Penn State Flexible Spending Account (FSA) Benefits

Eligibility and Enrollment Deadlines

All regular, full-time faculty and staff members of the University are eligible to participate in the following flexible benefits programs:

1. **CONTRIBUTION CONVERSION**

2. **HEALTH CARE FLEXIBLE SPENDING ACCOUNT (FSA**)
   [Annual Election Required]

3. **DEPENDENT DAY CARE FLEXIBLE SPENDING ACCOUNT (FSA)**
   [***Annual Election Required***]

IRS regulations provide that eligible premiums paid through contribution conversion or contributions to the Health Care and/or Dependent Day Care FSAs are not included for either federal income tax or social security (FICA) tax purposes. Additionally, contribution conversion and health care FSA funds also are excluded from Pennsylvania State Income Tax. All of the flexible benefit programs are excluded from Pennsylvania local income taxes. This is not a deferral of taxes but an actual elimination of income taxes. In order to obtain the tax favored nature of these programs, there are a number of 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 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 payday for health care and for the value of the first $50,000 of group life insurance 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 group life insurance are eligible for contribution conversion. If your level of group life insurance exceeds $50,000, the balance of the required deduction will continue to be paid by after-tax salary deduction. The $50,000 life insurance limit is set by the Internal Revenue Service, not by the University. Only Contribution Conversion continues without annual election. Health Care and Dependent Day Care Flexible Spending Accounts require annual elections. Enrollment in Contribution Conversion is automatic when you use ESSIC, the Employee Self Service Information Center to enroll in University sponsored benefits.

Health Care Flexible Spending Account (FSA)

While the University's Highmark PPOBlue health plan provides comprehensive medical care, there are some exclusions and not all expenses are paid in full. ONLY PPO Blue plan members are eligible to join the Flexible Spending Health Care Account.

▫ The Highmark PPOBlue plan is subject to annual deductibles and coinsurance for in and out of network provider services. Also, the PPOBlue plan includes co-payments for office visits to network providers and co-insurance amounts for prescription drugs purchased at a local retail pharmacy (50% coinsurance) as well as from the mail-order maintenance programs (20% coinsurance) from Express Scripts or the University Health Services Pharmacy.

▫ Co-insurance payments also apply for some services provided under the Dental plan, plus an annual deductible for services from non-network dentists.

▫ The vision plan includes a copayment on vision examinations; coverage for lenses and frames is available every other year.

The Health Care Reimbursement Account is a voluntary flexible spending account (FSA) program that provides tax savings on the money you spend for out-of-pocket medical 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 get that tax break.

Participation in a Health Care FSA will help you to save taxes, even if you spend only $120 a year of your own money for medical services for you and your dependents. 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, and 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. Details for submitting flexible benefit claims are discussed in a separate section.

Some important issues 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.

▫ 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.

▫ In general, the expense must be allowable as a medical deduction on the federal income tax return. IRS Publication 502, Medical and Dental Expense, available from your local IRS office or

online can provide some guidance regarding eligible expenses. **It is important to note that while the publication provides general guidance regarding eligible and ineligible deductions, there are, under IRS regulations, differences between eligibility for tax deduction and eligibility for flexible spending account reimbursement.** Two notable differences are the definition of when expenses are incurred and the eligibility of some over-the counter medications.

Minimum and maximum contribution amounts for a *Health Care FSA* are:

Minimum	Maximum
$10.00 Monthly	**$208.03 Monthly ($2,500 per year)**
$ 4.62 Bi-weekly	**$96.15 Bi-weekly ($2,500 per year)**

- Your ability to make changes during the course of the year is limited. Make sure that you are comfortable with the contribution amount. (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.**

- **You will have until March 31 of each benefit year to submit claims for the prior benefit year for reimbursement.**

Effective January 1, 2016, a carry-over provision up to $500 is in place for all health care FSAs. As long as you are enrolled in the PPO Blue plan or another non-qualified plan, you are permitted to carry over up to $500 into the 2016 benefit year (as permitted by the IRS). In order to properly access any carried over funds, please be aware of the following stipulations:

  - Any monies remaining in your FSA as of Dec. 31 can only be used for the *prior year* dates of service. You can submit these claims for reimbursement from Jan. 1 – March 31, 2015 (what is known as the run out period).
  - The FSA debit card cannot be used to pay 2015 claims submitted after Dec. 31, 2015. Any 2015 claims need to be submitted online via the Highmark FSA portal (www.highmarkblueshield.com) from Jan. 1 – March 31, 2016. Claims forms are also available at: https://blog.highmark.com/medical-prescription-and-spending-account-forms-for-highmark-members/ if you choose to submit your claims via paper.
  - Any FSA balance still remaining as of April 1, 2016 will be carried over (up to $500) and added to your 2016 FSA balance and can be used for 2016 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 provision will continue under the same guidelines from 2016 into 2017.
  - Beginning Jan. 1, 2016, any FSA claims you submit for 2016 dates of service will be debited against your 2016 FSA balance. Your FSA debit card can also be used to pay 2016 claims.

- **For employees electing the PPO Savings plan, the health care FSA is not available, per IRS guidelines. If you are in the health care FSA and move to the PPO Savings plan for the following benefit year, please be aware of the following stipulations:**
  - The IRS stipulates that a FSA participant cannot carry over funds to a Health Care FSA, like the one Penn State offers to its employees, if they are also participating in a Health Savings Account (HSA). Action is needed to ensure you avoid any unintended forfeiture of your unused FSA dollars that cannot be carried over into 2016.

- **Keep in mind that you still have until March 31, 2016, to submit to Highmark any FSA claims for reimbursement for 2015 dates of service.**
- **However, in order to have a HSA in 2016, the FSA carry-over provision must be waived. You must notify the Employee Benefits division via email at benefits@psu.edu with your intent to waive the FSA carry-over provision. In the absence of your response, you will be deemed to have waived the carry-over provision. The waiver will result in the forfeiture of any remaining 2015 funds in the FSA as of April 1, 2016.**
- The Employee Benefits division will initiate the establishment of the HSA through Highmark/Bank of America.

- All Health Care and Dependent Care FSA contributions are cancelled on December 31 of each year. If you wish to continue participation in the following calendar year, you must make a new Health Care FSA election each year during the annual benefits open enrollment period.

The following are examples of both eligible and ineligible out-of-pocket expenses. The final decision regarding the eligibility of a charge remains with the IRS. Additional guidance regarding eligible expenses can be found in IRS Publication 502.

NOTE: Publication 502 provides guidance for determining if an expense qualifies as a deduction on your federal income tax. While Health Care FSAs use this publication for guidance, there are some distinct differences between eligible income tax deductions and eligibility for reimbursement from a health care FSA. Some of the more significant differences are:

- **Insurance premiums of any kind, including contact lens replacement and Long-Term care coverage are ineligible for reimbursement from an FSA.**
- **Over-the-counter medications that treat or alleviate a specific medical condition (pain relievers, cough and cold remedies, allergy medications) are only eligible for reimbursement from an FSA with a physician's prescription but are ineligible as an income tax deduction.**
- **Eligibility for FSA reimbursements are determined by the date that the service was provided, not when the bill was received or paid. For example, a bill received in January for services provided in the previous year must be reimbursed from funds deposited in the previous year.**

EXAMPLES OF ELIGIBLE OUT-OF-POCKET EXPENSES:

- Deductibles, coinsurance, office visit and emergency room co-payments and amounts in excess of plan allowances or maximums of medical, prescription, dental and vision plans.
- Preventive healthcare including routine exams, EKG's, other X-ray and lab work that is not covered by your health plan.
- Hearing aids, including batteries.
- Orthodontia (the amount exceeding the dental plan benefit paid in that calendar year).
- Lodging away from home that is primarily for and essential to medical care.
- Transportation for needed medical care.
- Dental procedures not covered by insurance.
- Lasik eye surgery.
- Contact lens solutions.

EXAMPLES OF INELIGIBLE OUT-OF-POCKET EXPENSES:

- Insurance premiums of any type (spouse's group plan, school plan, Medicare premiums, contact lens replacement, etc.)
- Vitamins, minerals, and dietary supplements.
- Expenses for your general health such as health club dues or the purchase or repair of exercise equipment used for your general health.
- Cosmetic surgery/procedure which is directed at improving appearance and does not meaningfully promote the proper function of the body or prevent or treat illness or disease. This would include teeth bleaching or whitening procedures.
- Certain over-the-counter medications for the treatment of a disease or condition, such as allergy, cough and cold medications, aspirin and other non-prescription pain relievers, *unless prescribed by a physician.*

Dependent Day Care Flexible Spending Account (FSA)

The Dependent Day Care FSA is a voluntary program that provides tax savings on the money that you pay to someone else to take care of your dependent(s), allowing you to work. This is an alternative to taking the Child and Dependent Care Tax Credit when you file your federal income tax. IRS Publication 503, Child and Dependent Care Expense, available from your local IRS office or on-line, will provide you with the information necessary to reach a decision as to which method is best for you. Both PPO Blue Plan and PPO Savings Plan members are eligible to join the Dependent Day Care Flexible Spending Account.

IRS Publication 503 also provides you with reporting requirements. To take advantage of either the tax credit or a reimbursement account you must report your dependent care provider's name, address and taxpayer ID number or social security number when you file your federal return. You will have to file the appropriate IRS Child and Dependent Care Expenses Form with your tax return regardless of which method you choose. The amount of your pretax withholding will appear on your W-2. If you choose to participate in a Dependent Day Care FSA, you must carefully predict your dependent care expense. The IRS considers the expense to occur at the time the actual service takes place, not when you pay for the expense.

Some important issues to remember about the Dependent Day 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.

Minimum and maximum contribution amounts for a *Dependent Care FSA* are:

MINIMUM	**MAXIMUM**
$10.00 Monthly	$416.66 Monthly
$ 4.62 Bi-weekly	$192.30 Bi-weekly

- The Dependent Day Care FSA has a **family contribution limit of $5,000 per calendar year**, which is the maximum allowable by federal law.

- All Reimbursement Account contributions are cancelled 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.

- Your ability to make changes during the course of the year is limited. Make sure that you are comfortable with the contribution amount.

Reimbursement Procedures

Reimbursements are not automatic. Beginning January 1, 2012, Highmark Blue Shield will administer your Flexible Spending Account (FSA) reimbursements. There are multiple ways for you to receive reimbursement from your FSA. First, you will receive a debit card that you can use at the point of service to pay your out-of-pocket expenses for your Health Care FSA. You will also have the ability to submit claims electronically, select a claim Highmark has processed and direct Highmark to pay your provider directly or yourself for out-of-pocket costs, or you may submit paper claims. All of these features may be accessed at www.highmarkblueshield.com.

Reimbursements will be direct deposited to your checking or savings account after you enter your banking account information on Highmark's website. You may also request a reimbursement check to be mailed to you.

Depending on the service your debit card was used for, you may be required to provide Highmark with "substantiation" for the expense. You will be notified by letter and an indication will be on Highmark's website if substantiation is required. If you do not provide substantiation after the third request from Highmark, your debit card will be suspended until you provide such documentation. The substantiation must clearly indicate the date of service, the name of the provider, the amount and a description of the service. If it was for a dental or vision expense, the substantiation may be a copy of an Explanation of Benefits (EOB) from your dental or vision carrier. You may submit the substantiation electronically through the Highmark website or you may mail the substantiation to Highmark.

Claim forms for paper claim submission are available at Highmark's website.

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.

- **Cancelled 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, monthly net 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 participation 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 (see CHANGE IN ELECTIONS) your maximum reimbursement for expenses that were incurred prior to the change, will be limited to your original contribution - minus any previous reimbursements.

- 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; the Grace Period is being eliminated with the 2014 benefit year. 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 benefit plan year extends to March 31st. For example, medical expenses incurred from January 1, 2014 through December 31, 2014 must be submitted by March 31, 2014.

- If you terminate University employment, your Reimbursement Account elections will be cancelled. Reimbursements will be limited to expenses incurred BEFORE your termination date. You will have THREE months from your termination date to submit requests from the period of your participation.

ALL REIMBURSEMENT ACCOUNT CONTRIBUTIONS ARE CANCELLED ON DECEMBER 31. TO CONTINUE REIMBURSEMENT ACCOUNT PARTICIPATION FOR THE FOLLOWING CALENDAR YEAR, YOU MUST COMPLETE A NEW ELECTION DURING THE ANNUAL BENEFITS OPEN ENROLLMENT PERIOD.

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 60 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:

- Your marriage
- Birth or adoption of child(ren)
- Your divorce (actual divorce not separation)
- Death of a spouse or dependent
- Termination or commencement of spouse's employment (Changes to health care flexible spending account is valid only if health benefits provided by your spouse's employer begin or end as a result of the change)
- Change in your work hours or your spouse's work hours (Dependent care expenses only)
- Change in the cost of dependent care* (Dependent care expenses only)

Any change in reimbursement account election must, by law, be on account of and consistent with the change in family status. You must complete a Certificate of Change in Family Status and a new Election Form within 60 days following the event in order to modify a Flexible Benefit election.

*In January 2001 the IRS issued final regulations regarding election changes. Increases or decreases in the cost of dependent day care are now recognized as a change in status. If you are enrolled in the dependent day care account and the amount that you pay for daycare increases or decreases during the year, you may adjust your dependent day care deductions accordingly within 60 days of the date of the change.

Annual Benefits Open Enrollment Period & Confirmation Statement

Each year during the annual reenrollment period you have the opportunity to re-enroll in the Health Care Expense and/or Dependent Day Care Expense Flexible Spending Accounts. **IF YOU**

WISH TO CONTINUE CONTRIBUTIONS TO EITHER ACCOUNT YOU MUST COMPLETE A NEW ELECTION ONLINE THROUGH ESSIC EACH YEAR.

When you complete your on-line benefits reenrollment, you will receive an e-mail confirmation, verifying all of your benefits for the following calendar year, including your contributions to flexible spending accounts. If you detect an error on your confirmation, you may return to ESSIC, the Employee Self-Service Information System, to initiate an additional update to make the necessary corrections. ESSIC allows multiple benefits election choices during the annual open enrollment period and accepts as final, the last selection made when the open enrollment period closes.

Forfeiture Rule

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 to submit claims for reimbursement; ANY MONEY NOT REIMBURSED BY March 31 WILL BE FORFEITED.** Money forfeited will revert to the University to be applied against the administrative costs of the program. Careful planning should reduce the chance for money to be forfeited. Penn State does not want you to forfeit any money but ultimately you bear the responsibility for managing your account and your contributions. You should be careful and conservative in estimating your expenses.

If you have any questions or need additional information regarding electing an FSA, please contact the Employee Benefits Division at (814) 865-1473 or E-mail BENEFITS@PSU.EDU. Any questions regarding reimbursement of expenses from your FSA should be directed to Highmark Blue Shield at 800-914-4384.