

Health Care Flexible Spending Account

To participate, you **MUST ENROLL** in this plan each year.

The Health Care Flexible Spending Account (HCFSAs) is simple to use. When you join, you choose to contribute a set amount to your account through payroll deduction on a pre-tax basis. When you have an expense that qualifies for reimbursement, submit your itemized, third-party receipt or the insurance company Explanation of Benefits (EOB) and your HCFSAs claim form to receive your tax-free reimbursement.

With this account, you are reimbursed with the pre-tax dollars you set aside to pay for medical, dental or other health care expenses not reimbursed by a health plan. This account can benefit almost all eligible employees, their spouses, children and dependents who satisfy the "Dependent Eligibility" rules in the "NCFlex Program" section.

You never have to pay taxes on the money you receive from your spending account for qualified expenses. That means permanent tax savings, which helps your health care dollars go further.

To participate, you must enroll in this plan each year. FSA Reimbursements are made by direct deposit.

How to Use Your HCFSAs

If you participate in the HCFSAs, you decide how much money you want to put into your account. Your annual contribution cannot be less than \$120 a year or greater than \$5,000 a year. When enrolling, please remember to elect your annual contribution amount.

When filing a claim, attach your itemized, third-party receipt or the insurance company EOB. Claims for eligible expenses that are not covered by a health care plan can be submitted directly to the HCFSAs for reimbursement. If your claim is for a medical condition that is covered by a medical or dental plan, you will need to file your claim with that plan first. After that claim is processed, submit a copy of the EOB, which shows your out-of-pocket expenses, as part of your HCFSAs claim. Under most circumstances, the State Health Plan no longer provides EOBs for PPO plan members for routine physician visits. A Claims Status Detail can be obtained on the State Health Plan's website.

Claims are processed each day (with the exception of holidays). Your reimbursement will be issued within one business day once your claim is fully processed. When the payment is issued the reimbursement will be direct deposited into your account within two business days (on average), excluding holidays. If you provide P&A Group your email address, they will automatically notify you when your claim is received and again when it is paid.

Another way you can be reimbursed is to pay for your eligible health care expenses using your NCFlex Convenience Card (see page 14 for details).

Claim reimbursement is based on the date you receive health care service, not the date you pay the invoice or the date you are billed, which must be within January 1, 2012 (or your plan effective date) and March 15, 2013. With the HCFSAs, you can be reimbursed for your entire claim up to your plan-year election minus any previous claim reimbursements, even if that amount has not yet been deducted from your pay. This is a big advantage because you can take care of your immediate health care needs and then spread out your payments during the year through payroll deductions.

When you enroll in the HCFSAs, you will receive a claims kit containing a claim form, and the procedures you need to follow when filing a claim. A list of eligible and ineligible expenses is available online. You also may visit the "Forms" section under "Resources" at www.ncflex.org for this information.

Coordinating the HCFSAs with Dental and Vision Coverage

If you choose to participate in a dental or vision care plan, you are likely to have some out-of-pocket expenses, such as copays, coinsurance and material expenses. Consider putting money into the HCFSAs to cover eligible out-of-pocket expenses. By getting a tax-free reimbursement from the HCFSAs, you increase the amount you save on your dental and vision care expenses, as well as your medical costs under the State Health Plan. **FSA Reimbursements are made by direct deposit.**

Take Action

Remember to complete all required information and sign your FSA claim form, if filing manually. Unsigned claim forms cannot be processed and will delay your reimbursement.

Direct Deposit

- FSA Reimbursements are made by direct deposit.
- If you change banks or switch accounts, please notify your HBR or benefits department to avoid payment delays.

Eligible Health Care Expenses*

You may use your HCFSA for reimbursement of the following out-of-pocket health care expenses incurred during the plan year:

- deductible(s) and copayments you have to pay under your health care plan or under your spouse's plan;
- the portion of covered expenses you have to pay (called a coinsurance) for any medical or dental bills after you have met your deductible;
- any amounts you are required to pay after reaching your maximum benefit under a medical or dental plan;
- over-the-counter medicines, vitamins and supplements, **only with a physician's prescription**; and
- other allowable expenses including, but not limited to:
 - contraceptive devices (prescription)
 - dental expenses
 - hearing aid and its batteries
 - infertility treatment
 - insulin and diabetic supplies
 - mileage (\$0.165 per mile for 2011) to/from medical provider's office for treatment (**Note:** IRS subject to change during the year)
 - orthodontia
 - prescription drugs
 - refractive surgery (RK, PRK, LASIK)
 - smoking cessation programs and drugs/medical supplies
 - tuition at special school or specially trained tutor for disabled
 - vision expenses (exams, glasses, frames)
 - weight reduction program (prescribed by doctor to alleviate a diagnosed medical condition or obesity), but plan food is not covered

**Some health care expenses may require a letter of medical necessity written by an authorizing physician. There is a standard form available under "Forms" in the "Resource" section at www.ncflex.org that your physician can complete.*

*In accordance with the federal legislation, under the Health Care Reform Act, over-the-counter medications will **not be eligible for reimbursement** through the HCFSA, unless a physician prescribes or provides a letter of medical necessity.*

For the expenses listed above to be eligible, they must be incurred for medical care and not reimbursable by a health plan.

IMPORTANT NOTE:

Extension of FSA Expense Period

Expenses can be incurred between January 1, 2012 (or your plan effective date) and March 15, 2013, provided you remain active for all of 2012. Claims for expenses incurred during this extension must be postmarked, faxed or submitted online by April 30, 2013.

Eligible and Ineligible Expenses

Log on to www.ncflex.org for a complete listing of eligible and ineligible expenses. Go to Resources > Forms > FSA > then FSA Claims Kit—Expanded Version.

Ineligible Health Care Expenses

Medical, dental and other premiums cannot be reimbursed through the HCFSA. In addition, elective cosmetic procedures and similar expenses are not allowable expenses according to the IRS. Other common ineligible expenses include:

- over-the-counter medications, vitamins and supplements, unless prescribed by a physician;
- cosmetic procedures that are not to correct a congenital deformity or disfigurement due to an accident or disease;
- dental procedures to whiten your teeth; and
- weight loss programs, unless prescribed by a doctor to alleviate a diagnosed medical condition or obesity.

Plan Carefully

Carefully consider your contributions to the HCFSA. **Under IRS regulations you will lose money remaining in your account after the deadline to submit eligible claims — April 30, 2013.**

Therefore, you should estimate carefully and conservatively, only setting aside money you feel certain you will spend out of your own pocket for health care expenses during the plan year.

Remember, your NCFlex Convenience Card may not be used for all over-the-counter purchases.

Termination of Employment

If you terminate employment or coverage during the plan year, you may submit claims for services incurred before your coverage termination date or the last day of the pay period that you will have a full payroll deduction, whichever is earlier. **Services incurred after this date cannot be reimbursed unless you elect to continue coverage under COBRA.** In accordance with IRS regulation, any unused money in your account is forfeited and remains with the State.

HCFSA Worksheet

An important part of planning carefully is using the HCFSA worksheet below to identify your and your family members' out-of-pocket expenses for the upcoming plan year. The HCFSA worksheet is also available online by visiting www.ncflex.org under the "Forms" section.

This worksheet will help you calculate how much you may want to deposit in the HCFSA. Just follow the steps below.

- Step 1:** Based on your records for the past few years, fill in your anticipated eligible expenses.
- If the expense is paid by a health care plan, enter your copayment and any deductible.
 - If the expense is not covered by the health care plan, enter the entire cost.

Step 2: Add up the total annual expenses for yourself and your family.

Step 3: Enter this amount in the Online Enrollment system.

Cost For:	For You	For Your Spouse	For Your Children
Medical plan deductibles	\$ _____	\$ _____	\$ _____
Medical plan copayments	\$ _____	\$ _____	\$ _____
Birth control pills or devices	\$ _____	\$ _____	\$ _____
Prescription drug copayments	\$ _____	\$ _____	\$ _____
Routine physicals/exams	\$ _____	\$ _____	\$ _____
Dental care/orthodontia	\$ _____	\$ _____	\$ _____
Vision care	\$ _____	\$ _____	\$ _____
Hearing care	\$ _____	\$ _____	\$ _____
Health services/supplies	\$ _____	\$ _____	\$ _____
NCFlex Convenience Card annual fee*	\$ _____	\$ _____	\$ _____
Other eligible expenses	\$ _____	\$ _____	\$ _____
Total Annual Health Care Expenses:	\$ _____	+ \$ _____	+ \$ _____

Your Annual Election:

(Enter this amount in the Online Enrollment system)

= \$ _____

***Note:** You will no longer be charged an annual fee of \$6.00 if you elect the NCFlex Convenience card. Effective January 1, 2012, the NCFlex Convenience card is free, should you elect this benefit.

Tax Considerations

The HCFSA is based on current tax laws and gives you the advantage of those laws. Please keep in mind the following tax considerations before participating in the HCFSA:

- Plan participation may affect your future Social Security retirement benefits. This could happen if your taxable pay, after spending account contributions are taken out, is below the Social Security Taxable Wage Base. For most employees, the immediate tax savings is of far greater benefit than the long-term impact on Social Security benefits.

- Participation in the plan will not affect the amount you may contribute to a 401(k), 403(b) or 457 retirement plan.
- You cannot claim the same expenses through the HCFSA and on your tax return. Currently, only health care expenses over 7½% of your adjusted gross income are deductible for income tax purposes. But with the HCFSA, you can save taxes immediately on the very first dollar not reimbursed by your health care plan.

Note: You should consult with your tax advisor on these issues and whether someone qualifies as your income tax dependent.