

Flexible Spending Accounts

Benefits

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FLEXIBLE SPENDING ACCOUNTS

TABLE OF CONTENTS

TOPIC	PAGE
Dependent Care Spending Account (DCSA)	3
Who is eligible?	3
What expenses qualify for reimbursement?	3
What expenses don't qualify for reimbursement?	5
How much can I contribute to my DCSA?	5
How much can I be reimbursed?	6
How do I receive reimbursement?	6
Can I change the amount of money I put into my account?	7
How does the DCSA compare with the Federal Child and Dependent Care Income Tax Credit?	8
Will participation in a DCSA affect my other benefits?	8
Will a DCSA work for me?	8
How do I enroll in the Dependent Care Spending Account?	8
How do I check the status of my Flexible Spending Account?	9
What happens if I take an unpaid leave of absence?	9
Where can I get more information?	10
Estimating your dependent care expenses	10
Example 1	11
Worksheet 1	12
Comparing the Child and Dependent Care Income Tax Credit and the Dependent Care Spending Account	12
Example 2	12
Worksheet 2	13
Health Care Spending Account (HCSA)	14
Who is eligible?	15
What expenses qualify for reimbursement?	15

continued on pg. 2

TABLE OF CONTENTS (continued)

What expenses don't qualify for reimbursement?	15
How much can I contribute to my HCSA?	16
How do I receive reimbursement?	16
Can I change the amount of money I put into my account?	17
How the Health Care Spending Account saves you money	18
Will participation in a HCSA affect my other benefits?	19
Will a HCSA work for me?	19
How do I enroll in the Health Care Spending Account?	20
How do I check the status of my Flexible Spending Account?	21
What happens if I take an unpaid leave of absence?	21
Where can I get more information?	21
Health Care Spending Account Worksheet	21

FLEXIBLE SPENDING ACCOUNTS

Dependent Care Spending Account (DCSA)

A Dependent Care 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 DCSA, you pay for your actual expenses out-of-pocket and then request reimbursement from the plan administrator by submitting a DCSA Reimbursement Request form. (Note: you can find the name and contact information for the plan administrator on the inside front cover 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.

Who is eligible?

The Flexible Spending Accounts (e.g., Dependent Care Spending Account and/or Health Care 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 60 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 9 for a list of qualifying life events.

The program is effective the first day of the month following enrollment or changes. For example, an employee is hired 7/15 and enrolls in the Dependent Care 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.

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 DCSA 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.

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.

In addition, reimbursements can be made only for dependent care services that are provided during the plan year. The MSU DCSA plan year is January 1 through December 31. A complete list of eligible/ineligible expenses can be located in the front pocket of this brochure or you may download this list by going to the MSU HR Web site at www.hr.msu.edu. Click on the Benefits link and then select the Flexible Spending Accounts link to access this information.

How much can I contribute to my DCSA?

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 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 12 to estimate your total annual dependent care expenses and to determine your pay period DCSA reduction amount. A worksheet may also be found on the MSU HR Web site. Go to www.hr.msu.edu and click on the 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 in the pocket of this brochure and 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.

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. For example, 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.

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 Spending Account, you cannot use the federal income tax credit for the same expenses.

How do I receive reimbursement?

To receive reimbursement from your account:

1. Complete a Dependent Care Spending Account Reimbursement Request form. To find the form go to www.hr.msu.edu and click on the 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.
3. Submit the Dependent Care Spending Account Reimbursement Request form and your receipt to the plan administrator. (See address on front inside cover 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.

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

Once you enroll in DCSA, 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 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. You may also elect a different amount of contribution if you are terminated from MSU and rehired within the same calendar year.

In either situation, your total contributions for the year cannot exceed the amounts described on page 6, "How much can I contribute to my DCSA?" 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 DCSA 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 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 DCSA become effective the first day of the month following the changes. If you are rehired during the plan year, your enrollment will follow the process for new hire enrollment.

Should you have questions on your status change, you may contact the plan administrator directly (see front inside

cover) or call MSU Human Resources Benefits at 517-353-4434 (toll-free 800-353-4434).

How does the DCSA 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 DCSA limit is \$5,000 regardless of the number of dependents. You may use Example 2 and Worksheet 2 on pages 12-13 to assess the difference between the two options.

Whether you use the federal income tax credit or the Dependent Care 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.

Will participation in a DCSA affect my other benefits?

Participation in the DCSA program may affect your future Social Security benefits because contributions to a DCSA 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 DCSA, it is projected that your tax savings could make up for any reductions in Social Security benefits.

Will a DCSA work for me?

To help you decide if a DCSA will work for you, follow the examples and complete the worksheets beginning on page 12. Follow Example 1 and complete Worksheet 1 to estimate your annual dependent care expenses and DCSA contribution for each paycheck. Example 2 and Worksheet 2 will help you compare the benefits of using the DCSA with the federal income tax credit.

How do I enroll in the Dependent Care Spending Account?

Participation in DCSA is voluntary. The annual open enrollment occurs in the fall. 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.

For assistance, you may contact MSU Human Resources Benefits at 517-353-4434 or toll-free at 800-353-4434. You must re-enroll each year you wish to participate in the DCSA program. 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. You may begin, stop or change the amount of your spending account contribution if you have a qualifying life event such as:

- Marriage or divorce
- Birth, adoption or legal guardianship of your child
- Death of a spouse or a dependent
- Change in your employment status
- Unpaid leave of absence
- Change in day care provider or rates – resulting in a significant change in cost

If you are on a leave of absence during the annual open enrollment period, you are eligible to enroll in the DCSA program within 30 days of your return from leave. New employees must enroll within 60 days of their employment date. 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.

How do I check the status of my Flexible Spending Account?

You may call Meritain Health toll-free at 800-748-0003, or you may view your FSA via the web at www.hr.msu.edu. Click the EBS Portal Login and enter your MSU NetID and password. Click on "Employee Self-Service", "Benefits" and then "Flexible Spending Account (FSA) Information." Then click on "View FSA Status" (right side under Quicklinks), "Benefits Enrollment & Information" and then "Flexible Spending Accounts Status."

What happens if I take an unpaid leave of absence?

Keep in mind that an unpaid leave of absence 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 DCSA 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 DCSA program within 31 days of your return.

Where can I get more information?

Please direct questions about your MSU Dependent Care Spending Account directly to the plan administrator. The correct contact information can be found on the front inside cover 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:

- What your dependent care expenses were 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 DCSA 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:

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

Determine pay period DCSA reduction amount:

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

Worksheet 1

Estimate your annual dependent care expenses below:

Number of weeks in the year	52
Minus number of weeks with no expenses	—
Total weeks of dependent care expenses	_____
Weekly dependent care expense	\$ _____
Multiplied by number of weeks of dependent care expenses (from above calculation)	x _____
Total estimated annual dependent care expenses	\$ _____

Determining your pay period DCSA reduction amount below:

Estimated annual dependent care expenses	\$ _____
Divide by number of times you are paid each year (12 or 26)	÷ _____
Reduction amount 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) $\$3,000 \times 20\% =$ \$600

Note: You can find Table A and Table B inserted in one of the pockets of this brochure.

To estimate her tax savings from a DCSA, 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	<u>0%</u>
Total tax rate	27%
3. Estimated dependent care expenses	\$4,800
x total tax rate (or in Mary's case	
\$4,800 x 27%)	<u>x .27</u>
Estimated tax savings	\$1,296

According to these calculations, Mary's DCSA savings would be \$1,296, and her federal income tax credit would be \$600. By using the DCSA, Mary would save \$696.

Worksheet 2 – Assessing the Alternatives

Estimate your federal income tax credit below:

1. Estimated dependent care expenses from Worksheet 1)	\$ _____
2. Maximum expenses eligible for tax credit (\$3,000 for one child, \$6,000 for two children or more)	\$ _____
3. Adjusted gross income (from your last income tax return)	\$ _____
4. Percentage of federal income tax credit (from Table A)	_____ %
5. Estimated tax credit (the lesser of Line 1 or Line 2 above x tax credit from line 4)	\$ _____

Now calculate your tax savings using a DCSA below:

- | | |
|---|----------|
| 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: Table A and Table B can be found in the pockets of this brochure.

Note: These tax savings examples are intended to provide projections and are not to be interpreted as tax advice.

FLEXIBLE SPENDING ACCOUNTS

Health Care Spending Account (HCSA)

A Health Care 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 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 HCSA, you pay for your actual expenses out-of-pocket and then request reimbursement for these expenses from the plan administrator by submitting a HCSA Reimbursement Request form. (See front inside cover for contact information.) 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.

Who is eligible?

The Flexible Spending Accounts (Dependent Care Spending Account and Health Care 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 60 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 20 for a list of qualifying life events.

The program is effective the first day of the month following enrollment or changes. For example, an employee is hired 7/15 and enrolls in the Health Care 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.

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. (*Please see Appendix A for a complete definition of an IRS dependent for tax purposes.) A more complete list of eligible/ineligible expenses is located in the pocket of this brochure or you may download this list by going to www.hr.msu.edu and selecting the Benefits link and then the Flexible Spending Accounts link.

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 in the pocket of this brochure or you may find it on the Web by going to www.hr.msu.edu, clicking on the benefits link, and then clicking 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 HCSA plan year is January 1 through

December 31. An IRS extension has been granted to extend the HCSA plan year to March 15th.

How much can I contribute to my HCSA?

Eligible employees may contribute up to \$5,000 per year. This is a per-eligible individual maximum. If both you and your spouse are employed by MSU and each of you would like to have your own separate HCSA, then the maximum household contribution for both Health Care Spending Accounts would be \$10,000. This maximum amount became effective Jan. 1, 2005.

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 HCSA 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 Care Spending Account. A worksheet is available on page 22 of this brochure to help you calculate your estimated expenses. A listing of the monthly and bi-weekly pay dates can be found in the pocket of this brochure and on the Web at www.ctr.ms.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.

How do I receive reimbursement?

To receive reimbursement from your account:

1. Complete a Health Care Spending Account Reimbursement Request form. To find the form, go to www.hr.ms.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 Care Spending Account Reimbursement Request form and your receipt to the plan administrator. (See front inside cover 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 HCSA 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 HCSA 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 Care 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.

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

Once you enroll in an HCSA, 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 16, “How much can I contribute to my HCSA?”, 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 HCSA 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 DCSA become effective the first day of the month following the changes. If you are rehired during the plan year, your enrollment will follow the process for new hire enrollment.

Should you have questions on your status change, you may contact the plan administrator directly at the number listed on the inside front cover or call MSU Human Resources Benefits at 517-353-4434 (toll-free 800-353-4434).

How the Health Care 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 Care 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.

	Without a Spending Account	With a Spending Account
1. Annual Pay	\$35,000	\$35,000
2. Less: out-of-pocket medical expenses pre-tax	\$0	-\$500
3. Taxable income	\$35,000	\$34,500
4. Less: federal taxes (based on 25% from table B in pocket)	-\$8,750	-\$8,625
5. Less: state taxes (based on 4.35%)	-\$1,523	-\$1,501
6. Less: FICA taxes (Social Security and Medicare-based on 7.65%)	-\$2,678	-\$2,639
7. Less: out-of-pocket medical expenses after-tax	-\$500	\$0
8. Income after medical expenses	\$21,549	\$21,735
Taxes saved	\$0	\$186

Would Benny Fits have a tax savings by enrolling:
YES

To do a similar calculation for yourself, see the Tax Table B inserted in the pocket of this brochure.

Will participation in a HCSA affect my other benefits?

Participation in the HCSA program may affect your future Social Security benefits because contributions to an HCSA 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 HCSA, it is projected that your tax savings could make up for any reductions in Social Security benefits.

Will a HCSA work for me?

To help you decide if an HCSA will work for you complete the worksheet on page 22. 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.

How do I enroll in the Health Care Spending Account?

Participation in an HCSA is completely voluntary. Annual open enrollment occurs in the fall. When enrolling, you must state the amount of money 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 reduced from your pay and deposited into your HCSA each pay period.

Enrollment assistance is available at MSU Human Resources Benefits at 517-353-4434 or toll-free at 800-353-4434. Employees that do not enroll by the enrollment deadline will not be eligible for the tax savings opportunities until the next calendar year unless they have a qualifying life event.

You may begin, stop or change the amount of your spending account contribution if you have a qualifying life event such as:

- Marriage or divorce
- Birth, adoption or legal guardianship of your child
- Death of a spouse or a dependent
- Change in your employment status
- Unpaid leave of absence

If you are on a leave of absence during the annual FSA open enrollment period, you are eligible to enroll in the HCSA program within 30 days of your return from leave. New employees must enroll within 60 days of their employment date. The Health 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.

How do I check the status of my Flexible Spending Account?

You may call Meritain Health toll-free at 800-748-0003, or you may view your FSA via the web at www.hr.msu.edu. Click the EBS Portal Login and enter your MSU NetID and password. Click on "Employee Self-Service", "Benefits" and then "Flexible Spending Account (FSA) Information." Then click on "View FSA Status" (right side under Quicklinks), "Benefits Enrollment & Information" and then "Flexible Spending Accounts Status."

What happens if I take an unpaid leave of absence?

Keep in mind that an unpaid leave of absence 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 HCSA 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 HCSA program within 30 days of your return.

Where can I get more information?

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

Health Care Spending Account Worksheet

The worksheet on the following page 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 HCSA program. Remember to consider only those expenses you are confident will be incurred during the plan year, and that will not be covered by any insurance plan.

Health Care Spending Account (HCSA)

	Projected Plan Year Expenses (not covered by insurance)
Medical and dental expenses	
Medical and dental deductible	\$ _____
Medical insurance co-payments and coinsurance	\$ _____
Dental insurance co-payments and coinsurance	\$ _____
Immunizations, injections and vaccinations	\$ _____
Routine examinations	\$ _____
Dental and orthodontic expenses	\$ _____
Prescription drugs or co-payments	\$ _____
Eye examinations	\$ _____
Transportation to and from medical provider	\$ _____
Medically necessary elective surgery	\$ _____
Other expenses	\$ _____
Total estimated, uninsured medical and dental expenses for the plan year.	\$ _____

Estimated Contribution and Tax Savings

- Write down your desired HCSA plan year contribution. \$ _____
 - Divide your contribution by your number of regular pay periods (12 or 26). \$ _____
 - This is the amount that will be taken out of each regular paycheck and deposited into your Health Care Spending Account. \$ _____
 - 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 _____ %
- Tax savings per paycheck \$ _____

*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, click on the Benefits link and then click Flexible Spending Accounts to access more information.

Appendix A: Definition of an IRS dependent for tax purposes

Dependent

You can include medical expenses you paid for your dependent. For you to include these expenses, the person must have been your dependent either at the time the medical services were provided or at the time you paid the expenses. A person generally qualifies as your dependent for purposes of the medical expense deduction if both of the following requirements are met.

1. The person was a qualifying child (defined later) or a qualifying relative (defined later), and
2. The person was a U.S. citizen or national or a resident of the United States, Canada, or Mexico. If your qualifying child was adopted, see *Exception for adopted child*, below.

You can include medical expenses you paid for an individual that would have been your dependent except that:

1. He or she received gross income of \$3,650 or more in the previous year,
2. He or she filed a joint return in the previous year, or
3. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's previous year return.

Exception for adopted child: If you are a U.S. citizen or national and your adopted child lived with you as a member of your household for the previous year, that child does not have to be a U.S. citizen or national, or a resident of the United States, Canada, or Mexico.

Qualifying Child

A qualifying child is a child who:

1. Is your son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your grandchild, niece, or nephew),
2. Was:
 - a. Under age 19 at the end of previous year and younger than you (or your spouse, if filing jointly),
 - b. Under age 24 at the end of previous year, a full-time student, and younger than you (or your spouse, if filing jointly), or
 - c. Any age and permanently and totally disabled,
3. Lived with you for more than half of previous year,
4. Did not provide over half of his or her own support for previous year, and
5. Did not file a joint return, other than to claim a refund.

Adopted child: A legally adopted child is treated as your own child. This child includes a child lawfully placed with you for legal adoption.

You can include medical expenses that you paid for a child before adoption if the child qualified as your dependent when the medical services were provided or when the expenses were paid. If you pay back an adoption agency or other persons for medical expenses they paid under an agreement with you, you are treated as having paid those expenses provided you clearly substantiate that the payment is directly attributable to the medical care of the child. But if you pay the agency or other person for medical care that was provided and paid for before adoption negotiations began, you cannot include them as medical expenses.

Child of divorced or separated parents. For purposes of the medical and dental expenses deduction, a child of divorced or separated parents can be treated as a dependent of both parents. Each parent can include the medical expenses he or she pays for the child, even if the other parent claims the child's dependency exemption, if:

1. The child is in the custody of one or both parents for more than half the year,
2. The child receives over half of his or her support during the year from his or her parents, and
3. The child's parents:
 - a. Are divorced or legally separated under a decree of divorce or separate maintenance,
 - b. Are separated under a written separation agreement, or
 - c. Live apart at all times during the last 6 months of the year.

This does not apply if the child's exemption is being claimed under a multiple support agreement (discussed later).

Qualifying Relative

A qualifying relative is a person:

1. Who is your:
 - a. Son, daughter, stepchild, or foster child, or a descendant of any of them (for example, your grandchild),
 - b. Brother or sister, or a son or daughter of either of them,
 - c. Father or mother, or an ancestor or sibling of either of them (for example, your grandmother, grandfather, aunt, or uncle),
 - d. Stepbrother, stepsister, stepfather, stepmother, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law, or
 - e. Any other person (other than your spouse) who lived with you all year as a member of your household if your relationship did not violate local law,
2. Who was not a qualifying child (see **Qualifying Child** earlier) of any taxpayer for the previous year, and
3. For whom you provided over half of the support in the previous year. But see **Child of divorced or separated parents**, earlier, *Support claimed under a multiple support agreement*, next, and *Kidnapped child* under *Qualifying Relative* in Publication 501, Exemptions, Standard Deduction, and Filing Information.

Support claimed under a multiple support agreement. If you are considered to have provided more than half of a qualifying relative's support under a multiple support agreement, you can include medical expenses you pay for that person. A multiple support agreement is used when two or more people provide more than half of a person's support, but no one alone provides more than half.

Any medical expenses paid by others who joined you in the agreement cannot be included as medical expenses by anyone. However, you can include the entire unreimbursed amount you paid for medical expenses.



Flexible Spending Account Eligible Expenses

Healthcare FSA Eligible Expenses:

Acupuncture (not for weight loss or smoking cessation)
Alcoholism & Drug Abuse Treatment
Ambulance
Artificial Limbs & Teeth
Braille Books & Magazines
Breast Reduction (if medically necessary)
Car Equipment (special for disabled persons)
Child Birth Classes
Chiropractors
Christian Science Practitioners
Contact Lenses & Solutions
Co-payment amounts for office visits or Rx items
Counseling (by a Psychiatrist or Psychologist for a medical reason)
Crutches
Deductibles - Health Insurance (amounts applied to)
Dental Treatments (except bleaching)
Eye Exams
Eyeglasses
Guide Dog & Upkeep (for the blind)
Hearing Aids & Batteries
Hospital Bills
Human Guide (for the blind)
Insulin & Supplies
Laboratory Fees
Lead based paint removal
Learning disability – special schooling for a child who has a severe learning disability due to a mental or physical impairment, if prescribed by a doctor
Legal Fees – paid to authorize treatment of mental illness
Lodging & Meals - if necessary to receive required medical care
Massage Therapy (prescribed by a physician)
Mattress (prescribed by a physician for a medical reason)
Medical Aids such as - Orthopedic shoes, special support hose, (must be medically necessary)
Mental Retardation (payment for special housing to transition from life in an institution)
Nursing Home (only for medical care)
Nursing Services (medically necessary)
Optometrist
Orthodontics
Osteopath
Over the Counter Drugs & Medications*
Oxygen/Oxygen Equipment
Physical Examination
Physical Therapy
Prescription Drugs
Prescription Vitamins
Private Hospital Room
Prosthetics
Psychiatric Care
Psychoanalysis
Psychologists
Radial Kerotomy (Laser eye surgery)
Reasonable & Customary (charges exceeding)
Retin-A (treatment for Acne only)
Rogaine (when prescribed to treat a medical condition)
Sanitarium
Schooling - special for mentally/physically handicapped
Smoking Cessation Program & Stop –Smoking Drugs (only available by prescription)
Surgical Procedures (medically necessary)
Telephone/television equipment for hearing/visually impaired
Therapy
Transplants
Transportation Expenses – expenses incurred in order to receive necessary medical care
Vaccines
Vision Services
Weight loss program (if prescribed by a physician to treat a specific illness, e.g. heart disease)
Wheelchair
Wigs (prescribed by a physician due to a medical condition or treatment)
X-rays

Dependent Care FSA Eligible Expenses:

Household services (including a maid or cook) provided they are directly related to the care of the “qualified dependent”
Actual physical care of the “qualified dependent”
Nursing home for an invalid parent, for day care only
A dependent care center, if they provide care for 7 or more individuals (day care only), and comply with all applicable laws and regulations
If the employee is married, dependent childcare is generally reimbursed as long as the spouse is either employed, a full time student, or is incapable of caring for himself or herself or the dependent.

**Additional information on OTC guidelines continued on back*



www.myMERITAIN.com

Changes to reimbursement of over-the-counter medicines and drugs.

There is a very important change coming in the way you will be reimbursed for the cost of over-the-counter medications (these are medicines such as Previcid, Prilosec and Claritin). Beginning January 1, 2011, you must have a doctor's prescription in order to use your flexible spending dollars to pay for over-the-counter medicines and drugs.

If you do not have a prescription, you will have to present another form of payment for these medications.

We encourage you to contact your physician before the end of the year and ask for a prescription for any over-the-counter (OTC) medications you take regularly.

In 2011 you can continue to use your debit card to purchase OTC supplies.

However, please note that effective January 1, 2011, you will no longer be able to use your debit card when purchasing OTC items that contain a medicine or a drug.

Questions regarding FSA expenses? Please contact Meritain Health at 1.800.748.0003 or 517.349.7010.

Prescriptions for OTCs

In order to obtain FSA reimbursement for OTCs that contain a medicine or drug, you must first obtain a prescription from your doctor.

Make sure the OTC prescription includes the following:

- Patient Name
- Name of OTC item
- Date prescribed (the prescription will be valid for one year from this date)



www.myMERITAIN.com

FSA Brochure Inserts

Table A.

Internal Revenue Service income brackets and tax credit allowances.

Adjusted Gross Income	Tax Credit %
Up to \$15,000	35%
\$15,001-17,000	34%
\$17,001-19,000	33%
\$19,001-21,000	32%
\$21,001-23,000	31%
\$23,001-25,000	30%
\$25,001-27,000	29%
\$27,001-29,000	28%
\$29,001-31,000	27%
\$31,001-33,000	26%
\$33,001-35,000	25%
\$35,001-37,000	24%
\$37,001-39,000	23%
\$39,001-41,000	22%
\$41,001-43,000	21%
\$43,001 and over	20%

**MSU Pay Date Schedule
For 2012**

	For employees paid monthly	For employees paid bi-weekly
	1/31/12	1/13/12
	2/29/12	1/27/12
	3/30/12	2/10/12
	4/30/12	2/24/12
	5/31/12	3/9/12
	6/29/12	3/23/12
	7/31/12	4/6/12
	8/31/12	4/20/12
	9/28/12	5/4/12
	10/31/12	5/18/12
	11/30/12	6/1/12
	12/28/12	6/15/12
		6/29/12
		7/13/12
		7/27/12
		8/10/12
		8/24/12
		9/7/12
		9/21/12
		10/5/12
		10/19/12
		11/2/12
		11/16/12
		11/30/12
		12/14/12
		12/28/12

Table B.

IRS income tax rates according to marital status.

SINGLE

Single Taxable Income	Tax Rate
Up to \$10,600	10%
\$10,601 - \$36,600	15%
\$36,601 - \$85,700	25%
\$85,701 - \$176,500	28%
\$176,501 - \$381,250	33%
\$381,251 and up	35%

MARRIED

Married Taxable Income	Tax Rate
Up to \$24,900	10%
\$24,901 - \$76,900	15%
\$76,901 - \$147,250	25%
\$147,251 - \$220,200	28%
\$220,201 - \$387,050	33%
\$387,051 and up	35%

These income tax rates are adjusted annually by the IRS. The above table was accurate as of Dec. 2011.

Find the most up-to-date MSU payroll schedules on the web at:

www.ctrlr.msu.edu/COPayroll/Default.aspx