



Flexible Spending Accounts

Working for America

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Overview

- May 2002: Director James decided to offer Flexible Spending Accounts to federal employees by mid-2003, expanding the pre-tax cafeteria benefits available to federal employees.
- OPM's initiative will extend FSAs government-wide
 - Several federal agencies already offer FSAs to their employees (e.g. Postal Service, Judiciary, banking agencies)



Overview (Continued)

- * No new legislation required. OPM has authority to implement
- * Voluntary enrollment
- * No government monies will be used to fund the program
- * Participation open to active civilian Federal employees
- * Not available to annuitants. IRS rules require that qualified pre-tax benefits come from salary



Why FSAs?

- To remain competitive with private sector for recruitment and retention
 - 87% of employers (public and private sector) surveyed offer some form of flex benefits
 - We are just coming on board



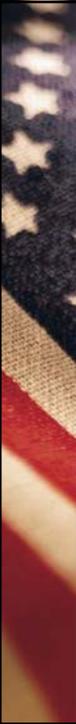
FEDFLEX: Federal Flexible Benefits Plan

- OPM's Plan Document
- Needed to qualify as a cafeteria plan under Internal Revenue Service Code (IRC) section 125
- Created for premium conversion. Now being enhanced to include:
 - Health Care FSA
 - Dependent Care FSA



Health Care FSA

- What expenses can it be used for?
 - Non-covered but tax-deductible expenses
 - Dental services
 - Vision Services (including Lasik)
 - Chiropractic
 - Health plan deductibles, copayments, coinsurance not reimbursed by another source



Dependent Care FSA

Eligible children age 13 and younger

Qualifying adult parents, siblings, etc.

- Must be claimed as a dependent on income tax return
- Adult must be physically or mentally incapable of caring for self
- May be used for adult day care; cannot be used for nursing home expenses, or if adult resides in another city
- Expense must be necessary to allow employee to work



FSA's: How They Work

- **Mutual Agreement**
 - Employee *chooses* to reduce pay for the next plan year by a selected amount through allotment
 - Agency agrees to put that amount into the employee's FSA
- **Positive election**
 - Must make election for account and amount each year



FSA's: How They Work

- ★ Medical and dependent care accounts are separate
- ★ Election is irrevocable
 - No changes without a qualifying life event (QLE)



FSA's: How They Work

- Claims Reimbursement
 - Employee submits claim against FSA account
 - Valid claims are reimbursed on pre-tax basis
 - Amounts not claimed at end of year are forfeited
 - ▲ "Use it or lose it" provision; President's budget recommends \$500 rollover
 - ▲ Participant usually has run out period of 90 to 180 days after end of year to submit claims



FSA's: How They Work

Require an administrator

- ★ Employer can self-administer
 - ✓ Possible, but seldom done
- ★ Most employers hire a TPA



FSA's: How They Work

- Health care FSA: Employer is at risk
 - Amounts allotted for HCFSA are fully available at the beginning of the plan year, even if employee has not yet contributed
- Dependent care FSA: No risk
 - Participant can only be reimbursed what he/she has contributed to date



FSA: How They Work

- ★ With FedFlex, the TPA will take on a significant amount of responsibility
 - ★ Employer risk
 - ★ Education/communication
 - ★ Enrollment activities
 - ★ Customer Service
 - ★ Developing payroll office interfaces
 - ★ Reconciliation of allotments



FSA: TPA Sources of Funds

- Typically, employer uses its tax savings to cover administrative expenses
- Gov't can only spend money specifically appropriated
- FedFlex Source of Funds
 - Forfeitures
 - ★ Interest
 - ★ Charge per account



FSA: OPM Implementation Activities

- Enhance FedFlex (plan document)
- Issue No Cost RFP
- Select TPA
- Issue Regulations
- Open Season May 2003
- July 1, 2003 effective date
- Fall 2003 Open Season coincides w/FEHB



FSA: FEHB

- FEHB Plan-related activities:
 - Including information on the health care FSA in the brochure
 - Providing information and/or links from their web site
 - Helping members understand how FSAs can maximize benefits under the plan



FSAs and FEHB: Future Enhancements

- Auto-adjudication
 - Automatic roll-over from plan to TPA
 - Member has option to turn off or on
- Debit Card
 - Point of purchase reimbursement



Questions

