

Flexible Spending Accounts

How to get the most out of your MERP and DCAP accounts

Your Flexible Spending Account (FSA) options include the Medical Expense Reimbursement Plan (MERP) and Dependent Care Assistance Plan (DCAP). When you use the City's pretax FSAs to reimburse yourself for eligible out-of-pocket health care and dependent care expenses, it's as if you are paying for them at a discount because for every dollar you set aside in these accounts, you save federal, state, and FICA taxes.

Rules Governing Flexible Spending Accounts

Remember to plan carefully when you enroll in these accounts, because you cannot make changes to your elections after the annual enrollment, unless you have had a qualifying family status change that is on account of and consistent with your election change. In addition, these plans have a "***use it or lose it***" rule. This means that once you make your election to put a certain amount of money in an FSA and you do not incur enough expenses to be reimbursed for the full amount you put in over the year, you will lose whatever is left in your FSA account at the end of the year. Because these are tax-advantaged plans, the IRS does not allow exceptions to these rules. The City of Portland administers this plan on a fiscal year basis (July 1 through June 30,) however pre-tax deferrals are shown on your W-2 for the calendar year.

Domestic Partner Coverage Under Flexible Spending Accounts

According to the IRS, only eligible expenses incurred by employees, legal spouses, or tax dependents may be reimbursed tax-free through these accounts. As a result, expenses for domestic partners and children of domestic partners may be considered for tax-free reimbursement ***only*** if they meet the spouse or dependent eligibility requirements set out in IRS Code

section 152(a)9. You must provide proof of dependency when filing a claim for reimbursement.

Examples of Covered Expenses under MERP

The MERP is a great way to offset costs associated with medical expenses not covered by any health plan under which you are covered. You may contribute up to \$3,000 a year into the MERP to be reimbursed for amounts you've paid for co-pays, deductibles, TMJ treatment or surgery, prescription sun glasses, frames, lenses, or contact lenses, contact lens solution, Lasik eye surgery and orthotics, provided the charges were incurred during the plan year.

In addition, the IRS has recently changed their stance on reimbursement for weight loss plans. The cost of weight loss programs relating to a diagnosis of morbid obesity (excluding the cost of food) is now a reimbursable expense under the MERP. You will need to submit a letter from your physician supporting the diagnosis when submitting your claim. Weight loss programs intended to improve one's general health or appearance continue to be excluded from eligibility. For a complete list of eligible health care expenses, refer to IRS publication 502.

Examples of Expenses not covered under MERP (not all inclusive)

Cosmetic surgery, vitamins, over the counter drugs, herbal remedies received from a naturopath, and massage therapy provided for general well-being are not reimbursable under the MERP. Expenses relating to weight-loss for morbid obesity such as the cost of diet food, health clubs and spa memberships, or the costs of any nonprescription drug provided along with a weight-loss program are not reimbursable.

Your DCAP benefit

Your DCAP benefit is an excellent way to be reimbursed for dependent care with pre-tax dollars. To be eligible for this plan, both you and your spouse (if you are married) must be working or attending school full-time. If your spouse is attending school, the IRS considers your spouse's income to be \$3,000 a year if you have one dependent, and \$6,000 a year if you have two or more dependents (effective January 1, 2003.) You may not contribute more than your annual income or your spouse's annual income whichever is less, to your DCAP. In any case, the maximum you can contribute to the DCAP is \$5,000 per year if you are single/head of household or married/filing jointly. This \$5,000 maximum is a federally established amount and applies to all dollars you've contributed to a dependent care spending account in a calendar year; both through the City of Portland's plan, and any other employer.

Requesting Reimbursement

Enclosed are claim forms and envelopes to request reimbursement under the MERP and DCAP. If you need additional forms, you can find them online at http://www.aai-pca.com/ee_cfp.htm or you may request them from your Bureau's Timekeeper or the Benefits office. Here's how to submit your claim:

MERP – You must first seek reimbursement from **all** health care insurance available to you and your eligible family members. This includes the City of Portland's plan, in addition to coverage provided by any other family member. When you receive the applicable Explanation of Benefits (EOB) documents from the health plan(s), attach copies to your claim form.

DCAP – Attach a copy of your receipt; including the caregiver's tax identification number, the dates of service and the name of the dependent for whom the care was provided to a completed claim form.

All services must take place during the plan year (regardless of when you are billed or pay for the expenses.)

Submit your completed and signed claim form with the appropriate documentation to Associated Administrators for payment. Itemized receipts or bills must include dates of service (cancelled checks or statements showing payment on account or balance due are not acceptable.) You should receive your reimbursement within 14 days. Remember to submit your claim with the appropriate documentation as indicated above; **cancelled checks are not acceptable verification of expenses.**

Direct deposit of claims reimbursements

To make the reimbursement process even easier, you may want to set up direct deposit for your claims reimbursements. To do so, go to http://www.aai-pca.com/ee_cfp.htm to print out an "Authorization for Automatic Reimbursement Deposits" form, or contact the Benefits Office at 503-823-6031 to request one. Complete the form, attach a copy of a voided check for automatic checking account deposit; or savings account deposit slip for automatic savings account deposit, then submit the form to AAI (see mailing address for AAI on next page.)

All claims for MERP and DCAP reimbursement incurred during plan year 2002/03 must be submitted to AAI no later than September 30, 2003.

MERP/DCAP Contact Information

Submit claims to:	AAI Personal Choice Account Personal Choice Account – Unit Mail Station B20 P.O. Box 3199 Portland, OR 97208-3199
For inquiries call:	503-220-3805 1-800-334-4340
For forms go to:	http://www.aai-pca.com/ee_cfp.htm or call 503-823-6031
For IRS information:	www.irs.gov