HUMAN RESOURCES

Flexible Spending Account

TAX-FAVORED BENEFIT . . . YOUR "FSA"

Starting January 1st of each year, you will be able to take advantage of the University of Portland's Flexible Spending Account, or "FSA" for short.

The FSA allows you to pay for:

- out of pocket costs associated with medical and dental insurance
- a wide range of health care expenses which are not covered by insurance, and
- dependent care expenses

on a *before-tax* basis. Currently you pay these types of expenses on an after-tax basis, with take-home pay. With the FSA you can meet eligible expenses on a *tax-free* basis, with salary dollars you set aside for that purpose.

Here's how it works. You elect to have your salary reduced at the start of each plan year (during the open enrollment period). The amount of your salary reduction from each paycheck will be credited to your personal FSA. This arrangement allows us to *report lower taxable gross earnings to the government*, thereby reducing your Federal, state, local and Social Security taxes.

When you incur specific health care expenses not covered in the University's health or dental plan, you may obtain reimbursement for these eligible expenses from your FSA.

Each year, to meet anticipated expenses, you can deposit up to $5,000.00 for health care and $5,000.00 for dependent care. You decide in advance how much you want to set aside and, out of your deposit, how much will go toward health care (Health Care Account) and/or dependent care (child care) expenses.

Charges for eligible treatment, services and supplies incurred on or after January 1st can be applied to the FSA during the next twelve months.

ENROLLMENT - WHO, HOW AND WHEN

You may be reimbursed through the FSA for eligible expenses, provided you are eligible to participate in the University's health insurance program. This program is generally available to all full-time and part-time employees who regularly work a minimum of 20 hours per week.

New employees are allowed 60-days from the date of hire to enroll in the program, if minimum requirements (above) are met. Eligibility begins on the first day of the month following the date of hire.

Under the Health Care Account, qualified expenses include those incurred by you and your dependents. Dependents generally include any close relative who relies on you for primary financial support.

Under the Dependent Care Account, a dependent must also be:

- Under the age 13, if the child is the employee's dependent or
- If the employee is a legally separated or divorced parent who has custody of the child for the greater part of the year or
- Regardless of age, physically or mentally incapable of self-care.

Please remember that your enrollment in this program is completely voluntary. You must enroll every year during "open enrollment," otherwise you will not be eligible until the following year.

USING YOUR FSA

Each plan year runs from January 1 to December 31. Before the beginning of each plan year, you should estimate the amount of expenses you expect to have during the coming plan year that will be eligible for reimbursed by your FSA. You can then determine the amount of salary reduction you should elect, so that your FSA balance is large enough to cover these expenses.

When you submit an enrollment form, you are authorizing the University to deduct a certain amount from each paycheck to cover your total deposit for that year. As you will see on the enrollment form, you have two options. You can:

- Authorize a salary reduction to the Health Care Account
- Authorize a salary reduction to the Dependent Care Account
- Authorize a salary reduction for both the Health Care and Dependent Care Accounts

CHANGING YOUR FSA ELECTION

During the plan year, you will be permitted to start, stop, increase or decrease your salary reduction only if it qualifies as a life changing event and the request is made within 30 days of the event. **Any change in salary reduction must be consistent with the change in status.**

Acceptable Qualifying Life Events are prescribed by the IRS as follows:

- Marriage or divorce
- Death of spouse or dependent
- Birth or adoption of a child
- Termination of employment (spouse or employee)
- Change between full-time and part-time (that results in a change in eligibility or cost of benefits)

HEALTH CARE EXPENSES

A wide range of expenses can be applied to the FSA. You may deposit up to $5,000 a year for health care expenses. However, any expenses which you claim as income tax deductions or which are fully reimbursed under any medical or dental insurance plan or any other program *cannot* be applied to the FSA. Under present Internal Revenue Service regulations, the following types of expenses are generally eligible for reimbursement.

Expenses Associated With Insurance Coverage

- Deductibles under the medical and dental plans
- Coinsurance and office visit charges under the medical and dental plans
- Expenses over medical and dental plans' limits

Health Care Expenses

Any out-of-pocket expense allowable under federal regulations for Schedule A may be eligible under the FSA. This includes over-the-counter medical expenses, so long as they are not for personal, cosmetic, or general health purposes. For more information and a list of tax-deductible expenses, go to http://www.irs.gov/formspubs/ and see IRS publication 502.

Some services are considered treatment for improved well-being, but also can be used to treat specific medical conditions. In this case, a Letter of Medical Necessity form will be required and will need to be completed by your health care provider. For example, vitamins, herbal supplements and massages are not reimbursable without a Letter of Medical Necessity.

DEPENDENT CARE EXPENSES

You can use the Dependent Care FSA if you pay someone to care for your dependent(s). If you are married, you may also use the FSA for dependent care which enables your spouse to work or be a full-time student (enrolled for a minimum of five months during the year).

You can deposit up to $5,000 each *calendar year* in the Dependent Care FSA if you are single or married and file a joint tax return. If you are married and file separate returns, you can deposit up to $2,500. Money designated for the Dependent Care FSA can only be used to pay eligible dependent care costs.

The person or organization providing the dependent care must meet certain IRS requirements by providing you with their address and Taxpayer Identification Number (TIN) or Social Security Number (SSN). This is a new IRS requirement.

Charges for the following services can be applied to the FSA, provided they occur on days you work (and your spouse works or attends school if you are married):

- Charges for care of a dependent within or outside the employee's home (i.e. housekeeper costs, babysitter costs, licensed day care center costs, schooling costs for children below first grade)
- An out-of-home program must comply with all applicable state and local regulations if the program provides care for more than six individuals, and
- Out-of-home care for adults qualifies only if the adult dependent regularly spends at least eight hours each day in the employee's household.

The following dependent care expenses are *not* eligible:

- Payments to a dependent child under age 19,
- Payments to a dependent spouse of the employee.

Earnings Affect Maximum Reimbursements from the Dependent Care Account

If you are not married, dependent care reimbursement from the FSA is limited to your earned income.

If you are married, reimbursement is limited to the lesser of your earned income or that of your spouse, up to $5,000 a year. For example, if your spouse works part-time and earns $3,000, the amount of your dependent care reimbursement from the FSA is limited to $3,000. (If your spouse is a full-time student or disabled, it is assumed that your spouse earns $200 a month if you have only one dependent or $400 a month if you have two or more dependents).

EFFECT ON YOUR OTHER BENEFITS

Lowering your taxable pay by contributing part of your salary to the FSA will *not* affect your other benefits based on pay. These benefits will continue to be calculated as if you did not contribute to the FSA.

However, if after taking into account your salary reduction your remaining income is under the Social Security taxable wage base, your income reported for Social Security benefit purposes will also be less. As a result, your ultimate Social Security retirement benefit may be slightly lower.

GRACE PERIOD

If there is a remaining balance in the FSA at the end of the plan year, there is a 75-day grace period (until March 15), during which expenses incurred in the following year can be reimbursed using those excess funds. However, the deadline of April 30th still stands for any and all reimbursement requests for the past year.

REIMBURSEMENT FROM YOUR FSA

The FSA Health Care and Dependent Care Accounts will reimburse eligible expenses from your FSA when you submit a completed FSA claim form, along with the IRS required documentation. Here is a step by step procedure to follow for reimbursement from your FSA Account(s).

Health Care Expenses: Always file a medical or dental insurance claim first. When the medical or dental claim has been processed, you will receive an "Explanation of Benefits" (EOB) from the insurance company. At this point, you may be reimbursed by the FSA for eligible medical and dental expenses not covered by insurance.

To claim the unreimbursed portion of any eligible out-of-pocket expense, submit the following directly to Tressa Rodriguez in the Controller's Office, MSC 167:

- A completed Health Care FSA claim form
    - If applicable, an original EOB from your or your spouse's insurance company or
    - An original detailed statement from your provider, reflecting the services provided to you, your spouse and/or dependents and the payment(s) received.
    - **Check copies and statements with "balance forward" are *not* acceptable forms of documentation.**

Dependent Care Expenses: Complete a Dependent Care FSA claim form, attach the invoice and proof of payment (copy of cancelled check), then submit directly to Tressa Rodriguez in the Controller's Office, MSC 167.

REIMBURSEMENTS

The amount of reimbursement for Dependent Care expenses is limited to the lesser of the claim amount or the amount in your account. If you request reimbursement which exceeds the amount in your account, the excess amount will be pended for payment at a later date as deposits are made.

By law, the Health Care FSA operates differently. The total amount you have elected to put in your Health Care FSA is available at the start of the plan year. Each request for reimbursement is then paid in full (regardless of the deposits to date) and subtracted from the total. A new balance is created. This new balance becomes the maximum amount available to be reimbursed on the next claim, etc. This declining balance process repeats itself until all funds have been used up, at which time no more claims are payable from your Health Care FSA for that plan year.

You will have 120 days at the end of each plan year (until April 30th) to submit expenses incurred in the previous year and to be reimbursed through previous year funds. If there is still a remaining balance from the previous year, you are allowed to request reimbursement for expenses incurred in the current year from the previous year funds (i.e. receipts dated 1/1-3/15 current year). You are not allowed to receive reimbursement from current year funds for previous year expenses.

WHERE TO GET FORMS

You can obtain Health Care and Dependent Care FSA claim forms at the Human Resources website at www.up.edu/hr. Be sure to complete separate forms for Dependent Care and Health Care expenses.

IF YOU LEAVE US

If you leave the University, you can file claims for up to 60 days following your date of departure for any qualifying expenses incurred up to your date of termination. If any money remains in your account past the 60-day extension period, it will be forfeited.

TO KEEP YOU POSTED

FSA account status can be accessed at any time online at http://www.pilots.up.edu, under employee information: benefits and deductions.

Distributed by Human Resources
Revised 12/1/09 tmr