

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:

- I. CONTRIBUTION CONVERSION
[ONE TIME ELECTION]
- II. HEALTH CARE FLEXIBLE SPENDING ACCOUNT
[ANNUAL ELECTION REQUIRED]
- III. DEPENDENT DAY CARE FLEXIBLE SPENDING ACCOUNT
[ANNUAL ELECTION REQUIRED]

IRS regulations provide that contributions to any of the three flexible benefit programs are not included for either federal income tax or social security tax purposes. Additionally, contribution conversion and health care reimbursement 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 options, 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 web site. 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. Newly hired faculty and staff are required to participate in Contribution Conversion. Enrollment is automatic when you use ESSIC, the Employee Self Service Information System to enroll in University sponsored benefits. Also, you can confirm your participation in Contribution Conversion, as well as the reimbursement accounts, through ESSIC.

EXAMPLE

In 2006, an employee and spouse enrolled in the HealthAmerica HMO, basic dental plan, and the vision plan are charged a monthly premium of \$164.72. Assuming a federal tax rate of 15%, plus social security (7.65%), PA state income tax (3.1%), and a local income tax of 1.5%, contribution conversion will save this employee approximately \$538.68 per year. Those individuals in higher federal tax brackets can expect to save more and those electing voluntary life insurance coverage will save a portion of that premium as well.

Health Care Reimbursement Account

Regardless of which medical benefit plan you choose, not all expenses are paid in full.

- Plan A and Aetna's Open Choice plan are subject to annual deductibles, as are out-of-network services under the Penn State Choice plan and Geisinger and Aetna POS programs. All health plans involve some level of co-payment or co-insurance amount for office visits and prescription drugs and other health care services.
- Co-insurance payments also apply for some services provided under the Dental Basic and Dental Enhanced plans. Both dental plans assess an annual deductible for services from non-network dentists.
- The vision plan provides a maximum annual benefit of \$100; coverage for lenses and frames is available every other year. While HMO's do not have deductibles, there are co-payments for office visits, radiology services and prescription drugs.

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. Current IRS regulations allow you to deduct from your income any out-of-pocket medical expense that exceeds 7.5% 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 Reimbursement account will help you 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 month 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 Reimbursement account. Details for submitting flexible benefit claims are discussed in a separate section.

Some important issues to remember about Health Care Reimbursement accounts:

- 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 rates are:

2005	
MINIMUM	MAXIMUM
\$10.00 Monthly	\$416.66 Monthly
\$ 4.62 Bi-weekly	\$192.30 Bi-weekly

The Health Care Reimbursement Account has an employee contribution limit of \$5,000 per calendar year.

2006	
MINIMUM	MAXIMUM
\$10.00 Monthly	\$666.66 Monthly
\$ 4.62 Bi-weekly	\$307.69 Bi-weekly

The Health Care Reimbursement Account has an employee contribution limit of \$8,000 per calendar year effective January 1, 2006.

- Your ability to make changes during the course of the year is severely limited. Make sure that you are comfortable with the contribution amount. (See CHANGES IN ELECTIONS)
- **ANY FUNDS REMAINING IN YOUR ACCOUNT AFTER THE GRACE PERIOD WILL BE FORFEITED. (SEE FORFEITURE RULE)**
- 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 reenrollment 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](#).

EXAMPLES OF ELIGIBLE OUT-OF-POCKET EXPENSES:

- Deductibles, co-payments and amounts in excess of plan allowances or maximums of hospital/surgical/major medical, dental and vision plans.
- Preventative health care including routine exams, EKG's, other X-ray and lab work that is not covered by your health plan.
- Prescription medicine co-payments.
- HMO co-payments.
- Hearing aids, including batteries.
- Birth control pills.
- 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.
- 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.

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.

Dependent Day Care Reimbursement Account

The Dependent Day Care Reimbursement Account 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.

[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 Care Reimbursement Account 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 Care Reimbursement accounts:

- 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 are:

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

The Dependent Care Reimbursement Account 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 reenrollment 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. To receive reimbursement of your expenses, you must complete and sign a Flexible Benefits Request for Reimbursement form and attach the appropriate documentation to substantiate the expense. The easy-to-complete request forms are available on line ([Click here for form](#)). Additionally, forms are available from your Human Resource Representative, Campus Business Office or from the Employee Benefits Division, 205 Rider Building.

Reimbursements are made once each week and you'll receive an e-mail notification of the amount that will be directly deposited into your bank account. Specific flex benefit claim information is available through ESSIC, the Employee Self Service Information Center. A link to the Employee Benefits Division web page and ESSIC is provided with each email confirmation of a direct deposit.

Some important issues to remember about the reimbursement procedure:

- The IRS requires that you provide third-party documentation as proof of the expense having been incurred.
- Cancelled checks, and charge card receipts **are not acceptable** forms of documentation.
- 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.
- When you receive the Explanation of Benefits (EOB) from your health plan or from your dental or vision plan, attach the original EOB to the Flexible Benefits Request for Reimbursement form. You should keep photocopies for your records.
- Some expenses, such as prescription drug charges (for those not enrolled in Plan A), HMO, POS and Penn State Choice co-payments services, 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 an original 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. Photocopies of receipts are not acceptable.
- 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 - Grace Period

- Elections made during the annual reenrollment 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.
- Effective in 2005 and in compliance with IRS rulings, Penn State's Flexible Benefits Plan is amended to extend the period during which expenses can be incurred. Individuals who have money remaining in their health care flexible spending account and who do not have any additional expenses to apply against that balance in that calendar year, may apply expenses incurred from January 1st through March 15th of the following calendar year toward the remaining balance from the previous calendar year. Expenses are incurred at the time the actual treatment, service or purchase takes place regardless of when the expense is paid.
- The grace period for submitting claims incurred during the benefit plan year, (including the two month and 15 day extension) extends to March 31st. For example, medical expenses incurred from January 1, 2005 through March 15, 2006 must be submitted by March 31, 2006.
- An extension of the grace period may be granted, but only to allow for the resolution of outstanding health claims. The request for an extension must be in writing and received prior to March 31.
- 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 until the end of the grace period 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 REENROLLMENT PERIOD.**

Changes in Elections

For any time outside of the annual reenrollment 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*

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 Reenrollment 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 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 Flexible Spending Account during the period of coverage may only be used to reimburse expenses incurred during that period of coverage. **ANY MONEY NOT REIMBURSED BY THE END OF THE GRACE PERIOD 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 flexible benefits, please contact the Employee Benefits Division at (814) 865-1473 or E-mail BENEFITS@PSU.EDU.

Budget Worksheet

The key to effective use of a reimbursement account is careful planning. This worksheet was designed to help you in your planning and to aid you in your enrollment decisions. For each expense category listed indicated how much your out-of-pocket expenses were the last few years. Estimate what your expenses will be based in part on what items will most likely reoccur. Remember out-of-pocket expense do not include the amounts paid for by any benefit plan. Expenses incurred by your spouse and dependents are eligible even if they are not covered under your medical/dental/vision plan.

HEALTH CARE	200__	200__	200__	200__
Deductibles/Copayments	_____	_____	_____	_____
Noncovered doctor visits	_____	_____	_____	_____
Routine physicals or exams (including EKGs and other tests)	_____	_____	_____	_____
Immunizations	_____	_____	_____	_____
Hearing Aids (batteries)	_____	_____	_____	_____
Orthodontia payments (net)	_____	_____	_____	_____
Uncovered dental care	_____	_____	_____	_____
Uncovered vision care	_____	_____	_____	_____
MPDP expense	_____	_____	_____	_____
Over the counter medications	_____	_____	_____	_____
	_____	_____	_____	_____
	_____	_____	_____	_____
Total estimated health care expense	_____	_____	_____	_____

Possible contribution each payday -
Take total and divide by 12 if paid monthly or 26 if paid biweekly_____

DEPENDENT CARE	200__	200__	200__	200__
Payments to Day Care facility	_____	_____	_____	_____
Payments to Individuals	_____	_____	_____	_____
FICA payments for care givers	_____	_____	_____	_____
Total estimated Dependent Care expense	_____	_____	_____	_____

Possible contribution each payday -
Take total and divide by 12 if paid monthly or 26 if paid biweekly_____

