June 2008
PE 08-02-426

Departmental Review

Department of Adminstration

Public Employee Insurance Agency

AUDIT OVERVIEW

Increased Marketing and Education Efforts of Flexible Spending Accounts Can Save the State of West Virginia Money While Benefitting Individual Employees

WEST VIRGINIA LEGISLATIVE AUDITOR

PERFORMANCE EVALUATION & RESEARCH DIVISION

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John Sylvia
Director

June 24, 2008

The Honorable Edwin J. Bowman
State Senate
129 West Circle Drive
Weirton, West Virginia 26062

The Honorable Jim Morgan
House of Delegates
Building 1, Room E-213
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0470

Dear Chairs:

Pursuant to the West Virginia Performance Review Act, we are transmitting a Departmental Review of the *West Virginia Department of Administration's Public Employee Insurance Agency Flexible Spending Account,* which will be presented to the Joint Committee on Government Operations and Joint Committee on Government Organization on Tuesday, June 24, 2008. The issue covered herein is *"Increased Marketing and Education Efforts of Flexible Spending Accounts Can Save the State of West Virginia Money While Benefitting Individual Employees."*

We transmitted a draft copy of the report to the Department of Administration on June 11, 2008. We held an exit conference on June 9, 2008. We received the agency response on June 18, 2008.

Let me know if you have any questions.

Sincerely,

John Sylvia

John Sylvia

JS/tlc

CONTENTS

EXECUTIVE SUMMARY

Issue 1: Increased Marketing and Education Efforts of Flexible Spending Accounts Can Save the State of West Virginia Money While Benefitting Individual Employees.

The Public Employees Insurance Agency (PEIA) offers two Flexible Spending Accounts (FSA), one for medical expenses and one for dependent care. These accounts benefit employees by providing IRS approved reimbursement of eligible medical and dependent care expenses on a tax-free basis. This reduction in taxable income allows employees to save on state and federal taxes. Participation in FSAs also saves the State by lowering the amount of Social Security and Medicare employer matching for which it is responsible. Although individuals are lowering the amount they pay in State income tax, the State does not take a loss in this situation because the amount saved in employer matching is higher than the loss on tax revenue. The mechanism of cost savings for individuals and the State are contribution amount and participation rate respectively. The 2006 participation rate was 12% of 31,009 eligible employees, or roughly 3,721 individuals. That set of data equals an annual savings of approximately $168,672 for the State. With an increase to 30 percent participation, the State could save over $400,000 annually. It is not clear to the Legislative Auditor whether 30 percent participation is a realistic goal or what the highest achievable participation rate is, but the Legislative Auditor used 30 percent in order to display a range of savings.

These accounts benefit employees by providing IRS approved reimbursement of eligible medical and dependent care expenses on a tax-free basis.

The 2006 participation rate was 12% of 31,009 eligible employees, or roughly 3,721 individuals.

The Legislative Auditor conducted a survey of 500 randomly selected individuals who do not participate in FSAs. The survey results showed that many of the respondents had not heard of, or did not understand the programs even though the "Reference Guide" mailed to all members includes several pages that describe the FSA option. According to the survey results, 36 percent of respondents had not heard of the FSA option, of those who had heard of it, 54 percent would be more likely to participate if a cost benefit to them was determined. The survey results indicate that the marketing promotion through the benefits plan reference guide is lacking in drawing attention to the FSAs or that other forms of marketing should be explored. The potential cost savings to the State, as well as to individuals, combined with a lack of knowledge regarding the program led the Legislative Auditor to recommend an increased emphasis on marketing and education. Improved marketing of the option could benefit those who had not heard of the option, while improved education could benefit those who may need assistance in understanding the potential cost savings.

According to the survey results, 36 percent of respondents had not heard of the FSA option, of those who had heard of it, 54 percent would be more likely to participate if a cost benefit to them was determined.

Recommendations

1. The Legislative Auditor recommends that PEIA increase its marketing efforts for flexible spending accounts and better educate public employees on how the accounts can be financially beneficial.

2. The Legislative Auditor recommends that PEIA should educate benefit coordinators within state government on how they can promote the benefits of FSAs to the employees of their agency.

3. The Legislative Auditor recommends that PEIA make the Fringe Benefits Management Company's FSA benefit calculator more accessible to PEIA members.

4. The Legislative Auditor recommends that PEIA consider including a promotional page discussing the benefits of FSAs with the Explanation of Benefits to members based on certain amounts of out-of-pocket expenses.

5. Legislative Auditor recommends that PEIA should identify agencies where the FSA enrollment is low, and better market the program to those agencies through the benefit coordinator(s) and other methods.

OBJECTIVE, SCOPE & METHODOLOGY

This review of the Flexible Spending Accounts offered by the Public Employees Insurance Agency (PEIA) is being conducted as part of the Departmental Review of the Department of Administration pursuant to the WV Performance Review Act, as codified in Chapter 4, Article 10 of the West Virginia Code.

Objective

The main objective of this review was to determine whether state employees were aware of the Flexible Spending Accounts offered by PEIA, and why individuals choose not to participate in the program. An additional objective was to determine if there would be a financial impact to the State with varying levels of increased participation.

Scope

The scope of this review includes data from 2006-present.

Methodology

The Legislative Auditor used data from PEIA, the Fringe Benefits Management Company, the Internal Revenue Service, and the West Virginia Tax Department to determine the cost savings to the State involved with participation in Flexible Spending Accounts. The average state employee salary, average FSA contribution, and participation percentage were used to calculate both the current and projected savings for individual employees and the State. The Legislative Auditor conducted a survey of 500 state employees who are not enrolled in a Flexible Spending Account. This sample of 500 was randomly selected from a list provided by PEIA. The results of the survey were used to determine if a market for increased participation existed and what could be done to improve employee awareness. All aspects of this review are in accordance with Generally Accepted Government Auditing Standards.

ISSUE 1

Increased Marketing and Education Efforts of Flexible Spending Accounts Can Save the State of West Virginia Money While Benefitting Individual Employees.

Issue Summary

The Legislative Auditor conducted a survey of state employees who do not participate in the Flexible Spending Accounts offered by the Public Employees Insurance Agency (PEIA) to determine the presence of potential enrollees. The survey showed that a population exists that would participate with further understanding of the benefits. It is the Legislative Auditor's opinion that these programs should be marketed more intensely, since increased participation saves the State in Medicare and Social Security matching contribution costs.

These accounts benefit employees by providing IRS approved reimbursement of eligible medical and dependent care expenses on a tax-free basis.

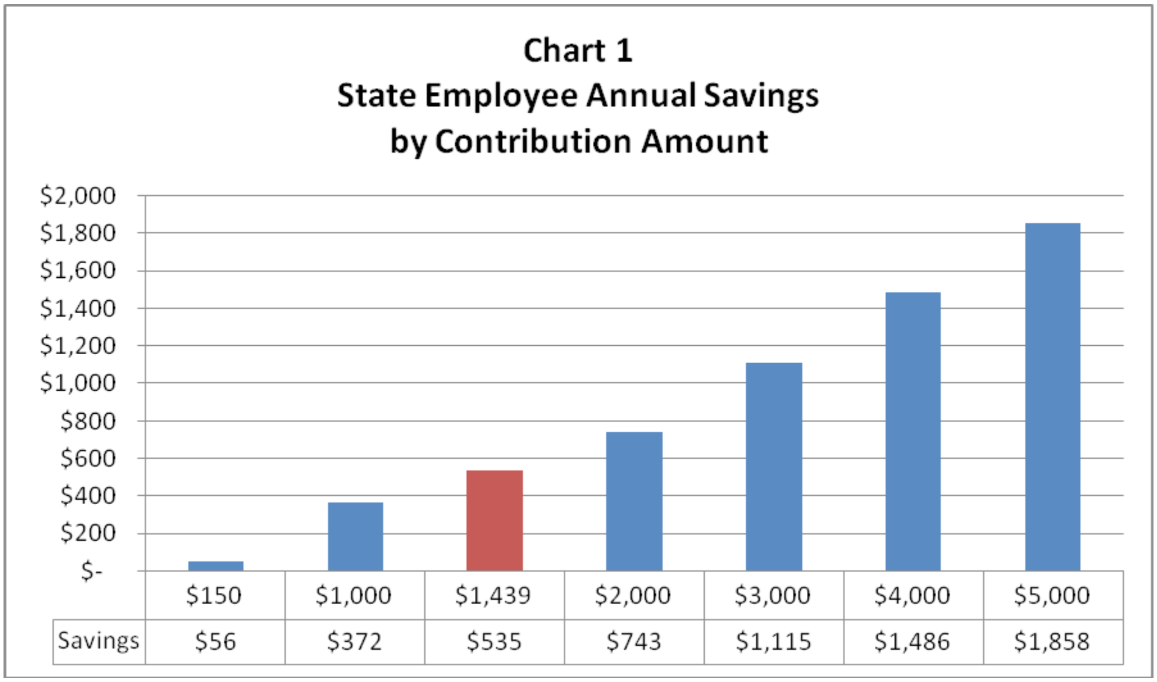
PEIA Offers Flexible Spending Accounts With Tax Benefits

The Public Employees Insurance Agency offers two Flexible Spending Accounts (FSA), one for medical expenses and one for dependent care. The FSAs are administered by the Fringe Benefits Management Company (FBMC) and allow all active employees of state agencies, colleges, universities, and county boards of education to participate. These accounts benefit employees by providing IRS approved reimbursement of eligible medical and dependent care expenses on a tax-free basis. Before taxes are deducted, the amount to be contributed to the account is determined at the time of enrollment and divided evenly among the 24 pay periods of the year. Although the two variations of Flexible Spending Accounts save money in the same way, medical expense FSAs differ from dependent care FSAs. Both carry a minimum investment of $150 per year. The medical expense FSA has a flat maximum investment of $5,000 per year. The dependent care FSA maximum ranges from $2,500 to $5,000 depending on the employee's tax filing status. Also, the total investment for the medical expense FSA is available immediately, while dependent care FSA funds are only available as accrued. For example, the medical expense FSA could disburse the entire maximum contribution on plan day one. The dependent care FSA could, at most, only disburse the pre-determined automatic paycheck deduction amount every pay period. Based on 2006 data, 12 percent of 31,009 eligible state employees participate in these programs.

Participation in Flexible Spending Accounts Can Save State Employees Money

One purpose of this review is to estimate the potential cost savings for both the employee and the State. In order for savings to be realized by an individual, **the individual must closely estimate total medical or dependent care costs**. This is due to the fact that any remaining balance in the FSA is not returned to the employee or rolled over to the next plan year. **Therefore, if an employee leaves an amount unused in the account that exceeds the amount of the income tax savings, no benefit is realized.**

The Legislative Auditor used the average salary for state employees, which is $37,165, as the base for all calculations and projections. Using a standard salary allowed for an accurate estimation of federal and state income taxes using IRS and WV Tax Department tax rate schedules. PEIA provided the Legislative Auditor with the average FSA contribution for fiscal years 2006 ($1,433) and 2007 ($1,445). An average of these two years ($1,439) was used to estimate the benefit of low and high levels of employee contributions. Chart 1 below shows the savings of an employee with the state average salary and FSA investment, highlighted in red, and the potential savings from the minimum annual contribution of $150 to the maximum of $5,000. In this projection, a change in contribution amount directly affects personal income tax savings for an individual state employee.



	$150	$1,000	$1,439	$2,000	$3,000	$4,000	$5,000
Savings	$56	$372	$535	$743	$1,115	$1,486	$1,858

Thirty-Six Percent of Survey Respondents Had Not Heard of the FSA Benefit Option

The Legislative Auditor conducted a survey of state employees who do not participate in a FSA using a list provided by PEIA.

The Legislative Auditor conducted a survey of state employees who do not participate in a FSA using a list provided by PEIA. The survey was sent to 500 randomly selected employees, of which 44 percent (222) responded. The purpose of the survey was to determine whether employees would participate in the FSA program if it was known that tax savings could be realized. Complete survey results including comments are available in Appendix B.

The survey data show that 36 percent of the respondents had not heard of the flexible spending account offered by PEIA.

Of those who had heard of the FSA option, 35 percent stated that they did not understand the program.

The survey data show that 36 percent of the respondents had not heard of the flexible spending account offered by PEIA. Of those who had heard of the FSA option, 35 percent stated that they did not understand the program. The responses to the survey show that there are clearly a significant number of PEIA members who have not heard of the FSA option. Further, those who **are** aware of the option don't understand it. **Thus, with enhanced marketing and explanation of benefits by PEIA, it may be possible to achieve a higher rate of participation**.

There Are Various Reasons That PEIA Members Do Not Participate in the FSA Option

The Legislative Auditor asked survey respondents to check the various reasons why they do not participate in the FSA options. Several reasons for non-participation were identified that PEIA may not be able to correct. These responses include those who are unable to estimate their eligible annual medical expenses, and those who do not want additional money taken from their paycheck. Others cited the fact that participants are unable to carry over their contributions over to the next plan year, and also cited the reimbursement process as being too complicated and inconvenient. PEIA could possibly address these problems through the FSA administrator. Twenty-two respondents or approximately 16 percent stated that they did not participate because they did not understand the benefits of the FSA. PEIA can address this issue. A full listing of responses is in Appendix B.

Twenty-two respondents or approximately 16 percent stated that they did not participate because they did not understand the benefits of the FSA.

Survey Respondents Would Be More Likely to Participate In the FSA Option If It Was Determined That They Could Save Money

In order to determine whether there was a potential for an increase in participation, the survey asked whether an employee would be more likely to participate if the FSA option was explained in more detail and it was determined that there would be an annual savings. Fifty-four percent of the survey respondents stated that they would be more likely to participate if the option was explained in more detail. Thirty-eight percent stated that they would not. Thus, with 54 percent more likely to participate, it shows that PEIA could market the FSA option to its members in addition to educating members on how it can benefit them.

Fifty-four percent of the survey respondents stated that they would be more likely to participate if the option was explained in more detail.

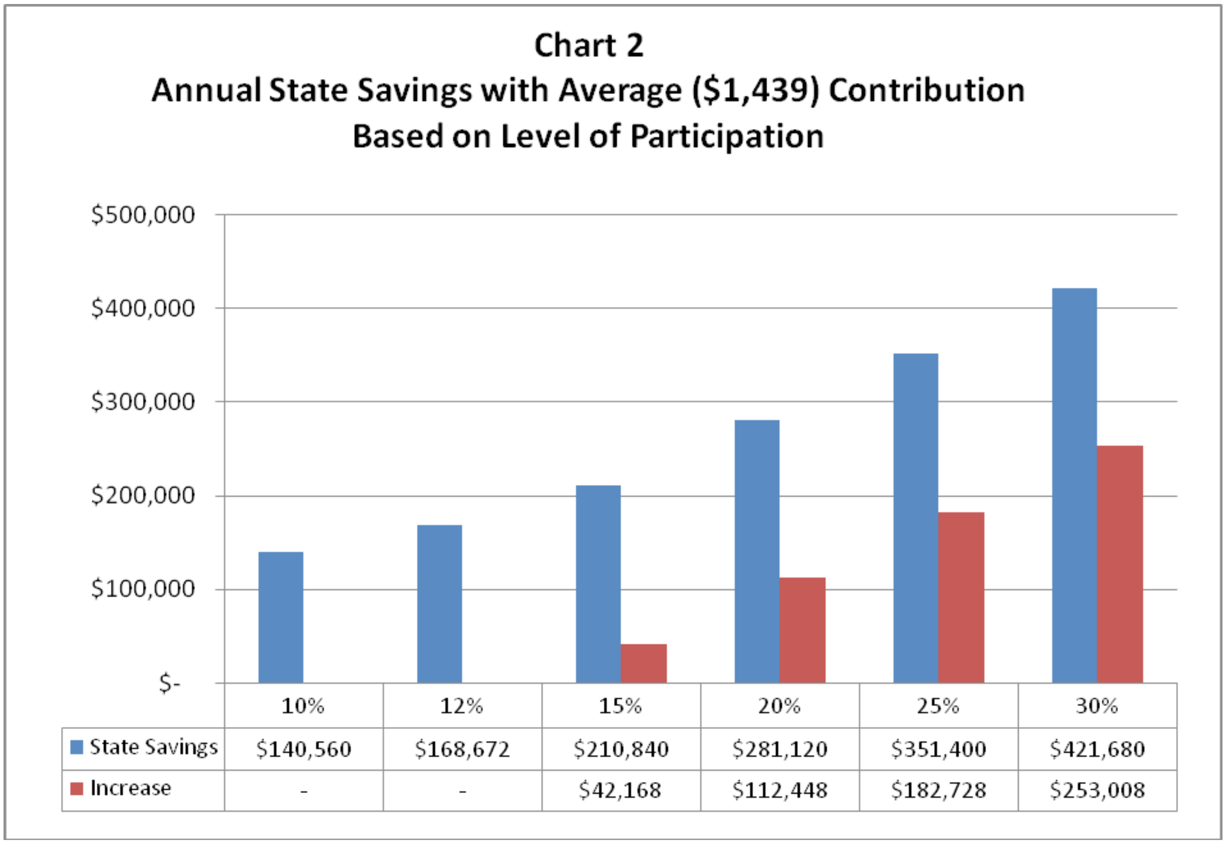
An Increase in Participation in FSAs Also Saves the State Money

In addition to saving money for state employees, FSAs also save the State money. As displayed in Chart 1, employees realize savings through lowering taxable income. The State of West Virginia, as an employer, must match the Social Security and Medicare contribution to the federal government for every employee. This contribution is 7.65% of taxable income (6.2% for Social Security and 1.45% for Medicare). This rate remains constant until earnings reach $97,500. **Since employees' taxable incomes are lowered, Social Security and Medicare contributions are lowered, thus the State saves money by paying lower matching contributions.** (Explanation of calculations: Appendix C)

The employee participation rate is the variable that directly affects the State's savings associated with Social Security and Medicare matching costs. In order to achieve an increase in participation, PEIA should consider the effectiveness of its marketing of the program and/or put added emphasis on FSAs when training its Benefits Coordinators. The Legislative Auditor projected cost savings based on increased participation in the FSA option. Chart 2 estimates increased participation with a contribution rate based on the current average contribution of $1,439.

The 2006 participation rate was 12 percent of 31,009 eligible employees, or roughly 3,721 individuals. That set of data equals an annual savings of approximately $168,672 for the State. With an increase to 30 percent participation, the State could save over $400,000.

One concerning aspect of the program is that an increase in tax savings by employees decreases the State's income tax revenue. **Although the State loses personal income tax revenue, the amount saved in Social Security and Medicare tax matching is consistently greater than the loss in tax revenue.** In this example, state savings increase and decrease due to a change in employee participation rate. Using the same average salary and contribution as before, the Legislative Auditor was able to project the effect on state income. The 2006 participation rate was 12 percent of 31,009 eligible employees, or roughly 3,721 individuals. **That set of data equals an annual savings of approximately $168,672 for the State. With an increase to 30 percent participation, the State could save over $400,000**. Chart 2 shows state savings at different levels of participation, assuming the current average contribution applies to the entire population. In this projection, a change in participation percentage directly affects savings for the State. It is not clear to the Legislative Auditor whether 30 percent participation is a realistic goal or what is the highest achievable participation rate, but the Legislative Auditor used 30 percent in order to display a range of savings.



	10%	12%	15%	20%	25%	30%
State Savings	$140,560	$168,672	$210,840	$281,120	$351,400	$421,680
Increase	-	-	$42,168	$112,448	$182,728	$253,008

Increased Marketing and Education of FSA Benefits May Increase the Participation Rates

As shown in the Legislative Auditor's survey results, there is room for improvement in marketing and explaining the benefits of the FSA option to PEIA members. As stated previously, 36 percent of respondents had not heard of the FSA option, and of those who had heard of it, 54 percent would be more likely to participate if a cost benefit to them was determined. Improved marketing of the option could benefit those who had not heard of the option, while improved education could benefit those who may need assistance in understanding the potential cost savings. There is a need to distinguish between marketing and education. Marketing attempts to draw a person's attention to the product, while education informs people after they have been attracted to the product. Although some educational promotions act as marketing, there is a distinction between education and marketing. **Some of PEIA's marketing promotions should be reviewed in terms of whether they**

Improved marketing of the option could benefit those who had not heard of the option, while improved education could benefit those who may need assistance in understanding the potential cost savings.

are adequate in drawing attention to the FSA options.

Currently, the main marketing effort used to inform PEIA members of the FSA option is through the "Mountaineer Flexible Benefits Plan Reference Guide" that is mailed to the homes of PEIA plan members. This guide includes several pages that describe the FSA option (Appendix D). In addition, PEIA distributes brochures to state employees at benefit fairs and provides information to benefit coordinators at workshops, training sessions, and agency requested meetings and workshops. The survey results indicate that the marketing promotion through the benefits plan reference guide is lacking in drawing attention to the FSAs or that other forms of marketing should be explored. Thus, the Legislative Auditor recommends that PEIA examine ways to improve its marketing efforts.

The survey results indicate that the marketing promotion through the benefits plan reference guide is lacking in drawing attention to the FSAs or that other forms of marketing should be explored.

While the burden lies on PEIA to determine how to increase its marketing and education efforts, the Legislative Auditor does have several suggestions. Each of these suggestions should be analyzed from a cost-benefit perspective to ensure a productive attempt to increase participation. First, PEIA should educate the various benefit coordinators throughout state government not only on educating employees on benefits of the FSA options when questions are asked, but PEIA should also provide benefit coordinators with ways to <u>promote</u> FSAs. Benefit coordinators are the first line employees who can promote FSAs to his or her respective agency employees. Survey results suggest that agency employees need some personalized attention in order to become aware of and understand the benefits of FSAs. Second, PEIA should consider making a FSA benefit calculator more accessible to its members. The administrator of the FSA benefit has a calculator on its website, which allows employees to enter his or her current salary, estimated contributions along with other pertinent information. The calculator then estimates the annual savings to the employee. Although PEIA has a link to the administrator's web page from its web page, it is not clearly visible nor is it directly linked to the FSA calculator. The Consolidated Public Retirement Board (CPRB) has a similar calculator on its website that allows an employee to estimate his or her retirement benefits. Third, PEIA should consider other marketing tools directed towards those who may benefit from FSAs, such as providing a promotional page with the "Explanation of Benefits" page that is sent to individuals by Wells Fargo. The promotional page could be sent only when the patient's monetary responsibility is of a certain amount. Another marketing tool is to provide members with their actual out-of-pocket expenses for the current and plan year along with a promotional page discussing the benefits of FSAs. This would help PEIA members

PEIA should educate the various benefit coordinators throughout state government not only on educating employees on benefits of the FSA options when questions are asked, but PEIA should also provide benefit coordinators with ways to <u>promote</u> FSAs.

PEIA should consider making a FSA benefit calculator more accessible to its members.

estimate how much at a minimum could be contributed to an FSA. This personalized attention may assist in increasing the FSA participation rate. Finally, PEIA should identify opportunities where growth in FSA enrollees can occur. With its database, PEIA should identify agencies where the FSA enrollment is low, and better market the program through the benefit coordinator(s) and other methods. By its own statement in the West Virginia Executive Budget, one of PEIA's goals and objectives is to maintain the fiduciary responsibility of public funds administration. The Legislative Auditor has identified an area where some savings to the State can occur, thus recommends that PEIA explore these and other options.

PEIA should consider other marketing tools directed towards those who may benefit from FSAs, such as providing a promotional page with the "Explanation of Benefits" page that is sent to individuals by Wells Fargo.

Conclusion

The Flexible Spending Accounts offered by PEIA and administered by FBMC allow employees to set aside money for expected medical and dependent care costs before taxes are deducted. The Legislative Auditor recognizes that not every employee can benefit from a FSA. However, an effective increase in participation can result in cost savings to state employees as well as to the State. State employees benefit from a lower tax liability, and the State benefits from lower costs on matching Social Security and Medicare taxes. Although personal income tax revenue to the State would be lower, the cost savings on the matching taxes would be greater, for a net savings. **Therefore, the Legislative Auditor recommends that all parties involved strive to increase awareness of FSA's for those that can benefit from them.** It also must be noted that this report only estimates cost savings for the State and its employees. Consideration was not given to other public entities such as counties and cities throughout the State that use PEIA insurance.

Recommendations

1. The Legislative Auditor recommends that PEIA increase its marketing efforts for flexible spending accounts and better educate public employees on how the accounts can be financially beneficial.

2. The Legislative Auditor recommends that PEIA should educate benefit coordinators within state government on how they can promote the benefits of FSAs to the employees of their agency.

3. The Legislative Auditor recommends that PEIA make the Fringe Benefits Management Company's FSA benefit calculator more accessible to PEIA members.

4. The Legislative Auditor recommends that PEIA consider including a promotional page discussing the benefits of FSAs with the Explanation of Benefits to members based on certain amounts of out-of-pocket expenses.

5. Legislative Auditor recommends that PEIA should identify agencies where the FSA enrollment is low, and better market the program to those agencies through the benefit coordinator(s) and other methods.

APPENDIX A: TRANSMITTAL LETTERS

WEST VIRGINIA LEGISLATURE

Performance Evaluation and Research Division

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Charleston, West Virginia 25305-0610
(304) 347-4890
(304) 347-4939 FAX

John Sylvia
Director

June 4, 2008

Robert W. Ferguson, Jr., Cabinet Secretary
Department of Administration
Building 1, Room E-119
1900 Kanawha Boulevard, East
Charleston, WV 25305-0120

Dear Secretary Ferguson:

This is to transmit a draft copy of the first installment of the Departmental Review of the Department of Administration. This report is on the Public Employees Insurance Agency's Mountaineer Flexible Spending Accounts. This report is scheduled to be presented during the June 22-24, 2008 interim meeting of the Joint Committee on Government Operations and Joint Committee on Government Organization. We will inform you of the exact time and location once the information becomes available. It is expected that a representative from your agency be present at the meeting to orally respond to the report and answer any questions the committees may have.

If you would like to schedule an exit conference to discuss any concerns you may have with the report, please do so before Tuesday, June 10, 2008. In addition, we need your written response by noon on June 12, 2008 in order for it to be included in the final report. If your agency intends to distribute additional material to committee members at the meeting, please contact the House Government Organization staff at 340-3192 by Thursday, June 19, 2008 to make arrangements.

We request that your personnel not disclose the report to anyone not affiliated with your agency. Thank you for your cooperation.

Sincerely,

Denny Rhodes

Denny Rhodes
Research Manager

Enclosure

c: Ted Cheatham, Director

Joint Committee on Government and Finance

WEST VIRGINIA LEGISLATURE

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John Sylvia
Director

June 11, 2008

Robert W. Ferguson, Jr., Cabinet Secretary
Department of Administration
Building 1, Room E-119
1900 Kanawha Boulevard, East
Charleston, WV 25305-0120

Dear Secretary Ferguson:

Attached is a modified draft copy of the Public Employees Insurance Agency's Mountaineer Flexible Spending Accounts audit that was provided to you on June 4, 2008. Changes made to the report are highlighted for your convenience. Please provide your written response to this draft by close of business on Friday, June 13, 2008.

This also serves as notification that the report will be presented to the Joint Committee on Government Operations and Joint Committee on Government Organization on Tuesday, June 22, 2008 at 12:00PM in the House Chamber. It is expected that a representative from your agency be present at the meeting to orally respond to the report, and answer any questions the committees may have.

We request that your personnel not disclose the report to anyone not affiliated with your agency. Thank you for your cooperation.

Sincerely,

John Sylvia

John Sylvia

Enclosure

c: Ted Cheatham, Director, PEIA

Joint Committee on Government and Finance

APPENDIX B: Survey Results

1. *What agency do you work for?*
   (Various)

2. *Have you previously heard of the Flexible Spending Account (FSA) offered by PEIA?*
   Yes – **138, (63% of those who responded to this question)**
   No – **80, (36%)**
   Other – **2, (1%)**

3. *Where did you hear about the account?*
   A. Mountaineer Benefits Packet – **72**
   B. Benefits Coordinator – **29**
   C. Employer/Co-workers – **35**
   D. PEIA Website – **8**
   E. Other PEIA Literature – **7**
   F. Other – **26** (Below)

4. *Do you understand the benefits of participating in a Flexible Spending Account?*
   Yes – **91, (64%)**
   No – **50, (35%)**
   Other – **1, (1%)**

5. *Why do you not participate in the Flexible Spending Account?*
   A. I do not understand the benefits of the FSA – **39**
   B. The account can not be carried over into the next plan year, and I do not want to risk overestimating expenses and possibly lose money – **54**
   C. I do not want additional money taken from my paycheck – **54**
   D. I can not reasonably estimate eligible annual expenses – **36**
   E. The minimum annual deposit is $150, and my annual expenses not covered by my insurance plan are less than that – **8**
   F. I plan to participate in the future – **5**

G. The reimbursement process is too complicated – **20**
H. The reimbursement process is too inconvenient – **22**
I. My agency's Benefits Coordinator did not explain the FSA option – **7**
J. My agency's Benefits Coordinator explained the FSA option, but not well enough to understand – **1**
K. No reason - **8**
L. Other – **31** (Below)

6. *If the program was explained in detail and it was determined that you could save money annually, would you be more likely to participate?*
   Yes – **76, (54%)**
   No – **54, (38%)**
   Maybe – **4, (3%)**
   Other – **7, (5%)**

7. *Please add any other questions or comments*. (Below)

Comments for Question #3, Answer F:

1. This survey
2. This survey
3. Did not
4. N/A
5. A fee being held out for something, "from paycheck"
6. Survey
7. Haven't need of it
8. Agency Newsletter
9. I have not
10. None

11. Meeting
12. I haven't
13. N/A
14. Aunt
15. I am the Benefits Coordinator, so I heard it in training.
16. My wife uses it for our family
17. PEIA
18. Television

"Other" Comments for Question #5

1. Unaware
2. Not heard of
3. Apparently I am paying into something, but do not know what it is or for what. I just figured it was another way for some company to get money out of people, and calling it another tax.
4. I know nothing about this program
5. See other employees rush to spend glasses, over the counter, seems wasted $, haven't had much $ for dental and eye/routine exams. Cleaning.
6. It has hidden costs
7. I fear that it might reduce future Soc. Sec. Benefits or retirement.
8. Experience w/my husband's FSA through his employer.
9. Do not know what it even is
10. Don't know enough about it
11. I rarely go to the doctor, so getting money aside would not benefit me on a regular basis.

12. What is it?
13. My wife has one through her work.
14. I have too many other bills and need what little I earn

Additional Comments: (Question #7)

1. I am currently covered by PEIA under my wife's family plan.
2. I am not sure what the program is about.
3. I participate in FSA but the money is deducted from my spouse's pay.
4. It would be helpful if someone would come and explain it to the office staff
5. I had a bad experience with the FSA--my letter requesting reimbursement was deemed late although it was postmarked within the timeframe. I lost a significant amount of money and do not want to risk that again.
6. At the present time I probable need to research it more.
7. I am reasonable uninformed of the subject. What I do know is that it seems to be a bit too complicated to file for reimbursement.
8. It seems like a lot of work to maybe save a few dollars.
9. I have a son in daycare and my limited understanding would be that I would be reimbursed for some money that I payout?
10. n/a
11. You will never convince me that charging me $20 (?) to be able to use a card to get to my own money is going to save me money.
12. My husband works for DHHR. We have a 5-yr-old & a 2-yr-old, either sent to sitter or daycare. We have been taking advantage of FSA for expenses on child care since they were born. For us, it would be nice to set the claim limit based on numbers of

dependents, not a fixed amount of $5,000, which barely can cover the child care of one single child.

13. I ALREADY PARTICIPATE THROUGH MY SPOUSE'S PAYROLL DEDUCTION. YOU DO NO GIVE THAT OPTION IN QUESTION 5 OR ANY OF THE QUESTIONS.

14. Its not that I don't want the money taken out of my pay check, I can't afford that in one lump some. It's sad when people of not just the state of WV, but the whole country can't afford all the so called benefits, but you get the welfare recipients and illegal immigrants they get everything for not paying one cent.

15. The benefits that I have through my employment with the state meet my needs as is.

16. My husband has this benefit at his place of employment and we do participate in it through his place of employment.

17. I think it would beneficial if it would carry over into next plan year. This way it could keep building. Some years it might take more than others. It might help after retirement as a long as the person stays in the plan.

18. I am unsure why I was chosen to complete this survey as I have in the past and DO AT PRESENT participate in FSA for childcare. Are your records incorrect

19. My husband and I both have medical issues and with our salary and gas what it is, we barely make ends meet as it is. I can't afford to pay my co-pays and prescriptions and have money taken out for FSA at the same time. Even though I would get it back in the end, it's still a burden when you live from payday to payday. Here it is only the 7th of the month and I'm down to less than $50. In the end what matters most is how much money I have to live on each paycheck. A promise of money at some point in the future just won't cut it. There are way too many times I have to hold off on needed medication, even for my diabetes, because I'm out of money. PEIA's program for free diabetes meds doesn't work either, when the counselor contradicts doctor's orders and

threatens to remove you from the program if you don't. Carelink is a better health plan for me without the strings for diabetic meds, but the monthly premium is higher, and again - at the end of the day what matters most is how much money I bring home.

20. I do not want to be bothered with the paperwork.

21. There are people here sometimes to explain FSA but I don't have time to get off the unit to have it explained to me in full so I completely understand FSA.

22. Question 6. - I might if my concerns for question 5. were satisfied.

23. If I get a raise then it might be useful. Also get rid of PEIA deductibles.

24. For the most part, I do not understand how it works.

25. I participate in my husband's flexible spending account.

26. Talk about gambling with your money.

27. My impression of the Flexible Spending Account is that it adds one more layer of complications to my medical insurance coverage. I have trouble enough understanding why I have to pay full price for medications at the beginning of each fiscal year in order to meet a deductible sum when I am already paying out so much money every month just to be covered, and still have to pay out a large portion of the cost of my medication every time I get my prescription refilled.

28. If the money could be carried over, I would consider it.

29. THIS IS NOT A HEALTH CARE BENEFIT. WE NEED MORE HEALTH CARE BENEFITS, AND FEWER WAYS TO TIE UP STATE EMPLOYEES MONEY.

30. I know nothing about the Flexible Spending Account, so I can't comment (positive or negative) on this.

31. Who do I see about this?

32. At this time, I cannot afford for any additional money to be deducted from my paycheck.

33. Would depend on the details and if the prospective savings was worth the trouble to participate. (If you do the math, most of the flexible benefits in the package are not really beneficial when you factor in premiums and coverage).

34. Not interested in the FSA

35. Money in account not used in plan year not carried over and will be lost to participant.

36. If our benefits package was better to begin with, we wouldn't have to try to buy additional coverage. It seems that our premiums continue to increase and our benefits decrease.

37. If it leads to higher deductibles and premiums, then I believe everyone should avoid it. Also, filing the tax return is not easy with an FSA.

38. Hardly anyone has ever explained to any of us at Pend. Co. DRH anything about insurance or any other thing. Everything is always hush hush around here. Need more information from benefits coordinators.

APPENDIX C: Explanation of Calculations

Data Input Section:

Data Input Section				
Salary	37,164.99		FSA	1,439.01
PEIA	1,000.00		Eligible	31,009
Soc. Sec. / Med.	7.65%		% Particp.	12%
Fed Tax %	25%		State Tax %	4.5%
Fed Over	31,850.00		State Over	25,000.00
Fed Under	77,100.00		State Under	40,000.00
Fed Base	4,386.25		State Base	900.00

This section of the calculations page holds all of the basic criteria for preparing the totals and projections used in this report. The "PEIA" field contains an arbitrary amount to represent the cost of the basic health insurance plan, "Soc. Sec. / Med." is the combined deductions for Social Security and Medicare, and the "Salary" field contains the average state employee salary. This salary allowed for the calculation of federal and state income taxes using the IRS and State Tax Department income tax estimation schedules. "Fed Over" and "State Over" represent the bottom end of a bracket while "Fed Under" and "State Under" are the upper limit of a tax bracket. In this particular scenario, the base tax amount for both federal and state is listed in the bottom row. In order to finish the calculation, the "Over" figure is subtracted from the employee average salary. The resulting remainder is then multiplied by 25%, and added to the respective base tax.

The variables that affect this calculation set are the FSA contribution, the number of eligible employees, and the percentage of eligible employees that participate. All of these numbers are found in the upper right hand corner of the Data Input Section. The FSA contribution and the percentage of participating employees were calculated above and below the current levels of participation to show projections of increased and decreased savings to both employees and the State. These figures were then calculated and moved into two separate hypothetical income statements to show how this program saves individual employees in tax payments.

Income Statements:

Employee Only with FSA	
Gross Income	37,164.99
PEIA Plan	1,000.00
FSA	1,439.01
Adjusted Gross Income	34,725.98
Federal Income Tax	5,105.25
State Income Tax	1,337.67
Social Security / Medicare	2,656.54
Medical Expenses	-
Net Income	25,626.53

Employee Only without FSA	
Gross Income	37,164.99
PEIA Plan	1,000.00
FSA	-
Adjusted Gross Income	36,164.99
Federal Income Tax	5,465.00
State Income Tax	1,402.42
Social Security / Medicare	2,766.62
Medical Expenses	1,439.01
Net Income	25,091.94

Data from the Input Section was put into hypothetical personal income statements to show where and how tax savings are realized to the individual employee. All of the numbers in these tables were derived from those in the input section. All taxes are calculated as the base plus percentage of adjusted gross income in excess of the lower limit of the applicable tax bracket. This varies due to participation status and contribution level in the FSA program.

Total Output Section:

Total Output Section				
			(Loss)/Savings*	
Employee	With FSA	Without FSA	Individual	Population
Adj. Gross Income	34,725.98	36,164.99	(1,439.01)	(5,354,671.33)
Fed. Tax	5,105.25	5,465.00	359.75	1,338,667.83
State Tax	1,337.67	1,402.42	64.76	240,960.21
Soc. Sec.	2,656.54	2,766.62	110.08	409,632.36
Net Income	25,626.53	25,091.94	534.59	1,989,260.40
State (Employer)				
Tax Income	4,977,573.73	5,218,533.94	-	(240,960.21)
S.S. Match Paid	9,885,188.45	10,294,820.81	-	409,632.36
		Total	-	168,672.15

This section shows the difference in taxes paid for both the employee and the state. Using the FSA contribution, total eligible employees, and the participation level, the results could be extrapolated to represent the entire state. The State loses tax revenue with participation in the program, but also saves in Social Security and Medicare matching costs as an employer. This table shows that the amount lost in tax revenue is at a rate less than the amount saved in employer matching, which leads to State savings.

APPENDIX D: Reference Guide: Flexible Spending Accounts

Flexible Spending Accounts

What is a Flexible Spending Account?

Fringe Benefits Management Company (FBMC) provides you with IRS tax-favored Flexible Spending Accounts (FSAs) to stretch your medical expense and dependent care dollars.

Flexible Spending Accounts feature:

- IRS-approved reimbursement of eligible expenses tax free
- per-pay-period deposits from your pre-tax salary
- savings on income and Social Security taxes, and
- security of paying anticipated expenses with your FSA.

Is an FSA right for me?

If you spend $150 or more on recurring eligible expenses during your plan year, you may save money by paying for them with an FSA. A portion of your salary is deposited into your FSA each pay period.

- You decide the amount you want deposited.
- You are reimbursed for eligible expenses before income and Social Security taxes are deducted.
- You save income and Social Security taxes each time you receive wages.
- Determine your potential savings with a Tax Savings Analysis at **www.myfbmc.com/customer/taxanalysis.asp**.

What types of FSAs are available?

Your employer offers you a Medical Expense FSA as well as a Dependent Care FSA. If you incur both types of expenses during a plan year, you can establish both types of FSAs.

Medical Expense FSAs

Medical expenses not covered by your insurance plan may be eligible for reimbursement using your Medical Expense FSA, including:

- birth control pills
- eyeglasses
- orthodontia, and
- over-the-counter items.

Dependent Care FSAs

Dependent care expenses, whether for a child or an elder, include any expense that allows you to work, such as:

- day care services
- in-home care
- nursery and preschool, and
- summer day camps.

Refer to the *Medical Expense FSA* and *Dependent Care FSA* sections of this Reference Guide for specifics on each type of FSA.

Receiving Reimbursement

Your reimbursement will be processed within five business days from the time FBMC receives your properly completed and signed FSA Reimbursement Request Form. To avoid delays, follow the instructions for submitting your requests located in the FSA materials you will receive following enrollment.

Direct Deposit

Enroll in Direct Deposit to expedite the time of your reimbursement.

- FSA reimbursement funds are automatically deposited into your checking or savings account.
- There is no fee for this service.
- You don't have to wait for postal service delivery of your reimbursement (however, you will receive notification that the claim has been processed).

To apply, complete the Direct Deposit Enrollment Form available from your **Enrollment Counselor**, visit **www.myfbmc.com** or call FBMC Customer Service at 1-800-342-8017. Please note that processing your Direct Deposit enrollment may take between four to six weeks.

Where can I get information about FSAs?

If you have specific questions about FSAs, contact FBMC Customer Service.

- Visit **www.myfbmc.com**.
- E-mail **webcustomerservice@fbmc-benefits.com**.
- Call **1-800-342-8017** (Monday - Friday, 7 a.m.-10 p.m. ET).

Please note that, due to FBMC's Privacy Policy, we will not discuss your account information with others without your verbal or written authorization.

FSA Savings Example*

$31,000	Annual Gross Income	$31,000
- 5,000	FSA Deposit for Recurring Expenses	- 0
$26,000	Taxable Gross Income	$31,000
- 5,889	Federal, Social Security Taxes	-7,021
$20,111	Annual Net Income	$23,979
- 0	Cost of Recurring Expenses	-5,000
$20,111	Spendable Income	$18,979

By using an FSA to pay for anticipated recurring expenses, you convert the money you save in taxes to additional spendable income. That's a potential annual savings of

$1,132!

* Based upon a 22.65% tax rate (15% federal and 7.65% Social Security) calculated on a calendar year

Flexible Spending Accounts

CONTINUED

FSA Guidelines:

1. The IRS does not allow you to pay your medical or other insurance premiums through either type of FSA. Refer to the "Written Certification" portion of the *Beyond Your Benefits* section of this Reference Guide for more specifics.
2. You cannot transfer money between FSAs or pay a dependent care expense from your Medical Expense FSA or vice versa.
3. You have a 120-day run-out period (until October 31, 2007) at the end of the plan year for reimbursement of eligible FSA expenses incurred during your period of coverage and any applicable grace period within the 2007 Plan Year.
4. You may not receive insurance benefits or any other compensation for expenses which are reimbursed through your FSAs.
5. You cannot deduct reimbursed expenses for income tax purposes.
6. You may not be reimbursed for a service which you have not yet received.
7. Be conservative when estimating your medical and/or dependent care expenses for the 2007 Plan Year. IRS regulations state that any unused funds which remain in your FSA after a plan year and any applicable grace period ends, and all reimbursable requests have been submitted and processed, cannot be returned to you nor carried forward to the next plan year.

What documentation of expenses do I need to keep?

The IRS requires FSA customers to maintain complete documentation, including keeping copies of statements, invoices or bills for reimbursed expenses, for a minimum of one year.

How do I get the forms I need?

To obtain forms you will need after enrolling in either a Medical Expense or Dependent Care FSA, such as an FSA Reimbursement Request Form, Letter of Medical Need or Direct Deposit Form, you can visit FBMC's Web site, **www.myfbmc.com**, or call FBMC Customer Service at 1-800-342-8017. For more information, refer to the *Getting Answers* section of this Reference Guide.

Will contributions affect my income taxes?

Salary reductions made under a cafeteria plan, including contributions to one or both FSAs, will lower your taxable income and taxes. These reductions are one of the money-saving aspects of starting an FSA. Depending on the state, additional state income tax savings or credits may also be available. Your salary reductions will reduce earned income for purposes of the federal Earned Income Tax Credit (EITC).

To help you choose between the available taxable and tax-free benefits, or a combination of both, consult your tax advisor and/or the IRS for additional information.

FSA Grace Period

A recent IRS Revenue Notice permits a "**grace period**" of two months and 15 days following the end of your 2007 Plan Year (June 30, 2007) for an FSA. This new grace period ends on September 15, 2007. **During the grace period, you may incur expenses and submit claims for these expenses.** Funds will be automatically deducted from any remaining dollars in your 2007 FSA.

You should not confuse the new grace period with the plan's "**run-out period**." The run-out period extends until October 31, 2007. This is a period for filing claims incurred anytime during the 2007 Plan Year, as well as claims incurred during the grace period mentioned above.

Claims will be processed in the order in which they are received by FBMC and your accounts will be debited accordingly. This is true for both paper claims and EZ REIMBURSE® Card transactions. If you have funds remaining in an account for the prior plan year, these funds will be used first until exhausted. Then, subsequent claims will be debited from your new plan year account balance.

Medical Expense FSA

Minimum Annual Deposit*: $150
Maximum Annual Deposit*: $5,000

New Maximum!

* plus administrative fee

What is a Medical Expense FSA?

A Medical Expense FSA is an IRS tax-favored account you can use to pay for your eligible medical expenses not covered by your insurance or any other plan. These funds are set aside from your salary before taxes are deducted, allowing you to pay your eligible expenses tax free. A partial list of these eligible expenses can be found on this page.

Whose expenses are eligible?

Your Medical Expense FSA may be used to reimburse eligible expenses incurred by:

- yourself
- your spouse
- your qualifying child, or
- your qualifying relative.

An individual is a **qualifying child** if they:

- are a U.S. citizen, national or a resident of the U.S., Mexico or Canada
- have a specified family-type relationship to you
- live in your household for more than half of the taxable year
- are 18 years old or younger (23 years, if a full-time student) at the end of the taxable year, and
- have not provided more than one-half of their own support during the taxable year.

An individual is a **qualifying relative** if they are a U.S. citizen, national or a resident of the U.S., Mexico or Canada and:

- have a specified family-type relationship to you, are not someone else's qualifying child and receive more than one-half of their support from you during the taxable year, **or**
- if no specified family-type relationship to you exists, are a member of and live in your household (without violating local law) for the entire taxable year and receive more than one-half of their support from you during the taxable year.

Note: There is no age requirement for a qualifying child if they are physically and/or mentally incapable of self care. An eligible child of divorced parents is treated as a dependent of both, so either or both parents can establish a Medical Expense FSA.

When are my funds available?

Once you sign up for a Medical Expense FSA and decide how much to contribute, the maximum annual amount of reimbursement for eligible health care expenses will be available as soon as the plan year begins.

Since you don't have to wait for the cash to accumulate in your account, you can use it to pay for your eligible health care expenses at the start of your deductions.

Are prescriptions eligible for reimbursement?

Yes, most filled prescriptions are eligible for Medical Expense FSA reimbursement, as long as you properly substantiate the expense. Proper submission of the reimbursement request is needed to ensure that the drug is eligible for reimbursement. The IRS requires the complete name of all medicines and drugs be obtained and documented on pharmacy invoices (including prescription number, date(s) of service and total dollar amount). This information must be included when submitting your request to FBMC for reimbursement.

Partial List of Medically Necessary Eligible Expenses*

Acupuncture
Ambulance service
Birth control pills and devices
Chiropractic care
Contact lenses (corrective)
Dental fees
Diagnostic tests/health screening
Doctor fees
Drug addiction/alcoholism treatment
Drugs
Experimental medical treatment
Eyeglasses
Guide dogs
Hearing aids and exams
In vitro fertilization
Injections and vaccinations
Nursing services
Optometrist fees
Orthodontic treatment
Over-the-counter items
Prescription drugs to alleviate nicotine withdrawal symptoms
Smoking cessation programs/treatments
Surgery
Transportation for medical care
Weight-loss programs/meetings
Wheelchairs
X-rays

Note: Budget conservatively. No reimbursement or refund of Medical Expense FSA funds is available for services that do not occur within your plan year.

* IRS-qualified expenses are subject to federal regulatory change at any time during a tax year. Certain other substantiation requirements and restrictions may apply, and will be supplied to you following enrollment.

Medical Expense FSA

CONTINUED

Can travel expenses for medical care be reimbursed?

Travel expenses primarily for, and essential to, receiving medical care, including health care provider and pharmacy visits, may be reimbursable through your Medical Expense FSA. With proper substantiation, eligible expenses can include:

- actual round-trip mileage
- parking fees
- tolls, and
- transportation to another city.

Is orthodontic treatment reimbursable?

Orthodontic treatment designed to treat a specific medical condition is reimbursable through your Medical Expense FSA if the proper documentation is provided:

- a written statement, bill or invoice from the treating dentist/orthodontist showing the type and date the service was incurred, the name of the eligible individual receiving the service, the cost for the service, and
- a copy of the patient's contract with the dentist/orthodontist for the orthodontia treatment (only required if a participant requests reimbursement for the total program cost spread over a period of time).

Reimbursement of the full or initial payment amount may only occur during the plan year in which the braces are first installed. For reimbursement options available under your employer's plan, including care that extends beyond one or more plan years, refer to the information provided following your enrollment, or call FBMC Customer Service at 1-800-342-8017.

Should I claim my expenses on IRS Form 1040?

With a Medical Expense FSA, the money you set aside for health care expenses is deducted from your salary before taxes. It is always tax free, regardless of the amount. By enrolling in a Medical Expense FSA, you guarantee your savings.

Itemizing your health care expenses on your IRS Form 1040 may give you a different tax advantage, depending on the percentage of your adjusted gross income. You should consult a tax professional to determine which avenue is right for you.

Are some expenses ineligible?

Expenses not eligible for reimbursement through your Medical Expense FSA include:

- insurance premiums
- vision warranties and service contracts, and
- cosmetic surgery not deemed medically necessary to alleviate, mitigate or prevent a medical condition.

When do I request reimbursement?

You may use your Medical Expense FSA to reimburse eligible expenses after you have sought (and exhausted) all means of reimbursement provided by your employer and any other appropriate resource. Also keep in mind that some eligible expenses are reimbursable on the date available, not the date ordered.

How do I request reimbursement?

Requesting reimbursement from your Medical Expense FSA is easy. Simply mail or fax a correctly completed FSA Reimbursement Request Form along with the following:

- an invoice or bill from your health care provider listing the date you received the service, the cost of the service, the specific type of service and the person for whom the service was provided, and
- an Explanation of Benefits (EOB)* from your health insurance provider that shows the specific type of service you received, the date and cost of the service and any uninsured portion of the cost, or
- a written statement from your health care provider indicating the service was medically necessary if those services could be deemed cosmetic in nature, accompanied by the invoice or bill for the service.

Please note that cancelled checks or credit card receipts (or copies) listing the cost of eligible expenses are **not** valid documentation for Medical Expense FSA reimbursement.

Mail to: Contract Administrator
Fringe Benefits Management Company
P.O. Box 1800
Tallahassee, FL 32302-1800

Fax to: 850-425-4608

* EOBs are not required if your coverage is through a HMO.

Visit www.myfbmc.com for a list of frequently asked questions.

You must keep your documentation for a minimum of one year and submit to FBMC upon request.

EZ REIMBURSE® MasterCard® Card

What is the EZ REIMBURSE® MasterCard® Card?

The EZ REIMBURSE® Card is a stored-value card. It is a convenient Medical Expense FSA reimbursement option which allows FBMC to electronically approve some eligible expenses under your employer's plan and IRS guidelines. Your annual Medical Expense FSA contribution is available to you at the beginning of your plan year. When you use your EZ REIMBURSE® Card to pay for eligible expenses, funds are electronically deducted from your Medical Expense FSA.

What are the EZ REIMBURSE® Card advantages?

The advantages of using your EZ REIMBURSE® Card include:

- instant reimbursements with no out-of-pocket expense
- instant approval of prescription expenses, and
- easy access to your Medical Expense FSA funds.

What can I use the EZ REIMBURSE® Card for?

You will be able to use your EZ REIMBURSE® Card to pay for eligible expenses through your Medical Expense FSA, including:

- co-payments and deductibles for health care expenses
- vision and dental expenses, and
- prescription expenses.

Note: You **cannot** use your EZ REIMBURSE® Card for Over-the-Counter expenses, cosmetic dental expenses or eye glass warranties.

What does it cost to use the EZ REIMBURSE® Card?

There is a $20 non-refundable, annual fee for using the card. This amount is automatically deducted from your Medical Expense FSA. When you budget for your FSA deductions, you may want to consider the fee in your calculations.

How do I use my EZ REIMBURSE® Card?

For eligible medical expenses, simply swipe your EZ REIMBURSE® Card like you would with any other debit or credit card. **You cannot swipe your EZ REIMBURSE® Card at your pharmacy for prescription expenses.** For prescription expenses, present your EZ REIMBURSE® Card to your pharmacist so it can be entered much like a "secondary payer." More specifics on using your EZ REIMBURSE® Card at your health care providers and pharmacies will be sent with your EZ REIMBURSE® Card.

When do I send in documentation for an EZ REIMBURSE® Card expense?

You must send in documentation for any EZ REIMBURSE® Card transaction that is **not** a known co-payment (as outlined in your health plan's Schedule of Benefits) or prescription expense within two Monthly Statement periods (approximately 60 days). Outstanding transactions appear in blue.

Visit www.myfbmc.com for a list of participating pharmacies.

The EZ REIMBURSE® MasterCard® Card is issued by MetaBank.

What documentation do I send in for an EZ REIMBURSE® Card expense?

Documentation for an EZ REIMBURSE® Card expense is a statement or bill showing:

- name of the patient
- name of the service provider
- date of service
- type of service, and
- total cost of service.

Note: This documentation must be sent with an ***EZ REIMBURSE® Card Transmittal Sheet*** and cannot be processed without it. The EZ REIMBURSE® Card Transmittal Sheet is available at **www.myfbmc.com**. Like all other FSA documentation, you must keep your EZ REIMBURSE® Card expense documentation for a minimum of one year, and submit it to FBMC when requested.

What if I don't send in documentation for an EZ REIMBURSE® Card expense?

If you fail to send in the requested documentation for an EZ REIMBURSE® Card expense, you will be subject to:

- withholding of payment for an eligible paper claim to offset any outstanding EZ REIMBURSE® Card transaction
- suspension of your EZ REIMBURSE® Card privileges
- salary deduction for the amount of any outstanding EZ REIMBURSE® Card transactions (as permitted by law), and
- the reporting of any outstanding EZ REIMBURSE® Card transaction amounts as income on your W-2 at the end of the tax year.

As an FSA participant, you will receive a Monthly Statement from FBMC. Your statement will include an ***Outstanding EZ REIMBURSE® Card Transactions*** section. If a transaction appears in this section, you must submit your proper expense documentation to FBMC.

What agreement am I making when I use the EZ REIMBURSE® Card?

By using the EZ REIMBURSE® Card, you are agreeing to the "Written Certification" portion of the *Beyond Your Benefits* section of this Reference Guide.

How do I get an EZ REIMBURSE® Card?

You must elect to receive an EZ REIMBURSE® Card on your Enrollment Form when you start a Medical Expense FSA. Two cards will be sent to you in the mail; one for you, and one for your spouse or eligible dependent.

You may keep your card for three years, providing you elect a Medical Expense FSA each year. However, if your card is suspended due to outstanding documentation, it will remain suspended until that information is submitted.

OTC Category Reimbursement

Over-the-counter Expenses

Your Over-the-counter (OTC) items and medicines may be reimbursable through your Medical Expense FSA! Save valuable tax dollars on certain categories of OTC items and medicines. You may be reimbursed for OTCs through your Medical Expense FSA if:

- the item, medicine or drug was used for a specific medical condition for you, your spouse and/or your dependent(s)
- the submitted receipt clearly states the purchase date and name of the item or medicine
- the reimbursement request is for an expense allowed by your employer's Medical Expense FSA plan and IRS regulations and
- you submit your reimbursement request in a timely and complete manner already described in your benefits enrollment information.

Note: OTC items, medicines and drugs, including bulk purchases, must be used in the same plan year in which you claim reimbursement for their cost. The list of eligible OTC categories will be updated on a quarterly basis by FBMC. It is your responsibility to remain informed of updates to this listing, which can be found at **www.myfbmc.com**. As soon as an OTC item, medicine or drug becomes eligible under any of the categories below, it will be reimbursable retroactively to the start of the then current plan year.

Newly eligible OTC items, medicines and drugs are not considered a valid change in status event that would allow you to change your annual Medical Expense FSA election or salary reduction amount. Be sure to maintain sufficient documentation to submit receipts for reimbursement. You may resubmit a copy of your receipt from your records if a rejected OTC expense becomes eligible for reimbursement later in the same plan year.

Eligible Expense Categories

Allergy
Antihistamines
Nasal sprays

Antacids
Heartburn medicines

Cold Remedies
Cough drops
Decongestants
Nasal strips
Nasal sprays
Sinus medications
Throat lozenges

Pain Relief
Bug bite medication
Fever reducers
First aid creams (diaper, fever blister, poison ivy)
Menstrual cycle products for pain and cramp relief
Products for muscle or joint pain
Special ointments or creams for sunburn
Topical creams

Other Medical Remedy Items
Anti-diarrheals
Anti-fungals
Antibiotics
Asthma medications
Bandages, gauze pads, rubbing alcohol, liquid adhesives
Carpal tunnel wrist supports
Cold/hot packs for injuries
Corn/callus removers
Eye products (including reading glasses, contact lens cleaning solutions)
First aid kits
Hemorrhoid treatments
Laxatives
Motion sickness treatments
Nicotine gum or patches for smoking cessation purposes
Thermometers
Wart removers

Items Requiring Special Documentation*

Botanicals/herbals
Feminine hygiene products
Hormones
Minerals
Nasal sprays for snoring
Sunscreens
Vitamins
Weight-loss drugs to treat a specific disease

Ineligible OTC Expenses

Cosmetics
Toiletries
OTC items primarily for general health and well-being

* Contact FBMC Customer Service at **webcustomerservice@fbmc-benefits.com** or call FBMC Customer Service at 1-800-342-8017 for more information. To obtain a sample Letter of Medical Need, Personal Use Statement or other forms, visit **www.myfbmc.com**.

Note: Your EZ REIMBURSE® MasterCard® Card cannot be used for over-the-counter expenses.

Dependent Care FSA

Minimum Annual Deposit*: $150

Maximum Annual Deposit*: The maximum contribution depends on your tax filing status as the list below indicates.

* plus administrative fee

What is a Dependent Care FSA?

A Dependent Care FSA is an IRS tax-favored account you can use to pay for your eligible dependent care expenses to ensure your dependents (child or elder) are taken care of while you and your spouse (if married) are working. These funds are set aside from your salary before taxes are deducted, allowing you to pay your eligible expenses tax free. A partial list of these eligible expenses can be found on this page.

Whose expenses are eligible?

You may use your Dependent Care FSA to receive reimbursement for eligible dependent care expenses for **qualifying individuals**.

A qualifying individual includes a **qualifying child**, if they:

- are a U.S. citizen, national or a resident of the U.S., Mexico or Canada
- have a specified family-type relationship to you
- live in your household for more than half of the taxable year
- are 12 years old or younger and
- have not provided more than one-half of their own support during the taxable year.

A qualifying individual includes your **spouse**, if they:

- are physically and/or mentally incapable of self care
- live in your household for more than half of the taxable year and
- spend at least eight hours per day in your home.

A qualifying individual includes your **qualifying relative**, if they:

- are a U.S. citizen, national or a resident of the U.S., Mexico or Canada
- are physically and/or mentally incapable of self care
- are not someone else's qualifying child
- live in your household for more than half of the taxable year
- spend at least eight hours per day in your home and
- receive more than one-half of their support from you during the taxable year.

Note: Only the custodial parent of divorced or legally-separated parents can be reimbursed using the Dependent Care FSA.

What is my maximum annual deposit?

- If you are married and filing separately, your maximum annual deposit is $2,500.
- If you are single and head of household, your maximum annual deposit is $5,000.
- If you are married and filing jointly, your maximum annual deposit is $5,000.
- If either you or your spouse earn less than $5,000 a year, your maximum annual deposit is equal to the lower of the two incomes.
- If your spouse is a full-time student or incapable of self-care, your maximum annual deposit is $3,000 a year for one dependent and $5,000 a year for two or more dependents.

When are my funds available?

Once you sign up for a Dependent Care FSA and decide how much to contribute, the funds available to you depend on the actual funds in your account. Unlike a Medical Expense FSA, the entire maximum annual amount is not available at the beginning of the plan year, but rather after your payroll deductions are received.

Should I claim tax credits or exclusions?

Since money set aside in your Dependent Care FSA is always tax free, you guarantee savings by paying for your eligible expenses through your IRS tax-favored account. Depending on the amount of income taxes you are required to pay, participation in a Dependent Care FSA may produce a greater tax benefit than claiming tax credits or exclusions alone.

Remember, you cannot use the dependent care tax credit if you are married and filing separately. Further, any dependent care expenses reimbursed through your Dependent Care FSA cannot be filed for the dependent care tax credit, and vice versa.

To help you choose between the available taxable and tax-free benefits, or a combination of both, consult your tax advisor and/or the IRS for additional information. You may also visit **www.myfbmc.com** to complete a Tax Savings Analysis.

Partial List of Eligible Expenses*

After school care
Baby-sitting fees
Day care services
In-home care/au pair services
Nursery and preschool
Summer day camps

Note: Budget conservatively. No reimbursement or refund of Dependent Care FSA funds is available for services that do not occur within your plan year.

* IRS-qualified expenses are subject to federal regulatory change at any time during a tax year. Certain other substantiation requirements and restrictions may apply, and will be supplied to you following enrollment.

Dependent Care FSA

CONTINUED

Are some expenses ineligible?

Expenses not eligible for reimbursement through your Dependent Care FSA include:

- books and supplies
- child support payments or child care if you are a non-custodial parent
- health care or educational tuition costs and
- services provided by your dependent, your spouse's dependent or your child who is under age 19.

Will I need to keep any additional documentation?

To claim the income exclusion for dependent care expenses on IRS Form 2441 (Child and Dependent Care Expenses), you must be able to identify your dependent care provider. If your dependent care is provided by an individual, you will need their Social Security number for identification, unless he or she is a resident or non-resident alien who does not have a Social Security number. If your dependent care is provided by an establishment, you will need its Taxpayer Identification number.

If you are unable to obtain a dependent care provider's information, you must compose a written statement that explains the circumstances and states that you made a serious and earnest effort to get the information. This statement must accompany your IRS Form 2441.

Be certain you obtain and submit all needed information when requesting reimbursement from your Dependent Care FSA. This information is required with each request for reimbursement.

A properly completed request will help speed along the process of your reimbursement, allowing you to receive your check or Direct Deposit promptly.

When do I request reimbursement?

You can request reimbursement from your Dependent Care FSA as often as you like. However, your approved expense will not be reimbursed until the last date of service for which you are requesting reimbursement has passed. Also, remember that for timely processing of your reimbursement, your payroll contributions must be current.

How do I request reimbursement?

Requesting reimbursement from your Dependent Care FSA is easy. Simply mail or fax a correctly completed FSA Reimbursement Request Form along with documentation showing the following:

- the name, age and grade of the dependent receiving the service
- the cost of the service
- the name and address of the provider and
- the beginning and ending dates of the service.

Be certain you obtain and submit the above information when requesting reimbursement from your Dependent Care FSA. This information is required with each request for reimbursement. Cancelled checks or credit card receipts (or copies) listing the cost of eligible expenses are NOT valid documentation for Dependent Care FSA reimbursement.

Mail to: Contract Administrator
Fringe Benefits Management Company
P.O. Box 1800
Tallahassee, FL 32302-1800

Fax to: 850-425-4608

Note: If you elect to participate in the Dependent Care FSA, or if you file for the Dependent Care Tax Credit, you must attach IRS Form 2441, reflecting the information above, to your 1040 income tax return. Failure to do this may result in the IRS denying your pre-tax exclusion.

FSA Worksheets

To figure out how much to deposit in your FSA, refer to the following worksheets. Calculate the amount you expect to pay during the plan year for eligible, uninsured out-of-pocket medical and/or dependent care expenses. This calculated amount (including the administrative fees) cannot exceed established IRS and plan limits. (Refer to the individual FSA descriptions in this Reference Guide for limits.)

Be conservative in your estimates, since any money remaining in your accounts cannot be returned to you or carried forward to the next plan year.

MEDICAL EXPENSE FSA WORKSHEET

Estimate your eligible, uninsured out-of-pocket medical expenses for the plan year.

UNINSURED MEDICAL EXPENSES

Health insurance deductibles	$ ________
Coinsurance or co-payments	$ ________
Vision care	$ ________
Dental care	$ ________
Prescription drugs	$ ________
Travel costs for medical care	$ ________
Other eligible expenses	$ ________
EZ REIMBURSE® MasterCard® Card annual, non-refundable fee	$ ________
TOTAL (cannot exceed $5,000)	$ ________
DIVIDE by the number of paychecks you will receive during the plan year.*	$ ________
This is your pay period contribution.**	$ ________

* If you are a new employee enrolling after the plan year begins, divide by the number of pay periods remaining in the plan year.

DEPENDENT CARE FSA WORKSHEET

Estimate your eligible dependent care expenses for the plan year. Remember that your calculated amount cannot exceed the calendar year limits established by the IRS.

CHILD CARE EXPENSES

Day care services	$ ________
In-home care/au pair services	$ ________
Nursery and preschool	$ ________
After school care	$ ________
Summer day camps	$ ________

ELDER CARE SERVICES

Day care center	$ ________
In-home care	$ ________
TOTAL Remember, your total contribution cannot exceed IRS limits for the plan year and calendar year.	$ ________
DIVIDE by the number of paychecks you will receive during the plan year.*	$ ________
This is your pay period contribution.**	$ ________

* If you are a new employee enrolling after the plan year begins, divide by the number of pay periods remaining in the plan year.

At your request, your FSA reimbursement checks may be deposited into your checking or savings account by enrolling in Direct Deposit.

Please remember to include your $20 annual fee in your Medical Expense FSA contribution if you plan to use your EZ REIMBURSE® Card as a form of payment.

**** You will be assessed a per-pay-period FSA Administrative Fee (whether you select one or both plans). The per-pay-period fees are as follows:**

10 pay	**12 pay**	**18 pay**	**20 pay**	**21 pay**	**22 pay**	**24 pay**	**26 pay**
$2.35	$1.96	$1.31	$1.18	$1.12	$1.07	$0.98	$0.90

APPENDIX E: AGENCY RESPONSE

Joe Manchin III
Governor

Ted Cheatham
Director

WV Toll-free: 1-888-680-PEIA • Phone: 1-304-558-7850 • Fax: 1-304-558-2516 • Internet: www.wvpeia.com

June 18, 2008

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JUN 18 2008
PERFORMANCE EVALUATION AND RESEARCH DIVISION

John Sylvia, Research Manager
West Virginia Legislature
Performance Evaluation and Research Division
Building 1, Room W-314
1900 Kanawha Blvd. East
Charleston WV 25305

Re: June 11, 2008 Modified PEIA Flexible Spending Accounts Audit

Dear Mr. Sylvia:

We are in receipt of the above referenced report. First, we would like to thank you for your time and energy spent on this evaluation and we agree with several of your suggestions. We do have additional comments:

1. Your report confirms our current marketing and education efforts. We understand the need to continue marketing/education strategies and agree with your recommendations. Each year the program continues to increase participation because of these efforts. As best we can tell, West Virginia currently holds the highest Medical FSA participation rate among states that do not offer any matching employer contributions.

2. In addition to our normal marketing and education, this year we took our efforts to an additional level by offering an online enrollment to facilitate the enrollment process, offering extensive web-site educational features and an interactive medical expense calculator to assist members in projecting expenses eligible for reimbursement through a Medical FSA. This online option was promoted in the annual open enrollment materials, as well as through education of the benefit coordinators at their spring training events and by FBMC open enrollment staff at benefit fairs.

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Performance Evaluation and Research Division
Page Two
June 18, 2008

3. Your report references a reason for non-participation among members because of the inability to "carry over their contributions over to the next plan year "(page 3 of your report). As originally designed, members could not submit expenses incurred after the end of the plan year, however several years ago, the IRS offered plans the option of including an optional grace period of 2 months and 15 days to allow members to incur expenses reimbursable from the previous plan year's funds. PEIA adopted this optional plan feature immediately upon IRS release to give further opportunities to our employees. This plan enhancement has also help to increase participation.

4. Chart 2 illustrates the increased annual state savings if participation could increase to 30%. To our knowledge, such participation has not been achieved by any other state. Absent an employer-funded state match this goal is, we believe, unachievable. WV holds one of the highest participation rates and as we continue our efforts we intend to become the example for other state governments.

5. We have met with our Fringe Benefits Management Company representatives and instructed them to intensify their efforts.

Again, thank you for your time and energy spent on this audit. This is a very exciting program for us and we will continue to strive to increase participation with any available government and technological advances.

Sincerely,

Keith Huffman

B. Keith Huffman
General Counsel

BKH:RC

Cc: Robert W. Ferguson, Jr., Cabinet Secretary, Department of Administration
Jim Kirby, General Counsel, Department of Administration
Ted Cheatham, Director, PEIA

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