Livingston County Michigan
Human Resources Policy Manual

Section:	
Subject:	**Flexible Spending Accounts**

A. POLICY

1. PURPOSE:
To allow employees to set aside pre-tax dollars for reimbursement of IRS-approved health care and dependent care expenses that would have otherwise been paid with after-tax dollars.

2. POLICY STATEMENT:
Livingston County allows eligible employees to participate in flexible-spending accounts established under Section 125 of the Internal Revenue Code for eligible health care and dependent care expenses.

Each year, employees who wish to participate in the flexible spending accounts (FSAs) need to elect to participate in the plan and determine what dollar amount they wish to defer via payroll deductions. This annual election amount will then be deducted from their gross paycheck each pay period, before taxes are taken out, and placed into a flexible spending account.

Funds in an FSA account are not subject to federal, state, local or social security (FICA) taxes. In exchange for this tax break, the IRS has strict rules governing these accounts.

The minimum and maximum contributions to the FSAs are set by the Board each year. At this time, the maximum contribution to the health care FSA is $3,000/year. The maximum contribution to the dependent care FSA is $5,000/year. Please note: The IRS has determined that if you are married, the maximum dependent care FSA election is $5,000 per couple (or $2,500 per person)

The FSA plan year begins on January 1st and ends on December 31st of each year. Following the end of the plan year, employees are provided with an additional 2 ½ month grace period (January 1st – March 15th) in which an employee may incur and be reimbursed for claims.

Employees should make their annual election based on their family members estimated health care and dependent care expenses. Employees should be conservative when estimating expenses as deductions cannot be carried to the next plan year. Any monies remaining in your FSA account at the end of the plan year, following the grace period, will become the property of the employer and cannot be returned to you. Livingston County has determined that forfeited monies will be used to offset future FSA administrative costs.

Services must be rendered during the plan year and/or extension provided for which you enrolled. A grace period of 2 ½ months for reimbursement of health and dependent care expenses will be honored. Qualifying events to alter your flexible account election amount include marriage, birth, death, divorce, adoption, or a change in the occupational status of your spouse.

Your pre-tax contributions through a flexible spending account could reduce your future social security benefits. However, your final average compensation under MERS will not be affected.

3. APPLICABILITY:
Eligibility for participating in flexible spending accounts occurs on the first of the month following appointment into a position that is classified as 30 hours or more a week or during open

enrollment with an effective date of January 1st. If you do not wish to participate when eligible, you must wait until the next open enrollment unless a qualifying event occurs.

4. DEFINITIONS:
Flexible Spending Account (FSA) is an employer-sponsored benefit that allows you to pay for eligible medical and dependent child-care expenses on a pre-tax basis. The contributions you make to a Flexible Spending Account are deducted from your pay BEFORE your federal, state or social security taxes are calculated and are never reported to the Internal Revenue Service (IRS). This allows you to decrease your taxable income and increase your spendable income.

Qualified “family status change” is defined as marriage, birth, divorce, or loss of a spouse’s insurance coverage. For the dependent care flexible spending account, a change in occupation status of your spouse is also considered a qualifying event.

Health Care Flexible Spending Account – allows employees to use pretax dollars to pay for eligible health care expenses that are not reimbursed by any other source and not claimed on the participant’s income tax return.

Dependent Care Flexible Spending Account – allows employees to use pretax dollars to pay for eligible dependent care expenses. Eligible dependent care expenses include the cost of day care for tax dependents while employees and/or spouses are at work, actively seeking employment or attending school full time.

Grace Period – A 2 1/2 month period of time (January 1 to March 15) immediately following the end of each plan year (December 31). During this period, any unused pre-tax dollars remaining in a participant’s account at the end of the plan year may be applied to qualified expenses incurred during the grace period. The grace period must not extend beyond the fifteenth day of the third calendar month after the end of the immediately preceding plan year to which it relates (i.e., “the 2 ½ month rule”).

5. REFERENCE AND LEGAL AUTHORITY:
Health Insurance Portability and Privacy Act (HIPPA) of 1996
Section 125 of the Internal Revenue Tax Code
IRS Publication No. 502
IRS Publication No. 503
Treasury Department Notice 2005-42

6. SEE ALSO:
Section 125 Flexible Benefit Plan Enrollment Form from the County’s FSA Contractor
Flexible Spending Account (FSA) Request for Reimbursement Form from the County’s FSA Contractor
Dependent Care Certification Statement Form from the County’s FSA Contractor
Employee Status Change Form: Flexible Spending Account or Health Reimbursement Arrangement from the County’s FSA Contractor
Change in Benefit Election Form from the County’s FSA Contractor
Your Flexible Benefits Plan Questions & Answers from the County’s FSA Contractor
drugstore.com (which items are eligible under FSAs)

7. SUPERSEDES: Resolution No. 605-236 (approved 6/6/05) & 2007-11-294 (approved 11/07)

8. APPROVED BY:
Personnel Subcommittee 12/19/07
Finance Committee: 01/10/08
Full Board: 01/22/08

9. RESOLUTION: No. 2008-01-012

10. <u>REVIEW HISTORY:</u>

Personnel Subcommittee 12/19/07
Finance Committee: 01/10/08
Full Board: 01/22/08

B. PROCEDURE:

During open enrollment, Livingston County allows employees to make an election to the Flexible Spending Accounts indicating how much they wish to contribute. If you expect to incur medical, dental or vision expenses that are not eligible to be reimbursed by your health insurance plan, you should be taking advantage of the County's Flexible Spending Account. If you have incurred child care expenses for a qualifying dependent(s) to enable you to work, you also should be taking advantage of the County's Flexible Spending Account.

<u>How Does a Flexible Spending Account Benefit Me?</u>

- A Flexible Savings Account (FSA) saves you money by reducing your income taxes.
- Wages redirected into these non-cash benefits escapes federal, state and local income taxation, including FICA.
- You can use the funds from the account to pay for qualified medical expenses even if you have not yet placed the funds in the account.

<u>How to Join:</u>

During open enrollment, eligible employees are given an opportunity to enroll in the Flexible Spending Accounts effective at the beginning of the next plan year. If you do not wish to participate in open enrollment, you must wait until the following calendar year unless there is a qualified change in your status. A qualified "family status change" is defined as marriage, birth, divorce, or loss of a spouse's insurance coverage. Newly-hired eligible employees (working at least 30 hours a week) may join effective the first of the following month of hire.

You will be making independent selection(s) on your County Choices Personal Selection Form, for the Health Care and/or Dependent Care Flexible Spending Accounts.

<u>Health Care Reimbursements</u>

For expenses not covered by your health insurance plan, you must submit the bill you received when the service was provided. This bill must show the date of service, name of the provider, type of service and charge for this service along with proof of payment. This documentation along with a signed reimbursement request needs to be submitted to the County's Flexible Spending Account contractor. ***Please note: prescription names are not needed and may be blackened out.***

If you have a medical expense and it is more than you have in your account at the time, Livingston County will advance the difference up to the annual amount you elected. However, the FSA cannot make advance reimbursement of future or projected expenses.

The FSA Contractor will be processing payments on a daily basis; however, reimbursement will occur thru the payroll system on a bi-weekly basis and will be included in your paycheck on a pre-tax basis.

<u>What Expenses are Eligible for Medical Reimbursement?</u>

Any expense that is considered a deductible medical expense by the Internal Revenue Service (IRS) which is not reimbursed through your insurance can be reimbursed through the Flexible Spending Account. ***Some examples of eligible health care expenses items include:***

- Fees paid to doctors, dentists, surgeons, chiropractors, psychiatrists, psychologists and other practitioners
- Contact lenses and eyeglasses

- Fees for hospital services, qualified long-term care services, nursing services, laboratory fees, prescription medicines
- Acupuncture treatments
- Inpatient treatment at a center for alcohol or drug addiction
- Smoking-cessation programs and prescribed drugs to help nicotine withdrawal
- False teeth, hearing aids, crutches, wheelchairs, and guide dogs for the blind or deaf
- Fees in excess of reasonable and customary amounts allowed by your insurance
- Costs of vasectomies, hysterectomies and birth control
- Non-Elective cosmetic surgery
- Co-payments on covered expenses
- Deductibles
- Braces
- Prescription drugs or prescription co-pays
- Over the counter drugs such as aspirin, cold tablets and cough syrup
- Band-Aids, bandages, gauze pads, first aid kits
- Mileage to and from doctors and pharmacies – documentation required - per IRS reimbursement rate, (2007 rate = .20/mile) (2008 rate = .19/mile)
- Parking and lodging per IRS reimbursement (2007 rate = $50 per night)
- Any health care expense that would qualify as a deduction on your income tax return will qualify for reimbursement, as long as the expense is not paid by another benefit plan.

(Refer to Section 125 of the Internal Revenue Tax Code for the complete listing)

<u>Some Examples of Expenses that are NOT Eligible for Medical Reimbursement:</u>

- Cosmetic Surgery
- Electrolysis or Hair Removal
- Teeth Whitening
- Personal Hygiene Use Products
- Amounts that are covered under another health plan.

(Refer to Section 125 of the Internal Revenue Tax Code for the complete listing)

<u>How Do I Decide How Much to Contribute to My Flexible Spending Account?</u>

It's important to give some thought to calculating how much money to contribute for the year. If you set aside more money than you need (use) by law, you lose it. A grace period, deadline extension, for reimbursement of health and dependent care expenses up to 2 ½ months after the end of the plan year will be allowed. You have 15 days after the end of the plan year to submit claims for eligible expenses incurred during the plan year plus a 2 ½ month grace period (March 31st). Any money left in your account after March 31st will be forfeited.

To determine how much to contribute, make a list of the expected out-of-pocket medical expenses for you and your dependents for the next year. For example, if you always exceed your deductible, include this amount in your calculation. Be conservative, so you don't risk forfeiting any money.

<u>How the Health Care Reimbursement Account Works</u>

Selecting and using this account option is a simple procedure and consists of the following steps:

- Decide how much you wish to put into the account for the plan year and indicate this amount on your selection form (you may deposit from $130 to $3000 into your account). The FSA Contractor will be providing a worksheet to assist with this determination. In equal increments, Livingston County withdraws the amounts from your paycheck before your check is taxed during the first 26 pays of the calendar year.

- Complete the necessary Request for Reimbursement Form and submit along with your itemized receipt along with your Explanation of Benefits Statement for expenses incurred to the County's Flexible Spending Account contractor.

- The FSA contractor will review the request along with submitted documentation. If approved, reimbursement will occur.

Dependent Care Reimbursements

Dependent Care can help employees pay out-of-pocket dependent care costs (i.e. income tax dependents) while increasing spendable income, if you spend money on the care of dependents while at work.

You and/or your spouse must be employed or actively seeking employment or attending school full time. Expenses must be for the care of a qualified person. A qualified person is defined as one of the following:

- A child under 13 years old who is a dependent for income tax purposes. Note: Expenses are no longer eligible once your child turns 13 years of age. Your contributions however, must continue throughout the year, so plan accordingly.

- A spouse or dependent that is incapable of self-care and regularly spends at least eight hours a day in your home (i.e. an invalid parent). The same rules that apply for childcare apply to the care of other dependents, except that the dependent need not be under age 13.

The services may be provided in your home or another location but not by someone who is your minor child or dependent for income tax purposes (i.e. an older child). If the services are provided by a day care facility that cares for six or more children at the same time, the facility must comply with state day care regulations. Services must be for the physical care of the child, not for education, meals, etc. Overnight camps and lessons in lieu of day care are not eligible for reimbursement from Dependent Care.

This is a pay as you go account. Livingston County will not advance any money for dependent care expenses.

Planning Carefully

The following IRS regulations apply to both the Health Care Flexible Spending Account the Dependent Care Flexible Spending Account:

- Once you decide to participate in either or both the Reimbursement Accounts, your decision must remain in effect until the end of the plan year unless there is a family status change. Each year you will have an opportunity to enroll again.
- Any balance in either of the Reimbursement Accounts that is not used for eligible expenses must be forfeited. You have until March 31st to submit eligible health care and dependent care expenses for the previous plan year.

You may change your payroll deduction amount for your Reimbursement Accounts during the plan year **only** if you have a change in family status. IRS approved changes include a change in marital status, death of spouse or child, birth or adoption of a child, and termination and/or reduction of an employee's or spouse's employment. In addition, IRS defines a status change for the Dependent Care Reimbursement Account as a death of a dependent parent or the change in your spouse's student status.