City of San Marcos Section 125 Flexible Benefit Plan

Flexible Benefit Plan Overview

The City of San Marcos recognizes that many employees in today's workforce may be faced with certain healthcare expenses that are not fully covered by a health plan, and the cost of childcare expenses. To assist employees with these expenses, the City is offering the opportunity to participate in the City of San Marcos Section 125 Flexible Benefit Plan. The Flexible Benefit Plan allows employees to pay for eligible dependent care, unreimbursed healthcare expenses, dependent medical and dental plan contributions as a pre-tax benefit.

Flexible Benefit Plans

A flexible benefits plan is designed to increase an employee's spendable income by reducing their taxes. Internal Revenue Code Section 125 allows employers to provide three basic types of flexible benefits plan options to their employees:

1. Premium Conversion (pre-tax dependent medical and dental premiums)
2. Unreimbursed Healthcare Spending Account
3. Dependent Care Spending Account

How the Plan Works

The Flexible Benefit Plan lets you set aside part of your pay on a before-tax basis to:

1. Pay for dependent medical and dental coverage on the City of San Marcos Medical and Dental Benefits Plans;
2. Set up an Unreimbursed Healthcare Reimbursement Account to pay certain medical, dental, vision and hearing care expenses not covered by a health plan (up to a maximum of $5,200 per Plan Year); and
3. Set up a Dependent Care Account to pay eligible childcare and dependent care expenses while you and your spouse (if married) are at work. The Plan Year maximum is $5,000 ($2,500 for married employees who file separate tax returns).

What are Before-Tax Dollars?

The before-tax dollars you contribute to this program is money that is *never* taxed for federal income tax and social security tax purposes. Basically, the program reduces your taxable income.

Your W-2 form, however, will show a reduced amount of pay according to your Pre-tax Premium Conversion and Reimbursement Account elections.

Because amounts deferred under the Flexible Benefits Plan are not counted as wages when determining your Social Security benefit, it is possible that there may be a reduction in your future Social Security benefits.

Eligibility

You are eligible for the Flexible Benefits Plan if you are eligible for the medical and dental plans provided to employees of the City of San Marcos.

Choosing a Benefit Amount

When you enroll in the Flexible Benefit Plan, you must specify on the Flexible Benefit Plan enrollment form your election for dependent coverage on the medical and dental plans to allow your share of the cost of coverage to be deducted before taxes. Elections for pre-tax premium deductions will continue if you do not complete and return a new election or waiver form prior to the beginning of each new Plan Year.

For the Dependent Care Spending Account and/or Unreimbursed Healthcare Spending Account you will determine the total amount you would like to have deducted for the Plan Year. Equal payroll deductions will be taken from the first two paychecks of each month (semi-monthly). A full Plan Year is for 12 months, from April 1 to the following March 31 and has 24 pay period deductions. Calculate your elections carefully as unused funds are forfeited. You must complete and submit a new election form prior to the beginning of each Plan Year to participate in the Dependent Care Spending Account and/or Unreimbursed Healthcare Spending Account for that year.

Grace Period

There is a Grace Period of 2 ½ months following the end of the Plan Year during which you may incur additional expenses if you have not used all of the money you have set aside in a reimbursement account. For the Plan Year ending March 31, 2011, you can continue to incur expenses to use that year's funds through June 15, 2011, and you have until September 15, 2011 to submit claims for reimbursement.

Forfeiture of Benefits – Calculate carefully!

You forfeit any amount of Dependent Care Reimbursement Account and Unreimbursed Healthcare Spending Account benefits if a claim for reimbursement is not provided to TML IEBP within 90 days after the last day of the Grace Period or the last day of participation in the Plan, if earlier.

In the event your employment terminates during the Plan Year, you have 90 days after the last day of participation to submit incurred expenses. All employee and dependent coverage will terminate on the earliest of the end of the month your employment terminates or the end of the month in which you cease to be an eligible employee.

If your termination of coverage falls on the last day of the Plan Year, you may receive reimbursement for eligible expenses incurred during the Grace Period, if you have any unused funds.

The Plan will make a qualified reservist distribution of any available funds in the Unreimbursed Healthcare Spending Account pursuant to the Heroes Earnings Assistance and Relief Tax of 2008 (26 U.S.C.A. 125(h))upon written request of the qualified reservist.

No Transfer between Accounts

IRS rules do not allow any transfer of funds between reimbursement accounts.

Flexible Spending Account Statements

A statement is to you 90 days prior to the end of the Plan Year. You may also access information about your account online at www.tmliebp.org or by calling customer service at 800-282-5385.

Reimbursements - Payment of Paper Claims

Dependent Care and Unreimbursed Healthcare Spending Account claims will be reimbursed by completing a claim form and attaching the appropriate documentation. Paper claims that equal or exceed $25 will be processed and checks are issued weekly. Payment of eligible claims will be reimbursed to you within 10 days of receipt, up to the amount of your annual election. You may set up direct deposit for your reimbursements.

Debit Cards

One debit card is issued to each employee who has elected a reimbursement account. If you want additional cards, you can request one in writing, with the name of the dependent you want the card issued under, as well as that dependent's Social Security Number (dependent must be 18 or older). There is no charge for the additional card(s).

The debit card may be used for unreimbursed medical expenses and reimbursable dependent care expenses (if enrolled) if the provider accepts the debit card.

Restrictions on Changing Your Elections

You may change your election for any new Plan Year prior to the beginning of the year, during the open enrollment period. Generally, you may not change or revoke your elections during the Plan Year unless you have a qualified change in status (as prescribed in federal regulations). Examples of a change in status are:

- Marriage or divorce
- Birth or adoption of a child
- Death of a spouse or child
- Beginning or end of a spouse's employment
- Reduction in hours worked, which affects eligibility for benefits
- Change in dependent status of your child
- Change in eligibility for Medicare and Medicaid
- Loss of eligibility for the CHIPS program
- Significant change in cost or coverage

- As allowed under the Family and Medical Leave Act
- Any other change of status allowed under IRS regulations

If you have a change in status during the Plan Year, you have 31 days from the occurrence to change or revoke your elections. The change in coverage must be consistent with the occurrence. Documentation of the event is required. For more information regarding qualifying events, please contact the City of San Marcos Human Resources Department at 512-393-8060.

Where Can I Get the Forms I Need?

Contact the City of San Marcos Human Resources Department. Forms are also posted online at www.tmliebp.org and on the City's web page under City Employee Benefits.

Plan Contact Information

TML Intergovernmental Employee Benefits Pool
P.O. Box 140167
Austin, Texas 78714-0167

Phone: (512) 719-6500
Customer Service: (800) 282-5385
Spanish Line: (800) 385-9952

Dependent Care Reimbursement Account

You may set aside up to $5,000 ($2,500 if married and filing a separate tax return) per year to pay childcare expenses that enable you (and your spouse, if married) to be gainfully employed or to look for gainful employment.

- If married, your spouse must be employed in a paying job, a full-time student for at least 5 months in the year, or disabled.
- The maximum age for eligible children is under age 13. Other dependents can receive care if they are disabled or cannot otherwise care for themselves because of physical or mental impairment.
- Tuition for private school is not an eligible expense; only Pre-Kindergarten tuition expenses incurred for a day care type facility will be accepted.
- The child or other dependent receiving the care must live in your home and must be claimed as a dependent on your Federal Income Tax Return.
- You must pay a "qualified person" to care for your eligible dependents at your home, at a licensed day care center, at a day camp, or at another location (except overnight camp). A "qualified person" providing care does not include any of your children under age 19 or any other person who you claim as a dependent.
- You must file a Form 2441 with the IRS, including the name, address and taxpayer identification number of the person or organization providing the dependent care services.

Money from this account will pay your eligible child care expenses tax-free. You may be able to claim tax credit for child and dependent care costs when you file your income tax return. For more information, refer to IRS publication 503 – *Child and Dependent Care Expenses.* The tax credit can be claimed for any expenses not paid through your Dependent Care Reimbursement Account, but you cannot use the tax credit and the Dependent Care Reimbursement Account for the *same* expenses.

How to Get Reimbursed

1. Obtain a bill or receipt for dependent care, including the name of the child/children and the date the care was provided and the amount charged. Your provider may also use a Statement of Certification form which requires the provider's signature.
2. Fill out the dependent care reimbursement claim form and attach documentation of the expense.
3. Fax your completed reimbursement claim form and documentation to 512-719-6505 or mail to:

   TML Intergovernmental Employee Benefits Pool
   PO Box 140167
   Austin, TX 78714-0167

4. You will be reimbursed up to the amount in your account at the time the reimbursement request is processed. You will be reimbursed for the remainder of your expenses as money is deposited to your account.

Unreimbursed Healthcare Spending Account

The Unreimbursed Healthcare Spending Account reimburses you up to your Unreimbursed Healthcare Spending Account annual election (maximum $5,200 per Plan Year). You may be reimbursed up to the total Plan Year amount you have elected as soon as your Plan Year starts, for expenses incurred during your Plan Year. Additional information may be required, such as a doctor's note if you are claiming that an item needs to be purchased to treat a specific illness or injury.

Paper Claim

1. When you have a covered medical expense, obtain a receipt showing the date of services and the service provided. You do not have to pay for the service before submitting it for reimbursement.
2. Before applying for reimbursement, submit any bills covered by a health plan as you normally would to any benefit plan that covers you or your dependents. IRS allowable expenses not reimbursed or paid by the health plan can then be submitted for reimbursement.
3. If the service is covered under another benefit plan, submit a copy of the Explanation of Benefits along with the reimbursement form.

Debit Card Claims

Each participating employee certifies upon enrollment each Plan Year that the card will only be used for eligible medical care expenses of the employee, the employee's spouse and eligible dependents. The employee also certifies that any expense paid with the card is not reimbursable from another plan providing health benefits. The following procedures are used to substantiate claimed medical expenses after the card is used. **Note: All receipts should be saved to comply with IRS rules, but may not need to be submitted.**

Debit card transactions are treated as conditional, pending documentation of the expense. TML IEBP will request documentation when required.

Fax a completed reimbursement claim form and documentation to 512-719-6505 or mail to:

TML Intergovernmental Employee Benefits Pool
PO Box 140167
Austin, TX 78714-0167

What Expenses are Eligible for Reimbursement from an Unreimbursed Healthcare Spending Account?

Only medical expenses that are not covered by a health plan and are allowable by the IRS may be reimbursed from your account. Expenses for your dependents are included as long as the person is a dependent as defined by the IRS. Eligible dependents are your spouse, a "qualifying child" or individuals that meet the definition of a "qualifying relative" under IRS Code. They do not have to be covered on the City's medical or dental plan.

Eligible expenses include medical and dental expenses that qualify under Section 213 of the tax code, including amounts paid for the diagnosis, treatment, or prevention of disease, and for treatments affecting any part or function of the body. Expenses for solely cosmetic reasons generally are not expenses for medical care. Expenses that are merely beneficial to one's general health are not expenses for medical care (such as vitamins or supplements taken for general health).

Starting January 1, 2011, all OTC medications eligible for reimbursement require a doctor's prescription to be a reimbursable expense.

For additional questions regarding eligible expenses contact Human Resources at 512-393-8060 or TML IEBP at:

Phone: (512) 719-6500
Customer Service: (800) 282-5385
Spanish Line: (800) 385-9952