



Employee Reimbursement Accounts Program



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What is the Employee Reimbursement Accounts Program? (ERA)

- Allows you to set aside pre-tax money for eligible medical or dependent care expenses
- The result? You save on taxes on expenses you already have



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Who is Eligible?

- Employees of State Agencies, Legislature, UW Hospital and Clinics, and University of Wisconsin campuses
- Full-time or part-time
- Classified and unclassified employees

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Who is Not Eligible?

Limited term employees (LTEs) and employees classified as fellows, scholars, and research assistants in the university system, student hourlies, per diems, and other temporary employees may not participate

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*You may enroll
in two different
accounts:*

- Medical Expense Reimbursement Account
- Dependent Care Reimbursement Account



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Here's How Reimbursement Accounts Work

- Estimate your expenses
- Annual election is deducted pre-tax in equal amounts from each paycheck
- Incur eligible expenses, submit for reimbursement
- Receive reimbursement



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Here's how the ERA program could work to increase tax savings:

ERA Savings Example*

<i>With ERA</i>		<i>Without ERA</i>
\$39,000.00	Annual Gross Income	\$39,000.00
<u>- 5,000.00</u>	ERA Deposit for Recurring Expenses	<u>- 0</u>
\$34,000.00	Taxable Gross Income	\$39,000.00
- 8,986.00	Federal, State, Social Security Taxes	-10,418.50
\$25,014.00	Annual Net Income	\$28,581.50
<u>- 0</u>	Cost of Recurring Expenses	<u>-5,000.00</u>
\$25,014.00	Spendable Income	\$23,581.50

By using an ERA to pay for anticipated recurring expenses, you convert the money you save in taxes to additional spendable income. That's a potential annual savings of: \$1,432.50!

*Figures assume a 12 month plan year, federal withholding (10% on first \$15,100, 15% on remaining balance) 6.00% Wisconsin State Tax, and 7.65% Social Security taxes. Individual tax rates may vary.



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What is the Medical Expense Reimbursement Account?

- Tax-free money set aside for eligible expenses
- For you, your spouse, your qualifying child(ren) and your qualifying relatives' eligible expenses

\$100 minimum annual contribution
\$7,500 maximum annual contribution



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Medical Reimbursement Account

Who is a Qualified Dependent?

- Yourself
- Your Spouse
- Your qualifying child
- Your qualifying relative

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Medical Reimbursement Account

Qualifying Child

Is a U.S. citizen, national or a resident of the U.S., Mexico or Canada

- ✓ Has a specified family-type relationship to you
- ✓ Lives in your household for more than half of the taxable year
- ✓ Are 18 years old or younger (23 years, if a full-time student) at the end of the taxable year
- ✓ Has not provided more than half of their own support during the taxable year (and receive more than one-half of their support during the taxable year if a full-time student, age 19 through 23, at the end of the taxable year)

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Medical Reimbursement Account

Qualifying Relative

Is a U.S. citizen, national or a resident of the U.S., Mexico or Canada **and**

- ✓ Has a specified family-type relationship to you
 - ✓ Is not someone else's qualifying child
 - ✓ Receives more than one-half of their support from you during the taxable year
- OR**
- ✓ If no specified family-type relationship to you exists
 - ✓ Is a member of and lives in your household for the entire taxable year
 - ✓ Receives more than one-half of their support from you during taxable year



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Medical Reimbursement Account

Eligible Medical Expenses

- Prescription drugs
- Certain over-the-counter drugs and supplies
- Doctor and chiropractor fees, co-pays and deductibles
- Dental expenses, including orthodontia
- Vision expenses, including exams, prescription glasses, contact lenses and lens solutions and cleaners, laser eye surgery



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Medical Reimbursement Account

Ineligible Medical Expenses

- Insurance premiums
- Health or fitness club membership fees
- Cosmetic surgery or expenses primarily for cosmetic purposes
- Vitamins if taken simply for general health



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What is the Dependent Care Reimbursement Account?

- Tax-free dollars set aside to cover day care expenses for eligible dependent children or adults
- The day care expenses must be incurred to enable you and your spouse to: work, actively look for work, or attend school full-time
- Care may be inside or outside your home



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Dependent Care Account

*What are the contribution limits? Per the IRS:

- \$5,000 if you file your income taxes as "head of household" or "married filing jointly"
- \$2,500 if married filing separately
- \$3,000 for one dependent, \$5,000 for two or more if your spouse is a full-time student or incapable of self-care
- The minimum annual contribution is \$100



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Dependent Care Account

Who is a Dependent?

- Qualifying Individuals
 - Child
 - Spouse
 - Relative



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Dependent Care Account

Qualifying Child

- ✓ Is a U.S. citizen, national or a resident of the U.S., Mexico or Canada
- ✓ Has a specified family-type relationship to you
- ✓ Lives in your household for more than half of the taxable year
- ✓ ***Is 12 years old or younger***
- ✓ ***Has not provided more than half of their own support during the taxable year***



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Dependent Care Account

Qualifying Spouse

- ✓ Is physically and/or mentally incapable of self care
- ✓ Lives in your household for more than half of the taxable year
- ✓ Spends at least eight hours per day in your home



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Dependent Care Account

Qualifying Relative

- ✓ Is a U.S. citizen, national or a resident of the U.S., Mexico or Canada **and**
- ✓ Is not someone else's qualifying child
- ✓ Lives in your household for more than half of the taxable year
- ✓ Receives more than half of their support from you during the taxable year
- ✓ ***Is physically and/or mentally incapable of self care***
- ✓ ***Spends at least eight hours per day in your home***



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Dependent Care Account

Eligible Expenses

- Day and dependent care facility fees
- Before and after school care
- Local day camp fees
- Fees for at-home care
- Pre-school and nursery school



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Dependent Care Account Ineligible Expenses

- Educational expense for kindergarten or above
- Child support payments
- Care for any period of time that your dependent is not living with you
- Overnight care (unless allows you and your spouse to work during that time)
- Nursing home fees
- Books, supplies, or activity fees
- Deposits
- Meal and transportation costs, if separate from your dependent care expenses, unless included as part of tuition

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Dependent Care Reimbursement Account vs. Child Care Tax Credit

- A Dependent Care Reimbursement Account may save you more in taxes than the Child Care Tax Credit
 - You can use the Dependent Care Reimbursement Accounts and file for a tax credit as long as the total for both does not exceed the tax credits:
 - \$3,000 for one dependent
 - \$6,000 for two or more dependents
 - You cannot:
 - (1) use the tax credit if you are married and filing separately
 - (2) use the same expenses for both the tax credit and your Dependent Care Reimbursement Account

Follow IRS reporting requirements for Dependent Care Accounts
IRS Form 2441 (1040) and scheduled 2 (1040A)

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Dependent Care Reimbursement Account vs. Child Care Tax Credit **Example**

PERSONAL INFORMATION

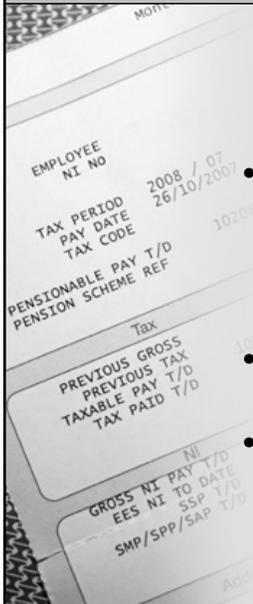
- Mike and Kathy Mallory - Employment: Both state employees for eight years
- Ages: Mike, 32; Kathy, 31 Income: Mike \$33,000, Kathy \$35,000
- Family Status: Married, two children
- Health: Excellent
- Other information: The Mallorys paid a large amount in taxes last year
- Anxious to reduce their taxes and start renovations to their home

	WITH TAX	WITH ERA DEDUCTION
1. Taxable Income Before Reimbursement**	\$45,200.00	\$45,200.00
2. Less: Dependent Care Paid Before Tax	0.00	-5,000.00
3. Taxable Income After Reimbursement	\$45,200.00	\$40,200.00
4. Less: Federal taxes† (applied to line 3)	-6,025.00	-5,275.00
5. Less: State Income Taxes***	-2,679.70	-2,354.70
6. Less FICA Taxes (7.65% of line 3)	-3,457.80	-3,075.30
7. Less: Dependent Care Paid After Taxes	-6,000.00	-1,000.00*
8. Plus: Dependent Care Income Tax Credit	+1200.00	+200.00
9. Income After Dependent Care Expenses	\$28,237.50	\$28,695.00
10. Additional Taxes Saved With Account (Individual tax rates may vary)		\$457.50



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Automatic Premium Conversion



- Premiums are deducted from your paycheck on a pre-tax basis:
 - State Group Life, State Group Health, EPIC Dental and Excess Medical Insurance, Spectera Vision Plan, DentalBlue Dental Plan
- No need to enroll; pre-tax deductions are automatic
- What if I don't want my premiums taken on a pre-tax basis?
 - File an *Automatic Premium Conversion Waiver Form (ET-2340)* with your payroll/benefits office



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Impact of the ERA Program on Other Benefits

- Will not reduce wages used to calculate Wisconsin Retirement System and other state benefits
- Will not affect tax-sheltered annuity or deferred compensation accounts
- Will reduce salary used to calculate Social Security benefit



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Important Rules

- You must enroll before the plan year begins
- Contributions cannot be changed or stopped during the plan year unless you experience a qualifying change in status event
- All expenses must be incurred during your period of coverage



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Plan Carefully

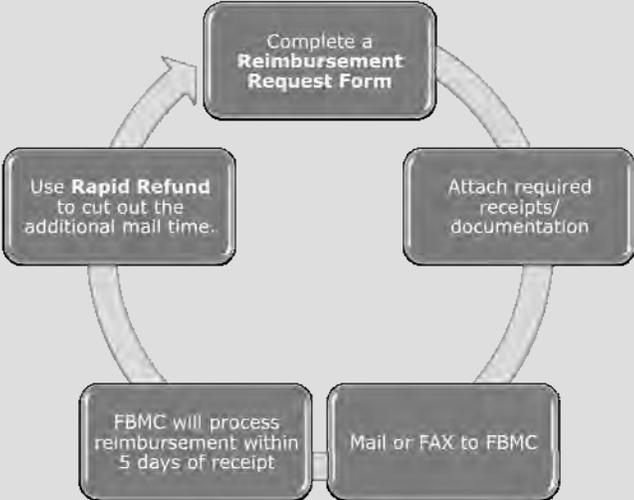
Use it or Lose it

Any funds remaining in your account at the end of the plan year will be forfeited



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Reimbursement



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Account Information

24/7 Account Access



- Employee Trust Funds Web site

<http://etf.wi.gov>

- FBMC Web site

www.myfbmc.com

- Customer Service: 1-800-342-8017

Hours: M-F 6 a.m. - 9 p.m. (CT)



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Enroll Now

- Open enrollment each fall
- Within 30 days following your hire date
- Within 30 days of becoming eligible because of a change in status event



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Start Saving Now!

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