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Overview

Introduction   The Office of Health Benefits in the Department of Human Resource Management (DHRM) administers the Commonwealth of Virginia Flexible Benefits Program. The program allows employees to contribute to a Medical Reimbursement Account (MRA) and/or a Dependent Care Reimbursement Account (DCRA) through payroll deduction on a pre-tax basis. Complete program details can be found at:

http://www.dhrm.virginia.gov/genlbenefits/flex/flexiblebenefits.html

The plan qualifies as a cafeteria plan authorized by Section 125 of the Internal Revenue Code. The Internal Revenue Service establishes the calendar year limits and minimum and maximum contribution amounts.

Use or Lose   As with all cafeteria plan contributions and benefits, participation in the Flexible Benefits Program constitutes a salary reduction agreement. Thus, the contributions are withheld from earnings for transfer into a reimbursement account. Participants estimate their health care and/or dependent care assistance expenses before they are incurred. If participants overestimate their expenses, contributions remaining in the reimbursement account(s) at the end of the year are forfeited.

Who is Eligible   All employees who are eligible to participate in the State Health Benefits Program are eligible to participate in the Flexible Benefits Program. Enrollment in the State Health Benefits Program is not required.

Annual Enrollment   In accordance with guidelines established by DHRM, employees must enroll annually, even if the total contribution for the new plan year remains the same. After the open enrollment period (usually mid-April to mid-May), DHRM provides agencies with a report of each participant's name, employee id number, the amount to be deducted from each pay, and the annual amounts for each plan.

Overview, Continued

During Fiscal Year-end processing, DOA runs a Mass Transaction update that deactivates the current deduction information. DOA will then establish the new plan year deduction amounts and administrative fees through the daily automated BES to CIPPS update. No data entry will be required by agency personnel for flexible benefit deductions, unless an employee is listed on the REPORT U130, BES/CIPPS TRANSACTION ERROR LISTING.

Detailed information is provided annually in the Fiscal Year-end Payroll Bulletin.

Administrative Fees

This is an employee-paid, pre-tax fee which is withheld the first pay period of each month using deduction frequency 01. Only one fee is assessed per participant, regardless of whether participating in one or both accounts. See the fee schedule in the BES/CIPPS Update section.

The Flex Reimbursement Accounts Error Report (U075) is created and available for review each pay day. The month-to-date value for the administrative fee (deduction 023) is evaluated based upon the number of pays found on H0BUO. Those employees for whom the MTD amount does not appear to be correct are listed. DHRM receives a copy of this report and uses it to contact agencies regarding the discrepancies.

BES to CIPPS Update

The daily BES to CIPPS update program will automatically establish the flex deductions, 021 – Medical Reimbursement, 022 – Dependent Care Reimbursement and 023 – Flex Administration Fee, on H0ZDC.

Overview, Continued

Central Benefits Administration

The Office of Health Benefits in DHRM:
- Administers statewide reimbursement account programs,
- Operates the automated Benefits Eligibility System (BES), which serves as the official flexible reimbursement account record of the Commonwealth.
- Performs certain TPA disbursement reconciliation activities.

Agency Benefits Administration

Agency benefits administrators are responsible for processing new enrollments and enrollment changes, validating employee eligibility, and maintaining BES information for agency employees. As changes are made to BES, automated updates are preformed to establish/change/deactivate flexible reimbursement deductions in CIPPS.

Detailed administrative guidelines governing flexible reimbursement accounts and BES are available from DHRM.

Overview, Continued

Central Payroll Administration

State Payroll Operations in the Department of Accounts:
- Runs CIPPS, in which payroll deductions for reimbursement accounts are processed.
- Performs certain accounting and reconciliation activities supporting the Flexible Benefits program, and
- Provides payroll deduction information to the third party administrator and DHRM.

Agency Payroll and Fiscal Administration

Agency payroll officers are responsible for reviewing the daily BES to CIPPS automated update reports (U131 and U130) to determine if any manual action is required. Wherever possible, corrections should be processed thru the payroll system. Agency payroll officers are also responsible for collecting amounts that could not be deducted thru payroll deduction and depositing those funds to the Treasurer. *In all cases a participant is responsible for contributing a full monthly amount in order to remit expenses for reimbursement for that month.*

Adjudication of Flexible Reimbursement Card Transactions

According to IRS guidelines (Revenue Ruling 2003-43, 2006-69), all employee payment card transactions must be validated. In some cases, the TPA is permitted, under the IRS guidelines, to automatically validate (auto-adjudicate) certain transactions. In the event that the TPA cannot auto-adjudicate Flexible Reimbursement card transactions, supporting documentation is requested from the employee. The IRS requires that unsupported transaction amounts must be reported to the Internal Revenue Service (IRS) as income on the employee's W-2, and are subject to all applicable employment taxes (including federal and state income tax withholding and FICA).

In these situations DOA loads transactions to adjust taxable buckets for the individuals who have enough current non-taxable amounts sufficient to accommodate the adjustment. For those without sufficient amounts, a W-2C is created by DOA and submitted to the IRS.

Deduction Changes

Mid-Year FRA Deduction Changes

The program must follow all rules and regulations associated with IRS Code Section 125. According to IRS Code, once an employee makes an enrollment election the amount or the benefits cannot be changed during the course of the plan year unless a qualifying event, as defined by the IRS, has occurred.

Changes to payroll deduction amounts **are not discretionary**. Plan deductions as indicated on pre-tax enrollment forms must be taken unless other deductions take priority (e.g. healthcare, garnishment, and child support) or there are not sufficient funds from which to take a deduction.

Family Status Change

According to IRS regulations governing Section 125 Cafeteria Plans, when an employee experiences a change in family status, a change can be made to their pre-tax salary reduction election form and processed thru BES.

Determination of family status changes must be made by agency Benefits Administration in accordance with DHRM policy and IRS regulations. Questions should be referred to the Office of Health Benefits in DHRM. Qualifying events which may allow a Family Status Change include but are not limited to:

- marriage or divorce
- spouse or dependent's death
- dependent's birth or adoption
- spouse begins or ends employment
- spouse or employee change from full-time to part-time employment or vice versa
- spouse or employee take an unpaid leave of absence

The proposed change must be consistent with the type of family status change experienced. The timeframe for notification is within thirty-one (31) days of the qualifying event. After 31 days, DHRM must approve requested changes before they are made in BES.

Deduction Refund Policy

Administrative Errors and Deduction Refund Guidelines

Generally, refunds to employees of deductions for flexible reimbursement accounts are not allowed unless the deduction was withheld due to administrative error. **The Office of Health Benefits in DHRM must approve all refunds before they are processed through payroll.** Once approved, the CIPPS deduction refund process can be used to refund the employee deduction. The refund must be processed along with the employee's regular payment. Process the refund on HTODA, "Employee Deduction Refund/Adjustment." Reference CAPP Topic 50600, *Tax and Deduction Overrides,* for instructions.

Tax Consequences of Flexible Reimbursement

State employees enjoy the tax savings of the pre-tax deduction option authorized by section 125 of the Internal Revenue Code. Under IRS rules, the deduction actually constitutes a salary reduction. Consequently, when an employee participating in a reimbursement account receives a refund in a calendar year subsequent to the year the deduction was made, a corrected W-2 (Form W-2C) and a 941-X may be required.

Special Considerations

Special care should be taken when processing pre-tax deduction refunds. The agency may need to collect any appropriate taxes due directly from the employee when Reimbursement Account deduction refunds are processed for employees who are no longer receiving regular pay. Upon receipt of the delinquent taxes, the employee's masterfile will have to be updated and taxes deposited. Refer to CAAP Topic Nos. 50605, *Tax and Deduction Adjustments*, and 20319, *Electronic Federal Tax Payments System (EFTPS)*, for procedures.

BES/CIPPS Processing Features

Benefits Eligibility System

BES is the official flexible reimbursement and healthcare enrollment system of the Commonwealth and the "driver" of flex and health insurance transactions created in CIPPS.

BES/CIPPS Interface

Based on BES updates, a nightly interface automatically establishes and maintains the employee's flex account deduction data on the H0ZDC screen, eliminating, to a degree, duplicate manual data entry in CIPPS. Agencies still receive BES/Agency Transaction Turnaround Documents for all BES updates. Agencies must validate that the proper deductions were set up in CIPPS by the interface. The interface also establishes Health Care deductions. Refer to CAPP Topic No. 50430, *Health Insurance.*

Timing Considerations

The timing of transactions entered into BES and CIPPS affects the interface:

- An employee must first be hired in CIPPS, using the Menu/Link functions or individual screen access (H0BNE), to be automatically updated through the interface. Refer to CAPP Topic No. 50305, *New Hires/Rehires,* to establish the employee's record in CIPPS.
- If no match on agency and employee number is made between BES and CIPPS, the transaction is rejected and listed on Report U130, BES/CIPPS Transaction Error Listing. These rejected transactions will not recycle and must be manually entered in CIPPS, as described later in this topic.

The effective date of the BES transaction dictates when the entry will update CIPPS. Those transactions which do not contain a future effective date will show on the morning of the second day after entry in BES.

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BES/CIPPS Processing Features, continued

Valid Transactions

Valid transactions will update CIPPS. These transactions are listed on Report U131, BES/CIPPS Update Listing. This update listing shows old/new values for the flexible reimbursement accounts and administrative fees as well as the two medical insurance CIPPS codes: provider and plan.

Transfers Between Agencies Other Than at the Beginning of the Month

DHRM policy requires that when an employee transfers from their current agency to a new agency after the first day of a month, the entire monthly flexible reimbursement commitment should be collected by the current agency, with the new agency collecting funds for the month following the transfer. Systems limitations prevent the BES/CIPPS interface from operating in this manner. Accordingly, agencies should carefully monitor employee transfer transactions in CIPPS. Employee transfers are reflected on the receiving agency's U131 with a code of 'TR' under the 'CHG IND' column.

Particular scrutiny should be applied to transactions with an effective date other than the first of the month. The transaction entered into PMIS by the new agency to transfer an employee's PMIS and BES records immediately initiates the process that results in a flexible reimbursement deduction being established in CIPPS. This typically results in the CIPPS deductions being established prematurely *at the receiving agency*.

Transactions That Require Direct Data Entry in CIPPS

BES is the initial point of entry for most flexible reimbursement transactions. However, the following transactions require direct entry in CIPPS:

- Transactions rejected during the BES/CIPPS interface process.
Leave Without Pay (LWOP) – BES does not capture LWOP status
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BES/CIPPS Processing Features, continued

The daily BES to CIPPS update programs will automatically establish the flex accounts 021, 022 and 023 on H0ZDC. The amount established for the Flex Administration Fee deduction is based upon the number of times an employee will be paid during the plan year. The Admin fee deduction amount will calculate based on the Number of Pays on H0BUO.

Note: For new hires, overnight the system defaults 'number of pays' based on the pay frequency. For example, Frequency 70 defaults to 24 and Frequency 90 defaults to 12, etc. For new hires with non-routine pay schedules, such as 18 pays, the number of pays must be overridden the day after the employee record is entered on H0BNE.

Number of Pays	12/24	11/22	10/20	9/18
Fee Amount (Ded 023) for one or both accounts	3.65	3.99	4.38	4.87
YTD Amount (Goal)	43.80	43.80	43.80	43.80

> Goal—Will be set at **43.80**. Note: This will be true for new participants added after open enrollment as well. For these individuals, the goal amount will need to be recalculated based on the number of remaining months in the plan year and the Goal overridden on H0ZDC.
> Utility field - Will be set at '000000010000000000'. A value of "1" in the eighth position will cause the goal amount to decrement.
> FR—Frequency will be set to 01. This will allow the Admin fees to be withheld the first pay period of each month only.
> End Date—The deduction end date will be set to 06/30/XXXX where XXXX represents the calendar year of the end of the plan.

BES/CIPPS Processing Features, Continued

CIPPS Deduction Numbers

CIPPS deduction numbers *and names* assigned to the reimbursement accounts follow:

CIPPS Deduction #	Name
021	Dependent Care
022	Medical Reimbursement
023	Flex Administrative Fee

H0ZDC

While deduction activity for Flexible Reimbursement Accounts should be largely controlled by the automated BES to CIPPS daily update, there may be times when manual date entry will be required.

Access the Employee Deductions screen (H0ZDC) as instructed in CAPP Topic No. 50110, *CIPPS Navigation*.

BES/CIPPS Processing Features, Continued

NO Enter applicable deduction number; 021 and/or 022, and 023.

NAME These fields are displayed after entering the deduction number.

AMT/PCT For deductions 021 and 022, enter the deduction amount to be withheld (2 decimal places) each pay period. For deduction 023, enter the appropriate amount based on the employees' number of pays.

Number of Pays	12/24	11/22	10/20	9/18
Fee Amount (Ded 023) for one or both accounts	3.65	3.99	4.38	4.87

GOAL For deduction 021 and 022, this field remains zero.

For deduction 023 enter $43.80. Note: The automated update will set this value; however, for new participants after open enrollment the Goal amount will need to be recalculated based on the number of remaining months in the plan year and overridden.

UTILITY *No data entry is required. The field is automatically populated when the enter key is pressed with the appropriate setup for deduction 023 with a value of "1" in the eighth position which will cause the goal amount to decrement. The final result should be '00000001000000000'.*

CALC GN Systematically populated.

BES/CIPPS Processing Features, Continued

FR   Enter the deduction frequency:

For Deduction Number…	Enter	Indicating the deduction will be taken…
021 or 022	09	Each payday
023	01	the first pay period of each month only

PRTY   Do not enter information.

START DATE   Do not enter information..
(OPTIONAL)

END DATE   For 021, 022 and 023, enter the deduction end date as 06/30/XXXX
(OPTIONAL)   where XXXX represents the calendar year of the end of the plan.

DED MTD   Do not enter. Automatically updates each time the deduction is
DED YTD   taken.

Leave Without Pay (LWOP)

Employee Payment

Employees on leaves of absence during any plan year must continue contributing to their reimbursement account(s) by paying the contributions and administrative fees on an **after-tax basis**. Agencies must deposit the funds to the reimbursement accounts. This can be done in one of two ways.

- Depositing the funds <u>directly</u> to the reimbursement accounts using a Deposit Certificate (DC).
- Transfer the funds using an Interagency Transfer Invoice (IAT), where the employee's check has been deposited to an agency's cash account.

Notify DOA of the DC or IAT by either:

FAX # (804) 225-3499 or Mail a copy to:

Department of Accounts
Benefits Accounting Unit- Flex
P. O. Box 1971
Richmond VA 23218-1971

Deposit Certificate (DC) Method

Process a deposit certificate in CARS (Batch Type 7) to reflect the payment for admin fees, dependent care and medical reimbursement funds into the Flexible Reimbursement Account, using the following coding (bank code is 3040, multi-purpose code is 04):

Account	TC	Agency	Fund	Rev Source	*Project*
Dep Care	001	162	0721	09010	*62015**
Med Reim	001	162	0722	09017	*62015**
Admin Fees	001	162	0723	02700	*62015**

*NOTE: Project number used relates to Plan Year; i.e., 62015 = Plan Year July 1, 2014 – June 30, 2015

Leave Without Pay (LWOP), Continued

Interagency Transfer Invoice (IAT) Method

If the employee's check has been deposited (DC) to the agency's cash account, then the agency must complete an IAT (Batch type 4) to distribute the money to the correct reimbursement account. One line of coding will be agency-specific to record the disbursement from the cash account. The other transaction line(s) used on the IAT will vary depending on the reimbursement account affected. Use the same coding as for the DC Method but with a transaction code of 136.

Internal Control

Internal Control

Agencies must ensure there is proper documentation (e.g. BES turnaround document) prior to initiating any change to an employee's reimbursement account, that all deductions are collected appropriately and that maximum deferral amounts are not exceeded.

Records Retention

Time Period

Retain all source documents three years or until audited, whichever is later.

Contacts

DOA Contacts

Director, State Payroll Operations
Voice: (804) 225-2245
E-mail: Payroll@virginia.gov

Payroll Business Analyst/Trainer
Voice: (804) 225-3065 or (804) 225-2004
E-mail: Payroll@doa.virginia.gov

Subject Cross References

References   CAPP Topic No. 20319, *Electronic Federal Tax Payments System (EFTPS)*
CAPP Topic No. 50110, *CIPPS Navigation*
CAPP Topic No. 50605, *Tax and Deduction Adjustments*