U.S. Department of Energy

OAK RIDGE OPERATIONS OFFICE

ANNOUNCEMENT

3890

April 15, 2003

SUBJECT: FLEXIBLE SPENDING ACCOUNT PROGRAM OPEN SEASON

The Federal Flexible Benefits Plan (FedFlex) enables eligible employees to pay for certain benefits with pre-tax dollars. The initial FedFlex benefit, Health Benefits Premium Conversion, was implemented in October 2000. FedFlex is now being enhanced to include a second pre-tax benefit known as Flexible Spending Accounts (FSAs) which will be implemented July 1, 2003.

With an FSA, you may make a voluntary allotment from your salary to an FSA account. You will not pay employment or income taxes on these allotments, and the Department of Energy will also avoid paying employment taxes on your allotments. If you elect to participate, you will be asked to identify an annual amount of salary to be contributed to your FSA.

The Office of Personnel Management (OPM) has selected SHPS, Inc. as the third party administrator for the FSA program. SHPS will translate your annual elected amounts into pay date allotments and request the payroll office to deduct them and remit them for deposit into your FSA account(s). You can draw on your FSA account for reimbursement as you incur eligible expenses.

FSA elections are completely voluntary and must be made on an annual basis during the open enrollment period for the upcoming year. FSAs are not carried over from one year to the next. FedFlex will offer two FSAs:

1. ***Health Care FSA (HCFSA)***, through which you may use pre-tax allotments to pay for certain health care expenses that are not reimbursed by any other source and not claimed on your income tax return. The maximum amount you may set aside in any tax year will be $3,000 and the minimum will be $250. Medical, dental, and vision expenses are eligible if incurred by an employee or an employee's spouse or dependent during the year if they:

   - Meet the criteria of tax-deductibility under the Internal Revenue Service (IRS) code;
   - Will not be taken as a deduction from income on your Federal income tax return in any tax year;
   - Are not covered, paid, reimbursed, or reimbursable from any other source;
   - Do not exceed the amount that you have elected to have allotted for HCFSA reimbursement for the year, less previous reimbursement of Eligible Health Care Expenses made during the year;
   - Do not include any expense incurred for qualified long-term care services as defined by the IRS;
   - Do not include premiums for other health insurance; and
   - Are not limited to the amount in your HCFSA at the time a claim is reimbursed, but include your entire allotment to the HCFSA for the year (properly reduced for prior reimbursements during the year).

Because of the tax advantages of FSAs, the IRS has strict guidelines for its use. One of these guidelines is commonly known as the "*use it or lose it*" rule. Put simply, if you have not incurred enough eligible expenses during the plan year to equal the annual amount you have contributed to your FSA(s), you will lose the balance remaining in your account(s) when the covered period ends. (You can file a claim for reimbursement of Eligible Health Care Expenses up to 120 days following the end of the plan year.) There is no maximum HCFSA allotment specified by IRS law. While the maximum permitted under FedFlex is $3,000, an employee or spouse may have another FSA available through another employer's plan. Thus, the aggregate HCFSA allotments may exceed the $3,000 FedFlex maximum.

2. ***Dependent Care FSA (DCFSA)***, through which you may use pre-tax allotments to pay for eligible dependent care expenses up to a maximum annual reimbursement of $5,000 ($2,500 if you are married and filing a separate income tax return).

    - Eligible Dependent Care Expenses are reimbursable when incurred. Expenses are treated as incurred when you are provided with the services that give rise to the dependent care expense, and not when you are billed or pay for the service.
    - Any amounts allotted for the plan year but not claimed as Eligible Dependent Care Expenses during the plan year will be ***forfeited*** if a claim for reimbursement of Eligible Dependent Care Expenses is not filed within 90 days following the end of the plan year.

The maximum pre-tax benefit for all dependent care programs is $5000 including programs other than FSAs. As a result, if you are receiving a child care subsidy, and the combined benefit to you exceeds the $5,000 limit, you will be responsible for tax on any aggregate amount that exceeds $5,000 ($2,500 if married but filing separately).

Open Season:

OPM will conduct an open season for enrollment in FSA beginning in mid May and running through June 20, 2003. This will be the first opportunity for most Federal employees to voluntarily allot pre-tax salary to an HCFSA or DCFSA.

The effective date of the FSA program is July 1, 2003. The initial covered period will end on December 31, 2003. Open enrollment for the first full year will take place concurrent with the Federal Employee Health Benefits (FEHB) open season in November/December 2003. All future FSA years will be January 1 through December 31; employees must re-enroll each year to be eligible.

Employees who are eligible for FEHB coverage, even if not enrolled, are eligible to voluntarily elect an allotment for an HCFSA and a DCFSA. Participation in an FSA is not automatic; you must make an election each and every year. If you participate, you will have to make two decisions: (1) whether you want coverage in one or both of the FedFlex FSAs, and (2) the annual amount(s) you agree to have deducted from your pay during the year for deposit into your FSA account(s). Your benefit elections are ***irrevocable*** once the covered period has begun unless you experience a qualifying "change in status" event.

Payroll Allotments:

SHPS will calculate the amount of payroll allotment based on the total amount elected for one or both accounts. The elected amount will be prorated over the number of pay dates you have remaining in the covered period. If your salary is ever insufficient to cover the full amount for FSA allotments, no deduction will be made for that period. If a salary allotment is missed, SHPS will freeze the account for all HCFSA expenses until allotments begin again or the situation is resolved through contact with you. DCFSA accounts will not be frozen because employees can only be reimbursed for amounts already in their accounts.

Any time an allotment is missed, SHPS will recalculate the allotment schedule such that the unpaid balance of your annual election will be paid over the pay dates remaining in the calendar year. The previously scheduled allotment will be doubled unless a higher multiple is needed given the number of remaining pay dates.

Enrollment for FSAs occurs directly with SHPS, either on-line or through a toll-free call to a SHPS customer service representative. Your enrollment is not processed by the Human Resources Division or the Oak Ridge Financial Service Center. Contact information for SHPS will be made available to you as soon as it is received; you will need your payroll office identifier code, **89-00-0001,** to set up one or more FSA accounts. Information pertaining to FSA may be obtained at http://www.opm.gov/insure/pretax/ As a reminder, all Federal retirement, thrift savings plan, and life insurance benefits are based upon gross or unadjusted salary, and are not affected by participation in any FedFlex program. Questions regarding the FSA should be referred to Cathy Clifton, Human Resources Specialist, at (865) 576-0680.

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