

**Penn State
Flexible Spending Account (FSA) and
Health Savings Account (HSA)
Pre-Tax Benefits
Effective January 1, 2023**

**Administered by [HealthEquity](#)
Member Services: 866-346-5800
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Draper, UT 84020**

Eligibility

All full-time faculty, staff, and technical service employees of the University enrolled in health care benefits are eligible to participate in the following flexible benefits programs:

- 1. CONTRIBUTION CONVERSION**
- 2. HEALTH SAVINGS ACCOUNT (HSA)—LION Advantage ONLY**
[Annual Election Required]
- 3. HEALTH CARE FLEXIBLE SPENDING ACCOUNT (FSA)—LION Traditional ONLY**
[Annual Election Required]
- 4. DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT (FSA)**
[Annual Election Required]

IRS regulations provide that eligible premiums paid through Contribution Conversion or contributions to the Health Savings Account, Health Care FSA, and Dependent Care FSA are not included for either federal income tax or Social Security (FICA) tax purposes. Additionally, contribution conversion and HSA/FSA funds also are excluded from Pennsylvania State Income Tax. All flexible benefit programs are excluded from Pennsylvania local income taxes. This is not a deferral of taxes but an actual elimination of income taxes. To obtain the tax-favored nature of these programs, there are several restrictions that must be included in the Plan. Plan limitations and restrictions are listed in the appropriate sections of this document. You should review each section carefully to determine the level of participation that fits your needs.

Contribution Conversion

(PAYING YOUR HEALTH CARE AND LIFE INSURANCE PREMIUMS WITH PRE-TAX DOLLARS)

If you participate in the University medical, dental, vision and/or voluntary life insurance plan, your contribution toward the cost of those benefits is deducted from each paycheck. With Contribution Conversion, the amounts that you contribute each pay for health care and for the value of the first \$50,000 of total life insurance (sum of employer-provided and voluntary) benefits are deducted before your federal income, FICA (Social Security), Pennsylvania State, and Pennsylvania local income taxes are calculated. This is not a deferral of taxes but an actual **ELIMINATION OF TAXES.**

Only your contribution (deduction) for medical, dental, vision benefits and the first \$50,000 of total life insurance (sum of employer-provided and voluntary) are eligible for Contribution Conversion. If your level of total life insurance exceeds \$50,000, the balance of the required deduction for voluntary life insurance will continue to be paid on an after-tax basis. The \$50,000 life insurance limit is set by the Internal Revenue Service, not by the University. Health Savings Account, Health Care FSA and Dependent Care FSA require annual elections. Enrollment in Contribution Conversion is automatic when you enroll in University-sponsored benefits and when you enroll, you are granting consent to the University to deduct the appropriate contributions from each pay.

Health Care Flexible Spending Account (FSA)

ONLY LION Traditional members or employees covered by a non-Penn State health care plan (except for qualified high-deductible plans), are eligible to participate in the Health Care Flexible Spending Account.

The Health Care FSA is a voluntary flexible spending account program that provides tax savings on the money you spend for out-of-pocket medical and other health care expenses. IRS regulations allow you to deduct from your income any out-of-pocket medical expense that exceeds a certain percentage of your family adjusted gross income. Not many people, especially those with employer-sponsored benefit plans, reach the level necessary to be eligible for the tax break.

The amount that you elect to set aside each pay for out-of-pocket medical expense is deducted from your paycheck before your federal income tax, Social Security tax, Pennsylvania State, and local income tax liabilities are calculated. When eligible out-of-pocket expenses are incurred, those expenses are submitted for reimbursement from your Health Care FSA.

Important items to remember about Health Care FSAs:

- Dependents for this benefit are *not* limited to those you cover under your medical/dental/vision benefits. Dependents include all family members who you claim as dependents for IRS tax purposes and whose health care expenses would be an allowable deduction on your federal income tax return. You may be reimbursed for expenses for any child until the end of the calendar year in which the child reached age 26.
- For purposes of reimbursement from flexible spending accounts, the IRS considers the expense to be incurred at the time the actual treatment, service or purchase takes place, not when you pay for the expense or when your benefit plan processes your claim.
- “Out-of-pocket” means that the expense is not reimbursable under any benefit plan, covering you or your dependents. This includes any Penn State plan, any plan provided by your spouse's employer or any individual policy. You must apply for all eligible insurance reimbursements before submitting expenses to your health care reimbursement account.

A full listing of allowable expenses is on the [HealthEquity](#) portal and found in [IRS Publication 502](#).

Maximum annual contribution is \$3,050 for 2023*:

Minimum	Maximum
\$10.00 Monthly	\$254.17 Monthly (\$3,050 per year)
\$ 4.62 Bi-weekly	\$117.31 Bi-weekly (\$3,050 per year)

*These may be indexed annually, based on IRS regulations

- Your ability to make changes during the year is limited. (See CHANGES IN ELECTIONS)
- Only dates of service from January 1 - December 31 of each benefit year are eligible for reimbursement. The plan does not have a grace period provision.
- To properly access any carried over funds, please be aware of the following stipulations:
 - You **MUST** be enrolled in the health care FSA in order to receive any carry-over funds from the previous calendar year (i.e. you must elect the benefit during Benefits Open Enrollment for the following calendar year)
 - Any monies remaining in your FSA as of Dec. 31 can only be used for the *prior year* dates of service.
 - The FSA debit card cannot be used to pay claims submitted after December 31 for services incurred in the prior year
 - Any FSA balance still remaining as of April 1 up to \$610.00 will be carried over and added to your current year FSA balance and can be used for current year dates of service until exhausted. The carried over FSA funds will then be accessible with the debit card at this time as well. The carry over FSA funds do not impact your ability to contribute up to the IRS maximum each year.
- All Health Care FSA contributions are canceled on December 31 of each year. If you wish to continue participation in the following calendar year, you must make a new FSA election each year during the annual benefits open enrollment period.

Contribution changes to the Health Care FSA must be made through Workday. Employees are required to complete the *FSA Enrollment/Change Form*, which is part of the process in Workday when submitting the change request.

Dependent Care Flexible Spending Account (FSA)

The Dependent Care FSA is a voluntary program that enables you to pay for out-of-pocket dependent care costs with pre-tax dollars, enabling you to work or look for work. *Both LION Advantage and LION Traditional members are eligible to contribute to the Dependent Care Flexible Spending Account.*

Important items to remember about Dependent Care FSAs:

- The IRS defines an eligible dependent as a child UNDER AGE 13, or a spouse or relative who is physically or mentally unable to take care of himself or herself and is dependent upon you for support.
- ONLY WORK-RELATED EXPENSES QUALIFY FOR REIMBURSEMENT.

Maximum annual contribution is \$5,000 PER FAMILY for 2023*:

- \$416.66 Monthly
- \$192.30 Bi-weekly

*These may be indexed annually, based on IRS regulations

- The Dependent Care FSA has a **family contribution limit of \$5,000 per calendar year**, which is the maximum allowable by federal law. The minimum amount you can contribute to the Dependent Care FSA is \$120 annually.
- All Dependent Care FSA contributions are canceled on December 31. If you wish to continue participation in the following calendar year, you must complete a new election form during the annual benefits open enrollment period.
- When estimating your annual dependent care expenditures, be sure to consider periods, such as vacations, when you will not incur dependent care expenses.
- See [IRS Publication 503](#) for more details.

Contribution changes to the Dependent Care FSA must be made through Workday. Employees are required to complete the *FSA Enrollment/Change Form*, which is part of the process in Workday when submitting the change request.

Reimbursement Procedures

Health Care FSA: Use your [HealthEquity](#) debit card, pay your provider directly from the [HealthEquity](#) portal, or reimburse yourself through the [HealthEquity](#) portal.

Depending on the service your debit card was used for, you may be required to provide HealthEquity with “substantiation” for the expense. You will be notified by letter at 30 and 90 days and an indicator will be on HealthEquity’s website if substantiation is required. If you do not provide substantiation after the third request from HealthEquity, your transaction will be flagged as an overpayment. You will still have the ability to send in substantiation to remove the overpayment indicator. Your debit card will not be suspended.

Dependent Care FSA: Pay your dependent care provider and request reimbursement through the HealthEquity portal. HealthEquity requires the reimbursement form to include the provider’s signature, as well as the tax identification number OR Social Security number.

Some important issues to remember about the reimbursement procedure:

- The IRS requires that you provide appropriate documentation as proof of the expense having been incurred.
- **Canceled checks and charge card receipts *are not acceptable* forms of documentation/substantiation.**
- **Cash register receipts are acceptable only for contact lens solutions, hearing aid batteries and eligible over-the-counter medications and only if the item can clearly be identified as an eligible expense.**
- **Health care expenses must be submitted to your health plan first, even if the charge will be applied toward your deductible. If you are covered by more than one health plan you must file a claim with the second plan before submitting the balance for payment.**
- Some expenses, such as prescription drug charges, orthodontia payments, and health care expenses for dependents not covered by any benefit plan, will not involve EOB's. Receipts for these expenses should clearly indicate the individual who received the service and the date and nature of the expense. If you are submitting expenses for dependents not covered under any benefit plan, the lack of coverage must be clearly indicated.
- Requests for reimbursement of dependent care expenses must include a signed receipt or invoice which includes the name and the taxpayer ID or Social Security number of the dependent care provider, as well as the dates of the day care service.
- If your eligibility begins after January 1, you will be reimbursed only for expenses incurred during the period of your participation.
- If, as a result of a qualified change in family status, you make a mid-year change to your contribution rate, the election amount changes for the whole plan year. You will be able to use the funds for any date of service in the plan year.

- If you have insufficient funds in your account to cover the amount of your request for health care expense reimbursement, you will be paid up to the total amount that you elected to contribute for the year - less any previous reimbursements.
- If you have insufficient funds in your account to cover the amount of your request for dependent day care expense reimbursement, you will be paid up to the total amount available with the balance to be reimbursed as funds become available.

Period of Coverage

- Elections made during the annual benefits open enrollment period are effective January 1 through December 31 of the following calendar year.
- Elections made after January 1 (new hires and those that have a qualified change in family status) are effective from the date of eligibility through December 31.
- Reimbursement may be made only for expenses incurred during the period of coverage; i.e., the time during which the employee is actively employed and contributing to the account.
- Active employees who contribute to a Health Care FSA may receive reimbursement for eligible expenses incurred during the current calendar year only. Expenses are incurred at the time the actual treatment, service, or purchase takes place regardless of when the expense is paid.
- The period for submitting claims incurred during the previous benefit plan year extends to March 31 of the current benefit plan year (e.g., expenses incurred in 2022 can be submitted through March 31, 2023).
- If you terminate University employment, your FSA elections will be canceled. Reimbursements will be limited to expenses incurred up to and including your termination date. *You will have 90 days from your termination date to submit requests from the period of your participation.*

Changes in Elections

For any time outside of the annual benefits open enrollment period, you are limited in the changes that you may make to your Flexible Benefit election. You have 31 days following one of the changes in family status listed below to change your election concerning participation in either or both of the flexible spending accounts. Any change in reimbursement account election must, by law, be on account of and consistent with the change in family status.

- Marriage, divorce, death of a spouse, or annulment.
- Change in the number of dependents, including birth, adoption, placement for adoption, or death of a dependent.

- Any of the following events for you, your spouse or dependent: Termination or commencement of employment, a strike or lockout, commencement of, or return from, an unpaid leave of absence, a change in worksite, or any other change in employment status that affects eligibility for benefits.
- One of your dependents satisfies or ceases to satisfy the requirements for coverage due to change in age or any similar circumstance.
- A change in the place of residence that would lead to a change in status, such as moving out of a coverage area for insurance.
- Change in your work hours or your spouse's work hours (Dependent Care FSA only).
- Change in the cost of dependent care. You may NOT change your election if the cost change is imposed by a dependent care provider who is your relative (Dependent Care FSA only).
- When your dependent no longer meets the qualifications for dependent care (Dependent Care FSA only).

Increases or decreases in the cost of dependent day care are recognized as a change in status. If you are enrolled in the Dependent Care FSA and the amount that you pay for daycare increases or decreases during the year, you may adjust your dependent care deductions accordingly within 31 days of the date of the change (with the exception if the cost change is imposed by a dependent care provider who is your relative).

Contribution changes to the health or dependent care FSA must be made through Workday. Employees are required to complete the *FSA Enrollment/Change Form*, which is part of the process in Workday when submitting the change request.

Qualifying event changes to the Health Care or Dependent Care FSA in Workday will follow these rules:

- When an employee experiences a qualifying event, the payroll deduction change will go into effect for the NEXT applicable pay cycle. Employees should be sure to use the Qualifying Event date on the *FSA Enrollment/Change Form*.

Annual Benefits Open Enrollment Period

Each year during the annual benefits enrollment period you can re-enroll in the Health Care and/or Dependent Care Flexible Spending Accounts. **IF YOU WISH TO CONTINUE CONTRIBUTIONS TO EITHER ACCOUNT YOU MUST COMPLETE A NEW ELECTION DURING BENEFITS OPEN ENROLLMENT FOR THE FOLLOWING BENEFIT YEAR.**

Forfeiture Rule

Any excess amount in the amount of \$610.00 in your Health Care Flexible Spending Account will be forfeited after April 1 of the following calendar year. Only amounts up to \$610.00 will be carried over and added to your current year FSA balance, if an election was made during Open Enrollment.

The IRS requires that money contributed to a *Dependent Care Flexible Spending Account* during the period of coverage may only be used to reimburse expenses incurred during that period of coverage. **Only dates of service from January 1 - December 31 are eligible for reimbursement. You will have until March 31 of the following year to submit claims for reimbursement. ANY CLAIMS NOT SUBMITTED BY MARCH 31 WILL BE REJECTED AND THE FUNDS WILL BE FORFEITED.**

LION Advantage with the Health Savings Account (HSA)

Penn State employees who enroll in LION Advantage will automatically have a Health Savings Account (HSA) through HealthEquity established on their behalf.

ELIGIBILITY REQUIREMENTS FOR LION Advantage WITH THE HEALTH SAVINGS ACCOUNT (HSA)

All full-time, benefits-eligible employees electing to participate in LION Advantage will have a Health Care HSA established; however, the EMPLOYEE:

- **CANNOT** be enrolled in Medicare or be collecting Social Security benefits. It is recommended that employees consult with their financial advisor regarding implications of dis-enrolling from Medicare in order to be eligible for the HSA, as they will not be able to collect Social Security benefits unless they are enrolled in Medicare. Once an individual dis-enrolls from Medicare, that person is able to enroll in LION Advantage.
- **CANNOT** be enrolled in another medical insurance plan.
- **CANNOT** have a balance in a HEALTH CARE Flexible Spending Account.
- **CANNOT** have a J1 Visa - J1 Visa holders are eligible for LION Traditional only.
- **CANNOT** be classified as a Postdoctoral Fellow due to the pre-tax nature of the stipend

When electing the LION Advantage, the *Health Care FSA* is not available, per IRS guidelines. If you have a balance in the Health Care FSA and move to LION Advantage for the following benefit year, please be aware of the following IRS stipulations:

- A FSA participant cannot carry over funds in a Health Care FSA, if they are also participating in a Health Savings Account (HSA).
- In order to have a HSA, you will automatically waive the FSA carry-over provision.
- The waiver will result in the forfeiture of any remaining funds in the FSA as of January 1.

If two Penn State employees are married and have elected FAMILY coverage under the LION Advantage with an HSA, a Health Care Flexible Spending Account (FSA) cannot be opened under *either* employee's name. The IRS does not permit use of a Health Care FSA when enrolled in an HSA. The Dependent Care FSA is available to either employee up to the IRS limits.

MAKING CONTRIBUTIONS TO A HEALTH SAVINGS ACCOUNT

As part of the enrollment in LION Advantage, an HSA will be automatically opened on the employee's behalf. The Patriot Act requires that specific requirements must be met in order to establish the HSA. Any employees, until they pass this process, will not receive the University's contribution; nor, any of their own contributions, as the HSA cannot be established. Penn State will make a contribution to the account during the next applicable pay period, following the establishment of the HSA with [HealthEquity](#).

The 2023 University contribution is based on salary:

Annual Base Salary	HSA Seed (Individual/Family)
Less than or equal to \$45,000	\$800/\$1,600
\$45,001 - \$60,000	\$600/\$1,200
\$60,001 - \$90,000	\$400/\$800
Greater than \$90,000	\$200/\$400

In addition, employees who are enrolled in LION Advantage may make a separate election to contribute funds to the account through payroll deduction. When enrolling in LION Advantage, the employee will be asked to specify the per paycheck contribution that they would like to make to the HSA.

Each year during Benefits Open Enrollment, you have the opportunity to establish HSA deductions from your paycheck for the following benefit year. Contributions will re-set to \$0 unless you make an election during Benefits Open Enrollment; however, you are able to start, stop, or change your contribution amount as you see fit throughout the year through Workday.

HSA account contributions made by employees through payroll deduction will be available for use typically on the date of the pay date.

PAYING FOR MEDICAL EXPENSES WITH THE HSA

Eligible expenses are outlined on the [HealthEquity](#) portal and in [IRS Publication 502](#).

Qualified medical expenses are those incurred by the following individuals:

- Employee and spouse.
- Dependents who are claimed on the account holder's tax return.
- Any person claimed as a dependent on the account holder's tax return except if:
 - the person filed a joint tax return.
 - the person had a gross income of \$4,050 or more.
 - the account holder, or the account holder's spouse if filing jointly, could be claimed as a dependent on someone else's tax return.

CHANGING THE HSA CONTRIBUTION

Contribution amount changes may be made at any time through Workday. Changes will become effective with the next applicable payroll.

Employees are responsible for ensuring that the annual maximum IRS contribution limit is not exceeded. Penn State is not responsible for tax consequences as a result of the employee contributing beyond the annual IRS contribution limit. The Penn State contribution is included in the annual IRS contribution limit.

2023 HSA Contribution Limits*

- Single Coverage \$3,850
- Family Coverage \$7,700

*These may be indexed annually, based on IRS regulations

Individuals who will be age 55 or older can contribute up to an additional \$1,000 in “catch-up” contributions to an HSA.

If the employee covers a spouse who will be 55 or older and who is not covered by Medicare, the employee may open a Health Savings Account on their behalf through another qualified financial institution and deposit an additional \$1,000. This additional amount will not be payroll-deducted and therefore should be arranged directly through the financial institution of choice.

EMPLOYEES WHO SWITCH HEALTH PLANS, LEAVE PENN STATE, OR RETIRE

Employees who change health plans will not experience any changes to the management of their HSA and the monthly fee remains \$1.00. Employees who leave or retire from Penn State will have access to the funds in the HSA until exhausted; however, the monthly fee increases to \$3.95. Account holders with stand-alone HSAs will have the following:

- Keep the same account number
- Be able to manage their account through the [HealthEquity](#) portal
- Have access to HealthEquity customer service at (866) 346-5800

Employees who leave the University and wish to transfer HSA funds from [HealthEquity](#) to another HSA account should contact HealthEquity directly for assistance.

Employees who have an HSA from another employer or institution may move their funds INTO the HealthEquity HSA by completing the [Trustee to Trustee Transfer Form](#) on the Employee Benefits website.