

REIMBURSEMENT ACCOUNTS

Reimbursement accounts (which are also known as flexible spending accounts) provide an opportunity to save hundreds of tax dollars per year. In a reimbursement account, employees set aside pre-tax dollars into an account and then use the funds during the calendar year for reimbursement of qualified expenses. The funds that are set aside in reimbursement accounts are exempt from income tax and social security tax. When eligible expenses are incurred, you file a claim to reimburse yourself with the funds that are tax free.

Bowdoin offers two types of reimbursement accounts:

Health care or medical reimbursement accounts - Employees may contribute up to \$5000 per year for reimbursing health care expenses not covered by the health or dental insurance plans. Common examples include: medical and dental deductibles and co-payments, eye glasses, contact lenses and solutions, laser eye surgery, orthodontia (braces), and prescription co-payments.

Dependent care reimbursement accounts – If you have dependent child under the age of 13, whom you claim as a dependent, or an adult dependent who is in your care (e.g., a disabled spouse, domestic partner, or parent) the costs you pay for their care may qualify for reimbursement with pre-tax dollars. An employee may contribute up to \$5000 per year if the expenses are incurred to enable him/her (and if married, the spouse) to work.

Your contributions to a Dependent Care Reimbursement Account are in lieu of any Dependent Care Tax Credit you might claim on your federal and state income tax returns. You may want to consult with a tax advisor to see which method will save you more before you decide to open a Dependent Care Reimbursement Account.

Reimbursement accounts allow you to:

- save money
- pay less in taxes
- budget expenses over the year

For example, John earns \$20,000 per year. He knows that his daughter will require braces in 2005 and the cost will be \$3000. He may elect to place \$3000 in his medical reimbursement account. Income tax and Social Security taxes will be paid only on \$17,000 of John's income and the \$3000 in the reimbursement account is not subject to taxes. The entire \$3000 is available in January 2005, even if John hasn't contributed the entire amount yet through payroll deductions. If John should incur \$3000 in eligible expenses during the month of January, he can claim and receive the entire balance in his medical reimbursement account. His contributions will eventually "catch up" but it helps him budget this significant expense throughout the year.

Here's an example of a dependent care reimbursement account: Mary has day care expenses of \$75 per week (\$3900 per year). She elects to contribute \$325 per month to her Dependent Care Reimbursement Account, on a pre-tax basis. She pays for the day care and submits a claim including her daycare receipt for reimbursement. Mary cannot receive reimbursement until she has actually contributed the funds through payroll to her reimbursement account to cover each claim, but the actual tax savings make this reimbursement account worthwhile.

With a medical reimbursement account, you can receive the tax-free funds "up front" if you incur expenses early in the calendar year. With a dependent care reimbursement account, the pre-tax contributions must be in your account before a claim is paid.

If you do decide to elect a reimbursement account, plan carefully! Make a careful estimate of what your dependent care and medical expenses are likely to be and don't set aside any more than that.

- You will not be able to change your mind at a later date (unless you have a qualified event in 2005).
- Covered expenses need to be incurred in the same calendar year that the reimbursement account is in place.
- Unspent funds in your account at the end of the year are forfeited. This "use-it-or-lose-it" rule is mandated by the federal law governing reimbursement accounts.

If you have additional questions about reimbursement accounts, please be sure to call Human Resources (x3837).