



Benefits Administration Letter

Number: 03-804

Date: June 16, 2003

Subject: Enrollments Begin for the Federal FSA Program

We are very pleased to let you know that the Federal Flexible Spending Account Program (FSAFEDS) will begin accepting enrollments on June 16, 2003 and **the Open Season has been extended through June 27**. This will allow employees more time to enroll without delaying the July 1 effective date for employees of agencies that can begin deducting allotments in July. Sykes Health Plan Services (SHPS), our Flexible Spending Account (FSA) Administrator, is currently working with each payroll provider to discuss how this extended enrollment opportunity may affect the timing of the first allotments from pay.

FSA Administrative Fees

As you know, we delayed accepting enrollments while we considered whether agencies had the authority to pay the negotiated administrative fees on behalf of their employees (\$4 per month per participant for a health care FSA (HCFSA); 1.5% of the annual allotment per participant for a dependent care FSA (DCFSA)). Consistent with previous long-term plans for the program, the Office of Personnel Management (OPM) explored source funding for administrative fees for the 2004 plan year. However, recent events in the federal community gave us the opportunity to advance our examination of agencies' authority to pay fees on behalf of their employees.

Under FSAFEDS your agency will not contribute towards FICA and Medicare taxes on allotments that your employees make to a HCFSA and a DCFSA. The issue was whether agencies could use these savings to pay employee administrative fees. OPM and OMB have concluded that, assuming no specific constraint in a particular agency's authorizing or funding statute, agencies may use these savings to pay administrative fees for employees.

On June 13, 2003, our Director, Kay Coles James, sent a memorandum (attached) to heads of departments and agencies urging the payment of fees. It is important that Federal employees be allowed to keep their hard-earned money. We strongly encourage you to pay the modest FSAFEDS fees on behalf of your employees. It's the right thing to do. You may wish to note that our analysis has shown that even after paying fees, agencies will still accrue savings. However, the decision is up to each individual employing agency.

We need to know your agency's decision regarding payment of fees by June 27. You must respond. Please email your response to Laurie Bodenheimer at lrbodenh@opm.gov . In the meantime, so as not to delay enrollment any further, employees will receive the following message as they enroll:

I understand that my agency has been offered the opportunity to pay my administrative fees. If my agency chooses not to cover these fees, I also understand that I am personally responsible for payment of administrative fees, and that the annual fee amount for my FSA(s) will be deducted in its entirety, from my available account balance, at the beginning of the Plan Year.

We will forward specific information on billing and payment procedures in a separate BAL shortly.

Web Site Updates

In anticipation of enrollments, we've added some important new information to the FSAFEDS web site. This includes a new brochure and links to the IRS web site defining eligible medical expenses (Section 213(d)), and featuring a full list of IRS designated expenses that may be eligible for reimbursement under a HCFSA; a document listing the Qualified Status Changes (QSCs) that will permit employees to change their election during the plan year, and a QSC form that employees can download. There are also "Frequently Asked Questions" that will be beneficial in educating employees on the Program. Please encourage your employees to review this information prior to enrolling. Employees will be able to review, modify or cancel their elections through June 27, 2003.

Enrollment System

As you know, when individuals enrolled in the Long Term Care Insurance Program, they needed to have a copy of a leave and earnings statement, and were required to manually enter their payroll office number (PON) in order to complete an enrollment. We continue to experience problems caused by input errors on the part of employees. Based on strong feedback from LTC Partners, SHPS (our FSA contractor), and OPM have simplified the enrollment process by having employees select their employing agency, with the correct PON being pulled in from a table. We've been successful...to a point. Employees of some agencies that are payrolled by the National Finance Center (NFC) and some that are payrolled by the Defense Finance and Accounting System (DFAS) will need to have a leave and earnings statement available in order to complete the enrollment but the majority of employees will not. We hope to eliminate the need to know payroll provider identifying information in time for the Fall 2003 Open Season.

There are a number of employees, principally those serviced by the DFAS, whose FSA effective date will be September 1 because September is the first month in which their servicing payroll office is prepared to execute FSA allotments. **All employees who wish to participate during calendar year 2003 must enroll by June 27, 2003**, except those who are eligible for Belated Enrollment.

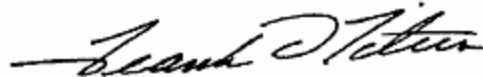
Belated Enrollments

Absentee Belated Enrollments will be accepted by SHPS for employees unable to enroll during the Open Season for reasons outside of their control. Employees who wish to make a belated enrollment due to extenuating circumstances will need to complete the affidavit/enrollment form within 30 days of return to their duty station, but no later than October 1 of any Plan Year. Since all FSA elections must be made prospectively, the belated enrollment is effective the day after the employee's election has been submitted to SHPS and cannot be changed unless the employee experiences a Qualified Status Change. Claims for services rendered prior to the enrollment effective date will not be paid.

Information for Employees

We are pleased with the number of web site visits and calls placed by Federal employees since May 19. We also appreciate your feedback on web content and the quality of information and assistance you and your employees have received from FSAFEDS Benefit Counselors. Both OPM and SHPS want to provide information that is timely, accurate, and meets the needs of your employees. Please continue to bring customer service issues to our attention – we can only fix what we know about.

We've included an attachment that we hope you'll use to let your employees know that FSAFEDS enrollments are now being accepted. Please fill in the blanks using agency-specific information. If you are payrolled by NFC or DFAS, in order to complete item #1 in the attached information for employees, you will need to access the FSA Enrollment System and enter your agency to determine if your employees will need a recent copy of their earnings and leave statement to enroll.



Frank D. Titus
Assistant Director
for Insurance Services

Attachments

Attachment 1 **Information for Employees**

Good News! The FSAFEDS Program will begin accepting enrollments to participate in a health care flexible spending account (FSA) and/or a dependent care FSA beginning June 16, 2003. The Open Season has been extended until June 27.

There are several updates to the FSAFEDS web site that you should review prior to deciding if you want to enroll. These include:

- Detailed information on eligible expenses under a HCFSA
- A Qualified Status Change (QSC) Guide, which explains the events that may allow you to change your election during the plan year.
- Many new FAQs.

Employees who wish to make an election to participate in a health care FSA and/or a dependent care FSA have two options to complete an enrollment:

1. Online via the www.FSAFEDS.com web site.

Click on the link for enrollment. Carefully read the opening page. Since _____ is our payroll provider, you may/won't need to have a recent copy of your earnings and leave statement in order to complete the enrollment, or

2. Call the toll-free number 1-877-FSAFEDS (372-3337). A Benefit Counselor will complete the enrollment with you.

You must provide your social security number to complete an enrollment. This number will only be used to ensure that your pro-rated allotments are correctly deducted. As you enroll, you will have the option to elect an alternate ID to be used when accessing your account.

As you know, the FSAFEDS program will charge fees to cover the administrative costs of the program. The fees are \$4 per participant per month for a health care FSA and 1.5% of the annual allotment for a dependent care FSA. OPM has concluded that an agency may have the authority to pay for these fees on behalf of its employees. Our agency is in the process of determining whether we will be covering administrative fees for you. As soon as we have made a decision, we will let you know.

Attachment 2

MEMORANDUM FOR HEADS OF DEPARTMENTS AND AGENCIES

FROM: KAY COLES JAMES /s/6/13/03
Director

Subject: Flexible Spending Accounts Open Season

I am delighted to let you know that the Federal Flexible Spending Account Program (FSAFEDS) will begin accepting enrollments on Monday, June 16 and **FSAFEDS Open Season has been extended through June 27**. This will allow employees more time to examine the benefits of the FSAFEDS Program and enroll without delaying the July 1 effective date for employees of agencies that can begin deducting allotments in July.

As you know, we delayed accepting enrollments while we considered whether agencies had the authority to pay the negotiated administrative fees on behalf of their employees (\$4 per month per participant for a health care FSA (HCFSA); 1.5% of the annual allotment per participant for a dependent care FSA (DCFSA)). Consistent with previous long-term plans for the program, the Office of Personnel Management (OPM) explored source funding for administrative fees for the 2004 plan year. However, recent events in the federal community gave us the opportunity to advance our examination of agencies' authority to pay fees on behalf of their employees.

Under FSAFEDS your agency will not contribute towards FICA and Medicare taxes on allotments that your employees make to a HCFSA and a DCFSA. The issue was whether agencies could use these savings to pay employee administrative fees. OPM and OMB have concluded that, assuming no specific constraint in a particular agency's authorizing or funding statute, agencies may use these savings to pay administrative fees for employees.

It is important that Federal employees be allowed to keep their hard-earned money. I strongly encourage you to pay the modest FSAFEDS fees on behalf of your employees. It's the right thing to do. You may wish to note that our analysis has shown that even after paying fees, agencies will still accrue savings. However, the decision is up to each individual employing agency.

We have sent a separate Benefits Administration Letter to your Benefits Officer with additional information on the FSAFEDS Open Season and instructions on notifying OPM **by June 27** about your fee decision.

I am so pleased that this valuable benefit will soon be available to Federal employees and their families, and look forward to our continued cooperation on this and other important benefits for the Federal workforce.