

FAQs FOR EMPLOYEES

The landmark healthcare reform law enacted earlier this year made changes to healthcare Flexible Spending Accounts known as FSAs. Below are some frequently asked questions and answers regarding the changes.

CHANGES

Q: *What changes can I expect to my tax-advantaged health accounts as a result of the recently passed healthcare reform laws?*

A: There are three changes that become effective at separate dates:

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| 1) March 30, 2010
Effective on this date | <u>Eligibility:</u> Eligibility for employer-provided health reimbursements has been expanded to include children under age 27 as of the end of the taxable year. |
| 2) January 1, 2011
Effective with purchases made on or after this date | <u>OTC Drugs:</u> In order to be reimbursed for over-the-counter (OTC) drugs and medicines from your FSA, you must provide supporting documentation, such as a doctor's prescription. |
| 3) January 1, 2013
Effective for your first plan year that starts on or after this date | <u>Contribution Cap:</u> If you participate in an FSA, your employer will be limited when setting your healthcare FSA's maximum contribution amount to \$2,500 per year. This cap will be adjusted annually, indexed to inflation, after 2013. |

Q: *How will these new changes affect me, as a participant in my company's healthcare FSA plan?*

A: The majority of healthcare FSA participants will not be affected by these changes. Studies have shown, the average annual contribution is \$1,400, below the \$2,500 cap. Also, most reimbursements (about 90%) are for doctor co-pays, deductibles, and prescriptions - all of which are still eligible. The majority of OTC drugs, which account for approximately seven percent of reimbursements, are also still eligible.

CONTRIBUTIONS

Q: *Regarding the \$2,500 cap on FSAs, why did the government limit what I can contribute into my healthcare account?*

A: Because it limits the amount of employees' income that is exempt from taxation, capping pre-tax contributions to healthcare FSA accounts is expected to raise an estimated \$68 billion in taxes over the next decade to help pay for healthcare reform, by increasing the government's revenue stream.

Q: *What about my contribution for day care?*

A: Currently, the contribution cap for dependent day care is expected to remain at the current amount of \$5,000.

Q: *How do I determine how much to contribute to my account?*

A: The best way to determine how much of your pre-tax pay to put into a tax-advantaged health account is to first review what your out-of-pocket medical expenses were in previous years, including for your healthcare plan deductible, co-pays, prescriptions, dental visits, vision expenses, etc. Then take into consideration any procedures you plan to have done this year (for example, Lasik surgery, major dental work, etc.) and estimate what your total out-of-pocket expenses will be. You can then set the amount of your pre-tax contribution for the next two years for any amount up to the limit that your employer has established.

FAQs FOR EMPLOYEES (CONTINUED)

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ELIGIBLE REIMBURSEMENTS

Q: *What over-the-counter (OTC) “drugs and medicines” are affected by the healthcare reform?*

A: Starting January 1, 2011 OTC medicines, other than insulin, will now require a prescription to be reimbursable through your FSA. OTC drugs and medicines include, but are not limited to, the following:

- cough, cold and flu medicines
- stomach remedies
- antibiotic ointments
- pain relievers
- anti-itch, insect bites
- digestive aids
- allergy
- sinus medicines
- sleep aids
- anti-parasitic treatments
- baby rash ointments, creams
- feminine anti-fungal/anti-itch
- motion sickness
- cold sore remedies
- laxatives

If you aren't sure, it is probably a good idea to ask your doctor to provide you with written documentation.

Q: *Will I still be able to purchase over-the-counter supplies and equipment, such as bandages?*

A: Yes, many of those kinds of items that are available at drugstores and pharmacies, including (but not limited to) first-aid kits, hearing aid supplies, foot therapy supplies diabetic management supplies, adult diapers, will remain eligible without a need for a prescription.

Q: *How about the purchases of vitamins and supplements?*

A: Vitamins, minerals and other supplements already require additional documentation from a physician, therefore existing documentation requirements for these expenses are not expected to change.

Q: *Will I need supporting documentation to be reimbursed for my insulin purchases?*

A: No. Insulin receives special treatment and remains eligible without a prescription.

PARTICIPATION

Q: *Is it true that I can now include reimbursement for my adult child?*

A: Yes, effective 3/30/10, your Company may immediately permit pre-tax salary reductions for adult children who are under age 27 as of the end of the employee's taxable year, even if the child does not qualify as your tax dependent. This applies to children, step children, legally adopted children, children placed with the employee for adoption, and eligible foster children.

Q: *Is there any benefit to participating in a healthcare FSA once these changes go into effect?*

A: Absolutely. Flexible spending accounts help you reduce your expenses by using pre-tax dollars to reimburse you for out-of-pocket medical expenses including dental and vision costs, prescriptions, co-pays and deductibles. Studies show participants in tax-advantaged FSA accounts, save between \$250 and \$400 each year.