

SUBJECT: All CPF E-mail - DoD to Pay Flexible Spending Account (FSA) Fees
Sent: Monday, 28 July 2003

The purpose of this E-mail is to advise you the Department of Defense (DoD) has made the decision to pay the Flexible Spending Account (FSA) administrative fees associated with enrollment in the FSA program. The negotiated administrative fees are \$4 per month per participant for a health care FSA (HCFSA) and 1.5% of the annual allotment per participant for a dependent care FSA (DCFSA).

As a reminder -- With FSAs, employees can use pre-tax allotments to pay for certain health care expenses that are not reimbursed by any other source and not claimed on their income tax return. There are two types of FSAs. The first is the Health Care FSA (HCFSA), for employee expenses, and the second is the Dependent Care FSA (DCFSA), for eligible dependent care expenses. The attached document explains basic information about the FSA program and is provided for information purposes.

Employees who missed the initial open season enrollment deadline for plan year 1 Sep - 31 Dec 03 can contact an FSA customer service representative at 1-877-372-3337 (or TTY 1-800-952-0450) to discuss the possibility of a belated enrollment. According to OPM, SHPS may accept belated enrollments. The on-line enrollment option is not available. The next open enrollment period for plan year 1 Jan - 31 Dec 04 is scheduled for 10 Nov - 8 Dec 03.

If you have electronic capability, please forward this E-mail to all directorates/organizations at your base and ask that they forward it to all levels within their organization. We appreciate your continued support.

Chief, Special Operations Division
AFPC/DPCM

Attachment:
FSA Information

Flexible Spending Accounts (FSAs)

Prepared 28 Jul 03

More good news! The Department of Defense (DoD) has decided to pay the FSA administrative fees associated with enrollment in the FSA program. Air Force-serviced employees who enrolled during the recent initial open season will see deductions begin for the pay period 7 - 20 Sep 03, with its corresponding pay date of 26 Sep 03. For these individuals, the FSA Plan Year is 1 Sep - 31 Dec 03. Employees who missed the initial open enrollment deadline may contact an FSA counselor at 1-877-372-3337 (TTY: 1-800-952-0450) to discuss the possibility of a belated enrollment.

What is a Flexible Spending Account (FSA)?

It is a benefit that allows employees to set aside money, on a pre-tax basis, for certain kinds of common expenses. With an FSA, employees can reduce taxes while paying for services they normally have to pay for anyway. And of course a side effect of reduced taxes is an increase in take-home pay.

Who is responsible for administering the FSA program?

SHPS, Inc., one of the nation's largest FSA administrators, has full responsibility for the day-to-day administration of the FSA program which includes enrollment, answering questions during and after open seasons, and providing an education campaign before the first regular open season in Nov/Dec 03. As a result, this web page provides only the basics of the FSA program. To obtain in-depth information, please visit the SHPS Web site at www.fsafeds.com, or speak with an SHPS customer service representative by calling toll-free 1-877-372-3337, or TTY 1-800-952-0450. SHPS customer service representatives are available Monday through Friday, 9 a.m. to 9 pm. Eastern Time.

Two Types of FSA Accounts

- **Health Care Flexible Spending Account (HCFSA)** - for health care expenses not paid by the Federal Employees Health Benefits (FEHB) program or any other insurance, and not claimed on the employee's federal income tax return. Benefits may be paid for eligible expenses for the employee, spouse, and anyone claimed as a dependent on the employee's income tax return. Examples of eligible expenses include, but are not limited to, co-payments, deductibles, co-insurance, dental care, orthodontic treatment, guide dogs, hearing aids, weight-loss programs at physician's direction, and laser eye correction.
- **Dependent Care Flexible Spending Account (DCFSA)** - for dependent care expenses that allow the employee (and spouse, if married) to work or look for work, or that allow the spouse to attend school full-time. Expenses can be paid for children under age 13 and for adults who qualify as dependents under IRS regulations.

How FSAs Work

Eligible employees may voluntarily elect to participate in the HCFSA, the DCFSA, or both, during an open enrollment period. During the enrollment process, employees will elect the amount they wish to contribute, up to a maximum, to their FSA(s). Each pay period, the employee's payroll system will process as an allotment a portion of the total amount of the contribution. For instance, if an employee elects to contribute \$1,040 to a HCFSA and \$520 to a DCFSA and is paid biweekly, the payroll system will allot \$40 and \$20, respectively, each pay period.

Minimum and Maximum Amounts

For the HCFSA, employees may elect a maximum of \$3,000 per plan year. For the DCFSA, an annual maximum of \$5,000 may be elected (\$2,500 if married and filing a separate income tax return). For both benefits, the minimum contribution election is \$250. These limits were not prorated for the Initial Plan Year (1 Sep - 31 Dec 03).

Open Seasons

The open season for the Initial FSA Plan year began 19 May 03 and ended 27 Jun 03. If you enrolled during this time, deductions will begin for the pay period 7 - 20 Sep 03, with its corresponding pay date of 26 Sep 03. The initial Plan Year is 1 Sep - 31 Dec 03, and only expenses incurred during this time are reimbursable.

Annual FSA Open Seasons occur each year at the same time as the FEHB open season. You must re-enroll each year if you wish to participate.

Open Season Dates	Plan Year
10 Nov - 8 Dec 03	1 Jan - 31 Dec 04
8 Nov - 13 Dec 04	1 Jan - 31 Dec 05

Eligibility

Employees eligible for Federal Employee Health Benefits (FEHB), even if not currently enrolled, are eligible to elect a Health Care FSA. All employees with qualified dependents may elect to enroll in the Dependent Care FSA except temporary employees with no fixed work schedule whose tour of duty is six months or less. At the present time, retirees are not eligible for coverage in either FSA.

Enrollment

Employees will enroll by the following method. Your local Civilian Personnel Flight (CPF) and the Benefits and Entitlements Service Team (BEST) are NOT authorized to accept enrollments.

- **By Phone:** Call an SHPS customer service representative toll-free at 1-877-372-3337, or TTY 1-800-952-0450. SHPS customer service representatives are available from 9 a.m. to 9 p.m., Monday through Friday, Eastern Time.
- **Web:** At this time, on-line enrollment via the FSAFEDS Web site is not available. If it becomes available for the annual open season beginning in Nov 03, we'll post the information here.

Employees will need to know the payroll office identifier for his/her payroll provider when conducting the enrollment. For DoD and Air Force employees, the payroll office identification number is located on the Leave and Earnings Statement in the Remarks section.

Positive Election Required

Unlike Premium Conversion, participation in an FSA is not automatic; employees must make a voluntary election on an annual basis. Employees who do not make an election during the annual open season will not have an FSA in the new plan year.

Qualified Status Changes/Qualifying Life Events

Qualified Status Changes (QSC) is an Internal Revenue Service term used to determine if someone who participates in an FSA can change their election outside of open season. These QSCs are very similar - and usually identical - to the qualifying life events (QLEs) that apply for premium conversion, and include such events as marriage, divorce, legal separation, annulment, birth or adoption of a child, youngest

dependent child aging up, or change in employment status that affect eligibility for benefits. All changes to FSA elections must be on account of and consistent with the status change/life event. All QSC determinations will be made by SHPS.

Newly Hired or Newly Eligible Employees

Newly hired and newly eligible employees may enroll within 60 days of date of hire or date of becoming eligible.

Program Costs

The Department of Defense (DoD), which includes Air Force, has decided to pay the administrative fees associated with enrollment in the FSA program. For the HCFSA, the fee is \$4 for each month an employee participates. For the DCFSA, the fee is 1.5% of the annual allotment per participant.

Money not used in an employee's FSA at the end of the plan year will be forfeited. There is, however, proposed legislation in Congress that would permit an annual rollover of \$500 for each established account.

May I enroll in and receive the full amount allowed under the Dependent Care FSA if I and/or my spouse receive other child care subsidies?

Yes, you may enroll; however, under Section 129 of the Internal Revenue Code the maximum amount an employee may exclude from gross income is \$5,000 of benefits received under a dependent care assistance program(s) each year. This includes both child care subsidy programs and the dependent care FSA. The limit is reduced to \$2,500 for married employees filing separate income tax returns. The exclusion cannot be more than the earned income of either the employee or the employee's spouse.

If an agency has a tracking mechanism that allows them to monitor the total amount received through a DCFSA and a child care subsidy, that agency is responsible for deducting appropriate employee taxes and remitting both the employee taxes and employer share of FICA once the \$5,000 (or \$2,500) is reached.

If the agency does not have a tracking mechanism or for some reason does not realize the employee has exceeded the \$5,000 limit on dependent care and therefore did not remit employee taxes, the employee will reconcile that with the IRS at the time they complete and submit their taxes for the prior tax year.

More information about Dependent Care FSA and child care subsidies can be found on the FSAFEDS Web site by clicking on "Frequently Asked Questions (FAQs)" and then on "IRS Issues." Also, in the Office of Personnel Management's Benefits Administration Letter (BAL) 03-803, dated 3 Jun 03, located on the Web at www.opm.gov/asd/htm/2003/03-803.asp.