PEEHIP®

Public Education Employees' Health Insurance Plan

Health Flexible Spending Account

Preferred Blue®

Accounts

More Choices for Consumers

A Health FSA Can Save You Money

As part of your benefits program, you can use pre-tax payroll deductions to set aside cash for many health care expenses not covered by PEEHIP. You can set up a tax sheltered Flexible Spending Account (FSA) during your open enrollment period of July, August and September to be effective October 1.

Money set aside in your Health FSA will reduce your taxable income, providing you and your family more value for your dollar.

Flexible Spending Accounts

As a PEEHIP active/employed member, this account can be used to pay for most health care expenses not covered by your health, dental and vision insurance. Money from this account is best used for regular, predictable health expenses.

Participation in this account is voluntary. Setting up a Health FSA can provide tax advantages that your tax advisor can confirm and explain to you.

While a Health FSA can save you money by using pre-tax dollars, it requires careful planning. Your plan year ends on September 30. As a PEEHIP member, you have a "carryover provision" that allows you to roll over up to $500 of unused funds remaining in your health FSA at the end of the plan year on September 30, and carry over the funds for covered health FSA eligible expenses into the next plan year effective October 1. Any unused amounts in excess of $500 remaining in your health FSA at the end of a plan year will be lost.

Some common eligible expenses that can be paid from the Health FSA include:

- Prescription drug copays
- Over-the-counter medications submitted **with** a copy of the doctor's written prescription
- Glasses/contacts
- Deductibles and copays to doctors
- Coinsurance
- Braces/partials/teeth implants
- Hearing aids and batteries
- Vitamins and supplements with a letter of medical necessity

Expenses that are not eligible include:

- Over-the-counter medications submitted **without** a copy of the doctor's written prescription
- Cosmetic surgery, electrolysis, teeth-whitening
- Hair transplants, hair removal and prescription drugs when the primary use is to promote hair growth
- Programs such as health clubs, spas, etc.
- Expenses reimbursed by a third-party health insurance carrier
- Expenses incurred before the effective date of the account. This includes services received before you enrolled in the account or after your termination date

How Does the Account Work?

During open enrollment, or within 30 days of hire date, a member can enroll in the Health FSA and elect an amount to contribute to the Flex Healthcare Account (HCA). The amount you elect will be divided into equal monthly amounts. These contributions are deducted from your pay before taxes are withheld and deposited in your tax sheltered Flex account.

Once you enroll, you will receive a welcome letter from Blue Cross and Blue Shield of Alabama with information about your Flex account.

If you have insurance coverage through PEEHIP, your out-of-pocket expenses will automatically be sent to you without you having to file a receipt. If you have coverage with another carrier you must notify Customer Service so that your Health FSA reimbursements will process correctly. You will need to file a Request for Reimbursement form with appropriate documentation about the services rendered and what the other carrier paid in benefits.

The money you have paid out-of-pocket is reimbursed to you from your account. You can even elect to have the money deposited directly into your checking or savings account or have the annual allotment held until the end of the plan year and have one check issued.*

The Health FSA acts like an interest free loan in that you can receive reimbursements from your Health FSA for the entire annual election amount regardless of how much you have actually had payroll deducted. In effect, you can receive reimbursement advances on what you will contribute through payroll deductions later in the year.

All eligible Request For Reimbursements must be received or postmarked no later than 105 days following the end of the plan year or within 105 days after your flexible spending termination date if you retire or terminate employment before the end of the plan year in order to be processed.

* Applies to Southland dental and vision coverage as well as hospital/medical and prescription drug coverage.

Helpful Information From the Internal Revenue Service

IRS publication 502 offers a general guideline of eligible expenses for your Health FSA and can help you decide whether to use this account. You may call the IRS at the toll-free number listed in your local telephone directory or visit them on the web at **www.irs.gov** for a copy of this publication.

How Can A Spending Account Reduce My Taxes?

Spending accounts reduce your taxes by reducing your taxable income. Using these pre-tax accounts can make a significant difference in your take-home pay.

Example	**Without Account**	**With Account**
Taxable Income	$36,000	$36,000
Pre-tax Contribution Used for Health Expenses	0	-2,500
Taxable Income – Adjusted	$36,000	$33,500
Subtract Federal and Social Security Taxes*	-5,400	-5,025
After-tax Dollars Spent on Eligible Health Expenses	-2,500	0
Spendable Income	$28,100	$28,475
Your Tax Savings is:	**—**	**$375**

* Assumes combined tax rate of 15%

The chart illustrates what would happen if your annual pay is $36,000 and you have $2,500 in eligible health expenses not covered by any other benefit plan.

Example: Health FSA

John's daughter needs braces next year that will cost $1,200. John also knows he needs new glasses which are going to cost $208. John has a $200 calendar year deductible under his health care plan.

Employee Status:
Married, three federal exemptions

Monthly Salary:
$2,000

John's Medical Expenses		
	Calendar Year Deductible	$200
	Dental Care	1,200
	Vision Care	+ 208
	Total	$1,608 for the year (or $134 per month)

John estimated that he will spend at least $1,608 on non-covered medical expenses over the course of the year. The following will show how a Health FSA can increase John's spendable income.

	Without Account	**With Account**
Monthly Gross Pay	$2000.00	$2000.00
Pre-tax FSA deduction	- 0	- 134.00
Taxable Gross Income	$2000.00	$1866.00
Less Taxes:		
FICA (7.65%)	153.00	142.75
Federal (15.0%)	300.00	280.00
State (4.4%)	88.00	82.10
Net Pay	$1459.00	$1361.15
Reimbursement from Health FSA	$0	$134.00
Spendable Income	$1459.00	$1495.15

As the example shows, John's taxes are lower. Although John's net pay is less than before, he now has contributed money toward the Health FSA and will be reimbursed during the year as he incurs medical expenses. By the end of the year, John's **spendable income** increases by $433.80. ($1,495.15 - $1,459.00 = $36.15 x 12 Months = $433.80)

Health FSA

Employee Savings Work Sheet

Spending Account vs. Income Tax Return

Health care expenses exceeding 7.5% of Adjusted Gross Income (AGI) may be taken as itemized deductions on your federal income tax return. Only expenses over 7.5% of AGI can be deducted. If you use the Health FSA, all eligible expenses are paid with tax-free dollars. Your tax savings start with your very first payroll deduction.

	Using the Income Tax Itemized Deduction	Using the Spending Account
Adjusted gross income	$20,000	$20,000
7.5% AGI maximum amount	$1,500	Not applicable
Medical expenses	$1,500	$1,500
Amount allowed as an itemized deduction on tax return	0	Not applicable
Reimbursed from Health FSA pre-taxed*	Not applicable	$1,500
Tax savings assuming 15% bracket	0	$225
Tax savings assuming 28% bracket	0	$420

*Assuming that the Health FSA is limited to $1,500

Health FSA

Questions and Answers

Q What is a Health FSA?

A Health FSAs are governed by IRS Code section 125 and allow you to pay out-of-pocket medical expenses with pre-tax dollars. This helps make these expenses more affordable while providing a tax savings.

Q How does a Health FSA work?

A If you decide to participate in a Health FSA, during open enrollment you will elect an annual contribution amount. This amount will be divided into equal monthly amounts and deducted from your pay during the plan year. This information is forwarded to Blue Cross and Blue Shield of Alabama. The money is held in your account. When an eligible expense is applied to the account, you are reimbursed by the plan. Therefore, the actual cost of paying for such services is less than it would be if after-tax dollars are used.

Q What are the advantages of a Health FSA?

A A Health FSA offers substantial benefits. Because the money comes out of pay before taxes, taxable income decreases and you pay less in federal, state, local and Social Security taxes.

Q What are the disadvantages of a Health FSA?

A It is very important that you estimate your expenses carefully, because amounts deposited to your account in excess of $500 that are not used by the end of the plan year will not roll over into the following plan year and cannot be returned to you. Also, because you are reducing your Social Security contribution, there could be an effect on your future Social Security benefit. These reductions usually are not significant, but you need to be aware of them.

Q Who can participate in a Health FSA?

A All eligible active employees, their spouses and eligible dependents as defined by the IRS. Retired members are not eligible to participate in the FSA.

Q Does an employee have to participate in a medical insurance plan to contribute to a Health FSA?

A No, all qualified medical expenses are eligible for reimbursement under a Health FSA regardless of participation in a medical, dental and vision insurance plan.

Q Does a Health FSA affect my tax deductions?

A Yes, the IRS allows you to pay for eligible health care expenses, including those expenses that are not reimbursed under an insurance plan, with tax-free dollars through a Health FSA. You can only claim health care expenses exceeding 7.5% of your adjusted gross income as an income tax deduction on your return. With a Health FSA, a participant is able to receive 100% tax savings immediately when the services are rendered as opposed to waiting until the tax returns are filed.

Q Can I receive the full amount of my election placed in my Health FSA at anytime during the plan year?

A Yes, you can receive the full amount of the election in the Health FSA at the time the expenses are incurred even if the payroll deductions have not been taken.

Q What is the maximum or minimum I can contribute to my account?

A PEEHIP established a minimum annual amount allowed for the plan of $120. Effective October 1, 2015, the maximum annual amount is $2,550.

Q Can I change the amount I elect to contribute to my Health FSA?

A Yes, you can change the amount you contribute annually during the flexible open enrollment period. However, during the plan year you may change your contribution only if you experience a qualified change in your family status, as defined in the plan document, and request a change within 45 days of the qualifying event.

Q What happens if I have not used all the money in my account by the end of the year?

A As a PEEHIP active/employed member, IRS regulations dictate that the money left in the account at the end of the year is forfeited. This is commonly known as the "use it or lose it" rule. Your plan year ends on September 30. As a PEEHIP member, you have a "carryover provision" that allows you to roll over up to $500 of unused funds remaining in your health FSA at the end of the plan year on September 30, and carry over the funds for covered health FSA eligible expenses into the next plan year effective October 1. Any unused amounts in excess of $500 remaining in your health FSA at the end of a plan year will be lost.

Q What can I do to insure that I don't lose money in my account?

A To insure that you will not lose money, base your contribution on last year's expenses. Budget conservatively, but don't overlook the incidental expenses like glasses, contacts, braces, dental work, copays and deductibles that add up. And remember, if a small amount is forfeited, it's often outweighed by the tax savings and increased spending money you'll net.

Q How do I file for reimbursement?

A If your medical and/or dental insurance is with Blue Cross and Blue Shield of Alabama, your out of pocket expenses for medical services will automatically apply to your account. If you have medical, dental or secondary coverage with another carrier you must notify Customer Service so that your Health FSA reimbursements will process correctly.You will need to file a Request for Reimbursement form with appropriate documentation about the services rendered and what the other carrier paid in benefits. Contact Customer Service at 1-800-213-7930 to request a form, or visit the website at **AlabamaBlue.com** or PEEHIP's website at **www.rsa-al.gov.**

Requests for reimbursement should include a copy of the original receipt or doctor's superbill and can be submitted on our website at **AlabamaBlue.com**, with the **Alabama Blue** mobile app on your smart phone, or by mail/fax to:

Preferred Blue Accounts
P. O. Box 11586
Birmingham, Alabama 35202-1586

Fax to: 205-220-7991
Toll-Free Fax: 1-877-889-3610

Q Do I need receipts to receive reimbursement?

A Yes, for items not processed using PEEHIP insurance. The reimbursement requests should be accompanied by Claims Processed Reports from the insurance carrier and receipts from the provider.

Q Can I be reimbursed for over-the-counter medications from my Health FSA?

A Yes, but only if submitted with a copy of the doctor's written prescription. All over-the-counter medications require a a copy of the doctor's written prescription to be considered an eligible Health FSA expense.

Q Can I claim my insurance premium or my spouse's insurance premium through my Health FSA?

A No, premiums are not an eligible Health FSA expense. However, your PEEHIP insurance premiums are a separate pre-tax deduction through your employer's cafeteria plan.

Q Can the Health FSA reimburse my provider directly?

A No, the Health FSA cannot make a payment on your behalf. All reimbursements must go directly to the member.

Q Do I have to keep track of how much money is in my account during the year?

A No, Blue Cross will do it for you. If you are not currently an online user for your Health FSA, you will receive a statement of your account balance with each reimbursement. Statements are also sent quarterly when there is no recent reimbursement to advise you of your account balance. This is an added step to help plan expenses and reduce the amount of unused funds at the end of the year. If you would like to become an online user for your Health FSA to view your account balance and begin receiving online account statements, visit **AlabamaBlue.com** or download the **Alabama Blue** mobile app.

Q If I leave my job, may I still participate in the Health FSA program?

A No. If you terminate employment or retire before the end of the plan year, your Health FSA will terminate the first day of the following month. Membership ends when employee terminates employment, retires, goes on leave of absence or dies. You must use or incur the money in your Health FSA by the flexible spending termination date and file for reimbursement before the 105 day filing limitation.

Q If I have a question regarding my spending account, who do I call?

A Contact Blue Cross and Blue Shield of Alabama Customer Service at 1-800-213-7930.

Your Health FSA

To help you decide whether and how much to contribute to your Health FSA:

- Look carefully at your yearly expenses for medical care not covered by your PEEHIP medical plan or any other medical plan through which you have coverage, like regular prescriptions for you and your dependents, glasses, contacts, braces and/or dental work.
- Will this year's expenses be about the the same as last year? More? Less?
- Think about the amount to set aside each month to reach the annual total you estimate.

Please note that enrollment in your Health FSA does not automatically renew. You must re-enroll each plan year.

If you have any questions about your Preferred Blue Account call: 1-800-213-7930

File reimbursement requests:
AlabamaBlue.com
or
Alabama Blue mobile app
or mail/fax to:
Blue Cross and Blue Shield of Alabama
Preferred Blue Accounts
P. O. Box 11586
Birmingham, AL 35202-1586
Fax: **205-220-7991** • Toll Free Fax: **1-877-889-3610**

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BlueCross BlueShield of Alabama

An Independent Licensee of the Blue Cross and Blue Shield Association

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