



PIOPAC Fidelity
Third Party Administration
"Security, Integrity, Trust"

News Bulletin

New "Use it Or Lose it" Rule (IRS Notice 2005-42)

October 2005

On May 18, 2005, The IRS has announced a change to flexible spending accounts for cafeteria plans. Your FSA participants may now rollover the balances of the previous plan year and have 2 1/2 months (2 months plus 15 days) to spend down this balance in the new plan year before the "Use it or Lose it" rule applies. This grace period extends the time during which expenses may be incurred and it is different from a claims run-out period, which extends the time for submitting expenses. Employers may adopt a grace period as authorized in the IRS Notice 2005-42 for the current cafeteria plan year (and subsequent cafeteria plan years) by amending the cafeteria plan document before the end of the current plan year.

A sample Amendment for Section 125 Flexible Spending Account Claim Grace Period is provided for your use as an option to amend your plan documents. If you choose to use this language, please distribute a copy to all affected employees along with the Summary Plan Description. We recommend you contact your legal/tax advisor for further assistance to adapt this approach to your specific plan.

PIOPAC Fidelity is in the process of upgrading our system to provide administration for the new IRS Notice 2005-42, Section 125 Flexible Spending Account 2 1/2 month extension claim grace period and completion is expected by November 1, 2005.

IRS Increases Standard Mileage Rates

The Internal Revenue Service released a mid-year cost-of-living adjustment to ease the high price tag of gasoline. Generally, the IRS updates and releases indexed figures for the coming year each October or November. This mid-year bump is a welcome exception. The new rates are only effective for the last four months of 2005. They do not apply to eligible mileage acquired before September 1, 2005. See enclosed information on the new rates.

ACH Transaction

Since the up-grade of our ACH software, we have discovered a 24 hour delay instead of the same day transaction processing for payroll as well as direct deposit payment. To counteract this process, we are recommending that payroll change forms be faxed/emailed one day earlier than you are accustomed to. We have adjusted our ACH processing schedule to accommodate direct deposit payments to maintain our 48 to 72 hour turn around time for claims processing.

Claims Substantiation

Before reimbursing an expense we must confirm that certain requirements under the Internal Revenue Code are met. As a result, your FSA participants may receive a denial letter requesting additional information or receipts that better validate the claim reimbursement being requested. The following are some examples of reasons for return/denials:

1. Claim reimbursement form has no signature and date.
2. Each receipt not listed separately. We no longer will accept claim requests that do not itemize each receipt as designated on our claim form.
3. Cancelled checks and credit card receipts are not acceptable to validate a claim request.
4. Prescription receipts should have RX drug name and RX number.
5. Handwritten receipt of payment must include stamped medical/dependent care provider information, patient/dependent name, actual dates of service, description of service and payment amount.
6. Orthodontic treatment is reimbursed for active on-going services rendered in a plan year until treatment is completed. Payment plans that extend past treatment plan are not reimbursable.
7. Medical provider statements showing only a balance forward without actual dates of service, description of service or payment amount are not acceptable.
8. For Massage Therapy, Shiatsu & Lomi Lomi, documentation from a physician certifying that it is medically necessary to treat a medical condition through therapy of this nature will be required. Documentation can come in a form of a letter, handwritten notes on a physician's prescription pad or a copy of participants medical chart notes specifying condition. Diagnosis and length of treatment must be noted on certification which requires renewal upon the start of each plan year.
9. Over-the-Counter Drug/Medical supplies for dual purposes may require documentation from the physician certifying that it is medically necessary to treat a medical condition.
10. The cost to a prescribed drug order/ship from another country is an ineligible medical expense.
11. For dependent care benefit and transit benefit, we recommend receipt for reimbursement be turned in upon completion of service dates.

Termination/COBRA Notification

Enclosed are our new Notice of Termination and COBRA election forms. When applicable, both forms should be completed and faxed together for processing prior to actual termination date to prevent claim reimbursement request to be released past date of termination.

Termination of Employment

For DDC Account:

A terminated employee may continue to incur expenses during the plan year and submit valid DDC expenses for reimbursement if their DDC account has a positive balance. Generally, claims may be submitted through the plan year and run-off period until all contributions are used.

For URM Account:

When an employee terminates employment, participation in the plan ends and no further expenses may incur for reimbursement. Salary redirection will end; however, claims may still be filed for dates of service that were incurred before termination as long as services are within employee's eligible plan year. Valid claim reimbursement requests must be received by the end of the 90 day run-off period.

COBRA

Cobra does not apply to DDC. However, COBRA may apply to URM accounts and allow terminated employees to continue participation in URM and receive reimbursement for medical expenses incurred after employment termination, if the following conditions are met:

1. The plan sponsor is subject to COBRA, and
2. URM account is under spent. (URM contributions are more than what is received in URM benefits.)

Our Participant Guide to FSA brochure shows COBRA contributions are to be submitted to employer as noted below.

Note: Under COBRA you must elect coverage within 60 days and continue to submit contributions to your employer to continue coverage under your URM account for the current plan year.

As the plan administrator, it is your decision to continue remitting COBRA contributions for terminated employees or advise your terminated employees to deal directly with PIOPAC Fidelity your FSA plan service provider. Qualified beneficiaries may deal directly with us as well.

Working Families Tax Relief Act

Effective January 1, 2005, the WFTR Act rewrote Section 152 of the Internal Revenue Code. The changes require an individual to be either a "qualifying child" or a "qualifying relative" to be classified as a dependent. The act also creates a uniform definition of "qualifying child" for the purposes of dependency exemption, child tax credit, earned income credit, child-and dependent-care credit, and head of household filing status.

To be considered a "qualifying child," the individual needs to:

- Be the employee's daughter, son, stepchild, stepsibling, or a descendant of any of these individuals;
- Have the same principal abode as the employee for more than half the year;
- Be younger than age 19 at the end of the year, or if a full-time student, younger than 24 at the end of the year, or disabled; and
- Provide not more than half of his or her own support.

Additionally, the WFTR Act includes a new definition of "qualifying relative." To meet this definition, the individual must:

- not be a qualifying child
- be a relative of the employee, or have the same principal place of abode as the employee and be a member of the employee's household
- have gross income of less than \$3,200 for 2005; and receive more than half of his or her support from the employee.

The WFTR Act redefines a qualifying individual and eliminates the “maintaining a household” requirement for flexible spending dependent-care account tax-free reimbursements. Because the act affects claim reimbursement for expenses for dependents, participants may need to take this dependent definition change into consideration.

Dependents most likely affected include divorced employees with children, grandparents living with grandchildren, employees living with overage disabled children or other relatives who earn more than \$3,200 in 2005, and employees living with their parents and their children.

definition change into consideration.

Dependents most likely affected include divorced employees with children, grandparents living with grandchildren, employees living with overage disabled children or other relatives who earn more than \$3,200 in 2005, and employees living with their parents and their children.

For more details refer employees to IRS Notice 2004079 to help them clarify how the act may affect their own personal situation.

Request for Reimbursement Form

We are pleased to enclose our newly revised claim reimbursement form with revision date 10/05. Please inform your employees that we will continue to accept the Request for Reimbursement form with revision date 03/03 only until 03/31/06.
