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September 22, 2011

**TO:** State University and College Certifying Officers
State University and College Benefits Administrators
State Monthly Certifying Officers
State Monthly Benefits Administrators

**FROM:** John D. Megariotis
Deputy Director, Finance

**SUBJECT:** **Open Enrollment For The New Jersey State Employees Tax Savings Program (Tax$ave 2012)**

The annual open enrollment for the calendar year 2012 New Jersey State Employees Tax Savings Program (Tax$ave 2012) will be conducted from October 1 through October 31, 2011. A benefit program available under Section 125 of the Federal Internal Revenue Code, Tax$ave offers eligible employees the opportunity to increase their available income by reducing their federal tax liability.

Full-time employees of the State or a State college or university who are eligible for participation in the New Jersey State Health Benefits Program (SHBP) may participate in Tax$ave.

> **Note:** Chapter 78, P.L. 2011, the Pension and Health Benefit Reform Law, requires local government and local education employers to offer Section 125 plans to their employees. Because Tax$ave is **only** available to State employees, local employers are required establish their own Section 125 programs. Local government and local education employees can contact their human resources office or benefits administrator to determine the specific plans and benefits that are available.

## ABOUT TAX$AVE

Tax$ave consists of three components:

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

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 plan saves your employees 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 2012 (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** and/or **Dependent Care Flexible Spending Accounts (FSA)** allow employees to set aside money to pay for out-of-pocket medical, dental, and dependent care expenses while saving on taxes because the money contributed to the account is free from federal income, Social Security, and Medicare taxes and remains tax-free when an employee receives it. **Fringe Benefits Management Company,** a Division of WageWorks, administers the Tax$ave Unreimbursed Medical and Dependent Care FSAs for the Division of Pensions and Benefits.

Unlike the Premium Option Plan or the health plans of the SHBP, prior participation in a Tax$ave FSA in 2011 does not carry over automatically into 2012. **Employees must enroll each year to participate in an FSA for calendar year 2012.**

**Some of the benefits of FSA participation include:**

- **$2,500 Medical FSA Maximum and $5,000 Dependent Care FSA Maximum.** For the Tax$ave 2012 plan year, the maximum annual allowance that can be set aside for an **Unreimbursed Medical FSA** is **$2,500** and the maximum annual allowance that can be set aside for a **Dependent Care FSA** is **$5,000**. Employees may save federal income, Medicare and Social Security taxes on up to $7,500 of combined unreimbursed medical and dependent care expenses. It makes sense to enroll and use a Tax$ave FSA plan when paying for doctor and prescription copayments, health plan deductibles, orthodontics, eyeglasses, Lasik surgery, uncovered dental fees, *certain* over-the-counter items (see page 3), or dependent care.
- **Medical FSA Eligibility includes Adult Children until Age 26**. Qualified out-of-pocket medical expenses incurred by eligible adult children can be reimbursed through the **Unreimbursed Medical FSA.** Coverage applies until the end of the year in which a child turns age 26, regardless of the child's marital or student status. However, until 2014, the coverage requirement applies only if the adult child is not eligible to enroll in other employer-based coverage (aside from coverage through the parent).
- **Grace Period Extension for Eligible Expenses and Extended Claim Filing Period.** Employees enrolled in the Unreimbursed Medical or Dependent Care FSAs 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 extends to April 30 of the following year. While this does not eliminate the use-it-or-lose-it rule completely, employees have an extended period to obtain reimbursement for eligible expenses and avoid forfeiting unused funds. Under the Unreimbursed Medical and Dependent Care Flexible Spending Accounts, any contributions that remain unclaimed after the April 30 extended deadline are forfeited.

- **Unreimbursed Medical FSAs feature the *myFBMC Card*® Visa® Card** that draws on the value of the employee's annual Medical FSA election amount. The *myFBMC Card* is included free when you sign up for the Unreimbursed Medical FSA during Tax$ave Open Enrollment. Employees can use the *myFBMC Card* for qualifying expenses, such as covered prescription copayments, health plan deductibles, orthodontics, doctor and emergency room copayments, eyeglasses, Lasik surgery, and uncovered dentist or other provider fees. The *myFBMC Card* can also be used for *certain* eligible over-the-counter medical expenses (see below) at grocery stores, drugstores, and discount stores that are IIAS (Inventory Information Approval Systems) certified merchants. A list of IIAS certified merchants is available at *www.myFBMC.com*.

- **Look Back Feature.** The *myFBMC Card* also contains a "look back" feature during the 2 ½ month grace period extension that will access any unused 2011 Unreimbursed Medical FSA funds to reimburse eligible expense incurred prior to March 15, 2012 before using funds contributed in the 2012 plan year.

**Prescription Required for Reimbursement of Over-the-Counter Items.**

The federal Patient Protection and Affordable Care Act requires a prescription for any eligible Over-the-Counter (OTC) drug or medicine (except diabetic supplies) before it will qualify for reimbursement under the Unreimbursed Medical FSA. This includes OTC items like: allergy drugs, pain relievers, cold and cough medicines, sleep aids, digestive aids, anti-gas medications, baby rash creams, and insect bite treatments. To be reimbursed for these types of OTC items through the Unreimbursed Medical FSA, you must submit a copy of your doctor's prescription along with your *Claim Form* for verification (eligible items requiring a prescription may be purchased using the *myFBMC Card* if the prescription is used to purchase it). OTC items like eyeglasses, wrist splints, and bandages, as well as durable medical items such as crutches and canes continue to be reimbursed without a prescription. For an updated list of expenses that are eligible under the FSA, please visit: *www.myFBMC.com*

**Enrolling in a Flexible Spending Account**

Employees have four ways of enrolling in the Tax$ave FSA accounts during the Open Enrollment: mail, fax, telephone, and Internet. Fringe Benefits Management Company, a Division of WageWorks, will inform employees currently participating in a Tax$ave FSA plan of this enrollment opportunity through a direct mailing in September. The Tax$ave publications also provide the following enrollment instructions to employees:

- **Internet:** Employees can enroll in the Unreimbursed Medical and/or Dependent Care FSA plans over the Internet at: *www.myFBMC.com* The deadline for enrollment over the Internet is midnight, October 31, 2011.

- **Telephone:** Employees may enroll in the Unreimbursed Medical and/or Dependent Care FSA plans over the phone by calling Fringe Benefits Management Company's automated Interactive Voice Response system at 1-866-440-7150. This is a great opportunity to quickly and easily go through the enrollment process. The deadline for enrollment by telephone is midnight, October 31, 2011.

- **Fax:** FSA *Enrollment Forms* may be faxed by the employee to 1-850-514-5806. The deadline for accepting faxed enrollment forms is midnight, October 31, 2011.

- **Mail:** FSA *Enrollment Forms* can be mailed by the employee directly to Fringe Benefits Management Company, a Division of WageWorks. To be accepted, enrollment forms **must** be postmarked no later than October 31, 2011. Forms postmarked after October 31, 2011 will be returned without action. Employer benefits offices should not be involved in processing or mailing FSA *Enrollment Forms.*

For more information about the FSA plans see the Division of Pensions and Benefits' Tax$ave Web page at: *www.state.nj.us/treasury/pensions/taxsave.shtml* or contact Fringe Benefits Management Company Customer Service at 1-800-342-8017.

**Special Rules for Enrolling Newly Hired Employees** — New employees can enroll in Tax$ave FSA plans when hired but must complete an FSA *Enrollment Form* within 30 days of the date of hire to participate in either the Unreimbursed Medical FSA or the Dependent Care FSA.

- There is a 60 day waiting period for Unreimbursed Medical FSA eligibility.
- There is a 30 day waiting period for Dependent Care FSA eligibility.

The effective date will be the first day of the month following eligibility. If the employee misses the 30 day enrollment window, they must wait to enroll during the Tax$ave Open Enrollment.

## TAX$AVE AND CIVIL UNION PARTNERS OR DOMESTIC PARTNERS

State employees are able to add a civil union partner or same-sex domestic partner to their SHBP medical and dental insurance coverage. However, before any payroll contributions or premiums that the employee pays for a partner can be made on a pre-tax basis under the Tax$ave Premium Option Plan, the civil union partner or domestic partner must be able to qualify as a "tax dependent" of the employee for federal tax filing purposes under Internal Revenue Code Section 152.

Similarly, the civil union partner or domestic partner must qualify as the employee's tax dependent before an out-of-pocket medical expense incurred by the partner can be reimbursed under the Unreimbursed Medical Flexible Spending Account.

If the civil union partner or domestic partner is <u>not</u> a "qualified tax dependent" of the employee, any premium deductions made for the partner's coverage must be made on an after-tax basis and funds in the Unreimbursed Medical Spending Account <u>cannot</u> be used to cover the partner's medical expenses.

See *IRS Publication #503, Dependents,* at: *www.irs.gov* for information on the requirements for establishing dependent status for federal tax purposes.

Information about New Jersey Civil Unions can be found in Fact Sheet #75, *Civil Unions.* Information about New Jersey Domestic Partners can be found in Fact Sheet #71, *Benefits under the Domestic Partnership Act.* Both fact sheets are available on the Division of Pensions and Benefits Web site: *www.state.nj.us/treasury/pensions*

## TAX$AVE AND CHILDREN AGE 26 TO 31

Chapter 375, P.L. 2005, permits continued SHBP medical plan coverage for certain children until their 31st birthday. However, contributions or premiums that an employee pays for coverage of an over age child <u>cannot</u> be made on a pre-tax basis under the Tax$ave Premium Option Plan, nor can an out-of-pocket medical expense incurred by

the over age child be reimbursed under the Unreimbursed Medical Flexible Spending Account, *unless* the child qualifies as a "tax dependent" of the employee for federal tax filing purposes under Internal Revenue Code Section 152. See *IRS Publication #503, Dependents,* at: *www.irs.gov* for information on the requirements for establishing dependent status for federal tax purposes.

Information about continued coverage for children age 26 to 31, can be found in Fact Sheet #74, *Health Benefits Coverage of Children Until Age 31 Under Chapter 375.*

## EMPLOYEE SEMINARS

Upon request, Fringe Benefits Management Company, a Division of WageWorks, will provide educational employee seminars about the Tax$ave Flexible Spending Accounts. A notice about the seminars and the *Tax$ave Seminar Request Form* was forwarded to employers in a separate mailing on August 1, 2011.

## 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 2012 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.

### *Online Distribution of Tax$ave Newsletter and Open Enrollment Fliers*

In compliance with State initiatives to provide paperless services, the *Tax$ave 2012 Newsletter, Premium Option Plan (POP) Flier*, and *FSA Plan Flier* **are only available in electronic format** for this year's Open Enrollment.

- The *Tax$ave 2012 Open Enrollment News* announces the open enrollment, outlines the components of the program with an emphasis on its tax saving advantages, and identifies the October 31, 2011 deadline for submission of all enrollment materials;
- The *Premium Option Plan 2012* flier explains the advantages and disadvantages of participation; and
- The *FSA Plan Flier* describes the Unreimbursed Medical and Dependent Care Flexible Spending Accounts administered by Fringe Benefits Management Company, a Division of WageWorks.

Access to the Tax$ave publications is available through links at the Division of Pensions and Benefits Web site: *www.state.nj.us/treasury/pensions/taxsave.shtml* or as PDF attachments provided with the distribution of this letter.

Employers should inform employees to access the Open Enrollment information online or provide the PDF versions via e-mail attachment or your Departmental Intranet.

For cases where online or e-mail notification is not possible, a paper flier giving instructions on accessing the Open Enrollment publications is provided with this letter and can be copied and distributed as required.

Other open enrollment materials available to you are the *FSA Reference Guides* and the *Declination of Premium Option Plan (POP)* form.

- **A sample of the 2012 *FSA Reference Guide* will be sent directly to benefits administrators by Fringe Benefits Management Company,** a Division of WageWorks. Also included will be instructions on how to request additional guides. Please provide the *FSA Reference Guides* to those employees who request them.
- This letter includes the *Declination of Premium Option Plan (POP)* form — which can be copied for use by those few employees who do not wish to participate in the POP and, therefore, pay more in tax. Please 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 2012, they must complete the form declining the federal tax break they could receive. Employees should request these forms from benefits administrators and return the *Declination of Premium Option Plan (POP)* forms to benefits administrators by October 31, 2011. Benefits administrators must then forward declination forms to Centralized Payroll by November 10, 2011.

As we do every year, the Division of Pensions and Benefits appreciates your cooperation in the Open Enrollment. 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 general questions about Tax$ave 2012, the open enrollment, or the Premium Option Plan, visit the Division of Pensions and Benefits' Tax$ave Internet site at: *www.state.nj.us/treasury/pensions/taxsave.shtml* call the Division's Office of Client Services at (609) 292-7524, or send e-mail to: *pensions.nj@treas.state.nj.us*

For more information about the Unreimbursed Medical or Dependent Care Flexible Spending Accounts, contact Fringe Benefits Management Company, a Division of WageWorks at: *www.myFBMC.com* or call FBMC Customer Service at 1-800-342-8017.

Enclosures:

Tax$ave 2012 Open Enrollment Milestones
Tax$ave 2012 Open Enrollment News (PDF)
The Premium Option Plan 2012 Flier (PDF)
Tax$ave — FBMC Flexible Savings Accounts Pamphlet (PDF)
Open Enrollment Flier for Online Access to Publications
Tax$ave — FBMC Flexible Savings Accounts Enrollment Form
Declination of Premium Option Plan (POP) for Plan Year 2012