



# Tax\$ave

Information for:  
State Employees Who Are Eligible for the State Health Benefits Program (SHBP)

## TAX\$AVE ELIGIBILITY

Tax\$ave, a benefit program available under Section 125 of the federal Internal Revenue Code (IRC), allows eligible employees of the State of New Jersey to set aside before-tax dollars to pay for certain medical, dental, and dependent care expenses, thereby avoiding federal taxes and saving money.

An eligible employee is any full-time employee of the State, or a State college or university, who is eligible to participate in the State Health Benefits Program (SHBP). Tax\$ave is only available to State employees.

### Section 125 Plans for Local Employees

P.L. 2011, c. 78 (Chapter 78), requires local government and local education employers to offer Section 125 plans to their employees.

Local employers must establish their own Section 125 programs.

Local government and local education employees should contact their human resources office or benefits administrator to determine the specific plans and benefits that are available.

## TAX\$AVE COMPONENT PLANS

Tax\$ave consists of three separate component plans. An eligible employee may elect to participate in any combination — all, some, or none of the plans.

The three components of Tax\$ave are:

- The Premium Option Plan (POP) allows an em-

ployee to pay any SHBP medical and/or dental payroll contributions or premiums with before-tax dollars;

- The Unreimbursed Medical Flexible Spending Account (FSA) allows an employee to set aside money to pay for qualified medical and dental expenses not paid by any group benefits plan under which the employee and dependents are covered; and
- The Dependent Care FSA allows an employee to set aside funds to pay for anticipated expenses related to dependent care in order to permit the employee and spouse to work.

**Note:** Tax savings on commuter mass transit and parking expenses are available as a separate benefit to State employees under the Commuter Tax\$ave Program. See the *Commuter Tax\$ave Program* Fact Sheet for details.

## PREMIUM OPTION PLAN (POP)

If you are an employee eligible to participate in the SHBP, you can save on taxes by participating in the POP. The POP allows you to pay any of your SHBP medical and/or dental payroll contributions or premium deductions with before-tax dollars. The contributions or premiums you already pay for your coverage are deducted from each paycheck before federal income and FICA (Social Security and Medicare) taxes are calculated, thereby reducing the taxes withheld. The amount of your savings depends on a variety of factors, such as the amount of the contributions or premiums and your income tax filing status. The plan runs on a calendar-year basis.

If you have a payroll contribution or premium deduction for medical and/or dental coverage, you are automatically enrolled in the POP and will pay less in taxes. If you choose to decline enrollment in the POP, you must sign and return a *Declination of Premium Option Plan (POP)* form each year to your benefits administrator.

POP will increase your take-home pay by reducing your taxes; it does not change the medical and/or dental contributions or premiums you are required to pay.

### Effect of POP Qualifying Life Events (QLE) on SHBP Rules and Procedures

The Internal Revenue Service (IRS) strictly regulates the POP because of the tax advantages provided. IRS rules require that for an employee covered by the POP, payroll deductions for medical and dental plan benefits remain the same for the entire plan year. Therefore, no coverage level change can be made which results in a change in the amount of your medical and/or dental plan deduction unless a qualifying event occurs. If a qualifying event does occur, you may make a change by submitting a completed SHBP medical and/or dental plan application to your employer within 60 days of the event or during the annual Open Enrollment period, generally October 1 – October 31 of each year.

### IRS Qualifying Life Events (QLE)

Plan elections in effect at the beginning of the plan year will continue throughout the calendar year or upon the occurrence of a qualifying event. The following are considered qualifying events:

- A marriage. You may enroll your spouse and any other eligible dependents. See the “Civil Union Partners, Domestic Partners, and Tax\$ave” section;
- Addition of an eligible dependent due to birth, adoption, or legal guardianship;
- A change in family status involving the loss of eligibility of a family member (divorce, death);
- A move outside an HMO service area;
- The termination of your employment for any reason, including retirement;
- An approved unpaid leave of absence. You are entitled to elect or change POP and/or FSA election upon return to active employment;
- A change in your eligible dependent’s employment status resulting in his/her loss of medical and/or dental coverage; and
- Such other events that may be determined to be appropriate and in accordance with applicable IRS regulations.

### **Effect of QLE on FSA Rules and Procedures**

The IRS strictly regulates FSAs because of the tax advantages provided. IRS rules require that for an employee covered by an FSA, annual election amounts for Medical Expense and Dependent Care plans remain the same for the entire plan year. Therefore, no change can be made which results in a change in the amount of your Medical Expense and/or Dependent Care plan annual election unless a qualifying event occurs. If a qualifying event does occur, you may make a change by submitting a completed *Change in Status* application to Horizon MyWay® FSA within 30 days of the event. An FSA requires annual enrollment during the annual Open Enrollment period, generally October 1 – October 31 of each year.

### **UNREIMBURSED MEDICAL FLEXIBLE SPENDING ACCOUNT (FSA)**

The Unreimbursed Medical FSA allows you to save taxes on out-of-pocket medical and dental expenses that reduce your spendable income. Contributing money to the Medical FSA can result in a reduction in taxes because the money you contribute to your account is free from federal income, Social Security, and Medicare taxes, and remains tax-free when you receive it.

**Note:** Federal law prohibits participation in both a FSA and a Health Savings Account (HSA). Therefore, if you are enrolled in a High Deductible Health Plan (HDHP), you are not eligible to enroll in this plan.

Under the Unreimbursed Medical FSA, each calendar year you may set aside up to \$2,500 of your salary before taxes in a health care spending account, so that you and your eligible dependents can be reimbursed for eligible expenses incurred during the year. Eligible expenses include copayments and deductibles for medical, prescription, and dental bills, qualified expenses for medical services not covered by health plans or your State vision plan such as contact lenses solution, hearing aids, etc., and other health care expenses you can deduct on your income tax, except payroll contributions or premium deductions for health care which are covered under the POP. See the “Premium Option Plan (POP)” section.

**Note:** Pay your out-of-pocket medical bills using a Horizon MyWay Visa® Health Care Card or get reimbursed by submitting a claim online.

IRS *Publication 502 – Medical and Dental Expenses*, provides a complete list of services eligible for reimbursement.

### **Using Your Unreimbursed Medical FSA**

First, you must estimate how much you will spend on unreimbursed health care during the plan year. Based on the amount you elect, contributions will be

taken out of your paycheck each pay cycle throughout the calendar year. It is important to base this estimate on past experience because unused contributions must be forfeited.

You may submit claims to the Medical FSA for unreimbursed expenses between January 1 of the plan year and March 15 of the following year. Claim forms for eligible expenses must be submitted no later than April 30 of the following year.

When you file your claim, you will be reimbursed for up to the total amount you have elected to contribute, whether or not your contributions to date have totaled the amount of your claim. When filing for reimbursement, you must verify that you have not been reimbursed for the expense from any other source.

While the federal government offers a federal income tax deduction for unreimbursed eligible health care expenses which exceed 7.5 percent of your adjusted gross income, the Unreimbursed Medical FSA offers tax-free reimbursement on every dollar of your eligible expenses, which may provide immediate tax savings for those who do not meet the medical expense deduction threshold. In addition, the Unreimbursed Medical FSA saves you Social Security and Medicare taxes — another 7.65 percent on every dollar. Keep in mind, however, that you cannot deduct expenses reimbursed by the Unreimbursed Medical FSA on your federal income tax.

### **DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT (FSA)**

If you have to pay for care for your dependents in order to work, you may want to take advantage of the Dependent Care FSA plan. Contributing money to the Dependent Care FSA can result in a reduction in taxes because the money you contribute to your account is free from federal income, Social Security, and Medicare taxes, and remains tax-free when you receive it. The plan allows you to set aside up to \$5,000 of your salary before taxes each calendar year to pay for qualified dependent care expenses

incurred in that calendar year. You then file claims for reimbursement of eligible expenses. Note that when you file your Dependent Care FSA claim, you cannot be fully reimbursed until your contributions to date are at least equal to the amount of your claim.

Eligible dependents include an employee's children below age 13, the employee's non-working spouse if physically or mentally incapable of self-care, and any other person considered a dependent for tax purposes who is incapable of self-care and who normally spends at least eight hours each day in the employee's home. The types of services eligible for reimbursement include a qualified day care center, nursery school, or summer day camp (but not overnight camp), babysitting services if needed to allow the employee to work, a housekeeper whose duties include day care, and someone who cares for an elderly or incapacitated dependent.

IRS Publication 503 – *Child and Dependent Care Expenses*, provides a complete list of dependent care expenses.

### **Using Your Dependent Care FSA**

First, you must estimate how much you will spend on dependent care during the plan year. Based on the amount you elect, contributions will be taken out of your paycheck each pay cycle throughout the calendar year. It is important to base this estimate on past experience because unused contributions must be forfeited.

You may submit claims to the FSA for dependent care provided between January 1 of the plan year and March 15 of the following year. Claim forms for eligible services must be submitted no later than April 30 of the following year.

The federal government offers a dependent care tax credit on your federal income tax that you can use instead of the Dependent Care FSA. You will have to decide which method is better for you based on your income and personal tax status. Keep in mind that any payment received from the Dependent Care FSA will reduce dollar for dollar the amount that can

be considered for dependent care tax credit and vice versa.

Under the federal dependent tax credit provision, you can take a direct tax credit on your income taxes ranging from 20 percent to 30 percent of your eligible dependent care expenses. With the tax credit, eligible care expenses are limited to an annual maximum of \$2,500 for one dependent or \$5,000 for two or more dependents.

Generally, if your adjusted gross income is more than \$24,000 a year, using the Dependent Care FSA is better. For example, if you are paying \$90 per week (about \$4,700 per year) for day care and you are in the 15 percent federal tax bracket, you would save \$1,060 in taxes by paying your day care bills through your Dependent Care FSA. If in the 28 percent federal tax bracket, your savings would be \$1,670.

### **USE IT OR LOSE IT**

Under either the Unreimbursed Medical FSA or the Dependent Care FSA, any unused contributions remaining in an account at the end of the plan year are forfeited. You have until April 30 of the following year to file for eligible reimbursement.

### **CONTINUATION UNDER COBRA**

The federal Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) requires that most group health plans, including Unreimbursed Medical FSAs, give employees and their families the opportunity to continue their health care coverage when there is a qualifying event that would result in a loss of coverage under an employer's plan. Qualified beneficiaries can include the employee covered under the FSA, a covered employee's spouse, and dependent children of the covered employee. Each qualified beneficiary who elects continuation of coverage will have the same rights under the plan as other participants or beneficiaries covered under the plan. COBRA is available under Tax\$ave only for Unreimbursed Medical FSAs, not for Dependent Care FSAs.

The Tax\$ave Unreimbursed Medical FSA is an accepted plan, and therefore offers only a limited COBRA option. One of the features of a limited COBRA option is that it is only offered for the remainder of the plan year — not the full 18 months of COBRA. Also, the limited COBRA option is only offered if the account is underspent. This occurs when the contributions paid to date are more than claims paid out. Be aware that an account is considered overspent — and ineligible to participate in COBRA — if the contributions paid to date are less than the claims paid out.

**Example:** *Arnold has an Unreimbursed Medical FSA annual election of \$1,000 for the current plan year. He terminates employment in July and has paid \$500 in payroll (pre-tax) contributions up to his termination date, but has received only \$200 in reimbursement. The \$300 balance (\$500 in contributions minus \$200 in claims) is considered underspent and allows Arnold to participate in COBRA. If Arnold was overspent, he could not participate in COBRA. Tax\$ave coverage terminates on the date that employment ends. If Arnold does not enroll in COBRA, the \$300 balance will be forfeited, unless he can submit \$300 of claims incurred prior to termination.*

*Since Arnold does not have qualified expenses that he can immediately submit against the \$300 balance, he elects to participate in COBRA. He will complete and return the COBRA Election Form and send in the first COBRA payment. Once his first payment has been received, Arnold is eligible to submit claims incurred after his termination from employment. Arnold can continue to incur and submit claims through the end of the Tax\$ave plan year, or until he has exhausted his original election for the Unreimbursed Medical FSA benefit of \$1,000.*

*Arnold's Form W-2 will show \$500 of Section 125 Medical Expense Plan Contributions.*

### **Election for Continuation Coverage**

The *COBRA Notice* and *COBRA Application* will be mailed to each eligible participant by the company administering the Tax\$ave Unreimbursed Medical FSA for the State of New Jersey. You have 60 days from the date of receipt of the *COBRA Notice* or the last date of coverage, whichever is later, to elect to continue coverage by completing and submitting the *COBRA Application*.

### **First Payment for Continuation Coverage**

If you elect continuation of coverage, you must make your first payment for continuation of coverage within 45 days after the date of your election. (This is the date the *COBRA Application* is postmarked, if mailed.) If you do not make your first payment within the 45 days, you will lose all continuation of coverage rights under the Unreimbursed Medical FSA. Your first payment must cover the cost of continuation of coverage from the time your coverage under Tax\$ave would have otherwise terminated up to the time you make the first payment. You are responsible for making sure that the amount of your first payment is enough to cover this entire period. You may contact WageWorks, Inc. (see the "FSA Plan Administration" section) to confirm the correct amount of your first payment. Instructions for sending your first payment for continuation of coverage will be shown on your *COBRA Notice*.

**Note:** All COBRA payments are made with after-tax dollars, which negates the tax savings advantage of the FSA plan. COBRA is not a tax savings plan, and is only intended to prevent participants from forfeiting contributions made prior to termination.

### **Periodic Payments for Continuation Coverage**

After you make your first payment for continuation of coverage, you will be required to pay for continuation of coverage for each subsequent month of coverage. Under the Unreimbursed Medical FSA, these periodic payments for continuation coverage are due on

the first day of each month. Instructions for sending your periodic payments for continuation coverage will be shown on your *COBRA Notice* and *COBRA Application*.

### **Grace Periods for Periodic Payments**

Although periodic payments are due on the dates shown above, you will be given a grace period of 30 days to make each periodic payment. Your continuation of coverage will be provided for each coverage period as long as payment for that coverage period is made before the end of the grace period for that payment. If you make a periodic payment later than its due date but during its grace period, your coverage under the Unreimbursed Medical FSA will be suspended as of the due date and then retroactively reinstated (going back to the due date) when the periodic payment is made. This means that any claim you submit for benefits while your coverage is suspended may be denied and may have to be resubmitted once your coverage is reinstated. If you fail to make a periodic payment before the end of the grace period for that payment, you will lose all rights to continuation coverage under the Unreimbursed Medical FSA.

For more information about your COBRA rights, please contact Horizon *MyWay*® (see the "FSA Plan Administration" section for contact information), or the U.S. Department of Labor's Employee Benefits Security Administration (EBSA) in your area or visit the EBSA website at: [www.dol.gov/ebsa](http://www.dol.gov/ebsa)

### **FSA PLAN ADMINISTRATION**

Horizon *MyWay*® administers the Unreimbursed Medical FSA and Dependent Care FSA plans for the State of New Jersey and the New Jersey Division of Pensions & Benefits (NJDPB).

If you have questions about the Unreimbursed Medical FSA or the Dependent Care FSA, contact Horizon *MyWay*® Customer Service at 1-888-215-0025 Monday through Friday from 8:00 a.m. to 9:00

p.m., or visit: [www.HorizonBlue.com](http://www.HorizonBlue.com)

The Horizon *MyWay*® website is also available through the Tax\$ave link on the NJDPB website at: [www.nj.gov/treasury/pensions](http://www.nj.gov/treasury/pensions)

### **TAX\$AVE ADMINISTRATION AND APPEALS**

The NJDPB is the overall administrator of Tax\$ave for the State of New Jersey.

If you have a mid-plan-year election change, FSA reimbursement claim, or other similar request that is denied, in full or in part, you have the right to appeal the decision by sending a written request for review within 30 days of the denial to:

**New Jersey Division of Pensions & Benefits  
Tax\$ave Plan Administrator  
P.O. Box 295  
Trenton, NJ 08625-0295**

Any request for appeal must include:

- The date of the services for which your request was denied, if applicable;
- A copy of the denied request, if available;
- The reason for your appeal; and
- Any additional documents, information, or comments you think may have a bearing on your appeal.

Appeal requests and supporting documentation will be reviewed and you will be notified of the results within 30 business days of receipt. In unusual cases, such as when appeals require additional documentation, the review may take longer than 30 business days. If your appeal is approved, additional processing time is required to modify your benefit elections.

**Note:** Appeals are approved only if the extenuating circumstances and supporting documentation are within your employer's, insurance provider's, and the IRS' regulations governing the plan.

### **SOCIAL SECURITY IMPLICATIONS**

Since payments to the POP and FSAs lower annual earnings against which Social Security deductions or employer contributions are made, there is a concern that participation in these plans would result in reduced Social Security benefits at retirement.

If you were born after 1928, your Social Security benefits are calculated using a 35-year average of your earnings. A reduction of even \$2,000 a year over some portion of this 35-year span would have little effect on your average salary and, therefore, minimal impact on your Social Security benefits. The Social Security Administration has provided us with an example of an employee who retired in 1998 at age 65, whose wages had been at the maximum wages subject to Social Security deductions. Upon retirement, this individual's monthly Social Security allowance was \$1,343. If that same person had been contributing \$2,000 a year for the last 10 years to a FSA, the subsequent reduction in Social Security wages would have produced a monthly Social Security allowance of \$1,335, a difference of only \$8 per month.

### **CIVIL UNION PARTNERS, DOMESTIC PARTNERS, AND TAX\$AVE**

The IRS does not recognize a New Jersey civil union partner or same-sex domestic partner as a dependent for tax purposes in the same manner that it recognizes a spouse or the dependent children of an employee. Therefore, your employer may have to treat civil union or same-sex domestic partner benefits as federally taxable.

As a result, a partner must be able to qualify as a tax dependent of the employee for federal tax filing purposes — under IRC Section 152 — before an out-of-pocket medical expense incurred by the partner can be reimbursed under the Unreimbursed Medical FSA, and before any premiums that the employee pays for the partner's coverage can be made on a pre-tax basis under the POP. See IRS *Publication 503 – Dependents*, for additional information on establishing dependent status for federal tax purposes.

If the civil union partner or same-sex domestic partner is not a qualified tax dependent of the employee, the partner's SHBP coverage is considered federally taxable and the employee cannot be reimbursed under the Unreimbursed Medical FSA for any out-of-pocket medical expense incurred by the partner, nor make pre-tax payments for the cost of the partner's coverage under the POP. Pre-tax dollars may still be used to pay for the employee's portion of the cost of his or her own and dependent children's coverage. Civil union or same-sex domestic partner SHBP benefits are not subject to New Jersey State income tax. If you live outside of New Jersey, you should check with your state's tax agency to determine if the civil union or same-sex domestic partner benefit is subject to state taxes.

For additional information, see the *Civil Unions and Domestic Partnerships* Fact Sheet, available on our website.

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