



Benefits Administration Letter

Number: 03-801

Date: April 25, 2003

Subject: Federal FSA Program: Information for Agency Human Resources Staff

As we hope you've heard by now, OPM has awarded a contract to SHPS, based in Louisville, Kentucky, to serve as administrator of the new Federal FSA Program. SHPS, one of the largest FSA administrators has the experience and resources to handle a major account such as ours. We have been actively working with SHPS to meet our July 1 implementation date. Since being able to deduct allotments from pay is the essential ingredient to this program, we've been focused for the past several weeks on working with agency payroll providers. Now we'd like to share with you some information you'll find helpful in the coming weeks.

Eligible Employees

Employees whose appointment conveys eligibility for FEHB coverage may elect to enroll in the health care FSA upon entering on duty. All employees with qualified dependents may elect to enroll in the dependent care FSA except temporary employees with no fixed work schedule (when actually employed/WAE) whose tour of duty is six months or less.

Effective Date

The initial plan year for the FSA program begins July 1 and will end December 31, 2003. Employees who make an election, ***and whose payroll provider is able to deduct the allotments*** will be eligible to receive reimbursement for covered expenses incurred on or after July 1. Many payroll systems have reported that they'll be ready. We are working very hard with all payroll systems to answer questions, address concerns, and make the process of deducting allotments as easy as possible. We have confirmation these payroll providers will be ready to begin deducting FSA allotments July 1st:

CIA	Department of Labor
DHS	National Finance Center
DOI/NBC	Nuclear Regulatory Commission
EPA	Railroad Retirement Board
FBI	State Department
GSA	U.S. Senate
HHS	U.S. Tax Court
Interior	

If your agency payroll provider is not listed here, we have not received confirmation that they will be ready. You may wish to contact your servicing payroll office to determine when the program will be available to you.

Open Season for Initial FSA Plan Year

Open Season for the Initial FSA Plan Year will begin May 19th and end June 20th. During this time, employees can elect to enroll in the healthcare FSA (HCFSA) and/or a dependent care FSA (DCFSA). For the HCFSA, employees may elect a maximum of \$3,000 per plan year. For the DCFSA, an annual maximum of \$5,000 may be elected. For both benefits, the minimum election must be \$250. No other benefit elections can be made during this time.

SHPS has a dedicated toll-free number for Federal employees: 1-877-FSAFEDS (372-3337). Please note that this number will not be staffed by customer service representatives until May 19th. Beginning that day, customer service representatives will be available from 9 AM until 9 PM Eastern Time, Monday through Friday to answer questions, and assist employees who wish to enroll via the phone.

There will not be any educational/enrollment campaign for the Initial FSA Plan Year Open Season. Like the Long Term Care Program, the Open Season that begins May 19th is geared towards employees who are already familiar with the benefits and risks of an FSA and are ready to make an election.

Enrollment

There are two ways to enroll during the first open season. First, SHPS is enhancing their very good electronic enrollment system specifically for our program. The enrollment system will let employees know which FSA they are eligible to elect, and Web-based enrollment at www.fsafeds.com will be available 24/7. Employees may also call the toll-free number (1-877-FSAFEDS [372-3337]) and a SHPS customer service representative will complete the enrollment interactively with the employee.

Eligible Expenses

In order for an expense to be eligible for reimbursement under an FSA, the expense must be incurred during the plan year. For 2003, the plan year begins July 1 for employees whose FSA allotments begin in July.

HCFSA

Expenses that are:

- tax-deductible;
- related to the diagnosis, treatment or cure of a medical condition, mitigation or prevention of disease that affects any part or function of the body;
- are primarily to alleviate or prevent a physical or mental defect or illness;
- are not reimbursed by FEHB or any other source; and
- are incurred by you and/or any dependent you claim on your federal income tax return may be reimbursed under a health care FSA.

Insurance premiums of any kind—non-FEHB coverage, Medicare Part B, Tricare, etc., do not qualify for reimbursement. FEHB premiums are already deducted pre-tax through premium conversion.

DCFSA

If a family member is:

- under age 13; and/or <-- Corrected 5/20/03
- a person of any age whom you claim as a dependent on your federal income tax return;
- mentally or physically incapable of caring for himself or herself; and
- the care is necessary to allow your employee and if married, his or her spouse to work

then the dependent care expenses for that family member may be reimbursed

Program/Account Costs

There are no government funds available to implement or administer this program. Most employers cover ongoing administrative expenses by using the savings they accrue on employer FICA taxes they don't have to pay since income is reduced for those employees who participate in pre-tax benefits such as premium conversion and FSAs. At this time, we have no mechanism for agencies to forward their FICA savings to SHPS to cover the administrative costs for their employees. Therefore, administrative costs will be covered by participants paying a monthly fee per account. For the HCFSA, the fee is \$4 for every month you participate. For the DCFSA, the fee equals 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 an employee's first claim for reimbursement of a covered expense. We hope to work with you in the future to eliminate any employee cost to participate.

Subsequent Open Seasons

The FSA open season will coincide each year with the FEHB open season. During that time, employees will have the opportunity to elect a HCFSA and/or a DCFSA for the Plan Year which begins the next January 1. Open Season for the 2004 plan year will be from November 10 through December 8.

Positive Election Required

FSAs will require a positive election each and every year. If an employee does not make an election, they will not participate in an FSA for the next plan year. This is very different from other benefit elections (FEHB, premium conversion, LTC, FEGLI), and we will focus on the required annual election during the November-December open season which leads into the first full plan year.

Qualified Status Changes/Qualifying Life Events

Qualified Status Changes (QSCs) is an IRS term used to determine if someone who participates in an FSA can change their election outside of open season. These QSCs are very similar-and usually identical—to the QLEs that you've used for premium conversion, and include such events as:

- Change in Legal Marital Status: marriage, divorce, legal separation, annulment

- Change in your number of dependents: birth or adoption of a child, youngest dependent aging up, etc.
- Change in employment status that affects your eligibility for benefits.

You will continue to make QLE determinations for premium conversion. SHPS will make QSC determinations for FSAs. All changes to elections must be on account of and consistent with the status change/life event.

Role of Agency HR Staff

Many of you have called or emailed us recently asking for training or information to provide to your employees. We appreciate your willingness and eagerness to get information to your employees. We are NOT expecting Federal human resources professionals to become flexible spending account experts and converse knowledgeably with employees about the rules and requirements of flexible spending accounts. That's what SHPS will do. What we will expect is that when employees approach you with a question, you know to refer them to the SHPS dedicated toll-free number (1-877-FSAFEDS [372-3337]), the web site (www.shps.net/fsafeds), published pamphlets, etc. Similar to the LTC Program, you will be conduits in directing employees where to go for answers, as opposed to answering their questions directly.

Communication

We have three ways for you to get up-to-the-minute information on FSAs, and our implementation activities.

ListServ

OPM has set up an FSA listserv that will be the fastest way to get news and updated information. Instructions on how to sign up for the listserv are included at the end of this BAL.

Web Site

We are pleased to announce that SHPS has established a dedicated web site for the Federal FSA Program. That address is: www.fsafeds.com. Please bookmark it, share it with your employees, and visit it often.

Email Address

If you have a specific question that is not yet addressed on the web site, you may send SHPS an email at fsafeds@shps.net.

A tri-fold brochure which provides some overview information on the Federal FSA Program will soon be ready, and available on the web site for download. You may reproduce this brochure for your employees.

Benefits Officer Meeting

The Benefits Officers Training and Development Group has scheduled another meeting on FSAs on April 28, 2003 from 10 AM until noon in the OPM auditorium. SHPS will be at that meeting to present

an overview and answer your questions.

2003 Benefits Officer Conference

FSAs will be a hot topic at June's Benefits Officer conference in Greensboro, North Carolina. SHPS will be an active participant in both the Plenary Session as well as during breakout sessions scheduled for June 4th and 5th. They will also have a booth set up to answer your specific questions throughout the conference.

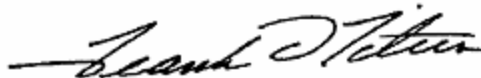
Payroll Providers

Many agencies contract out payroll services to one of the major payroll providers. Other agencies have their own payroll systems, some of which will be transitioned to one of the four e-Payroll providers over the next 18 months. SHPS is currently contacting each agency payroll provider to work out specific file transfer details. If you have your own payroll system, and your payroll office has not yet heard from a SHPS representative, please ask them to contact Laurie Bodenheimer at 202-606-1413, or lrbodenh@opm.gov.

Adopting Agencies

Back in the summer of 2000, agencies not part of the Executive Branch were offered the opportunity to "adopt" FedFlex, OPM's plan (if they did not have their own premium conversion plan). Since FedFlex is now being expanded to include FSAs, those agencies will be contacted and offered the opportunity to add FSAs under our plan. If you are not sure if your agency needs to adopt FedFlex, please contact Laurie Bodenheimer (see above).

We look forward to working with you to implement this exciting (and much anticipated) new benefit for Federal employees.



Frank D. Titus
Assistant Director
for Insurance Services

Attachment

How to Subscribe to the New FSAInfo Listserv

1. Send an email to listserv@listserv.opm.gov
 - a. Put whatever you want in the subject line of your email. The subject is not used in the subscription process.
 - b. In the BODY of the message type:
SUBSCRIBE FSAINFO firstname lastname, substituting your own first and last names.
 - c. Skip a line and add two dashes (--)
 - d. Do not put anything else in the body of the email.

Here's an example:
SUBSCRIBE FSAINFO Laurie Bodenheimer
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 - e. The computer stores the email address that you used to send the message as the email address that you wish to receive the listserv emails. So if your outgoing email address is different from the address you want to receive the incoming email, you cannot subscribe this way. Instead you must send an email to Laurie Bodenheimer at lrbodenh@opm.gov and explain the problem. She can add you to the list manually.
2. You should receive a CONFIRMATION email soon after sending your SUBSCRIBE email. If you do not, then there is something wrong with your outgoing email message. Please double-check that you followed the instructions exactly. If you continue to have problems, please email Laurie Bodenheimer at lrbodenh@opm.gov.
3. Follow the instructions in the Confirmation email reply exactly. You will not be subscribed to the listserv until you reply to the Confirmation email as stated in that message. The Confirmation email will also contain instructions on how to cancel your subscription.
4. Encourage other human resources professionals to subscribe. This listserv will operate well into 2004, so please make sure that new HR personnel subscribe when they come onboard. We need your support to make this work!

If you have any questions, please call Ms. Bodenheimer at 202/606.1413.