

Health Care Flexible Spending Account

The Health Care Flexible Spending Account (HCFSA) is simple to use. When you join, you choose to contribute a set amount to your account through payroll deduction on a pre-tax basis. When you have an expense that qualifies for reimbursement, attach your receipt or the insurance company explanation of benefits (EOB) to a HCFSA claim form and you will receive a tax-free reimbursement.

With this account, you are reimbursed with the pre-tax dollars you set aside to pay for medical, dental or other health care expenses not reimbursed by a health plan. This account can benefit almost all eligible employees, their spouses, children and dependents who satisfy the “2009 *Dependent Eligibility*” rules in the NCFlex Program section.

You never have to pay taxes on the money you receive from your spending account for qualified expenses. That means permanent tax savings, which helps your health care dollars go further.

To participate, you must enroll in this plan each year.

HOW TO USE YOUR HCFSA

If you participate in the HCFSA, you decide how much money you want to put into your account. Your annual contribution cannot be less than \$120 a year or greater than \$4,200 a year. When enrolling, please remember to elect your annual contribution amount.

When filing a claim, attach your itemized receipt or insurance EOB. Claims for eligible expenses that are not covered by a health care plan can be submitted directly to the HCFSA for reimbursement. If your claim is for a medical condition that is covered by a medical or dental plan, you will need to file your claim with that plan first. After that claim is processed, submit a copy of the EOB, which shows your out-of-pocket expenses, as part of your HCFSA claim. Under most circumstances, the State Health Plan no longer provides EOBs for PPO plan members for routine physician visits. A Claims Status Detail can be obtained on the State Health Plan’s website.

Claims are processed each business day (with the exception of holidays). Your reimbursement will be issued within five business days once your claim is fully processed. If you provide Aon Consulting your email address, they will automatically notify you when your claim is received and again when it is paid.

Another way you can be reimbursed is by charging eligible health care expenses on your NCFlex Convenience Card (see page 13 for details).

Claim reimbursement is based on the date you receive health care service (not the date you pay the invoice or the date you are billed), which must be within January 1 – December 31 and within your plan effective date. With the HCFSA, you can be reimbursed for your entire claim (up to your plan year election minus any previous claim reimbursements). In other words, you are not limited only to the amount you have had deducted from your pay. This is a big advantage because you can take care of your immediate health care needs and then spread out your payments during the year through payroll deductions.

When you enroll in the HCFSA, you will receive a claims kit containing a claim form, a list of eligible and ineligible expenses and the procedures you need to follow when filing a claim. You also may visit www.ncflex.org for this information.

COORDINATING THE HCFSA WITH DENTAL AND VISION COVERAGE

If you choose to participate in the dental or vision care plans (discussed in this guide), you are likely to still have some out-of-pocket expenses. If so, consider putting money into the HCFSA to cover these out-of-pocket expenses. By getting a tax-free reimbursement from the HCFSA, you increase the amount you save on your dental and vision care expenses as well as your medical costs under the State Health Plan. **Premiums are not reimbursable through the HCFSA.**

TAKE ACTION

Remember to complete all required information and sign your FSA claim form. Unsigned claim forms cannot be processed and will delay your reimbursement.

DIRECT DEPOSIT

- **HCFSA reimbursements are issued by direct deposit.**
- **If you change banks or switch accounts, please notify your HBR or benefits department to avoid payment delays.**
- **You may also log into the FSA section of the website at www.ncflex.org to view your direct deposit information.**

ELIGIBLE HEALTH CARE EXPENSES*

You may use your HCFSAs for reimbursement of the following out-of-pocket health care expenses incurred during the plan year:

- deductible(s) and copayments you have to pay under your health care plan or under your spouse's plan;
- the portion of covered expenses you have to pay (called a coinsurance) for any medical or dental bills after you have met your deductible;
- any amounts you are required to pay after reaching your maximum benefit under a medical or dental plan;
- most over-the-counter drugs and medicines;
- vitamin supplements if used for a diagnosed medical condition (need doctor's statement) and not just for a person's general good health; and
- other allowable expenses including, but not limited to:
 - contraceptive devices (prescription)
 - dental expenses
 - hearing aid and its batteries
 - infertility treatment
 - insulin and diabetic supplies
 - mileage (@ 27¢ per mile for 2008) to/from medical provider's office for treatment
 - orthodontia
 - prescription drugs
 - refractive surgery (RK, PRK, LASIK)
 - stop smoking programs and drugs/medical supplies
 - tuition at special school or specially trained tutor for disabled
 - vision expenses (exams, glasses, frames, contact lenses, solutions, and enzymes)
 - weight reduction program (prescribed by doctor to alleviate a diagnosed medical condition or obesity), but plan food is not covered

For the expenses listed above to be eligible, they must be incurred for medical care and not reimbursable by a health plan.

** Some health care expenses may require a letter of medical necessity written by an authorizing physician. The letter should be written on letterhead and state the illness or disease and the reason for the expense.*

ELIGIBLE AND INELIGIBLE EXPENSES

Log on to www.ncflex.org for a complete listing of eligible and ineligible expenses. Go to Resources, Forms, then Claims Kit.

INELIGIBLE HEALTH CARE EXPENSES

Medical, dental and other premiums cannot be reimbursed through the HCFSAs. In addition, elective cosmetic procedures and similar expenses are not allowable expenses according to the IRS. Other common ineligible expenses include:

- cosmetic procedures that are not to correct a congenital deformity or disfigurement due to an accident or disease;
- dental procedures to whiten your teeth;
- vitamins and supplements unless prescribed by a doctor to treat a specific medical condition; and
- weight loss programs (unless prescribed by a doctor to alleviate a diagnosed medical condition or obesity).

IMPORTANT NOTE

You may submit claims for expenses incurred within the current year and your plan effective date. After the end of the plan year, you have until March 31 of the following year to submit expenses for reimbursement incurred in the previous plan year.

PLAN CAREFULLY

Carefully consider your contributions to the HCFSAs. **Under IRS regulations, if you do not use all of your plan year election it must be forfeited. You have until March 31 of each year to submit claims incurred during the previous plan year.** Therefore, you should estimate carefully and conservatively, only setting aside money you feel certain you will spend out of your own pocket for health care expenses during the plan year.

TERMINATION OF EMPLOYMENT

If you terminate employment or coverage during the plan year, you may submit claims for services incurred before your coverage termination date or the last day of the pay period that you will have a full payroll deduction, whichever is earlier. **Services incurred after this date cannot be reimbursed unless you elect to continue coverage under COBRA.** Any unused money in your account is forfeited and remains with the State.

HCFSA WORKSHEET

An important part of planning carefully is using the HCFSA worksheet below to identify your and your family members' out-of-pocket expenses for the upcoming plan year. The HCFSA worksheet is also available online by visiting www.ncflex.org under the Forms section.

This worksheet will help you calculate how much you may want to deposit in the HCFSA. Just follow these steps:

Step 1: Based on your records for the past few years, fill in your anticipated eligible expenses.

- If the expense is paid by a health care plan, enter your copayment and any deductible.
- If the expense is not covered by the health care plan, enter the entire cost.

Step 2: Add up the total annual expenses for you and your family.

Step 3: Enter this amount in the Online Enrollment system.

Cost For:	For You	For Your Spouse	For Your Children
Medical plan deductibles	\$ _____	\$ _____	\$ _____
Medical plan copayments	\$ _____	\$ _____	\$ _____
Birth control pills or devices	\$ _____	\$ _____	\$ _____
Prescription drug copayments	\$ _____	\$ _____	\$ _____
Routine physicals/exams	\$ _____	\$ _____	\$ _____
Over-the-counter drugs/medicines	\$ _____	\$ _____	\$ _____
Dental care/orthodontia	\$ _____	\$ _____	\$ _____
Vision care	\$ _____	\$ _____	\$ _____
Hearing care	\$ _____	\$ _____	\$ _____
Health services/supplies	\$ _____	\$ _____	\$ _____
NCFlex Convenience Card annual fee*	\$ _____	\$ _____	\$ _____
Other eligible expenses	\$ _____	\$ _____	\$ _____
Total Annual Health Care Expenses:	\$ _____	+ \$ _____	+ \$ _____

Your Annual Election:

(Enter this amount in the Online Enrollment system)

= \$ _____

* Please note, you are only charged an annual fee of \$6.00 regardless of if you participate in one or both of the FSAs. You may add the \$6.00 fee to your FSA annual election and save taxes on this fee.

TAX CONSIDERATIONS

The HCFSA is based on current tax laws and gives you the advantage of those laws. Please keep in mind the following tax considerations before participating in the HCFSA:

- Plan participation may affect your future Social Security retirement benefits. This could happen if your taxable pay, after spending account contributions are taken out, is below the Social Security Taxable Wage Base. However, for most employees, the immediate tax savings is of far greater benefit than the long-term impact on Social Security benefits.

- Participation in the plan will not affect the amount you may contribute to a 401(k), 403(b) or 457 retirement plan.
- You cannot claim the same expenses through the HCFSA and on your tax return. Currently, only health care expenses over 7½% of your adjusted gross income are deductible for income tax purposes. But with the HCFSA, you can save taxes immediately on the very first dollar not reimbursed by your health care plan.

Note: You should consult with your tax advisor on these issues and whether someone qualifies as your income tax dependent.