UNITED STATES DEPARTMENT OF AGRICULTURE
Farm Service Agency
Washington, DC 20250

Notice PM-2396

For: FFAS Employees

Flexible Spending Account Program (FSAP) Open Season for 2004 Plan Year

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Approved by: Deputy Administrator, Management

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1 Overview

A Background

In July 2003, the Office of Personnel Management (OPM) implemented FSAP. Flexible spending accounts enabled employees to pay for certain health care and dependent care expenses with pre-tax dollars. The initial open season was held in June and the initial plan year is July 1 through December 31, 2003. Eligible employees choose to make a voluntary allotment from their salary to FSAP. FSAP is administered similarly to the Federal Long Term Care Insurance Program. Employees will communicate and enroll directly with SHPS, Inc., the FSAP administrator.

B Purpose

This notice:

- announces the 2003 FSAP Open Season

  Note: FSAP Open Season deadline has been extended to December 15, 2003.

- describes the 2 accounts and eligible expenses
- describes eligible employees
- provides contacts for enrollment
- **obsoletes Notice PM-2394.**

Disposal Date	Distribution
January 1, 2004	All FAS, FSA, and RMA employees; State Offices relay to County Offices

1 Overview (Continued)

C New for 2004

The following are new for 2004.

- OPM has announced that employees enrolled in a Health Care Flexible Spending Account (HCFSA) can use their accounts to pay for non-prescription drugs beginning January 1, 2004.
- HCFSA contribution amount increased to $4,000.
- Automatic reimbursement of claims for participating FEHB carriers.

D FSAP Contacts

Employees should consult this table for information on FSAP.

Subject	Contact
• Information on the 2 FSAP accounts • Enrollment procedures • Claim reimbursements • Account balances	1-877-372-3337 **www.fsafeds.com**.
Questions about this notice	• Susan Brown at 202-418-9039 • Maria Ruiz at 202-418-9034 • Darla Hensley 202-418-9021 • TDD 202-418-9116.

E Federal Employees Health Benefits Eligibility

Employees shall contact the following, according to this table, if questions about FEHB eligibility.

IF employee is located in…	THEN contact…
• KCAO • KCCO • KCFO • KC-AORC-ITPDCO • KC-ITSD-ADC • KC-TSC • KC-URITAMC • Research and Development Division, RMA • APFO	KCAO, HRD, Processing Section at: • 816-926-6225 • TDD 816-926-7440.
FAS, RMA, and FSA National Office employees	HRD, PMBAB: • Susan Brown at 202-418-9039 • Darla Hensley at 202-418-9021 • Maria Ruiz at 202-418-9034 • TDD 202-418-9116.
State and County Office	State Office, Administrative Division.

2 FSAP Accounts

A Two Flexible Spending Accounts

There are 2 FSAP accounts, HCFSA and the Dependent Care Flexible Spending Account (DCFSA). Both accounts allow employees to pay either medical or dependent care expenses using pre-tax dollars.

FSAP contributions do not count toward the IRS yearly maximum non-taxable contribution limit.

B Open Season

The FSAP Open Season is November 10 through **December 15, 2003**.

Note: The FSAP Open Season was extended from December 8^{th} to December 15^{th}

During open season eligible employees may:

- enroll in 1 or both accounts
- elect or change the annual amount of FSAP accounts.

All FSAP benefit elections, made during the FSAP Open Season, including those made on December 15^{th}, will be effective pay period 25.

Note: Account balances will not be available for reimbursements until January 8, 2004, the official pay date of pay period 25.

2 FSAP Accounts (Continued)

C Belated Enrollments

If an employee is unable to enroll during the open season for reasons beyond his or her control, he or she may enroll within 30 calendar days using the Absentee Enrollment Form found at **www.fsafeds.com**.

D Leave-Without-Pay (LWOP)

Employees on LWOP have 2 options:

- prepay allotments (accelerate deductions so that pay period deductions are larger)

- freeze flexible spending account (no reimbursements until the end of plan year or return to pay status).

E Plan Year

The plan year is the year in which eligible expenses must be incurred and reimbursed. The 2004 plan year will run January 1 through December 31, 2004.

Note: Expenses are incurred on date of service, not when expense is paid.

F Subsequent Opportunities to Enroll

After the FSAP Open Season, employees may enroll 31 calendar days before or within 60 calendar days after a qualified status change/qualified life event. These include:

- change in marital status to include legal separation
- change in number of dependents (that is, birth or adoption of a child)
- change in employment or residence status that affects eligibility for FEHB coverage
- change in dependent's eligibility (that is, child at 13 not eligible for DCFSA coverage).

Note: LWOP is a qualified life event **only** if because of military deployment.

Annuitants are **not** eligible to participate in this program. Re-employed annuitants are eligible to participate in this program.

New or newly eligible employees may elect to enroll within 60 calendar days of their appointment. If appointment is on or after October 1, new employee must wait until open season to enroll in FSAP.

G Program/Account Costs

Administrative costs for the program are paid by the employee's agency.

3 HCFSA

A HCFSA Expense Limits

HCFSA allows employees to use pre-tax dollars to pay for certain health care expenses. It is intended to reimburse employees for medical expenses that are otherwise non-reimbursable. HCFSA is not a group health plan.

The maximum amount an employee may set aside in HCFSA in any tax year is **$4,000**; the minimum amount is $250.

B Employee Eligibility for HCFSA

All Federal and county employees eligible for FEHB coverage are eligible to enroll in HCFSA. Employees do **not** need to be enrolled in FEHB to be eligible.

C HCFSA Eligible Expenses

Eligible expenses for reimbursement under HCFSA must be incurred during the plan year, January 1 through December 31, 2004.

Eligible HCFSA medical expenses include items:

- related to the diagnosis, treatment, cure of a medical condition, mitigation, or prevention of disease that affects any part or function of the body
- primarily to alleviate or prevent a physical or mental defect or illness
- **not** reimbursed by FEHB or any other source, including co-pays for doctor visits, prescriptions, and over-the-counter drugs
- incurred by the employee or dependent claimed on the employee's Federal income tax.

Note: Insurance premiums of any non-FEHB coverage, Medicare Part B, Tricare, etc., do not qualify for reimbursement. FEHB premiums are already deducted pre-tax through premium conversion.

4 DCFSA

A DCFSA Expense Limits

DCFSA allows eligible employees to use pre-tax allotments to pay for eligible dependent care expenses.

The maximum amount an employee may set aside in DCFSA in any tax year is $5,000 per household; the minimum amount is $250.

Note: Total benefits received from the FAS/FSA National Office Child Care Tuition Assistance Program (CCTAP) and DCFSA **cannot** exceed $5,000 per plan year.

B Employee Eligibility for DCFSA

All Federal and County employees with qualifying dependents may elect to enroll in DCFSA **except** temporary employees whose appointment not-to-exceed date is 6 months or less **and** have an intermittent tour of duty.

Notes: Employees need **not** be eligible for FEHB to participate in DCFSA.

Intermittent employees expected to work fewer than 180 days are **ineligible** to participate in DCFSA.

C DCFSA Eligible Dependents and Dependent Expenses

DCFSA eligible dependents include:

- children under age 13
- a person of any age claimed as a dependent on your Federal income tax return and who is mentally or physically incapable of caring for themselves.

DCFSA eligible expenses:

- include expenses for a DCFSA eligible dependent that allow the employee, and if married his or her spouse, to work
- **must** be incurred during the plan year, January 1 through December 31, 2004, to be reimbursed.

5 Enrollment Procedures

A FSAP Administrator

Employees will enroll directly with the FSAP administrator, SHPS, Inc., to participate in 1 or both accounts. Employees will voluntarily enroll in HCFSA and/or DCFSA directly with SHPS, Inc., online at **www.fsafeds.com** or by calling toll-free 1-877-FSAFEDS (372-3337).

The enrollment will **not** be processed or approved by SPO.

B Required Elections

Unlike Premium Conversion, participation in FSAP is not automatic. Employees must make a voluntary election on an annual basis. If an employee does not make an election during the open enrollment, they will **not** have FSAP in the new plan year.

Employees will need to make 2 decisions:

- one to determine whether they want to have coverage in 1 or both of the FSAP accounts
- the second to determine the annual amount of their FSAP.

The benefit elections **are irrevocable once the plan year has begun.** FSAP may only be terminated if the employee experiences a change in status as listed in subparagraph 2 D.

C Termination of FSAP Enrollment

FSAP enrollment is terminated when the:

- plan terminates
- employee ceases to be eligible
- date the employee's election or deemed election to receive benefits under the plan terminates
- employee has a qualifying "change in status", see subparagraph 2 D
- employee separates or retires.

Note: Termination in FSAP does **not** terminate an employee's enrollment in FEHB.

5 Enrollment Procedures (Continued)

D SPO Role

SPO’s are a resource in directing employees on where to go to get information and answer questions on FSAP. SPO’s shall refer employees with questions to SHPS, Inc., dedicated toll-free number 1-877-FSAFEDS (372-3337), and/or the web site **www.fsafeds.com**. For specific questions not yet addressed on the web site, SHPS, Inc., may be contacted at **fsafeds@shps.net**.

SPO’s are **not** expected to become FSAP experts or to converse knowledgeably with employees about the rules and requirements of FSAP.

Note: A tri-fold brochure on FSAP is available at **www.fsafeds.com**. SPO’s may wish to reproduce this for employees. Employees may also download the brochure.

SPO's should refer to NFC Bulletin, Title 1, 03-4, Flexible Spending Accounts Program for information about FSAP and NFC.

Employees who choose to enroll in 1 or both accounts will see the following on their Statement of Earnings and Leave once deductions begin:

- TC 93, Suffix 10, Flexfund DCA for DCFSA
- TC 93, Suffix 11, Flexfund HCA for HCFSA.

6 FSAP Information

A Contributions

FSAP contributions must come from an employee's salary via allotments. Employees who elect to participate set-aside an annual amount of their salary to be contributed to FSAP. The total amount elected by the employee will then be prorated over the number of pay dates the employee has remaining in the plan year.

Example: If an employee elects to contribute $1,040 to their HCFSA and $520 to their DCFSA and is paid biweekly, the agency will allot $40 and $20, respectively. These allotments will be made **before** Federal, State, and Social Security taxes are calculated.

Note: Re-employed annuitants must have FSAP deductions taken from their pay as employees, not from their annuities.

B Reimbursements From HCFSA

Employees may make a claim for reimbursement for eligible expenses after January 1, 2004. Employees should visit **www.fsafeds.com** or call 1-877-FSAFEDS to make their claim.

Employees may request reimbursement for eligible expenses even if the amount in their FSAP is not yet sufficient to cover the cost of the reimbursement.

Example: John Smith elects HCFSA in the amount of $3,000 for the 2004 plan year. John has extensive dental work ($2,900) performed in early August and pays the bill. This dental procedure is an eligible HCFSA expense because John's FEHB plan does not cover this type of dental procedure. John may request reimbursement for the entire $2,900 even though his FSAP does not yet have enough money to cover the reimbursement.

HCFSA terminates if an employee separates from government service. Expenses incurred before the separation are eligible for reimbursement.

Example: John Smith elects HCFSA in the amount of $3,000 for the 2004 plan year. John retires July 31, 2004. Expenses incurred before separation are reimbursable. Expenses incurred August 1st and after are not eligible. John must have used all of the $3,000 by July 31st, his separation date, or he will loose it.

6 FSAP Information (Continued)

C Reimbursements From DCFSA

Employees may make a claim for reimbursement for 2004 eligible expenses after January 1, 2004. Employees should visit **www.fsafeds.com** or call 1-877-FSAFEDS to make their claim.

Employees may request reimbursement for eligible expenses only after DCFSA has enough money in the account to cover the requested reimbursement.

Separated employees have access to their account until the end of the plan year.

D Payment of Claims

SHPS, Inc. will pay properly submitted claims for reimbursements at intervals that it considers to be appropriate (5 to 10 workdays), or as designated by OPM regulations.

Visit the FSAFEDS website at **www.fsafeds.com** to learn more about automatic reimbursements and obtain a list of participating FEHB carriers.

E Insufficient Contributions to FSAP

If an employee receives excessive payments from their FSAP during the plan year, OPM or SHPS, Inc. will notify the employee in writing of any excess amounts. The employee shall repay that excess amount to the plan within 60 calendar days after receiving the notice.

F Use It or Lose It Rule

Because of the tax advantages of FSAP, IRS has strict guidelines for their use. One of these guidelines is commonly known as the **"use or lose"** rule. According to this rule, if an employee has not incurred enough eligible expenses during the plan year to equal the annual amount contributed to FSAP, **the employee will lose the balance remaining in the accounts when the plan year ends.**

Notes: All claims must be filed by April 30th following the plan year.

G Tracking Accounts

Account statements are mailed January and October of each plan year.

Employees may also access their account via the internet at **www.fsafeds.com** or call SHPS, Inc., toll free at 1-877-FSAFEDS.

6 FSAP Information (Continued)

H Claims Appeal Process

Employees have the right to appeal a claim for benefits that has been denied in whole or in part by written request to SHPS, Inc., for reconsideration. If after reconsideration the claim is not paid in full, the employee may appeal in writing to SHPS, Inc., for further review of the denied claim using procedures outlined by SHPS, Inc. OPM retains final authority to resolve all disputed claims through a binding arbitration process as follows:

- if the covered employee's appeal to SHPS, Inc., is denied in whole or in part, OPM and SHPS, Inc., will select an arbitrator from a panel of arbitrators pre-approved by OPM and SHPS, Inc.
- the mutually selected arbitrator will review the denied claim and make a decision whether or not the claim should be paid
- the arbitrator's decision will be binding on the employee and the employer.

7 Taxes

A Tax Effects

Employees that are unfamiliar with FSAP's benefits and risks are strongly urged to consult with their accountant, tax advisor, or tax preparer **before** electing FSAP or benefit amount.

The following are some FSAP tax implications.

IF the tax is…	THEN the effect is…
Federal income	FSAP deductions are excluded from wages before Federal income taxes are applied, thus reducing taxable annual income.
State or local	FSAP deductions are excluded from wages before most State and local income taxes are applied. Each State and local government, however, makes individual determinations as to whether to allow the pre-tax treatment for deductions under FSAP's. Current exceptions include: • New Jersey and Puerto Rico **do not** allow for the reduction of taxable income for DCFSA deductions • Pennsylvania **does not** allow for the reduction of taxable income for HCFSA or DCFSA deductions.
FICA	FSAP deductions are **excluded** from wages before FICA taxes are applied. An employee's pre-tax contribution to FSAP also reduces the employing agency's FICA contributions.

B Annual W-2 Statement

The total amount deducted for DCFSA and CCTAP will be reflected in box 10 of the W-2 statement. Any amount over the IRS limit, see subparagraph 4 A, will be included in boxes 1, 3, and 5 of the W-2 statement.

HCFSA and pre-tax FEHB deductions under Premium Conversion will be reported in box 14, "Other."