

Pre-Tax Benefit for BTU Members

Flexible Spending Plan Allows Pre-Tax Income to be Used For Certain Medical, Dependent Care Expenses and Some Transportation and Parking Expenses

Great Program, Little Effort, Terrific Savings

Open Enrollment 10/26/15 - 11/30/15

**By Richard Stutman
BTU President**

A benefit plan that allows eligible employees to shelter up to \$2,550 in pre-tax income per calendar year to pay for certain medical expenses is now in effect. To be eligible for the plan, employees must work at least 20 hours per week (half-time or more) on a regular basis. For further information on eligibility, please call 1-800-544-2340 or 1-781-848-9848.

Under the city's **Flexible (Medical) Spending Account (FSA)** employees who opt for inclusion will be reimbursed for a variety of out-of-pocket medical expenses (such as doctor/dentist co-pays, prescriptions, and chiropractic, acupuncture, as examples) with pre-tax dollars which are exempt from federal, state and FICA taxation. A typical teacher who joins the plan can save up to 33% of \$2,550 of out-of-pocket medical expenses per year. Retirement contributions are not affected.

Medical/Dental reimbursements can be completed at the point of sale **via a debit card**, which allows for real-time use of your funds without having to submit a form for reimbursement.

The plan essentially parallels the **Dependent Care Plan (DCAP)**, which allows pre-tax dollars (up to \$5,000 per year) to be used for dependent care, such as day care or elder care.

Close to one thousand city employees have joined one or both of the plans. **The application deadline for setting up a deduction for 2015 is November 30, 2015.** One can sign up at one of the open houses (to be announced) or by calling [1-800-544-2340](tel:1-800-544-2340) for an application, which can also be downloaded at www.cpa125.com. This is a terrific, relatively seamless, way to save money by using pre-tax dollars for a variety of expenses.

The plan also allows people to set aside pre-tax dollars for some **parking** expenses (\$250 per month) and **mass transit** expenses (also up to \$130 per month). For more information on all of the above, please see www.cpa125.com or call [1-800-544-2340](tel:1-800-544-2340).

New employees can sign up for either program within 30 days of hire or during the Open Enrollment Period, subject to the eligibility requirement mentioned above. Eligible employees can also sign up within 30 days of some qualifying life events. As this latter provision is a complicated one, to fully understand its significance, one should call [1-800-544-2340](tel:1-800-544-2340) for full information.

All plans are relatively straightforward and **provide a great tax benefit**, but employees have to be cautious when participating inasmuch as moneys set aside for reimbursement must be used up by the end of the calendar year*, or those leftover moneys are forfeited. This regulation arises from Section 125 of the Internal Revenue Service Code, which governs these plans.

***The city now offers a 75-day grace period to spend funds for the Flexible Spending (Medical) plan, through March 15 of the following year.**

Here's an example of how the FSA (medical) works.

Teacher Jones estimates that he will spend \$2000 this year in out-of-pocket medical expenses, and authorizes Cafeteria Plan Advisors, Inc. (CPA), the firm that manages the plan for the city, to take out \$2000 divided by 20 (just for purpose of this example), or \$100.00 over 20 pay periods to pay for these expenses. The money is taken out of Jones's check on a pre-tax basis, and is set aside in an account in Jones's name at CPA.

CPA charges Jones \$48 per year for this service. Continuing with the Jones' example....

Next year, in mid-January, Jones has oral surgery. Jones's out-of-pocket dental expenses (expenses not covered under the Health and Welfare plan) total \$1500 and Jones submits receipted payment of the bill to CPA shortly thereafter. By the end of February he gets his \$1500 rebated to him. The \$1500 spent is not subject to federal (approx. 28%), state (approx. 6%), or the FICA (1.45% for those who entered employment after 3/31/86) tax. In all, Jones saves approximately 35% of the \$1500 or \$525. Jones receives the total reimbursement at the end of February although his 2016 contributions have essentially just started. (Jones, incidentally, still

has \$500 of unused reimbursement money in his account to be used for expenses incurred prior to 12/31/16.)

A few points about the *Flexible Spending Account Medical Plan*:

- Out-of-Pocket Medical expenses are broadly defined, and include for example, deductibles for visits and prescriptions, out-of-pocket medical expenses, hearing devices, special telephones for the hearing-impaired, doctor-prescribed weight loss programs, and contact lenses to mention just a few. Call CPA, Inc. at [1-800-544-2340](tel:1-800-544-2340) or go to their webpage for a more detailed listing.
- Over the counter drugs such as antacids/pain relievers/allergy & cold medicines are no longer allowable expenses. THIS IS A CHANGE.
 - Many over the counter items still qualify, such as antiseptics, baby electrolytes, denture adhesives and medical batteries. See the CPA webpage for a complete list.
- You can get reimbursed for expenses up to your annualized (full) deduction regardless of how much has been deducted from your paycheck as of the date of claim. (N.B. The DCAP works differently in this regard. In the DCAP, your reimbursement schedule cannot outpace your contribution schedule.)
- You cannot generally make changes (including a stop) in your contribution schedule once the calendar year begins UNLESS your certain circumstances (marriage, divorce, death, adoption, or birth) change. A complete explanation can be found in the brochure published by CPA.
- You will forfeit moneys not used in the calendar year**, so you must be very careful in setting up your annual allowance. Do not overestimate your projected expenses. At the end of the calendar year, you will have 75 calendar days to submit a claim for reimbursement for expenses that took place during the previous calendar year.
- While the tax savings in either plan are great, you need to be aware of plan rules, regulations, and limitations BEFORE committing. If you have any doubt as to the advantages or disadvantages of enrolling, you are advised to consult an independent financial adviser.

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One can set up a Dependent Care Plan in addition to a Medical Flexible Spending Account and/or any of the other accounts. The mechanics of all plans are essentially the same, except for the issue of the reimbursement schedule noted above. The accounts, including the transportation accounts, cannot be co-mingled, i.e., you cannot transfer dollars between the various accounts.

The dollar limit of the **Dependent Care Plan** is \$5,000. The same cautions apply. Please keep in mind a few other points as well.

- Eligible DCAP expenses include day care, elder care, pre-school tuition and before/after-school programs.
- Should you participate in the DCAP, the tax-free reimbursement you receive reduces the amount of the income tax credits you are otherwise eligible for. CPA Inc. will help you *generally* determine whether using tax credits or setting aside tax-free dollars is the most advantageous method for you. *You still may want to seek independent help from a tax adviser.* You can call CPA Inc. at [1-800-544-2340](tel:1-800-544-2340).
- Should you participate in the Dependent Care Plan you must provide the IRS on form 2441 with relevant information, including a social security number or a taxpayer ID, regarding the care-giver.

Transportation Accounts

Eligible expenses include daily or monthly parking expenses and mass transit expenses (including a T Pass) related to your commute for work. As above, call the 800 number or see the webpage for more information.

How to Sign Up:

One can call CPA, Inc., at [1-800-544-2340](tel:1-800-544-2340) by the end of this year's Open Enrollment and have an application initiated, mailed out to the employee, and then returned with a signature

to CPA by 11/18/11. In the meantime, if you have any questions, please call CPA, the city's Group Insurance Office at 635-4570, or the union office. (Informational sessions will be scheduled, but the dates are unknown as of this writing.)

Current participants will receive an authorization form mailed directly to their home address shortly. If you are a current participant and haven't gotten the authorization form by mid November, please call Kim at CPA, Inc., and you will get a re-enrollment form in the mail. Reenrollment is not automatic. **If you are not a current participant, you MUST call 1-800-544-2340, enroll online at cpa125.com, or show up at an open house (TBA).**