

New York City Flexible Spending Accounts Program



*Increase your take home pay
in 2003!*

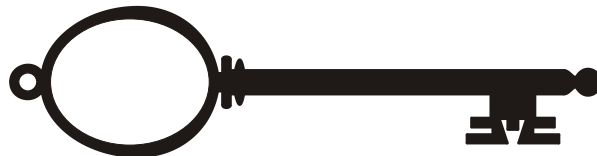


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This brochure briefly reviews and broadly describes the highlights of the Flexible Spending Accounts Program which falls under Internal Revenue Code Section 125. The material contained in this brochure is provided for informational purposes only and does not constitute a representation by the City of New York as to results and benefits which might actually be received by any individual. All actions are wholly governed by applicable law and regulations. The Internal Revenue Code and Regulations are subject to change and may affect determinations made with respect to the program. The burden of proof is on the participant in the HCFSAs and DeCAP programs to show that each medical and dependent care expense is reimbursable under the program, as well as being reimbursable under all laws (including the Internal Revenue Code).

Flexible Spending Accounts (FSA) Program

What is FSA?

The FSA Program is permissible under Internal Revenue Code (IRC) Section 125. Flexible Spending Accounts consists of several programs. They are:

- n the Health Care Flexible Spending Account (HCFSA) Program ,
- n the Dependent Care Assistance Program (DeCAP),
- n the Medical Spending Conversion (MSC) Health Benefits Buy-Out Waiver Program, and
- n the Medical Spending Conversion (MSC) Premium Conversion Program.

You are encouraged to read this brochure carefully. It covers the major features of the FSA Program's applicable rules and regulations. Also, included in this brochure are HCFSA and DeCAP worksheets which may assist you with the calculation of your contributions to each Flexible Spending Accounts Program for the Plan Year 2003.

HCFSA is a way to help pay for out-of-pocket medical expenses, while reducing your taxable income.

DeCAP is a way to help pay for expenses to care for your child(ren) or other dependents, reducing your taxable income, while you and your spouse work or attend school full-time.

By enrolling in HCFSA and/or DeCAP, you not only plan for anticipated health and dependent care expenses but also reduce your gross salary for federal and Social Security tax purposes. The end result is that you save on taxes!

MSC Health Benefits Buy-Out Waiver Program enables eligible employees who have non-City group health benefits to waive their City health benefits in return for an annual cash incentive payment.

MSC Premium Conversion Program enables eligible employees to pay for their health plan premium deductions on a before-tax basis, thereby reducing their gross income for tax purposes.

If you are eligible, you may choose to participate in all of the programs. Participation in any of the programs is on a voluntary basis.

Who is Eligible to Enroll?

- n **Employees covered by** the Citywide contract or the Management Benefits Fund, and New York City health insurance.
- n **Agencies include** Mayoralty, Housing Authority, School Construction Authority, Department of Education, Health and Hospitals Corporation, City University of New York and Off-Track Betting. Employees of cultural institutions and libraries may be offered an FSA Program through their individual institutions. Please contact your agency's benefits/personnel office for further information.

Health Care Flexible Spending Account and Dependent Care Assistance Program

HCFSA and DeCAP

How the FSA Program Works

- 1 Carefully estimate what your health care expenses and/or dependent care expenses will be for the Plan Year. This amount will go into your HCFSA and/or DeCAP account, respectively.
- 2 Your annual election will be taken out of your paycheck on a pre-tax basis through payroll deductions during the Plan Year.
- 3 When you submit a claim for your uninsured eligible health-related expenses and/or dependent care expenses, you will receive a reimbursement check from your HCFSA and/or DeCAP account.

HCFSA and DeCAP Period of Coverage

For Plan Year 2003, the period of coverage is from January 1, 2003 through December 31, 2003.

HCFSA and DeCAP Enrollment

When do employees enroll?

During the annual Open Enrollment Period, September 23 – November 22, 2002. Re-enrollment is required each year during the annual Open Enrollment Period.

When do new employees enroll?

Within 31 days after becoming eligible for City health benefits. Your annual election will be prorated over the remaining pay periods.

When is the effective date?

January 1st or the date of your first payroll deduction, if you become eligible after the beginning of the Plan Year.

How do employees enroll?

1. Obtain an Enrollment/Change Form by:

- n calling the FSA Administrative Office's automated helpline, at 212-306-7760, to receive a form by regular mail or faxback, or
- n contacting your agency's benefits/personnel office, or
- n printing a form from the FSA Web site at nyc.gov/html/olr.

2. Submit your completed form(s) to:

Flexible Spending Accounts Program
40 Rector Street, 3rd Floor
New York, NY 10006

Open Enrollment Period - September 23 through November 22, 2002

How do employees get assistance?

Call the helpline number at 212-306-7760 from 9 a.m. to 4 p.m., Monday – Friday. In-house counseling is by appointment only. Enrollment forms are available on the Web site or by calling the helpline.

<i>Contribution Allocations</i>		
<i>Annual contribution</i>	<i>HCFSA</i>	<i>DeCAP</i>
A before-tax salary reduction (includes an annual administrative fee of \$48 per program)	Minimum \$260 Maximum* \$5,000	Minimum \$500 Maximum* \$5,000

* The maximum may be less in certain cases, e.g., highly compensated employees.

DeCAP Additional Contribution Information

- n The \$5,000 maximum is reduced to \$2,500 if you are married and file a separate federal income tax return (unless you are legally separated), or by the amount your spouse is contributing to DeCAP through his/her employer.
- n If you or your spouse earn less than \$5,000 a year, your maximum benefit is limited to the lesser of the two incomes.
- n If your spouse is a full-time student at an educational institution during at least five months of the Plan Year or is incapable of self-care during any month, your maximum contribution is \$200 a month for one dependent and \$400 a month for two or more dependents.

“Use It or Lose It” Rule (Forfeiture Rules)

Federal regulations require that you use the entire amount you allocate to your HCFSA and/or DeCAP account by the end of each Plan Year (December 31st), or forfeit the unused balance. Therefore, before making your annual allocation, carefully consider what your eligible expenses might be. Use the worksheets on pages 16 and 17 of this brochure to calculate your HCFSA and/or DeCAP annual allocations.

Under federal law, money that you put into your HCFSA and/or DeCAP account must be used for expenses incurred during the Plan Year in which it was contributed.

If you overestimate your expenses and contribute more to your account than your actual expenses, or if you do not submit approved claims equaling in total your annual allocation prior to the end of the grace period, you will permanently forfeit any unused amounts remaining in either FSA account.

Eligible Medical and Dependent Care Expense Requirements

HCFSA

Eligible Medical Expense

This is an expense which has been incurred by the participant for qualifying health care provided for an eligible health care recipient during the Plan Year and which is eligible for reimbursement under the terms of HCFSA.

Note:

*If you participate in HCFSA and DeCAP, the amount you allocate to one account **cannot** be transferred to the other.*

The expense must be incurred for a legal medical service which is:

- n for you or an eligible dependent;
- n permitted under the Internal Revenue Code;
- n medically necessary;
- n not reimbursable by your health insurance and/or Welfare Fund; and
- n not for the payment of health insurance premiums.

Note:
Domestic partners are not eligible under HCFA.

Eligible Health Care Recipient

A person who is eligible to be covered by the participant's employer's medical plan and eligible to be included as a dependent on one's federal tax return and is either:

- n the participant;
- n the participant's spouse; or
- n the participant's eligible dependent.

DeCAP

Note:
Under DeCAP, you may only claim expenses if you are the custodial parent of a dependent child. You may not be reimbursed for any child support.

Eligible Employment Related Dependent Care Expense

This is a dependent care service which is related to the care of dependent care recipients (including household services related to such care), and which is performed within or outside your home while you and your spouse are at work.

Dependent Care Recipient

You may receive benefits for any dependent claimed on your tax return who is:

- n your child (son, daughter, stepson, or stepdaughter) who is under age 13; or
- n physically or mentally incapable of caring for himself/herself and who regularly spends at least 8 hours a day in your home, such as a dependent parent, a handicapped child of any age or an incapacitated spouse; or
- n under age 13, with a gross income for the Plan Year which is less than the IRS maximum annual salary. In 2002, the maximum was \$3,000. (The 2003 exemption amount was not available at the time this brochure was printed, but will not be less than the 2002 amount.)

Qualifying Caregiver

A person performing eligible employment related services who is:

- n not your dependent or anyone you can claim as a dependent;
- n not your spouse; or
- n not your child or your spouse's child unless he/she is 19 years old at the close of the Plan Year in which the services were provided.

Qualifying Day Care Center: Licensed nursery schools, preschools, day camps (not overnight camps), and child care centers which provide day care. The day care center must:

- n comply with all applicable laws and regulations of the state, city, town, or village in which it is located,
- n provide care for more than 6 individuals (other than individuals who reside at the day care center),
- n receive a fee, payment, or grant for any of the individuals to whom it provides services (whether facility is profit or non-profit), and
- n not be primarily for the purpose of education.

Mid-Year Changes

In order to process an HCFSA and/or DeCAP mid-year change, you must notify the FSA Administrative Office by submitting an Enrollment/Change Form and a Qualifying Event Mid-Year Change Form with proper documentation within 31 days after the Qualifying Event.*

HCFSA

You will only be permitted to increase your annual allocation if you are adding new dependents.

You **cannot**, however, decrease or discontinue your HCFSA contribution for any reason during the Plan Year. In addition, under HCFSA, you must participate for the entire Plan Year.

DeCAP

You may increase, decrease, or terminate your annual allocation if you experience a mid-year Qualifying Event.

*The definition of a Qualifying Event is governed by the Internal Revenue Code.

Qualifying Events

HCFSA

Qualifying Events include:

1. adoption or birth of a child; or
2. marriage.

When you incur one or more of the above Qualifying Events, the Plan allows you to increase your goal amount.

DeCAP

Qualifying Events include:

1. marriage, divorce or annulment;
2. birth or adoption of a child;
3. death of a spouse or dependent;
4. ineligibility of a dependent;

Note:
Your dependents must be listed on your Enrollment/Change Form in order to receive HCFSA and/or DeCAP benefits for the Plan Year.

Note:
You can have more than one Qualifying Event per Plan Year.

5. start or termination of employment of participant or participant's spouse;
6. changing from part-time to full-time or vice-versa by participant or participant's spouse; and
7. taking an unpaid leave of absence by participant or participant's spouse.

If, for any reason, you do not advise the FSA Administrative Office that you have a new dependent, then any claims submitted on behalf of such an unreported health or dependent care recipient will be denied.

Termination of Employment / Unpaid Leave of Absence

HCFSA

If your employment is terminated, or you take an unpaid leave of absence, you can have the remainder of your deductions taken on a pre-tax basis from your last paycheck or pro-rated for the remaining paychecks; however, you must notify the FSA Administrative Office **30 days** prior to your termination or unpaid leave of absence, in order for the payroll deduction to be made.

Department of Education employees, please note that if your employment is terminated, or you take an unpaid leave of absence during the summer, you must notify the FSA Administrative Office by the third week in May in order to have the remainder of your payroll deductions taken on a pre-tax basis from your last paycheck.

If you fail to provide the required notification, you **must** fully fund the remainder of your account with after-tax payments up to your annual contribution allocation. The full amount in your account will still be available to you to pay claims for the remainder of the Plan Year.

DeCAP

If the Qualifying Event is due to your termination, your contribution to DeCAP will cease as of your termination date; however, any remaining balance in your account will still be available for reimbursement upon receipt of a valid claim incurred during the Plan Year.

Agency Transfer

If you transfer agencies within the City or to a related City agency, you must notify the FSA Administrative Office at least **30 days** prior to your transfer in order to continue payroll deductions.

Missed Payroll Deductions

HCFSA

If you miss any payroll deductions, you must contact the FSA Administrative Office in order to recalculate the amount of your deduction.

DeCAP

If, for any reason, deductions cannot be made from any paycheck, your annual contribution allocation will be decreased by the amount of any missed payroll deductions. You will not be entitled to increase subsequent deductions to replace those missed. It is, therefore, important to notify the FSA Administrative Office if you are not experiencing payroll deductions.

Note:

Upon your death during the Plan Year, any claims for services provided before your death must be submitted by your spouse, or your estate, and will be paid to same.

HCFSA Coverage Under COBRA

At the end of the Plan Year in which you terminate employment, you and your dependents may elect to continue HCFSA coverage under COBRA for the following Plan Year, provided you did not default payment in the year in which you terminated employment. Carefully consider the following before electing to continue HCFSA under COBRA:

- n you will have to pay an annual 2% COBRA administrative fee in addition to the annual \$48 FSA administrative fee.
- n there are no tax advantages to participating in HCFSA under COBRA because your HCFSA allocation is paid with after-tax dollars.

How HCFSA and DeCAP Affect Your Taxes

Contributions to HCFSA and DeCAP are made through pre-tax payroll deductions; therefore, you pay no federal income or Social Security (FICA) taxes on these contributions. This results in an increased take home pay. The amount you contribute to HCFSA and/or DeCAP will be reflected on your Form W-2. HCFSA and DeCAP will not affect your state or local taxes; therefore, you must add back the amount listed as IRC 125 on your Form W-2 to your state/city gross wages.

HCFSA and Federal Itemized Deductions

Any expenses paid or reimbursed under HCFSA cannot be taken into account when calculating your federal itemized deductions and vice-versa.

With HCFSA, you may obtain pre-tax benefits on medical expenses whether or not they exceed the federal itemized deduction minimum of 7.5%.

DeCAP and Federal Dependent Care Tax Credit

Any expenses paid or reimbursed under DeCAP cannot be taken into account when calculating the Federal Dependent Care Tax Credit and vice-versa.

If you participate in DeCAP, and DeCAP covers all your dependent care expenses (or you contribute the maximum amount under DeCAP), then you are not eligible for the New York State tax credit for dependent care expenses.

DeCAP and Federal Dependent Care Tax Credit Differences in Tax Savings

	Maximum Benefit	Taxes	Reimbursement
<i>DeCAP</i>	\$5,000, regardless of number of dependents	Reduces your taxable income	Immediate
<i>Federal Dependent Care Tax Credit</i>	\$3,000 for 1 dependent, \$6,000 for 2 or more dependents	Reduces your actual taxes	After filing tax return

While you may use HCFSA and federal itemized deductions as well as DeCAP and the Federal Dependent Care Tax Credit in the same year, you must be sure that:

- n your medical itemized deductions for HCFSA and federal itemized deductions, as well as your eligible expenses for DeCAP and the Federal Dependent Care Tax Credit, are reduced by what you receive from HCFSA and/or DeCAP in 2003, and
- n you do not claim the same expense more than once.

Note:
Under COBRA, you cannot change or revoke your HCFSA election during the Plan Year.

Your tax savings will vary based on these factors:

1. *your income*
2. *number of dependents*
3. *your eligible expenses*
4. *if you pay FICA taxes*

The following is an example of the HCFSA tax advantage based on the federal tax withholding table effective July 1, 2002.

Married employee earning \$60,000 declaring spouse with 2 dependents and filing jointly; HCFSA annual contribution of \$5,000 and employee incurs \$4,952 in reimbursable health care expenses;

	<i>Before-taxes</i>	<i>After-taxes</i>
Gross Income	\$ 60,000	\$ 60,000
Before-Tax Reduction for Health Care Expenses	-4,952	-0-
Administrative Fee	-48	-0-
Adjusted Gross Income	\$ 55,000	\$ 60,000
Federal Income Tax	-4,883	-5,633
Social Security Tax	-4,208	-4,590
After-Tax Cost of Health Care Expenses	-0-	-4,952
Take-Home Pay (assuming there are no other payroll deductions)	\$ 45,909	\$ 44,825
HCFSA Tax Savings	\$45,909 - \$44,825 = \$1,084	

The following is an example that depicts the difference between DeCAP and the Federal Dependent Care Tax Credit based on the federal tax withholding table effective July 1, 2002.

Married employee with a family income of \$70,000 with 2 dependents (with federal dependent care tax credit applying to both dependents) and filing jointly; DeCAP annual contribution of \$5,000 and employee incurs \$4,952 in reimbursable dependent care expenses;

	<i>DeCAP</i>	<i>Tax Credit</i>
Gross Income	\$ 70,000	\$ 70,000
Before-Tax Reduction for Dependent Care Expenses	-4,952	-0-
Administrative Fee	-48	-0-
Adjusted Gross Income	\$ 65,000	\$ 70,000
Federal Income Tax	-6,557	-7,907
Social Security Tax	-4,973	-5,355
After-Tax Cost of Dependent Care Expenses	-0-	-4,952
Federal Tax Credit	-0-	960
State Tax Credit	-0-	192
Take-Home Pay (assuming there are no other payroll deductions)	\$ 53,470	\$ 52,938
DeCAP Tax Savings	\$53,470 - \$52,938 = \$532	

The adjusted gross income amounts in the examples above assume there are no other income adjustments. The projections made here are only estimates of federal tax information and should not be considered tax advice. Consult a tax advisor to review your own financial situation.

Filing Claims

HCFSA

To request reimbursement for medical expenses, complete an HCFSA Claims Form and provide proper documentation by:

- n listing each expense separately on the Claims Form,
- n attaching an Explanation of Benefits (EOB) statement from the health insurance carrier and/or Welfare Fund showing the unreimbursed balance, and
- n attaching copies of receipts or billing statements from the medical provider.

Note:

The minimum amount of expenses on an HCFSA Claims Form is \$50, unless your account balance is less than \$50.

Receipts and billing statements must include:

- n the name of the recipient for whom service was provided,
- n the amount charged for each service, and
- n the type of service and date of service.

Note: Health-related transportation expenses must be supported by documentation corresponding to the receipts or billing statements.

DeCAP

To request reimbursement for dependent care expenses, complete a DeCAP Claims Form by:

- n listing each expense separately on the Claims Form, and
- n having the dependent care provider sign his/her name, and provide the address, and federal tax I.D. or Social Security number.

HCFSA and DeCAP Submission of Claims

- n Submit claims in a timely manner, monthly or every few months, to the FSA Administrative Office.
- n Your Claims Form must be **received** by the last day of the month, to be processed for that month.
- n There is no reimbursement of claims before service is actually provided.
- n **For DeCAP only**, there is no reimbursement for expenses incurred while you and/or your spouse are not at work (e.g., sick leave, annual leave, maternity leave, summer vacation, etc.).

A grace period is provided following the close of the Plan Year, to submit claims for services performed during the previous period of coverage.

Program	Plan Year 2003 Claims Deadline
HCFSAs	March 31, 2004
DeCAP	February 28, 2004

HCFSAs and DeCAP Denial of Claims

- n If the FSA Administrative Office denies a claim, you will receive a denial letter stating the reason for denial.
- n You may file a written appeal with the Appeals Panel within 30 days of your receipt of the denial notice.
- n The Appeals Panel will review and make a decision on your claim within 60 days after receipt of your written notice for appeal.

Note:
*Receipts and
billing state-
ments are not
needed for
DeCAP.*

Reimbursement of Claims

A reimbursement check for approved claims received during one month will be sent to you by the close of the following month.

Note:

Payments will not be made to the service provider.

HCFSA: The full amount of your contribution allocation (less the \$48 annual administrative fee and any claims previously reimbursed) is always available for reimbursement of eligible claims, regardless of the current balance in your account.

DeCAP: Claims will be reimbursed up to the current balance in your account. If there are insufficient funds in your account to cover the expenses claimed, only that portion of your claim for which there are sufficient funds will be reimbursed. The balance will be carried over to the next month for payment. If a claim exceeds your balance at the end of the Plan Year, you will receive a check exhausting your account.

Account Statements

HCFSA

You will receive a quarterly statement listing all monthly contributions to your account, processed claims, the administrative fee, and your available balance.

DeCAP

You will receive a monthly statement listing your opening account balance, all contributions to your account, processed claims, the administrative fee, and your closing account balance.

After the year-end grace period, you will receive an annual statement which reflects the total amount contributed to and reimbursed from your account for the Plan Year 2003.

Effects of FSA on Other Benefits

Social Security

Social Security benefits at your retirement age may be slightly less, but the effect would be offset by the amount saved in taxes today.

Pension

There will be **no** effect on your pension contributions or benefits.

Deferred Compensation

The Flexible Spending Accounts Program will have no effect on your participation in a 457, 401(k) or 403(b) plan.

Note:

For DeCAP only, you must also attach Form 2441 Child Dependent Care Expenses to your Form 1040.

Note:

You must add back the amount listed as IRC 125 on your Form W-2 to your state/city gross wages.

Medical Spending Conversion (MSC)

Health Benefits Buy-Out Waiver Program

How the Health Benefits Buy-Out Waiver Program Works

- 1 Before deciding to waive your City health benefits, make sure that your non-city group health coverage will meet your needs.
- 2 Complete the Health Benefits Application to waive your City health benefits and complete the MSC Form to receive the annual incentive payment. Submit the forms to your agency's benefits/personnel office for approval, and retain the pink copy for your records.
- 3 You will receive the incentive payment semi-annually in your regular paycheck in June and December of the Plan Year.

Highlights of the Health Benefits Buy-Out Waiver Program

Employees can waive coverage if insured under:

- n a spouse's/domestic partner's employer-provided non-City group health plan;
- n a group health plan available through other employment; or
- n Medicare Part A and Part B.

Exclusions

You are:

- n waiving coverage in order to be covered by a spouse who works for the City (or a City-related agency), who is covered through the City's Health Benefits Program;
- n retired from the City of New York;
- n covered by an individual direct payment plan; or
- n covered by Medicaid.

Annual Incentive Payment

Incentive Benefit Periods

There are two incentive benefit periods per calendar year:

- n January 1 through June 30
- n July 1 through December 31

Incentive Benefit Amount

- n \$1,000 to employees with family coverage who waive City health benefits
- n \$500 to employees with individual coverage who waive City health benefits

Note:
Incentive payments will not be retroactive to a prior Plan Year.

Open Enrollment Period - September 23 through November 22, 2002

The incentive payment will be prorated for enrollment of less than 6 months, by the number of days you are in the Health Benefits Buy-Out Waiver Program. These payments will be taxable to the recipient.

For domestic partner purposes, the participant can only receive the \$500 individual incentive payment. If there is a family contract between the participant and his/her domestic partner and the domestic partner is, for tax purposes, a legal dependent of the participant, then the participant can receive the \$1,000 family incentive payment.

Enrollment in the Health Benefits Buy-Out Waiver Program

When do employees enroll?

During the annual Open Enrollment Period, September 23 – November 22, 2002. Once enrolled, you are in the Program until you reinstate your City health benefits. Therefore, annual re-enrollment is not required.

When do new employees enroll?

Within 31 days after becoming eligible for City health benefits, by completing and submitting a Health Benefits Application and an MSC Form to your agency benefits/personnel officer for review and completion. The forms and legal/supporting documentation must be received by the MSC Administrative Office within 31 days of this eligibility date.

Mid-Year Changes

Qualifying Event

Your participation in the Health Benefits Buy-Out Waiver Program will remain in effect unless you file an MSC Form indicating a Qualifying Event to withdraw from the Program. Similarly, employees who have not enrolled in the Health Benefits Buy-Out Waiver Program may waive City health benefits in mid-year **only** if they incur a Qualifying Event.

Any MSC Form received in June will be effective July 1st of that Plan Year. Any MSC Form received in December will be effective January 1st of the following year. If you experience a Qualifying Event, contact your agency's benefits/personnel officer as soon as possible to obtain the appropriate forms, which must be submitted with documentation and received by the MSC Administrative Office within 31 days after the Qualifying Event. Qualifying Events are listed below:

1. A change in family status such as marriage, divorce, annulment or legal separation;
2. The death of a participant, spouse, or dependent;
3. The birth or adoption of a child who will be the participant's dependent;
4. The participant becomes divorced and is required under court order to provide health insurance coverage for eligible dependent children;
5. The termination of the participant's employment for any reason including retirement (Forms must be submitted to terminate the Health Benefits Buy-Out Waiver Program.);
6. A change in spouse's coverage which is significant and outside the control of the spouse, e.g., benefit reduction (See reinstatement of City health benefits section.);

Note:
Participants will not be allowed to make changes inconsistent with the Qualifying Event.

-
7. The participant's spouse has a change in employment status which results in a change of health insurance coverage, either acquiring or losing eligibility for coverage (See reinstatement of City health benefits section.);
 8. A change in employment status from part-time to full-time, or vice-versa, by the participant or the participant's spouse (increase above 20 hours or reduction below 20 hours in regular hours worked per week);
 9. The taking of, or returning from, an approved unpaid leave of absence by the participant or the participant's spouse.

Agency Transfer/Leave of Absence

- n Employees who transfer from one City agency to another within the City must notify the FSA Administrative Office at least 30 days prior to the transfer.
- n Employees who take an approved unpaid leave of absence must complete the MSC Form to withdraw from the Health Benefits Buy-Out Waiver Program. Upon returning, employees who wish to be reinstated into the Program must re-enroll by completing an MSC Form within 30 days of returning to work.

Reinstatement of City Health Benefits

- n To reinstate health benefits mid-year, the employee must provide proof of a Qualifying Event. If documentation is received within 31 days after the event, reinstatement into the City's Health Benefits Program will be retroactive to the date of the Qualifying Event.
- n The employee must complete a Health Benefits Application and an MSC Form, submitting them to his/her agency's benefits/personnel officer.
- n Access to benefits at retirement will be **unaffected** by participation in the Health Benefits Buy-Out Waiver Program.
- n To reinstate City health benefits at retirement, the employee must complete a Health Benefits Application and an MSC Form to withdraw from the Health Benefits Buy-Out Waiver Program.

Other Information

Welfare Fund Benefits

Your welfare fund benefits may be affected by waiving your health benefits. Contact your welfare fund administrator if you have questions.

Employees Who are Currently Waiving City Health Benefits

Employees waiving their City health coverage and who are not participating in the Health Benefits Buy-Out Waiver Program will need to re-waive their City health benefits by submitting a Health Benefits Application and an MSC Form during the annual Open Enrollment Period in order to participate in the Health Benefits Buy-Out Waiver Program.

Premium Conversion Program

How the Premium Conversion Program Works

- 1** Enrollment in the Premium Conversion Program remains in effect during the Plan Year and your status cannot change unless an approved Qualifying Event occurs mid-year.
- 2** If you wish to change from pre-tax to post-tax, complete an MSC Form and submit the completed form to your agency's Benefits/Personnel Office for approval.
- 3** You will save on federal and Social Security taxes due to the pre-tax Premium Conversion Program, however, Social Security benefits will be slightly less as a result of the Program.

How the Premium Conversion Program Affects your Taxes

Effect on Gross Salary

There is a reduction in the taxes withheld from your gross salary. The reduction in gross salary will be shown on your Form W-2 under IRC 125. This amount should be added back to state/city gross income. Some payrolls may show gross salaries differently depending on the software and payroll systems in use.

Premium Conversion Program Tax Savings

Savings will vary and be based on, among other things, your health plan option, whether you have individual or family coverage, the number of withholding allowances that you claim for tax purposes, and your salary.

Change Premiums from Pre-Tax to Post-Tax

While automatically enrolled on a pre-tax basis, you may choose post-tax premiums if you wish. Changing from one to the other can be done during the City's Annual Health Benefits Fall Transfer Period. Employees, however, must decide to pay premiums on either a pre-tax or post-tax basis for an entire Plan Year.

Mid-Year Changes

Qualifying Event

Enrollment in the Premium Conversion Program remains in effect during the Plan Year and your status cannot change unless an approved Qualifying Event occurs mid-year. Similarly, employees who waived enrollment in the Premium Conversion Program may enroll mid-year only if they incur a Qualifying Event listed below:

1. A change in family status such as marriage, divorce, annulment or legal separation;
2. The death of a participant, spouse, or dependent;
3. The birth or adoption of a child who will be the participant's dependent;

Note:

*If you currently do **not** have a payroll deduction for health insurance, this program does not affect your tax status.*

-
4. The attainment of the maximum age for coverage of a dependent child;
 5. The participant becomes divorced and is required under court order to provide health insurance coverage for eligible dependent children;
 6. Moving out of an HMO service area;
 7. A participant has a change in title which necessitates a change in health plan (e.g., Med-Team participants must be DC-37 members; Med Plan and Metropolitan participants must be HHC employees);
 8. The termination of the participant's employment for any reason including retirement;
 9. A change in spouse's coverage which is significant and outside the spouse's control (e.g., due to termination of employment or benefit reduction);
 10. A spouse has a change in employment status which results in a change in health insurance coverage (either acquiring or losing eligibility for coverage);
 11. A change in employment status from part-time to full-time, or vice-versa, by the participant or the participant's spouse;
 12. The taking of, or returning from, an approved unpaid leave of absence by the participant or the participant's spouse; or
 13. An increase in the employee's health insurance premium by more than 20%.

Effects on Other Benefits

Social Security Tax (FICA)

You will save on Social Security taxes due to the Premium Conversion Program.

Based on current Social Security law, Social Security benefits at age 65 will be slightly less as a result of the Premium Conversion Program. The effect, however, would be minimal and would be offset by the amount saved in taxes today.

Pension

The Premium Conversion Program will have no effect on your pension contributions or benefits.

Deferred Compensation

The Premium Conversion Program will have no effect on your participation in a 457, 401(k) or 403(b) plan.

Note:
You must add back the amount listed as IRC 125 on your Form W-2 to your state/city gross wages.

HCFSA Worksheet

For the Plan Year 2003 (January 1, 2003 - December 31, 2003)

This worksheet is designed to assist you in the estimation of your medical expenses for the Plan Year 2003. When estimating your expenses, be conservative. Keep in mind the “Use It or Lose It” rule explained in this brochure.

<i>Medical Expenses (Unreimbursed/unreimbursable by insurance)</i>	Last Year's Expenses	Projected Year 2003 Expenses
Prescription medicines and insulin (those requiring a prescription by a doctor for their use by an individual)	_____	
Medical service fees (from doctors, dentists, surgeons, specialists, and other medical practitioners)	_____	
Special items (artificial limbs, false teeth, eye glasses, contact lenses, hearing aids, crutches, wheelchairs, etc.)	_____	
Hospital service fees (inpatient care, lab work, therapy, nursing services, surgery, etc.)	_____	
Nursing home expenses (if the main reason for being there is to get medical care)	_____	
Other medical expenses (refer to IRS Publication 502 for more information)	_____	
Administrative fee (\$4 per month/\$48 per year)	_____	\$ 48.00
Total Medical Expenses	_____	*

** Enter this amount in Box A of Section 4 of the HCFSA Contribution Section on the FSA Enrollment/Change Form.*

ELIGIBLE EXPENSES: <i>Expenses generally eligible for reimbursement through HCFSA include:</i>			
MEDICAL <ul style="list-style-type: none"> • Deductibles • Co-payments • Excess expenses (beyond plan limits) • Physical exams • Health-related transportation costs • Prescription drugs • Nursing home expenses (if the main reason for being there is to get medical care) • Prescribed drugs for smoking cessation • Weight-loss programs for medical treatment of disease 	VISION <ul style="list-style-type: none"> • Examinations • Frames • Prescription lenses • Prescription contacts 	HEARING <ul style="list-style-type: none"> • Examinations • Hearing aids and equipment 	DENTAL <ul style="list-style-type: none"> • All expenses except cosmetic dentistry

INELIGIBLE EXPENSES: <i>Expenses not eligible for reimbursement through HCFSA include:</i>
<ul style="list-style-type: none"> • Medicine which does not require a prescription; • Alternative medicine; • Nursing care for a healthy baby; • Expenses for care that is not medically necessary or for purely cosmetic reasons (male pattern baldness, etc.); • Expenses for your general health (even if following your doctor’s advice, including: travel, weight gain or loss programs, household help, social activity fees, etc.); • Expenses for health club dues, even if it is recommended by a physician; • Premiums paid for coverage under your own or another employer’s health plan; and • Toothpaste, toiletries, cosmetics, etc.

DeCAP Worksheet

For the Plan Year 2003 (January 1, 2003 - December 31, 2003)

This worksheet is designed to assist you in the estimation of your eligible employment related dependent care expenses for the Plan Year 2003. When estimating your expenses, be conservative. Keep in mind the “Use It or Lose It” rule explained in this brochure.

<i>Dependent Care Expenses</i>	Last Year's Expenses	Projected Year 2003 Expenses
Infant/toddler (baby-sitter inside or outside of your home)	_____	
Nursery school/preschool	_____	
Before-school and after-school care	_____	
Reporting days (child in school half a day)	_____	
School in-service days (child not in school)	_____	
School holidays	_____	
School vacation days	_____	
Day camp/summer camp (not overnight)	_____	
Housekeeper/cook/companion (if services provided are for a dependent who qualifies for dependent care)	_____	
Other dependent care expenses (refer to IRS Publication 503 for more information)	_____	
Administrative fee (\$4 per month/\$48 per year)	_____	\$48.00
<i>Total Dependent Care Expenses</i>	_____	*

** Enter this amount in Box A of Section 4 of the DeCAP Contribution Section on the FSA Enrollment/Change Form.*

INELIGIBLE EXPENSES: *Expenses not eligible for reimbursement through DeCAP include:*

- Services provided by your spouse, by a child of yours under age 19 at the close of the Plan Year, or by a dependent whom you claim (or could claim) as an exemption for federal income tax purposes;
- Kindergarten;
- Nursing home or custodial care facility;
- Overnight camp expenses;
- Fees (activity, registration, insurance, transportation, etc.);
- Baby-sitting expenses when you are not working (sick, vacation, maternity leave, etc.);
- Supplies (meals, books, diapers, clothing, etc.);
- Tuition expenses for schooling;
- Expenses that you plan to claim under the Federal Dependent Care Tax Credit; and
- Expenses incurred while you and/or your spouse are not at work including sick leave, maternity leave and summer vacation (e.g., employees of Department of Education and CUNY who do not work during summer session).



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