



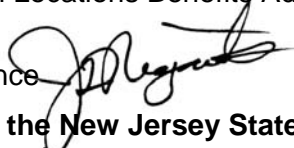
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August 22, 2007

TO: State Department Certifying Officers
State Department Human Resource Directors
State Biweekly Payroll Locations Benefits Administrators

FROM: John D. Megariotis
Deputy Director, Finance 

SUBJECT: Open Enrollment for the New Jersey State Employees Tax Savings Program (Tax\$ave 2008)

The annual open enrollment for the calendar year 2008 New Jersey State Employees Tax Savings Program (Tax\$ave 2008) will be conducted from October 1 through October 31, 2007. Full-time employees of the State who are eligible for participation in the New Jersey State Health Benefits Program (SHBP) may participate in Tax\$ave.

ABOUT TAX\$AVE

Tax\$ave consists of three components:

- 1.The Premium Option Plan (POP);
- 2.The Unreimbursed Medical Flexible Spending Account; and
- 3.The Dependent Care Flexible Spending Account.

Tax\$ave offers eligible employees the opportunity to increase their available income by reducing their federal tax liability. Each year eligible employees should review their personal financial circumstances and decide if they wish to participate or not. Open Enrollment offers employees the opportunity to conduct this review and then act on their decision.

Note: Information on the State Health Benefits Program's Open Enrollment for medical, prescription drug, and dental plans for the 2008 plan year will follow in a separate letter.

Tax savings on commuter mass transit and parking expenses are available at any time as a separate benefit to State employees under the Commuter Tax\$ave Program and are not tied to this open enrollment period. See Fact Sheet #67, *Commuter Tax\$ave Program*, for details.

PREMIUM OPTION PLAN

Enrollment in the Premium Option Plan is automatic. This saves your employees tax money by paying health and dental premiums from pre-tax dollars and reducing their tax liability. If an employee does not wish to take advantage of the Premium Option Plan in 2008 (and therefore pay more in federal, Social Security, and Medicare taxes) he or she should file a *Declination of Premium Option Plan* (POP) form.

FLEXIBLE SPENDING ACCOUNTS

New FSA Plan Administrator for 2008 Plan Year — The Division of Pensions and Benefits is pleased to announce the selection of **Fringe Benefits Management Company (FBMC)** to administer the Tax\$ave Unreimbursed Medical and Dependent Care Flexible Spending Accounts (FSA) beginning with the 2008 plan year. FBMC, a nationally recognized company in employee benefits, brings 30 years of administration experience to New Jersey and the members of Tax\$ave's Flexible Spending Accounts.

The **Unreimbursed Medical** and/or **Dependent Care Flexible Spending Accounts** allow employees to set aside money to pay for out-of-pocket medical, dental, and dependent care expenses while saving on taxes because the money contributed to the account is free from federal income, Social Security, and Medicare taxes and remains tax-free when an employee receives it.

Unlike the Premium Option Plan or the health plans of the SHBP, prior participation in a Tax\$ave FSA in 2007 does not carry over automatically into 2008. **Employees must enroll each year to participate in an FSA for calendar year 2008.**

Enrolling in a Flexible Spending Account

Employees have three ways of enrolling in the Tax\$ave FSA accounts: mail, telephone, and Internet. FBMC will inform employees currently participating in a Tax\$ave FSA plan of this enrollment opportunity through a direct mailing in September. The Tax\$ave publications will provide the following enrollment instructions to employees:

- **Mail:** FSA *Enrollment Applications* must be mailed directly to Fringe Benefits Management Company (FBMC) by the employee. All enrollment forms must be postmarked no later than October 31, 2007, to be accepted. Those postmarked after October 31, 2007 will be returned without action. Benefits offices should not be involved in processing or mailing FSA *Enrollment Applications*.
- **Telephone:** Employees may enroll in the Unreimbursed Medical and/or Dependent Care FSA plans for 2008 over the phone by calling FBMC's automated Interactive Voice Response system at 1-800-865-FBMC (3262). This is a great opportunity to quickly and easily go through the enrollment process. The deadline for enrollment by telephone is midnight, October 31, 2007.
- **Internet:** Employees have the ability to enroll in the Unreimbursed Medical and/or Dependent Care FSA plans over the Internet. Go to the FBMC Web page: www.myFBMC.com The deadline for enrollment over the Internet is midnight, October 31, 2007.

Listed below are some additional benefits of FSA participation.

- **NEW! Increased Medical FSA Maximum** — The maximum annual allowance that can be set aside for a Tax\$ave Unreimbursed Medical FSA has been increased from \$2,000 to **\$2,500** for the 2008 plan year. Employees may now save federal income, Medicare and Social Security taxes on up to \$2,500 of unreimbursed medical expenses and up to \$5,000 on dependent care expenses. It now makes more sense than ever to enroll and use a Tax\$ave FSA plan when paying for doctor and prescription copayments, health plan deductibles, orthodontics, eyeglasses, Lasik surgery, uncovered dental fees, or certain over-the-counter medications.

- **Many over-the-counter drugs are eligible for reimbursement** in the Unreimbursed Medical FSA. Internal Revenue Service rules permit over-the-counter products/medications deemed for "medical care" to be considered reimbursable. "Medical care" includes amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease. While purchases of medicines and drugs for medical care are eligible for reimbursement, expenditures that are merely beneficial to the general health of an individual, such as vitamins and other supplements, are not eligible. For more information about expenses that are eligible under Unreimbursed Medical and Dependent Care FSAs, please visit the FBMC Web site: www.myFBMC.com
- **Unreimbursed Medical FSAs feature the FBMC EZ REIMBURSE® MasterCard®**, that draws on the value of the employee's annual Medical FSA election amount. The EZ REIMBURSE Card is included free with the sign up for an FBMC Unreimbursed Medical FSA during Tax\$ave Open Enrollment. Employees can use the EZ REIMBURSE Card for qualifying expenses, such as covered prescription copayments, health plan deductibles, orthodontics, doctor and emergency room copayments, eyeglasses, Lasik surgery, and uncovered dentist or other provider fees. The EZ REIMBURSE Card can also be used for eligible over-the-counter medical expenses. In addition, EZ REIMBURSE Card transactions for eligible expenses at Walgreens, Wal-Mart, and Sam's Club do not require additional documentation. The EZ REIMBURSE Card also contains a "look back" feature during the 2 ½ month grace period extension that will access any unused 2008 Unreimbursed Medical FSA funds before using funds contributed in the 2009 plan year. For plan year 2008, the grace period extension will run from January 1, 2009 to March 15, 2009 (more about the grace period below).

Notice To Horizon FSA Members — If you are currently a Tax\$ave 2007 FSA member, continue to use the Horizon **Benny Card™** that you received at the start of the 2007 plan year *until the value of your Benny Card is exhausted*. Tax\$ave 2007 FSA members may incur eligible expenses for reimbursement of any funds remaining in a Horizon FSA account until March 15, 2008. All Tax\$ave 2007 FSA claims must be submitted to Horizon no later than April 30, 2008. If you wish to continue participation in a Medical or Dependent Care FSA plan for the 2008 plan year, Tax\$ave members must enroll for FSA participation with FBMC during this Tax\$ave Open Enrollment period.

- **Grace Period Extension for Eligible Expenses and Extended Claim Filing Period.** Employees enrolled in the Unreimbursed Medical or Dependent Care FSAs have **until March 15 of the following year** to incur eligible expenses for the current plan year. In addition to claiming eligible expenses through March 15 of the following year, the period that employees enrolled in the UMSA or DCSA have for submitting claims for reimbursement has been extended to April 30 of the following year. While this does not eliminate the use-it-or-lose-it rule completely, employees now have a longer period to obtain reimbursement for eligible expenses and avoid forfeiting unused funds. Under the Unreimbursed Medical and Dependent Care Flexible Spending Accounts, any contributions that remain unclaimed after the April 30 deadlines are forfeited.

Please also remember that because of the change in FSA plan administration for the 2008 plan year, claims must be submitted to the appropriate FSA administrator before the expense and claim deadlines for the corresponding Tax\$ave benefit year.

- **For Tax\$ave 2007 members**, eligible FSA expenses may be incurred until March 15, 2008, and claims must be filed with Horizon Healthcare no later than April 30, 2008.
- **For Tax\$ave 2008 members**, eligible FSA expenses may be incurred between January 1, 2008 and March 15, 2009. FSA participants must be enrolled with Fringe Benefits Management Company (FBMC) and claims for expenses must be filed with FBMC no later than April 30, 2009.

For more information about the FSA plans see the Division of Pensions and Benefits' Tax\$ave Web page at: www.state.nj.us/treasury/pensions/taxsave.htm or contact FBMC Customer Service at 1-800-342-8017.

TAX\$AVE AND CIVIL UNION PARTNERS OR DOMESTIC PARTNERS

State employees are able to add a civil union partner or same-sex domestic partner to their SHBP medical and dental insurance coverage. However, before any payroll contributions or premiums that the employee pays for a partner can be made on a pre-tax basis under the Tax\$ave Premium Option Plan, the civil union partner or domestic partner must be able to qualify as a "tax dependent" of the employee for federal tax filing purposes under Internal Revenue Code Section 152.

Similarly, the civil union partner or domestic partner must qualify as the employee's tax dependent before an out-of-pocket medical expense incurred by the partner can be reimbursed under the Unreimbursed Medical Flexible Spending Account. See *IRS Tax Topic 354 - Dependents* for additional information on the requirements for establishing dependent status for federal tax purposes.

If the civil union partner or domestic partner is not a "qualified tax dependent" of the employee, any premium deductions made for the partner's coverage must be made on an after-tax basis and funds in the Unreimbursed Medical Spending Account cannot be used to cover the partner's medical expenses.

Additional information about the New Jersey Civil Unions can be found in Fact Sheet #75, *Civil Unions*. Information about New Jersey Domestic Partners can be found in Fact Sheet #71, *Benefits Under the Domestic Partnership Act*. Both fact sheets are available on the Division of Pensions and Benefits Web site: www.state.nj.us/treasury/pensions

TAX\$AVE AND CHILDREN AGE 23 TO 30

Chapter 375, P.L. 2005, permits continued SHBP medical plan coverage for certain children until their 30th birthday. However, contributions or premiums that an employee pays for coverage of an over age child cannot be made on a pre-tax basis under the Tax\$ave Premium Option Plan, nor can an out-of-pocket medical expense incurred by the over age child be reimbursed under the Unreimbursed Medical Flexible Spending Account, unless the child qualifies as a "tax dependent" of the employee for federal tax filing purposes under Internal Revenue Code Section 152. See *IRS Tax Topic 354 -*

Dependents for additional information on the requirements for establishing dependent status for federal tax purposes.

For more information about continued coverage for children age 23 to 30, see Fact Sheet #74, *SHBP Coverage of Children to Age 30 Under Chapter 375*.

EMPLOYEE SEMINARS

Upon request, Fringe Benefits Management Company (FBMC) will provide Tax\$ave educational seminars, at your workplace, for interested employees. The seminars are about 60 minutes in duration and include time for questions and answers. These seminars have proven to be very successful educational tools and we strongly encourage you to make one available to your employees. Please see the enclosed request form to schedule a seminar with a FBMC representative (please note that we ask for a minimum of 25 employees).

TAX\$AVE SUPPORT MATERIALS

The remainder of this letter provides information on the Tax\$ave Open Enrollment publications and support available to assist you in explaining this important benefit program to your employees. Please do your best to make a concerted effort to inform your employees of the open enrollment and to educate them on the valuable benefits that Tax\$ave offers them. We believe that more employees will participate in Tax\$ave if they are made aware and understand the value of the tax savings offered by the program.

Enclosed is the *Tax\$ave Open Enrollment Milestones* chart that lists the critical dates of the Tax\$ave 2008 Annual Open Enrollment and outlines the efforts being made to educate employees. Please use this chart as a checklist to guide your activities during the open enrollment.

Announcement of the open enrollment to employees paid through Centralized Payroll will be made in a September 7 paycheck message that will be accompanied by three payroll inserts. These inserts are:

- The *Tax\$ave 2008 Open Enrollment News* that announces the open enrollment, outlines the components of the program with emphasis on its tax saving advantages, and identifies the October 31, 2007 deadline for submission of all election materials;
- The *Premium Option Plan 2008* pamphlet that explains the advantages and disadvantages of participation; and
- An FSA pamphlet that describes the Unreimbursed Medical and Dependent Care Flexible Spending Accounts administered by Fringe Benefits Management Company (FBMC).

The September 21 paychecks will carry another Tax\$ave 2008 Open Enrollment announcement message and "reminder messages" will be provided to employees through paycheck messages on October 5 and October 19 (a final November 2 paycheck message will address the Commuter Tax\$ave Program). The text of these check message announcements and preview copies of the Tax\$ave publications are enclosed with this letter.

The other open enrollment materials that are available to you are the *FSA Reference Guides* and the *Declination of Premium Option Plan (POP) for Plan Year 2008* form.

- **A sample of the 2008 FSA Reference Guide will be sent directly to benefits administrators by FBMC**, along with information on how to request additional guides. Please provide the *FSA Reference Guides* to those employees who request them.
- This letter includes the *Declination of Premium Option Plan (POP)* form. This can be copied for use by those few employees who do not wish to participate in the POP and, therefore, pay more in tax. Please do not distribute POP declination forms to employees unless they ask for one. If an employee chooses not to save tax dollars under the Tax\$ave Premium Option Plan and wants to pay more federal income, Social Security, and Medicare taxes on the salary used to pay their medical and dental premiums in 2008, they must complete the form declining the federal tax break they could receive. Employees should request these forms from you. We will be instructing employees to return the *Declination of Premium Option Plan (POP)* forms to benefits administrators by October 31, 2007. Benefits administrators must then forward declination forms to Centralized Payroll by November 9, 2007.

The changes to the Tax\$ave program for the 2008 plan year promise to make Tax\$ave participation even more rewarding to your employees than it has been in the past. As we do every year, the Division of Pensions and Benefits appreciates your cooperation in the Open Enrollment. Your involvement in the Tax\$ave Open Enrollment is key to your employees receiving the valuable benefits offered by this program.

If you have any general questions about Tax\$ave 2008, the open enrollment, or the Premium Option Plan, visit the Division of Pensions and Benefits' Tax\$ave Internet site at: www.state.nj.us/treasury/pensions/taxsave.htm call the Division's Office of Client Services at (609) 292-7524, or send e-mail to: pensions.nj@treas.state.nj.us For more information about the Unreimbursed Medical or Dependent Care Flexible Spending Accounts, contact FBMC at: www.myFBMC.com or call FBMC Customer Service at 1-800-342-8017.

Enclosures:

Request for Tax\$ave 2008 Employee Seminars
Tax\$ave 2008 Open Enrollment Milestones
Open Enrollment Check Messages
Tax\$ave 2008 Open Enrollment News (sample)
The Premium Option Plan 2008 Pamphlet (sample)
Tax\$ave — FBMC Flexible Savings Accounts Pamphlet (sample)
Tax\$ave — FBMC Flexible Savings Accounts Enrollment Form
Declination of Premium Option Plan (POP) for Plan Year 2008