FLEXIBLE SPENDING ACCOUNTS

Revised: 1/21/2016
<table>
<thead>
<tr>
<th>TOPIC</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent Care Flexible Spending Account (Dependent Care FSA)</td>
<td>Page 3</td>
</tr>
<tr>
<td>Who is eligible?</td>
<td>Page 3</td>
</tr>
<tr>
<td>What expenses qualify for reimbursement?</td>
<td>Page 3-4</td>
</tr>
<tr>
<td>What expenses don’t qualify for reimbursement?</td>
<td>Page 4-5</td>
</tr>
<tr>
<td>How much can I contribute to my Dependent Care FSA?</td>
<td>Page 5</td>
</tr>
<tr>
<td>How much can I be reimbursed?</td>
<td>Page 5</td>
</tr>
<tr>
<td>How do I receive reimbursement?</td>
<td>Page 5-6</td>
</tr>
<tr>
<td>Can I change the amount of money I put into my account?</td>
<td>Page 6</td>
</tr>
<tr>
<td>How does the Dependent Care FSA compare with the Federal Child and Dependent Care Income Tax Credit?</td>
<td>Page 6</td>
</tr>
<tr>
<td>Will participation in a Dependent Care FSA affect my other benefits?</td>
<td>Page 6-7</td>
</tr>
<tr>
<td>Will a Dependent Care FSA work for me?</td>
<td>Page 7</td>
</tr>
<tr>
<td>How do I enroll in the Dependent Care Flexible Spending Account?</td>
<td>Page 7-8</td>
</tr>
<tr>
<td>How do I check the status of my Flexible Spending Account?</td>
<td>Page 8</td>
</tr>
<tr>
<td>What happens if I take an unpaid leave of absence or layoff?</td>
<td>Page 8</td>
</tr>
<tr>
<td>Where can I get more information?</td>
<td>Page 8</td>
</tr>
<tr>
<td>Estimating your dependent care expenses</td>
<td>Page 8-9</td>
</tr>
<tr>
<td>Example 1</td>
<td>Page 9</td>
</tr>
<tr>
<td>Worksheet 1</td>
<td>Page 10</td>
</tr>
<tr>
<td>Comparing the Child and Dependent Care Income Tax Credit and the Dependent Care Spending Account</td>
<td>Page 10</td>
</tr>
<tr>
<td>Example 2</td>
<td>Page 10-11</td>
</tr>
<tr>
<td>Worksheet 2</td>
<td>Page 11</td>
</tr>
<tr>
<td>Health Flexible Spending Account (HCSA)</td>
<td>Page 12</td>
</tr>
<tr>
<td>Who is eligible?</td>
<td>Page 12</td>
</tr>
<tr>
<td>What expenses qualify for reimbursement?</td>
<td>Page 12</td>
</tr>
<tr>
<td>What expenses don’t qualify for reimbursement?</td>
<td>Page 12-13</td>
</tr>
<tr>
<td>How much can I contribute to my Health FSA?</td>
<td>Page 13</td>
</tr>
<tr>
<td>Question</td>
<td>Page</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>How do I receive reimbursement?</td>
<td>13-14</td>
</tr>
<tr>
<td>Can I change the amount of money I put into my account?</td>
<td>14</td>
</tr>
<tr>
<td>How the Health Flexible Spending Account saves you money</td>
<td>14-15</td>
</tr>
<tr>
<td>Will participation in a Health FSA affect my other benefits?</td>
<td>15</td>
</tr>
<tr>
<td>Will a Health FSA work for me?</td>
<td>15</td>
</tr>
<tr>
<td>How do I enroll in the Health Flexible Spending Account?</td>
<td>15-16</td>
</tr>
<tr>
<td>How do I check the status of my Flexible Spending Account?</td>
<td>16</td>
</tr>
<tr>
<td>What happens if I take an unpaid leave of absence or layoff?</td>
<td>17</td>
</tr>
<tr>
<td>Where can I get more information?</td>
<td>17</td>
</tr>
<tr>
<td>Health Flexible Spending Account Worksheet</td>
<td>17-18</td>
</tr>
</tbody>
</table>
Flexible Spending Accounts (FSA)

DEPENDENT CARE Flexible SPENDING ACCOUNT (Dependent Care FSA)

INTRODUCTION

A Dependent Care Flexible Spending Account is a benefit to help you meet your dependent care expenses. It enables you to save money by paying for dependent care expenses in pre-tax dollars.

You designate an amount of money to be set aside from your paycheck. This money is deducted from your gross pay before federal, state, city, and Social Security taxes are calculated. To use the Dependent Care FSA, you pay for your actual expenses out-of-pocket and then request reimbursement from the plan administrator by submitting a Dependent Care FSA Reimbursement Request form. (Note: you can find the name and contact information for the plan administrator at the end of this brochure.) Your non-taxable reimbursement will be sent by check to your home or by direct deposit into your personal bank account if you select this option.

1. Who is eligible?

The Flexible Spending Accounts (e.g., Dependent Care Flexible Spending Account and/or Health Flexible Spending Account) are provided as options for all eligible full-time (90%-100%) and part-time (50%-89.9%) executive management, faculty, academic and support staff. These employees have 30 days from the day of initial appointment/hiring or eligibility to sign-up for Flexible Spending Accounts (FSA). Employees that do not enroll by the enrollment deadline will not be eligible for the tax savings opportunities until the next FSA open enrollment unless they have a qualifying life event. See page 7 for a list of qualifying life events.

2. When is my coverage effective?

The program is effective the first day of the month following enrollment or changes.

Example

If an employee is hired 7/15 and enrolls in the Dependent Care FSA the same day. The program goes into effect 8/1. Only eligible expenses occurring 8/1 or after may be submitted for reimbursement. If this same employee waits to enroll until 8/15 then the program goes into effect 9/1. Only eligible expenses occurring 9/1 or after may be submitted for reimbursement.

3. What expenses qualify for reimbursement?

To qualify for reimbursement according to Internal Revenue Service (IRS) rules, eligible expenses must be incurred for qualifying dependents and these expenses must be work-related.

Eligible expenses include:

- The cost of care provided in your home for a qualifying dependent.
- The cost of care provided outside your home for a qualifying dependent. If the qualifying dependent is a spouse or parent, that individual must spend at least 8 hours each day living in your home.

A care provider can be a babysitter, an eldercare provider, a licensed day care center, a relative who is not a tax dependent, a latchkey child (before and after school) program, or an eldercare facility.
A qualifying individual includes a qualifying child, if he or she:

- Is a U.S. citizen, national, or a resident of the U.S., Mexico, or Canada
- Has a specified family-type relationship to you
- Lives in your household for more than half of the taxable year
- Is 12 years old or younger
- Has not provided more than one-half of his/her own support during the taxable year

A qualifying individual includes your spouse, if he or she:

- Is physically and/or mentally incapable of self care
- Lives in your household for more than half of the taxable year
- Spends at least eight hours per day in your home

A qualifying individual includes a qualifying relative, if he or she:

- Is a U.S. citizen, national, or a resident of the U.S., Mexico, or Canada
- Is physically or mentally incapable of self care
- Lives in your household for more than half of the taxable year
- Spends at least eight hours per day in your home
- Receives more than one-half of his or her support from you during the taxable year

**Note:** If you are a tax dependent of another person, you cannot claim qualifying individuals for yourself. You cannot claim a qualifying individual if he or she files a joint tax return with his or her spouse. Only the custodial parent of divorced or legally-separated parents can be reimbursed using the Dependent Care FSA Account.

Work-related dependent care expenses are expenses incurred because you are working, or if you are married, your spouse is working or going to school full-time. Such situations might include:

- You are single; including separated, divorced, or widowed and incur eligible expenses for a qualifying dependent because you are working.
- You are married and working and incur eligible expenses for a qualifying dependent so your spouse can also work or attend school full-time for five months or more during the plan (calendar) year.
- You are married and work and incur eligible expenses for a mentally or physically disabled spouse so you can work.

4. What expenses don’t qualify for reimbursement

According to IRS regulations, the following expenses are non-reimbursable:

- Payments made to anyone you claim as a tax dependent.
- Payments made to your children age 18 or younger who provide care to one of your dependents.
- Expenses for overnight stay or overnight summer camp.
- Schooling for children in kindergarten (including developmental) and higher.
- Residential nursing home expenses.
- Services that occur prior to the employee’s effective date of the plan.

A complete list of eligible/ineligible expenses can be located at [http://www.conexismarketing.com/employees/eligible-expenses/fsa-hra](http://www.conexismarketing.com/employees/eligible-expenses/fsa-hra).
The MSU Dependent Care FSA plan year is January 1 through December 31. For more information about deadlines to submit claims go to www.hr.msu.edu, select the Benefits link and then the Flexible Spending Accounts link.

5. How much can I contribute to my DEPENDENT CARE FSA?

You may contribute up to $5,000 for the full plan (calendar) year. If you are married and your spouse’s employer also offers a Dependent Care Flexible Spending Account or both you and your spouse work at MSU, your combined total annual contribution cannot exceed $5,000. If you are married and you file a separate income tax return, contributions cannot exceed $2,500 for each of you, with a $5,000 total maximum. You may use the worksheet on page 10 to estimate your total annual dependent care expenses and to determine your pay period Dependent Care FSA reduction amount. A worksheet may also be found on the MSU HR website. Go to www.hr.msu.edu and select Benefits link. Then select the Flexible Spending Accounts link to access this information.

A listing of the monthly and bi-weekly pay dates can be found on the web at www.ctlr.msu.edu/payroll. Please plan carefully. The IRS requires any unused money left in your account at the end of the plan year to be forfeited.

6. How much can I be reimbursed?

The total amount of expenses you submit for reimbursement in a plan (calendar) year must not exceed the lesser of your earned income, your spouse’s earned income if you are married, or $5,000.

**Example – Working Spouse**

If your working spouse earns $4,000 a year, the maximum amount you can be reimbursed is $4,000. If your working spouse earns $20,000, the maximum amount you can be reimbursed is $5,000.

**Example – Non-Working Spouse**

According to IRS regulations, a spouse who is disabled or a full-time student is determined to have an income of $250 per month if you have one dependent (total annual income of $3,000), or $500 per month if you have two dependents or more (total annual income of $6,000). If your spouse is a full-time student and you have one dependent, your maximum reimbursable amount is $3,000; if you have two dependents or more, your maximum reimbursable amount is $5,000 plus you can claim the remaining $1,000 toward the Federal Child and Dependent Care Income Tax Credit.

**Please note:** If you use the Dependent Care Flexible Spending Account, you cannot use the federal income tax credit for the same expenses.

7. How do I receive reimbursement?

To receive reimbursement from your account:

1. Complete a Dependent Care Flexible Spending Account Reimbursement Request form. To find the form go to www.hr.msu.edu and select Benefits link. Then select the Flexible Spending Accounts link.

2. Attach a receipt showing proof of payment from your dependent care provider for services for which you seek reimbursement. Acceptable receipts can be an original itemized bill or copy of the bill. Be sure to retain copies of the reimbursement request forms and copies of your provider receipts for your tax records. You can also have your dependent care provider sign your reimbursement form with Social Security # or Tax ID.
3. Submit the Dependent Care Flexible Spending Account Reimbursement Request form and your receipt to the plan administrator. Plan Administrator address and fax number are located on the reimbursement form. You can also obtain their contact information at the end of brochure.

4. You will receive your reimbursement directly from the plan administrator either by check mailed to your home, or by direct deposit into your personal bank account, if you elected this option.

Please note: If your reimbursement request exceeds your account balance, you will be reimbursed up to the amount in your account. The remainder will be reimbursed to you when more funds are available in your account. Also, you have until the last day in April to submit reimbursement requests for the previous year’s expenses.

8. Can I change the amount of money I put into my account?

Once you enroll in Dependent Care FSA, your participation must continue unchanged until the end of the plan (calendar) year unless you have a qualifying life event or you are terminated from MSU and rehired within the same calendar year.

Qualifying life events include marriage, divorce, death, birth/adoption, or a change in employment or care provider rates. However, the adjustment in your election must be consistent with the change in status, e.g., if you add a dependent, you can increase the amount of money you put into your account, if you get divorced, you can decrease the amount, etc. In either situation, your total contributions for the year cannot exceed the amounts described on page 5, “How much can I contribute to my Dependent Care FSA?” and may not be less than the expenses for which you’ve already been reimbursed or less than the amount you have already contributed to your account. Your available benefit following your new election (including new enrollment at your rehire) will be calculated by adding any balance (including a negative balance) remaining in your Dependent Care FSA account up to the change in election to the total contributions scheduled to be made by you during the remainder of the plan year. Your original election will apply to the expenses incurred on or after the effective date of the new election. Any changes to the Dependent Care FSA become effective the first day of the month following the changes. If you are rehired during the plan year, your enrollment will follow the same process for new hire enrollment.

Should you have questions on your status change, you may contact the plan administrator directly (see end of brochure) or contact MSU Human Resources at 517-353-4434 (toll-free 800-353-4434) or at SolutionsCenter@hr.msu.edu.

9. How does the DEPENDENT CARE FSA compare with the Federal Child and Dependent Care Income Tax Credit?

If you are currently incurring dependent care expenses, you are probably paying for these expenses in after-tax dollars and taking the Federal Child and Dependent Care Income Tax Credit when you file your income taxes. The IRS limits the federal income tax credit to eligible expenses of $3,000 for one dependent and $6,000 for two dependents or more. However, the Dependent Care FSA limit is $5,000 regardless of the number of dependents. You may use Example 2 and Worksheet 2 on pages 10 and 11 to assess the difference between the two options.

Whether you use the federal income tax credit or the Dependent Care Flexible Spending Account, you must complete and submit IRS Form 2441 with your annual income tax return. This form provides the IRS with information on your dependent care provider and your dependent care expenses for the tax year.

10. Will participation in a DEPENDENT CARE FSA affect my other benefits?

Participation in the Dependent Care FSA program may affect your future Social Security benefits because contributions to a Dependent Care FSA reduce your taxable income, which reduces your Social Security taxes. If your
taxable income is below the maximum wage taxed by Social Security, you could reduce your future Social Security benefits. For most people this reduction would be minimal – only a few dollars per month. If you invest your tax savings as a result of the Dependent Care FSA, it is projected that your tax savings could make up for any reductions in Social Security benefits.

11. Will a DEPENDENT CARE FSA work for me?

To help you decide if a Dependent Care FSA will work for you, follow the examples and complete the worksheets beginning on page 9. Follow Example 1 and complete Worksheet 1 to estimate your annual dependent care expenses and DEPENDENT CARE FSA contribution for each paycheck. Example 2 and Worksheet 2 will help you compare the benefits of using the Dependent Care FSA with the federal income tax credit.

12. How do I enroll in the Dependent Care Spending Account?

Your participation in the Dependent Care FSA is voluntary. You can add or make changes to FSA plans for the following reasons:

New Hires/Rehires
If you are a new hire you will be able to elect FSA plans using your New Hire/Rehire adjustment reason link*. You will be given 30 days to make your election.

Change in your employment Status
If you have a status that makes you newly eligible to benefits you will be able to elect FSA plans using your Newly Eligible adjustment reason link*. You will be given 30 days to make your election.

*Adjustment reason links are located online at www.hr.msu.edu select EBS login. Enter your MSU NetID and password then select Employee Self Services (ESS) tab. Select the Benefits link then the Enrollment Services link. Your adjustment reason link will vary depending on the reason for enrollment.

Qualifying Life Events
If you have a mid-year life event you may be able to begin, stop or change the amount of your spending account contributions. Qualifying mid-year life event changes include:

- Marriage
- Divorce
- Birth, adoption or legal guardianship of your child
- Death of a Spouse or Dependent
- Change in your spouse's coverage or job
- Unpaid leave of absence
- Change in Day Care Provider
- Change in day care provider or rates – resulting in a significant change in cost

If you have a qualifying life event during the plan (calendar) year, please contact Human Resources Office at 517-353-4434 (toll-free 800-353-4434) or at SolutionsCenter@hr.msu.edu for information about the process and the required documentation.

Open Enrollment
If you do not enroll in a FSA when you are first eligible, you must wait until the next open enrollment period before you can enroll. Also, keep in mind enrollment is not automatic - you must re-enroll each year to participate, even if you wish to continue the same annual contributions from year to year.

If you are a benefit eligible employee you will be able to elect FSA plans using your Open Enrollment adjustment reason link. The dates for Open Enrollment vary from year to year however annual open enrollment occurs in the fall.
If you are on a leave of absence during the annual open enrollment period, you are eligible to enroll in the Dependent Care FSA program within 30 days of your return from leave.

When enrolling, you must state the amount you wish to have subtracted from your gross pay for the plan (calendar) year. The amount you choose will be divided equally by the number of times you are paid during the plan (calendar) year. This amount will be deducted from your pay and deposited into your account each pay period.

The Dependent Care Spending Account becomes effective January 1 each year for those who enroll during FSA Open Enrollment and the first day of the month following sign-up as a new employee or as a result of a qualifying life event.

13. How do I check the status of my Flexible Spending Account?
You may call Conexis toll-free at 866-659-8376, or you may view your FSA via the web at www.conexis.com/myfsa.

14. What happens if I take an unpaid leave of absence or layoff?
Keep in mind that an unpaid leave of absence or layoff is considered by the IRS and MSU as a family or employment change in status. Contributions will cease at the onset of your leave. Events such as a leave of absence may allow you to change your elections in a manner consistent with the reason for the leave upon your return.

Upon return from leave or layoff, you will automatically be re-enrolled into your DEPENDENT CARE FSA if you return within the same calendar year. The remainder of your election will be divided equally over the remaining calendar year pay periods. As a result of the re-enrollment, you may submit claims that you incurred during your absence if you were working. If you were not working during your leave of absence, you may not submit any incurred claims.

Re-enrollment is not automatic in the following situation: if your return from an unpaid leave of absence occurs after 12/31 you are required to re-enroll in the Dependent Care FSA program within 30 days of your return.

15. Where can I get more information?
Please direct questions about your MSU Dependent Care Flexible Spending Account directly to the plan administrator. The correct contact information can be found at the end of this brochure.

Estimating your Dependent Care Expenses

This checklist will help you determine your annual dependent care expenses. Before completing the worksheet in Example 1, consider:

- Your dependent care expenses in previous years.
- If you have a child who will reach age 13 during the plan (calendar) year. Dependent care expenses for children age 13 and older do not qualify for reimbursement unless the child is disabled. Do not include these expenses when calculating your annual contribution.
- If you have a child who will enter kindergarten (including developmental) during the plan (calendar) year, dependent care expenses for that child may be reduced. Also consider day care expenses for before and after school programs.
- If you plan an unpaid leave of absence during the plan (calendar) year or if you are on a nine-month or academic-year appointment, your dependent care expenses may be reduced. Consider this when calculating your annual contribution. Also, if you take an unpaid leave, your salary reductions will stop for the duration of the leave period. However, you can continue to request reimbursement for any funds you have on account for dates of service provided prior to your leave. Please note that you will automatically be re-enrolled upon your return from your unpaid leave of absence if you return within the same calendar year. If your return from unpaid leave
occurs after 12/31 you are eligible to re-enroll in the Dependent Care FSA program within 30 days of your leave return.

- Your vacation plans and other times during the year which do not qualify for reimbursement.

Remember that education, medical care, transportation to and from your care provider, or housekeeping expenses that are part of your dependent care expenses do not qualify for reimbursement and should not be included in your calculation. For example, private school tuition for a child in kindergarten, medical expenses incurred while an elderly parent is at an eldercare facility, and laundry or housekeeping fees from a caregiver in your home are not reimbursable.

**Example 1**

Mary Smith is married and has a two-year old child in day care. Her weekly day care expenses are $100 and she estimates that she will have 4 weeks without expenses for vacation, holidays, personal days, and sick days. Mary calculates her total dependent care expenses for the year as follows:

<table>
<thead>
<tr>
<th>Number of weeks in year</th>
<th>52</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minus number of weeks with no expenses</td>
<td>- 4</td>
</tr>
<tr>
<td>Total weeks of dependent care expenses</td>
<td>48</td>
</tr>
<tr>
<td>Weekly dependent care expenses</td>
<td>$100.00</td>
</tr>
<tr>
<td>Multiplied by total weeks of dependent care expenses (from calculation above)</td>
<td>( \times 48 )</td>
</tr>
<tr>
<td>Total estimated annual dependent care expenses</td>
<td>$4,800.00</td>
</tr>
</tbody>
</table>

**Determine pay period Dependent Care FSA reduction amount:**

| Estimated annual dependent care expenses | $4,800.00 |
| Divide by number of times you are paid each year (12 or 26) | \( \div 26 \) |
| Reduction amount for each pay check | $184.62 |

**Worksheet 1**

*Estimate your annual dependent care expenses below:*

<table>
<thead>
<tr>
<th>Number of weeks in year</th>
<th>52</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minus number of weeks with no expenses</td>
<td>-</td>
</tr>
<tr>
<td>Total weeks of dependent care expenses</td>
<td></td>
</tr>
</tbody>
</table>
Weekly dependent care expenses | $  
Multiplied by total weeks of dependent |  
Care expenses (from calculation above) | x  
Total estimated annual dependent care expenses | $  

### Determining your pay period Dependent Care FSA reduction amount below:

| Estimated annual dependent care expenses | $  
| Divide by number of times you are paid each year (12 or 26) | ÷  
| Reduction amount for each pay check | $  

### Comparing the Child and Dependent Care Income Tax Credit and the Dependent Care Spending Account

Read the example, then complete the calculations below and compare the results to determine which alternative provides the most tax savings. You may also wish to consult your tax advisor to determine which option is best for you.

#### Example 2

Mary Smith estimated her dependent care expenses to be $4,800 for the year (see Example 1). She and her spouse have a combined adjusted gross income of $70,000; minus dependent exemptions and standard deduction their taxable income is $52,000. Mary's federal income tax credit for dependent care has been calculated below:

| 1. Estimated dependent care expenses (from Example 1) | $4,800  
| 2. Eligible expenses – $3,000 for one child, $6,000 for two children or more | $3,000  
| 3. Adjusted gross income | $70,000  
| 4. Tax credit percentage (from Table A) | 20%  
| 5. Estimated tax credit (the lesser amount of Line 1 or Line 2 above x tax credit percentage) $3,000 x 20% = | $600  

To estimate her tax savings from a Dependent Care FSA, Mary calculated:

| 1. Estimated dependent care expenses | $4,800  
| 2. Total tax rate:  
  Federal tax rate (from Table B - married) | 15%  
  Social Security tax rate | 7.65%  
  Michigan state tax rate | 4.35%  
  City tax rate | 0%  
  Total tax rate | 27%  

MSU Human Resources
According to these calculations, Mary’s Dependent Care FSA savings would be $1,296, and her federal income tax credit would be $600. By using the DEPENDENT CARE FSA, Mary would save $696.

Worksheet 2 – Assessing the Alternatives

**Estimate your federal income tax credit below:**

**Now calculate your tax savings using a DEPENDENT CARE FSA below:**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Estimated dependent care expenses (from Worksheet 1)</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>2. Maximum expenses eligible for tax credit ($3,000 for one child, $6,000 for two children or more)</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>3. Adjusted gross income (from your last income tax return)</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>4. Percentage of federal income tax credit (from Table A)</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>5. Estimated tax credit (the lesser of Line 1 or Line 2 above x tax credit from line 4)</td>
<td>$</td>
<td></td>
</tr>
</tbody>
</table>

1. **Estimated annual dependent care expenses (Worksheet 1)** $  
2. **Calculate your total tax rate by adding:**   
   a. Federal income tax rate (from Table B)  
      Social Security tax rate (7.65% if your annual salary is less than or equal to the Social Security wage base maximum, otherwise 1.45%)  
   b. Michigan state tax rate 4.35%  
   c. City tax rate if applicable  
   Total tax rate  
3. **Estimated tax savings (estimated annual dependent care expenses x total tax rate)** $  

**Note:** These tax savings examples are intended to provide projections and are not to be interpreted as tax advice.
HEALTH FLEXIBLE SPENDING ACCOUNT (Health FSA)

INTRODUCTION

A Health Flexible Spending Account is a cost-effective way to pay for medical and dental plan deductibles/co-payments, eyeglasses, contact lenses, orthodontics, some over-the-counter medications and other health-related expenses that are not covered by insurance. It enables you to save money, on a calendar-year basis, by paying for health-related expenses with pre-tax dollars.

You designate an amount of money to be set aside from your paycheck. This money is deducted from your gross pay before federal, state, city and Social Security taxes are calculated. To use the Health FSA, you pay for your actual expenses out-of-pocket and then request reimbursement for these expenses from the plan administrator by submitting a Health FSA Reimbursement Request form. Your non-taxable reimbursements will be sent by check to your home or by direct deposit into your personal bank account if you select this option.

1. Who is eligible?

The Flexible Spending Accounts (Dependent Care Flexible Spending Account and Health Flexible Spending Account) are provided as options for all eligible full-time (90%-100%) and part-time (50%-89.9%) executive management, faculty, academic and support staff. These employees have 30 days from the day of initial appointment/hiring or eligibility to sign-up for Flexible Spending Accounts (FSA). Employees that do not enroll by the enrollment deadline will not be eligible for the tax savings opportunities until the next FSA open enrollment unless they have a qualifying life event. See page 16 for a list of qualifying life events.

2. When is my coverage effective?

The program is effective the first day of the month following enrollment or changes.

Example

If an employee is hired 7/15 and enrolls in the Health Flexible Spending Account the same day. The program goes into effect 8/1. Only eligible expenses occurring 8/1 or after may be submitted for reimbursement. If this same employee waits to enroll until 8/15 then the program goes into effect 9/1. Only eligible expenses occurring 9/1 or after may be submitted for reimbursement.

3. What expenses qualify for reimbursement?

Eligible expenses include office co-pays/deductibles, eyeglasses, contact lenses, orthodontics, some over-the-counter medications and other health-related expenses not covered by your insurance. You are allowed to include out-of-pocket expenses for yourself, and anyone claimed as your IRS dependent for tax purposes. A more complete list of eligible/ineligible expenses is located at www.hr.msu.edu and selecting the Benefits link and then the Flexible Spending Accounts link.

4. What expenses don’t qualify for reimbursement?

According to IRS regulations, the following expenses are non-reimbursable:

- Services that occur prior to the employee’s effective date of the plan
- Canceled appointment fees
- Personal trainer
- Teeth whitening/bleaching
- Vitamins (unless medically necessary)

A complete list of eligible/ineligible expenses can be located on the web by going to www.hr.msu.edu, select the Benefits link, and then select the Flexible Spending Accounts link. In addition, reimbursements can be made only for health care services that are incurred during the plan year. The MSU Health FSA plan year is January 1 through December 31. For more information about deadlines to submit claims go to www.hr.msu.edu, select the Benefits link and then the Flexible Spending Accounts link.

5. How much can I contribute to my HCSA?

Eligible employees may contribute up to $2,550 per year. This is a per-eligible individual maximum. If you are married and your spouse’s employer also offers a Health Flexible Spending Account or both you and your spouse work at MSU, and each of you would like to have your own separate Health FSA.

Before the plan (calendar) year begins you will need to determine your annual election. After you determine your estimated annual expenses and arrive at an Health FSA contribution dollar amount, divide this amount by the number of pay periods for the (calendar) year. The amount you choose will be divided equally by the number of times you are paid during the plan (calendar) year. This amount will be contributed to your Health Flexible Spending Account. A worksheet is available on page 17 of this brochure to help you calculate your estimated expenses. A listing of the monthly and bi-weekly pay dates can be found on the web at www.ctlr.msu.edu/payroll. You will need to plan carefully as the IRS requires, in most cases, that any unused money left in your account at the end of the plan year be forfeited.

6. How do I receive reimbursement?

To receive reimbursement from your account:

1. Complete a Health Flexible Spending Account Reimbursement Request form. To find the form, go to www.hr.msu.edu, select the Benefits link and then the Flexible Spending Accounts link.

2. Attach the insurance explanation of benefits (EOB) statement for services covered by insurance, or an itemized bill for services not covered by insurance, including the name of the provider and patient, date of service, amount of the payment, amount covered by insurance and a description of the services rendered. Services submitted must be incurred within the plan (calendar) year. Be sure to retain copies of the reimbursement request forms and copies of your receipts for your records.

3. Submit the Health Flexible Spending Account Reimbursement Request form and your receipt to the plan administrator. (See end of brochure for contact information.)

4. You will receive your reimbursement directly from the plan administrator either by check mailed to your home, or by direct deposit to your personal bank account if you elected this option.

5. For some eligible expenses, like prescriptions and office-visit co-pays, you can pay for your purchase directly with a debit card that is issued to every enrollee. The Health FSA debit cards can only be used in places where eligible medical services and supplies are sold, such as medical provider offices and pharmacies. When you use the Health FSA debit card to pay for purchases, you do not have to submit a reimbursement form but you
should keep your receipts in case you are audited or asked to substantiate the eligibility of your purchases at a later date.

6. If you are a member of a reserve component of the U.S. military and are ordered or called to active duty for a period of 180 days or more or for an indefinite period, you may withdraw, on a taxable basis, up to the unspent balance of your contributions made to your healthcare flexible spending account. This applies to any distribution made on or after June 18, 2008.

For further information on the Health Flexible Spending Account or to access the on-line request forms, go to www.hr.msu.edu, select the Benefits link and then Flexible Spending Accounts link. When applying for a Qualified Reservist Distribution (QRD), please attach a copy of your order or call to active duty to the HEART Act Reimbursement form.

Please note: You have until the last day in April to submit reimbursement requests for the previous year’s expenses.

7. Can I change the amount of money I put into my account?
Once you enroll in an Health FSA, your participation must continue unchanged until the end of the plan (calendar) year unless you have a qualifying life event. Qualifying life events include marriage, divorce, death, birth/adoption, or a change in employment status. However, the adjustment in your election must be consistent with the change in status, e.g., if you adopt or give birth to a child, you could increase the amount of money you put into your account. You may also elect a different amount of contribution if you are terminated from MSU and rehired in the same calendar year.

Your total contributions for the year may not exceed the total contributions described on page 13, “How much can I contribute to my Health FSA?” and cannot be less than the expenses for which you’ve already been reimbursed or have already contributed to your account. Your available benefit following your change in election (including new enrollment at your rehire) will be calculated by adding any balance (including a negative balance) remaining in your Health FSA account up to the change in election to the total contributions scheduled to be made by you during the remainder of the plan year. Your original election will apply to expenses incurred up to the date of your change in election. Your new election will apply to expenses incurred on or after the effective date of the new election.

If you have a qualifying life event during the plan (calendar) year, you may make changes to this benefit at www.ebs.msu.edu within 30 days of the occurrence through Employee Self Service (ESS). Any changes to the Health FSA become effective the first day of the month following the changes. If you are rehired during the plan year, your enrollment will follow the same process for new hire enrollment.

Should you have questions on your status change, you may contact the plan administrator directly at the number listed at the end of this brochure or call MSU Human Resources Office at 517-353-4434 (toll-free 800-353-4434).

How the Health Flexible Spending Account saves you money.
Let’s look at an example. Benny Fits, a single person, has a taxable income of $35,000 per year. He elects to contribute $500 to his Health Flexible Spending Account. During the plan (calendar) year, he files eligible claims for the $500 in his account. As the example on the following page shows, Benny Fits will save $186 in taxes.
<table>
<thead>
<tr>
<th></th>
<th>Without a Spending Account</th>
<th>With A Spending Account</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Annual Pay</strong></td>
<td>$35,000</td>
<td>$35,000</td>
</tr>
<tr>
<td><strong>2. Less: out-of-pocket medical expenses pre-tax</strong></td>
<td>$0</td>
<td>-$500</td>
</tr>
<tr>
<td><strong>3. Taxable income</strong></td>
<td>$35,000</td>
<td>$34,500</td>
</tr>
<tr>
<td><strong>4. Less: federal taxes (based on 25% from table B in pocket)</strong></td>
<td>-$8,750</td>
<td>-$8,625</td>
</tr>
<tr>
<td><strong>5. Less: state taxes (based on 4.35%)</strong></td>
<td>-$1,523</td>
<td>-$1,501</td>
</tr>
<tr>
<td><strong>6. Less: FICA taxes (Social Security and Medicare-based on 7.65%)</strong></td>
<td>-$2,678</td>
<td>-$2,639</td>
</tr>
<tr>
<td><strong>7. Less: out-of-pocket medical expenses after-tax</strong></td>
<td>-$500</td>
<td>$0</td>
</tr>
<tr>
<td><strong>8. Income after medical expenses</strong></td>
<td>$21,549</td>
<td>$21,735</td>
</tr>
<tr>
<td><strong>Taxes saved</strong></td>
<td>$0</td>
<td>$186</td>
</tr>
</tbody>
</table>

Would Benny Fits have a tax savings by enrolling: **YES**

To do a similar calculation for yourself, see the Tax Table B at the end of this brochure.

8. **Will participation in a Health FSA affect my other benefits?**

Participation in the Health FSA program may affect your future Social Security benefits because contributions to an Health FSA reduce your taxable income, which reduces your Social Security taxes. If your taxable income is below the maximum wage taxed by Social Security, you could reduce your future Social Security benefits. For most people this reduction would be minimal – only a few dollars per month. If you invest your tax savings as a result of the Health FSA, it is projected that your tax savings could make up for any reductions in Social Security benefits.

9. **Will a Health FSA work for me?**

To help you decide if a Health FSA will work for you complete the worksheet on page 17. The worksheet will assist you in determining your estimated annual health care expenses, your HCSA plan year contribution and your tax savings per paycheck. If you have $100 or more in recurring or predictable expenses, this account may help you stretch your income.

10. **How do I enroll in the Health Care Spending Account?**

Your participation in the Health FSA is voluntary. You can add or make changes to FSA plans for the following reasons: **New Hires/Rehires**

   If you are a new hire you will be able to elect FSA plans using your **New Hire/Rehire** adjustment reason link*. You will be given 30 days to make your election.
**Change in your employment Status**
If you have a status that makes you newly eligible to benefits you will be able to elect FSA plans using your **Newly Eligible** adjustment reason link*. You will be given 30 days to make your election.

*Adjustment reason links are located online at [www.hr.msu.edu](http://www.hr.msu.edu) select EBS login. Enter your MSU NetID and password then select Employee Self Services (ESS) tab. Select Benefits link then Enrollment Services link. Your adjustment reason link will vary depending on the reason for enrollment.

**Qualifying Life Events**
If you have a mid-year life event you may be able to begin, stop or change the amount of your spending account contributions. Qualifying mid-year life event changes include:

- Marriage
- Divorce
- Birth, adoption or legal guardianship of your child
- Death of a Spouse or Dependent
- Change in your spouse’s coverage or job
- Unpaid leave of absence
- Change in Day Care Provider
- Change in day care provider or rates—resulting in a significant change in cost

If you have a qualifying life event during the plan (calendar) year, please contact Human Resources Office at 517-353-4434 (toll-free 800-353-4434) or at SolutionsCenter@hr.msu.edu for information about the process and the required documentation.

**Open Enrollment**
If you do not enroll in a FSA when you are first eligible, you must wait until the next open enrollment period before you can enroll. Also, keep in mind enrollment is not automatic - you must re-enroll each year to participate, even if you wish to continue the same annual contributions from year to year.

If you are a benefit eligible employee you will be able to elect FSA plans using your Open Enrollment adjustment reason link. The dates for Open Enrollment vary from year to year however annual open enrollment occurs in the fall.

If you are on a leave of absence during the annual open enrollment period, you are eligible to enroll in the Dependent Care FSA program within 30 days of your return from leave.

When enrolling, you must state the amount you wish to have subtracted from your gross pay for the plan (calendar) year. The amount you choose will be divided equally by the number of times you are paid during the plan (calendar) year. This amount will be deducted from your pay and deposited into your account each pay period.

The Health Flexible Spending Account becomes effective January 1 each year for those who enroll during FSA Open Enrollment and the first day of the month following sign-up as a new employee or as a result of a qualifying life event.

**11. How do I check the status of my Flexible Spending Account?**
You may call CONEXIS toll-free at 866-659-8376, or you may view your FSA via the web at [www.hr.msu.edu](http://www.hr.msu.edu). Select EBS Login and enter your MSU NetID and password. Select Employee Self Service (ESS), then under Benefits- Quick Links, select Flexible Spending Account Status.
12. What happens if I take an unpaid leave of absence or layoff?

Keep in mind that an unpaid leave of absence or layoff is considered by the IRS and MSU as a family or employment change in status. Contributions will cease at the onset of your leave. Events such as a leave of absence may allow you to change your elections in a manner consistent with the reason for the leave upon your return.

Upon return from leave or layoff, you will automatically be re-enrolled into your Health FSA if you return within the same calendar year. The remainder of your election will be divided equally over the remaining calendar year pay periods. As a result of the re-enrollment you may submit eligible claims that you incurred during your absence.

Re-enrollment is not automatic in the following situation: if your return from an unpaid leave of absence occurs after 12/31 you are required to re-enroll in the Health FSA program within 30 days of your return.

13. Where can I get more information?

Please direct questions about your MSU Health Flexible Spending Account (Health FSA) to the plan administrator as listed on the inside front cover of this publication.

Health Care Spending Account Worksheet

The worksheet below will help you estimate your annual uninsured medical expenses for the upcoming plan (calendar) year, and your estimated tax savings realized through your participation in the Health FSA program. Remember to consider only those expenses you are confident will be incurred during the plan year and will not be covered by any insurance plan.

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Projected Plan Year Expenses (not covered by insurance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical and dental expenses</td>
<td>$</td>
</tr>
<tr>
<td>Medical and dental deductible</td>
<td>$</td>
</tr>
<tr>
<td>Medical insurance co-payments and coinsurance</td>
<td>$</td>
</tr>
<tr>
<td>Dental insurance co-payments and coinsurance</td>
<td>$</td>
</tr>
<tr>
<td>Immunizations, injections and vaccinations</td>
<td>$</td>
</tr>
<tr>
<td>Routine examinations</td>
<td>$</td>
</tr>
<tr>
<td>Dental and orthodontic expenses</td>
<td>$</td>
</tr>
<tr>
<td>Prescription drugs or co-payments</td>
<td>$</td>
</tr>
<tr>
<td>Eye examinations</td>
<td>$</td>
</tr>
<tr>
<td>Transportation to and from medical provider</td>
<td>$</td>
</tr>
<tr>
<td>Medically necessary elective surgery</td>
<td>$</td>
</tr>
<tr>
<td>Other expenses</td>
<td>$</td>
</tr>
<tr>
<td>Total estimated, uninsured medical and dental expenses for the plan year.</td>
<td>$</td>
</tr>
</tbody>
</table>
*FICA tax is composed of Social Security and Medicare taxes.

A calculator is available online to help you estimate your healthcare expenses. Go to www.hr.msu.edu, select Benefits and then select Flexible Spending Accounts to access more information.

MSU Plan Administrator:

**CONEXIS**
P.O. Box 227197
Dallas, TX 75222
Ph: 866-659-8376
Fax: 888-866-3312
Website: [www.CONEXIS.com/myFSA](http://www.CONEXIS.com/myFSA)

<table>
<thead>
<tr>
<th>Estimated Contribution and Tax Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.</strong> Write down your desired Health FSA HCSA plan year contribution.</td>
</tr>
<tr>
<td><strong>2.</strong> Divide your contribution by your number of regular pay periods (12 or 26).</td>
</tr>
<tr>
<td><strong>3.</strong> This is the amount that will be taken out of each regular paycheck and deposited into your Health flexible Spending Account.</td>
</tr>
<tr>
<td><strong>4.</strong> Multiply your per pay contribution by your total tax rate (the sum of federal, state, and FICA* tax rates) to determine your tax savings per paycheck. See page 19 for an example. Your Tax Rate</td>
</tr>
</tbody>
</table>

**Tax savings per paycheck**

%