-off ends.*

DIRECT DEPOSIT



Have you signed up to have your flexible spending account reimbursement deposited directly into your checking account?

- * Direct deposit eliminates the possibility of your check being lost or delayed in the mail!
- * Direct deposit eliminates that trip to the bank to deposit your reimbursement check!

Each time a deposit is made to your account, you will be mailed an Explanation of Benefits that shows the deposit made as well as a summary of your account. If you have provided us with your e-mail address, this notification will be e-mailed to you. This will let you keep track of your account just as you always have.

How do you get started on Direct Deposit?

Just complete the Flex Authorization for Direct Deposits that you will find on the web site and mail or fax it back to us!

How do you make a change?

If you change banks or account numbers, simply complete a new authorization agreement. We will stop your deposits as soon as we receive the new authorization.

How long will this authorization remain in effect?

This authorization will remain in effect until you send us written notification to terminate it. If you elect to participate in the reimbursement account for the next plan year, your authorization will carry over. If you elect not to participate in the reimbursement accounts for the next plan year, no deposits will be made to your account following the run-off period.

We hope that you will decide to take advantage of this convenient service! If you have any questions, please call us at 1-800-325-0654.