

Health Care Account

Whose Expenses Are Eligible

You can use your Health Care FSA and/or HSA to pay for health care expenses incurred by any of the following people – even if they are not covered by your employer’s health plan:

- Yourself
- Your spouse
- Your qualifying child*
- Your qualifying relative*

* Special rules allow a dependent to be eligible for this plan even when that dependent does not qualify to be claimed as your tax dependent on your tax return form. See the tests below.

Qualifying Child Tests

Answer the following questions for the calendar year(s) covered by your employer’s plan year (or the period of time you will be covered under the plan, if less):		
1 Relationship Test	Is the child any of the following: your child, grandchild, stepchild, foster child or adopted child; brother, half-brother or stepbrother; sister, half-sister or stepsister; nephew or niece; or the child or grandchild of any of the relatives listed above?	<input type="checkbox"/> Yes <input type="checkbox"/> No
2 Relationship Test	If you are not the child's parent, is it correct to assume that (i) the child's parent(s) will not be claiming the child as a tax dependent <u>and</u> that (ii) your adjusted gross income is higher than the adjusted gross income of either of the child's parents? (if the answer to either is 'No', mark the box 'No')	<input type="checkbox"/> Yes <input type="checkbox"/> No
3 Residence Test	Will the child reside with you for more than half the calendar year? <i>(Disregard temporary absences due to illness, education, business, vacation, or military service. You must maintain a home for the child during the temporary absence and the child must be expected to return after the absence.)</i>	<input type="checkbox"/> Yes <input type="checkbox"/> No
4 Age Test	As of the last day of the year, will the child be under the age of 27? Or, is the child permanently and totally disabled? <i>(Full-time student means the child is enrolled at a level the school considers to be full-time for at least five months during the calendar year.)</i>	<input type="checkbox"/> Yes <input type="checkbox"/> No
5 Age Test	As of the last day of the year, will you be older than the child? Or, is the child permanently and totally disabled?"	<input type="checkbox"/> Yes <input type="checkbox"/> No
6 Support Test	Will the child provide no more than 50% of his/her own support for the calendar year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
7 Marriage Test	Is the child (i) unmarried or, (ii) if married, is it true that the child will not file a joint return (other than only for a claim of refund) with the child's spouse for the tax year that corresponds to the year for which you will be using Health Care FSA funds to cover the child's medical expenses? (if the answer to either is 'No', mark the box 'No')	<input type="checkbox"/> Yes <input type="checkbox"/> No
8 Citizenship/ Residency Test	Is the child a citizen, national or resident of the US; or a resident of Canada or Mexico? <i>(Exception for adopted child, check Yes even if answer is No.)</i>	<input type="checkbox"/> Yes <input type="checkbox"/> No
RESULTS	The child appears to be your qualifying child for the calendar year. Check with your tax advisor to be sure.	All = Yes
RESULTS	The child does not appear to be your qualifying child for the calendar year, but may be a qualifying relative. Take the Qualifying Relative Tests on the next page to find out.	Any = No

Divorced or separated parents: Check with your legal or tax advisor to see if special rules apply to you that would enable your child to be claimed by the non-custodial parent or by both parents.

Tie-breaker: If two or more parents want to claim the same child as their qualifying child, the person who has the right to is: (1) the parent with whom the child lives with longest in the year – if both people are the child’s parents, or (2) the parent with the higher adjusted gross income – if both people are the child’s parents and the child lives equally with both during the year.

Eligible Expenses

A person is a qualifying child or a qualifying relative for an entire calendar year. You can use your Health Care Account to pay for eligible health care products and services used by your qualifying child or relative during your coverage period – provided the expenses are used during the calendar year in which the dependent is considered your qualifying child or relative.

Example: Your employer's plan year runs from 7/1/2011 to 6/30/2012 and you will be covered for the entire plan year. Your daughter is a qualifying child in 2011, but is not a qualifying child or relative in 2012. The health care products and services your daughter uses between 7/1/2011 and 12/31/2011 are eligible to be paid from your account. The health care products and services your daughter uses between 1/1/2012 and 6/30/2012 are not eligible because she is not a qualifying child or relative at the time she uses the services.

Extending Benefits to Children under Age 27

Please note: These plan provisions are optional under certain health care FSAs and HRAs. Please check with your employer to determine if these provisions apply to your health care FSA or HRA plan(s).

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively the "Healthcare Reform Act") requires group health plans and health insurance issuers to offer dependent coverage for an adult child up to age 26. The Healthcare Reform Act also provides favorable tax treatment for employer-provided healthcare coverage and medical expense reimbursements for employee's adult children.

The Internal Revenue Service issued Notice 2010-38 which answers several questions regarding this portion of the Healthcare Reform Act. Key questions and topics addressed in the Notice are listed below.

What is the definition of an Adult Child?

In the simplest terms:

- An "Adult Child" is an employee's child (as defined in IRC Section 152(f)(1)) who has not attained age 27 as of the end of the employee's taxable year. An employee's taxable year is generally January 1 through December 31.
- IRC Section 152(f)(1) defines "Child" as an individual who is a son, daughter, stepson, or stepdaughter of the taxpayer, or an eligible foster child. It also includes an adopted child (a legally adopted individual or an individual who is lawfully placed with the taxpayer for legal adoption.) An eligible foster child would be considered a taxpayer's child if they were placed with the taxpayer by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction.

Please note that the IRC Section 152 definition of a dependent has not been amended or changed, rather the definition of an Adult Child has been, or will be, inserted into different Sections of the IRS Code.

What is the effective date of coverage for an Adult Child?

The Healthcare Reform Act has required health care plans that cover dependent children to provide for coverage of children until age 26 beginning with the plan year starting on or after September 23, 2010. There is no requirement to cover children of covered dependent children but the requirement is applicable even if the child is married or is not a tax dependent. Until January 1, 2014, grandfathered plans do not have to extend coverage if the child is eligible for coverage from another employer.

Practically, this means that employers can immediately begin covering employees' adult children, without being concerned about the definition of a full-time student (which is a typical plan limitation).

FICA, FUTA, RRTA and Income Tax Withholdings

Coverage and reimbursements paid by the employee for their adult children are excluded from wages for the Federal Insurance Contribution Act (FICA), Federal Unemployment Tax Act (FUTA) and for the Railroad Retirement Tax Act (RRTA) tax purposes.

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Qualifying Relative Tests

Answer the following questions for the calendar year(s) covered by your employer's plan year (or the period of time you will be covered under the plan, if less):		
1 Relationship Test	Is the person any of the following: your child, grandchild, stepchild, foster child or adopted child; brother, half-brother or stepbrother; sister, half-sister or stepsister; nephew or niece; the child or grandchild of any of the relatives listed above; your father, grandfather or stepfather; mother, grandmother or stepmother; uncle or aunt; or son-, daughter-, father-, mother-, brother- or sister-in-law? Or, any other person who will reside with you for the entire year (while not in violation of local law)?	<input type="checkbox"/> Yes <input type="checkbox"/> No
2 Relationship Test	If you are not the child's parent, is it correct to assume that (i) the child's parent(s) will not be claiming the child as a tax dependent <u>and</u> that (ii) your adjusted gross income is higher than the adjusted gross income of either of the child's parents? (if the answer to either is 'No', mark the box 'No')	<input type="checkbox"/> Yes <input type="checkbox"/> No
3 Support Test	Will you provide more than 50% of this person's support for the calendar year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4 Not Anyone's Qualifying Child Test	No other person is claiming this person as a qualifying child for the calendar year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5 Marriage Test	Is the child (i) unmarried or, (ii) if married, is it true that the child will not file a joint return (other than only for a claim of refund) with the child's spouse for the tax year that corresponds to the year for which you will be using Health Care FSA funds to cover the child's medical expenses? (if the answer to either is 'No', mark the box 'No')	<input type="checkbox"/> Yes <input type="checkbox"/> No
6 Citizenship/ Residency Test	Is the person a citizen, national or resident of the US; or a resident of Canada or Mexico? <i>(Exception for adopted child, check Yes even if answer is No.)</i>	<input type="checkbox"/> Yes <input type="checkbox"/> No
RESULTS	The person appears to be your qualifying relative for the calendar year. Check with your tax advisor to be sure.	All = Yes
	The person does not appear to be your qualifying relative for the calendar year. Check with your tax advisor to be sure.	Any = No

Divorced or separated parents: Check with your legal or tax advisor to see if special rules apply to you that would enable your child to be claimed by the non-custodial parent or by both parents.

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