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May 16, 2003

EMS TRANSMISSION 05/19/03
Information Bulletin No. OR-2003-157

To: All OR/WA Employees

From: Chief, Branch of Human Resources

Subject: Open Season for Flexible Spending Accounts, May 19 - June 20, 2003

What are flexible spending accounts (FSA)? They are accounts established to enable eligible employees to pay for certain medical benefits with pre-tax dollars. They are a part of the Federal Flexible Benefits Plan which was created by the Office of Personnel Management (OPM) to qualify as a cafeteria plan under the Internal Revenue Code section 125.

This plan was first created for premium conversion which allows employees to pay for health benefit premiums with pre-tax dollars. The plan is now being enhanced to include Health Care FSA and Dependent Care FSA. Enrollment is voluntary and no government monies will be used to fund this program.

A Health Care FSA (HCFSA) allows for pre-tax reimbursement of eligible medical costs not covered or reimbursed by insurance. Expenses must be tax deductible. Some examples include: dental services, vision services, chiropractic care, health insurance deductibles, as well as co-payments and coinsurance not reimbursed by another source. Participation is open to active federal employees whose appointment allows for eligibility for federal health benefits coverage. Reemployed annuitants are eligible to participate.

Dependent Care FSA (DCFSA) allows participants to be reimbursed on a pre-tax basis for child care or adult dependent care expenses that are necessary to allow the employee and his/her spouse to work or seek work. Eligible children must be age 13 and younger. A qualifying adult is a parent or a sibling who is physically or mentally incapable of caring for himself or herself and is claimed as a dependent on your income tax return. The expense must be necessary to allow the employee and, if married, his/her spouse to work. DCFSA may be used for adult day care, but cannot be used for nursing home expenses or if the adult resides in another city. All employees with qualified dependents may elect to enroll in the DCFSA except temporary employees with no fixed work schedule (intermittent) whose tour of duty is six months or less.

The initial FSA plan year will be a short plan year beginning on July 1, 2003 and ends on December 31, 2003. All subsequent plan years will be from January 1 to December, 31. Employees will have the opportunity to elect a HCFSA and/or a DCFSA for 2004 during health benefits open season - November 10 through December 8, 2003. The enrollment period each year will coincide with health benefits open season.

Participation in FSA is not automatic. Employees must make an election each and every year. Employees will make two "benefit elections." The first is to indicate whether they wish coverage in one or both of the Fed Flex

FSA's, and the second, the annual amount they agree to have deducted from their pay during the plan year for deposit into their FSA accounts. The benefit elections are irrevocable once the plan year has begun unless the employee experiences a qualifying life event. These include: change in marital status, change in number of dependents and change in employment status affecting your eligibility for benefits. The contractor will be responsible for determining if a life event has occurred.

How does an FSA work? An employee chooses to reduce pay for the plan year by a selected amount through allotment. The agency agrees to put that amount into the employee's FSA account. Payroll deducts equal payments of the annual allotment elected. The employee will pay for an eligible expense out-of-pocket and then submit a claim for reimbursement from SHPS, who is the FSA administrator. The claim is then processed and a reimbursement issued. Medical and dependent care accounts are separate.

During the open enrollment period, employees may elect to contribute a maximum of $3,000 per plan year for an HCFSA and $5,000 per year for a DCFSA. An employee may elect to enroll in one or both. For both benefits, the minimum amount of an election must be $250.

To be eligible for reimbursement under an FSA, the expense must be incurred during the plan year. Because of the tax advantages of FSA's, the IRS has strict guidelines for its use. If an employee does not incur eligible expenses during the plan year which equal the annual amount they have contributed to their FSA(s), they will lose the balance remaining in their account(s) when the plan year ends. There is a 120-day time period for filing a claim for reimbursement for Eligible Health Care Expenses following the end of the plan year and a 90-day time period for filing a claim for reimbursement of Eligible Dependent Care Expenses. Any unclaimed allotments after this time period will be forfeited.

How do I enroll? Individuals will enroll directly with the FSA administrator. There are two ways to enroll. One is a web-based enrollment at www.fsafeds.com which will be available 24/7. The second is by calling a toll free number (1-877-372-3337). A customer service representative is available Monday through Friday from 9:00am to 9:00pm eastern standard time.

How is this program going to be paid for? At this time, administrative costs will be covered by participants paying a monthly fee per account. For the HCFSA, the fee will be $4 for every month that you participate. For the DCFSA, the fee will equal 1.5% of the entire amount you elect. In both cases, SHPS will compute the amount due for the plan year and deduct the fee from the employee's first claim for reimbursement of a covered expense.

You will be receiving a leaflet provided by OPM and SHPS which provides a general summary of Flexible Spending Accounts. Additional information is available at the web site listed above and at www.opm.gov/insure/pretax. Your human resource specialist will answer general questions for you on this program; however, it is recommended that you contact SHPS first as they are experts on the federal FSA program and new developments relating to this program.

Districts with Unions are reminded to notify their unions of this IB and satisfy any bargaining obligations before implementation. Your servicing Human Resources Office or Labor Relations Specialist can provide you assistance in this matter.

Signed by
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Authenticated by
Cindy Fredrickson

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