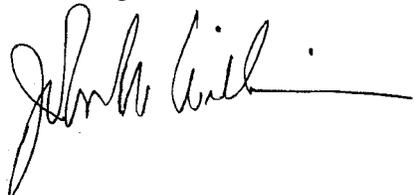


For: FFAS Employees

Flexible Spending Account Program (FSAP) Open Season for 2006 Benefit Year

Approved by: Deputy Administrator, Management



1 Overview

A Background

The FSAP open season began on Monday, November 14, 2005, and runs through Monday, December 12, 2005. These are the same dates as the Federal Employees Health Benefits (FEHB) Program open season. The FSAP open season will be the only time Federal and county employees may enroll in FSAP for 2006, outside of a qualified status change.

Unlike FEHB enrollments, enrollments in FSAP do not carry over from year to year. Employees wishing to enroll in FSAP for 2006 must make a new enrollment during open season, even if they are currently enrolled in the program.

B Purpose

This notice:

- announces the 2005 FSAP open season
- describes recent changes in FSAP
- describes the FSAP accounts and eligible expenses
- describes eligible employees
- provides contacts for enrollment
- obsoletes Notice PM-2496 because additional FSAP information has been received that:
 - clarifies the new 2½ month grace period
 - updates the recent changes to FSAP.

Disposal Date	Distribution
November 1, 2006	All FAS, FSA, and RMA employees; State Offices relay to County Offices

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1 Overview (Continued)

C Significant Changes to FSAP

Following are the 4 significant changes to FSAP.

- The HCFSA maximum contribution for the 2006 benefit year will be \$5,000, a \$1,000 increase in the pre-tax amount. This change is effective for the 2006 benefit year and does not apply to the current 2005 benefit year.
- A 2½-month grace period to incur eligible expenses is effective immediately and includes the 2005 benefit year. To avoid forfeiting unused 2005 funds, participating employees have until March 15, 2006, to incur eligible expenses against any unused 2005 funds. While this does not eliminate the “use or lose” rule completely, employees now have an advantage to avoid forfeiting unused funds. If the employee’s 2005 FSAP unused balance is not sufficient for full reimbursement of the eligible expenses incurred through March 15, 2006, he or she can use their 2006 FSAP account for reimbursement. If the employee did not re-enroll in FSAP, the employee cannot be reimbursed in full for those expenses.
- The deadline for submitting claims for eligible expenses has been changed to accommodate the new grace period. Employees now have until May 31st following the end of the benefit year to submit claims for eligible expenses incurred through March 15th.
- The Limited Expense Health Care Flexible Savings Account (LEX HCFSA) is a new money saving option available to employees who are enrolled in High Deductible Health Plans (HDHP) with a funded Health Savings Account (HSA). Previously, employees enrolled in HDHP’s with HSA were ineligible to enroll in HCFSA. LEX HCFSA eligible expenses are limited to dental and vision care services or products. All other expenses normally eligible under HCFSA are **not** eligible under LEX HCFSA. Employees may contribute a minimum of \$250 and a maximum of \$5,000 to their LEX HCFSA.

Employees can only enroll in LEX HCFSA **after** the FSAP Open Season and their HSA is funded. Employees will be notified by their HDHP of their eligibility to enroll. Employees will have 30 calendar days from the notification date to enroll.

To learn more about LEX HCFSA’s visit

<https://www.fsafeds.com/fsafeds/popup/LFSA.asp?Reminder=0>.

Note: An employee enrolled in HDHP may still participate in the Dependent Care Flexible Spending Account (DCFSA). Employees must enroll in DCFSA during the FSAP Open Season.

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1 Overview (Continued)

D FSAP Contacts

Employees should consult this table for information on FSAP.

Subject	Contact
Information on: <ul style="list-style-type: none"> • the 2 FSAP accounts • enrollment procedures • claim reimbursements • account balances 	<ul style="list-style-type: none"> • 1-877-372-3337 • www.fsafeds.com
Questions about this notice	<ul style="list-style-type: none"> • Susan Brown at 202-418-9039 • LaShawn Tucker at 202-418-9068 • Maria Ruiz at 202-418-9034 • Darla Hensley at 202-418-9021 • TDD 202-418-9116

E FEHB Eligibility

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

IF the employee is located in...	THEN contact...
<ul style="list-style-type: none"> • Kansas City Beacon Complex • St. Louis • Research and Development Division, RMA • APFO 	KCHRO, Operations Section at either of the following: <ul style="list-style-type: none"> • 816-926-6225 • TDD 816-926-7440.
FAS, RMA, and FSA National Offices	1 of the following in HRD, Performance Management, Benefits, and Awards Branch: <ul style="list-style-type: none"> • Susan Brown at 202-418-9039 • LaShawn Tucker at 202-418-9068 • Maria Ruiz at 202-418-9034 • Darla Hensley at 202-418-9021 • TDD 202-418-9116.
State and County Offices	State Office, Administrative Division.

2 FSAP Accounts

A Two Flexible Spending Accounts

Employees may enroll in two FSAP accounts, HCFSA and DCFSA during the FSAP Open Season. The accounts allow employees to pay either medical or dependent care expenses using pre-tax dollars.

Employees cannot enroll in LEX HCFSA during the FSAP Open Season. This notice provides information on HCFSA and DCFSA available during the FSAP Open Season.

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

B Open Season

The FSAP open season is November 14 through **December 12, 2005**.

During the 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 12th, will be effective pay period 25.

Note: Account balances will not be available for reimbursements until January 5, 2006, the official pay date of pay period 25.

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 after open season using the Absentee Enrollment Form found at www.fsafeds.com.

Belated enrollments are effective the day after SHPS, Inc., receives the employee's Belated/Absentee Enrollment Form.

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 benefit year or return to pay status).

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2 FSAP Accounts (Continued)

E Benefit Year

The benefit year is the period in which eligible expenses must be incurred and reimbursed. The 2006 benefit year will run January 1, 2006, through March 15, 2007.

Note: Expenses are incurred on date of service, not when the 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
- number of dependents (that is, birth or adoption of a child)
- employment or residence status that affects eligibility for FEHB coverage
- 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 the new employee's appointment is on or after October 1, he or she 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 for the 2006 tax year is **\$5,000**; 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.

3 HCFSA (Continued)

C HCFSA Eligible Expenses

Eligible expenses for reimbursement under HCFSA must be incurred during the benefit year, January 1, 2006, through March 15, 2007.

Eligible HCFSA medical expenses include items:

- related to the diagnosis, treatment, or 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 Child Care Tuition Assistance Program (CCTAP) and DCFSA cannot exceed \$5,000 per benefit 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 do **not** need to be eligible for FEHB to participate in DCFSA.

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

4 DCFSA (Continued)

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 the employee's 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 benefit year, January 1, 2006, through March 15, 2007, 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 the employee's Servicing Personnel Office (SPO).

B Required Elections

Unlike FEHB or 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 benefit year.

Employees will need to make 2 decisions:

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

The benefit elections **are irrevocable once the benefit year has begun**. FSAP may only be terminated for reasons listed in subparagraph C.

5 Enrollment Procedures (Continued)

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 F
- employee separates or retires.

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

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 at **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.

Notes: FSAFEDS develops a new brochure for the FSAP program each year. SPO's may obtain copies of these brochures by requesting them from **fsafeds-hr@shps.com**.

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 through allotments. Employees who elect to participate may 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 benefit year.

Example: If an employee elects to contribute \$1,040 to their HCFSA and \$520 to their DCFSFA 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, 2006. 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 2006 benefit year. John has extensive dental work (\$2,900) performed in early May 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 2006 benefit year. John retires July 31, 2006. Expenses incurred before separation are reimbursable. Expenses incurred August 1st and after are not eligible. John must have incurred \$3,000 of eligible expenses by July 31st, his separation date, or he will lose it.

6 **FSAP Information (Continued)**

C Reimbursements From DCFSA

Employees may make a claim for reimbursement for 2006 eligible expenses after January 1, 2006. 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 benefit 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 web site at www.fsafeds.com to:

- learn more about automatic reimbursements
- obtain a list of participating FEHB carriers.

E Insufficient Contributions to FSAP

If an employee receives excessive payments from their FSAP during the benefit 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 benefit year to equal the annual amount contributed to FSAP, **the employee will lose the balance remaining in the accounts when the benefit year ends.**

Note: All claims must be filed by May 31st following the benefit year.

G Tracking Accounts

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

Employees may also access their account by either of the following:

- internet at www.fsafeds.com
- calling SHPS, Inc., toll free at 1-877-FSAFEDS.

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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 who 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.
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 (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".