

Flexible Spending Accounts and Premium Conversion Plan

**for Pennsylvania
State System
of Higher Education
Employees**

Flexible Spending Accounts

and a

Premium Conversion Plan

are two benefits

designed to save you money.

GENERAL INFORMATION

Q. What are these benefits?

Flexible Spending Accounts (FSAs), governed by the IRS Code, allow employees to have income withheld from their paychecks before taxes for eventual reimbursement of certain expenses. PASSHE offers two different types of FSAs—a medical reimbursement account and a dependent care reimbursement account. Depending upon your circumstances, you may enroll in both accounts.

The premium conversion plan, also governed by the IRS Code, allows employees to contribute to the cost of their health care on a pre-tax basis.

Q. Who is eligible?

You are eligible if you are a full-time permanent employee, including temporary faculty employed for a one-academic year contract, or a part-time permanent employee, including temporary faculty employed for a one-academic year contract who works 50 percent of the time.

Q. Why is PASSHE offering these benefits?

PASSHE is concerned about keeping its benefits competitive in the workplace and valuable to employees. These benefits provide employees the opportunity to reduce taxable income and save tax dollars on out-of-pocket expenses for medical and dependent care and for premiums paid toward health care.

Q. What are the advantages of enrolling in these benefits?

By participating in one of these benefits, you reduce the amount of taxes you pay. Amounts set aside for the medical reimbursement account and the premium conversion plan are not subject to federal, state or local taxes; amounts set aside for the dependent care account are not subject to federal tax. Also, for most employees, amounts contributed through these benefits are not subject to FICA (Social Security) taxes. **This is an elimination of taxes, not simply a deferral.**

The following example demonstrates how an employee's pay is affected as a result of making contributions to a medical reimbursement account.

Example: Consider a married employee, claiming 2 exemptions who earns \$35,000 a year (\$1,342 biweekly) and who incurs \$2,000 of annual medical expenses not covered under other benefits programs (eyeglasses, dental work, and other expenses):

	Without a Medical Reimbursement Account (No Tax Advantage)	With a Medical Reimbursement Account (Tax Advantage)
Gross Biweekly Salary	\$1,342.00	\$1,342.00
Less Biweekly Contribution To Account	(0)	(\$76.92)
Taxable Income	\$1,274.90	\$1,197.98
Total Tax Withheld	240.30	\$219.74
Biweekly Tax Savings		\$20.56
Annual Tax Savings (26 pays)		\$534.56

Q. How does the FSA process work?

The steps to participate in an FSA are explained here briefly. For more information, see page 3.

- You estimate your eligible expenses and complete an enrollment form.
- You submit claims to PASSHE’s Office of the Chancellor, which processes them.
- You are reimbursed through bi-weekly payroll checks or direct deposit.
- Excess amounts not claimed at year-end are not returned. They are used to help defray administrative costs of the plan.
- After year end, you will have a grace period of an additional two-months to spend excess amounts in your accounts.

Q. Is an employee planning to leave PASSHE service within the calendar year eligible to enroll in a FSA?

Yes. However, the employee should carefully calculate the amount of money to be contributed to the reimbursement account during the final year of employment because funds in the account can be used only for expenses incurred while a PASSHE employee. Unused funds will be forfeited.

Q. How do I enroll in the FSA plan?

Open enrollment periods will be held annually. You will receive advance notification of open enrollment dates and must complete paperwork available from your benefits office. New employees may enroll within the first 31 days of employment. Enrollment in the premium conversion plan is automatic.

Q. May I revoke an election into the program once it becomes effective?

Employees will have the opportunity to change their election during the annual open enrollment period or when certain changes in status occur. These changes are specified by the IRS Code and include the following:

- Changes in family status (marriage, divorce, addition of dependent, etc.);
- Change in spouse's employment status;
- Separation from service with PASSHE.

Q. What happens to amounts remaining in my account at the end of the calendar year?

You have an additional two-month grace period (through February 28) after the end of the calendar year to use funds remaining in your account on December 31. Remaining funds in your account will be applied to claims as they are submitted for reimbursement during the grace period.

Amounts not spent are forfeited and are used by PASSHE to help defray the administrative costs of the plan.

MEDICAL REIMBURSEMENT ACCOUNT

Q. What is a medical reimbursement account and how does it work?

Employees who elect to participate in the medical reimbursement account designate a portion of their salary (pre-tax) to an account established on their behalf by PASSHE. After you or a dependent incur eligible out-of-pocket medical expenses, you submit a claim and are reimbursed through your regular bi-weekly paycheck or direct deposit.

Q. What is the definition of a dependent?

For the medical reimbursement account, dependents are not limited to those covered under the employee's medical plan. Dependents include all family members whose health care expenses would be an allowable deduction on the employee's federal income tax return.

Q. How much can be contributed to a medical reimbursement account?

The maximum annual contribution is \$3,500.

Q. What expenditures are eligible for reimbursement under a medical reimbursement account?

In general, health care expenses that may be deducted on your federal income tax return and non prescription over-the-counter medicines and drugs are eligible for reimbursement through a medical reimbursement account. Some examples of eligible services include the following:

- Major Medical deductibles and amounts in excess of plan allowances or maximums;
- Prescription drug co-payments;
- PPO and HMO doctor office visit charges;
- Dental expenses, including those for preventive, diagnostic, restorative, and orthodontic care;
- Vision expenses, including eye exams and amounts paid for frames, lenses, and contact lenses needed for medical reasons. This includes the cost of equipment and materials for using contact lenses needed for medical reasons, such as saline solution and enzyme cleaner;
- Lasik eye surgery;
- Over-the-counter medicines and drugs to alleviate or treat injuries or sickness;
- Lodging away from home primarily for and essential to medical care;
- Transportation costs paid primarily for and essential to medical care;
- Acupuncture;
- Alcoholism and drug abuse treatment;
- Childbirth classes;
- Chiropractic services;
- Hearing aids, including batteries;
- Medical services provided by physicians, surgeons, specialists, or other medical practitioners not covered, or only partly covered, by the employee's or dependent's health plans;
- Medical supplies not covered, or only partly covered, by the employee's or dependent's health plans;
- Medical care provided by a nursing home or home for the aged for you, your spouse, or dependents (this includes the cost of meals and lodging in the nursing home if the main reason for being there is to obtain medical care);
- Psychiatric care, psychoanalysis, and psychologist's fees.

Q. What types of expenses do not qualify for reimbursement?

Prohibited reimbursements include the following:

- Expenses that are not deductible under an employee's federal tax return other than over-the-counter medicines and drugs necessary to alleviate or treat injuries or sickness;
- Expenses for cosmetic surgery which is directed at improving appearance and does not meaningfully promote the proper function of the body or prevent or treat illness or disease;
- Dietary supplements such as vitamins and products used to maintain general health;
- Expenses that are eligible for reimbursement through other plans covering the employee or dependents such as a spouse's employer plan or any other individual plan;
- Insurance premiums paid for other health plan coverage (i.e., spouse's group plan, school plan, Medicare premiums, contact lens replacement, etc.);
- Insurance premiums paid for long-term care insurance.

Q. How am I reimbursed from the account?

After incurring expenses, you must complete a reimbursement form and attach a receipt from the provider confirming that the medical expense has been incurred and the amount of the expense. Receipts for over-the-counter medicines, etc. must include the date of purchase, the specific item, and the cost. Substantiation from a health care provider may be required to verify that a particular over-the-counter drug was necessary to treat a specific medical condition. Claim forms are available from your benefits office or online at www.passhe.edu/benefits. Claim forms must be submitted to the Office of the Chancellor for processing. You then are reimbursed through regular biweekly paychecks or direct deposit.

Advance reimbursement for future or projected expenses cannot be made from a medical reimbursement account.

Q. Must the entire amount for an eligible service be available in the account before I may be reimbursed?

No. You may be reimbursed for claims exceeding the amount in the account so long as the reimbursement is not in excess of contributions that will be made through the end of the year.

Example: *You elect to contribute \$3,000 to your medical reimbursement account (approximately \$115 per pay for 26 pays). In April, you submit a claim for \$2,500 for the cost of Lasik eye surgery. Even though there is only \$920 in your account, reimbursement would be made for the entire \$2,500 because it is below the total annual contributions of \$3,000.*

Q. May I claim a tax deduction for the same expenses reimbursed through a medical reimbursement account?

No. You may not claim a tax deduction for the same expenses that are reimbursed through a medical reimbursement account; however, under current IRS rules, only the part of an employee's medical and dental expenses that is more than 7.5 percent of adjusted gross income may be deducted from income taxes. Most people's out-of-pocket medical and dental expenses are not so large that they are entitled to take a tax deduction for them. For this reason, it is still advantageous for most individuals to participate in a medical reimbursement account.

Q. May contributions to a medical reimbursement account be used to pay for dependent care reimbursement account expenses, or vice versa?

No. You may use your FSA to reimburse only those expenses for which the account was initiated.

DEPENDENT CARE REIMBURSEMENT ACCOUNT

Q. What is a dependent care reimbursement account and how does it work?

A dependent care reimbursement account is an account that reimburses for certain dependent care expenses such as babysitting and child care center services that are necessary so that you and, if you are married, your spouse can work or can look for work. Employees who elect to participate in the dependent care reimbursement account designate a portion of their salary to an account established on their behalf by PASSHE. The dollars designated are exempt from federal taxes, as well as FICA (Social Security) taxes. After eligible dependent care expenses are incurred, you submit a claim and are reimbursed through regular bi-weekly paychecks or direct deposit.

Q. What is the definition of a dependent?

For the purpose of a dependent care reimbursement account, a dependent is defined as an individual under age 13 who qualifies as a dependent for income tax purposes or a spouse or other individual who is physically or mentally unable to take care of himself or herself and who qualifies as a dependent for income tax purposes, earns less than \$3,200 per year, and lives with the employee at least six months of the year. If the qualifying person is not under age 13, expenses incurred outside the home can be reimbursed only if the qualifying person regularly spends at least eight hours per day in your household.

Q. How much may I contribute to a dependent care reimbursement account?

The maximum annual contribution is \$5,000 (\$2,500 if you are married and filing a separate income tax return), but no more than the lesser of the earned income of you and your spouse.

Q. What expenditures are eligible for reimbursement under a dependent care reimbursement account?

Eligible expenses are those that enable you and your spouse if you are married to work or to look for work and include the following:

- Child care centers that care for six or more children and that meet the IRS definition of a qualified day care center;
- Caregivers for a disabled spouse or dependent who lives with you;
- Babysitters;
- Nursery schools;
- Household expenses, provided that a portion of these expenses are incurred to ensure a dependent's well-being and protection;
- Before or after school care of a child in kindergarten or a higher grade;
- Day camps as long as they are for the care of a qualifying individual;
- Agency and application fees required to obtain the services of a care provider.

The service provider must be over 18 years of age and cannot be an individual for whom a personal tax exemption may be claimed.

Q. Must the entire amount for an eligible service be available in the account before I may be reimbursed?

Yes. You may be only reimbursed for claims up to the amount accumulated in your account minus any reimbursements paid to date.

Q. If my spouse does not work, is not incapacitated, and is not a full-time student, may I participate in a dependent care reimbursement account?

No. Your spouse must either work, be a full-time student, or be physically or mentally unable to provide for his or her own care.

Q. What expenditures are prohibited for reimbursement under a dependent care reimbursement account?

Expenditures that are prohibited for reimbursement include the following:

- Babysitting for social events;
- Educational expenses (kindergarten and beyond);
- Charges for overnight camp;
- Expenses you will take as a child care tax credit on your income tax return.

Q. Is it more beneficial to participate in a dependent care reimbursement account or to take dependent care expenses as a tax credit on income taxes?

Your personal financial situation and amount of income must be considered when deciding which method of paying for childcare is best. Consultation with a tax advisor is suggested.

PREMIUM CONVERSION PLAN

Q. What is a premium conversion plan and how does it work?

A premium conversion plan allows employees to contribute to the cost of health care on a pre-tax basis.

Example: Consider a single part-time employee who earns \$25,000 and pays 50 percent of PASSHE Group Health Program premium at an annual contribution of \$1,396. The following table shows the effect on take home pay and annual tax savings:

	No premium conversion plan (no tax savings)	Premium conversion plan (tax savings)
Gross Biweekly Salary	\$958.59	\$958.59
Health Care Contribution	\$ 53.69	\$ 53.69
	(after tax)	(before tax)
Taxable Income	\$910.66	\$856.97
Total Tax Withheld	\$220.96	\$206.65
Biweekly Tax Savings		\$ 14.31
Annual Tax Savings (26 pays)		\$372.06

Q. What is the process for enrollment in the premium conversion plan?

No enrollment is necessary. All employees automatically have healthcare deductions made on a pre-tax basis.

The PA State System of Higher Education offers Flexible Spending Accounts and the Premium Conversion Plan to help ease your tax burden and to keep your benefits competitive with others in the marketplace. Think about your personal situation—are any of these benefits right for you? To enroll or ask specific questions, please contact your benefits office.

This brochure presents only a summary of the benefits offered. If there is a difference between the wording of this brochure and the legal plan document, the plan document will govern.

The Pennsylvania State System of Higher Education is committed to having a diverse workforce and is an equal opportunity/affirmative action employer. Inquiries about this policy should be directed to the Director of Diversity and Equal Opportunity, Office of the Chancellor.

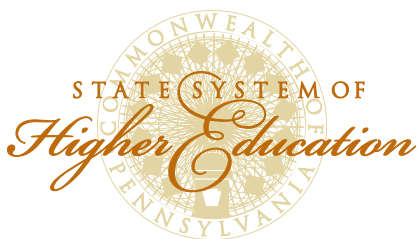


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