



AMERICAN FIDELITY  
ASSURANCE COMPANY'S

# *Section 125 Q & A*

## Flexible Benefit Plan



Flexible Spending Accounts  
Questions & Answers

# Is Your Paycheck Saving You Money?

The Section 125 Flexible Benefit Plan allows you, the employee, to select from a list of available benefits that will meet your needs. You are then able to use pre-tax dollars to pay for qualified benefits. By participating in this plan, you reduce your taxes and increase your spendable income. Any benefit costs or insurance premiums you pay under the plan are paid on a pre-tax basis.

The savings an employee may experience under the Section 125 Plan is illustrated in the example below.

By utilizing the Section 125 Plan, this employee would have \$57 more per month to apply toward needed insurance benefits or spendable income. Annually, this would be an increase of \$684.

WITHOUT SECTION 125 FLEXIBLE BENEFIT PLAN	
Average Monthly Salary	\$2,000
Less Estimated Federal Withholding (15%)	(300)
Less Estimated FICA (7.65%)	(153)
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	\$1,547
Less Medical Premium	(150)
Less Disability Premium	(25)
Less Other Supplemental Premium	(25)
Net Take-Home Pay	\$1,347
Less Out-of-Pocket "Flex" Expenses	(50)
<b>SPENDABLE INCOME</b>	<b>\$1,297</b>

WITH SECTION 125 FLEXIBLE BENEFIT PLAN	
Average Monthly Salary	\$2,000
Less Medical Premium	(150)
Less Disability Premium	(25)
Less Other Supplemental Premium	(25)
Less Out-of-Pocket "Flex" Expenses	(50)
Taxable Income	\$1,750
Less Estimated Federal Withholding (15%)	(263)
Less Estimated FICA (7.65%)	(133)
<b>SPENDABLE INCOME</b>	<b>\$1,354</b>



IN THIS EXAMPLE THE  
SECTION 125 PLAN  
SAVED THE EMPLOYEE

**\$57** MONTHLY!

\* This example is for illustrative purposes only.  
Please consult your tax advisor for actual savings.

# Questions & Answers

**Q.** What does the Section 125 Flexible Benefit Plan mean to me?

**A.** This Plan means that current after-tax expenditures for items such as medical insurance, disability income, dependent care costs, and some medical expenses not covered by insurance can now be paid for with pre-tax dollars. The bottom line is that you may have more dollars available to purchase other benefits you may need or available as increased take-home pay.

**Q.** Will participation in the Section 125 Plan affect my Social Security benefits?

**A.** Yes, FICA taxes are not paid on Section 125 salary reductions. Therefore, your Social Security benefits at retirement may be reduced.

**Q.** How do I enroll in the Section 125 Plan?

**A.** After the group meeting, your American Fidelity representative will meet with you to complete an election form. This election form must be completed and signed by each employee, whether or not you wish to elect to participate in the benefit portion of the Plan.

**Q.** Must I make my election before the effective date of the Plan?

**A.** Yes, you must make your benefit election prior to the beginning of the plan year (effective date), or prior to becoming eligible to participate in the Plan.

**Q.** Can I make changes in my election during the plan year?

**A.** The only time tax law regulations will allow you to make a change is if you experience a qualified election change event that affects your eligibility for a benefit. Some examples of qualified election change events are a change in legal marital status; change in number of dependents; termination or commencement of employment; change in work schedule; dependent satisfies or ceases to satisfy dependent eligibility requirements; and a change in residence or worksite. These examples may not be all-inclusive. If you elect to participate in the Medical Expense Reimbursement Account, election changes are limited, in most cases, to ceasing Plan participation because of termination of your employment.

**Q.** What is a qualified medical expense for reimbursement under this Plan?

**A.** Most medical expenses not reimbursed by any other source or an insurance plan, such as deductibles and co-insurance, and items not covered by insurance, such as vision care, dental costs, and routine physicals, are qualified medical expenses. See the list of expenses eligible for reimbursement at the back of this brochure. These expenses may be either for you, your dependents, and/or your adult child who as of the end of the calendar year has not attained age 27 (adult children can only be eligible with respect to expenses incurred after March 30, 2010).

If your employer allows for the grace period on the Medical Expense Reimbursement Account, you will have an additional 70 days after the end of your plan year to incur and submit claims. At the end of the 70 day grace period, you will have an additional 20 day run-off period to submit claims incurred during the immediately preceding plan year and/or during the grace period following that plan year. **Please consult your employer to determine if your Plan allows for this grace period.**

If your employer does **not** allow for the grace period on the Medical Expense Reimbursement Account, you will have a run-off period of 90 days after your plan year ends during which you may submit claims for reimbursement incurred during the immediately preceding plan year.

The Dependent Day Care Account has a run-off period of 90 days after the end of the plan year during which you may submit claims for reimbursement incurred during the previous plan year.

**Q.** Who is considered a qualified dependent for reimbursement of dependent care expenses?

**A.** A qualifying dependent is:

- 1) Your "qualifying child" (as defined in Code Section 152(c)) under age 13,
- 2) Or any other "qualifying dependent" (qualifying child or qualifying relative, as defined in Code Section 152 (c) and (d), respectively) or your spouse who is physically or mentally incapable of self-care and who has the same principal place of abode as you (the taxpayer) for more than half of the taxable year.

# Questions & Answers (Con't)

**Q.** Am I required to enroll in both the Dependent Day Care Account and Medical Expense Reimbursement Account?

**A.** No. You can enroll in either account, both accounts, or neither account.

**Q.** How do I get money from my reimbursement accounts?

**A.** You must submit a voucher, which is available on our website, for any expenses incurred during the period of coverage. This voucher must be accompanied by proper third party documentation of the nature of the expense, date the expense was incurred, and the provider of services and/or the dependent care provider acknowledgment form. The voucher will be processed by the plan Recordkeeper and you will be reimbursed for your expenses. The medical expense reimbursement check will be for the expenses claimed up to the maximum benefit amount you elected for the plan year. The dependent day care expense check will be for the expense you claimed up to the amount you have in your account. We can electronically transfer funds to your checking account, with your permission.

**Q.** What if my dependent day care expense voucher is for expenses in excess of the amount in my account?

**A.** You will be reimbursed for the amount in your account, and the balance of the expenses will be carried forward to future months as additional payments are received for your account.

**Q.** Can I switch dollars between the Dependent Day Care Account and the Medical Expense Reimbursement Account?

**A.** No. The dollars must be used in each account as specified on the election form.

**Q.** What happens if I don't incur enough expenses to get back the money deposited in my reimbursement accounts?

**A.** Any contributions not used for expenses are forfeited to your employer. This is what is known as the "use or lose" provision of Section 125. It is very important to be conservative and accurate in estimating your expenses for the plan year.

**Q.** Can I take the tax credit for dependent care or the medical expense deduction on my income tax return if I am in this Plan?

**A.** No. Expenses reimbursed under this Plan may not be used when calculating your medical expense deduction or the dependent care tax credit. Because it is sometimes more advantageous to take the dependent care tax credit on your tax return than to participate in the Dependent Day Care Account, you should discuss which alternative is the best for you with your tax advisor.

**Q.** How can I check on my account status or claims?

**A.** There are three convenient ways in which you can get account information. You can call the FlexConnection®, 1-800-325-0654, for automated information on your account at any time of the day or night, or visit us online and sign up for secure access to your account information, including account balance, claims history, and printable forms. Your Customer Service Representative is also happy to help with any questions or concerns at 1-800-325-0654. Our friendly team members are available by phone Monday through Friday, 8:00 a.m. - 4:45 p.m. CST.

**Q.** How can I enroll in direct deposit?

**A.** You can download a direct deposit form from our website at [afadvantage.com](http://afadvantage.com) or call a Customer Service Representative to have one faxed or mailed to you. You can then either fax or mail it back to us.

# Medical Expense Reimbursement Account

A Medical Expense Reimbursement Account may be used to reimburse yourself for eligible medical expenses incurred on yourself, your spouse, and your eligible dependents. Examples of eligible medical expenses may include, but are not limited to, medical deductions, co-payments, prescriptions and other medical expenses not reimbursed by another source.

## ELIGIBLE EXPENSES

- Acupuncture
- Alcohol and drug rehabilitation (Inpatient treatment only)
- Ambulance
- Anesthetist
- Artificial limbs and teeth
- Birth control
- Blood pressure monitoring device
- Chiropodist
- Chiropractor
- Christian Science Practitioners
- Contact lenses, solution and cleaner
- Co-payments for medical visits
- Dental care and dentures
- Diabetic supplies
- Eye exams and eyeglasses
- Guide dog (purchase, training and care of animals used by visual or hearing impaired)
- Gynecology/Obstetrics
- Hearing aids and batteries
- Home health care
- Hospital and skilled nursing facility expenses
- Immunizations
- Insulin
- In vitro fertilization (surrogate must be tax dependent in order to be reimbursable)
- Laboratory fees
- Laser eye surgery
- Medical ID bracelet
- Midwife
- Obstetrics
- Optometrist
- Orthodontia expenses<sup>1</sup>
- Osteopath
- Outpatient clinic
- Pediatric care
- Physical therapy provided by licensed therapist
- Podiatrist
- Prescription drugs<sup>2</sup> and certain eligible over-the-counter medicines (see OTC drug list)<sup>3</sup>
- Psychiatrist
- Psychologist
- Rental or purchase of medical equipment, including special equipment for use by handicapped persons
- Stop smoking program and drugs for smoking cessation
- Supportive or corrective devices
- Transportation expenses relative to medical care including mileage at IRS allowable rate
- Weight loss programs for medical condition<sup>3</sup>
- X-rays



<sup>1</sup> Only amounts pre-paid by participant.

<sup>2</sup> Does not include drugs prescribed for hair growth.

<sup>3</sup> Effective January 1, 2011, will require a medical practitioner's prescription for reimbursement.

## INELIGIBLE EXPENSES

- Bleaching teeth/whitening
- Capital expenditures
- Cosmetic procedures
- Dancing or swimming lessons
- Exercise equipment
- Expenses reimbursed under any health plan or source
- Hair loss items
- Health club dues
- Hot tubs
- Insurance premiums
- Marriage counseling
- Massage for non-medical reasons
- Mattresses
- Personal use items
- Vacation
- Vacuum cleaners

# Over-the-Counter Expenses\*

## ELIGIBLE EXPENSES

Below is a list of over-the-counter (OTC) medicines\* that have been determined to be primarily for medical care and can be reimbursed when purchased in reasonable quantities.

- Allergy medicine
- Antacids
- Antibiotic sprays or ointments
- Bandages
- Anti-diarrhea medicine
- Bug bite medication
- Calamine lotion
- Carpal tunnel wrist supports
- Cold medicines
- Cold/hot packs for injuries
- Condoms
- Contact lens cleaning solution
- Cough drops
- Diaper rash ointments
- First aid cream
- First aid kits
- Hemorrhoid medication
- Incontinence supplies
- Laxatives
- Liquid adhesive for small cuts
- Menstrual cycle products for pain and cramp relief
- Motion sickness pills
- Nasal sinus sprays
- Nasal strips
- Nicotine gum or patches for stop-smoking purposes
- Pain reliever
- Pregnancy test kits
- Products for muscle pain or joint pain
- Reading glasses
- Rubbing alcohol
- Sinus medications
- Sleeping aids used to treat occasional insomnia
- Special ointment or cream for sunburn
- Spermicidal foam
- Sunscreen (receipt must show SPF of 30 or higher)
- Thermometers (ear or mouth)
- Throat lozenges
- Wart remover treatments

*This list is not inclusive of all reimbursable items.*

*The Internal Revenue Service does not allow for stockpiling of over-the-counter medicines in order for a participant to use up their annual election under the Plan. Stockpiling is the purchase of more over-the-counter medicines than can be used during the current plan year.*

*\*Effective January 1, 2011, you must provide a medical practitioner's prescription in order to be reimbursed for over-the-counter drugs and medicines.*

## INELIGIBLE EXPENSES

The following is a list of OTC items that have been determined will not be reimbursed under any circumstances since they are toiletries or cosmetics or likely to be primarily for general health and well being:

- Chapstick
- Face cream, moisturizers
- Medicated shampoos and soaps
- Daily vitamins
- Suntan lotion
- Toothbrushes

## DUAL PURPOSE

The dual purpose list contains items that can be reimbursed if they are used for a medical purpose. They must be accompanied by a medical practitioner's note stating that the person has a specific medical condition, that the OTC drug is recommended to treat it, and that the treatment is not a cosmetic procedure.

- Acne treatment (Retin A) - only to treat a specific medical condition such as acne vulgaris
- Dietary supplements or herbal medicines to treat a specific medical condition in narrow circumstances
- Fiber supplements under narrow circumstances
- Glucosamine/Chondroitin for arthritis or other medical condition
- OTC hormone therapy for menopausal symptoms such as hot flashes, night sweats, etc.
- St. John's Wort for depression
- Weight-loss drugs to treat a specific disease (including obesity)

# Dependent Day Care Account

The Dependent Day Care Account is used to reimburse yourself for eligible dependent care expenses incurred to allow you to work (and if you are married, your spouse to work, look for work, go to school full-time or who is incapable of self-care). You may allocate up to \$5,000 pre-tax per calendar year for reimbursement of dependent care services (\$2,500 if you are married and file a separate tax return.)

## ELIGIBLE EXPENSES

Below is a list of expenses eligible for reimbursement. You may allocate up to \$5,000 pre-tax per calendar year for reimbursement of dependent care services.

- After-school care or extended day programs (supervised activities for children after the regular school program)
- Au pair expenses (excluding airfare or other fixed costs)
- Baby-sitter inside or outside of participant's household
- Dependent care center expense
- Expenses for pre-kindergarten or nursery school
- FICA and FUTA taxes of day care provider
- Nanny expenses
- Relative of a participant, expenses paid to for child care (e.g. parent or grandparent of participant provided relative is not tax dependent or child under 19)
- Sick-child facility
- Summer day-camp (custodial not educational)
- Adult day care

## INELIGIBLE EXPENSES

The following is a list of expenses that will not be reimbursed as dependent care services.

- Educational expenses – kindergarten and above
- Overnight camp
- Advanced payment of day care expense
- Amounts paid to child of participant for child care
- Separately charged food expenses
- Extra charges for diaper changing, special activities, etc.
- Disabled spouse or tax dependent who lives outside of household
- Household services
- Registration fees for care



# The Company Behind Your Plan

American Fidelity Assurance Company is a third-generation, family-owned organization providing insurance products and financial services to education employees, trade association members and companies throughout the United States and across the globe.

Since 1982, American Fidelity has been rated “A+” (Superior)<sup>1</sup> by A.M. Best Company. Considered one of the nation’s leading insurance company rating services, A.M. Best bases its ratings on an analysis of the financial condition and operating performance of insurance companies in such vital areas as: Competency of Underwriting, Control of Expenses, Adequacy of Reserves, Soundness of Investments and Capital Sufficiency.

The 2011 Standard and Poor’s Insurance Rating Report has given American Fidelity an “Api”<sup>2</sup> rating. The qualified solvency ratings assigned by S&P are based on the analysis of quantitative data such as Capital Strength, Quality of Assets, Profitability and Liquidity.

American Fidelity Assurance Company is proud to count itself among Fortune<sup>3</sup> magazine’s “100 Best Companies to Work For” in America for the ninth straight year. We know that satisfied employees result in satisfied customers, which is an important foundation of American Fidelity’s approach to business.

American Fidelity is founded on and driven by the principle of serving our customers and protecting their investment. We continue to grow steadily through calculated growth and conservative investment practices.

<sup>1</sup> [www.ambest.com/consumers](http://www.ambest.com/consumers) (March 25, 2011) (A+ is the 2nd out of 16 with 1 being the highest)

<sup>2</sup> [www.standardandpoors.com](http://www.standardandpoors.com) (February 2011) (Api is 6th out of 22 with 1 being the highest)

<sup>3</sup> FORTUNE Magazine, February 6, 2012 Issue (47th out of 100, with 1 being the highest)



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2000 N. Classen Boulevard • Oklahoma City, Oklahoma 73106  
(800) 654-8489  
[www.afadvantage.com](http://www.afadvantage.com)