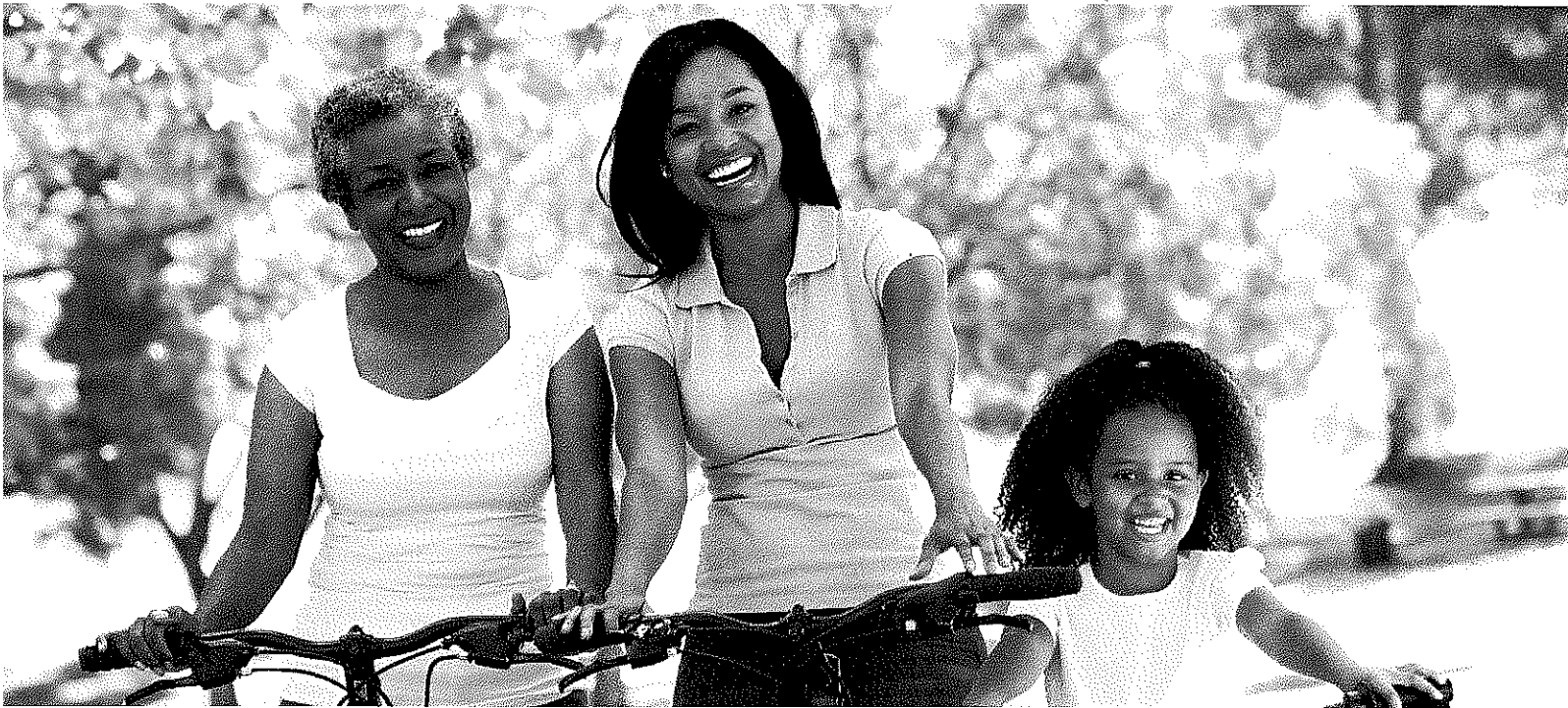




Flexible Spending Accounts

Flexible Spending Accounts



Save Money on Medical Expenses · Easy Reimbursement · Excellent Customer Service · [Learn More](#) >>

 **American Fidelity
Assurance Company**

Our Family, Dedicated to Yours.™

Flexible Spending Accounts

Flexible Spending Accounts (FSAs) are a great cost savings tool to help with common medical expenses not covered by your insurance, and/or dependent care expenses. You can elect a portion of your salary to be deducted, on a pre-tax basis, from each paycheck to use for reimbursements of qualified out-of-pocket expenses throughout the plan year.

As an FSA participant you'll have access to two tax-saving opportunities for you and your family to take advantage of:

- **Health Flexible Spending Account**
- **Dependent Day Care Flexible Spending Account**

Flexible Spending Account Savings Example

With FSA		Without FSA
\$30,000	Annual Gross Income	\$30,000
- \$2,500	Health FSA Contribution*	\$0
- \$5,000	Dependent Care Account Contribution*	\$0
\$22,500	Taxable Gross Income	\$30,000
- \$4,500	Estimated Federal Tax (20%)**	- \$6,000
- \$1,721.25	Estimated FICA (7.65%)**	- \$2,295
\$16,278.75	Annual Net Income	\$21,705
\$0	Cost of Recurring Medical Expenses	- \$2,500
\$0	Cost of Recurring Dependent Care Expenses	- \$5,000
\$16,278.75	Spendable Income	\$14,205

By using FSAs to pay for eligible recurring expenses, you can reduce your taxable income which may result in additional spendable income.**

Pre-tax deductions for eligible expenses

Compare the tax savings

Potential Annual Savings with an FSA
\$2,073.75

Health Flexible Spending Accounts

How a Health FSA Works

A Health FSA may be used for the reimbursement of eligible medical expenses for Qualifying Individuals (e.g. you, your spouse or dependents), up to the amount you elected for the year. Your employer establishes the maximum election allowed for each participant for each plan year. Due to the use or lose rule¹, it is important for you to carefully estimate your out-of-pocket expenses for the upcoming plan year. Any amount remaining after the end of the runoff period will be forfeited.

Who Can Participate

All eligible employees can participate in a Health FSA, even if you do not have medical coverage through your employer. For definitions on qualifying individuals, please see the FSA guidelines section.

How to Get Reimbursed

American Fidelity provides three easy ways for you to receive your reimbursements for a FSA.



direct deposit



check by mail



debit card

* Example is hypothetical for illustrative purposes only.

** Taxes are a sample average of State, Federal and FICA taxes. Contact your personal tax advisor for information regarding your specific tax situation. Individual results or savings may vary.

¹ If you elect and contribute more than you can use during the plan year, you forfeit the balance.

What Expenses are Eligible and Ineligible for Health FSAs

The following are examples of some of the most common types of expenses that may or may not be reimbursed. These lists are not intended to be complete. For a complete list of eligible expenses please visit www.afadvantage.com.

Eligible Expenses

- Alcohol & drug treatment
- Ambulance
- Chiropractors
- Co-pays/coinsurance
- Deductibles
- Dental treatments
- Diabetic supplies
- Prescription drugs and medicines
- Eye exams, eyeglasses, contact lenses, contact lens solution and enzyme
- Flu shots
- Guide Dogs
- Immunizations
- Insulin
- Lab fees
- Laser/Lasik/RK surgery
- Medical exams
- Orthodontia*
- Psychiatric care
- Wheelchair
- X-rays

*For orthodontia expenses paid upfront before services are provided, the contract stating the full charge, the date of treatment, and the estimated length of treatment with a receipt showing payment has been made are required to be submitted with the reimbursement voucher.

Eligible Over-the-Counter Expenses

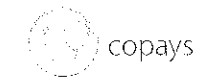
Effective January 1, 2011, the following categories of over-the-counter drugs and medicines will require a doctor's prescription to be submitted with the receipt and reimbursement voucher to be eligible for reimbursement:

- Acid controllers
- Allergy & sinus
- Antibiotic products
- Anti-gas
- Anti-itch & insect bite treatments
- Baby rash ointments/creams
- Cold sore remedies
- Cough, cold & flu
- Digestive aids
- Feminine anti-fungal/anti-itch
- Hemorrhoidal preparations
- Laxatives
- Motion sickness
- Pain relief
- Respiratory treatments
- Sleep aids & sedatives
- Stomach remedies

Ineligible Expenses

- Cosmetics
- Cosmetic procedures or surgery
- Dependent Care Expenses
- Electrolysis or hair removal
- Hair removal/Hair transplant
- Insurance premiums
- Lodging while attending medical conference
- Long term care services
- Teeth whitening
- Toothbrushes or toothpaste
- Vitamins for general well-being

American Fidelity does not reimburse capital expenses. Examples of capital expenses include swimming pools, hot tubs, jacuzzi tubs, exercise equipment, removal of lead-based paint, air conditioner, air purifier, mattresses, pillows or vacuums, water filters, automobile modifications for physically handicapped individuals, home improvements such as exit ramps, widening doorways, etc. to accommodate physically handicapped individuals.



copays



medical deductibles

SAVE MONEY ON COMMON MEDICAL EXPENSES.



prescriptions



other medical expenses

Dependent Day Care Flexible Spending Account

How a Dependent Day Care FSA Works

A Dependent Day Care FSA may be used to reimburse a participant for eligible dependent care expenses incurred while you, and your spouse if you are married, work or look for work, or maintain a full-time student status. If one parent is not working or looking for work, a Dependent Day Care FSA is not available. You may allocate up to \$5,000 per tax year for reimbursement of dependent day care services (\$2,500 if you are married and file a separate tax return).

Who Can Participate

All eligible employees can participate in a Dependent Day Care FSA. If you are considering participating in a Dependent Day Care FSA, please review the information regarding the tax credit alternative located in the FSA guidelines.

Qualifying Dependent

A Qualifying Individual as defined by the Internal Revenue Code:

- A dependent of the taxpayer as defined in Section 152(a)(1) (i.e. a qualifying child) who has not reached the age of 13 and has the same principle place of abode for more than one-half of the year.
- A dependent of the taxpayer (i.e. a qualifying child or qualifying relative) who is physically or mentally incapable of self-care and who has the same principle place of abode as the taxpayer for more than half of the year. The individual must spend at least eight hours per day in the employee's household.
- A spouse who is physically or mentally incapable self-care and who has the same principle place of abode as the taxpayer for more than one-half of the year. The individual must regularly spend at least eight hours per day in the employee's household. When determining whether a person who is incapable of self-care is a qualifying individual, status as a dependent is determined without regard to the income test for being a qualifying relative.

What Expenses are Eligible and Ineligible for Dependent Day Care FSA Reimbursements

The following are examples of some of the most common types of expenses that may or may not be reimbursed. These lists are not intended to be complete. For a complete list of eligible expenses please visit www.afadvantage.com.

Examples of Eligible Expenses:

- After-school care or extended day programs
- Au pair expenses
- Baby-sitter inside or outside participant's household
- Custodial or elder care expenses if the qualifying individual still spends at least 8 hours each day in the employee's household
- Dependent care center expenses/pre-kindergarten/nursery school expense if primary purpose is to care for the child so the parent can work
- Expenses paid to a non-dependent relative of participant
- Nanny expenses
- Summer day camp if the primary purpose of the expense is custodial in nature and not educational

Examples of Ineligible Expenses:

- Chauffeur and transportation expenses
- Expense for disabled spouse or tax dependent living outside household
- Educational expense-kindergarten and above
- Food expenses
- Household services
- Incidental special activities expenses
- Overnight camp expenses
- Sick employee (that is, care for a dependent while the sick employee stays at home)
- Volunteer work-expenses incurred to enable employee to volunteer

How to File a Claim

1. Complete an Expense Reimbursement Voucher. Health FSA and Dependent Care vouchers can be found online at www.afadvantage.com.

2. Submit your completed form along with the third-party documentation to American Fidelity's Flex Department. You can either mail it to the address located on the bottom of the voucher or fax it toll-free to 888-243-2638.

Your claim will be processed on an average of 3-5 business days from the date all required claim information is received. The Health FSA reimbursement will be for eligible expenses claimed up to the annual election for the plan year minus any previously reimbursed amounts.

The Dependent Day Care FSA expense reimbursement will be for the services provided limited to the amount you have in your account. If the Dependent Care expense claim is in excess of your account balance, the balance of the claim will be paid to you as additional contributions are received.

In the event that American Fidelity requests claim verification documentation, you need to provide the date of service, patient's name and type of service expensed. Itemized bills and Explanation of Benefits letters will satisfy American Fidelity's requirements and simplify the substantiation process.

Direct Deposit

By selecting to have your reimbursements directly deposited to your bank account you can get your reimbursements faster without having to wait for the check to arrive in the mail. Each time a reimbursement is deposited into your bank account, you will be mailed an Explanation of Benefits that shows the deposit as well as a summary of your account.

Health FSA Debit Card

If your employer has elected to allow Health FSA debit cards within your organization, please read the following information.

How Your Card Works

The Health FSA Debit Card allows you to pay at point-of-sale for approved out-of-pocket expenses, such as prescriptions and co-pays. The card can only be used for the Health FSA and is not available for the Dependent Day Care FSA.



The card can be used at:

- Healthcare related facilities which include: hospitals, physicians offices, dental offices, vision offices; and,
- Merchants participating in the Inventory Information Approval System (IIAS). This list can be accessed at www.sig-is.org.

Based on IRS regulations, American Fidelity will request documentation for ALL debit card claims, unless the transaction falls into one of the following categories:

- Co-Pay Amounts – If your employer provides the necessary information for your medical carrier, the co-pay amount will be automatically approved. This is for fixed-dollar cost-sharing amounts. If you are required to pay a percentage of the total charge, additional substantiation will be required.
- Recurring expenses – You will need to submit your first claim manually and state this will be a recurring claim from the same provider at the same dollar amount. It will be noted on your account that this will be a recurring expense, and additional substantiation will not be required for that plan year.
- Items purchased at merchants participating in the IIAS.

It is important to keep ALL receipts and supporting documentation in the event American Fidelity requests additional substantiation or your debit card swipe does not fall into the categories listed above. For more details, see How to File a Claim.

Activating Your Card

You will receive your card at your home address. After the first deduction is made from your paycheck and posted to your account, you can begin using your card. Your card will be automatically activated when you use it for the first time for an eligible expense. If you should have a claim prior to receiving your card, you can submit a manual claim.

Accessing Your FSA

Visit www.afadvantage.com to download Section 125 Flex Reimbursement vouchers and review customer FAQs. Through our secure Online Service Center you can have 24/7 access to your account balance, deposit and payment information,

Also, you can call our toll-free automated system (FlexConnection) available 24 hours a day for your FSA account balance, and deposit and payment activity at 800-437-1011.



Flexible Spending Account(s) Guidelines

General FSA Guidelines

- You must elect to participate prior to the beginning of each plan year or if you are a new hire, within your eligibility period. There is no allowance for late enrollment.
- No reimbursements will be made until the first account deposit of the plan year is received from your employer.
- The amounts that you designate for the Health FSA may not subsequently be used for reimbursement of Dependent Day Care Expenses, and vice versa.
- If an expense is covered by your health insurance plan, submit your bills to the insurance company first, then submit the insurance company's statement of benefits along with your voucher.
- Be sure to keep a copy of all claims submitted for your records. It is especially important to keep copies of the Dependent Day Care Provider Acknowledgement Form as you will need the information for income tax preparation purposes. There will be a \$50 charge to research and provide copies of claims that have been processed (this applies in all situations other than an appeal of denied claim).

Guidelines for Health FSAs

- No changes in election are permitted mid-year for a Health FSA for any reason except for termination of employment. Contact your employer for special rules affecting your plan.
- You may only be reimbursed for expenses incurred for services rendered during the plan year, not for services rendered in a different plan year but paid in the current plan year unless your employer elected the "Grace Period" option. This option allows participants to access unused amounts after the end of a plan year to pay or reimburse expenses for qualified benefits incurred during a "grace period" of up to 2-1/2 months after the close of a plan year.
- If you are a new employee entering the plan during a plan year, expenses are only eligible for reimbursement if the services are rendered after you are eligible in the plan.
- Participants are allowed a 90-day run-off period after the plan year ends in which to submit claims that occurred during the plan year but were not yet submitted (run-off period may vary).
- If you are enrolled in the Health FSA and take a leave of absence during the plan year, you may:
 - Prepay the contributions pre-tax, or
 - Continue the contributions on an after-tax basis (pre-tax contributions may continue when you return to work), or
 - Prorate the unpaid contributions over the remaining pay periods when you return to work.
- Failure to make all elected contributions will result in termination of your account as of the date contributions ceased.
- Health FSAs must comply with COBRA and offer COBRA continuation rights to qualified beneficiaries who lose their Health FSA coverage as a result of termination of employment. This may only be offered upon termination of employment if you have a balance remaining in your Health FSA. The balance is calculated by subtracting the reimbursements made from the contributions received. You may choose to continue your contributions by either sending your contributions to your employer on an after-tax basis each pay month, or you can choose to pay the remaining contributions for the plan year on a pre-tax basis from your severance pay or final

paycheck. Expenses incurred while contributions are being made are eligible for reimbursement. The coverage may not continue beyond the current plan year. If you do not elect to continue the contributions, only expenses incurred during the period of employment will be reimbursed. Coverage under the Health FSA ceases when the contributions cease.

- Effective January 1, 2011, over-the-counter drugs and medicine now require a medical practitioner's prescription. The prescription must include the following:
 1. The name and address of the patient;
 2. The name and quantity of the drug prescribed and directions for use;
 3. The date of issue;
 4. The name, address, and phone number of the prescriber, his or her license classification, and his or her federal registry number;
 5. A description of the condition for which the drug is being prescribed;
 6. The signature of the medical practitioner issuing the order.

Health FSA Definitions for Qualifying Individuals

A Health FSA may reimburse Eligible Expenses incurred by qualifying individuals, which are defined as follows:

A "Qualifying Child" is:

- A child (including natural, adopted, foster and/or step child) and descendent of such person (i.e., grand and great grandchildren), or a brother or sister (including step) and a descendent of such person (i.e., nieces or nephews, including step nieces and nephews); and,
- Has the same principal abode as the employee for more than half of the year,
- A child of parents who are divorced or separated is a qualifying child of both parents,
- Is under the age of 19 at the end of the year, or, if a full-time student, under the age of 24 at the end of the year, or is permanently disabled; and,
- Does not provide more than half of his or her own support.

An "Adult Child" is:

- A child (including natural, adopted, foster and/or step child) of an employee who as of the end of the calendar year has not attained age 27. Only eligible as a Qualifying Individual with respect to benefits provided after March 30, 2010.

A "Qualifying Relative":

- A child (including natural, adopted, foster and /or step child) and descendent of such person (i.e., grand and great grandchildren), or a brother or sister (including step siblings), parent or ancestor, stepparent (not including ancestors), aunt or uncle, niece or nephew, in-laws, or any other individual not listed above (i.e., a non-relative) who, for the taxable year (1) has the same principal place of abode as taxpayer, and (2) is a member of taxpayer's household, and
- Receives more than half of his or her support from the employee; and,
- Is not a "qualifying child" of any taxpayer.

Guidelines for Health FSA Debit Cards

- Keep your receipts. Claims not approved automatically will need to be submitted manually.
- If a provider does not accept the Debit Card, you can request reimbursement by completing the Health FSA Expense Reimbursement Voucher (available online at www.afadvantage.com) and submit with the required documentation.
- If debit card "swipes" do not match up with pre-set benefits from your employer, or we do not receive all the necessary information electronically from the debit card vendors to automatically approve the flex debit card "swipe", manual claims substantiation will be requested.
- If you cannot provide the substantiation requested, that claim will be determined to be ineligible and funds for that claim must be reimbursed back to the plan. Acceptable substantiation to accompany the request is a professional bill or receipt that includes the provider of service, type of service rendered, charges for the service, and original date of service; insurance company explanation of benefits; pharmacy statement that includes Rx number and name of prescription.
- Effective January 1, 2011, over-the-counter drugs and medicines will require a doctor's prescription to be reimbursed as an eligible expense. The debit card will be denied at point-of-sale if used for over the counter drugs and medicines. These expenses will require a manual claims submission.

Guidelines for Dependent Day Care FSA

- Dependent Day Care FSA elections are irrevocable for the period of coverage (the plan year) except for a change in status which affects your need for dependent care. Examples of a change in status include your marriage, divorce, or legal separation; death of your spouse or child; birth or adoption of a child; change in residence; or change in your or your spouse's work site. An election change may also be allowed for a cost or coverage change (cost changes are not eligible if the care provider is a relative). If you drop your Dependent Day Care FSA election due to a change in status, only claims incurred while you are actively participating will be eligible for reimbursement.
- The Dependent Day Care FSA expense reimbursements will be for the expenses you claimed up to the amount you have in your account. If the Dependent Day Care FSA expense claim is in excess of your account balance, the balance of the amount due will be forwarded to you as additional payments are received.
- Participant must have income from work during the year.
- Participant must have made payments for dependent care to someone you could not claim as a dependent, and, if the person you made payments to was your child, he or she must have been over age 19 by the end of the tax year.
- Child support payments and child care payments qualifying as alimony are not qualified expenses for reimbursement.
- For parents who are divorced or separated, a child is a Qualifying Individual with respect to the custodial parent - the parent having custody for the greater portion of the calendar year.
- A Dependent Day Care Center or an individual providing Dependent Day Care must comply with all federal, state, and local regulations, if applicable.
- A Dependent Day Care Center is a place that provides care for more than six persons (other than persons who live there) and receives a fee, payment or grant for providing services for any of those persons, regardless of whether the center is run for profit.

- Dependent Day Care Center expenses are eligible if the care is for your dependent under age 13 or for any other Qualifying Dependent.
- Your eligible expenses during a calendar year may not be more than:
 1. Your earned income for the year, if you are single at the end of the calendar year, or
 2. The smaller of your earned income or your spouse's earned income for the year if you are married at the end of the calendar year.

Tax Credit Alternative for Dependent Day Care FSA

You should be aware that you may be able to take a federal tax credit of up to 35% of the amount you pay for dependent care expenses instead of participating in the Dependent Day Care FSA.

- You may use up to \$3,000 of dependent care expenses to figure your credit if you have one Qualifying Dependent and up to \$6,000 if you have two or more Qualifying Dependents.
- Your credit can be as much as \$1,050 if you have one Qualifying Dependent or as much as \$2,100 if you have two or more Qualifying Dependents.
- The tax credit is a direct reduction of the tax you owe to the federal government, unlike the income exclusion of participating in the Dependent Day Care FSA. Many states also provide a state tax credit for dependent care expenses.

You should consult your tax advisor as to whether the tax credit may be more favorable for you than participating in the Dependent Day Care FSA. You may also wish to obtain IRS Publication 503 for more information about the federal tax credit.

Regardless of whether you participate in the Dependent Day Care FSA under Section 125 or claim the credit on your income tax, you must provide the IRS with the name, address and taxpayer identification number (TIN) or Social Security number of your dependent care provider(s) by completing either Schedule 2 of Form 1040A or Form 2441 and attaching it to your annual income tax return. Be sure that you follow the current instructions given by the IRS for preparing your annual income tax return. Failure to provide this information to the IRS could result in loss of the pre-tax exemption for your dependent day care expenses.



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