Helping You Get More from Your Paycheck

Flexible Spending Accounts

For Employees

WE UNDERSTAND WHAT YOU'RE WORKING FOR℠

Principal® Financial Group

Start saving

today with the Principal® Flexible Spending Accounts (FSA)

Would you be interested in getting more money out of your paycheck? Of course you would!

Your employer is offering you the opportunity to take advantage of flexible spending accounts (FSA) to help you save money. FSA allows you to set aside part of your salary before Social Security, federal and state taxes (except New Jersey and Pennsylvania) to pay for health and dependent care expenses.

FSA is sponsored by your employer and administered by Principal Life Insurance Company, a member of the Principal Financial Group® (The Principal®).

What expenses are covered?

HEALTH CARE COVERED EXPENSES

Your Health FSA may be used to reimburse for items not covered by an insurance policy. The IRS allows certain expenses to be paid through an FSA.

- Deductibles, coinsurance and copayments
- Physical exams
- Prescription drugs and medicines
- Dental expenses, including orthodontia
- Vision expenses, including eye exams, glasses, contacts and seeing eye dogs
- Hearing expenses, including hearing aids and exams
- Orthopedic expenses
- Counseling for learning disabilities and psychiatric care (does not include marriage counseling)
- Acupuncture
- Travel for medical treatment
- Over-the-counter drugs (to alleviate or treat illness or injury)

DEPENDENT CARE COVERED EXPENSES

Your Dependent Care FSA may be used to reimburse expenses for dependent care services that allow you and your spouse to work, seek employment or be a full-time student such as:

- Day-care centers
- Babysitters
- Adult day care for dependent adults living in your home

How it works

You don't get involved in a lot of paperwork. Our reimbursement process works to simplify administration.

Step 1. Decide how much you may spend for Health and/or Dependent Care FSA for the coming year. This amount must fall within the minimums and maximums set by your employer.

Step 2. Complete our simple election form. It tells your employer how much pre-tax salary to put into the Health and Dependent Care FSA.

You won't have another chance to sign up until next year's annual enrollment period and can only redirect your FSA dollars if:

- Your family status changes due to birth, death, adoption, divorce or marriage
- Your spouse begins or quits working
- Your spouse switches to full or part-time hours

Note: Any change in elections for the above reasons must be made no later than 30 days after the change event.

Step 3. After you have received the service:

- *Health care services:* Submit your health insurance claim and then file for FSA reimbursement for the amount that wasn't covered by insurance. You need to submit an itemized bill from the provider showing the provider's name, date of service, type of service provided and the amount charged.
- *Dependent care services:* Obtain a receipt from the provider that lists the provider's name, dates of service and the amount you paid.
- If the dependent care is provided in a more commercial type center that has company letterhead, the receipt should be on their letterhead and include the dates of service and the amount charged.
- If care is provided in a private home, the receipt must state that the services provided were for dependent care, list the dates of service and be signed by the day care provider. Having the private home provider sign a Request for Reimbursement form is also acceptable. Cancelled checks, credit card receipts, and balance due bills are not accepted as proof of service or payment.

Step 4. Send your documentation with a signed and dated Request for Reimbursement form to your service center.

Step 5. Reimbursements are made on your scheduled reimbursement date once you have reached the minimum reimbursement amount. Reimbursement dates and minimums can be found in your Summary Plan Description (SPD) booklet. If your expenses are less than your plan's minimum, your reimbursement will not be sent until your expenses reach the minimum.

Step 6. The Principal sends your reimbursement and a statement showing your contributions and reimbursements to date.

How much can I save?

Sherrie and Jim Martin expect to spend $3,000 for day care in the coming year. Sherrie decided to contribute $3,000 of her salary to a Dependent Care FSA. The example estimates her possible tax savings. To help figure your approximate tax savings, please refer to our web site: *http://www.principal.com/grouplh/selffunded/fsacalculator.htm.*

	With FSA	Without FSA
Salary	$30,000	$30,000
FSA Contribution	- 3,000	- 0
Taxable Pay	27,000	30,000
Estimated Tax (27.65%)*	- 7,466	- 8,295
After-Tax Salary	19,534	21,705
After-Tax Expense	- 0	- 3,000
Spendable Income	$19,534	$18,705

Tax Savings $ 829

*Assumes 15% federal income tax, 5% state income tax and 7.65% Social Security tax.

What you need to know

There are many advantages to having an FSA, but there are issues you need to know about.

INCOME TAX MAY BE AFFECTED

When you use FSA dollars to pay an expense, you cannot take a federal income tax deduction or credit for that expense. This affects many people who use the dependent care tax credit.

Generally, the higher your family income, the more likely an FSA will be a good deal for you. The FSA is probably your best choice if:

- Your family's gross income exceeds $30,000 a year; or
- Your tax rate is 28% or higher.

HEALTH AND DEPENDENT CARE FSA ARE SEPARATE

You cannot shift money between health and dependent care accounts

SOCIAL SECURITY MAY BE AFFECTED

With an FSA, you pay less Social Security tax. This may reduce Social Security, disability and retirement benefits. We recommend you discuss this with your tax advisor.

Reimbursable services must be provided during the FSA plan year and during your period of coverage.

- Health FSA – You can use the Health FSA for incurred expenses up to the amount of your total annual contribution anytime during the FSA plan year.
- Dependent Care FSA – You can only receive reimbursement up to the amount you have contributed. You'll need to plan carefully for your first month in the FSA. You will be contributing to both the Dependent Care FSA and paying dependent care expenses at the same time. You won't be reimbursed until the following month – about eight weeks after the plan begins. Expenses cannot be reimbursed until actual daycare services have been provided.

PLAN WITH CARE

- Carefully consider where you plan to spend each FSA dollar since unused dollars at the end of the plan year are not refundable.
- Expenses are treated as having been incurred when the services are provided and not when you are formally billed or charged for or pay for the expense.

What if I leave my job?

If you leave your current employer, you may be eligible to continue your Health FSA only. This allows you to avoid forfeiting unused funds.

If you stay in the Health FSA you:

- Continue making contributions and receiving reimbursements until the FSA plan year is over.
- Pay contributions with after-tax dollars.

If you leave the Health FSA, only charges you incurred before you leave are eligible for reimbursement.

Rules for covered expenses

HEALTH CARE

- Expenses for any member of your household that you can claim as a tax dependent qualify.
- Expenses cannot be paid by other sources or benefit programs.
- Premiums for any benefit program are not covered.
- Cosmetic procedures are generally not allowable. Cosmetic procedures are mainly directed at improving the patient's appearance and do not meaningfully promote proper body function or treat or prevent illness.

DEPENDENT CARE

- Care must be needed to allow you and your spouse to work, be a full-time student, or seek employment (volunteer work does not count). The cost of care must not exceed the lesser of the employee or spouse's income. If one parent is a full-time student, the IRS uses an earned income amount of $250 per month for one dependent or $500 per month if there are two or more dependents.
- Care cannot be provided for free.
- Spouse and other dependents don't qualify as providers.
- Children under age 13, dependents who are physically or mentally unable to care for themselves, or elderly parents living in your home are covered.
- Children must qualify as dependents on your federal income tax.
- Travel, clothing, entertainment and food expenses are not eligible.
- Education costs are not covered.
- Overnight camps are not eligible.

This material is intended solely for information and education. It is not to be used as the basis for legal or tax advice. For advice on your situation, you must seek out and rely on the counsel of your own attorneys or tax advisors.

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Principal Life Insurance Company
Des Moines, Iowa 50306-0310
www.principal.com

