

FSA

*Increase
Your
Spending
Power*

*Decrease
Your
Taxes*



Flexible Spending Accounts

Flexible Spending Accounts (FSAs) are a benefit provided by your employer that allow you to pay out-of-pocket health care and dependent daycare expenses with *tax free* money. You deposit a set amount of your paycheck into these accounts before *any* taxes are calculated. Throughout the year, you are reimbursed from your accounts for eligible health care and dependent daycare expenses. This way, you increase your spending power and decrease your taxes.

	<i>Without FSAs</i>	<i>With FSAs</i>
Annual Pay	\$36,000	\$36,000
Contribution to FSAs	N/A	\$2,000
Taxable Income (W-2 Earnings)	\$36,000	\$34,000
Federal and State Income Taxes	\$5,200	\$4,700
FICA (Social Security + Medicare)	\$2,750	\$2,600
Total Taxes	\$7,950	\$7,300
After tax expenses	\$2,000	N/A
Net Spendable Income	\$26,050	\$26,700
Tax savings with FSAs	N/A	\$650



Health Care

FSA

A Health Care FSA allows you to use tax-free dollars for eligible health care expenses that are not covered by insurance for you, your legal spouse and your eligible dependents. You determine the amount of money you would like to deposit and it is deducted before taxes are taken from your paycheck. After you incur an eligible health care expense within the plan year, simply submit

your claim and receipts. You will be reimbursed from your Health Care FSA. Plan years vary from company to company and may not necessarily be the same as a calendar year.

Your entire annual election amount is available on the first day of the plan year. If you submit a claim for more than your current balance, you will be reimbursed for up to your annual election amount.



Mary

January 1, annual election amount	\$1,500
Biweekly paycheck deductions	\$62.50
January account balance	\$125
January 31, submits claim for doctor visit	\$500
Reimbursement amount	\$500
Account Balance	-\$375

Eligible Dependents

You may use the FSA for eligible health care expenses incurred by you, your spouse and unmarried children who are:

- Age 18 or younger
- Age 19-23 and full-time students

You may also use the FSA for eligible health care expenses for any other person who resides in your home for at least six months of the year, who earns less than \$3,200 in 2005 (the IRS-specified earnings cap to still be a dependent), and for whom you claim a dependency deduction on your federal income taxes.

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Partial List of Common Eligible and Ineligible Expenses



This list is a general guideline and is not intended to be a guarantee of reimbursement or eligibility. Employees are advised to review their employer-sponsored benefit plan descriptions and enrollment materials for specific information or to consult with their employer or personal tax advisor. A more detailed list of eligible expenses is available on TRI-AD's Web site at www.tri-ad.com.

Please note: You can only be reimbursed for health care expenses incurred for medical care under Internal Revenue Service (IRS) Code Section 213 if the IRS requirements for proper proof of a valid expense are also met. You will need to provide documentation proving that your claim is eligible.

- Acupuncture
- Acupressure and massage therapy for specific medical conditions
- Chiropractic visits
- Contact lenses and solutions
- Contraceptives
- Dental care
- Drug and medical supplies
- Eye exams, prescription glasses and sunglasses
- Family counseling
- Hearing aids
- Insurance co-payments
- Insurance deductibles
- Lasik procedures
- Orthodontia*
- Over-the-counter pain relief medicines, stomach aids, allergy drugs and cold medicines
- Physical therapy for a specific medical condition
- Prescription drugs
- Prescription vitamins
- Psychiatric care and psychologist's fees
- Retin-A for a specific medical condition
- Smoking cessation programs to treat special conditions
- Treatment for alcoholism
- Treatment for drug addiction
- Weight loss programs prescribed by a doctor*

**Special conditions apply to these expenses.*

Ineligible Expenses

- Teeth bleaching or whitening
- Cosmetic procedures and surgeries
- Fitness programs
- Herbal remedies, vitamins and supplements used for general wellness
- Massage treatments for stress
- Over-the-counter drugs not used for treating a specific medical condition
- Weight loss programs for general well-being
- Toiletries, cosmetics and sundries



Dependent Care FSA

A Dependent Care FSA lets you use tax-free dollars to pay for child and elder daycare expenses that you must spend to allow you and your spouse to work or attend school full-time. This account is used for costs associated with the care of a child under age 13, a disabled spouse, an invalid parent or other dependent.

The IRS allows a family maximum contribution of \$5,000 per calendar year to your Dependent Care FSA. If your spouse also participates in a Dependent Care Plan, your combined amount cannot be higher than the family maximum. If you are married and file separate tax returns, the maximum amount you can contribute is \$2,500. Special rules apply for determining the earned income of a spouse who is disabled, a full-time student or unemployed. Please contact TRI-AD for more information.

Unlike the Health Care FSA, the amount available to you from your Dependent Care FSA is the amount you have contributed to date. If a claim exceeds the amount currently in your account you will receive partial payments based on the amount available in your account until the expense is fully paid or your contributions for the plan year cease. For example:



Jack

January 1, annual election amount	\$1,500
Biweekly paycheck deductions	\$62.50
January 31 account balance	\$125
February 1, submits claim for daycare	\$500
Partial reimbursement amount	\$125
Amount owed to Jack	\$375

Eligible Dependents

The dependent must live in your home for at least eight hours a day to qualify for Dependent Care FSA expenses. The dependent must also meet at least one of the following requirements:

- Under age 13 who you claim as a dependent on your income tax return or if legally separated or divorced, for whom you are the custodial parent.
- A child, spouse or other dependent who is physically or mentally incapable of self-care and who earns less than the IRS-specified maximum income to still qualify as a dependent (annual income of \$3,200 in 2005). You must also claim a dependency deduction for this person on your federal income taxes.

FSA *Dependent Care*



Eligible Expenses

- Care in or outside your home
- Related incidental household services
- Preschool tuition, if part of the total dependent care
- Before and after school care
- Day portion of summer camp fees

IRS Guidelines

- Dependent care expenses paid to one of your dependents are not reimbursable. For example, money you pay to your 17-year-old to babysit your 12-year-old cannot be claimed.
- Daycare centers that care for more than six children must be licensed.
- Each claim submitted for daycare must include the caregiver's tax ID Number or Social Security Number and receipt.

Dependent Care FSA or Federal Income Tax Credit

The IRS allows a tax credit for dependent care. You cannot claim the same expenses for both the Dependent Care FSA and Federal Income Tax Credit. The limit for Dependent Care FSA eligible expenses is \$5,000 and \$6,000 under the Federal Income Tax Credit. If you have more than one dependent and participate in the Dependent Care FSA, you may be able to receive a tax credit on eligible expenses exceeding the limit of \$5,000. We advise you to consult with your tax advisor to determine which is best for you.

A few general guidelines include:

Dependent Care FSA

- You are eligible for the Earned Income Credit (EIC), since Dependent Care FSA contributions lower your taxable wages and may increase your EIC payments.
- Your annual eligible expenses are more than \$3,000 and you have only one qualifying dependent.
- You are in the 25 percent or higher tax bracket.

Federal Income Tax Credit

- Your annual household income is approximately \$37,000 to \$39,000 and participating in the Dependent Care FSA may adversely impact your Earned Income Credit (EIC), especially if you have only one dependent and have less than \$3,000 in annual dependent care expenses.
- Your W-2 income is \$15,000 or less.
- Based on your income, you may be eligible for the full Additional Child Tax Credit (ACTC) under IRS code Section 24. Be sure that participating in the Dependent Care FSA does not lower your earned income to the point where the full ACTC cannot be claimed.

For more information, please refer to the IRS Form 2441. You must file this form with your tax return.



Three Easy Steps To Savings

By contributing pretax dollars from your gross pay into a Health Care or Dependent Care or both FSAs, you save money. You do not pay federal, state, Social Security or Medicare taxes on the money you deposit into your FSAs. Throughout the year, you use this tax-free money to pay for eligible health care and dependent daycare expenses.

Step 1. Determine Your Contributions

First decide the annual amount you would like to have deducted from your pretax pay. This amount is called your annual election. Please remember that the Health Care and Dependent Care FSAs are two separate accounts. Money cannot be transferred between them. Also, any money left over in either account at the end of the plan year cannot be rolled over or paid to you in cash. This is an IRS restriction called the “use it or lose it rule.”

Your annual election will be divided by the number of pay periods in the plan year. For example:

Annual Election	Annual Number of Paychecks	Amount Deposited per Paycheck
\$650	÷ 26	= \$25.00

Keep in mind all your health care and dependent care expenses that you have incurred during the past year.

To help you successfully estimate how much to contribute to your FSA, review:

- The partial list of common expenses on page 3.
- The expense estimation worksheet on page 8.

Additional tools are available on TRI-AD’s FSA Participant Web site at www.tri-ad.com.

Step 2. Enroll

Simply fill out your enrollment form and follow your company’s enrollment process. The amount you elect to contribute cannot be changed until your company’s next open enrollment. Your plan may allow you to make changes if you have an eligible status change such as a marriage, birth or adoption of a child or job change.

Step 3. Submit Your Claims

As you incur eligible expenses during the plan year, submit your receipts and a claim form to TRI-AD. You will be reimbursed from your FSA. The receipts must provide the description, date and cost of the service as well as whom the service was for and the service provider.

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Frequently Asked Questions



When can I enroll?

- During your company's annual open enrollment.
- Within 31 days of the date you first become eligible to participate.
- Within 31 days of the date a qualified "status change" occurs, if permitted by your company's plan.

When can I change my elections?

Once you enroll, your election will remain in effect for the entire plan year. Your company's plan may allow you to change your elections if you have a status change such as marriage, birth or divorce. Election changes made because of a qualifying event must be consistent with the change. For example, you may increase your FSA contributions, not decrease them if you have a baby.

What if I'm not enrolled in my company's health plan?

You can still participate in the Health Care or Dependent Care FSAs or both.

Why should I participate if I have health care coverage?

You could save a significant amount of money on your taxes. The amount you elect to contribute is deposited into the FSA before taxes are deducted from your paycheck.

What happens if I terminate my employment or my position is reduced to part-time during the year?

Health Care FSA—Once your employment is terminated or you no longer meet eligibility requirements, your plan year is over. The only expenses that you may submit are those you incurred from your entry date through your date of termination. If you elect COBRA, you can continue to submit expenses until your account balance is zero.

Dependent Care FSA—You can still be reimbursed for expenses you incur after your date of termination or position reduction until the end of the plan year. Continue submitting the eligible expenses you have before the last day of your firm's grace period for the plan year. You will be reimbursed all the money you have contributed to your account.

What happens if I have money left in my account at the end of the plan year?

Due to current IRS regulations, any money left in your FSAs must be forfeited. You cannot roll your money into the next plan year or be paid in cash.

During what timeframe are expenses eligible for reimbursement?

Only eligible expenses that you incurred during the plan year will be reimbursed. An expense is "incurred" on the date you receive the service or treatment, not the date you are billed or when you paid for the service. Your company's plan will have a "grace period" during which you can submit claims for expenses incurred during the plan year. This grace period varies from company to company. Please check with your HR department or review your Summary Plan Description.

How do I get reimbursed?

You must submit a claim form and attach your receipts. The receipts must provide the description, date and cost of the service as well as whom the service was for and the service provider. Details about what information you need to provide can be found on the claim form. The forms are available on TRI-AD's Web site at www.tri-ad.com and from your HR department.

How will I know how much money I have in my account(s)?

You can check your account balance 24 hours a day, seven days a week. It's simple! Log on to TRI-AD's Web site with your Social Security Number and Personal Identification Number (PIN) or call the Voice Response Unit at (VRU) at (888) 844-1372. Account balance information is also provided with each reimbursement check and direct deposit advice.

Who can I call for help?

Customer service representatives are available Monday-Friday between the hours of 5:00 a.m. to 5:30 p.m. Pacific Standard Time. If you are in San Diego, please call (760) 743-7555, outside the area, please call (888) 844-1FSA(1372). You may also visit TRI-AD's Web site at www.tri-ad.com. More information is also available in your company's FSA Summary Plan Description.

Expense Estimation Worksheet *ESA*

To help estimate how much to contribute to your Flexible Spending Accounts, below is a partial listing of some eligible expenses—simply fill-in the Estimated Amount column. For a more extensive list, please refer to pages 3 and 5 of this brochure. Also visit TRI-AD’s Web site at www.tri-ad.com. Base your estimates on health care costs not covered by insurance for you, your spouse and eligible dependents.

Health Care Expenses

Estimated Amount

Chiropractic visits	\$ <input type="text"/>
Contact lenses and solutions	\$ <input type="text"/>
Dental care (routine checkups, fillings, etc)	\$ <input type="text"/>
Eye exams, prescription glasses and sunglasses	\$ <input type="text"/>
Insurance co-payments and deductibles	\$ <input type="text"/>
Lasik procedures	\$ <input type="text"/>
Orthodontics	\$ <input type="text"/>
Over-the-counter medications	\$ <input type="text"/>
Prescription drugs and prescription vitamins	\$ <input type="text"/>
Routine exams	\$ <input type="text"/>
Other eligible expenses	\$ <input type="text"/>
Annual Total	\$ <input type="text"/>

Dependent Care Expenses

Daycare	\$ <input type="text"/>
Before/after school care	\$ <input type="text"/>
Elder daycare	\$ <input type="text"/>
Annual Total	\$ <input type="text"/>