

# FLEXIBLE BENEFITS PLAN

*Medical, Dependent Care,  
Transportation and Parking Reimbursement*



It's your money ... plan to keep it!

***Enrollment Deadline:***

*Current Employees - Annual Enrollment/Transfer Period*

*New Employees - 30 Days from Hire Date*

**David H. Lillard, Jr., State Treasurer  
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# *Introduction to the Flexible Benefits Plan*

The State of Tennessee Flexible Benefits Plan is a program designed to help employees pay less in federal taxes. Authorized under Sections 125 and 132 of the Internal Revenue Code, this program allows you to pay certain specific expenses from your pre-tax rather than after-tax income.

All state employees who receive a regular paycheck are eligible to participate. Any premiums you pay for state group medical or dental insurance will automatically be paid with tax-free salary through the Flexible Benefits Plan and require no action by plan participants.

Use of the plan to pay other eligible expenses is not automatic. In order to pay medical, dependent care, transportation or parking expenses through the Flexible Benefits Plan, you must enroll using Edison. Enrollment from previous years does not continue automatically for medical and dependent care accounts.

## ***Which Expenses are Eligible to be Paid with Tax-Free Salary?***

Medical Expenses - You may set up a reimbursement account to pay many of your family's medical expenses that are not already covered by insurance, such as the insurance plan deductible or co-payment amounts, contact lenses or glasses, certain non-cosmetic dental procedures, prescription drugs or their co-payment amount, hearing aids and other qualified expenses.

Dependent Care Expenses - You may set up a reimbursement account to pay qualified child or other dependent care expenses (as defined by the IRS).

Transportation and Parking Expenses - You may set up a reimbursement account to pay for transportation to and from work as well as parking expenses.



## ***How Can the Flexible Benefits Plan Help Me?***

Reimbursement requests will be fulfilled within 10 business days, provided the funds are available in the account(s). The reimbursement period may vary depending upon volume.

Flexible Benefits puts more money in your pocket. Unlike other salary reduction plans, such as deferred compensation, the Flexible Benefits Plan frees income and Social Security taxes on these amounts forever rather than just delaying the tax liability.

The following chart illustrates how the program could work to increase your spendable income by saving taxes.

	Without Flexible Benefits	With Flexible Benefits
Monthly Salary	\$2,500.00	\$2,500.00
Insurance	- 150.00	- 150.00
Flexible Benefits Deposit		- 240.00
Taxable Income	\$2,350.00	\$2,110.00
Withholding	- 223.00	- 188.00
Social Security	- 180.00	- 161.00
Medical/Care Expenses	- 240.00	
Remainder to Live On	\$1,707.00	\$1,761.00

Monthly Savings \$54.00  
Annual Savings \$648.00

In this example, the savings is like a 3% pay raise!  
(Most of us would have to receive an \$80 raise to take home \$54 more.)

### **How Does It Work?**

Each pay period, all eligible tax-free deductions are taken out of your paycheck before federal and Social Security taxes are calculated. After all tax-free deductions have been made, federal income taxes and Social Security taxes are calculated on the reduced amount and the amount paid to you through the reimbursement accounts will not be subject to federal income taxes or Social Security taxes.

Any other taxable payroll deduction amounts are then taken out of your paycheck. The amount remaining in your paycheck is your take-home pay for this period. Since you have paid less in taxes, you will have more money to spend on other things.

### **What is the Significance of the Plan Year?**

The plan year is significant in three ways.

1. Your enrollment cannot be changed during the plan year unless you have a change in family status and you report the change to the plan within 60 days of the event.
2. You must re-enroll in Medical and Dependent Care Accounts each year to continue participation.
3. Only expenses for services incurred during the plan year and your period of coverage may be reimbursed.

The plan year is a calendar year — January 1 through December 31. For those employees hired after the plan year has already begun, the plan begins with the first contribution and ends December 31.

## ***How Can I Enroll?***

Worksheets for dependent care and medical expenses are included in Appendix A. The worksheets help you to:

1. Estimate your annual medical and care expenses separately.
2. Use the information from your worksheet to complete enrollment.

You may enroll using the Edison self-service function during the Annual Enrollment and Transfer Period. If you enroll in a reimbursement account, Edison will generate a confirmation statement and send it to you when your election has been processed provided your email address is in Edison.

The Flexible Benefits staff is available for questions Monday through Friday, 8 a.m. to 4:30 p.m. CT, at 1-877-681-0155. Questions may also be directed to [Flexible.Benefits@tn.gov](mailto:Flexible.Benefits@tn.gov).

## ***What if I was Hired After the Annual Enrollment?***

If you start to work after the enrollment period, you will have 30 days from your employment date to sign up for Medical and Dependent Care Flexible Benefits Accounts. You may enroll by going to Edison Self-Service, select Benefits, then select Benefit Enrollment. Your period of coverage will begin on the first day of the month after your first deduction occurs.

## ***Can I Change My Enrollment?***

Since the funds involved in the Flexible Benefits Plan are tax-free, there are significant IRS requirements that the program and participants must meet:

- ✓ You must file your enrollment decisions before the plan year begins. **Decisions are irrevocable. Once the plan year starts, your contributions cannot be cancelled or changed until the next plan year unless you meet specific requirements.**
- ✓ You may not terminate your contributions or change the amount of your contributions unless you have a significant change in your family status which corresponds with the change you make. See the "Other Information" section for further explanation of family status change.
- ✓ If you have not been reimbursed for your full account balance by March 31 of the following calendar year, you will forfeit all remaining funds. This is known as the "use it or lose it" rule.



## ***Tips to Prevent Forfeiture If You Over-Estimate:***

By March 15 of the following year (for you and your family),

- Get eye exams
- Buy a pair of glasses
- Stock up on contacts
- Get your teeth cleaned
- Get physicals
- Fill prescriptions early

## ***Other Tips about Flexible Benefit Accounts:***

All expenses claimed must be incurred during your period of coverage. It is not when you pay an expense, but when you incur it that makes it eligible for reimbursement. An expense is "incurred" when you are actually provided with the service that gives you the expense, not when you are formally charged for, billed for or when you pay for the service.

You will receive payment for the amount of your approved expense(s) within 10 business days, provided the funds are available in your reimbursement account. The reimbursement period may vary depending upon volume. The expense must be eligible and the request must be properly filled out and completed. In the event of a disaster that would disable normal processing, the reimbursement period will be placed on hold until normal activities resume.

If your paycheck is deposited directly into your bank account, your reimbursement payments will also be deposited directly to your bank account. If you are not enrolled in the state's direct deposit program, your reimbursement payments will be mailed to you.



# *Medical Expense Reimbursement Account*

The Medical Expense Reimbursement Account is one of the tax-saving options available to state employees through the Flexible Benefits Plan. If you want to enroll in the tax-free reimbursement account for medical expenses, you may enroll using the Edison self-service function during the annual enrollment and transfer period. The Medical Expense Reimbursement Account is generally beneficial to anyone who has predictable out-of-pocket medical expenses for themselves or their dependents.

## ***How It Works***

- Use the medical expenses worksheet provided in Appendix A to estimate your out-of-pocket medical expenses for the upcoming plan year. Using these calculations, decide how much to contribute to your account. Be certain the amount is realistic.
- When you incur medical expenses, submit them to your insurance provider or pay for them yourself if they are not covered by insurance. Be sure to save the Explanation of Benefits you receive from your insurance provider and/or the receipts for out-of-pocket medical expenses you incur.
- Submit Reimbursement Request forms to the Flexible Benefits office along with either your Explanation of Benefits (if covered by insurance) or your receipts. The request form and receipts may be faxed to 615-401-6815 or emailed to [Flexible.Benefits@tn.gov](mailto:Flexible.Benefits@tn.gov).
- You will then receive payment for the amount of your approved claimed expense, up to the amount you will contribute to your account during the year.

## ***Contribution Limits***

There is no annual minimum contribution. The maximum amount you may contribute to the Medical Reimbursement Account is \$2,500 per year.



## ***Itemizing vs. Reimbursement Account***

If you itemize deductions, the IRS allows you to deduct only the amount of eligible medical expenses that exceeds 7.5 percent of your adjusted gross income. The Medical Expense Reimbursement Account allows tax-free reimbursement of 100 percent of eligible medical expenses. Remember that itemizing may only be used for eligible expenses that were paid for during the year, while the Medical Expense Reimbursement Account may only be used for eligible expenses that were incurred during the year.

## ***Filing Claims and Getting Reimbursed***

When filing a reimbursement request, please include any applicable receipts. If the expense would normally be covered by insurance, please include a copy of your Explanation of Benefits from your insurance provider. For expenses not covered by insurance, please include copies of the itemized statement or receipt from your service provider. Receipts must include the date of service, name of provider, description of service and amount of charge. Keep the original for your records since request forms and receipts will not be returned. Canceled checks, credit card statements and bank statements are not acceptable as a receipt of the service incurred.

Your maximum amount of reimbursement under the Medical Expense Reimbursement Account is available at all times during your period of coverage, less any prior reimbursement made during that period.

You will have until March 31 of the following year to submit claims for expenses incurred before the end of the current plan year and during your period of coverage.

## ***Eligible Expenses***

As a general rule, any categories of expenses that could be deducted on an IRS Form 1040 for medical expenses, except insurance premiums (including long-term care insurance), can be paid for with pre-tax dollars through the Medical Expense Reimbursement Account.

The Medical Expense Reimbursement Account allows you to use tax-free money to pay for medical expenses incurred by you and your family. While everyone has medical expenses, the attractiveness of the reimbursement account depends upon the amount you and your dependents pay out-of-pocket each year.

You may use the account to pay your co-payments and deductible amounts on dental and vision care not covered by insurance, prescription drugs and many other expenses.

For examples of eligible and ineligible expenses, please refer to the Flexible Benefits website at <http://treasury.tn.gov/flex/index.html>.



# *Dependent Care Reimbursement Account*

The Dependent Care Reimbursement Account is another tax-saving options available to state employees through the Flexible Benefits Plan.

Dependent care expenses make up a significant part of many family budgets. The tax-free Dependent Care Reimbursement Account lets you use tax-free dollars to pay for such care if it is necessary to allow you to work and, if you are married, to allow your spouse to work or attend school full-time.



## **How It Works**

- Use the dependent daycare expenses worksheet provided in Appendix A to estimate your out-of-pocket dependent care expenses for the upcoming plan year. Using these calculations, decide how much to contribute to your account.
- When you have incurred dependent care expenses, submit a Reimbursement Request form with a receipt from the care provider. The request form and receipts may be faxed to 615-401-6815 or emailed to [Flexible.Benefits@tn.gov](mailto:Flexible.Benefits@tn.gov).
- You will then receive payment for the amount of your approved claimed expense, provided the funds are available in your account.

## **Contribution Limits**

Depending upon your circumstances, you can contribute up to \$5,000 a year into your Dependent Daycare Reimbursement Account. If you file your income taxes as "head of household," "single" or "married, filing jointly," you may contribute the full \$5,000 a year into your account. If you are married but file a separate federal income tax return, you may deposit a maximum of \$2,500 to your Dependent Daycare Reimbursement Account.

## **Child Care Tax Credit vs. Reimbursement Account**

The child care tax credit will vary depending on your income. For some people, the child care tax credit may offer more tax savings than a Dependent Care Reimbursement Account. As a result, you should carefully review which program is most advantageous to your situation.

You may not use the same expenses for both the tax credit and your Dependent Care Account.

Any amounts contributed to your account will reduce on a dollar-for-dollar basis the annual dollar limit allowed by the IRS in determining expenses eligible for the tax credit. If you place that much money or more in your reimbursement account, the tax credit is unavailable to you.

For more information on the tax credit, call the IRS at 1-800-829-3676 to request Publication 503—Child and Dependent Care Expenses or download the publication from [www.irs.ustreas.gov](http://www.irs.ustreas.gov).

## ***Filing Claims and Getting Reimbursed***

Once you have incurred eligible expenses, simply submit your receipts from your care provider along with a completed Reimbursement Request form. Receipts must include the date of service, name and address of provider, provider's tax identification number and amount of charge. Canceled checks, credit card statements and bank statements are not acceptable as a receipt of the service incurred.

You will have until March 31 of the following year to submit claims for expenses incurred before the end of the current plan year.

## ***Eligible Expenses***

In order to qualify as eligible expenses, the amounts you spend on dependent care must meet the following IRS rules:

- ✓ You may be reimbursed for charges for care services either inside or outside your home for eligible dependents under the age of 13. Services must be for the physical care of the child and must not be provided by a spouse or dependent.
- ✓ You may be reimbursed for charges for the care of a dependent adult or child who is mentally or physically incapable of self-care. To be eligible, services may not be provided by a spouse or dependent and the eligible dependent must regularly spend at least eight hours per day in your household.
- ✓ You may not use the Dependent Care Reimbursement Account to pay for a dependent's healthcare expenses. The account may not be used by a non-custodial parent to pay for child care or child support payments.
- ✓ If you use the Dependent Care Reimbursement Account to pay for care or claim the Child or Dependent Care Tax Credit, you will need to file Form 2441 with your 1040 tax return (or Schedule 2 with your 1040A tax return) to report the name of your care provider to the IRS.



# ***Transportation & Parking Reimbursement Account***

The Transportation and Parking Reimbursement Accounts are another tax-saving option available to state employees through the Flexible Benefits Plan.

The tax-free Transportation and Parking Reimbursement Accounts let you use tax-free dollars to pay for your transportation to and from work as well as and work-related parking costs.

## ***How It Works***

Unlike Medical and Dependent Care Flexible Benefits Accounts, there is no requirement for new employees to enroll within 30 days of being hired and there is no annual enrollment period for employees. An employee may enroll in a Transportation Account and/or a Parking Account at any time during employment. Employees may enroll by completing a Transportation and Parking Enrollment form. Those forms are available through the agency's Human Resource section or on the Flexible Benefits website.

## ***Contribution Limits***

The contribution limits for Transportation and Parking accounts are set by the IRS and typically change each calendar year. Please refer to the Flexible Benefits website at <http://treasury.tn.gov/flex/index.html> for more information.

## ***Filing Claims and Getting Reimbursed***

When you have incurred transportation or parking expenses, submit a Transportation and Parking Reimbursement Request Form with a receipt from the service provider that includes the date of service, the name of the provider and the amount charged. Canceled checks, credit card statements and bank statements are not acceptable as a receipt of the service incurred.

Employees who have an available account balance in a Transportation or Parking Flexible Benefits Account as of December 31 will have until June 30th of the following year to claim the remaining funds. However, the expenses must have been incurred within the year just ending. Previous year fund balances unclaimed by June 30th will be rolled to an active current year account of the same type. There is no annual "use it or lose it" rule.



# Other Information

## Family Status Change

The IRS and your plan specifically define “Family Status Change” as:

- Your marriage, divorce or legal separation;
- Death of a spouse or dependent;
- Birth or adoption of a dependent;
- Termination or commencement of participant's or spouse's employment (termination of a participant's employment occurs after the last working day);
- You or your spouse taking an unpaid leave of absence lasting more than 30 calendar days;
- You or your spouse switching from part-time to full-time employment or from full-time to part-time employment;
- You or your spouse having a significant change in health coverage due to your spouse's employment;
- Ineligibility of a dependent; or
- Bankruptcy court order.



Certain additional status changes such as changes in your residence or work site may qualify you to change your insurance elections.

Should you need to change your deductions because of a family status change, you must complete a Family Status Change form and submit it to the Benefits Administration within 60 days of the qualifying event.

Forms may be obtained from your personnel officer, the Internet at [www.tn.gov/flex](http://www.tn.gov/flex) or from the Flexible Benefits office. Documentation of the change will be required. Any change you request must be consistent with the type of family status change you experience.

If the Family Status Change form is submitted within the 60-day time limit and approved, it will be effective for the remainder of the calendar year. Changes cannot be retroactive (contributions already made to the plan cannot be refunded) except in the event of a death or medical insurance premiums were deducted from your salary while you were receiving temporary disability benefits through workers' compensation (lost time pay).

In order for a change to begin in the paycheck you receive at the end of a month, Benefits Administration must receive your completed form by the 15th of that month and the change must then be approved. If you miss the monthly cutoff date, your change can still begin the next month as long as it complies with the 60-day requirement and is approved.

If you do not submit the change form within 60 days, you will not be allowed to change your elections, which may result in a forfeiture of your insurance premiums or reimbursement of account contributions for the remainder of the year. Everyone will have an opportunity to make new elections for the new plan year.

### ***Does this Hurt My Other Benefits?***

- Social Security - Slight impact if below the Social Security wage base
- Deferred Compensation - No Impact
- Retirement - No Impact
- Insurance, Leave or Other Benefits - No Impact

### ***What about Termination or Change in Employment?***

- ✓ You may want to accelerate your expenses to use up your account balance before termination. Once you are terminated, no expenses incurred after your last paid date can be reimbursed.
- ✓ Flexible Benefits participation continues for job transfers within state government.
- ✓ Breaks and leaves of absence can cause you to be treated as a terminated employee.
- ✓ Check with your personnel officer for details.

### ***Before You Decide to Enroll:***

- ✓ With Medical and Dependent Care Accounts, you must "use it or lose it", but most employees find that they can make optional expenditures such as glasses, contacts, routine dental visits or physical examinations before March 15 of the following year to avoid loss.
- ✓ You cannot withdraw the funds for other purposes and cannot change the annual election without a change in family status.
- ✓ To claim your money, you may submit a claim form and receipts as often as you like, but all claims must be filed by March 31 for the prior calendar year.

# Quick Overview of the Flexible Benefits Plan

## What is a Flexible Benefits Plan?

It is an employee benefit which will allow you to save taxes by paying certain expenses from your pre-tax income rather than from after-tax income.

## What types of expenses are eligible for the Plan?

- Medical
- Dependent Care
- Transportation
- Parking

## Who may participate in the Plan?

All state employees who receive a regular paycheck are eligible.

## How do I find out more about Flex?

To learn more about Flexible Benefits, visit our website at the address listed below. You may also call Flexible Benefits or your personnel officer.

## How do I sign up for Flex?

- New employees have 30 days to enroll.
- Current employees have an annual enrollment period each fall to enroll or change their Medical or Dependent Daycare Accounts. Transportation and Parking accounts can be enrolled in or changed at any time.
- Sign up during annual enrollment using the Edison self-service function.
- Find the enrollment form on our Internet site or contact your personnel officer.

State of Tennessee  
Treasury Department  
Phone: 1-877-681-0155  
Fax: 615-401-6815  
[www.tn.gov/flex](http://www.tn.gov/flex)  
[Flexible.Benefits@tn.gov](mailto:Flexible.Benefits@tn.gov)

# **APPENDIX A**

**MEDICAL EXPENSE WORKSHEET**

**DEPENDENT CARE EXPENSE WORKSHEET**

# Medical Expense Worksheet

Estimate your annual out-of-pocket medical expenses for the coming plan year on the following worksheet. Be sure to include all members of your immediate family. Remember to estimate conservatively and consider only those expenses you are sure you will incur. Remember, insurance premiums may not be paid through a reimbursement account.

	<u>Last Year's Expenses</u>	<u>This Year's Projected Expenses</u>
1. Medical Expenses:		
Insurance Deductibles	_____	_____
Insurance Co-Payments	_____	_____
Dental Co-Payments orthodontia	_____	_____
Immunizations, Injections and Vaccinations	_____	_____
Routine Examinations and Physicals	_____	_____
Dental Expenses (including crowns, root canals, extractions and non-cosmetic repairs)	_____	_____
Prescription Drugs or Co-Payment Amount	_____	_____
Eyeglasses and Contacts	_____	_____
Hearing Examinations	_____	_____
Transportation to and from Medical Provider	_____	_____
Medically Necessary Nursing Home Care	_____	_____
Non-Cosmetic Surgery (LASIK, etc.)	_____	_____
Other Expenses	_____	_____
2. Total Expenses for the Year:	_____	_____
3. Divide Estimated Total by Your Number of Regular Pay Periods.	_____	_____
4. Enter this amount on your Election Form. This is the amount that will be taken out of each regular paycheck and put into your Medical Expense Reimbursement Account.	_____	_____

# Dependent Care Expense Worksheet

Estimate your annual dependent care expenses for the coming plan year on the following worksheet. Remember to estimate conservatively and consider only those weeks when you will have dependent care expenses. For example, if you have a child who will be attending school, your care expenses should be lower while your child is in school. Also, a child must be less than age 13 to take advantage of the Flexible Benefits savings.

	<u>Last Year's Expenses</u>	<u>This Year's Projected Expenses</u>
1. Dependent Care Expenses:		
Infant / Toddler	_____	_____
Preschool	_____	_____
Before-School or After-School Care	_____	_____
Reporting Days (child in school only half a day)	_____	_____
In-Service Days (child not in school)	_____	_____
School Holidays	_____	_____
School Vacations	_____	_____
Sports Camps/Day Camps (excludes overnight camps)	_____	_____
Other Dependent Care	_____	_____
2. Total Dependent Care Expenses for the Year:	_____	_____
3. Divide Estimated Total by Your Number of Regular Pay Periods.	_____	_____
4. Enter this amount on your Election Form. This is the amount that will be taken out of each regular paycheck and put into your Dependent Care Reimbursement Account.	_____	_____

Maximums:

- Married Filing Separately – \$2,500
- Married Filing Jointly – \$5,000
- Single or Head of Household – \$5,000