

Flexible Spending Accounts *(Active Employees only)*

What is a Flexible Spending Account?

A Flexible Spending Account (FSA) is an account that allows you to set aside pre-tax dollars to pay for qualified healthcare or dependent day care expenses. You choose how much money you want to contribute to an FSA at the beginning of each plan year and can access these funds throughout the year. All FSA contributions are pre-tax, which means you save money by not paying taxes on the amounts you set aside to pay for eligible healthcare and dependent care expenses.

There are hundreds of eligible expenses for your FSA funds, including prescriptions, doctor office copays, health insurance deductibles and coinsurance for you, your spouse or eligible dependents. Claims for Same Sex Spouses/Domestic partners and the dependent child(ren) of same sex spouses/domestic partners are not eligible for FSA (reimbursements of claims or services for them) unless they are your tax dependents as defined by the Internal Revenue Service (IRS).

NOTE: As of January 1, 2011, under healthcare reform, over the counter medications are no longer eligible for reimbursement under your healthcare FSA without a prescription. Insulin is still eligible for reimbursement.

This plan is intended not to discriminate in favor of highly compensated employees as to eligibility to participate, contribution and benefits in accordance with applicable provisions of the Internal Revenue Code. The Plan Administrator must take such actions as excluding certain highly compensated individuals from participation in the plan or limiting the contributions made with respect to certain highly compensated participants if, in the Plan Administrator's judgment, such actions serve to assure that the plans does not violate applicable nondiscrimination rules.

Plan Features

Payment (Debit) Card

If you were enrolled in the healthcare FSA plan for the 2010-2011 plan year and received a payment card, and are re-enrolling for the 2011-2012 plan year PLEASE CONTINUE TO USE YOUR CURRENT CARD. If this is your first time enrolling in a healthcare FSA, you will receive a payment card, sometimes called an FSA debit card, to quickly and easily access healthcare FSA funds. Since there is no Personal Identification Number (PIN) associated with the card, you use it like you would a credit card, and funds are deducted directly from your account. In many cases, card transactions are automatically approved. However, you may be required to submit itemized receipts for some transactions. Be sure to always keep all documentation of your payments.

Online Claims Submission


If you do not use your payment card, you have the option to quickly and easily create a secure claim online. Once you submit your receipts, ConnectYourCare will send your reimbursement within a few days. There is no minimum amount for reimbursement.

24/7 Customer Service

If you have a question, the ConnectYourCare dedicated customer service center is available 24 hours a day, seven days a week. The customer service center number is toll-free 866-971-4646.


Your Choices

There are two types of FSAs available:

 **Healthcare Account:** You may contribute between \$120 and \$3,000 a year to reimburse yourself for eligible out-of-pocket healthcare expenses, including deductibles, copays or coinsurance not reimbursed by any medical, dental, vision or prescription plans for you, your spouse or your tax dependents.

Healthcare FSA	Minimum	Maximum
Annually	\$120.00	\$3,000.00
12 pay period deductions	\$10.00	\$250.00
24 pay period deductions	\$5.00	\$125.00
20 or 21 Pay Faculty (19*) Scheduled deduction	\$6.00	\$150.00

* 20 or 21 pay faculty members must contact the Personnel Office of their respective institution to determine their pay schedule for the multiple deduction pay periods. Multiple deduction schedules differ by institution.

 **Dependent Care Account:** You may contribute between \$120 and \$5,000 a year, or up to \$2,500 a year if married and filing separately, to reimburse yourself for eligible dependent care expenses incurred so you and your spouse, if married, can work, look for work, or your spouse can attend school full-time. In addition to day care, the account may also cover some before- and after-school care expenses, summer day camp and pre-school tuition costs.

Dependent Care FSA	Minimum	Maximum
Annually	\$120.00	\$5,000.00
12 pay period deductions	\$10.00	\$416.66
24 pay period deductions	\$5.00	\$208.33
20 or 21 Pay Faculty (19*) Scheduled deduction	\$6.00	\$250.00

* 20 or 21 pay faculty members must contact the Personnel Office of their respective institution to determine their pay schedule for the multiple deduction pay periods. Multiple deduction schedules differ by institution.

TAX SAVINGS WITH AN FSA

An FSA lets you set money aside for eligible expenses before taxes are taken from your paycheck. This means the amount of income you pay taxes on is reduced, and, as a result, you save money.

Let's assume "Sue" earns \$35,000 a year and has \$1,500 in eligible expenses. The example below illustrates what she will pay with an FSA and without an FSA.*

	With FSA	Without FSA
Annual pay	\$35,000	\$35,000
Pre-tax contribution to FSA	– \$1,500	– \$0
Taxable income	= \$33,500	= \$35,000
Federal income and Social Security taxes	– \$7,362	– \$7,852
After-tax dollars spent on eligible expenses	– \$0	– \$1,500
Spendable income	= \$26,138	= \$25,648
Tax savings with your FSA	\$490	

* Sample tax savings for a single taxpayer with no dependents; actual savings will vary based on your individual tax situation; please consult a tax professional for more information.*

As you can see, Sue saved \$490 by enrolling in her FSA!

How FSAs Work

Opening and using an FSA is quick and easy.

Step 1. Determine how much money you need to set aside on an annual basis. Think about how much you spend each year on your medical plan copays, dental, vision, prescriptions and over-the-counter expenses like bandages, as well as money spent on dependent care and elder care. You may contribute up to the maximum amounts shown for each type of account. Since IRS regulations do not allow FSA funds to roll over from one year to the next, plan carefully when deciding how much to contribute. Use the FSA worksheet available at www.ConnectYourCare.com/statemd to estimate your expenses.

Step 2. That amount is automatically deducted from your paycheck before taxes are applied in equal amounts, based on your frequency of pay, throughout the year. For example, if you decide to contribute \$1,000 for the year, and you have 24 pay periods each year, you would have \$41.66 deducted from each paycheck and credited to your FSA.

Step 3. When you have eligible healthcare expenses, like copays for doctors' office visits or prescriptions, pay for them using your new healthcare payment card. For dependent day care expenses, pay using a personal form of payment and submit a claim for reimbursement. Be sure to keep your itemized receipts.

Step 4. If ConnectYourCare is not able to verify your healthcare payment card purchase, CYC will request a copy of your receipt. For all dependent care expenses and for healthcare expenses not paid for with the payment card, you can submit a claim for reimbursement either online or by filling out a claim form. You must submit appropriate documentation to support your claim, such as an itemized receipt.


Step 5. When you request reimbursement, ConnectYourCare will process your claim and reimburse you within a few working days. You can choose to set up direct deposit in your online account to have your reimbursements deposited directly into your personal banking account. Or, download a Direct Deposit form at www.ConnectYourCare.com/statemd.


You may be reimbursed from your Healthcare FSA at any time throughout the plan year for expenses up to the annual amount you elected to contribute. This means you have your full contribution amount available to you on the first day of the plan year. However, you may only be reimbursed from the Dependent Care FSA up to the amount contributed to that point. If you submit a reimbursement request for more than your current balance, it will be held until additional contributions have been added to your account during subsequent payroll periods.

Timeline for Using Account Funds


You must use all of your FSA funds by a certain date or remaining funds will be forfeited, in accordance with IRS regulations. Be sure to plan carefully so that you contribute the right amount.

Deadline for Eligible Expenses

 For the Healthcare FSA, you have a 2 1/2 month grace period after the end of the plan year to use your account for eligible healthcare expenses. This means you have until September 15, 2012 to incur eligible expenses for your Healthcare FSA.

 For the Dependent Care FSA, all eligible services must be provided by the last day of the plan year. This means you have until June 30, 2012 to incur eligible expenses for your Dependent Care FSA.

Deadline for Submitting Reimbursement Requests

 For both the Healthcare FSA and the Dependent Care FSA, you have until October 15, 2012 to submit claims for eligible expenses. Remember, even though you have until October 15, 2012 to submit the claim, the service dates must be on or before the dates listed above.

HEALTHCARE FLEXIBLE SPENDING ACCOUNT

Who is Covered

You can use the Healthcare Flexible Spending Account to pay eligible healthcare expenses for yourself, your spouse, and anyone you claim as a dependent on your federal income tax return, even if you or your dependents are not covered under the State's medical plans. You may not submit expenses incurred by your same sex spouse, domestic partner or your domestic partner's children, unless they are your tax dependents as defined by IRS rules.

What Expenses are Covered

The Healthcare Flexible Spending Account is used for your out-of-pocket healthcare expenses not paid by insurance, including deductibles, copays or coinsurance for eligible medical, prescription, dental and vision and certain eligible over-the-counter (OTC) items. All eligible expenses are based on the State's benefit plan design and IRS regulations. There is a sample list of eligible expenses on page 57 of this guide. You cannot pay insurance premiums through your FSA.

DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT

Who is Covered

You can use the Dependent Care Flexible Spending Account to pay eligible expenses for the care of:

- ✿ Your dependent children under age 13; and
- ✿ A person of any age whom you claim as a dependent on your federal income tax return and who is mentally or physically incapable of caring for himself or herself.

SPECIAL NOTICE: FSA Distributions for Reservists

The Heroes Earning Assistance and Relief Tax Act of 2008 (HEART Act) allows plans to offer "qualified reservist distributions" of unused amounts in health flexible spending accounts (FSAs) to reservists ordered or called to active duty for at least 180 days or on an indefinite basis. An Employee must request a qualified reservist distribution on or after the date of the order to call to active duty, and before the last day of the plan year (or grace period, if applicable) during which the order or call to active duty occurred. The Employee Benefits Division must receive a copy of the order or call to active duty (or extension thereof) to confirm compliance with the 180-day/indefinite requirement. To request a distribution of unused amounts contributed to the Health FSA, submit your request in writing along with a copy of your orders to the Employee Benefits Division before the last day of the plan year (June 30).

What is Covered

The Dependent Care Flexible Spending Account is used for dependent day care expenses that allow you (or you and your spouse, if married) to work or look for work, or allow you to work and your spouse to attend school full-time. The care may be provided inside or outside your home and may include things like day care, before- and after-school programs, summer day camp and pre-school tuition. You may only submit claims for dependent care services already provided.

Submitting a Claim for Reimbursement

If you pay for an expense out of pocket (without using your payment card), you may enter a secure claim for reimbursement online or using a paper claim form. There is no minimum reimbursement amount.

Online Submission

- Step 1.** Log into your online account at www.ConnectYourCare.com/statemd.
- Step 2.** Click Add New Claim from the left-hand menu. Follow the quick and easy steps on the screen to enter information about your claim. Continue through the screens and submit your claim.
- Step 3.** You are required to submit documentation for these claims. You may choose to upload scanned receipt images directly into the Claim Center, or, you may print the Claim Submission Form and submit your receipts via fax or postal mail. The Claim Submission Form has all of your personal and claim information in an encrypted bar code at the top and should be used as your fax cover sheet if faxing receipts or included in the envelope if mailing receipts.

A Healthcare Payment Card

A convenient new way to access funds and minimize the hassle of submitting claim forms. Sometimes called an FSA debit card, this payment card allows you to directly access funds in your account.

How does the payment card work?

The payment card is like a credit card, and it allows you to access your FSA funds quickly and easily. At many retailers, including many pharmacies and grocery stores (for eligible over-the-counter items), your charges may be automatically verified as an eligible expense, reducing the need for you to submit receipts. You may still have to submit receipts for some of your purchases (per IRS regulations), so you will need to keep your itemized receipts.

When do I get my payment card?

For new Healthcare FSA enrollee's, your payment card will be mailed to your house after the week of June 15, 2011. It will be automatically activated on July 1, 2011. The card will remain active for 3 years, so keep it even when your funds are depleted; the same card will be used for the next plan year's account.

What types of items may I purchase using my payment card?

Many eligible expenses can be paid for using the card, including prescriptions and certain over-the-counter items at most retailers, and doctors' charges at offices that accept major credit cards. Dependent Care FSA funds cannot be accessed using the card. Your card will not work at retail locations that do not offer healthcare items or medical services.

What if I don't want to use the card or forget to use it?

You may easily submit claims for reimbursement, either online or by using a paper form. This process will be necessary for all dependent care expenses and at times when using the payment card is not possible. However, it is always easier to use your card when you have the option.

Where can I use my payment card?

Your payment card can be used nationwide at qualified merchants. Examples of qualified merchants may include pharmacies, doctors' offices, vision centers, and hospitals. Your card should only be used to pay for medical expenses eligible under your plan, and you should always save your receipts.

Paper Form Submission

Step 1. Download a paper claim form from www.ConnectYourCare.com/statemd.

Step 2. Complete the form.

Step 3. Mail the form and your itemized receipts to the address on the form.

Once your claim is received, you can track the status of your claim at any time at www.ConnectYourCare.com/statemd. You'll receive your reimbursement within a few days. Set up direct deposit to receive reimbursements quickly.

Over-the-Counter (OTC) Items Requiring Prescriptions

Due to healthcare reform, all OTC items containing a drug or medication, like cold medicine, allergy treatment, and pain relievers, now require prescriptions for reimbursement. Some retailers will accept your OTC prescriptions at the point of sale and will allow you to use your payment card for these items. However, for many of these purchases, you will have to pay out of pocket and submit an online or paper claim for reimbursement. Be sure to include a valid prescription along with your receipt in order to be reimbursed. Please refer to www.ConnectYourCare.com/statemd for more details.

Direct Deposit

You are eligible to receive reimbursement funds by check or direct deposit. For quicker reimbursements, sign up for direct deposit into your checking or savings account. You can sign up for direct deposit on the ConnectYourCare web site.

Step 1. Log into your account and select Direct Deposit from the Home page under My Account.

Step 2. Complete the short, secure form. Be sure to have your bank account and routing numbers on hand.

Step 3. Choose Direct Deposit as your preferred method of Claim Reimbursement and click the Confirm button.

Auto Substantiation and the Debit Card

- ✿ Using Your Card at the Doctor’s Office – you may use your debit card; however, you may still have to submit documentation. Auto substantiation happens when there is a copay amount matching one found in any of our health plans. If your transaction auto substantiates, then you do not have to file a new claim.
- ✿ Paying at a Doctor Out-of-Pocket – if you pay out of pocket, you will have to submit a claim and you will have to submit documentation to support that transaction.

USING YOUR ONLINE ACCOUNT – WWW.CONNECTYOURCARE.COM/STATEMD

The FSA comes with an online account feature. Use your online account for the following features:

- ✿ Get Account Balance
- ✿ View Payment Card Charges
- ✿ Enter a New Claim
- ✿ View Claim Status
- ✿ Find Answers to Frequently Asked Questions
- ✿ Access Health Education Tools

FLEXIBLE SPENDING ACCOUNTS

HEALTH CARE ACCOUNT – ELIGIBLE EXPENSES

Sample eligible expenses include:

- ◆ Copays, coinsurance, and deductibles (but not premiums);
- ◆ Acupuncture;
- ◆ Birth control pills;
- ◆ Childbirth classes;
- ◆ Chiropractic visits;
- ◆ Dental care;
- ◆ Diabetic supplies;
- ◆ Eye exams, glasses, and contacts;
- ◆ Hearing aids;
- ◆ Laser eye surgery;
- ◆ Orthodontia;
- ◆ Over-the-counter items*;
- ◆ Physical therapy;
- ◆ Prescription drugs;
- ◆ Psychotherapy;
- ◆ Smoking cessation programs;
- ◆ Speech therapy;
- ◆ Sterilization surgery; and
- ◆ Well-baby and well-child care

* OTC items that contain a drug or medication require a prescription. Insulin, medical monitoring and testing devices, and other non-medicinal health items are eligible without a prescription.

HEALTH CARE ACCOUNT – WHAT IS NOT COVERED

Sample ineligible expenses include:

- ◆ Cosmetic procedures (unless required to restore appearance or function due to disease or illness);
- ◆ Expenses you claim on your income tax return;
- ◆ Expenses reimbursed by other sources, such as insurance plans;
- ◆ Fitness programs (unless medically necessary);
- ◆ Hair transplants;
- ◆ Illegal treatments, operations, or drugs;
- ◆ Benefit insurance premiums, including COBRA;
- ◆ Prescription drug discount fees; and
- ◆ Weight loss programs for general well-being

This is a sample list of OTC items that **may not be reimbursed under any circumstances**. These items are likely to be primarily for general health.

- ◆ Toothpaste, toothbrushes, dental floss;
- ◆ Make-up, lipstick, eye cream;
- ◆ Face cream, moisturizers;
- ◆ Perfume, body sprays, deodorants;
- ◆ Shampoos and soaps;
- ◆ Acne treatments (rarely reimbursable);
- ◆ Foot-care products like corn pads;
- ◆ Hair loss treatments; and
- ◆ Dietary supplements and replacements (vitamins).

DEPENDENT DAY CARE ACCOUNT – ELIGIBLE EXPENSES

Sample eligible expenses include:

- ◆ Care of a child under age 13 at a day camp, nursery school, or by a private sitter for a child that lives in your home at least eight hours a day;
- ◆ Before- and after-school care (must be kept separate from tuition expenses);
- ◆ Care of an incapacitated adult who lives with you at least eight hours a day; and
- ◆ Expenses for a housekeeper whose duties include caring for an eligible dependent.

DEPENDENT DAY CARE ACCOUNT – WHAT IS NOT COVERED

Eligible dependent day care services cannot be provided by a person you are claiming as your dependent. You will need the Social Security or tax identification number of the person or facility that provides the care.

Sample ineligible expenses include:

- ◆ Education and tuition fees;
- ◆ Late payment fees;
- ◆ Overnight camps (in general);
- ◆ Sports lessons, field trips, clothing; and
- ◆ Transportation to and from a dependent day care provider

24/7 DEDICATED CUSTOMER SERVICE

You may also obtain your account balance using the automated telephone service. Simply call the Customer Service Center at 866-971-4646. However, if you ever need more information, customer service representatives are available 24 hours a day, seven days a week.

UPDATED IRS GUIDANCE ON THE USE OF DEBIT CARDS FOR OTC MEDICINES

Notice 2011-5 modifies the prior IRS guidance and permits participants to use their health FSA debit cards to pay for OTC medicines and drugs on and after January 16, 2011, but only in accordance with the following restrictions, which are based on the type of entity selling the medicine or drug.

When the OTC medicine or drug order is sold by a drug store, pharmacy, non-healthcare merchant with a pharmacy, mail-order vendor, or web-based vendor, all of the following conditions must be satisfied:

- ✿ The prescription must be presented to the pharmacist at or before the time of purchase,
- ✿ The OTC medicine or drug must be dispensed by a pharmacist under applicable law;
- ✿ A prescription number must be assigned;
- ✿ The pharmacy or other entity must retain records of the prescription number, purchaser, amount, and date of sale;
- ✿ The pharmacy or other entity must make these records available to the employer on request;
- ✿ The debit card system must be designed so that it will not accept a charge for OTC medicines or drugs unless a prescription number is assigned; and
- ✿ Other existing rules for the use of debit cards are satisfied.

When the OTC medicine or drug order is sold by a vendor that uses health-related Merchant Codes, all of the following conditions must be satisfied:

- ✿ The vendor must retain records of the purchaser, amount, and date of sale;
- ✿ The vendor must make these records available to the employer on request; and
- ✿ Other existing rules for the use of debit cards are satisfied.

When the OTC medicine or drug order is sold by a “90% pharmacy,” the following condition must be satisfied:

- ✿ Substantiation (including a copy of the prescription or other documentation that a prescription has been issued) must be properly submitted in accordance with the terms of the plan with other information from an independent third party that satisfies the requirements of the proposed cafeteria plan regulations.

Note: A pharmacy is a “90% pharmacy” if (i) it maintains no inventory information approval system, and (ii) 90% of the store’s gross receipts in its prior taxable year met the definition of medical care expenses under section 213(d) of the Internal Revenue Code.

When the OTC medicine or drug order is filled by a vendor that is not described above:

The vendor may not accept FSA debit cards to pay for OTC medicines and drugs after January 15, 2011.

For More Information

If you have questions about the FSAs, call **ConnectYourCare** at 1-866-971-4646 or visit www.ConnectYourCare.com/Statemd for a comprehensive list of eligible health and dependent day care expenses.