

Benefits Enrollment Guide

Flexible Spending

2012 FLEXIBLE SPENDING ACCOUNTS ENROLLMENT

Save hundreds of dollars on your Federal and State taxes! How can you do this? If you will have out of pocket health care or dependent day care expenses in 2012, why not pay these expenses with pre-tax money – and save on your taxes!

FSAs allow you to pay for dependent care and health care expenses with pre-tax dollars.

Please read this brochure to see how much you can save!

Continued enrollment is not automatic. If you want to participate in 2012, you must sign up again this year. An enrollment form is enclosed and must be returned to Benefits Administration, Mail Stop 99-21-7, by November 20, 2011 if you plan to enroll.

This booklet provides summary information only. Plans described in this booklet are subject to the specific terms and provisions of the Internal Revenue Code (IRC) and regulations and guidance promulgated thereunder.

For more information, refer to IRS Publications 502 and 503 available at www.irs.gov.

If you have any questions, please call Benefits Administration at 213.922.7186 or at extension 27186.

FLEXIBLE SPENDING ACCOUNTS

Flexible Spending Accounts (FSAs) are a tax effective way to pay for certain out-of-pocket expenses not covered by your other benefit plans. By designating part of your salary to a Flexible Spending Account, you can pay for specific health care and dependent care expenses with pre-tax money.

Enrollment in an FSA is not automatic. Annual enrollment is required. If you wish to participate in the FSAs for 2012, you must complete an Enrollment Form.

Flexible Spending Accounts offer you many advantages:

- They encourage you to budget in advance for health care and dependent care expenses not covered by other benefit plans.
- They enable you to pay for these expenses with tax-free money through regular payroll deductions.
- In most cases, they result in a tax savings greater than what you would have through itemized deductions or the income tax credit for dependent care allowed on your federal tax return.

The reimbursement process for the Health Care FSA and/or the Dependent Care FSA is as follows:

- Claim forms are available in the Benefits Administration office and on the intranet.
- Submit an FSA claim form, together with copies of your Explanation of Benefits (EOB) from your insurance carriers (Anthem Blue Cross PPO/Delta Dental). As a convenience, you can access EOB's from the Anthem Blue Cross and Delta Dental websites. In cases where EOB's are not provided (Anthem Blue Cross HMO/Kaiser/Delta Care and DHS) please attach health care receipts and/or bills, which clearly indicate the name of the patient, type of service/product, date service was provided, and name of the provider, and submit to Benefits Administration at the Gateway Building. For example, a prescription receipt must show the patient's name, identify it as an RX, and list the name of the Pharmacy. Claim forms and samples of acceptable receipts are available in the Benefits Administration office or on the Pension & Benefits website.

- Detailed cash register receipts are required for eligible "over-the-counter" health care expenses. See page 4 for the description of eligible and ineligible "over-the-counter" expenses.
- Cancelled checks are not accepted in lieu of receipts.
- The IRS requires that you provide the name, address and Taxpayer Identification Number or Social Security Number of the provider of your dependent care services. This information must be submitted when you send in your claim for reimbursement.
- If your claim is received by the 10th day of the month, you should receive your reimbursement in the second paycheck of the month in which the claim was submitted.
- You want to be certain to use all the money set aside in your account during the plan year, or you will lose it.

Participants in the FSAs are granted a two and one-half month extension (until March 15, 2012) during which they may incur additional expenses to be used against any remaining 2011 health care or dependent care account balances. Please remember to indicate which year you want expenses applied against.

The deadline for submitting claims for 2011 (including expenses incurred during the extended period described above) is April 15, 2012. Claims submitted after that date will not be reimbursed, and you will lose any money that is not claimed from your 2011 account.

FLEXIBLE SPENDING ACCOUNTS

Changing Your FSA Amount

With FSAs, you may not change your contributions during a calendar year unless you experience a qualified change in status or a HIPAA Special Enrollment Event.

Qualified status changes include:

- Marriage, divorce or legal separation
- Adding or losing an eligible dependent due to birth, adoption, placement for adoption or death
- A child who loses eligibility for dependent coverage
- Experiencing a significant change in your health care coverage or cost of your spouse's health care coverage due to your spouse's employment
- The beginning or ending of your spouse's employment
- You or your spouse switching from full-time to part-time employment, or vice versa
- You or your spouse taking an unpaid leave of absence
- Termination of a domestic partnership

You may also change your contributions to the Health Care FSA if you experience a HIPAA (Health Insurance Portability & Accountability Act) Special Enrollment Event:

- Gaining a dependent by marriage, birth, adoption or placement for adoption
- Losing other health care coverage if you waived enrollment due to the other coverage

The Health Care and Dependent Care FSA programs are subject to the specific terms and provisions of IRS code. For more information, refer to publication 502 and 503, available at www.irs.gov.

Expenses incurred after end of month of separation of employment are not eligible for reimbursement.

HEALTH CARE FLEXIBLE SPENDING ACCOUNT

A Health Care Spending Account allows you to set aside your own pre-tax dollars to pay for eligible health care expenses (up to \$5,000 annually).

When you establish a Health Care Spending Account, you set aside money from your paycheck on a pre-tax basis to pay for eligible health care expenses that are not reimbursed by medical, dental or other health care coverage.

Here's how the Health Care Spending Account works...

You estimate the total cost of eligible health care expenses you think you'll incur in calendar year 2012. Then, you decide how much of that amount you would like to put into a Health Care FSA. When you establish this account, you set aside the money to pay for health care expenses before the money is taxed. As you and your eligible dependents incur expenses, you may reimburse yourself up to the amount you have elected to set aside in your account.

If you would like to participate in a Health Care FSA for calendar year 2012, you must enroll in this account – even if you were already enrolled last year. Participation is not automatic!

Examples of Health Care Expenses Eligible for Reimbursement – see IRS publications 502 for more information.

- Medical and dental deductibles and copayments
- Routine physical exams
- Charges in excess of annual or lifetime maximum benefits under a medical/dental plan
- Orthodontia treatment not covered by your dental insurance
- Out-of-pocket expenses for eye exams, eyeglasses and contact lenses prescribed to correct vision, and laser eye surgery
- Hearing exams and hearing aids
- Smoking cessation programs and associated drugs that require a prescription
- Unreimbursed medical and dental expenses incurred from any other benefit plan

Guide to Over-The-Counter items (OTC's)

Effective January 1, 2011, "over-the-counter" medicines & drugs (except insulin) became **INELIGIBLE**, unless accompanied by a doctor's prescription (for example):

- Allergy & sinus medications including nasal sprays, cold medicines, cough drops, throat lozenges, acid controllers, analgesics (muscle/joint pain relievers such as Ben-Gay), pain relievers, laxatives, first-aid creams or ointments, digestive aids, sleeping aids.

Other **INELIGIBLE** items still include (for example):

- Cosmetics, medicated shampoos/soaps, moisturizers and face creams, personal hygiene items, special food and food replacement, suntan lotion, toiletries, toothbrushes and toothpaste, vitamins and supplements.

NON-MEDICINAL OTC items will remain **ELIGIBLE** after January 1, 2011:

- Bandages, wrist/knee/back supports, contact lens supplies, condoms, crutches, Diabetic supplies, Diagnostic equipment (e.g. blood pressure monitors, blood sugar test kits, etc.), gauze pads, hot/cold packs for injuries, incontinence supplies, nasal strips, ovulation predictors, pregnancy tests, reading glasses, thermometers.

Please contact Benefits Administration at 213.922.7186 if you have any questions.

HEALTH CARE FLEXIBLE SPENDING ACCOUNT

Health Care Flexible Spending Account Versus Itemized Deductions

If you itemize deductions on your tax return and have substantial health care expenses, you may be able to deduct expenses that also qualify for the Health Care FSA. You may not take an itemized deduction for expenses that have been reimbursed by the Health Care FSA. You should evaluate whether the itemized deduction or the FSA will save you more money. Consult your tax adviser to determine which method will work best for you.

Restrictions on Health Care Flexible Spendings Accounts

The IRS restricts Health Care FSAs in the following ways:

- If you do not use all the money in your Health Care FSA, you will lose it. IRS regulations require that you forfeit any unreimbursed money. Forfeitures cannot be deducted on your income tax return. For this reason, it is essential that you plan carefully before deciding how much money to contribute to your Health Care FSA.
- Dollars you put into your Health Care FSA cannot be transferred to your Dependent Care FSA. The accounts are separate, and the money you allocate for one kind of expense cannot be used for the other.
- You may not change the amount you put into an account for the plan year unless you experience certain qualified changes in status or a HIPAA Special Enrollment Event.
- Eligible dependents include anyone you can claim as a dependent for federal income tax purposes, even if that person is not covered under a Metro plan.

“Use It or Lose It Rule”

It is very important that you carefully estimate how much you are likely to have in out-of-pocket health expenses during the plan year. If you do not use all the money you set aside in the spending account, you will lose it!

*Deadline for submittal of reimbursement claims:
2011 Expenses – April 15, 2012 for expenses incurred
between January 1, 2011 and March 15, 2012.*

*2012 Expenses – April 15, 2013 for expenses incurred
between January 1, 2012 and March 15, 2013.*

DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT

A Dependent Care FSA, allows you to set aside pre-tax dollars to cover eligible dependent care expenses. You may set aside up to \$5,000 per year if you are single or married and file taxes jointly. If you are married and filing taxes separately, you can contribute up to a maximum of \$2,500 per year.

If you pay dependent care expenses such as day care for your child, a spouse, parents or other dependents, a Dependent Care FSA may offer you valuable tax savings.

The IRS requires that you provide the name, address and Taxpayer Identification Number or Social Security Number of the provider of your dependent care services. This information must be submitted when you send in your claim for reimbursement.

To participate in the Dependent Care FSA you must be:

- Single or divorced and working (or looking for work); or
- Married and:
 - Both you and your spouse work (or looking for work);
 - You work and your spouse is a full-time student and attends classes outside the home at least five months a year; or
 - You work and your spouse is mentally or physically disabled and unable to care for himself/herself

Eligible Dependents

The Dependent Care FSA provides reimbursement for the eligible expenses of dependents who are, in general, your federal tax dependents and who:

- Live with you most of the time;
- Do not provide more than one-half of their own support;
- Are under age 13 or are physically or mentally unable to care for themselves, regardless of age and live with you for more than half the tax year. This could include care for a disabled spouse, domestic partner, or parent living with you that you are able to claim as a dependent on your federal tax return.

Special rules apply to children of divorced or separated parents. You can learn more about these rules by reviewing IRS Publication 503 available at www.irs.gov.

Examples of Dependent Care Expenses Eligible for Reimbursement

- At-home day care provider(s)
- Properly licensed day care center
- Payment for dependent day care expenses
- Summer day camps
- Preschool or Nursery schools
- Before and after school day care for children through age 12

NOT Eligible for Reimbursement

- Babysitting so you can attend a social event
- Food and education expenses for a child in the first grade or older
- Overnight camps

For a complete list of eligible and ineligible expenses, refer to IRS Publication 503 available at www.irs.gov. Benefits Administration has a copy for you to review.

Dependent Care Flexible Spending Account Versus Federal Tax Credit

When you file your federal tax return, the IRS allows a tax credit on the same kinds of expenses that qualify for the Dependent Care FSA. You may not take the tax credit for expenses for which you are reimbursed through your Dependent Care FSA.

Before signing up for a Dependent Care FSA, you should evaluate whether the tax credit taken on your federal income tax return will save you more money than the spending account.

You may wish to consult your tax adviser to determine the greatest tax savings based on your personal situation.

DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT

Restrictions on Dependent Care Flexible Spending Accounts

The following are some important ways the IRS restricts Dependent Care FSAs:

- If you do not use all the money in your Dependent Care FSA, you will lose it. IRS regulations require that you forfeit any unreimbursed money. Forfeitures cannot be deducted on your income tax return. For this reason it is essential that you plan carefully before deciding how much money to contribute to your Dependent Care FSA.
- Dollars you put into your Dependent Care FSA cannot be transferred to your Health Care FSA. The accounts are separate, and the money you allocate for one kind of expense cannot be used for the other.
- You may not take a tax credit on your income tax return for expenses funded through your spending account. In fact, each dollar you place in the Dependent Care FSA reduces the amount you can claim for a tax credit by one dollar.
- Your dependent care expenses must be incurred to enable you to work. If you are married, your spouse must also be working, seeking employment, enrolled as a full-time student or disabled.
- Your election to put a specific amount of money each month into a Dependent Care Spending Account is an irrevocable decision. You can change or cancel the monthly amount only if you experience a qualified change in status that would permit such a change (see page 3). You cannot change the monthly amount if planned expenses fail to take place or if certain of your expenses turn out to be unreimbursable.

“Use It or Lose It Rule”

It is very important that you carefully estimate how much you are likely to have in out-of-pocket medical expenses during the plan year. If you do not use all the money you set aside in the spending account, you will lose it!

Deadline for submittal of reimbursement claims:

2011 Expenses – April 15, 2012 for expenses incurred between January 1, 2011 and March 15, 2012.

2012 Expenses – April 15, 2013 for expenses incurred between January 1, 2012 and March 15, 2013.

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