Flexible Spending Accounts

Saving Money for Employees

WE UNDERSTAND WHAT YOU'RE WORKING FOR℠

save on taxes

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's allow you to set aside part of your salary before Social Security, federal and state taxes to pay for:

HEALTH CARE EXPENSES.
DEPENDENT CARE EXPENSES.

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

WHAT EXPENSES ARE COVERED?

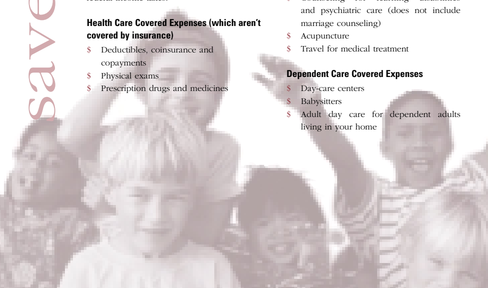
Your FSA may be used to pay for items not covered by an insurance policy. The IRS allows certain expenses to be paid through an FSA. If you have a question about whether something qualifies, your tax preparer can help since these expenses also qualify under federal income taxes.

Health Care Covered Expenses (which aren't covered by insurance)

- $ 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

Dependent Care Covered Expenses

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



rules. . . .

For Covered Expenses

Health Care

- Expenses for any member of your household qualify
- Costs cannot be paid by other sources or benefit programs
- **Doesn't cover premiums for any benefit programs**
- **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

- Expenses up to $5,000 per tax year per family are allowed
- Care can't be provided for free
- Spouse and children don't qualify as providers
- Covers children under age 13, dependents who are physically or mentally unable to care for themselves, or elderly parents living in your home
- Children must qualify as dependents on your federal income tax
- Care must be needed to allow you and your spouse to be gainfully employed (volunteer work doesn't count)
- Travel, clothing, entertainment and food expenses aren't eligible
- Doesn't cover education costs
- Overnight camps are not eligible

how to start

1. Decide how much to put toward your health and/or dependent care FSA. This amount must fall within the minimums and maximums set by your employer.
2. Fill out your simple election form. It tells your employer how much salary to put into the FSA for you each pay period.

You won't have another chance to sign up until next year's annual enrollment period.

There are a few exceptions to this. You can 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 that 30 days after the change event.

What if I Leave My Job?

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

If you stay in the health care 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 care FSA, only charges you incurred before you leave are eligible for reimbursement.

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.

how it works

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

1. You decide how much you may spend for dependent care and/or health care for the coming year and set aside funds in your Dependent Care FSA and Health Care FSA.
2. After you have received the service:
   - *Health care services:* submit your health insurance claim and then file for FSA reimbursement for what 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:* get a receipt from the provider that lists the provider's name, dates of service and how much you paid and include it with your request for reimbursement. 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, it must state on the receipt that the services provided were for dependent care, list the dates of service and it must be signed by the day care provider. Cancelled checks, credit card receipts, and balance due bills are not accepted as proof of service or payment.
3. Send your documentation with a Request for Reimbursement form to your service center.
4. The Principal reimburses you from your FSA on the reimbursement date if your expenses are more than your plan minimum. If it isn't above your plan minimum, your payment will be sent once your account expenses reach the minimum requirement.
5. The Principal sends your payment 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 redirect $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 Credits are affected.

When you use FSA dollars to pay an expense, you cannot take a federal income tax credit for that expense. This affects many people who use the dependent care tax credit. Tax law reduces the expenses eligible for the end of the year tax credit dollar-for-dollar by the expense amount funded through the FSA.

If the amount you place in the FSA exceeds the maximum expenses used to figure the tax credit, you may not use the tax credit. You may want to consult a tax advisor to help you decide if a tax credit or FSA works best for you.

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.

Note for dependent care FSA users: Whether you use the tax credit or the FSA, you must report your dependent care costs and the care provider's tax ID number on your tax return.

Health and dependent care FSA's are separate.

You cannot shift money between health and dependent care accounts.

This may affect your Social Security.

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

plan with care

Reimbursable services must be provided during the FSA plan year.

- Health care—You can use the health care FSA for incurred expenses up to the amount of your **total annual contribution** anytime during the FSA plan year.
- Dependent care—You can only receive reimbursement **up to the amount you have contributed**. So, for your first month in the FSA, you'll need to plan carefully. 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(s).

WE UNDERSTAND WHAT YOU'RE WORKING FOR℠

Principal Life Insurance Company
PO Box 10310 Des Moines, Iowa 50306-0310
www.principal.com