



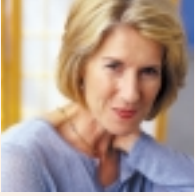
HEALTH CARE

Flexible Spending Account

Your time is worth money ... Now you can save both.
Pay for health care expenses and save on taxes.



Turning promise into practice™



HEALTH CARE

Flexible Spending Account

In today's society, the high cost of medical care has become a fact of life. Health care costs can add up to a significant part of your yearly expenses. Although your health care benefit plan offers you and your family considerable protection against the high cost of health care, you probably have a number of ordinary health care expenses that are not covered under any benefit plan. Aetna's Health Care Flexible Spending Account offers a way to better manage these expenses and gain real tax savings as well.

A health care flexible spending account is a separate benefit plan that allows you to direct a part of your pay, on a pretax basis, into a special account that can be used throughout the year to reimburse yourself for certain out-of-pocket health care expenses. Because this money goes into your health care flexible spending account before federal income or Social Security taxes are withheld, you pay less in taxes and, ultimately, have more disposable income. In most cases, your money is exempt from state and local taxes as well. (Check with your tax advisor to find out whether this tax exemption applies in your state).

Depending on your tax bracket and residency, using a flexible spending account can be worth the equivalent of receiving a 20 percent to 50 percent discount on eligible services.

How the Account Works

Each year you decide whether you want to participate in a health care flexible spending account. If you do, estimate the amount of eligible medical/dental care expenses you are likely to have during the year and decide how much of your salary you want to set aside to help pay for each. The amount you elect will be automatically deducted from your paychecks during the year and credited to your health care account. As you incur eligible expenses during the year and pay for them out of your own pocket, you reimburse yourself from your flexible spending account with tax-free money.

THE AMOUNT YOU ELECT WILL BE AUTOMATICALLY DEDUCTED FROM YOUR PAYCHECKS DURING THE YEAR AND CREDITED TO YOUR HEALTH CARE ACCOUNT.

Eligible Expenses

Health care flexible spending account expenses must be considered tax-deductible by the Internal Revenue Service (IRS). According to IRS regulations (IRS Publication 502), eligible medical expenses include, but are not limited to:

- Deductibles
- Routine physicals
- Copayments/coinsurance
- Hearing exams
- Eye exams
- Hearing aids
- Eyeglasses
- Doctors' fees
- Contact lenses/saline solution
- Laboratory fees
- Chiropractic treatment
- Dental work/orthodontia
- Prescribed medicines
- Psychiatric treatment
- Lasik surgery



Contributions

Although the IRS does not currently set specific limits on the medical/dental expenses that can be reimbursed with a health care flexible spending account, federal regulations require each employer offering this plan to establish annual health care flexible spending account maximums. You will be informed of the maximum annual amount you can set aside in your account during the open enrollment period each year.

Tax Deduction vs. Health Care Spending Account

If you use money from your health care flexible spending account for a health care expense, you cannot claim that expense as a deduction on your income tax return. In determining whether a tax deduction or reimbursement through a health care flexible spending account is better for you, keep in mind that according to the IRS, only medical expenses that exceed 7.5 percent of your gross adjusted income can be deducted from your income taxes. Most people do not have expenses high enough to qualify for this deduction.

For example, if your adjusted gross income is \$28,000, your eligible health care expenses would have to be greater than \$2,100 ($.075 \times \$28,000$) to claim a deduction. Also, because you can only declare expenses, you could only deduct \$100 on your tax return. With a health care flexible spending account, you could reimburse yourself with tax-free dollars for any portion of that expense, up to the maximum amount of your yearly contribution.

Unused Funds

If you have not used all of the money deposited into your flexible spending account for expenses incurred during the plan year, IRS regulations dictate that these remaining funds must be forfeited. Because many out-of-pocket health care expenses can usually be budgeted ahead of time, careful planning of your yearly expenses will help reduce the risk of losing unused funds. If you are aware of your account balance and filing deadline, you will use your flexible spending account to the maximum potential. You will receive account activity statements during the year to remind you of your balances and important claim filing information.

Keep in mind that any forfeiture of funds may be offset by your total tax savings. Remember, a portion of any money would have been paid in taxes.



YOU WILL BE INFORMED OF THE MAXIMUM ANNUAL AMOUNT YOU CAN SET ASIDE IN YOUR ACCOUNT DURING THE OPEN ENROLLMENT PERIOD EACH YEAR.

Effect on Other Benefits

Your health care flexible spending account contributions will not affect any company benefits that are based on pay. These benefits will continue to be based on your salary before any amount is deducted. However, because you don't pay Social Security taxes on your spending account contributions, those benefits may be slightly less when you retire or if you become disabled. It will depend on the length of time between now and when you retire or become disabled and on whether your taxable income exceeds the Social Security maximum wage level.

Reimbursement From Your Account

It is important to note that IRS regulations require that qualified expenses must be incurred in order to claim reimbursement from your account. Expenses are considered to be incurred when the service is rendered, not when you are billed, charged or pay for these services. Therefore, reimbursements made during a plan year are made only for eligible expenses incurred during that same plan year. Claim payments will be made a minimum of once per month — frequency is determined by your employer. An Explanation of Payment (EOP) will be sent with each payment.

When you submit a claim for your health care flexible spending account, you will be reimbursed up to the full amount of your annual contribution, regardless of the amount of money that has been deposited into your account. Contributions will continue throughout the year and claims will continue to be paid until your annual maximum is met.



IT IS IMPORTANT TO NOTE THAT IRS REGULATIONS REQUIRE THAT QUALIFIED EXPENSES MUST BE INCURRED IN ORDER TO CLAIM REIMBURSEMENT FROM YOUR ACCOUNT.

For example, assume that you are paid monthly and elect to set aside \$50 a month, or \$600 for the year, in your health care flexible spending account. Suppose that in April, after contributing a total of \$200 (\$50 X 4 months) to your account, you incur a medical expense of \$500 that you pay out of pocket. You could request reimbursement for the full amount of the expense, even though the balance in your account is not sufficient to cover it at that time. For the rest of the plan year, your salary deductions would continue. In this example, of the total amount of \$600 you elected to set aside, \$100 would remain available to you for reimbursing further expenses incurred that year.



Eligibility

You are eligible to participate in a health care spending account if you are an active employee as defined by your company's policy. Expenses can be incurred for any member of your family who is considered your legal dependent when you file your taxes.

How to Enroll

If you choose to enroll in a health care flexible spending account, your employer will provide you with the necessary enrollment procedure. Only those expenses you incur on or after the effective date of your enrollment in this plan will be eligible for reimbursement.

- **Estimate expenses** — During the enrollment period each year, you should estimate what your expenses are likely to be for the upcoming plan year. For health care accounts, consider last year's medical and/or dental care expenses and any medical/dental costs you foresee that might not be covered under your medical or dental plans. To most accurately estimate your health care costs, please keep in mind any changes in your family status that might have an impact on your expenses, such as marriage or the birth or adoption of a child.
- **Determine contributions** — Decide how much of your salary you want to contribute to your flexible spending account to fund these health care expenses. Remember, the amounts you elect will be deducted automatically from your paychecks and credited to your flexible spending account.



- **Plan Carefully** — It is important to plan carefully. According to federal regulations, once you have designated the contribution amount for a plan year, you cannot change your decision during that plan year unless your family status changes. Check with your company's benefits area for a full list of family status changes.

Following are examples of family status changes:

- Marriage
- Divorce
- Birth or adoption of a child
- Death of a child or a spouse
- Termination of spouse's employment
- Commencement of spouse's employment
- Transition from part-time to full-time work or from full-time to part-time work by employee or spouse
- Employee or spouse taking an unpaid leave of absence
- Any significant change in health coverage of employee or spouse due to spouse's employment

Current Rules

Health care flexible spending accounts are offered on the basis of the current understanding of the provisions of the Internal Revenue Code and regulations. Because the current rules are subject to change, the plans may be amended or discontinued if changes in the law or regulations make it advisable to do so.

This brochure describes Aetna's Health Care Flexible Spending Account in general terms. If any conflict arises between these descriptions and the plan documents, or if any issue is not covered, the terms of the plan documents will govern in all cases.



AS YOU THINK ABOUT WHAT YOUR EXPENSES MIGHT BE, IT WOULD BE HELPFUL TO REVIEW YOUR HEALTH CARE EXPENSES FROM RECENT YEARS. DO YOU TEND TO HAVE CERTAIN RECURRING, PREDICTABLE EXPENSES?

Any determination as to qualification of an expense under Aetna's Health Care Flexible Spending Account is subject to review by the Internal Revenue Service (IRS). Should the IRS take a position contrary to that applied under the plan, the plan will be governed by IRS instructions. Employees who disagree with the IRS position and wish to appeal that decision must obtain their own legal counsel.



Expenses Worksheet

This worksheet will help you to think about your health care expenses for the coming year and to estimate the amount you should put into your health care flexible spending account. As you think about what your expenses might be, it would be helpful to review your health care expenses from recent years. Do you tend to have certain recurring, predictable expenses? Also consider any anticipated changes that might affect your expenses during this year, such as marriage or a new baby.

The following list will give you some ideas about the types of out-of-pocket expenses you might have that could be reimbursed with tax-free dollars from your health care flexible spending account. Remember, these expenses must not be payable by any other plan.

Covered Health Care Expenditures

Deductible	\$ _____
Coinsurance	\$ _____
Dental work (fillings, orthodontia, dentures)	\$ _____
Routine health examinations	\$ _____
Charges in excess of "reasonable and customary"	\$ _____
Routine eye exams, eyeglasses, contact lenses	\$ _____
Hearing aids	\$ _____
Other eligible expenses	\$ _____
	\$ _____
Total estimated out-of-pocket health care expenses	\$ _____

Savings Worksheet Instructions

1. Enter your annual gross income.
2. Enter your estimated contribution into the health care account based on your estimated out-of-pocket expenses from the worksheet provided.
3. Subtract item #2 from item #1 for your total taxable income.
4. Using the Tax Credit Percentage Chart below, estimate your federal income tax and enter in worksheet.
5. Subtract item #4 from item #3.
6. Using the Tax Credit Percentage Chart provided, estimate your Social Security tax and enter in worksheet.
7. Subtract item #6 from item #5.
8. Enter estimated out-of-pocket expenses from the worksheet provided.
9. Subtract item #8 from item #7 to find your estimated net pay.

Adjusted Gross Income

\$0 – \$10,000	.30
\$10,001 – \$12,000	.29
\$12,001 – \$14,000	.28
\$14,001 – \$16,000	.27
\$16,001 – \$18,000	.26
\$18,001 – \$20,000	.25
\$20,001 – \$22,000	.24
\$22,001 – \$24,000	.23
\$24,001 – \$26,000	.22
\$26,001 – \$28,000	.21
Above \$28,000	.20

Tax Credit Percentage

Health Care Flexible Spending Account Savings Worksheet

	With FSA	Without FSA
1. Annual Income	\$ _____	\$ _____
2. Spending Account Contribution	– _____	– _____
3. Taxable Income	= \$ _____	\$ _____
4. Estimated Federal Income Tax	– _____	– _____
5. Total	= \$ _____	\$ _____
6. Social Security Tax	– _____	– _____
7. Total	= \$ _____	\$ _____
8. Health Care Expenses	– _____	– _____
9. Net Pay	= \$ _____	\$ _____



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