2019 Flexible Spending Account Handbook

Following are commonly asked questions and answers describing the basic features of the Flexible Spending Accounts and how they operate. Please review these questions and answers carefully. This is your benefit and it is important that you understand how it works and how it can help you. However, you should note that the questions and answers address only key parts of the Flexible Spending Accounts. If you have additional questions, you can contact the Benefits & Wellness Department or Discovery Benefits. Also, you may refer to the IRS Publications posted at https://www.irs.gov/pub/irs-pdf/p502.pdf for Medical and Dental Expenses and at http://www.irs.gov/pub/irs-pdf/p503.pdf for Child and Dependent Care Expenses.

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GENERAL INFORMATION ON FLEXIBLE SPENDING ACCOUNTS

1. **What are Flexible Spending Accounts?**

   Flexible Spending Accounts (FSAs) are employer sponsored plans authorized by the federal government that allows you to set aside money from your paycheck on a "pre-tax" basis to pay for health care and dependent care expenses for you, your spouse, and/or children and any other IRS eligible dependent.

2. **What is the timeline for electing Flexible Spending Account benefits?**

   You must complete and return the enrollment form or sign up electronically during the annual open enrollment period which ends on **November 2, 2018,** if you plan to participate. <u>You must make a new election for the Flexible Spending accounts and re-enroll each year</u>. Your enrollment does not carry over to the following year.

   If you are a newly hired employee who is eligible for flexible spending account your enrollment becomes effective on the first day of the month coincident with or next following the date of hire. New hires are required to enroll by completing the FSA application and returning it to the Total Compensation and Wellness Department within 30 days of your date of hire. Expenses incurred before enrollment are not covered and the enrollment cannot be retro-actively dated.

3. **What is the effective date of the Flexible Spending Accounts?**

   The effective date of the Flexible Spending Accounts is January 1, 2019. The first payroll deduction will begin with the pay of January 9, 2019. There will be 26 equal deductions made for 12-month employees and 20 equal deductions made for 9-month employees whose accounts begin at the start of the year. New hires that enroll beyond the open enrollment period will receive fewer deductions. The deductions will continue through the last pay of 2019.

4. **Who may participate in the Flexible Spending Accounts?**

   In general, you are eligible to sign up for our FSA's if your appointment is at least 50% time or greater and you are represented by one of the following employment groups: the American Association of University Professors – American Federation of Teachers (AAUP-AFT), UAW Local 1979 (P&A), Staff Association Local 2071, International Union of Operating Engineers Local 324, Supervising Engineers, Public Safety Officers, Michigan AFSCME Local 1497, Hotel Employees and Restaurant Employees Local 24, Custodial Supervisors Local 517-M, and Non-Represented Employees.

5. **What else should I know about the Flexible Spending Account benefit?**

   The IRS imposes certain restrictions on both Health Care and Dependent Care Reimbursement Accounts, including:

   - Authorized salary reductions into your Flexible Spending Account may not be changed during the calendar year unless you experience an eligible change in status as defined by Section 125 of the Internal Revenue Code (IRC) and permitted by the Plan.
   - Under IRS rules, you will forfeit all unused funds in your Health Care or Dependent Care Reimbursement Account at the end of the filing period. This is known as the "Use It or Lose It" rule. Health Care and Dependent Care expenses can be incurred as late as 2 ½ months beyond the plan year (March 15, 2020). Any expenses beyond that point are not reimbursable. Health Care and Dependent Care Accounts cannot be converted to cash. For this reason, you should estimate your anticipated expenses conservatively.
   - Our FSA administrator must receive claims for the 2019 benefit year no later than April 30, 2020.
   - Claims for expenses incurred by an Other Eligible Person are not reimbursable through a Flexible Spending Account, unless the OEP is claimed as your tax dependent.
   - Claims for health care and/or dependent care reimbursement take approximately five business days to process.

6. **Claim processing**

To initiate the reimbursement process complete a claim form with each submission, attach your qualified receipts, and submit them to Discovery Benefits. When submitting for uninsured or non-payable health care expenses, it is important that you provide Discovery Benefits with the explanation of benefits from the insurance carrier and itemized receipts. You may submit claims anytime during the year. For those who elect to participate in a Health Care Reimbursement Account, expenses can be reimbursed with a debit card. You may use the debit card to quickly and conveniently draw funds from your FSA to pay for eligible expenses. The IRS requires that all FSA claims be substantiated. Certain debit card purchases can be substantiated electronically. These types of debit card purchases include: flat dollar co-pays, paid at an eligible health care provider, such as: pharmacy prescription co-pays, doctor office visit co-pays, vision copays, and eligible over-the-counter health care items. You can ask your pharmacist for an itemized list of purchases for a specific period.

7. **Are my Flexible Spending Account benefits taxable?**

Under current law, contributions and reimbursement from a Flexible Spending Account are exempt from Federal, Social Security (FICA) withholding taxes, state, and city income tax withholding.

8. **How do Flexible Spending Accounts save me money?**

How Reimbursement Accounts Save Money	**WITHOUT FSA**	**WITH FSA**
Employee's annual taxable income	$40,000	$40,000
Pre-tax money deposited into Reimbursement Accounts	$0	($2,000)
Employee's remaining taxable income	$40,000	$38,000
Less Annual Taxes*	($13,060)	($12,407)
Employee's take home pay	$26,940	$25,593
Take home pay spent on eligible expenses	($2,000)	$0
Employee's disposable income	$24,940	$25,593
Annual Tax Savings		**$653**

* This example is intended to demonstrate a typical tax savings based on 25% federal and 7.65% FICA taxes. Actual savings will vary based on your tax situation.

Remember that your actual savings will depend on the number of dependents you have, your gross income and the amount of your contribution to the Flexible Spending Account. The above illustrations may not be indicative of your situation. You may want to review your participation with your financial planner or tax advisor.

9. Are there any reasons why I shouldn't participate?

As discussed, any salary you elect to put into a Flexible Spending Account is free from income and FICA taxes. This is a valuable benefit. However, because amounts deferred into Flexible Spending Accounts are not counted as wages when determining your Social Security benefit, it is possible that there may be a reduction in the Social Security benefit you receive due to your retirement or disability. You should consult a financial planner or tax advisor to determine the effects of electing to participate in a Flexible Spending Account.

10. Will I have to pay any administrative costs?

No, the University pays the administrative costs.

11. Can I change my election during the Plan Year?

Generally, you may not change or vary your elections during the plan year. The plan year is January 1 through December 31 of each year. There are exceptions to this general rule: You may change or revoke your election at any time during the Plan Year, within 30 days of a family status event such as divorce, marriage or birth, etc. as defined by Section 125 of the IRC and permitted by the Plan.

12. When will my participation in the Flexible Spending Accounts cease?

You cease to be a Participant in the Plan as the result of any of the following:

- The Plan terminates
- The Plan year terminates
- You cease to meet eligibility requirements
- The Administrator determined that you fraudulently used this Plan to pay for expenses that are not Health Care or Dependent Care Expenses.
- You terminate from Participation consistent with a Qualifying Event
- You terminate employment

If your coverage ends prior to the end of the plan Year, you will have 4 months after the date coverage ends to submit claims for reimbursement from the Plan. Claims must be received on this date to be eligible for reimbursement from the Plan. However, with the Health Care Reimbursement Account benefit, you may be eligible for continuation coverage under COBRA (see below).

13. What is continuation coverage?

If you participate in the Health Care Reimbursement Account benefit, COBRA federal law gives you the right to continue coverage in certain situations. If your participation ends due to a COBRA qualifying event and the amount of benefits remaining exceed the amount of COBRA coverage (in other words, you have a positive account balance at the time of the qualifying event taking into account all claims submitted before the date of the qualifying event), you will generally be eligible to continue to participate for the remaining portion of the plan year during which your participation terminated.

Dependent Care FSA's are not subject to COBRA.

HEALTH CARE REIMBURSEMENT ACCOUNT

1. **What benefit is there in having a Health Care Reimbursement Account?**
   The Health Care Reimbursement Account benefit permits eligible employees to contribute pre-tax income to a Health Care Reimbursement Account. The Health Care Reimbursement Account will reimburse you on a pre-tax basis for your unreimbursed health related expenses. You may incur medical, dental or vision expenses that will not be covered by your health care insurance that you will have to pay for in the coming year. For example, you or your family may have health care expenses that are subject to deductibles and co-pays under the medical, dental, or vision insurance plans offered through Wayne State University. Or, you may incur expenses that are not reimbursed at all, such as composite fillings, or acupuncture. Normally, you would pay for these expenses with after-tax dollars. The flexible spending account will offset your expenses by reimbursing you with tax-free money.

2. **How does the Health Care Reimbursement Account benefit work?**
   Generally, the expenses covered must be "medically necessary" as determined by a physician. Reimbursement must be for expenses incurred during the applicable coverage period unless you choose to prepay orthodontia expenses in a lump sum. Claims must be properly substantiated prior to reimbursement. Expenses deductible under IRS Code Section 213(d) generally may be reimbursed from a Health Care Reimbursement Account. For more detailed information on reimbursable expenses, you may download a copy of the IRS Publication 502 from https://www.irs.gov/pub/irs-pdf/p502.pdf.
   Some expenses which cannot be reimbursed include premiums paid for coverage for you or your spouse's medical and/or dental plan; nursing care for a healthy infant; elective cosmetic surgery; recreation and health club fees; dancing or swimming lessons; expenses not incurred during the plan year; marriage counseling; swimming pools; hot tubs; exercise equipment; or vacations. The following URL provides a list of eligible expenses: https://www.discoverybenefits.com/employees/eligible-expenses.

3. **How much may I contribute to my Health Care Reimbursement Account?**
   Once you have determined your annual expected unreimbursed medical expenses for the plan year, you may elect to defer a portion of your salary into a Health Care Reimbursement Account maintained on your behalf. You should take into account all health insurance deductibles and co-payments, as well as uninsured medical, dental, and vision care expenses not covered under a health plan.
   The maximum amount you may elect to defer to a Health Care Reimbursement Account is $2,650. The minimum amount is $130.

4. **I am worried about losing the unused funds in my Health Care account. How can I estimate my expenses?**
   Review your prior years' medical, dental and vision expenses as a starting point. Then look at anticipated expenses for the coming year such as orthodontics, dental procedures, glasses etc. For participants who didn't track expenses for the last several years, here are some guidelines:

   - **Know what expenses qualify and identify which of those expenses you typically incur** - Braces, root canals, and eye glasses. The following URL provides a list of eligible expenses: https://www.discoverybenefits.com/employees/eligible-expenses
   - **Determine what you spent last year** - Look at your last medical and dental EOB's - many will show the total you have spent on medical visits/services throughout the year. This won't include all your medical expenses, but it's a start.
   - **Calculate routine expenses that aren't covered by your plan** – Include items such as dental co-pays, prescription co-pays, office co-pays and deductibles.
   - **Plan for non-routine expenses such as surgeries, babies, major dental work** - It's definitely worth calling your doctor's or dentist's office for a cost estimate. Ask to speak with the person who does the billing. Add these figures up, to get an idea of how much you will probably spend in the next year. This is important because any money you do not get reimbursed for is forfeited. For example, if you elect to defer $750 in the health care account, but only have $500 in expenses throughout the year, you forfeit $250.

DEPENDENT CARE REIMBURSEMENT ACCOUNT

1. What are the benefits of a Dependent Care Reimbursement Account?

The Dependent Care Reimbursement Account benefit permits eligible employees to contribute pre-tax income to a Dependent Care Reimbursement Account. If you have dependents, you may have expenses for dependent care. For example, you may have dependent care expenses for private baby-sitters, private preschool program, latch key services, or licensed daycare (elder care or child care). Normally you would pay for these expenses with after-tax income. The Dependent Care Reimbursement Account will reimburse you on a pre-tax basis for your eligible dependent care expenses incurred to allow you and your spouse to work or go to school.

2. How does the Dependent Care Reimbursement Account benefit work?

In order to get reimbursed for Dependent Care expenses the expenditures must be incurred and paid (not billed, or prepaid) during the applicable coverage period. Only dependent care expenses may be reimbursed from a Dependent Care FSA. Claims must be properly substantiated prior to reimbursement. The definition of a dependent for a Dependent Care FSA is any person who either:

- may be claimed as a dependent on your tax return and who is under age 13,
- may be claimed as a dependent on your tax return and who requires full-time care because of physical or mental incapacity, or
- is your spouse, who is physically or mentally incapable of caring for himself or herself.

Proof of the dependent's age and tax status must be available for verification purposes if required. Proof of the dependent care provider's tax identification number or social security number is also required before a claim will be processed.

3. How much may I contribute to my Dependent Care Reimbursement Account?

The maximum amount you may elect to defer to a Dependent Care Reimbursement Account is $5,000. The minimum amount is $208. If your spouse participates in a Dependent Care Reimbursement Account through another employer and you file a joint return, the combined contribution amount cannot exceed $5,000. You are responsible for coordinating your contributions to a Dependent Care Reimbursement Account with your spouse to avoid exceeding the $5,000 limit.

The Dependent Care Reimbursement Account maximum is dependent on your tax filing status:

If you are married and file a joint return, the maximum is the lesser of
- $5,000 annually,
- the earned income of your spouse or,
- your earned income.

If you are married and file a separate tax return, the maximum is the lesser of
- $2,500 or,
- your earned income.

If you are single and file head of household, the maximum is the lesser of
- $5,000 annually or,
- your earned income.

4. If I participate in the Dependent Care Reimbursement Account, will I still be able to claim the Dependent Care Tax Credit on my Federal Tax Return?

IRS Publication 503, Child and Dependent Care Expenses should be consulted for detailed explanations of the after-tax credit and allowable expenses under Dependent Care Reimbursement Accounts. The publication can be obtained by visiting the IRS website at http://www.irs.gov/pub/irs-pdf/p503.pdf. For more information consult your tax advisor.

FILING CLAIMS

Health Care Expenses

The claims administrator for the 2019 Health Care Reimbursement Account is Discovery Benefits. They will provide reimbursement for health care expenses only after the employee has submitted evidence that an expense has been incurred and was not covered by that employee's insurance. Reimbursement will only be made to the employee, or in the event of the employee's death, to the estate of the employee.

To receive reimbursement, you must submit a completed claim form, the itemized bill for the expense, or the explanation of benefits indicating the insurance company's disposition, and proof of payment, of the claim and such other information as Discovery Benefits requires. When Discovery Benefits approves the claim, you will be reimbursed up to the full amount of the eligible expense not to exceed your elected Health Care Reimbursement Account annual amount less any amount already reimbursed during the plan year. According to IRS rules, the full reimbursement amount agreed to at the beginning of the year must be available for reimbursement at the beginning of the plan year.

This means that even though your contributions at the time the claim is submitted may be less than the amount of the claim, you will receive reimbursement for the full amount of the claim as long as that amount does not exceed the annual amount you agreed to. For example, the annual amount you agreed to contribute is $390 or $15 per pay period. On February 1, you submit a claim for $200 for reimbursement. As of February 1, you have contributed $30 to the Health Care Reimbursement Account. Since the full amount must be available at the beginning of the year, you will receive reimbursement of $200 even though you have only contributed $30. On March 1, you submit another claim for $200. You will receive reimbursement of $190 since you have already received reimbursement of $200 previously and the amount you agreed to annually is $390. The $15 deductions will continue to be taken from your paycheck for the remainder of the calendar year. You will not receive any further reimbursements.

You are permitted to submit claims through April 30, 2020, if you participate in a Health Care flexible spending plan through the plan year, (December 31, 2019). An individual whose coverage ends prior to the end of the Plan Year will have 4 months after the date coverage ends to submit claims for FSA reimbursement. Claims must be received on this date to be eligible for reimbursement from the Plan. However, with the Health Care Spending Account benefit, you may be eligible for continuation coverage under COBRA.

Electronic Payment (Debit) Card

The use of the debit card will not require substantiation, for certain type of expenses. Substantiating an expense normally requires you to submit itemized receipts, and Explanation of Benefit statements to our Benefit Administrator. Your expenses will be auto-substantiated as long as each swipe of the debit card meets the parameters of your plan (i.e., office visit or emergency room co-pay), orthodontia monthly recurring payments or medicines prescribed by a physician from an IIAS-certified merchant. **All other claims must be substantiated by submitting documentation of the expense to the claims administrator**. Failure to provide substantiation of the expense will result in the card being turned off. In addition, you must pay back any improperly paid claims. If you are unable to provide adequate or timely substantiation as requested by the claim administrator, you must repay the Plan for the unsubstantiated expense.

Dependent Care Expenses

The claims administrator in 2019 for the Dependent Care Reimbursement Account is Discovery Benefits. Reimbursement of a dependent care expense will be made by Discovery Benefits only after the employee has submitted evidence the expense was incurred and will only be made to the employee, or in the event of the employee's death, to the estate of the employee.

To receive reimbursement, you must submit a completed claim form, the itemized bill for the dependent care, and such other information as Discovery Benefits requires including the dependent care provider's tax identification number or social security number. When the claim is approved, you will be reimbursed up to the full amount of your eligible expense not to exceed the amount accumulated in your Dependent Care Reimbursement Account. Claims take approximately three weeks to process.

You are permitted to submit claims through April 30, 2020, if you participate in a dependent care flexible spending plan through the plan year, (December 31, 2019). An individual whose coverage ends prior to the end of the Plan Year will have 4 months after the date coverage ends to submit claims for FSA reimbursement. Claims must be received on this date to be eligible for reimbursement from the Plan.

Claim submissions should be sent to:

Discovery Benefits
P.O. Box 2926
Fargo, ND 58108

Claim inquiries should be directed to:

1(866) 451-3399

Please note that every effort has been made to ensure the accuracy of the benefits information in this handbook. If there is any discrepancy between the benefits in this handbook and the official plan documents, the official plan documents will rule. However, if any provision on the benefits plans is unclear or ambiguous, the Total Compensation and Wellness office reserves the right to interpret the plan and resolve the problem. The University in its sole discretion may modify, amend, or terminate the benefits provided with respect to any individual receiving benefits