OPTUM Financial™

Flexible spending account Q&As

What are FSAs and who can have them?

1. What is a flexible spending account (FSA)?

A flexible spending account (FSA) is a tax-advantaged program offered by employers that allows their employees to pay for eligible out-of-pocket health care and dependent care expenses with pre-tax dollars. FSAs are exempt from federal taxes, Social Security (FICA) taxes and, in most cases, state income taxes.

The most common types of flexible spending accounts are:

- **Health care flexible spending account (HCFSA):** an account that provides pre-tax reimbursement for qualifying out-of-pocket medical expenses not covered by insurance.
- **Limited purpose flexible spending account (LPFSA):** an account that provides pre-tax reimbursement of qualifying out-of-pocket expenses related to preventive care, dental and vision expenses not covered by insurance.
- **Dependent care flexible spending account (DCFSA):** an account that provides pre-tax reimbursement of dependent care expenses (e.g., day care) incurred by eligible tax dependents.

2. What are the general features and tax benefits of an FSA?

- Your contributions are pre-tax or tax-deductible.*
- Tax-free withdrawals are made to pay for eligible out-of-pocket expenses related to health care and dependent care.
- FSA dollars can be used during the plan year; they do not carry over from year to year.

3. Why should I enroll in an FSA?

With an FSA, your out-of-pocket health and/or dependent care expenses are paid with tax-free dollars. You could save an average of 30%** on all of your eligible expenses.

4. Whose expenses can I claim under my FSA?

You can use your FSA to pay for eligible expenses incurred by any of the following individuals:

- Yourself
- Spouse
- Qualifying child
- Qualifying relative

New rules allow a dependent to be eligible for the plan even when that dependent does not qualify to be claimed as your tax dependent on your tax return. It is recommended that you check with your tax professional before you make your election for the plan year.

5. What are eligible FSA medical expenses?

The IRS publishes information on FSAs and eligible medical expenses. Visit irs.gov and search for Publication 502 or 969 to learn more.

6. Can I change my FSA election mid-year?

Certain qualifying events may allow employees to increase or decrease their election or begin or cease participation in a plan. Common qualifying events include marriage, divorce, birth, death or a change in the cost of dependent care.

The adjustment to the election must be consistent with the event. For example, an increase in the cost of day care would not allow you to decrease your election (although, if the increase made the cost of care unaffordable, one could justify no longer participating in the plan).

Please refer to your employer's plan document for further guidance on qualifying status change events applicable to your plan.

7. Am I eligible to participate in a dependent care FSA?

You are eligible for this benefit if you have a dependent (whose expenses are eligible) who requires care to enable you to work. In addition, you must meet one of the following eligibility criteria:

- You are unmarried.
- Your spouse works, is a full-time student, is actively seeking work or is disabled (incapable of self-care).
- You are divorced or legally separated and have custody of your child even though your former spouse may claim the child for income tax purposes. Your dependent care FSA (DCFSA) can be used to pay for eligible child care services provided during the period the child resides with you.

Important notes:

- Expenses are treated as having been incurred at the time the medical care was provided, not when you are formally billed or charged, or when you pay edit to fix false series for the medical expenses.
- You cannot receive reimbursement for future or projected expenses.
- All submitted expenses are reviewed for eligibility according to Internal Revenue Code Section 125 guidelines.

8. What are eligible DCFSA expenses?

Eligible expenses are day care expenses for eligible dependents that are incurred so you and your spouse can work. To qualify, you and your spouse must be employed, or your spouse must be a full-time student.

If you're married and you file a joint return, or you file a single or head-of-household return, the annual IRS limit for 2021 is $5,000. If you're married and file separate returns, you can each elect $2,500 for the calendar year.

Eligible dependents include:

- Children under age 13 who are claimed as a dependent for tax purposes (however, you can submit claims for eligible expenses incurred in 2020 and 2021 related to care for children under age 14)
- A disabled spouse or disabled dependent of any age

Ineligible expenses:

- Costs already claimed as a dependent care tax credit on your income tax return
- Nursing home, respite care or other residential care centers
- Services provided by one of your dependents
- Nighttime babysitting expenses that are not work related
- Expenses while absent for work for more than two weeks at a time
- Costs paid to your own dependents, under age 19, who are caring for your dependents
- Expenses paid for schooling for kindergarten or higher

9. What if I have recurring dependent care claims?

The easiest way to get reimbursed is to complete our eCertify process. You submit the first claim manually to establish and substantiate both the expense and the provider in our system. Recurring payments in the same amount at the same provider will then be automatically substantiated with no additional documentation required.

10. Can I use both the tax credit and the DCFSA?

Maybe. If you have two or more qualified dependents and pay more than $10,500 per calendar year in day care expenses, you can take the remaining amount and apply it toward the tax credit maximum. Based on your family's income level, you'll receive a credit for a percentage of that amount. For example, if your family's income is $33,000 a year, you have two dependents, and you spent $11,150 in child care expenses, you may be eligible to take an additional tax credit of $250 ($1,000 x 25% tax credit percentage based on income level).

11. Where can I use my Optum Financial payment card?

The Optum Financial payment card can be used at health care-related merchants, such as hospitals and vision, dental and doctor's offices. It can also be used at drugstores, pharmacies and grocery stores that have implemented the Inventory Information Approval System (IIAS) or certified 90% of their gross sales are FSA eligible (see "Useful Links & Resources" on our website).

As always, save itemized receipts, bills or statements any time the payment card is used.

The payment card may also be used at day care providers that accept the payment card and have a valid merchant category code signifying they are a day care provider. The payment card may not be used if you pre-pay day care expenses, since the IRS requires the expense must be incurred before reimbursement can be made from your dependent care spending account.

12. If I don't use my Optum Financial payment card for a medical expense, how can I reimburse myself?

If you do not use your Optum Financial payment card, you may file claims for reimbursement in two ways:

- File an online claim. First, sign in to your account. Click on the file claim link on your home page and walk through the steps to enter the details of the claim. Once you have filed your claim, you must agree to the terms and conditions, then click the Submit button. To complete the reimbursement process, send your confirmation page along with your supporting documentation to us.
- File your claim using the FSA Reimbursement Request Form. Follow the provided instructions to complete this form. Claims and copies of your supporting documentation can be submitted via fax, mail, portal, or mobile.

13. Why may I be asked to provide documentation for an Optum Financial payment card purchase? Wasn't my payment already approved?

Federal regulations require Optum Financial to obtain itemized receipts for transactions that are not automatically substantiated at the point of sale.

Payment card transactions can be automatically substantiated without additional paperwork if they are:

- **Copayment amounts tied to your health plan.** These amounts need to be communicated to Optum Financial by your employer.
- **Transactions that match the provider and dollar amount exactly for previously approved transactions** (e.g., orthodontia claims, maintenance prescription drugs) and were noted by you as recurring on the request for substantiation notification.
- **Purchases made at merchants using the IIAS.**

In the event a charge does not meet these three criteria, Optum Financial will send three requests for documentation. The first request is sent 90 days after an unsubstantiated claim is received. This will be sent through email if we have one; otherwise, we will send a letter. A second letter will be sent 90 days after the initial communication, and then a third letter will be sent 90 days after that. If documentation is not received within 10 days of the date of the final letter, your payment card will be suspended. The payment card will be re-activated as soon as the necessary documentation has been received to substantiate the expense.

14. What types of documentation are acceptable for reimbursement or substantiation?

Documentation for health care FSA expenses required by the IRS includes a third-party receipt or Explanation of Benefits containing the following information:

- Date(s) of service or purchase made
- Type(s) of service or name(s) of item(s) purchased
- Dollar amount(s) (after insurance, if applicable)

For example: an Explanation of Benefits from your insurance company or itemized statements from the provider is excellent documentation.

Documentation for dependent care FSA expenses required by the IRS includes a third-party receipt containing the following information:

- Date(s) of service
- Dollar amount
- Name of day care provider

In the event the provider is unable to provide a receipt with this information, they may simply sign the FSA Reimbursement Request Form or the confirmation page (if the claim was filed online).

Commonly submitted documentation that results in denials includes:

- Statements that only indicate a paid amount, balance forward or previous balance
- Credit card receipts only reflecting a payment
- Bills for dependent care/medical expenses where services have not yet been incurred

When submitting a receipt for a copayment amount, please be sure the copayment description is on the receipt. In some cases, you will need to ask for a receipt at the point of service. If "copayment" is not clearly identified, have the provider write "copayment" on the receipt and sign it.

15. What happens to my FSA if I terminate employment?

Participation in the FSA ends if you terminate employment. This means, only expenses incurred prior to the date your participation in the plan ends are eligible for reimbursement. Claims for expenses incurred prior to the plan termination date must be submitted within the "run-out" period.

16. What is the "run-out" period?

The "run-out" is a specified period of time after the end of the plan year, or following your termination in the plan, in which you may continue to submit claims incurred during your period of coverage. This is not a period when you are able to continue to incur new expenses, rather it allows you time to gather and submit expenses before forfeitures are applied.

For example, if your plan has a 90-day "run-out" period, you will have 90 days from your date of termination to submit expenses incurred prior to the termination date.

17. How do I determine the date my expense(s) were incurred?

A service or expense must be incurred before it is eligible for reimbursement. An FSA expense is considered "incurred" when the service is performed, not when you pay for the service. In addition, the service must be performed during your participation in the plan. Services or expenses incurred before or after your plan participation dates do not qualify for reimbursement.

18. How do I authorize my spouse and/or another individual to obtain information about my account?

Due to HIPAA regulations, Optum Financial cannot disclose your personal health information (PHI) to any unauthorized representatives.

If your spouse can correctly authenticate your information and properly identify themselves as your spouse, then we will provide them with information regarding your account.

19. What happens if I do not use all of the money in my account by the end of the plan year?

Federal law governing flexible spending accounts specifies that any money remaining in your account at the end of the plan year will be forfeited. This is more commonly known as the "use-it-or-lose-it" rule. Forfeitures may be used by your employer to offset the administrative costs of operating the plan.

20. Is there a daily transaction limit on my payment card?

You are allowed a maximum of 15 transactions per day. No single transaction can be more than $5,000.

To learn more, visit optumfinancial.com.

OPTUM Financial™ optumfinancial.com

*Contributions are tax-deductible on your federal tax return. Some states do not recognize FSA contributions as a deduction. Consult a qualified tax adviser for advice.

**Based on 25% federal, 5% state tax rates. Results and amount will vary depending on your particular circumstances.

Flexible spending accounts /arrangements (FSAs) are administered on behalf of your plan sponsor by Optum Financial, Inc. and are subject to eligibility and restrictions. Please contact a legal or tax professional for advice on eligibility, tax treatment, and restrictions. Please contact your plan administrator with questions about enrollment or plan restrictions. The content of this communication is not intended as legal or tax advice. Federal and state laws and regulations and the design of your plan are subject to change.

 WF4506690 137023-052021 OHC