

Tax-advantaged spending accounts open enrollment from Oct. 1–Oct. 31, 2017

Federal law allows employers to offer certain tax-advantaged spending accounts for employee benefit expenses. Through a provider called WageWorks, the City of Los Angeles currently offers four types of these accounts. Please note that the maximum amount indicated below are subject to adjustment by the federal government for the 2018 calendar year. The limits noted below are those that are in effect for 2017. As soon as the federal government publishes the 2018 maximums, if they are different than what is in this article, we will send out a membership alert.

- **Healthcare Flexible Spending Account:** This allows you to use pre-tax dollars to pay for eligible out-of-pocket health care expenses up to a maximum of \$2,550. The minimum you can set aside is \$300 dollars for 2018.
- **Dependent Care Reimbursement Account:** This allows you to use pretax dollars to pay for dependent care expenses up to a maximum of \$4,992 (day care for a child up to age 13 or an elderly or disabled dependent).
- **Transit Spending Account:** This allows you to use pre-tax dollars, up to \$255 per month, to pay for public transportation expenses related to commuting to work.
- **Parking Spending Account:** This allows you to use pre-tax dollars, up to \$255 per month, to pay for parking expenses related to commuting to work.

The concept for all these accounts is the same. You set money aside on a pretax basis into special accounts set up for these specific expenditures. Then, when you incur an eligible expense, you use the funds in the accounts to pay for them. As a result, you save money by paying for those expenses with pre-tax dollars rather than after-tax dollars.


Why a tax-advantaged spending account makes sense

- **You save on taxes.** You don't pay taxes on the money you contribute when it goes into your account or when you use it for eligible expenses.
- **You can budget for expenses you know you will have.** When you set aside pre-tax dollars, the money is there when you need it.

- **Making payments is easy.** Depending on which accounts you choose, payments can be made using debit cards or reimbursement or even directly from your account by making purchases directly through Wage-Works (this last feature applies to Transit and Parking accounts only).

Your Estimated Tax Savings			
Without Health Care FSA		With Health Care FSA	
Gross annual pay (estimate)	\$60,000	Gross annual pay (estimate)	\$60,000
Estimated tax rate (30%)	-\$18,000	Maximum annual Health Care FSA contribution	-\$2,500
Net annual pay	=\$42,000	Adjusted gross pay	=\$57,500
Estimated annual health care expenses	-\$2,500	Estimated tax rate (30%)	-\$17,250
Final take-home pay	=\$39,500	Final take-home pay	=\$40,250

Take home this much more **\$750**


 Calculate how much more you can take home in one year at wageworks.com/myfsa

The cost of participating in these programs is only \$1.50 per pay period. This amount covers all of the savings accounts you choose. Someone choosing all four would still pay only \$1.50 per pay period.

October 1-31, 2017, is your only opportunity to enroll in Flexible Spending and Dependent Care benefit accounts that offer tax savings for 2018. However, you may enroll in Transit Spending and Parking Spending accounts at any time.

Simple steps to enroll online

1. Go to keepingLAwell.com and click on “Enroll in Benefits or Make Changes” from the left navigation bar.
2. Register as a new user with the last four digits of your Social Security number, last name, date of birth and postal code.

- Follow the online instructions to make your choices.

If you need help logging in, call the Flex Benefits Service Center at (800) 778-2133 and press 0# two times to speak to a benefits service representative.

TAX SAVINGS ACCOUNT OPTION	EXPENSES	CONTRIBUTION LIMIT	WHEN FUNDS MUST BE USED	ANNUAL ENROLLMENT REQUIRED?
Flexible Spending Account	Health Care	Annual limit of \$2,550	By end of the calendar year, otherwise forfeited*	Yes, and enrollment irrevocable for that year
Dependent Care Reimbursement Account	Dependent Care (e.g. childcare, eldercare)	Annual limit of \$4,992		
Transit Spending Account	Public Transportation to/from work	Monthly limit of \$255	No restriction – funds may roll forward if not used	No – may enroll or cancel any time
Parking Spending Account	Parking expenses related to commuting to work	Monthly limit of \$255		
*The funds you set aside in 2018 can only be used for eligible expenses in 2018. You must file claims for 2018 expenses by April 30, 2019. If you do not file claims by the deadline, you forfeit any money left in your account.				

Do I get more money in my pocket if I join the program?

As a member of the Los Angeles Police Department, you are likely in a 25-50 percent tax bracket. After your tax preparer does the work to reconcile your taxes annually, you pay 25-50 cents for every dollar of taxable income you have remaining. If you can reduce your taxable income by \$4,000, you can save \$1,000 to \$2,000 in taxes. (See your tax preparer for your specific circumstances. This is not tax advice.)

Healthcare Flexible Spending Account

If you paid \$2,000 in out-of-pocket expenses for braces last year without the tax advantages of a Healthcare Flexible Spending account, you paid with money that was left after the IRS took its share in taxes. That means you had to have between \$2,700 and \$4,000 before taxes because you had to pay \$700 - \$2,000 in taxes to the IRS before paying the orthodontist \$2,000.

If you participate in a Healthcare Flexible Spending account, you will never pay income tax on the money you put into the account. You can set aside from \$300 up to \$2,500 annually (pretax) through payroll deduction for all eligible medical, dental or vision health care expenses. *The money put into the Healthcare Flexible Spending account is subtracted from your gross income and is not taxed!*

Dependent Care Reimbursement Account

Members can also enjoy the same tax advantages for daycare and afterschool programs for eligible dependents (children under age 13 and/or disabled dependents). The Dependent Care

Reimbursement account allows you to contribute from \$300 up to \$4,992 annually (pre-tax) through payroll deduction for eligible expenses.

Estimate expenses carefully

It's important to estimate your health care and dependent care expenses carefully and set aside only the amount you think you will use in 2018. After the enrollment period, you cannot change your contribution amount during the year unless you have a qualifying family status change. Because these accounts offer tax advantages, IRS regulations require you to forfeit any money left in your account after the claim deadline for the year. You have until April 30, 2019, to submit any eligible expenses for claims you have between January 1, 2018, and December 31, 2018.

Tax Savings Add Up

City of L.A. employees contributed nearly \$2.1 million dollars to the Health Care FSA and Dependent Care Reimbursement Accounts last year, saving more than \$314,052 in taxes, assuming a 15 percent tax rate. That's an average of \$395 in tax savings for each participant.

The Healthcare Flexible Spending and Dependent Care accounts provide a tax-savings advantage—but they are not a savings account—and the money you contribute to the account will not carry over year to year. In other words, you “**use it or lose it**,” so be careful when estimating. Although the federal government allows for rollovers, the City chooses not to administer that option due to the administrative complexities in rollovers.

The Healthcare Flexible Spending and Dependent Care Reimbursement accounts utilize the same tax benefits as deferred compensation does, and that is putting pre-tax dollars aside, giving members more money in their pocket.

There are some differences between the programs. The table below provides a summary of key features and distinctions.

Information on all of these programs are included in the Personnel Department's Open Enrollment benefit materials, which will be released in September 2017. Additional information and resources are available online at keepingLAwell.com.

If you have any questions or you want to discuss these programs in more detail, please call me at (213) 792-1089 or email CorinaLee@lappl.org. Be safe.