

What is a limited-purpose flexible spending account?

A limited-purpose health flexible spending account (referred to as a limited-purpose FSA) is part of your benefits package. This account lets you use pre-tax dollars to pay for eligible expenses for you, your spouse, and your eligible dependents. It's much like a typical, general-purpose health FSA; however you may only use FSA funds to pay for qualifying dental and vision expenses.

Here's how a limited-purpose FSA works. Money is set aside from your paycheck before taxes are taken out. You can then use your pre-tax FSA dollars to pay for eligible vision or dental expenses throughout the plan year. You save money on expenses you're already paying for, like dental checkups, vision exams, eyeglasses, and much more.

Why is it a good idea to have a limited-purpose FSA?

IRS rules do not allow you to contribute to a health savings account (HSA) if you are covered by any non-qualifying health plan, including a general-purpose health FSA. By limiting FSA reimbursements to dental and vision care expenses, you (or your spouse) remain eligible to participate in both a limited-purpose FSA and an HSA. Participating in both plans allows you to maximize your savings and tax benefits.

And depending on how your limited-purpose FSA is set up, you may be able to carry over up to \$500 of unused funds to the following plan year.

What is an HSA and who is eligible to participate?

An HSA is a health care account and savings account in one. The main purpose of this account is to offset the cost of a qualifying high deductible health plan (HDHP) and provide savings for your out-of-pocket eligible health care expenses – those you and your tax dependents may have now, in the future, and during your retirement.

HSAs are administered by an HSA custodian, trustee, or its designee, and HSA account holders must agree to the terms of the custodial or trust agreement. This is a "portable" account, which means if you have an HSA, you own it! HSAs may be included in your employee benefits package, but after you set up your account, it's yours to keep, even if you change jobs or retire.

IRS guidelines govern HSA eligibility, and not everyone can set up an HSA. You must meet all of the following requirements before you can open an HSA and contribute to it each month:

- You are covered under a qualified high deductible health plan (HDHP) as defined by IRS rules.
- You are not covered under another health plan that is not a qualified HDHP, such as coverage under a spouse's non-HDHP, a general-purpose health FSA, or general-purpose health reimbursement arrangement (HRA).
- You are not entitled to Medicare.
- You are not eligible to be claimed as a dependent on another person's tax return.

You continue to maintain your HSA eligibility each month that you meet the conditions listed above on the first day of the month. Plus, it's up to you to decide if you meet these eligibility requirements. This is also important to know when making HSA contributions.

What expenses are covered under a limited-purpose FSA?

A limited-purpose FSA covers qualified out-of-pocket expenses for dental and/or vision care provided to you, your spouse, or dependents. Typical eligible expenses include:

Dental Care

- Cleanings
- Fillings
- Crowns
- Orthodontics

Vision Care

- Contact lenses
- Eyeglasses
- Eye exams
- Vision correction procedures

These expenses are defined by IRS rules and your employer's plan. You can learn about your employer's plan by reading the Summary Plan Description (SPD).

Here are some other IRS rules you should know about:

- **No double-dipping** – Expenses reimbursed under your limited-purpose FSA cannot be reimbursed under any other plan or program – including an HSA. Only your eligible out-of-pocket expenses may be reimbursed. Plus, expenses reimbursed under this FSA may not be deducted when you file your tax return.
- **Timing is everything** – FSAs have a start date and an end date, and the time in between is called the plan year. Expenses must be incurred during the FSA plan year. As noted in IRS guidelines, expenses are incurred when you (or your spouse or dependents) are provided with the vision or dental care that gives rise to the eligible expenses, and not when you are formally billed, charged for, or pay for the services. This means the date of service must be within the current plan year and not when you pay for the service.

What expenses are not covered under a limited-purpose FSA?

Expenses that are not approved are called "ineligible expenses". Ineligible limited-purpose FSA expenses include:

- Insurance premiums
- Medical expenses, including deductibles, co-insurance, and co-pays
- Alcohol and drug rehab expenses
- Prescription drugs
- Over-the-counter medicines and items
- Medical equipment
- Contraceptives
- Cosmetic procedures
- Services that take place before or after your coverage period
- Expenses reimbursed by an insurance provider or other health plan
- Personal use items (such as toothpaste)
- Dental whitening

These are only a few of the examples of expenses that aren't covered by a limited-purpose FSA. You can find a full list of eligible and ineligible expenses at anthem.com.*

What if an expense is eligible for reimbursement under both my FSA and HSA?

As noted before, you may not use funds from both your limited-purpose FSA and your HSA to cover the same eligible expense. Since there's no double-dipping allowed, you must choose which account will reimburse your expense.

Is there a limit to how much I can contribute to my health FSA?

Yes. As a result of the Affordable Care Act, employee contributions have been capped for limited-purpose health FSA plans. The annual limit is \$2,600, and you cannot contribute more than this amount. However, your plan may have an annual limit that is less. Please review your SPD to find out the annual limit for your plan.

Is there a limit to how much my employer can contribute to my limited-purpose FSA?

The statutory \$2,600 limit does not apply to certain non-elective employer contributions made to an employee's health FSA. It also does not apply to contributions made to other types of FSAs (such as dependent care FSA), HSAs, or HRAs.

Can my spouse also contribute to a limited-purpose FSA?

Yes, if your spouse is eligible to make contributions to a limited-purpose FSA. Each spouse may contribute up to the \$2,600 maximum limit to their own health FSA. This applies even if both spouses participate in the same health FSA plan sponsored by the same employer.

How much money is available during the plan year?

The amount you put into your FSA is called an "annual election". Your entire limited-purpose FSA election is available on the first day of the plan year. If your FSA is active, your available funds decrease as your claims are paid. You can find out your available funds by logging in to your account at [anthem.com](https://www.anthem.com).

How often are reimbursements made?

Your employer chooses the reimbursement schedule. It's in your SPD.

How do I keep track of my account activity?

Your account information is available anytime day or night by logging in to [anthem.com](https://www.anthem.com).^{*} You can find:

- Real-time account balance
- Claims status
- Reimbursement payment history

Where can I get a reimbursement request form?

This form is available at [anthem.com](https://www.anthem.com).^{*} Just log in to your account to find it.

What do I need to submit along with a reimbursement form?

You must save all itemized receipts and other supporting documentation for every FSA expense. Try to keep all of your documentation filed in an envelope or box. Appropriate documentation includes:

- Explanation of Benefits (EOB) statement from your dental or vision plan
- An itemized receipt or bill of service with the provider or merchant name, the patient's name, a description of the service, the original date of service, and your portion of the charge

In some cases, a Medical Determination Form completed by a vision or dental provider is required. Credit card receipts, canceled checks, and balance forward statements do not meet the requirements for acceptable documentation.

What happens if I have funds left in my limited-purpose FSA at the end of the plan year?

It depends on the rules for your employer's FSA plan. Your employer decides the features included in your FSA plan, and the way your limited-purpose FSA plan is set up determines if you can use funds left in your account after the plan year ends.

Review the SPD to learn if your plan includes either of these features:

- **Carryover** – lets you carry over up to \$500 of unused health FSA funds to the following plan year. (Your limited-purpose FSA may have a maximum limit that is less.) This feature gives you more flexibility on how and when to use your limited-purpose FSA funds.
- **Grace period extension** – gives you extra time to incur eligible expenses and use funds remaining in your account after the plan year ends. The grace period begins on the first day of the following plan year and lasts two months and fifteen days.

The IRS doesn't allow a limited-purpose FSA plan to have both a carryover feature and a grace period extension. If your limited-purpose FSA had a grace period in the past, it no longer applies to your current plan if the carryover feature is now available.

Even if your plan has a carryover feature or a grace period, it's important to plan carefully when you decide how much to put into your FSA. For example, don't think of a grace period as an extension of the plan year. It's more like a cushion in case your expenses fall a little short of what you expected.

Not all plans have one of the features listed above, and the length of a grace period can vary. So can the maximum amount of a carryover. That's why it's important to review your SPD.

What is a run-out period?

It's a set number of days after the plan year ends that allows you to submit claims for eligible expenses incurred during the plan year. Not all FSA plans include this feature and the time frame of the run-out period may vary by plan. Check your SPD for details.

Some people get a run-out period confused with a grace period extension, so here's an example that shows the difference. Let's say your plan year begins on January 1 and ends on December 31.

- **The run-out period gives you extra time to submit reimbursement requests** for eligible expenses incurred in the plan year. If you visit the eye doctor in December – the last month of the plan year, you may submit a reimbursement request for that expense during the run-out period. You will be reimbursed from the funds left in your limited-purpose FSA from the previous plan year.
- **A grace period extension gives you extra time to spend funds** left in your account from the previous plan year. If you buy eyeglasses in January – the month after the plan year ends, you may use the remaining funds from the previous plan year to cover that expense. The grace period lasts two months and 15 days, so in this example, the grace period ends on March 15. And remember, not all FSA plans include this feature (see the SPD).

What is the "use-it-or-lose-it" rule?

The IRS created this rule, which states that all money left in your FSA is forfeited after the plan year ends, or if applicable, after the run-out period. If your limited-purpose FSA has a carryover feature, you may carry over up to \$500 of unused funds into the next plan year. The \$500 maximum carryover limit was set by the IRS, but your employer may decide to have a lesser amount – check your SPD. After the carryover, you forfeit remaining unused funds that are more than the carryover amount.

The unused portion of your limited-purpose FSA cannot be paid to you in cash or other benefits, and you can't transfer money between FSAs. To reduce your risk of losing money at the end of the plan year, carefully estimate your expenses when choosing your annual election amount.

Can I change my election amount?

Your election can't be changed during the plan year unless you have a change in status or other qualified event – that's defined by IRS rules – and your employer's plan must allow the change as well. Qualified changes in status include:

- A change in legal marital status (marriage, divorce, or death of spouse)
- A change in the number of your dependents (birth or adoption of a child, or death of dependent)
- A change in employment status of you, your spouse, or dependent
- An event causing your dependent to satisfy or cease to satisfy an eligibility requirement for benefits
- A change in residence of you, your spouse, or dependent

There are two parts to determining if a change in election will be allowed. First, you must experience a change in status or other qualified event. Second, your requested change must be consistent with the event. For example, if you have a baby, you could increase your FSA contribution. Please see your SPD for more information about other qualified changes, consistency requirements, and exceptions that may apply.

Please note: The information above assumes that your employer's plan allows all changes permitted under the IRS rules. An employer may restrict mid-year election changes by the way the plan is set up. Please see your SPD for specific rules that apply to your plan. If you have a change in status or other qualified event, contact your human resources or benefits representative to obtain the forms you will need to complete.

What happens if I stop working for this employer?

If you stop working for your employer or you lose your FSA eligibility, your plan participation and your pre-tax contributions will end automatically. Expenses for services you have after your termination date are not eligible for reimbursement.

You may be entitled to elect COBRA continuation coverage under the limited-purpose FSA and receive reimbursement for qualified expenses incurred after your termination, but only if you continue to make the required FSA COBRA premium payment using your money after taxes have been taken out. However, you generally do not have the right to elect COBRA continuation coverage if the cost of COBRA continuation coverage for the remainder of the plan year equals or is more than the amount left in your FSA. Please see your SPD for specific rules that apply to your FSA plan.

I want to open an HSA but I currently have a general-purpose health FSA. What do I need to do?

The action you need to take depends on if you have a grace period extension or carryover feature included in your general-purpose health FSA.

- **Grace period extension** – You need to spend down the remaining funds before the plan year ends. If you don't do this, you can't open your HSA until the first day of the month following the end of the run-out period. For example, if your run-out period ends on March 31, you won't be able to establish your HSA until April 1.
- **Carryover** – You have two options:
 1. Spend the funds left in your general-purpose health FSA before the plan year ends. This includes spending your carryover balance; or
 2. Enroll in a limited-purpose health FSA if it's offered in your benefits package. If you have a carryover balance, it will move into this account.

Please note: If your spouse has a general-purpose health FSA, the details above also apply to that account.

Where can I get more information about HSAs and tax consequences?

Your HSA custodial agreement and other benefits materials should include details about your rights and responsibilities as an HSA account holder. You'll also find the eligibility requirements and details about qualifying high deductible health plans, HSA contributions, and distributions. Contact your HSA custodian or trustee for more information.

*If you are not enrolled in an Anthem health plan, you will need to log in to your Reimbursement Benefit Account at benefitadminsolutions.com/anthem. When logging in for the first time, please have on hand your Anthem Reimbursement Benefit Account number or Social Security number and date of birth.

Anthem Blue Cross and Blue Shield is the trade name of: In Colorado: Rocky Mountain Hospital and Medical Service, Inc. HMO products underwritten by HMO Colorado, Inc. In Connecticut: Anthem Health Plans, Inc. In Georgia: Blue Cross and Blue Shield of Georgia, Inc. In Indiana: Anthem Insurance Companies, Inc. In Kentucky: Anthem Health Plans of Kentucky, Inc. In Maine: Anthem Health Plans of Maine, Inc. In Missouri (excluding 30 counties in the Kansas City area): RightCHOICE® Managed Care, Inc. (RIT), Healthy Alliance® Life Insurance Company (HALIC), and HMO Missouri, Inc. RIT and certain affiliates administer non-HMO benefits underwritten by HALIC and HMO benefits underwritten by HMO Missouri, Inc. RIT and certain affiliates only provide administrative services for self-funded plans and do not underwrite benefits. In Nevada: Rocky Mountain Hospital and Medical Service, Inc. HMO products underwritten by HMO Colorado, Inc., dba HMO Nevada. In New Hampshire: Anthem Health Plans of New Hampshire, Inc. In Ohio: Community Insurance Company. In Virginia Anthem Health Plans of Virginia, Inc. trades as Anthem Blue Cross and Blue Shield in Virginia, and its service area is all of Virginia except for the City of Fairfax, the Town of Vienna, and the area east of State Route 123. In Wisconsin: Blue Cross Blue Shield of Wisconsin (BCBSWI), which underwrites or administers the PPO and indemnity policies; CompCare Health Services Insurance Corporation (CompCare), which underwrites or administers the HMO policies; and CompCare and BCBSWI collectively, which underwrite or administer the POS policies. Independent licensees of the Blue Cross and Blue Shield Association. © ANTHEM is a registered trademark of Anthem Insurance Companies, Inc. The Blue Cross and Blue Shield names and symbols are registered marks of the Blue Cross and Blue Shield Association.