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Plan Today for Tomorrow's Expenses

[Section 125 Plan & Flexible Spending Accounts](#)

Section 125 Plan

LEARN HOW TO SAVE MONEY

If there was a program available that could save you money on your taxes and help you proactively plan for out-of-pocket expenses, would you take advantage of it? That's exactly what a **Section 125 Plan** does – reduces your taxes and increases your spendable income. Under a Section 125 Plan, employers can offer eligible benefits to employees, through payroll deduction, on a pre-tax basis.

This employer-sponsored program is designed to help you save money on important expenses like eligible insurance premiums, health-related expenses, and dependent care expenses.



When you designate money to pay for your benefits on a pre-tax basis, you are actually decreasing your taxable income, allowing you to take more money home each paycheck.

What are my benefit options?

Available benefits vary from employer to employer. Some of the benefits that qualify under a Section 125 Plan that may be part of your employer's plan include:

- Group Medical Insurance
- Hospital Indemnity Insurance
- Disability Income Insurance
- Vision Insurance
- Dental Insurance
- Accident Only Insurance
- Group/Individual Term Life Insurance
- Unreimbursed Medical Expenses
- Dependent and Child Care Expenses

HOW TO ENROLL AND MAKE ELECTION CHANGES

Enrolling in Your Plan

Before your plan year begins, your American Fidelity Assurance Company (American Fidelity) account manager will visit your site to discuss all benefit options and answer any questions you may have regarding the benefits available to you. It's important that you meet with your representative, as this is your only chance to enroll or make changes for the upcoming plan year.

Making Changes

We understand you cannot always control the events that occur in your life. Therefore, regulations will allow you to make a change during the plan year if you experience an allowable election change event.

Some examples* of an allowable election change event include:

- Change in legal marital status
- Termination or commencement of employment
- Change in residence or employer that affects eligibility for coverage
- Change in number of dependents
- Dependent satisfies or ceases to satisfy dependent eligibility requirements

SEE HOW MUCH YOU COULD SAVE

In the sample paycheck below, you can see how much an individual could save under a Section 125 Plan on a monthly and annual basis.

Without A Section 125 Plan	With A Section 125 Plan
\$2,000.00 Pay Period Salary	\$2,000.00 Pay Period Salary
N/A Insurance Premiums and Out-of-Pocket Expenses	-\$436.15 Insurance Premiums and Out-of-Pocket Expenses
\$2,000.00 Taxable Gross	\$1,563.85 Taxable Gross
-\$400.00 Taxes (Federal & State @ 20%)	-\$312.77 Taxes (Federal & State @ 20%)
-\$153.00 Less Estimated FICA (7.65%)	-\$119.63 Less Estimated FICA (7.65%)
-\$436.15 Insurance and Out-of-Pocket Expenses (After Taxes)	N/A Insurance and Out-of-Pocket Expenses (After Taxes)
\$1,010.85 Estimated Adjusted Take Home Pay	\$1,131.45 Estimated Adjusted Take Home Pay

With a Section 125 Plan, this employee saves **\$120.60** per period, with a potential annual savings of **\$3,135.60!**

● **Section 125** is a provision in the Internal Revenue Code that allows employers to offer employees select qualified insurance benefits to be purchased with before-tax dollars.

❓ **What is a Section 125 Plan Year?** A plan year defines the dates from when your plan year begins to when it ends. The elections that you make during open enrollment are applied for the entire plan year.

If you are subject to FICA taxes, there might be a slight reduction in your social security benefit due to the reduction of FICA contributions. Example is for illustrative purposes only. Please consult your tax advisor for actual tax savings.

Flexible Spending Accounts

Flexible Spending Accounts (FSAs) are great tools to help with common medical expenses not covered by your insurance and/or dependent care expenses. You may elect a portion of your salary to be deducted, on a pre-tax basis, from each paycheck to use for reimbursement of qualified expenses throughout the plan year.

There are two FSAs available to you:

- Health Flexible Spending Account
- Dependent Day Care Flexible Spending Account

Did You Know?

With a Section 125 Plan and Flexible Spending Account, employees may save an average of **30%** in federal, state, and local taxes on items they already pay out of pocket.¹



¹Ceridian: FSA Calculator; accessed December 15, 2014.

^{*}Please contact your employer for guidance with your specific situation.

Health Flexible Spending Accounts

HOW IT WORKS

A Health Flexible Spending Account (Health FSA) may be used for the reimbursement of eligible medical expenses incurred by you, your spouse, or eligible dependents. All eligible employees may participate in a Health FSA, even if you do not have medical coverage through your employer.

When determining your contribution amount, it is important to understand how your employer's plan works and the maximum allowed contribution amount per plan year. To help you determine how much to contribute, complete a Health FSA worksheet at www.americanfidelity.com/FSAtips.

Eligible and Ineligible Expenses

You may use your account to pay for a variety of healthcare products and services for you, your spouse, and your dependents. The Internal Revenue Services (IRS) determines which expenses are eligible for reimbursement. The following are examples of common types of eligible and ineligible expenses. For a more complete list of eligible expenses, please visit www.americanfidelity.com/FSAtips.



Did You Know?

The 2015 Health FSA contribution limit is **\$2,550**. You may set aside as little or as much as you want, up to the legal limit, based on what your family needs.

Examples of Eligible Expenses:

- Copayments and deductibles for medical visits
- Eye exams and eyeglasses
- Lasik
- Orthodontia expenses¹ and other dental expenses
- Prescription drugs and certain eligible over-the-counter medicines (with a prescription)
- Transportation expenses relative to medical care including mileage at IRS allowable rate

Examples of Ineligible Expenses:

- Cosmetic procedures
- Chapstick
- Toothbrushes
- Expenses reimbursed under any other health plan or from any other source
- Insurance premiums
- Vitamins (for general health)

"Use or Lose"

It is important that you carefully choose your election amount each year. Under IRS regulations, if you don't use your full election amount during the required timeframe, any remaining funds are forfeited. Check with your employer to see if your plan offers a Runoff Period, Carryover Provision, and/or Grace Period.

- **Runoff Period** - A period after the plan year ends when you are able to submit claims that you incurred during the previous plan year but have not yet submitted.
- **Carryover Provision** - You are able to carry over up to \$500 of unused contributions from one plan year to the next, which may be used to reimburse eligible medical expenses incurred anytime during the next plan year.
- **Grace Period** - An additional 70 days following the end of the plan year in which you are allowed to incur Health FSA claims and still receive reimbursements.

HEALTH FSA CARD

The Health FSA Card² allows you to pay for eligible medical expenses with your card instead of paying out of pocket, eliminating your reimbursement wait time. Although payment will come directly from your account, you must save all receipts, as proof of purchase is required. Take a look at this example of traditional reimbursement versus reimbursement using a Health FSA Card.



Did You Know?

IRS regulations still require you to submit receipts, even if you pay with your Health FSA Card.

When may I use my Health FSA funds?
With your Health FSA, you have access to your full election amount at the beginning of the plan year for reimbursement of eligible expenses.

Where can I use the Health FSA Card?
Medical-related facilities, including doctor's offices and hospitals, will accept your Health FSA Card. Retailers, such as drugstores and pharmacies whose computer systems recognize eligible expenses when scanned, will also accept your card.

What over-the-counter expenses are eligible without a prescription?
All over-the-counter drugs and medicines require a prescription for reimbursement. Other eligible items not considered a drug or medicine may be reimbursed with just a receipt (e.g., Band-Aids, contact solution, heating/cooling pads, etc.).

How do I know which over-the-counter items require a prescription in order for me to make a claim on my Health FSA? *Generally, if a medicine has drug facts, it is considered a prescription medicine.*

¹Future service dates require proof of payment.

²Check with your employer to see if the Health FSA Card is offered.

FSA STORE

For your convenience, you may purchase eligible medical items, including over-the-counter medicines, contact solution, Band-Aids, diabetic supplies, sun screen, and more on [FSAstore.com](https://www.fsastore.com).

LIMITED PURPOSE HEALTH FLEXIBLE SPENDING ACCOUNT

An option for Health Savings Account (HSA) participants is a Limited Purpose Health FSA (LPHFSA). A LPHFSA may reimburse out-of-pocket vision and dental expenses while core medical expenses, including vision and dental expenses, would be reimbursed from your HSA. If your employer participates in an HSA program, see if a LPHFSA is available and ask for more details.

Dependent Day Care Flexible Spending Account

HOW IT WORKS

A Dependent Day Care Flexible Spending Account (Dependent Day Care FSA) is used to reimburse yourself, with tax-free funds, for eligible dependent care expenses incurred while you are working. Funds are moved to your Dependent Day Care FSA before-taxes, which reduces your overall tax burden. You may allocate up to \$5,000 pre-tax per calendar year for reimbursement of dependent care services or \$2,500 if you are married and file a separate tax return.

Who May Participate

Any employee who meets certain eligibility requirements and who has a qualifying dependent may participate in a Dependent Day Care FSA. If you are considering participating, you should be aware that you may be able to take a federal and/or state tax credit instead of participating in the Dependent Day Care FSA. Consult your tax advisor to review your options.

Who is a Qualifying Dependent*



A tax dependent of the tax payer who is under the age of 13 and spends at least eight hours per day in the employee's household.



A spouse or dependent who is physically or mentally incapable of self-care and has the same principal place of residence as the employee for more than half of the year and spends at least eight hours per day in the employee's household.

What Expenses Are Eligible and Ineligible

The following are examples of some of the most common types of eligible and ineligible expenses for Dependent Day Care FSA reimbursements. For a more complete list of eligible expenses, please visit www.americanfidelity.com/FSAtips.

Examples of Eligible Expenses:

- After-school care or extended day care programs
- Babysitter inside or outside participant's household
- Custodial or elder care expenses if the qualifying individual still spends at least eight hours each day in the employee's household

Examples of Ineligible Expenses:

- Educational expenses (kindergarten and above)
- Custodial elder care (not work-related, for other purpose)
- Nursing home care
- Transportation to and from eligible care (not provided by the care provider)


EXPERIENCE TAX SAVINGS WITH A DEPENDENT DAY CARE ACCOUNT


- 1 Decide how much to contribute to your Dependent Day Care FSA based on how much you plan to spend on dependent care services for the year.
- 2 Make pre-tax contributions to your account through payroll deduction each pay period.
- 3 Reimburse yourself from your account to pay for eligible dependent care expenses.

Understanding Your Account

As Dependent Day Care FSA contributions are withheld from your paycheck and placed into the account, these funds become available for reimbursement requests. Submit the entire amount of your incurred dependent care expense, even if it exceeds your monthly contribution amount, to maximize reimbursement opportunities. This allows you to build up a “pool” of submitted expenses, with pending amounts ready for reimbursement as soon as your next contribution is received and deposited into your account.

Unlike a Health FSA, with a Dependent Day Care FSA, your election amount is not available in full at the beginning of the plan year. You only have access to your funds as they are deducted from each paycheck.

 **Why didn't my dependent care claim pay out in full?** *The dependent care expense reimbursement will be for the services provided limited to the amount you have in the account. If the dependent care expenses claim is in excess of your account balance, the balance of the claim will be paid to you as additional contributions are received.*

 **When can I get reimbursed?** *You must receive the dependent care service before you may submit a claim for reimbursement (i.e., you are not able to reimburse yourself for the expense of June day care in May.)*

Did You Know?

You may find more information on Section 125 Plans and Flexible Spending Accounts online at www.americanfidelity.com/FSAtips

What's Next



Your American Fidelity account manager can discuss all benefit options available and answer any questions you may have.



Before meeting for your enrollment, take time to evaluate your current coverage and decide if what you currently have is meeting you and your family's needs.



Bring your spouse and children's social security numbers and dates of birth if considering coverage for them. If you are interested in direct deposit, please bring your checking account information.

**The Internal Revenue Code determines dependent qualifications. See IRS Code Section 152 (c) for complete definitions of qualifying dependent.*

Manage Your Account and File a Claim

When it comes to managing your account, we have many options available. You can use our mobile app, visit us online using our Online Service Center (OSC), or call our customer care team. You can submit claims, forward documentation for a purchase made with your Health FSA Card, sign up for direct deposit, and review claim history and account balance.



1. Mobile App - AFmobile™

Submit your reimbursement request by taking a picture of your receipt or other documentation and submitting on our mobile app.



2. Online

Visit our OSC to submit your claims, including your receipt or other documentation, online at americanfidelity.com.



3. Paper

Complete and submit an FSA Expense Reimbursement Voucher, along with your receipt or other documentation, to American Fidelity. Once completed, either mail it to the address at the bottom of the reimbursement voucher or fax it toll-free to 800-543-3539. Expense Reimbursement Vouchers can be found on americanfidelity.com.

Once you have filed your request, our customer care team will review the claim. You will then be reimbursed based on the reimbursement method you selected. During your enrollment, you may choose to be reimbursed through direct deposit, use the Health FSA Card, or elect to receive reimbursement checks by mail. At anytime you may update your reimbursement method on our mobile app, OSC, or by calling the customer care team.



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