# SCHOOL DISTRICT OF WESTFIELD
## Section 125 - Flexible Benefit Plan

### What Is A Section 125 Plan?
A Section 125 plan allows employees to pay for qualified expenses on a tax-free basis.
Pretax elections increase employee take home pay and reduce payroll taxes.
Also results in lower taxable income which may affect future social security benefits.
The plan is separate and distinct from the benefits being funded through the plan. Eligibility, election changes, and other terms and conditions of the flexible benefit plan may be different from the underlying benefit.

### The School District of Westfield Section 125 Plan consists of:
- **Premium Only Plan - POP**
- **Health Care Flexible Spending Account**

### POP
- Requires employee to pay for insurance premiums using pretax payroll deductions.
- Cannot be used for individual insurance policies, only School District group insurance policies as listed:
  - Health Insurance
  - Dental Insurance
  - Vision Insurance

### HSA
- Employees who participate in the HDHP may contribute pretax payroll dollars into an HSA.

### Health Care FSA
- Employees can pay for uninsured medical, prescription, dental and vision expenses using pretax dollars. Only available to employees eligible for medical insurance coverage through the district group plan.
- Any qualified medical expense under §*213(d)* of the tax code except insurance premiums and over-the-counter drugs and medications.
- Expense must have been incurred to diagnose, cure, mitigate, treat, or prevent disease that affects any structure or function of the body.

**Health Flexible Spending Account Eligible Expenses**

| Medical | Dental | Vision |
|---|---|---|
| Deductibles | Deductibles | Glasses |
| Co-pays | Co-pays | Prescription Sunglasses |
| Prescriptions | Uninsured dental costs | Contacts |
| Medical Equipment | Orthodontics | Eye Exams |
| | | Lasik |

- Ineligible Health FSA expenses include:

    - Insurance premiums
    - Over-the-counter drugs
    - Cosmetic procedures except those for congenital birth defects or to correct a deformity that is the result of a disease or accident
    - Expenses for general well-being like vitamins and supplements, gym membership, exercise equipment, diet foods, etc.
    - Illegal operations and procedures.
- Expenses must have been incurred by the employee, eligible spouse, qualified adult child, or tax dependent:
    - All legally married spouses
    - Adult children
        - Eligible: Incurred expense on or before last day of calendar year in which child turns age 26.
        - Ineligible: Incurred on or after first day of calendar year in which child turns age 27.
- Use It or Lose It Rule – participant will lose salary reduction contributions that are not submitted for reimbursement
- Forfeited contributions become the property of the School District for flexible benefit plan expenses
- Run-out period of 30 days after the end of the plan year for submitting expenses
- Subject to "Uniform Coverage" rule – the maximum amount of reimbursement (properly reduced for prior reimbursements) must be available to the participant at all times without regard to the employee's actual contributions to the plan at that time
- Reimbursement must be for qualified expenses that have been **incurred** during the plan year and not when the participant is billed or pays for the expense

  Example: Employee visits doctor on 6/20/2016; receives the invoice from the clinic on 7/5/2016 and pays the bill on 7/10/2016. Must be paid with 2015-2016 plan dollars and not 2016-2017 funds. (New plan year begins annually on July 1st)

  Example: Employee drops off prescription at pharmacy on 6/30/2016 and is filled the same day; employee picks up and pays for the prescription on 7/2/2016. Expense was incurred on 6/30/2016 and must be paid with 2015-2016 plan dollars and not 2016-2017 funds. (New plan year begins annually on July 1st)

  Exception

  Orthodontics: Most orthodontic treatment is billed in advance even though services are provided over a long period of time. IRS will permit Health FSA to reimburse orthodontics in full at time employee pays, even though services are often provided over multiple plan years.
- Affirmative Election – requires employee to enroll annually

## Plan Year

Begins annually on July 1st and ends on June 30th.

## Eligibility Rules

- All school year and 12 month employees who work 30 hours per week or more are eligible to participate; this includes Administrators, Administrative Support, Teachers, and Support Staff.
- All other employees are not eligible to participate; this includes but is not limited to bus drivers, substitutes, limited term employees, coaches, and board members.

## Elections and Waiting Period

- Elections are made annually during the month of May.

- Elections are made for the entire plan year (July –June) and cannot be revoked during the plan year without a qualifying midyear event.
    - Example: Group Health Insurance Plan allows coverage to be dropped at any time but employee can't drop pretax premium election unless qualified midyear election change event has occurred.
    - The employee must notify the employer within 30 days of any qualifying midyear event.
    - Change will become effective on the 1st payroll after notification of the qualifying midyear event.
    - Examples of a midyear qualifying event:
        - Change in marital status
        - Gain or loss of a dependent (birth, adoption, death, exceed age limit, etc.)
        - Significant change in participant's employment status or work schedule
        - Termination or significant change in participant's spouse's employment status
        - Significant change in participant's spouse's company sponsored benefits/eligibility
        - Reduction in hours (from 30 hours or more per week to less than 30 hours per week)
        - Exchange Coverage – employee may drop employer coverage during Exchange open and special enrollments (applies to POP) (does not apply to Health FSA)
- New employees are eligible for participation on the 1st of the month following 30 days of employment.

## Substantiation of Claims

All Health FSA claims must be substantiated according to IRS rules:

- Written verification from a third-party that expense has been incurred
- Written verification must include description of expense/service, date of expense/service and amount of expense/service
- Employee must certify that expense has not and will not be reimbursed from another source (e.g. health insurance, another employer's FSA)
    - Examples of acceptable written verification from third-party
        - Third-party can be doctor, dentist, eye doctor, pharmacy, or insurance company
        - Written document may be cash register receipt, billing statement, EOB (explanation of benefits from insurance co.), and prescription drug statement
    - Example of **unacceptable** written verification
        - Credit card receipts
        - Cancelled Checks
        - "Balance Forward" statements
        - Non-itemized cash register receipts
        - Statement by employee/participant that expense has been incurred

**Date of expense/service is relevant**
**Date of payment is not relevant**

- Section 125 - Flexible Benefit Plan Request for Reimbursement (available on school web page – forms link)
    - Completed form with documentation attached should be personally delivered, sent in an envelope, faxed, or scanned and emailed to the district office.
      **Do not fax** a request for a Health FSA reimbursement as this does not meet HIPPA guidelines for confidentiality of protected health information.
- Requests for reimbursement will be denied if the claim cannot be substantiated.
- Employees can appeal a denied Flexible Benefit Plan Request for Reimbursement:
    - Submit appeal in writing to the district office within 15 calendar days of denial of claim
    - The Business Manager or District Administrator will review the appeal and render a written decision within 10 calendar days of receiving the appeal

- If appeal is denied - Employee can submit appeal in writing to the school board within 15 calendar days of the written notice of denial
- The school board will review the appeal and render a written decision within 30 calendar days of receiving the appeal
- Decision of the school board is final
- Any appeal resolution that crosses plan years will be reimbursed from the year in which the expenses were incurred

### Manner in Which Contributions and Reimbursements are Made

- Election contributions are done as a payroll reduction on two bi-weekly paychecks each month.
- Reimbursements may occur on any payroll.
- All requests for reimbursement received by 10 am on the Monday of a payroll week will be processed that week. Requests received after this deadline will be processed on the next payroll.

### Maximum Contributions

- Premium Only Plan ---- 100% of the employee's share of the premium
- Health Care FSA ---- Per IRS contribution limits

### What Happens If I Go On An Unpaid Leave Of Absence?

You may "front load" your account (double up on your per pay period contributions) in anticipation of your leave or, if you expect to return to work well in advance of the close of the plan year, you can double up your per pay period contributions after you return to make up for missed amounts. If you do not plan on returning to work before the close of the plan year, and/or you will be unable to make up missed contributions, you will need to be terminated from the Flexible benefit Plan as of the last date you were paid to work.

### Use It or Lose It

Be conservative when making your election. It is better to reach your maximum election amount early in the year than to have funds left over at the end of the year that you cannot claim. The I.R.S. requires any unused funds in the account at the end of the plan year be turned over to the employer, not the employee who forfeited them. The IRS has very strict guidelines on how these funds can be used by the employer. It is not to anyone's benefit to have employees forfeit funds.

### Separation from Service

Regardless if you are terminated or voluntarily leave your job, this will result in the termination of your participation in the Flexible benefit Plan. You cannot submit claims for expenses/services incurred after your date of termination even if you have unused funds in your Health FSA. However, you can still submit the paperwork for expenses/services incurred prior to your last date of employment and receive reimbursement. If, at the point of termination, you have funds available in your Health FSA, you will be eligible to COBRA the benefit through the end of the plan year.