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TO: State University and College Benefits Administrators
State Monthly Benefits Administrators

FROM: John D. Megariotis 
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SUBJECT: Open Enrollment For The New Jersey State Employees Tax Savings Program (Tax\$ave 2007)

The annual open enrollment for the calendar year 2007 New Jersey State Employees Tax Savings Program (Tax\$ave 2007) will be conducted from October 1 through October 31, 2006. Full-time employees of the State, State authorities, State universities, and State colleges who are eligible for participation in the New Jersey State Health Benefits Program (SHBP) may participate in Tax\$ave.

About Tax\$ave

Tax\$ave consists of three components:

- 1.The Premium Option Plan (POP);
- 2.The Unreimbursed Medical Spending Account (UMSA); and
- 3.The Dependent Care Spending Account (DCSA).

Tax\$ave offers eligible employees the opportunity to increase their available income by reducing their federal tax liability. Each year eligible employees should review their personal financial circumstances and decide if they wish to participate or not. Open Enrollment offers employees the opportunity to conduct this review and then act on their decision.

Note: Tax savings on commuter mass transit and parking expenses are available at any time as a separate benefit to State employees under the Commuter Tax\$ave Program and are not tied to this open enrollment period. See Fact Sheet #67, [Commuter Tax\\$ave Program](#), for details.

Premium Option Plan

Enrollment in the [Premium Option Plan](#) is automatic. This saves your employees tax money by paying health and dental premiums from pre-tax dollars and reducing their tax liability. If an employee does not wish to take advantage of the Premium Option Plan in 2007 (and therefore pay more in federal, Social Security, and Medicare taxes) he or she should file a *Declination of Premium Option Plan (POP)* form.

Flexible Spending Accounts

The Unreimbursed Medical Spending Account (UMSA); and the Dependent Care Spending Account (DCSA) — also referred to as Flexible Spending Accounts (FSA's) — are administered for the State of New Jersey by Horizon Blue Cross Blue Shield of New Jersey (Horizon BCBSNJ).

Unlike the POP or the health plans of the SHBP, prior participation in a Tax\$ave FSA in 2006 does not carry over automatically into 2007. **Employees must enroll again to participate in an FSA for calendar year 2007.**

Listed below are some of the benefits of FSA participation.

New! — Extended Eligible Expense and Claim Filing Periods. Effective with the start of the 2007 tax year, employees enrolled in the Unreimbursed Medical Spending Account **or** the Dependent Care Spending Account have **until March 15 of the following year** to incur eligible expenses for the current plan year. In addition to claiming eligible expenses through March 15 of the following year, the period that employees enrolled in the UMSA or DCSA have for submitting claims for reimbursement has been extended to April 30 of the following year.

For example, if there are leftover 2006 funds as of December 31, 2006, those funds will be used first for any claimed, eligible expenses incurred between January 1 and March 15, 2007 — and claim forms for these expenses must be submitted no later than April 30, 2007. As an added feature, the *Benny*TM Card feature of the Unreimbursed Medical Spending Account will now “look back” to use 2006 dollars during the extended coverage period before accessing your 2007 UMSA funds (see below for more about the *Benny* Card).

While this does not eliminate the use-it-or-lose-it rule completely, employees now have a longer period to obtain reimbursement for eligible expenses and avoid forfeiting unused funds.

- **Tax\$ave Unreimbursed Medical Spending Accounts feature the *Benny*TM Card**, a special MasterCard[®] that draws on the value of the employee’s annual UMSA election amount, making the UMSA easier to use. Each time an employee uses *Benny* to pay for a qualified health care expense at a health care provider or business that accepts MasterCard, the amount of the qualified purchase is transferred from the UMSA automatically — eliminating the need to lay out cash at the time of purchase and file for a reimbursement. Once issued, the *Benny* Card is good for five years and should not be thrown away at the end of the plan year. Any new UMSA election amount will be automatically available through an existing *Benny* Card account at the start of the 2007 plan year.
- **Many over-the-counter drugs are eligible for reimbursement** in the Unreimbursed Medical Spending Account. Internal Revenue Service rules permit over-the-counter products/medications deemed for "medical care" to be considered reimbursable. "Medical care" includes amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease. While purchases of medicines and drugs for medical care are eligible for reimbursement, expenditures that are merely beneficial to the general health of an individual, such as vitamins and other supplements, are not eligible.

For more information about expenses that are eligible under Unreimbursed Medical Spending Accounts and Dependent Care Spending Accounts, please visit the Horizon BCBSNJ Web site through the link from the Division of Pensions and Benefits’ Tax\$ave page at: www.state.nj.us/treasury/pensions/taxsave.htm

Enrolling in a Flexible Spending Account

Employees have three ways of enrolling in the Tax\$ave FSA accounts: mail, telephone, and Internet. The Tax\$ave publications will provide the following instructions to employees:

- **Mail:** *FSA Election Applications* must be mailed directly to Horizon BCBSNJ by the employee. All election forms must be postmarked no later than October 31, 2006, to be accepted. Those postmarked after October 31, 2006 will be returned without action. Benefits offices should not be involved in processing or mailing *FSA Election Applications*.
- **Telephone:** Employees may either enroll (or reenroll) in the UMSA or DCSA plans for 2007 over the phone by calling Horizon BCBSNJ's automated voice response unit at 1-800-224-4426. This is a great opportunity to quickly and easily go through the process of a new or repeat enrollment. Horizon will inform current participating employees of this opportunity through a direct mailing in September. The deadline for enrollment by telephone is midnight, October 31, 2006.
- **Internet:** Again this year employees have the ability to enroll (or reenroll) over the Internet. Go to the Horizon BCBSNJ Web page through a link from the Division of Pensions and Benefits' Tax\$ave page at: www.state.nj.us/treasury/pensions/taxsave.htm and follow the simple directions. The deadline for enrollment over the Internet is midnight, October 31, 2006.

Tax\$ave and Domestic Partners and Dependents Age 23 to 30

- Under the New Jersey Domestic Partnership Act, State employees may add a same-sex domestic partner to their SHBP medical and dental insurance coverage.
- New in plan year 2007, under Chapter 375, P.L. 2005, State employees may request continued SHBP medical plan coverage for *certain dependents* until their 30th birthday.

It is important to note, however, that before any premiums that the employee pays for domestic partner coverage or continued coverage for an overage dependent can be made on a pre-tax basis under the Tax\$ave Premium Option Plan, the domestic partner and/or dependent must be able to qualify as a "tax dependent" of the employee for federal tax filing purposes under IRC Section 152. Similarly, the domestic partner and/or dependent must qualify as the employee's federal tax dependent before an out-of-pocket medical expense incurred by the domestic partner and/or dependent can be reimbursed under the Unreimbursed Medical Spending Account.

If the domestic partner and/or dependent is not a "qualified tax dependent" of the employee, any premium deductions made for the domestic partner's or dependent's coverage must be made on an after-tax basis and funds in the Unreimbursed Medical Spending Account cannot be used to cover the domestic partner's or dependent's medical expenses. See IRS *Tax Topic 354 - Dependents* for additional information on dependent status for federal tax purposes.

Additional information regarding the Domestic Partnership Act can be found in Fact Sheet #71, [Benefits Under the Domestic Partnership Act](#), which is available on the Division of Pensions and Benefits Web site: www.state.nj.us/treasury/pensions

For more information about continued coverage for dependents age 23 to 30, see the SHBP home page at: www.state.nj.us/treasury/pensions/shbp.htm

Employee Seminars

Upon request, Horizon BCBSNJ will provide Tax\$ave educational seminars, at your workplace, for interested employees. The seminars are about 60 minutes in duration and includes time for questions and answers. These seminars have proven to be very successful educational tools and we strongly encourage you to make one available to your employees. Please see the [enclosed request form](#) to schedule a seminar with a Horizon BCBSNJ representative (please note that we ask for a minimum of 25 employees).

Tax\$ave Support Materials

The remainder of this letter provides information on the Tax\$ave Open Enrollment publications and support available to assist you in explaining this important benefit program to your employees. Please do your best to make a concerted effort to inform your employees of the open enrollment and to educate them on the valuable benefits that Tax\$ave offers them. We believe that more employees will participate in Tax\$ave if they are made aware and understand the value of the tax savings offered by the program.

Enclosed is the [Tax\\$ave Open Enrollment Milestones](#) chart that lists the critical dates of the Tax\$ave 2007 Annual Open Enrollment and outlines the efforts being made to educate employees. Please use this chart as a checklist to guide your activities during the open enrollment.

The Division will also provide State Monthly employers, State Universities, and State Colleges with sufficient copies of the [Tax\\$ave 2007 Open Enrollment News](#) and the [Premium Option Plan 2007](#) pamphlet for all eligible employees. Horizon BCBSNJ will provide sufficient copies of the FSA pamphlet for distribution to all of your eligible employees.

- The [Tax\\$ave 2007 Open Enrollment News](#) announces the open enrollment, outlines the components of the program with emphasis on its tax saving advantages, and identifies the October 31, 2006 deadline for submission of all election materials.
- The [Premium Option Plan 2007](#) pamphlet explains the advantages and disadvantages of participation.
- The [FSA pamphlet](#) describes the Unreimbursed Medical Spending Account (UMSA) and the Dependent Care Spending Account (DCSA).

These publications will be shipped to employers early in September and you should distribute them to your employees before the Open Enrollment start date on October 1, 2006. Preview copies of these publications are enclosed with this letter.

We also encourage you to provide your employees with reminders of the Tax\$ave Open Enrollment to ensure they don't allow this opportunity to slip by without action.

The other open enrollment materials you will need are the [FSA Election Kits](#) and the *Declination of Premium Option Plan (POP) for Plan Year 2007* form.

- **FSA Election Kits for 2007 will be sent directly to benefits administrators by Horizon BCBSNJ**, along with a request form for additional kits. Please provide the *FSA Election Kits* to those employees who request them.
- This letter includes a sample of the declination forms. This can be copied as needed for use by those few employees who do not wish to participate in the POP and,

therefore, pay more in tax. (Note: do not distribute [*POP Declination*](#) forms to employees unless they ask for one.) If an employee chooses not to save tax dollars under the Tax\$ave Premium Option Plan and wants to pay more federal income, Social Security, and Medicare taxes on the salary used to pay their medical and dental premiums in 2007, they must complete a POP form declining the federal tax break they could receive. Employees should request these forms from you. We will be instructing employees to return the *Declination of Premium Option Plan (POP)* forms to benefits administrators by October 31, 2006. Benefits administrators must then forward declination forms to the appropriate representative in their payroll department.

We appreciate your cooperation. Your involvement in the Tax\$ave Open Enrollment is key to your employees receiving the valuable benefits offered by this program. If you have any questions about Tax\$ave 2007 or the open enrollment, call Horizon BCBSNJ at 1-800-224-4426, or visit the Division of Pensions and Benefits' Tax\$ave Internet site at: www.state.nj.us/treasury/pensions/taxsave.htm

Enclosures:

[Request for Tax\\$ave 2007 Employee Seminars](#)
[Tax\\$ave 2007 Open Enrollment Milestones](#)
[Tax\\$ave 2007 Open Enrollment News](#) (sample)
[The Premium Option Plan 2007 Pamphlet](#) (sample)
[Tax\\$ave Pamphlet – Savings You Can Bank On...](#) (sample)
[Declination of Premium Option Plan](#) (POP) for Plan Year 2007