

HCRA-No Grace Period

Benefits Briefing

HEALTH CARE REIMBURSEMENT ACCOUNT

Blue Springs School District gives employees the opportunity to participate in comprehensive medical and dental plans. The **Health Care Reimbursement Account** (HCRA) is designed to work with these plans to allow you to pay for expenses that are only partially or are not covered – such as deductibles, coinsurance, physicals, vision care and orthodontia with **before-tax dollars**. This can save you up to 40% in taxes on your cost for medical care!

How it Works

If you want to take advantage of tax savings on your expenses for medical care, you must enroll during open enrollment. You may deposit up to \$10,000 annually into an account, on a before-tax basis, to pay for unreimbursed medical, dental, vision and hearing expenses. Your HCRA can be used to reimburse yourself for expenses incurred by you or your dependents regardless of whether you participate in any of Blue Springs School District's medical or dental plans.

When you or your dependent incur an eligible expense, simply e-file your claim on-line via Tri-Star's secure web server or complete a claim form available on Tri-Star's website (www.tri-starsystems.com), attach proof of service (insurance explanation of benefits – EOB or copy of a bill itemizing services) and file it with Tri-Star Benefit Systems, Inc.

Before you file your first claim, be sure to sign up for **Direct Deposit and email** through your secure Participant Account Login on Tri-Star's website. Tri-Star issues payments every Friday and payments are deposited the following banking day, expediting payment to you. Any checks will be mailed directly to your home.

The full amount you elect to deposit in your HCRA for the year is available to you at any time after July 1, 2011. Your tax savings can be significant, but maximizing your benefits requires understanding the plan and some planning.

Internal Revenue Code Regulations

Because these accounts give a unique opportunity to reduce your taxes, certain Internal Revenue Code requirements apply:

- Expenses claimed from your account must be incurred during the Plan Year. (07/01/2011 – 06/30/2012)
- Money not claimed for the Plan Year will be forfeited. You will have up to three months after the end of the Plan Year (09/30/2012) to file claims for services incurred during that year.
- The amount you contribute to the account must remain the same all year unless you experience a "qualifying change in status event" and file an election change with your employer.
- You may not claim any expense reimbursed from this account as an itemized deduction on your tax return.

Estimating Your Expenses

We suggest you review the deductible and coinsurance provisions of your medical and dental plans, and take into account out-of-pocket medical expenses you anticipate for this Plan Year. Tri-Star's online worksheet or the one on the back of this can assist you in planning your election amount.

Many expenses like orthodontia payments, drug co-payments and physicals are easily predictable. Others, like eyeglasses and hearing aids may be deferred or accelerated from one plan year to another depending upon the balance of your account. **But remember, money not claimed for the plan year must be forfeited, as required by IRS regulations.**

Refer to IRS Publication 502, Medical and Dental Expenses at www.tri-starsystems.com (under the Participant tab) for more details on potential eligible health care expenses.

Health Care Reimbursement Account Worksheet

Estimate Your Eligible Expenses – Below is a partial list of eligible expenses to help you estimate your annual out-of-pocket healthcare cost:

Expenses Eligible for Reimbursement

- Insurance Deductible\$ _____
- Insurance Co payment\$ _____
- Prescription drug co payments (including birth control)\$ _____
- Routine physicals, including gynecological exam.....\$ _____
- Unreimbursed Dental expenses\$ _____
- Unreimbursed Orthodontia expenses\$ _____
- Unreimbursed Vision expenses\$ _____
- Hearing exams and hearing aids\$ _____
- Unreimbursed Chiropractic exams and treatment.....\$ _____
- Unreimbursed Occupational Therapy\$ _____
- Unreimbursed Psychiatric care\$ _____
- Special care for handicapped\$ _____
- Unreimbursed Therapy for Drug and Alcohol addiction.....\$ _____
- Transportation to receive health care
(including mileage at 19 cents per mile effective 01/01/2011).....\$ _____
- Special durable medical equipment prescribed
by a physician\$ _____
- Other expenses specifically prescribed by a physician
for treatment of a specific diagnosis\$ _____
- Total Estimated Eligible Expenses.....\$ _____**

Expenses NOT Eligible for Reimbursement

- **Over-the-counter medicines (effective 1/01/2011)***
- Cosmetic Surgery & Procedures, including teeth bleaching, veneers, face lifts
- Health Club expenses to keep physically fit
- Expenses paid by another health plan
- Long-term care expenses
- Insurance premiums

ANY MONEY LEFT IN YOUR ACCOUNT AT THE END OF THE PLAN YEAR, BY LAW, MUST BE FORFEITED

Additional information on deductible medical expenses may be found in *IRS Publication 502 Medical and Dental Expenses* available at your local IRS office or at www.irs.ustreas.gov/Forms&Pubs. It may also be obtained from Tri-Star's website: www.tri-starsystems.com.

*For information on the exclusion on OTC medicines, go to <http://www.tri-starsystems.com/site/participant/announcements.aspx>.

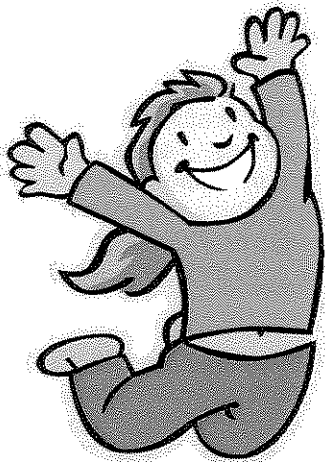
Benefits Briefing

DEPENDENT CARE REIMBURSEMENT ACCOUNT

The **Dependent Care Reimbursement Account (DCRA)** offers you the opportunity to pay for dependent care expenses on a **before-tax** basis. Expenses eligible for reimbursement through the DCRA include expenses you incur for your dependents so that you can work. These types of expenses include payments for day care centers, elder care, after-school care, or babysitting in your home or someone else's home, as long as the care provider is not another child of yours under age 19, or anyone else for whom you claim a tax exemption on your federal income tax return.

Dependents are defined for this purpose as children under age 13 or anyone age 13 or over who is mentally or physically handicapped and relies on you for financial support. They may include a spouse or parent living in your home who is incapable of caring for him/herself.

DCRA is also subject to specific Internal Revenue Service Regulations and works very much like the Health Care Reimbursement account. You may deposit pre-tax dollars into your account each pay period to pay for eligible expenses and be reimbursed from your account, tax free. Direct deposit forms are available on Tri-Star's website, www.tri-starsystems.com.



Internal Revenue Service Requirements

- When you submit a bill for reimbursement from your account, you must furnish the social security number or tax ID number of the care provider.
- You must also report the name, address and tax ID or social security number of the care provider on Schedule 2441 of your federal tax return.
- If you are single, or married and filing a joint tax return, you may deposit up to \$5,000 from your pay in any year into your DCRA. If you are married and filing a separate tax return, you may deposit a maximum of \$2,500 into your account.
- Both spouses must be employed and contributions are limited to the income of the lower paid spouse.
- If a spouse is a full-time student, or physically or mentally incapable of self-care, the spouse is deemed to have earned an income of \$2,400 (if dependent care expenses apply to one dependent) or \$4,800 (if dependent care expenses apply to two or more dependents).
- You may not claim the Dependent Care Tax Credit on your tax return for expenses reimbursed by this account.
- Expenses claimed from your account must be incurred during the Plan Year (07/01/2011 – 06/30/2012).
- Money not claimed for the Plan Year must be forfeited - sometimes called the "Use It or Lose It" Provision. You will have up to three months after the end of the Plan Year (09/30/2012) to file claims for services incurred during that year.

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- The amount you contribute to the account must remain the same all year - unless you experience a qualifying "change in status event" and make an election change.

Expenses Eligible for Reimbursement

- Child care/babysitting services in your home or someone else's home (as long as the care provider is not another child of yours who is under age 19, or anyone for whom you claim an exemption on your federal income tax return)
- Expenses for a dependent day care center
- Certain expenses for a live-in, full-time housekeeper for a disabled dependent.
- Preschool expenses, up to but not including kindergarten.
- Elder care
- After-school care
- Summer day camp

Getting Reimbursed

When you incur an eligible expense simply complete a e-file your claim on-line via Tri-Star's secure web server or complete a claim form, attach a copy of your receipt or statement and file it with Tri-Star Benefit Systems. Reimbursement from your DCRA is limited to the balance in your account at the date checks are issued.

Tri-Star will issue checks every Friday. Checks will be mailed directly to your home. You may also have your money direct deposited to your checking or savings account. If you choose to have your reimbursement direct deposited, your money will be in your account within 48 hours of checks being processed. You may download claim forms or direct deposit forms from Tri-Star's website, www.tri-starsystems.com.

Remember: You must provide the social security number or the tax identification number of your care provider when you request reimbursement from your DCRA. This will place tax-reporting responsibility with the day care provider.

Expenses NOT Eligible for Reimbursement

- Child care services provided by your spouse, someone you claim as an exemption on your federal income tax return, or by one of your children under the age of 19
- Housekeeping expenses not related to dependent care
- Dependent care expenses you claim on your federal tax return
- Health care expenses for a dependent
- Food or clothing for a dependent
- Overnight camp, entertainment, activity and book fees.
- Transportation costs between your home and the dependent care center
- Schooling costs for education beginning with kindergarten.

Refer to IRS Publication 503 for other possible ineligible expenses. You can view this publication on the internet by going to www.irs.ustreas.gov and searching for Publication 503 or you can go to www.tri-starsystems.com and there is a link to the publication.

The amount you may claim for the Dependent Care Tax Credit on your Federal Income Tax Return is reduced by amounts you are reimbursed from the DCRA. The following worksheet will help you determine whether using the DCRA or taking the tax credit benefits you more.

Dependent Care Reimbursement Account Worksheet

Should you use the Dependent Care Reimbursement Account (DCRA) or the Dependent Care Tax Credit on your Federal Income Tax Return?

This worksheet will help you determine if the DCRA or the Dependent Care Tax Credit on your individual federal income tax return, will provide the most savings. Use this worksheet to estimate your savings and check with your tax consultant. The example shown on this worksheet is for a married couple who earn a combined income of \$45,000 a year, file a joint federal income tax return, have one dependent child, and spend in excess of \$5,000 on Day Care.

DEPENDENT CARE TAX CREDIT (2009)

1. Estimate your total annual earned income before taxes (include your spouse's income, if applicable).
2. Estimate your cost of dependent care. 1 Dependent = \$3,000 Annual Maximum. 2 or more dependents = \$6,000 Annual Maximum.
3. Based on your total earned income (Item 1), select the appropriate tax credit from the table below, and enter your percentage.

DEPENDENT CARE TAX CREDIT TABLE

Earned income		Tax Credit	Earned Income		Tax Credit
\$ 0	-	15,000.....	35%	\$ 29,001	- 31,000 27%
15,001	-	17,000.....	34%	31,001	- 33,000 26%
17,001	-	19,000.....	33%	33,001	- 35,000 25%
19,001	-	21,000.....	32%	35,001	- 37,000 24%
21,001	-	23,000.....	31%	37,001	- 39,000 23%
23,001	-	25,000.....	30%	39,001	- 41,000 22%
25,001	-	27,000.....	29%	41,001	- 43,000 20%
27,001	-	29,000.....	28%	43,001	- and up 20%

4. Multiply Item 2 by Item 3 to estimate your Dependent Care Tax Credit.

DEPENDENT CARE TAX SAVINGS

5. Estimate your adjusted gross income (Total taxable income, i.e. salary, dividends, interest, capital gains, etc.)
6. Less your personal exemption allowance (\$3,650 per exemption)
7. Less your itemized deductions or the standard deduction (\$5,700 single or \$11,400 for married filing jointly).
8. Taxable Income (Item 5 minus 6 and 7).

SIMPLIFIED MARGINAL TAX TABLE

***** TAXABLE INCOME *****				Estimated Marginal Tax Rate*
Single Taxpayer		Married Filing Jointly		
\$ 0	- 8,350	\$ 0	- 16,700	23.65%
8,351	- 33,950	16,701	- 67,900	28.65%
33,951	- 82,250	67,901	- 137,050	38.65%
82,251	- 171,550	137,051	- 208,850	41.65%
171,551	- 372,950	208,851	- 372,950	46.65%

9. Enter marginal tax rate. To estimate your marginal tax rate, compare the amount shown in Item 8 with the table above.
10. Estimate your cost of dependent care.
If you are single, or married and file a joint income tax return, you can list expenses up to \$5,000. If you are married and file separate income tax returns, you can list expenses up to \$2,500.
11. Multiply Item 10 by Item 9 to estimate the tax savings.
Estimated DCRA Tax Savings

Your Calculations	Example
	45,000
	3,000
	20%
	600
Your Calculations	Example
	45,000
	-10,950
	-11,400
	22,650
	28.65%
	5,000
	5,000 X 28.65%
	1,432.50

WHICH IS BETTER?

In the example on this worksheet, the tax savings available under the Dependent Care Reimbursement Account are \$1,432.50, while using the Dependent Care Tax Credit provides a savings of \$600. To make sure the option you select is best for you, consult a tax adviser.

*Assumes 6% state tax rate and 7.65% FICA (FICA is reduced on an individual salary in excess of \$106,800 in 2009).

