



# Flexible Spending Account Handbook 2010

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 IRS directly at 1-800-829-1040 or at <http://www.irs.gov/pub/irs-pdf/p502.pdf> for the IRS publication on Medical and Dental Expenses and at <http://www.irs.gov/pub/irs-pdf/p503.pdf> for the IRS publication on Child and Dependent Care Expenses.

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## GENERAL INFORMATION ON FLEXIBLE SPENDING ACCOUNTS

### 1. What is the purpose of the Flexible Spending Accounts?

The purpose of a Flexible Spending Account is to permit eligible employees to elect to defer part of their pay on a pre-tax basis to defray the cost of their unreimbursed health care related expenses for themselves and their eligible dependents. Eligible employees are also permitted to take advantage of the same savings through the Dependent Care FSA.

### 2. When and how do I elect the Flexible Spending Account benefits?

You must complete and return the enrollment form or sign up electronically by **November 13, 2009** if you plan to participate. You must re-enroll in a Flexible Spending account every year. Your enrollment is not carried forward into future years.

If you are a newly hired employee who is eligible for flexible spending your enrollment becomes effective on the first day of the month following the date we receive your enrollment form or the date of eligibility. 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 can not 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, 2010. The first payroll deduction will begin with the pay of January 6, 2010. 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. The deductions will continue through the last pay of 2010.

### 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 2017, Operating Engineers, Supervising Engineers, Public Safety Officers, Michigan AFSCME Council 25 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 Medical and Dependent Care Spending Accounts, including the following:

- Authorized salary reductions into your Spending Account may not be changed during the calendar year unless you experience election changes permitted under section 125 of the IRC such as termination of employment or death of a spouse or dependent.
- Under IRS rules, you will forfeit all unused funds in your Medical or Dependent Care Spending Account at the end of the filing period. This is known as the "use it or lose it" rule. Un-used Dependent Care balances will not be carried over to the next year. Dependent Care expenses can only get reimbursed within the same calendar year that the flexible spending account was originally set up in. Medical Care expenses can be incurred as late as 2 ½ months beyond the calendar year that the plan was originally set up in. Any expenses beyond that point are not reimbursable. Dependent Care and Medical Care accounts can not be converted to cash. For this reason, you should estimate your anticipated expenses conservatively. Forfeitures will be determined after the run-out period, which is four months after the end of the calendar year.
- ABS, Inc. must receive claims for the 2010 benefit year no later than April 30, 2011.
- Claims for expenses incurred by a domestic partner are not reimbursable through a Flexible Spending Account.
- Claims for both medical and dependent care take approximately three weeks to process.

### 6. Does the amount I contribute to an FSA have any impact on the amount I am allowed to contribute to my retirement plan?

No. Pre-tax deductions do not impact the retirement benefits provided by the university.

## 7. Is there a lot of paperwork?

Less than you may think. In fact, for those with DMC CARE who elect to participate in a medical spending account, expenses are automatically sent to the flexible plan administrator and paid without any paperwork on your part. If you do not have DMC CARE or if your spending account is for dependent care, the paperwork is minimal. To initiate the reimbursement process complete a claim form with each submission, attach your qualified receipts, and submit them to ABS. When submitting for uninsured health care expenses, it is important that you provide ABS with the explanation of benefits from the insurance carrier. You may submit claims anytime during the year.

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

Under current law, the benefits you receive from a Flexible Spending Account are not currently taxable to you, nor are the benefits subject to Social Security (FICA) withholding taxes, federal, state, or city income tax withholding.

## 8. How do the Flexible Spending Accounts save me money?

The following example illustrate how the Flexible Spending Accounts can save almost everyone money. In the first example, Family of Four, assume a gross annual income of \$50,000 and a contribution of \$3,000 to a dependent care account. By paying their dependent care expenses using the Dependent Care Spending Account benefit, Family of Four saves \$836.25 per year. The second example, Head of Household, assumes a gross annual income of \$25,000, one dependent and a contribution of \$1,500 into a Medical Care Spending Account. Paying unreimbursed medical expenses saves \$418.13 per year. The final example, a Single Individual, assumes an annual income of \$30,000 and a contribution of \$500 in a Medical Care Spending Account. The annual savings are \$139.38

### Savings Implications for Flexible Spending Accounts

	Family of Four		Head of Household with One Dependent		Single	
	w/o FSA	w FSA	w/o FSA	w FSA	w FSA	w/o FSA
<b>Annual Income</b>	\$50,000.00	\$50,000.00	\$25,000.00	\$25,000.00	\$30,000.00	\$30,000.00
<b>FSA contribution</b>	\$0.00	\$3,000.00	\$0.00	\$1,500	\$0.00	\$500.00
<b>Taxable Fica Income</b>	\$50,000.00	\$47,00.00	\$25,00.00	\$23,500.00	\$30,000.00	\$29,500.00
<b>FICA</b>	\$3,825.00	\$3,595.50	\$1,912.50	\$1,797.75	\$2,295.00	\$ 2,256.75
<b>Taxable Federal Income</b>	\$37,200.00	\$34,200.00	\$18,600.00	\$17,100.00	\$26,800.00	\$26,300.00
<b>Federal</b>	\$4,865.00	\$4,415.00	\$2,280.00	\$2,055.00	\$3,662.50	\$3,587.50
<b>Taxable State Income</b>	\$37,200.00	\$34,200.00	\$18,600.00	\$17,100.00	\$26,800.00	\$26,300.00
<b>State</b>	\$1,469.40	\$1,350.90	\$734.70	\$675.45	\$1,058.60	\$1,038.85
<b>Taxable City Income</b>	\$47,000.00	\$44,000.00	\$23,500.00	\$22,000.00	\$29,250.00	\$28,750.00
<b>City</b>	\$599.25	\$561.00	\$299.63	\$280.50	\$372.94	\$366.56
<b>Net</b>	\$39,241.35	\$37,077.60	\$19,773.18	\$18,691.30	\$22,610.96	\$22,250.34
<b>After Tax Expense</b>	\$3,000.00	\$0.00	\$1,500.00	\$0.00	\$500.00	\$0.00
<b>Net Savings</b>	\$36,241.35	\$37,077.60	\$18,273.18	\$18,691.30	\$22,110.96	\$22,250.34
		\$836.25		\$418.13		\$139.38

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 your tax advisor.

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

As discussed above, 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. If your salary is above the Social Security Taxable Wage Base, which is \$106,800 in 2009, you will probably not be affected. If your salary is below the Social Security Taxable Wage Base, your Social Security benefits might be reduced. You should consult your own 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 annual 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 is one important exception to this general rule: You may change or revoke your election at any time during the Plan Year in the event of a family status event such as divorce, death of a spouse or a dependent.

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

If you elect to participate in the Plan, your participation will continue through the end of the plan year, as defined above for each account type, or when you separate from service with Wayne State University, whichever comes first. Separation includes retirement, resignation, termination and leave of absence. However, with the Medical Care Spending Account benefit, you may be eligible for continuation coverage under COBRA (see below).

**14. What is continuation coverage?**

If you participate in the Medical Care Spending Account benefit, a federal law known as “COBRA” gives you the right to continue coverage if you are eligible and your employment with Wayne State University is terminated for any reason other than gross misconduct.

Generally, continuation coverage will extend your plan coverage for 18 months. However, COBRA rules must be coordinated with the 12-month period of coverage rules for Flexible Spending Accounts. This means that if the entire 12 month period required for Flexible Spending Accounts falls during the 18 month COBRA period, you can elect to participate during one additional plan year following your termination. If not, you may only participate through the end of the current plan year.

Dependent Care FSA’s are not subject to COBRA.

**MEDICAL CARE SPENDING ACCOUNTS**

**1. What benefit is there in having a Medical Care Spending Account?**

The Medical Care Spending Account benefit permits eligible employees to contribute pre-tax income to a Medical Care Spending Account. The Medical Care Spending Account will reimburse you on a pre-tax basis for your unreimbursed health related expenses. It is likely you will have some medical 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 medical expenses that are subject to deductibles and co-payments under the medical 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 income. The flexible spending account will offset your expenses by reimbursing you with pre-taxed money.

**2. How does the Medical Care Spending Account benefit work?**

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 Medical Care Spending Account maintained on your behalf.

You should take into account all health insurance deductibles and co-payments, as well as uninsured medical, mental health, dental, and vision care expenses not covered under a health plan. Generally, the expenses covered must be “medically necessary” as determined by a physician. Reimbursement of expenses must be for expenses incurred (not billed or paid) during the applicable coverage period. Claims must be properly substantiated prior to reimbursement. Expenses deductible under IRS Code Section 213 may be reimbursed from a Medical Care Spending Account. For more detailed information on reimbursable expenses, you may call the Internal Revenue Service at 1-800-829-1040 for a copy of the IRS publication 502 or download the publication from <http://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; domestic help for primarily non-medical services; 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. A more detailed list of both Eligible and Ineligible expenses can be provided upon request.

### **3. How much may I contribute to my Medical Care Spending Account?**

The maximum amount you may elect to defer to a Medical Care Spending Account is \$5,000. The minimum amount is \$208.

### **4. I am worried about losing the unused fund in my account. How can I keep this from happening?**

This is a valid concern. To be conservative, in computing the amount of the election, one should first calculate the most probable expenses including uncovered office and hospital co-payments, uncovered prescription co-payments, uncovered eye exams and eyeglass and contact lens purchases, and uncovered dental expenses.

### **5. What should I do if I haven’t kept my pharmacy receipts?**

You can ask your pharmacist for an itemized list of purchases for a specific period. All pharmacies will provide you with this information if you allow them the time to prepare it.

## DEPENDENT CARE SPENDING ACCOUNTS

### **1. What benefit is there in having a Dependent Care Spending Account?**

The Dependent Care Spending Account benefit permits eligible employees to contribute pre-tax income to a Dependent Care Spending 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 Spending Account will reimburse you on a pre-tax basis for your eligible dependent care expenses.

Since there is also an after-tax credit available to individuals filing federal income tax returns, your participation in a Dependent Care Spending Account must be weighed against the after-tax credit for which you may be eligible.

## **2. How does the Dependent Care Spending Account benefit work?**

Once you have determined your annual predictable dependent care expenses for the plan year, you may elect to defer a portion of your salary into a Dependent Care Spending Account maintained on your behalf.

In order to get reimbursed for Dependent Care expenses the expenditures must be incurred (not billed or paid) 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 Spending Account?**

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

If you are married and file a joint return, the maximum is the lesser of

- your earned income,
- the earned income of your spouse or
- \$5,000 annually.

(Verification that your spouse's income exceeds \$5,000 is required to enroll in a Dependent Care Spending Account.)

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.

The minimum amount is \$208 annually.

If your spouse participates in a Dependent Care Spending Account through another employer and you file a joint return, the total amount both of you contribute cannot exceed \$5,000. You are responsible for coordinating your contributions to a Dependent Care Spending Account with your spouse's so the \$5,000 limit is not exceeded.

## **4. What is the difference between the Tax Credit for After-Tax Expenses for Child Care and the Flexible Spending Account for Pre-Tax Dependent Care Expenses?**

### Tax Credit for After-Tax Expenses

Individuals are allowed to take a credit on their tax return against income tax if they pay for eligible dependent care expenses using after-tax dollars. The credit is 35 percent of eligible expenses for those with family income of \$15,000 and under and scales down to 20 percent of expenses. The amount of eligible expenses is capped at \$3,000 per year for one dependent, and \$6,000 per year for two or more dependents.

## Dependent Care Spending Accounts

Dependent Care Spending Accounts provide a different type of advantage. Through the use of pre-tax salary reduction contributions to the account, an employee can reduce his or her taxable income, thereby reducing both income tax and FICA tax obligations. An employee can contribute up to \$5,000 toward eligible dependent care expenses paid through a Dependent Care Spending Account.

### Choosing Between After-Tax and Pre-Tax

When both pre-tax Dependent Care Spending Accounts and the after-tax credit options are available, you need to determine which approach is more advantageous. The answer can vary from person to person.

The comparison of the pre-tax and after-tax approaches for paying for dependent care expenses is only necessary for employees whose income is \$24,000 and under. When family income exceeds \$24,000, the combined income tax and FICA tax savings from using the pre-tax spending account will be more advantageous for the employee.

Other general rules of thumb apply. Those with the lowest family incomes do not have to pay any federal tax. Therefore, they cannot take advantage of the after-tax credit. But if they pay FICA taxes, they will see savings from using the pre-tax Dependent Care Spending Account. Also, when the amount of dependent care expenses exceeds the maximum allowed for the tax credit (\$3,000 for one dependent and \$6,000 for two or more), the tax advantage from using the Dependent Care Spending Account generally will be greater.

The earned income tax credit has no effect on the results of these calculations. The definition of "earned income" includes any salary reduction amounts the employee puts in a Dependent Care Spending Account, so the earned income tax credit will be the same for the employee no matter which approach is used.

For lower-income employees, dependent care expenses can represent a relatively large portion of income. Therefore, salary reduction could have a negative effect on future Social Security benefits. This consideration may outweigh current tax savings, especially when the tax savings are small.

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 Spending accounts. The publication can be obtained by calling the IRS at 1-800-829-1040, or at <http://www.irs.gov/pub/irs-pdf/p503.pdf>.

## FILING CLAIMS

### **Medical Expenses**

The claims administrator for the 2010 Medical Care Spending Account is Automated Benefit Services, Inc. They will provide reimbursement for medical expenses only after the employee has submitted evidence that an expense has incurred and was not covered by that employee's medical 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, the explanation of benefits indicating the insurance company's disposition of the claim and such other information as ABS, Inc. requires. When ABS, Inc. approves the claim, you will be reimbursed up to the full amount of the eligible expense not to exceed your elected Medical Care Spending 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 Medical Care Spending 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.

Those individuals with DMC Care medical insurance and a Medical Care Spending Account should elect whether or not automatic reimbursement is desired. If automatic reimbursement is elected and the medical claim is applied toward the deductible or co-pay, or denied, it will automatically be reimbursed from your Medical Care Spending Account. If automatic reimbursement is not elected, a separate claim will have to be submitted to ABS, Inc. to receive reimbursement.

### **Dependent Care Expenses**

The claims administrator in 2010 for the Dependent Care Spending Account is ABS, Inc. Reimbursement of a dependent care expense will be made by ABS, Inc. 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 ABS, Inc. 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 Spending Account. Claims take approximately three weeks to process.

#### **The address to submit claims is:**

ABS, Inc.  
8220 Irving Road  
Sterling Heights, MI 48312

#### **The phone number to inquire about claims is:**

1(800) 645-9978

*Please note that every effort has been made to ensure the accuracy of the benefits information in this handbook. 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.*

*Examples of Eligible Expenses – Health and Dependent Care Reimbursement Accounts*

The following list, while not intended to be complete, illustrates some of the medically related expenses and dependent care expenses which are covered by the Flex Spending Accounts. Feel free to call 1(800) 645-9978 for additional information or clarification.

<p>Abortion Acupuncture Alcoholism &amp; Drug Abuse treatment Ambulance Artificial limbs Aspirin Braces Braille books and magazines Child care expenses Chiropractors Coinsurance payments Contact lens solution &amp; cleaners Contraceptives (prescription and over-the-counter) Crutches Deductible amounts Dental expenses* Dentures Dermatologists Diagnostic expenses Doctors' charges* Eyeglasses and contact lenses, including examination fee Handicapped persons, care and support Hearing devices and batteries Herbal supplements** Home improvements motivated by medical considerations (e.g., ramps, plumbing) Hospital bills Infertility treatments Insulin Laboratory fees Laser eye surgery or Radial Keratotomy Lamaze Classes directly related to birth of baby for mother only Licensed practical nurses Mileage for medical purposes-14 cents per mile Nonprescription nicotine patches and gum Nutrition counseling</p>	<p>Nutritional supplements** Obstetrical expenses Orthodontia Orthopedic shoes Osteopaths Over the counter drugs and medicines Oxygen Pap smears Podiatrists Pregnancy tests Prescription drugs* Psychiatric care Psychologist expenses Routine physicals and other non-diagnostic services or treatments Sales tax Seeing-eye dog and its upkeep Shipping &amp; handling charges Smoking cessation programs prescribed drugs designed to alleviate nicotine withdrawal Special education for handicapped Surgical expenses Therapy treatments (physical, occupational, speech) TMJ-related expenses Transportation expenses for medical purposes Tutoring for children with learning disabilities Vitamins** Weight loss program ** Well-baby care Wheelchairs Wigs* X-rays</p> <p><i>*Unless strictly for cosmetic reasons</i> <b>**If prescribed by a physician as medically necessary for a condition and a specific timeframe</b></p>
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**Examples of Expenses NOT Eligible**

<p><b>HEALTH CARE EXPENSES</b> Burial expenses Brest pumps – unless prescribed as medically necessary by a physician for a specific medical condition Cosmetic Surgery procedures (unless necessary to Eliminate a deformity related to a birth defect, A personal injury resulting from an accident or Trauma, or a disfiguring disease) Ear piercing Health Club dues, swimming lessons Illegal operations or treatments Importation of prescription drugs from foreign countries Items paid or payable by insurance Marriage counseling Maternity clothes Nursing care for a normal, health baby Premiums for group health coverage maintained through your</p>	<p>spouse's employer or individual health coverage premiums Cobra premiums Teeth bleaching or bonding toiletries and cosmetic over the counter items <b>DEPENDENT CARE EXPENSES</b> Amounts paid for the care of a person in a nursing home or convalescent facility Amounts paid to your spouse, dependent, or child under the age of 19 Cost of food, clothing, shelter, insurance, medical treatment or vacations of a qualifying dependent Educational expenses for any child after the pre-school level Items you intended to claim as a credit for federal tax purposes Overnight camp expenses</p>
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