

# Louisiana State University

**The LSU System**

## **TAX SAVER FLEXIBLE BENEFITS PLAN**



Revised 11/2004

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## Tax Saver Flexible Benefits Plan

### TAX SAVER PLAN PROFILE

**Authority:** Section 125 of the Internal Revenue Service Code

**Plan Description:** The Tax Saver Flexible Benefits Plan allows participants to use Spending Accounts to pay for certain health care expenses (those for which reimbursement is not received from an insurance carrier) and dependent care expenses with tax-free dollars. Prior to the beginning of the plan year, the employee determines the amount to put in either or both of two accounts, (the Health Care Account and the Dependent Care Account). The amount selected is deducted in equal installments from the employee's paychecks for that plan year. The deduction is made *before* taxes are applied, making the spending account dollars tax-free. As eligible expenses are incurred, participants file a claim and are reimbursed. Participation in this plan is completely voluntary.

**Eligibility:** All regular employees who are scheduled to work 30 hours or more per week (75% effort) are eligible to participate.

**Plan Year:** The plan year is July 1 through June 30. *Services and related expenses must be incurred during this period to be eligible for reimbursement.*

**Flexibility:** An employee can change the election during the April Annual Enrollment Period prior to each plan year. Once elections are made, they can only be changed or revoked if the participant experiences a qualified change in family status.

**Administration Fee:** Participants pay \$3.00 per month for the Health Care Account and \$3.00 per month for the Dependent Care Account.

**Contribution Limits:** Maximum annual contribution rates are \$3,000 for the Health Care Account and, for most employees, \$5,000 for the Dependent Care Account. Minimum annual contribution rates are \$100 for each account.

**The Use-It-Or-Lose-It Rule:** At the end of each plan year, as required by the IRS for plans of this type, the employee forfeits any before-tax dollars left in either account. Careful planning can help prevent forfeitures.

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**Tax Saver Flexible Benefits Plan**

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## **TAX SAVER FLEXIBLE BENEFITS PLAN**

**This booklet provides full details of the Tax Saver Flexible Benefits Plan. After reading this material, if you have additional questions or need assistance, please contact the Benefits Service Center, Office of Human Resource Management, 304 Thomas Boyd Hall, Phone: (225) 578-8200.**

**Although the University cannot directly advise you on what to do, the Human Resource Management Staff can help you reach an informed decision.**

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## Tax Saver Flexible Benefits Plan

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## Tax Saver Flexible Benefits Plan

### PART A BASIC PLAN PROVISIONS

*The Tax Saver Flexible Benefits Plan lets participants take advantage of tax laws which offer substantial tax savings and enables participants to increase their "take home" pay. Under Section 125 of the Internal Revenue Service Code, participants are allowed to set aside a portion of their paycheck on a before-tax basis to pay for certain uninsured health care and dependent care expenses. This section explains how you can take advantage of this unique voluntary tax savings plan!*

The Tax Saver Flexible Benefits Plan offers employees two spending accounts: (1) the Health Care Account and (2) the Dependent Care Account. In these accounts participants can cover (1) medical expenses for themselves and their eligible dependents for which they do not receive reimbursement from their insurance carrier and/or (2) their dependent care expenses.

After examining past expenses and forecasting next year's expenses, participants determine the amount to put in their spending account(s) for the coming plan year. Participants' contributions are deducted in equal amounts from each paycheck and are recorded in account(s) in the participants name before Federal, State, Social Security and Medicare taxes are figured. Because participants do not pay taxes on these dollars, they save money.

#### **How The Spending Accounts Work**

Participants pay for their uninsured health care and dependent care expenses as usual. However, as participants incur these eligible expenses, they submit a claim form along with their receipts and are reimbursed from their account(s). Since participants have not paid taxes on the money in these accounts, they will have effectively paid their expenses with nontaxable dollars.

An important point to remember is that according to IRS rules, participants **forfeit** any money left in their account(s) at the end of the year. This means participants lose the money in their account(s). Therefore, special attention must be paid in determining how much to contribute to these account(s).

#### **Eligibility Requirements and Participation Fees**

All regular employees who are scheduled to work 30 hours or more per week (75% effort) are eligible to participate. The spending account can be used regardless of which medical, dental or vision plan options have been chosen. Participants and their dependents are eligible to use a spending account even if they elect "employee only" medical, dental or vision coverage or if they choose not to take any coverage at all.

### PART A BASIC PLAN PROVISIONS

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## Tax Saver Flexible Benefits Plan

(Continued)

The monthly administration fee for participants is:

✓ Health Care Account	\$3.00
✓ Dependent Care Account	\$3.00

If this plan is right for you, your tax savings will more than offset this participation cost.

### Enrollment Period

Each year Annual Enrollment for the Tax Saver Plan will be held during the month of April for the following plan year of July 1 through June 30. During Annual Enrollment employees will be provided with details of the Plan and have the opportunity to make their elections for the plan year. Participants elect whether to participate at all, whether to use one or both spending accounts, and the amount they wish to deposit through payroll deduction into the account(s) elected.

NOTE: New employees will have 30 days from their appointment date in which to choose to participate. Their participation will be effective on the first of the month following completion of one full calendar month of service.

### Change in Elections

According to IRS regulations, participants must designate how much of their salary will be deposited into their spending account(s) before the beginning of each plan year. Health Care and Dependent Care Accounts are separate. Money cannot be transferred from one account to the other.

Participants may change their elections **only once a year**, during the Annual Enrollment period, with an effective date of July 1, **unless** they experience a qualifying change in family status. After making an election during the annual enrollment period, if a participant experiences a change in family status during the plan year, they will be permitted to change their benefit election, including an election they made **not** to participate in the plan. *Any change must be consistent with the qualifying change in family status and must be made within 30 days of the qualifying change.*

#### ***A qualifying change in your family status means...***

- birth or adoption of a child
- marriage or divorce
- death of a dependent
- change in employment status of you or your spouse

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## Tax Saver Flexible Benefits Plan

- significant change in the health coverage of the employee or spouse due to the employee's or spouse's employment
- loss of medicaid/medicare
- change of dependent care provider (change in dependent care account only)
- dependent no longer eligible for coverage
- dependent newly eligible for coverage
- change in cost of dependent care (change in dependent care account only)

### Allowable Contribution Amounts

Each year participants generally can elect to reduce their salary by making deposits into their account(s) in the amounts shown in the following chart. The maximum annual (12 months) amounts are approximately \$3,000 for the Health Care Account and \$5,000 for the Dependent Care Account. Because participants make contributions on a per pay period basis, the maximum rates are proportionately reduced for new employees who begin participating after the plan year begins. Contributions are made to the account(s) one month in advance.

The following chart makes it easy for you to determine your maximum and minimum per pay period contribution rates.

<b>MINIMUM/MAXIMUM CONTRIBUTION RATES</b>		
<b>EMPLOYEE PAY BASIS</b>	<b>HEALTH CARE ACCOUNT</b>	<b>DEPENDENT CARE ACCOUNT*</b>
Employees on Bi-weekly pay cycle (24 pay periods)	\$125.00 max. \$ 4.17 min.	\$208.33 max.* \$ 4.17 min.
Employees on Academic pay cycle (9 pay periods)	\$333.33 max. \$ 11.11 min.	\$555.55 max.* \$ 11.11 min.
Employees on Fiscal pay cycle (12 pay periods)	\$250.00 max. \$ 8.33 min.	\$416.66 max.* \$ 8.33 min.

\*NOTE: Under some circumstances, the maximum contribution rate to the Dependent Care Account is less than \$5,000. Refer to the "Special Restrictions on Dependent Care Account Contributions" subsection below.

## **PART A**

### **BASIC PLAN PROVISIONS**

(Continued)

#### *Special Restrictions on Dependent Care Contributions*

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There are four major exceptions to the above limitations regarding the maximum allowable contribution to the Dependent Care Account.

1. If you are married, generally both you and your spouse must be employed in order to use this plan to reimburse eligible dependent care expenses.
2. Your contribution may not exceed the lesser of your earned income or the earned income of your spouse.

*For example ...* If you earn \$30,000 per year and your spouse earns \$3,000, then your contribution to a Dependent Care Spending Account may be no more than \$3,000 for the year.

However, if your spouse is a full-time student at an educational institution or is physically or mentally unable to take care of himself/herself, your spouse's income is considered to be \$200 per month if there is one dependent or \$400 per month if there are two or more dependents.

3. If you are married and file separate tax returns, your maximum contribution is \$2,500.
4. If your spouse has a Dependent Care Account at work and you file jointly on your tax return, your combined total cannot exceed \$5,000.

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## Tax Saver Flexible Benefits Plan

### PART A BASIC PLAN PROVISIONS (Continued)

#### The Use-It-Or-Lose-It Rule

Any balance in participants' account(s) at the end of the plan year must be **forfeited**. This means the participant loses those dollars. Under IRS rules for spending account plans, that balance cannot be carried forward to a later plan year or used to compensate a participant in any way. Nor can the funds be transferred from one spending account to the other.

The reason for the Use-It-Or-Lose-It rule is to prevent people from abusing spending accounts as tax shelters. The IRS ruling means that spending accounts can be used only to reimburse legitimate tax-deductible expenses and not as a way to collect tax-free dollars.

Any funds **forfeited** under this so-called Use-It-Or-Lose-It rule are used to assist in paying the administrative costs of the plan.

**NOTE:** *You can reduce your risk of forfeiture by carefully and conservatively estimating the eligible expenses you expect to incur during the plan year before deciding on the amount you wish to contribute to the spending account(s).*

#### Filing a Claim

To be reimbursed for eligible health care and/or dependent day care expenses, follow these steps:

1. Participants pay their health care and/or dependent day care expenses as usual.
2. When a participant has \$25.00 or more of expenses, they submit their claim on a **Reimbursement Request Form** along with proof of incurred expense to the address shown on the form. Group Benefits medical participants, must submit the "Explanation of Benefits" form received from the insurance company which shows the uninsured medical expenses. HMO participants must submit receipts for co-payments for medical services. Pharmacy receipts must be provided indicating date prescription was filled, name of patient and cost of prescription.

### PART A

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## Tax Saver Flexible Benefits Plan

### BASIC PLAN PROVISIONS (Continued)

Receipts and paid bills are acceptable for dental/orthodontic, vision and other medical expenses not typically covered under insurance plans. The receipt must indicate name of provider, name of patient, date of service, service provided and payment amount.

For a dependent care claim, participants must submit a receipt which shows the name(s), address(es), and Tax Identification Number(s) and/or Social Security Number of the dependent care provider.

NOTE: Requests for reimbursement generally must be for at least \$25.00 in expenses.

3. Once a participant's request is processed and approved, the participant will receive reimbursement. Reimbursements are made by direct deposit through the payroll system. The direct deposit notice for reimbursements will be posted to PAWS the same way your regular payroll information is handled. Participants should receive their reimbursements within 1 to 2 weeks. *All payments for claims will be made directly to the participant, not to a provider of a service.*
4. To enable participants to use their spending account for all expenses incurred up to the end of the plan year, participants may continue to submit claims for up to ninety days following the close of the plan year. This means that all claims for a specific plan year must be received no later than September 30<sup>th</sup> of the following plan year. Of course, those claims must be for expenses incurred during the actual plan year. **Any funds left in a participants account after September 30<sup>th</sup> will be forfeited.**

If your account terminates prior to the end of the plan year, you will have 90 days from the end of the month in which your account terminated, or by September 30<sup>th</sup>, whichever occurs first, to submit claims.

5. Participants will receive a detailed account statement on a quarterly basis.
6. All correspondence relative to a participant's Flexible Spending Account(s) will be directed to their home address. It is the participants' responsibility to notify the Benefits Service Center in writing of a change of address.

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**Tax Saver Flexible Benefits Plan**

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## **PART A BASIC PLAN PROVISIONS (Continued)**

### *Account Balances*

Participants' *dependent care* claims will be paid up to the balance in the participant's account, and the remainder of the claim will automatically be paid as additional contributions are made to the participant's account. *You will not have to resubmit your claim.*

Participants' *health care* claims will be paid in full, up to the amount of their annual contribution, minus any reimbursements paid to date.

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### **PART B HEALTH CARE ACCOUNT**

#### **Eligible Expenses**

Participants can be reimbursed for most uninsured health-related expenses that they pay for themselves, their spouse, and any dependents.

#### ***Eligible Reimbursable Expenses include but are not limited to:***

- Otherwise non-reimbursed medical expenses (including deductibles and co-payments) for hospital, physician, prescription drug, dental, orthodontic, and vision care;
- Uncovered health services such as hearing aids and birth control pills;
- Routine checkups and physicals; and
- Long-term rehabilitation services (alcoholism and drug abuse)
- Over-the-counter drugs

#### ***Additionally, these expenses are reimbursable if they:***

- qualify as a medical expense for Federal income tax purposes;
- have not been and will not be reimbursed by a medical insurance plan or by another health insurance plan; and
- have not and will not be deducted on the participant's income tax return.

Full rules on eligibility are contained in IRS Publication 502. Refer also to the back of the "Worksheet for Estimating Your Un-reimbursed Health Care Expenses".

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## Tax Saver Flexible Benefits Plan

### **PART B** **HEALTH CARE ACCOUNT** (Continued)

#### Tax Benefits

You are probably aware that you may take a federal income tax deduction for those out-of-pocket health care expenses that exceed 7.5% of your adjusted gross income. When you use the Health Care Account, you can save federal and state (and social security and medicare taxes if applicable) on all of your out-of-pocket health care costs. This can mean an important tax savings for you.

#### **EXAMPLE OF HEALTH CARE ACCOUNT USE FOR \$1,000 IN MEDICAL EXPENSES\***

	WITH SPENDING ACCOUNT	WITHOUT SPENDING ACCOUNT
ANNUAL SALARY - GROSS PAY	30,000	30,000
LESS SPENDING ACCOUNT CONTRIBUTION	1,000	0
LESS RETIREMENT CONTRIBUTIONS (assume TRS/ORP @ 8%)	2,400	2,400
TAXABLE INCOME	26,600	27,600
LESS FEDERAL INCOME TAX*	3,900	4,140
LESS MEDICARE TAX	386	400
LESS SPENDING ACCOUNT FEE	36	0
LESS EXPENSES PAID AFTER TAXES	0	1,000
REMAINING SPENDABLE PAY	22,188	22,060
<b>ADDITIONAL SPENDABLE PAY</b>	<b>128</b>	

\* Assumes lowest Federal tax bracket of 15%. Savings will be even greater for persons in higher tax brackets.

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## Tax Saver Flexible Benefits Plan

### Worksheet for Estimating Your Un-reimbursed Health Care Expenses

As part of your benefits program, you can decide to direct part of your salary to the Health Care Spending Account. This account permits you to pay for otherwise un-reimbursed health care expenses on a pre-tax basis. This worksheet will help you estimate what expenses you are likely to face in the next plan year.

**Remember the Use-It-Or-Lose-It Rule. Be conservative in your estimates.** It is better to estimate less rather than more since you will have to forfeit any money left in your account at the end of the plan year.

**For each of the following categories, estimate the amount of expenses you anticipate to incur in the coming plan year for which you do not expect to be reimbursed by your insurance carrier.**

Medical deductible ..... \$ \_\_\_\_\_  
(Major medical and/or any per admission deductibles)

Dental deductible ..... \$ \_\_\_\_\_

Copayments  
(Your share of expenses after any deductibles, up to the out-of-pocket limit)

Medical ..... \$ \_\_\_\_\_

Dental ..... \$ \_\_\_\_\_

Orthodontia ..... \$ \_\_\_\_\_

Vision Exams ..... \$ \_\_\_\_\_

Uncovered Prescription Drugs ..... \$ \_\_\_\_\_

Uncovered Routine Physical Exams ..... \$ \_\_\_\_\_

Other planned uncovered expenses ..... \$ \_\_\_\_\_  
(i.e., less common expenses itemized on page 11)

**TOTAL ESTIMATED HEALTH CARE EXPENSES ..... \$ \_\_\_\_\_**

**The Total Estimated Health Care Expenses figure is the maximum amount you should consider putting in your Health Care Account. This total amount will be divided by the appropriate number of pay periods to reach a per pay period account deposit amount. The deposit amount will be deducted on a pre-tax basis saving you the amount of tax you normally would have paid on the deposit amount.**

**DEDUCTIBLE EXPENSES FOR  
HEALTH CARE SPENDING ACCOUNT**

**Typical Expenses Include ...  
Deductibles and co-payments, uncovered prescription**

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## Tax Saver Flexible Benefits Plan

drugs, uncovered routine physicals, over-the-counter drugs, and eye exams.

### Other Less Common Expenses Include ...

#### *Medical Treatments*

\$ \_\_\_\_\_ Acupuncture  
\$ \_\_\_\_\_ Diathermy  
\$ \_\_\_\_\_ Hydrotherapy (water treatments)  
\$ \_\_\_\_\_ Sterilization  
\$ \_\_\_\_\_ Vasectomy  
\$ \_\_\_\_\_ Whirlpool baths

#### *Professional Services of*

\$ \_\_\_\_\_ Christian Science Practitioner  
\$ \_\_\_\_\_ Practical or other nonprofessional nurse for medical services only.

#### *Equipment and Supplies*

\$ \_\_\_\_\_ Abdominal supports  
\$ \_\_\_\_\_ Arches  
\$ \_\_\_\_\_ Autoette (auto device for handicapped person), but not if used to travel to job or business  
\$ \_\_\_\_\_ Back supports  
\$ \_\_\_\_\_ Eyeglasses and Contact lenses  
\$ \_\_\_\_\_ Elastic hosiery  
\$ \_\_\_\_\_ Hearing aids  
\$ \_\_\_\_\_ Heating devices  
\$ \_\_\_\_\_ Invalid chair  
\$ \_\_\_\_\_ Orthopedic shoes - excess cost over normal shoes  
\$ \_\_\_\_\_ Special mattress and plywood bed boards for arthritis or spine relief  
\$ \_\_\_\_\_ Truss  
\$ \_\_\_\_\_ Wig advised by doctor as essential to mental health of person who has lost all hair from disease

#### *Miscellaneous*

\$ \_\_\_\_\_ Birth control pills or other birth control items prescribed by doctor  
\$ \_\_\_\_\_ Convalescent home - for medical treatment only  
\$ \_\_\_\_\_ Kidney donor's or possible kidney donor's expenses  
\$ \_\_\_\_\_ Nurse's board/wages, including Social Security taxes you pay on wages  
\$ \_\_\_\_\_ Remedial reading for child suffering from dyslexia  
\$ \_\_\_\_\_ Sanitarium and similar institutions  
\$ \_\_\_\_\_ Seeing-eye dog and its maintenance  
\$ \_\_\_\_\_ Special school costs for physically and mentally handicapped children  
\$ \_\_\_\_\_ Wages of guide for blind person  
\$ \_\_\_\_\_ Telephone-teletype costs and television adapter for closed captioned service for deaf person  
\$ \_\_\_\_\_ Transportation costs associated with obtaining health care services

\$ \_\_\_\_\_ TOTAL MISCELLANEOUS EXPENSES

### *Expenses NOT Deductible for Health Care Spending Account*

- Cosmetic surgery
- Face-lifting operation
- Hair transplant operation
- Illegal operations and drugs
- Patent/over the counter medicines
- Vitamins, tonics, etc., even if prescribed by a physician
- Antiseptic diaper services
- Bottled water bought to avoid drinking flouridated city water
- Maternity clothes
- Boarding school fees paid for healthy child while parent is recuperating from illness. It makes no difference that this was done on a doctor's advice.
- Domestic help - even if recommended by doctor because of spouse's illness. But part of cost attributed to any nursing duties performed by the domestic *is* deductible.
- Tuition and travel expenses to send a problem child to a particular school for a beneficial change in environment
- Transportation costs of disabled person to and from work
- Cost of trips for change of environment to boost morale of ailing person, even if prescribed by physician
- Athletic club expenses to keep physically fit
- Health programs offered by resort hotels, health clubs and gyms
- Cost of hotel room suggested for sex therapy
- Marriage counseling fees
- Cost of divorce recommended by psychiatrist
- Your divorced spouse's medical bills. (You may be able to deduct them as alimony.)
- Other after-tax premiums
- Premiums, in connection with life insurance policies, paid for disability, double indemnity, or for waiver of premiums in event of total and permanent disability or policies providing for reimbursement of loss of earnings or a guarantee of a specific amount in the event of hospitalization
- Scientology fees

For full rules refer to  
IRS Publication 502  
or consult your tax advisor.

Contact the Human Resource Management Office for procedural questions, (225) 578-8200.

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## Tax Saver Flexible Benefits Plan

### **PART C DEPENDENT CARE ACCOUNT**

#### **Eligible Expenses**

Eligible dependent care expenses are work-related expenses incurred for qualifying individuals. Eligible expenses and qualifying individuals are defined below. Participants are required to report on their federal income tax return, the name(s) and Tax Identification Number(s) and/or Social Security Number(s) of those providers of dependent care services whose expense they have been reimbursed through their dependent care account.

*NOTE: The tax identification number is not required if the provider of dependent care services is a tax-exempt organization (for example, a church-sponsored nursery school or a parish day care center).*

- Day care cost for children 12 years of age and younger;
- Schooling costs for children in pre-school or younger (kindergarten tuition is not eligible) - *certain restrictions apply to reimbursement (see page 22, question 25);*
- Babysitting and licensed day-care center costs;
- Housekeeping services in your home, which include day care.

#### **Ineligible Expenses**

- Medical expenses for dependents are not eligible under the Dependent Care Account. These are eligible expenses under the Health Care Account.
- Costs of transportation, overnight camping, nursing care facilities, and the schooling costs of children in the first grade or above are not eligible.

#### **Qualifying Individuals**

- Your children age 12 years or younger;
- Any other individuals who reside with you, and who rely on you for at least half of their support, or are physically or mentally unable to care for themselves (i.e., elderly parents, disabled adults).

### **PART C**

## DEPENDENT CARE ACCOUNT (Continued)

Participants may claim reimbursement for payments made to a relative; however, they may not claim reimbursement for payments they make to one of their dependents or children under the age of 19.

If a participant is divorced or legally separated, they may have their child's dependent care expenses reimbursed if they are the custodial parent (i.e., if they have custody of the child for a longer period of time during the year than the other parent).

There are several exceptions to the custodial parent rule that will permit a participant, as the non-custodial parent, to have their child's dependent care expenses eligible for reimbursement from their spending account. These exceptions apply when all of the following are true:

- the participant provides over half of the support of the child under a multiple support agreement,
- the custodial parent formally releases claim to the federal income tax dependent exemption for the next tax year, and
- the participant is entitled to the federal income tax dependent exemption as a result of an agreement executed prior to 1985.

### Spending Accounts versus Tax Credits

#### *The Federal Income Tax Credit*

Currently, if a participant is a single parent, head of the household, or married with a working spouse, they are eligible to receive a Federal Income Tax Credit for child and dependent care expenses.

Participants cannot use both the tax credit and the spending account for the same dependent care expenses. Further, expenses eligible for the tax credit are reduced, on a dollar-for-dollar basis, by the amount the participant contributes to a dependent care spending account. This tax credit is an amount subtracted from the actual tax the participant owes when they file their annual tax return. The Federal Income Tax Credit is defined as a percentage of dependent care expenses up to maximum expenses of:

- \$2,400 per year for one dependent
- \$4,800 per year for two or more dependents

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## Tax Saver Flexible Benefits Plan

### **PART C** **DEPENDENT CARE ACCOUNT** **(Continued)**

The percentage ranges from 30% down to 20% depending on the participants adjusted gross income. Also note that on the participant's Louisiana State tax return, they can claim 20% of their Federal tax credit. The chart at the end of this section provides a summary of the benefits of the Federal income tax credit.

*For example, suppose you have two children and child care expenses of up \$100 per week (as much as \$5,000 per year). Under current law, \$4,800 of those expenses would be eligible for the Federal tax credit. However, if you put \$4,800 into a dependent care spending account, your eligible expenses for the tax credit would be reduced to \$800 for the year. If you put \$4,800 or more into the spending account, none of your expenses would be eligible for the tax credit.*

The decision as to whether it is more advantageous for a participant to use the tax credit for dependent care or the dependent care spending account depends on a number of factors and, therefore, must be made on an individual basis. However, the principles listed below can be used as general guide line. Because of recent changes in tax laws, in most cases, the spending account will provide greater tax savings.

1. As income rises, the tax credit decreases, while the tax savings on payments made through the dependent care account becomes greater, because a participant is in a higher taxable income bracket.
2. Savings from using the dependent care account include social security/medicare tax savings. This savings does not apply with the tax credit.
3. The amount that can be reimbursed through the dependent care account is not lowered when a participant has only one qualifying dependent, as happens with the tax credit. For example, if you have only one child (or other qualifying dependent) but more than \$2,400 of dependent care expenses, more expenses are reimbursable through the dependent care account.

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## Tax Saver Flexible Benefits Plan

### PART C DEPENDENT CARE ACCOUNT (Continued)

<b>Federal Income Tax Credit - Dependent Care Expenses</b>			
<b>Adjusted Gross Income</b>	<b>Percentage of Expenses You May Claim</b>	<b>Maximum Credit Available</b>	
		<b>1 Person (% of \$2400)</b>	<b>2 or More (% of \$4800)</b>
\$0-10,000	30%	\$720	\$1,440
\$10,001-12,000	29%	\$696	\$1,392
\$12,001-14,000	28%	\$672	\$1,344
\$14,001-16,000	27%	\$648	\$1,296
\$16,001-18,000	26%	\$624	\$1,248
\$18,001-20,000	25%	\$600	\$1,200
\$20,001-22,000	24%	\$576	\$1,152
\$22,001-24,000	23%	\$552	\$1,104
\$24,001-26,000	22%	\$528	\$1,056
\$26,001-28,000	21%	\$504	\$1,008
Over \$28,000	20%	\$480	\$ 960

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## Tax Saver Flexible Benefits Plan

### Worksheet for Estimating Your Dependent Care Expenses

This worksheet will help you estimate what expenses you are likely to face in the next plan year.

**Remember the Use-It-Or-Lose-It Rule. Be conservative in your estimates.** It is better to estimate less rather than more since you will have to forfeit any money left in your account at the end of the plan year.

*For each of the following categories, estimate the amount of expenses you expect to incur in the coming plan year.*

	Last Plan Year Expenses	Estimated Plan Year Expenses
1. Multiply your weekly day care expenses by the number of weeks you expect to have the expenses for the Plan Year (July 1 - June 30)		
Qualified Day Care Center (child or adult)	_____	_____
Preschool	_____	_____
Before-and-After School Care	_____	_____
Babysitter while you are at work	_____	_____
Summer Day Camp	_____	_____
Other dependent/elder care	_____	_____
2. Total dependent care expenses for your period of coverage during the plan year	_____	_____
3. Your <b>Total Estimated Dependent Care Expenses:</b>	_____	_____

The total estimated dependent care expenses figure is the maximum amount you should consider putting into your dependent care account. Your total annual contribution cannot exceed IRS limits. This total amount will be divided by the appropriate number of pay periods to reach a pay period account deposit amount. The deposit amount will be deducted on a pre-tax basis saving you the amount of tax you normally would have paid on the deposit amount.

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## Tax Saver Flexible Benefits Plan

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### OTHER THINGS TO CONSIDER

#### Changes in Eligibility Status, Including Termination of Employment

##### **Change - From Ineligible Status to Eligible Status**

An employee who changes from ineligible status (i.e., a work schedule of less than 30 hours) to eligible status (i.e., a work schedule of 30 hours or more) during a plan year, will be eligible to begin participating in the Tax Saver Plan on the first of the month following completion of one full calendar month of service in eligible status. The employee will have 30 days following the status change to make their election.

##### **Change - From Eligible Status to Temporary Ineligible Status**

Conversely, an employee who changes from eligible status to ineligible status during a plan year, by virtue of a temporary (less than one year) change in work schedule, will not be affected. An employee who has a permanent change in work schedule will be treated the same as an employee who is terminating (see next paragraph).

##### **Change - From Eligible Status to Ineligible Status (Terminations/Separations)**

If an employee's employment with the LSU System terminates for any reason (including retirement, disability, or death), any money remaining in the spending account(s) can still be used for expenses incurred while the employee was employed by the University. The employee may continue to submit requests for reimbursement for up to six months following the effective date of separation (unless coverage has been continued under COBRA, as explained below). After that time, any funds left in the account(s) will be forfeited.

Under a federal law known as "COBRA", a participant may continue to make contributions to the Health Care Account, with their own after-tax dollars, after they leave the LSU System. In that case they could also use any amounts that were in their health care account when they left, for expenses incurred later in that same plan year. Contact your Human Resource Management Office (225) 578-8200 for more information on this subject.

### PART D OTHER THINGS TO CONSIDER

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### Impact on Other Benefits

Participants basic and supplemental life insurance coverage and disability premium are based on their gross pay before Plan contributions for spending accounts are deducted. Therefore, Spending Account contributions will not reduce a participants life insurance amounts or their disability benefits.

Participants' retirement contributions to the State Employees' Retirement System, Teachers' Retirement System, Federal Civil Service Retirement System, Optional Retirement Plan, and Louisiana Deferred Compensation Plan are calculated on their full salary and therefore deducted before their spending account contributions. For this reason, their retirement benefit under one of these plans is not affected by their Tax Saver Plan participation.

Although most employees in the LSU System participate in one of the above retirement systems and do not pay Social Security Tax, if you are one of the few who do pay social security tax, you should note that under present law, your earnings for the purpose of determining your eventual Social Security benefits **would not** include contributions made to the spending accounts. In most cases, however, the value of the FICA (social security), federal and state income tax savings to you will exceed the reduction in your eventual Social Security or annuity benefits.

Earned income credit is an income tax credit that is available to certain lower income employees who provide a home for at least one "qualifying child" (beginning in 1994 certain employees who do not have a "qualifying child" may still be able to claim the income tax credit on their IRS form 1040). Generally, this credit is available to families with adjusted gross income of less than \$26,473 for one qualifying child and \$30,095 for families with more than one qualifying child. If employees who qualify for the Earned Income Tax Credit take advantage of the flexible spending accounts they must remember to include the FSA amount in nontaxable earned income when computing the EIC (just as retirement and cafeteria sheltered insurance premiums must be included - see IRS Schedule EIC).

## FREQUENTLY ASKED QUESTIONS ABOUT SPENDING ACCOUNTS

**1) What is a spending account?** A spending account allows you to pay for eligible health and/or dependent care expenses with pre-tax dollars. Under a spending account arrangement, you make contributions to the account(s)

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## Tax Saver Flexible Benefits Plan

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from your salary each pay period (before payroll taxes are computed) and then are reimbursed for eligible expenses from your individual spending account(s) as you present your claims for payment.

**2) *Are the Dependent Care Spending Account and the Health Care Spending Account one account or two separate accounts?*** The IRS requires two separate accounts. Funds cannot be borrowed from a Health Care Account to pay day care expenses or vice versa.

**3) *Can I change my spending account elections during the year?*** Once you decide on the amount you would like to put into a specific account, you cannot change the amount of your contribution, stop your contributions, or begin making contributions. However, there are two exceptions to this rule. You may make changes in your contributions (1) on the plan anniversary, (for the LSU system, July 1) or (2) if you have a change in your family circumstances.

*A change in family circumstances means...*

- birth or adoption of a child
- marriage or divorce
- death or disability of a dependent
- change in employment status of you or your spouse
- significant change in the health coverage of you or your spouse due to your or your spouse's employment
- dependent no longer eligible for coverage
- dependent newly eligible for coverage
- change in dependent care provider or dependent care cost (change in dependent care account only)

The change in your election must be consistent with your change in family circumstances and must be made within 30 days of the date of change.

**4) *How are spending account(s) reductions reported?*** Your gross income minus your spending account(s) contribution is reported on your W-2. For instance, if your salary is \$18,000 and you direct \$1000 to a spending account, \$17,000 would appear on your W-2.

**5) *What is the advantage of putting money away before taxes in a spending account versus putting the same amount in a savings account?*** If you put \$100 into a savings account, it might earn 6% interest for a year or \$6. If you direct \$100 to a spending account, you save at least \$15 depending on your tax bracket (assumes 15% minimum Federal Tax Bracket).

**6) *Will I have to pay taxes on this money at the end of the year?*** No. There is no tax liability on this money either when you put it into a spending account or when you take it out to pay for health or dependent care expenses.

**7) *What happens to any money remaining in my spending account(s) at the end of the plan year?*** The IRS regulations for these types of plans say that if all the money in the account(s) is not used by the end of the plan year, you must forfeit the remaining balance. The remaining balance cannot be paid to you in cash, carried over to the next plan year, or made available to you in any other way. If you use the information in your enrollment guide and plan carefully, you can minimize this risk.

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**8) Why don't I get the money if it is left in my spending account at the end of the year? After all, it is my money.** Tax laws require that money remaining in your account be forfeited to your employer. The reason for this rule is to prevent people from abusing spending accounts as tax shelters. The IRS ruling means that spending accounts can be used only to reimburse legitimate tax deductible expenses and not as a way to collect tax-free dollars. If you use your spending accounts properly, you don't have to worry about losing remaining dollars because you will have used all the tax-free funds to reimburse your eligible expenses.

**9) What will be done with the forfeited money?** The money will be used to assist in the cost of administering the Plan.

**10) Can I deduct my forfeited amounts as a loss on my tax return?** No. Forfeited amounts are not tax deductible since they are income that has not been taxed.

**11) What happens to money in my spending account(s) if I terminate employment?** Claims can be submitted after employment terminates, but you may only submit expenses incurred prior to your date of termination, unless you choose to continue making after-tax contributions to your Health Care Spending Account through COBRA. **Any balance remaining in your account(s) six months after your termination is forfeited (unless you are still an active participant through COBRA).**

**12) Can I use the Health Care Account regardless of which medical or dental plan I choose or if I have no coverage?** Yes. The spending account works with all the medical or dental plan options. You and your entire family are eligible to use a spending account even if you only elect single medical or dental coverage or if you choose not to take any coverage.

**13) How will I know what my un-reimbursed health care expenses will be a year in advance?** You have many expenses which are predictable. Review the worksheet, *Estimating Your Un-reimbursed Health Care Expenses*. It provides a detailed list of items that are eligible for reimbursement.

*Here are some ways of predicting your expenses...*

- You can go to the dentist prior to making your election and find out what dental expenses you might anticipate in the coming year (i.e., crown, fillings, dentures). The amount not covered by your dental plan could be set aside in the Health Care Account.
- If you always satisfy your medical or dental deductible, you can put the amount of the deductible in your Health Care Account.
- You can anticipate your expenses for eye exams, new glasses, contacts and prescription sunglasses.
- Orthodontia expenses are also very predictable.

**14) What proof of payment is required when filing a health care claim?** Employees who are enrolled in an indemnity plan must submit an Explanation of Benefits from their plan. HMO participants must submit receipts for

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## Tax Saver Flexible Benefits Plan

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co-payments. Receipts and paid bills are acceptable for dental/orthodontic, vision, and other reimbursable medical expenses not typically covered under medical plans; however, receipt must indicate name of provider, name of patient, date of service, service provided and payment amount. Pharmacy receipts for prescription drugs indicating date prescription was filled, name of patient and cost is acceptable proof of payment.

**15) What proof of payment is required when filing a Dependent Care claim?** A copy of a paid receipt, a copy of a canceled check or a statement from the Dependent Care provider indicating that payment has been received is acceptable.

**16) How much should I contribute?** You will probably want to be conservative your first year, especially if you do not feel confident in making a choice. Only put enough money into your account to cover medical, dental and vision expenses you are fairly certain you will have, for example, the cost of a routine physical exam. After using a spending account and seeing firsthand how it works, you'll be more comfortable making a choice next year.

**17) Who is considered a dependent for a Health Care Account?** Any person who is a legal dependent (anyone you claim as a deduction for income tax purposes) is considered a dependent for the Health Care Spending Account. This could also include an elderly parent. This definition may be different than the medical plan's definition of a dependent.

**18) If I put money in my Health Care Account to cover eyeglasses and have an unexpected illness, can I use my account for the expenses from my illness even though it was not my original intent?** Yes. You may use the money in your Health Care Spending Account for any tax deductible expense whether it was a planned expense or not. Planning for known expenses is a good guideline so that you will not put too much into your account, but it doesn't mean that you are required to use your spending account funds for specific expenses.

**19) If my spouse is not covered under my health insurance plan, can I still use my Health Care Account to pay for his/her out-of-pocket health care expenses?** Yes, you may use the money in your account for any tax deductible medical, dental or vision expenses, which includes expenses incurred by you or your dependents.

**20) Why should I use a Health Care Account rather than just deduct my health care expenses on my tax return?** There are several good reasons. First, if you don't itemize on your tax return, you can't claim any health care expenses. With a health care spending account, you get the tax break even if you don't itemize. Second, even if you do itemize, your health care expenses have to reach a specified percentage (7.5%) of your adjusted family gross income before you can deduct any health care expenses. A Health Care Account doesn't have this requirement. Third, you don't have to wait up to a year to get your money back. You can be reimbursed for an eligible expense whenever you make a request.

**21) Is the maximum I can contribute to the Health Care Account (\$3,000) per individual in my family or for all members of my family combined?** The maximum is the total amount each employee can deposit for the expenses of all members of the family on a combined basis.

**22) Can I use my dependent care account for health care expenses incurred by my dependents?** No. Dependent health care expenses are reimbursable under the Health Care Account.

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**23) How do you decide if the Federal Income Tax Credit or the Dependent Care Account will work to your advantage?** Because of recent changes in the tax laws, in most cases, the spending account will provide you with the greater tax savings. Since the spending account advantage may change as changes are made in the rules, you will want to monitor your personal situation, and may wish to consult a tax advisor.

**24) Can I use the Dependent Care Account if my baby sitter does not want to provide me with the required information?** Yes. The IRS requires that you obtain the name, address and Social Security Number (for an individual) or the Taxpayer Identification Number (for a company) of your day care provider. If your day care provider is a tax-exempt organization, only the name and address must be provided. This same information is required if you use the Federal Income Tax Credit. If a provider refuses to give all the necessary information, you should provide as much information as you can and keep a record that you exercised due diligence in attempting to furnish the required information.

**25) My child attends kindergarten and attends an after-school day care program at the same school. Can I claim both expenses on my spending account?** No. Only the after care expense is eligible for reimbursement. The same rule applies if the child attends before/after care and kindergarten at separate facilities--only the cost of before/after care is eligible for reimbursement.

**26) Can I use my Dependent Care Account to help pay for the private schools or preschools my children attend?** Yes. However, this does not apply to the cost of schooling for children in kindergarten or higher. Expenses for food, clothing and schooling are not considered eligible dependent care expenses, unless they cannot be separated from the total cost of childcare. For example, if you send your child to a nursery school, which includes the cost of lunch and educational services in the total cost of the school, then the entire amount is tax deductible and is an eligible expense for a spending account because the cost for different services is not broken down.

**27) Can we use a Dependent Care Account for a nighttime baby sitter?** Only if you and your spouse work at night and need to pay someone to care for your dependents while you work. If you hire a baby sitter so that you can go to an entertainment or social event at night, you cannot be reimbursed from your Dependent Care Account.

**28) My wife is a full-time student and is in classes during the day while I work. Can we use a Dependent Care Account to pay for a baby sitter?** Yes. However, there are special rules to cover this situation. If your spouse is a full-time student at an education institution or is physically or mentally unable to take care of himself/herself, your spouse's income is considered to be \$200 per month if there is one dependent or \$400 per month if there are two or more dependents.

**29) If the amount of my dependent care expenses changes (i.e., change dependent care providers and/or the fees change), can I make a change in my dependent care deduction?** Yes. A change in dependent care providers or fees is considered a change in family circumstances by the IRS.

**30) Our child attends summer day camp while my spouse and I work. Is that considered an eligible expense?** Yes. Summer day camp expenses are eligible for reimbursement from your Dependent Care Account, but overnight camp expenses are not.

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## Tax Saver Flexible Benefits Plan

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**31) *My father lives with us and watches the kids for us while we work. We pay him for helping us out. Can I be reimbursed for this expense from a Dependent Care Account even if he is a relative and lives with us?*** Yes, as long as you don't claim your father as a dependent on your tax return. You cannot be reimbursed for dependent care expenses paid to relatives if they are claimed as your dependents or if they are your children and under 19 years of age at the end of the year.

**32) *I was sick for a week last year and had to have someone stay with my children because I was not well enough to give them proper care. Can I use a Dependent Care Account for this kind of expense?*** No. Expenses for care while you are not at work because of illness are not tax deductible and therefore are not eligible expenses for your Dependent Care Account.

**33) *I am legally separated/divorced and share custody of my children with my former spouse. Can I use the Dependent Care Account to pay for dependent care expenses?*** Rules in this area are quite complex. In general, you can have your child's dependent care expenses reimbursed if you are the custodial parent (e.g., if you have custody of the child for a longer period of time during the plan year than the other parent).

However, the following exceptions would override the custodial parent rule and permit you, as a non-custodial parent, to have your child's dependent care expenses eligible for the flexible spending account:

- The custodial parent formally releases claim to the federal income tax dependent exemption for the tax year,
- You provide over half of the support of the child under a multiple support agreement, or
- You are entitled to the dependent exemption for federal income tax as a result of an agreement executed prior to 1985.

**34) *Can I use a Dependent Care Account if I work and my spouse is looking for a job?*** Yes, but only if your spouse loses or terminates employment. This could be a change in family circumstances which would allow you to begin making contributions to a Dependent Care Account for the time you anticipate your spouse will be looking for a job. If you already have a Dependent Care Account and your spouse loses or terminates employment, you can continue to submit day care expenses while your spouse is looking for a new job.

**35) *The Dependent Care Account has a \$5,000 maximum for a 12-month plan year. Can I deposit \$5,000 in my spending account if I have only one dependent child?*** Yes. The \$5,000 maximum applies whether you have one or more than one dependent receiving day care.

**36) *Can I be reimbursed for day care registration fees?*** Yes.

**37) *Do the day care and/or uncovered health care expenses I submit have to be incurred during the plan year in which I am enrolled in a spending account?*** Yes, the expenses you claim for reimbursement must be incurred during the plan year or during the period of time in the plan year you are enrolled in a spending account.

**38) *If I'm audited, will the IRS ask to see if I've spent the funds in my accounts for tax deductible expenses?*** You will be held responsible for proving your accounts were properly used if you should be audited and the IRS has a question concerning your spending account.

**Remember - if you are in doubt about an expense, it is wise to talk with a tax advisor.**

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## Tax Saver Flexible Benefits Plan

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*If you have additional questions,  
please contact the Benefits Service Center, (225)578-8200.*

### ADMINISTRATIVE INFORMATION

**Agent for Service of Legal Process:** The following employer is the Plan's agent for service of legal process: Louisiana State University System, 3810 West Lakeshore Drive, Baton Rouge, Louisiana 70808.

**Type of Administration:** The Plan is administered by the Louisiana State University System, 3810 West Lakeshore Drive, Baton Rouge, Louisiana 70808, Telephone (225)578-2154. Benefits are provided in accordance with the terms of the Plan document. The Section 125 Plan is a cafeteria plan within the meaning of Section 125 of the Internal Revenue Code.

**Funding:** Contributions for the Plan benefits listed below are made by the employer in amounts equal to the salary reduction elected by the participants for the benefits. The employer contributes these amounts from its general assets to pay the premiums or reimburse claims under a Health Care Account or Dependent Care Account as they come due.

**Plan Benefits:** The Plan provides the following benefits:  
Health Care Accounts and Dependent Care Accounts

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## Tax Saver Flexible Benefits Plan

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**Plan Continuance:** The LSU System expects to continue the plan indefinitely, but expressly reserves the right to amend or terminate the plan at any time.

**When Does Coverage End:** Coverage ends June 30 of each calendar year. However, if the employee leaves the LSU System for any reason (including retirement, disability, or death), the employee's contributions and benefits will end on the date of separation; except any money remaining in a flexible spending account can still be used for expenses incurred prior to the date of separation. The employee may continue to submit claims for up to 90 days after the date of separation or by September 30<sup>th</sup>, whichever occurs first.

**How to Appeal a Claim:** If an employee does not agree with a claim denial, the employee may request that a review be made of the claim. The employee must make this request in writing to the Benefits Section, Office of Human Resource Management, 304 Thomas Boyd Hall, Baton Rouge, Louisiana 70803, within thirty (30) days of receiving the denial. The employee may submit additional information with the request for review. Notification of the decision on review will be written and will specify the reasons for the decision.