

Important regulatory information for Flex Benefit Plans

It is extremely important you read and understand all of the following information before making your Flex Benefit Plan election for the new plan year.

If you take part in a health care flexible spending account, please read the following message.

Guidance on \$2,500 Annual Health FSA Contribution Limit

Starting Jan. 1, 2013, salary reduction contributions to health flexible spending arrangements (health FSAs) will be limited to \$2,500 per plan year (with future increases to allow for inflation). Health FSAs give employees and their family members a tax-favored account to reimburse qualified health care costs. The health FSA allows individuals to determine how to use their health care dollars to pay for medical expenses. These funds can be used to pay health care provider services, prescription drugs, and dental and vision care.

The IRS Notice 2012-40 provides guidance on the \$2,500 limit. The notice applies to all employers that sponsor health FSAs and will impact all employees that take part in these accounts. The notice provides that:

- ▶ The \$2,500 limit is applicable to all plan years beginning on or after January 1, 2013;
- ▶ Plan amendments that show the \$2,500 limit may be updated anytime through December 31, 2014;
- ▶ Unused salary reduction contributions to the health FSA that are carried over into the grace period will not count against the \$2,500 limit for the next plan year.

The notice states that the \$2,500 limit only applies to salary reduction contributions of a health FSA and not to contributions to other types of FSAs (such as a dependent care FSA), health savings accounts (HSAs), or health reimbursement arrangements (HRAs). The \$2,500 limit does not apply to non-elective employer contributions (sometimes called flex credits). It will also not apply to other salary reduction contributions that are used to pay an employee's share of their health care coverage premiums.

If you participate in a health FSA and have questions about how this notice affects your plan, please call your employer.

Changing your Flex Benefit Plan election during the plan year

The Internal Revenue Service (IRS) requires that you make your Flex Benefit Plan election in advance of the beginning of the plan year. Once the plan year has begun, those elections cannot be changed unless you have a qualified mid-year change-in-status. Refer to your summary plan description to find out what qualifies as a change-in-status event. Financial hardship, miscommunication or misunderstanding of the Flex Benefit Plan regulations do not qualify as a change-in-status event.

Definition of a dependent

Dependent care assistance plans which qualify under IRS Code Section 129 will be income-tax free only if the dependent is a qualifying child or a qualifying relative. For Flex Benefit Plan expenses to be eligible for reimbursement, they must be paid and submitted by you for your dependent who meets the definition of qualifying child or qualifying relative as defined by IRS Code Section 152. Special care should be taken in regards to eligible dependent day care expenses. The government regulations mandate that you only be reimbursed for work-related day care expenses paid for your dependents that meet the definition of a qualifying child or relative.

Health savings account (HSA) participants

For employees who participate in both the Flex Benefit Plan and a health savings account (HSA), medical expenses for the Flex Benefit Plan are limited to out-of-pocket preventive care not covered by your high-deductible health insurance plan, including dental, vision, and expenses you have paid for after the deductible is met under the health insurance plan.

Drugs and medicines

In order for a drug or medicine to be considered an eligible expense, it must be used primarily for medical care (and not for personal, general health or cosmetic purposes), is legally procured, and generally accepted as drugs and medicines. Prescription drugs such as Propecia® and other similar products such as Rogaine® that are used for cosmetic purposes are **not** allowable.

Over-the-counter drugs and medicine

Over-the-counter (OTC) medicines or drugs, such as allergy and sinus medications, pain relievers such as aspirin and Ibuprofen, anti-diarrhea medicine, motion sickness pills, etc. must be prescribed in order to be eligible for reimbursement through your health care FSA. Other items, such as insulin and contact lens solution and medical supplies continue to be eligible for reimbursement without a prescription. Refer to the following Q&As for further information:

What types of OTC medicines and drugs require a prescription to qualify under my health care FSA?

- ▶ Acid controllers and digestive aids
- ▶ Allergy and sinus medication
- ▶ Anti-diarrheals and laxatives
- ▶ Antibiotic creams and ointments
- ▶ Anti-gas products and stomach remedies
- ▶ Anti-fungal, Anti-itch and insect bite medication
- ▶ Baby rash ointments and creams
- ▶ Cold sore remedies
- ▶ Cough, cold and flu remedies
- ▶ Hemorrhoidal preps
- ▶ Motion sickness medication
- ▶ Nasal sprays
- ▶ Pain relievers (aspirin, Ibuprofen, etc.)
- ▶ Respiratory treatments
- ▶ Sleep aids and sedatives

List of examples should not be considered all inclusive and may change as further regulatory guidance is released.

Are other medical supplies like contact lens solution, bandages, blood-sugar test kits and durable medical equipment (such as wheelchairs or hospital beds) affected by the limit on OTC medicines or drugs?

Examples of OTC items that may continue to be purchased with or reimbursed from an FSA without a prescription:

- ▶ Bandages
- ▶ Birth control
- ▶ Braces and supports
- ▶ Catheters
- ▶ Contact lens solution and supplies
- ▶ Crutches
- ▶ Denture cleansers and adhesives

- ▶ Diagnostic tests and monitors (such as blood glucose monitors)
- ▶ Elastic bandages and wraps
- ▶ First-aid supplies
- ▶ Insulin and diabetic supplies
- ▶ Ostomy products
- ▶ Reading glasses
- ▶ Walkers, wheelchairs and canes

List of examples should not be considered all inclusive and may change as further regulatory guidance is released.

If I get a prescription for an OTC medicine or drug, how do I use my FSA to pay for it?

If you buy the prescribed OTC medicine or drug off the shelf, you will need to submit an FSA claim form, a copy of your receipt and your provider's prescription. The prescription must include:

- ▶ Your name
- ▶ Name of medicine or drug
- ▶ Dosage and form
 - Quantity prescribed
 - Instructions
- ▶ Signature of the provider who wrote the prescription

If the account holder does not submit a copy of their prescription along with their receipt for the purchase of prescribed OTC medicines or drugs, they will be notified that the claim is being denied for reimbursement.

If you ask a pharmacist to fill the OTC medicine or drug prescription, you will need to submit an FSA claim form with your prescription receipt. Ask for a receipt that includes:

- ▶ Prescription (Rx) number
- ▶ Your name
- ▶ Date of purchase
- ▶ Dollar amount

If account holder does not submit a copy of their prescription receipt for the purchase of OTC medicines or drugs, they will be notified that the claim is being denied for reimbursement.

May I continue to use my FSA debit card?

If your plan offers the FSA debit card, IRS regulations impact where you are able to use your FSA debit card. FSA debit cards may only be used at grocery stores, discount outlets, wholesale clubs and major retailers that utilize an Inventory Information Approval System (IIAS). This system automatically approves eligible medical expenses at the time of check-out. Similar rules apply to drug stores and pharmacies.

Consumers will continue to be able to use an FSA debit card, if they have one, to pay for prescribed OTC medicines or drugs. The FSA debit card may also be used to pay for non-OTC prescription medicines or drugs, if those are eligible expenses under an employer's health care FSA plan.*

*To show that the expense is primarily for medical care, a note from a medical practitioner recommending it to treat a special medical condition is required.

You may also use your FSA debit card at medical providers, such as hospitals, doctor offices, dentists, eye care facilities and other health care providers. You may use your FSA debit card to pay for work-related eligible dependent day care expenses that you have incurred.

You may continue to use eClaims for quick claims processing and reimbursements. We may request receipts from you, so regardless of which payment/reimbursement method you choose, remember to keep all your receipts.

* Most major grocery, department, retail and drug stores will be able to identify at the cash register what supplies may still be purchased with an FSA debit card. If you make a purchase with your FSA debit card that you think is eligible but is denied in the store, you may still submit a paper claim or eClaim. Remember to save your store receipts to submit as documentation.

Additional important information regarding your flex benefit plan

Prescribed acne treatment products

Acne treatment products are eligible, provided they are used specifically for the treatment of acne, and not for cosmetic reasons (e.g. a facial scrub used for the prevention of acne). However, over-the-counter (OTC) acne medicines must be prescribed.* Items used simply to cleanse the skin (such as toiletries or cosmetic cleansers) are not eligible.

Allergy treatments

Prescribed OTC drugs and medications, prescription drugs and injections used for the treatment of allergies are eligible.

Botox® injections and similar products

Generally, you cannot be reimbursed through the Flex Benefit Plan for Botox® injections and other similar products. It is an eligible expense only if accompanied by a medical practitioner's prescription stating the medical necessity.*

If unnecessary or performed purely to improve appearance, it is not allowable.

Breast pump

Breast pumps and other supplies that assist lactation qualify for reimbursement.

Capital expenditures

The cost of special equipment installed in your home, or for improvements to your home that is in excess of any increase in the property value, is eligible if the specific purpose of these changes is required for the medical care of you, your spouse or dependent(s). Requires completed *Capital Expenditures Form*.*

Christian Science practitioners

Expenses are eligible if you seek treatment for the care of a specific medical condition.* Expenses submitted for qualifying IRS Section Code 213 medical expenses will not require a letter of medical necessity. All other expenses

will require a statement from the authorized Christian Science practitioner describing the medical necessity for the treatment of a specific diagnosed medical condition.

Cosmetic surgery

Generally, you cannot be reimbursed through the Flex Benefit Plan for cosmetic surgery or treatments. Cosmetic surgery is an eligible expense only if necessary to improve a deformity arising from, or directly related to, a congenital abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease.* Otherwise, if the cosmetic surgery is unnecessary or performed purely to improve appearance, it is not allowable unless a specific medical diagnosis is provided.

Counseling

Allowable if for a specific diagnosed medical condition.* Family, marriage and divorce counseling are not allowable unless a specific medical diagnosis is provided.

Exercise programs and equipment

Are generally not allowable, unless they are specifically prescribed by a medical practitioner to treat a specific medical condition.*

Fertility treatments

Expenses to overcome an inability to have children, such as fertility drugs, in-vitro fertilization (including temporary storage of eggs or sperm), shots, treatments, GIFT (gamete intrafallopian transfer), and surgery are eligible. An operation to reverse prior surgery that prevents you from having children is also eligible. Fees to pay a surrogate to carry a baby would not be allowable because they are not considered medical care for the employee, spouse or dependents, nor do egg donor expenses unless preparatory to a procedure performed on you, your spouse or dependent.

Health club fees

Fees paid on a per treatment basis for the use of a health club's service or equipment may be allowable. For example, if you have a medical practitioner's prescription which states that whirlpool therapy is necessary to alleviate a specific medical condition and you pay the health club a per usage fee to use the whirlpool, this usage fee may be allowable.*

Household help

Not eligible unless the person is paid specifically to provide nursing type services.

Kindergarten, 1st or higher grades

Are not eligible dependent day care expenses. However, nursery school and preschool expenses are allowable dependent day care expenses.

Lamaze classes

Expenses may qualify to the extent that instructions relate to birth and not childrearing.

*To show that the expense is primarily for medical care, a note from a medical practitioner recommending it to treat a special medical condition is required.

Learning disability

Tuition fees paid to a special school for a child with severe learning disabilities caused by mental/physical impairment are eligible.* Expenses paid for a non-disabled child to attend a special school for any other type of program (e.g. disciplinary reasons) are not eligible.

Massage therapy

Is eligible if accompanied by an actual medical practitioner's prescription, dated within the plan year, stating your medical necessity.* A medical practitioner in this case includes a doctor of medicine, an osteopath or a chiropractor. A prescription or recommendation from a massage therapist or any other type of provider not listed above does not qualify.

Nutritional/herbal supplements

Nutritional supplements, natural medicines, herbal supplements, etc. are not eligible, unless they are prescribed by a medical practitioner as treatment for a specific medical condition. If these items are taken to maintain ordinary good health, they are not allowable.*

Orthodontia payments

The IRS has recognized that orthodontia services are continuous from the hardware's installation to its removal. The IRS allows the billing date as the date of service for orthodontia expenses incurred during a certain plan year. You have multiple options when incurring and submitting orthodontia expenses for reimbursement. You may 1) make a lump sum payment (for example to receive a discount); 2) pay annually based on the amount attributable to that year's service; or 3) pay as you go. If you will be submitting claims for reimbursement of orthodontia expenses that span multiple plan years, you will need to submit a Flex Benefit Plan Orthodontia Submission Form.

Special foods and herbs

Are not eligible if taken as a substitute for normal food, unless the cost exceeds that of normal food and is digested solely for the treatment of a specific illness or medical condition. Only the amount that exceeds the cost of normal food would be eligible.*

Stop smoking programs & medications

Medication used to alleviate the effects of nicotine and any smoking cessation such as hypnosis are eligible so long as there is a direct connection between the smoking cessation program and the nicotine addiction. Also includes prescribed OTC stop smoking medications such as nicotine gum or patches for stop smoking purposes.

Sunscreens/lotions

Sunscreen used to maintain ordinary good health or for cosmetic purposes is not eligible. It may qualify if used to treat a specific medical condition and if the sunscreen would not have been used if not for the specific medical condition.*

Teeth bleaching/cosmetic dentistry

Are not eligible expenses.

Travel expenses

Trips to and from a medical provider are eligible. Instead of actual car expenses, you may be reimbursed 24 cents per mile for the use of a car to obtain medical care (reimbursement rate is subject to change at any time).

Vitamins

Vitamins taken for your general health or well-being are not eligible through the Flex Benefit Plan. For vitamins to be allowable, they must be medically necessary (e.g. pre-natal vitamins prescribed by a medical practitioner for pregnancy). A pharmacy receipt is required for submission of pre-natal vitamin claims. All other vitamins prescribed by a medical practitioner also require a statement from the a medical practitioner.*

Warranties/service contracts

Amounts for warranties or service contracts are not allowable through the Flex Benefit Plan.

Weight loss programs

A weight loss program (e.g. initial and ongoing fees) is only eligible if prescribed by a physician to treat a specific medical condition (e.g. obesity, heart disease, high blood pressure).* Special food is not eligible. Weight loss programs to improve appearance or general health are not eligible. A *Weight Loss Expense Reimbursement Worksheet* along with a medical practitioner's statement must be submitted with your initial weight loss claim.



*To show that the expense is primarily for medical care, a note from a medical practitioner recommending it to treat a special medical condition is required.

Insurance coverage provided by or through UnitedHealthcare Insurance Company or its affiliates.

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M48598-B 11/13 © 2013 United HealthCare Services, Inc.