

NOVEMBER 2003 ADDENDUM
NEW YORK UNIVERSITY HEALTH CARE EMPLOYEE SPENDING ACCOUNT PLAN
SUMMARY PLAN DESCRIPTION (PLAN 507)
REIMBURSEMENT FOR OVER-THE-COUNTER MEDICINES

The IRS recently announced that certain over-the-counter (OTC) drugs can be paid for with pre-tax dollars through health care employee spending accounts. This new ruling means that you can submit claims for expenses for non-prescription, OTC medicines that are used to treat medical conditions to UnitedHealthcare for reimbursement from your NYU Health Care Employee Spending Account (ESA). You may claim expenses retroactively to January 1, 2003.

Over-the-counter (OTC) drugs and items generally fall into one of the following three categories:

1. Those eligible for reimbursement because they are used primarily for medical care.
2. Those eligible for reimbursement with a letter from the attending physician. The letter must cite the specific medical condition being treated and indicate that the OTC drug or medication will treat or alleviate it.
3. Those ineligible for reimbursement because they are merely beneficial for general health.

You may be reimbursed from your NYU Health Care ESA for expenses in the first 2 categories. Examples of non-prescription medicines used to treat a medical condition include cold medicines, allergy medicines, aspirin and other pain relievers, and antacids. Generally, you may not claim expenses for dietary supplements, toiletries, and cosmetic drugs. However, certain herbs, supplements, sleep induction, water retention, and weight loss products may be reimbursed if your claim is accompanied by a letter from your doctor. Your doctor's letter must cite a specific medical condition that is being treated and indicate that the OTC drug or medication will treat or alleviate it.

A representative list of medical care items and how they are treated for purposes of reimbursement from a health care spending account can be found on pages b and c of this Addendum.

You may submit claims using the ESA Withdrawal Request form available on the HR web site (www.nyu.edu/hr, HR Forms, Claim Form - Healthcare Spending Account) or from the NYU Benefits Office. Completed claim forms should be sent to UnitedHealthcare with acceptable documentation. Acceptable documentation is a print receipt from the place of purchase that includes the name of the medicine, the date it was purchased, and the cost. If other items are on the receipt you must circle the item for which reimbursement is being requested. Note: The tax paid on the specific item is reimbursable from the NYU Health Care ESA, but if other items are on the receipt, you must also calculate the tax for the item you are requesting in order to receive reimbursement for the tax.

For questions or additional information contact UnitedHealthcare's Flexible Spending Unit at 1-877-311-7849 or the NYU Benefits Office via email at benefits@nyu.edu or by phone at -212-998-1270.

Please note that the following lists do not include all available OTC drugs and medical care items, and the lists are subject to change.

Over-the-Counter (OTC) Medical Care Items *Eligible* for Reimbursement Under the NYU Health Care Employee Spending Account (ESA)

Product Type	Examples include, but are <i>not</i> limited to:
Acne Medications - pill, liquid, cream, ointment, medicated soaps and cleansing pads	Clean & Clear, Clearasil, Loma Lux Acne, Nature's Cure
Allergy Medicines - pill, liquid, nasal spray (see also "Eye Drops")	Benadryl, Chlor-Trimeton, Claritin Drixoral, NasalCrom, Tavist Allergy
Antacids (anti-gas, lactose intolerance) - liquids, pills, tablets	Alka-Seltzer, Beano, Gas-X, Lactaid, Maalox, Mylanta, Pepcid, Pepto-Bismol, Phazyme, Roloids, Tums
Antibiotic creams/ointments	Bacitracin, Neosporin, Polysporin
Antidiarrheal - liquids, pills	Imodium, Kaopectate, Pepto-Bismol
Anti-Fungal Creams & Powders	Aftate, Cruex, Lamisil, Lotrimin, Micatin, Tinactin
Anti-Itch Creams (allergy and poison ivy)	Benadryl, Cortaid, Ivarest, Lanacort
Baby Care Products	Diaper rash cream/ointment, rehydration liquids (Pedialyte, PediaSure), teething gel
Braces and supports	Braces and supports for neck, wrist, ankle, elbow, knee, etc.; support stockings
Canker and Cold Sore Remedies	Abreva, Anbesol, Cankaid, Carmex Kank-A
Cold Medicines	Cough & sore throat lozenges/drops, cough syrup, decongestants, homeopathic cold medicines, nasal sprays, TheraFlu, Tylenol Cold, vapor rubs
Contraceptives/Family Planning	Condoms, contraceptive creams, pregnancy tests, ovulation predictor kits
Diabetic Supplies/Equipment	Alcohol swabs; blood glucose control solutions, monitors, strips and products; lancets and lancet devices, urine testing products
Ear Drops (ear wax removal)	Auro Ear Drops, Debrox Ear Drops, Murine Ear Drops
Eye Care Products	Saline and cleaning solutions, eyeglasses, contact lenses
Eye Drops/Eye Wash Products	Eye wash products to clean out eye or remove foreign objects, Murine, Visine
Feminine Yeast Infection Medicine	Gyne-Lotrimin, Monistat
First Aid	Bandages, dressings, first aid kits, peroxide, rubbing alcohol
Hemorrhoidal Preparations	Preparation H, Tucks
Home Diagnostic Tests or Kits	Cholesterol, colorectal, drug, HIV, ovulation predictor, pregnancy and urine tests; thermometers (ear or standard)
Hot/Cold Packs	ThermaCare
Laxatives (laxatives and fiber therapy)	Citrucel, Dulcolax, Ex-Lax, FiberCon, Fleet, Metamucil, Milk of Magnesia, Peri-Colace
Lice Treatments	LiceFree, Nix, Pronto, Rid
Motion Sickness Medicine	Bonine, Dramamine, motion sickness wristbands
Pain Relievers	Acetaminophen, Advil, Aleve, Anbesol, Aspercreme, aspirin, Ben-Gay, homeopathic pain relievers, ibuprofen, Icy Hot, Midol, Mineral Ice, Motrin, naproxen sodium, pain relieving gels, Tylenol
Pain Relievers – Urinary Tract	Cystex, Uristat
Smoking Cessation Medicine - patches and gum	Nicoderm, Nicorette, Nicotrol, Novartis
Wart or Corn Removers - liquid or pads	Compound W, Curad, Dr. Scholl's Corn Remover, Wart-Off

Over-the-Counter (OTC) Medical Care Items Considered Eligible for Reimbursement Under the NYU Health Care Employee Spending Account (ESA) When Directed in Writing By a Physician to Treat a Specific Medical Condition

(The physician's letter must cite the specific medical condition being treated and indicate that the OTC drug or medication will treat or alleviate it.)

Product Type	Examples include, but are <i>not</i> limited to:
Herbs	Black cohosh, echinacea, evening primrose oil, ginkgo biloba, Ginsana, ginseng, goldenseal root, nettle, olive leaf extract, saw palmetto, St. John's wort
Other Supplements	Acidophilus, alpha lipoic acid, amino acids (L-Lysine, L-Arginine, L-Carnitine) chondroitin sulfate, cod liver oil, DHA, DHEA, EFO, flax seed oil, glucosamine complex, glucosamine sulfate, kelp, melatonin, omega-3, shark cartilage
Sleep Induction Medicine	Simply Sleep, Sleepinal, Sominex, Unisom
Vitamins and Minerals	Antioxidants, calcium, chromium, folic acid, iron, magnesium, multi-minerals, multi-vitamins, potassium, selenium, vitamins
Water Retention Products	Aqua-Ban, Diurex
Weight Loss Products	Pills

Over-the-Counter (OTC) Medical Care Items Considered Not Eligible for Reimbursement Under the NYU Health Care Employee Spending Account (ESA)

Product Type	Examples include, but are <i>not</i> limited to:
Bath Products, Cleansers, Soap	Aveeno, Dial, Dove, Softsoap
Creams, Lip Balm, Lipstick, Lotions, Moisturizers	Basis, Biore, Eucerin, L'Oreal, Neutrogena, Nivea, Noxzema, Oil of Olay, PHIsoderm
Dental – Miscellaneous	Breath fresheners; dental floss, adhesives, cleansers, gel, gum, rinses; oral cleaning systems (Water Pik); tongue scrapers; whitening products/systems; toothbrushes; toothpaste
Deodorants/Anti-Perspirants	Ban, Brut, Dry Idea, Speed Stick
Feminine Hygiene	Always, douches, feminine lubricants and pads, tampons
Foot Care Products	Arch and insole supports, Dr. Scholl's callus removers, Odor-Eaters, pedicure products, shoes, toenail clippers
Hair Care Products	Conditioner and shampoo (including those used for dandruff), hairspray, styling aids
Hair Removal Products	Hair-removal creams, razors, wax
Medicine Dispensers	Medicine droppers, pill organizers
Powders	Non-fungus fighting foot powders
Shaving and Grooming Products	Aftershave, razors, shaving cream
Snoring Aids	Nose drops and strips
Stimulants (to stay awake)	No Doz, Vivarin
Sunscreen, Sunless Tanning, After Sun Products	Coppertone, Hawaiian Tropic

For Sergeant Guards

NEW CHOICES



EMPLOYEE SPENDING ACCOUNTS
HEARING CARE EXPENSES COPAYS
NURSERY SCHOOL TUITION CHILD
CARE PRE-SCHOOL TUITION TAX
SAVINGS PRE-TAX CONTRIBUTIONS
DEPENDENT CARE ESA TAX-FREE
REIMBURSEMENT HEALTH CARE
ESA FORFEITURE RULE DENTAL
EXPENSES DEDUCTIBLES VISION
CARE EXPENSES COINSURANCE
ELIGIBLE EXPENSES SUMMARY
PLAN DESCRIPTION DAY CAMP
EMPLOYEE SPENDING ACCOUNTS
HEARING CARE EXPENSES COPAYS
NURSERY SCHOOL TUITION CHILD
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ESA FORFEITURE RULE DENTAL
EXPENSES DAY CAMP ELIGIBLE
EXPENSES **EMPLOYEE SPENDING**
PRE-SCHOOL TUITION **ACCOUNTS**
REIMBURSEMENT HEALTH CARE
ESA FORFEITURE RULE DENTAL
EXPENSES DEDUCTIBLES VISION
CARE EXPENSES COINSURANCE
ELIGIBLE EXPENSES SUMMARY
EMPLOYEE SPENDING ACCOUNTS

Although this booklet contains a summary of the Employee Spending Account (ESA) Program, you'll find complete information in the plan document. If there is any conflict between this booklet and the plan document, the document will govern. If you need more information, contact the NYU Benefits Office.

NYU reserves the right to discontinue or change the ESA Program at any time. The program is not an employment contract or any type of employment guarantee.

The program described in this booklet is a benefit plan of NYU. The benefits under this plan are administered by United HealthCare.

The ESA Program, like all other benefit plans, is subject to change. Check with the NYU Benefits Office at 212-998-1270 or via email at benefits@nyu.edu for the most up-to-date information. The issue date of this booklet is fall 2000.

Employee
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About Employee Spending Accounts

No matter how serious you are about saving money, there are some expenses you just can't avoid, such as certain health care expenses that aren't covered under your health or dental plan or day care expenses for your child so you can work. NYU's Employee Spending Account (ESA) Program allows you to pay for these types of expenses through a Health Care and/or Dependent Care ESA while saving money in taxes.

The ESA Program is a financial arrangement designed to help NYU employees benefit from certain provisions in the tax code. It's a way to set aside money from your paycheck on a pre-tax basis to pay for eligible health and dependent care expenses. So, each time you incur an eligible expense, you can reimburse yourself for the expense with money deducted from your paycheck before taxes are figured, and save money in taxes.

How to Use This Booklet

This booklet describes the ESA Program and provides the information you'll need to decide whether you should participate in the program. Because the program is subject to a number of Internal Revenue Service (IRS) regulations, it's important to read this booklet carefully so you can learn more about the ESAs—how they work and how you can use them to take advantage of the tax savings.

You may want to consult with your personal tax advisor about your decision to participate.

In the back pocket of this booklet, you'll find worksheets to help you estimate your health and dependent care expenses and to predict what you'll need to contribute to the ESA Program.

Deciding Whether to Participate in the ESAs

▶ Although many employees will benefit from this program, some employees will benefit more than others. The degree to which you benefit by participating in the ESAs depends on your individual financial and tax situation. Generally, the higher your expenses and your tax bracket, the more you benefit by using the ESAs to reimburse yourself for eligible health and dependent care expenses. However, because your individual circumstances change, it's important that you reevaluate your participation each year during the open enrollment period. Keep in mind, each year during the open enrollment period, you'll need to elect the amount you want to contribute to the ESAs for the upcoming year—even if you plan to contribute the same amount you're currently contributing.

The ESA Program:

An Overview

Eligibility

You are eligible to participate in the ESAs if you are a full-time, permanent Sergeant Guard in Code 107.

Each fall, during the designated open enrollment period, you elect to contribute a certain amount of the next calendar year's salary to one or both of the accounts, based on what you estimate your expenses will be in the upcoming year. During the calendar year, the amount you allocate to your account is deducted from the first 48 paychecks of the year before taxes are calculated and deposited into your ESA. Each time you have an eligible expense, you submit the receipt for the expense to your ESA and reimburse yourself with pre-tax dollars.

How the ESA Program Works

The ESA Program offers you two types of spending accounts: a Health Care ESA and a Dependent Care ESA. You can use them to save money in taxes each time you reimburse yourself for certain eligible health and/or dependent care expenses.

The minimum and maximum amounts you can contribute to each account per year are listed below.

Note: If you are considered a highly compensated employee by the IRS, your maximum amount may be decreased. (See page 10 for details.)

	Minimum	Maximum*
Health Care ESA	\$120	\$5,000
Dependent Care ESA	\$120	\$5,000**

* The maximum contributions will be prorated if you participate in an ESA for less than 12 months in any plan year.

** If you are married and you and your spouse file separate tax returns, the maximum amount each of you can contribute to a dependent care ESA is \$2,500.

Pre-Tax Versus After-Tax Contributions

If you pay for eligible health and dependent care expenses after you receive your regular salary, you'll be paying with *after-tax dollars*, which will cost you more in "real" dollars than if you use the ESA to reimburse yourself for expenses.

What does that mean? Suppose you need a new pair of eyeglasses that cost \$144. If you're in a 28% tax bracket and you buy the glasses with after-tax dollars, they would really cost you \$200. That's because after taxes are taken out of \$200 in gross salary, you're left with \$144. With the ESA, you're reimbursed for your glasses with pre-tax dollars that you've directed to your Health Care ESA. That means your glasses actually cost you \$144 in gross salary, since you pay no federal income taxes or Social Security taxes on salary deposited into an ESA account. (State or local taxes may apply; check with the locality in which you reside.)

Some Important Restrictions

These are some of the restrictions when contributing to the ESAs:

- ◆ **Qualified Expenses.** The IRS defines the types of expenses that qualify for tax-free reimbursement. (See pages 11 to 13 for a list of eligible expenses.)
Note: Since IRS regulations can change, it is important to consult IRS Publications 502 (for eligible health care expenses) and 503 (for eligible dependent care expenses) for the most up-to-date information.
- ◆ **Forfeiture Rule.** The IRS requires that all money allocated to an ESA in any one year can only be used to reimburse you for qualified expenses you incur during that year. You have until April 15 of the following year to submit bills for expenses incurred on or before December 31 of the previous year. Any unused funds remaining in your account after April 15 will be forfeited.
- ◆ **Paycheck Reductions.** Once you've elected the amount you want to contribute to your ESA, equal portions of that amount will be taken from the first 48 paychecks of the year on a pre-tax basis.

- ◆ **Contribution Changes.** You may not begin, stop, or change the amount you contribute to your accounts during the year unless you have a qualifying change in status. (See page 9 for more details.)
Note: The changes you make to your ESA contribution elections must be consistent with your qualifying status change.
- ◆ **Transfers Between Accounts.** You cannot transfer money from one ESA to the other—the Health Care and Dependent Care ESAs are separate. For example, money allocated to your Health Care ESA cannot be used to reimburse yourself for dependent care expenses—they must be reimbursed through your Dependent Care ESA.

Spending Accounts Versus Federal Tax Deductions

► The health and dependent care expenses for which you may seek reimbursement through the ESAs are generally the same types of expenses that are allowed as deductions on your federal income tax return. However, keep in mind that if you are reimbursed for an expense through the Health Care and/or Dependent Care ESA, you cannot seek a federal income tax deduction for that same expense. Depending on your income level and tax situation, an ESA may provide you with greater savings. (See page 7 for more details.)

Tax Advantages of ESAs

Tax advantages vary depending on your individual tax situation and the amount you contribute to your Health Care and/or Dependent Care ESA. The following examples show how two employees can reduce their taxes and increase their spendable income when they use the ESAs to reimburse themselves for eligible health and/or dependent care expenses.

Keep in mind, these examples are for illustrative purposes only. To determine the exact effect on your tax liability, you may want to consult a tax advisor. *Note: State or local taxes may apply. You should check with the locality in which you reside for information about taxation.*

Example 1

Assume an employee:

- ◆ Earns \$30,000 per year;
- ◆ Contributes \$600 to a Health Care ESA to cover eligible health care expenses for herself and her child;
- ◆ Contributes \$3,000 to a Dependent Care ESA to cover eligible day care expenses while she works;
- ◆ Resides in New York City; and
- ◆ Is a single parent, files as head of household, takes the standard deduction, and claims two exemptions on her federal income tax return.

Here's a look at this employee's tax savings when she uses the ESAs to reimburse herself for eligible health and dependent care expenses compared with paying for those same expenses with after-tax dollars:

Example 1	With the ESAs	Without the ESAs
Gross annual salary	\$ 30,000	\$ 30,000
Using pre-tax dollars for eligible health care expenses	- 600	- 0
Using pre-tax dollars for eligible dependent care expenses	- 3,000	- 0
Taxable pay	\$ 26,400	\$ 30,000
Taxes (federal, state, city, Social Security)*	- 5,286	- 6,456
Pay after taxes	\$ 21,114	\$ 23,544
Using after-tax dollars for eligible health care expenses	- 0	- 600
Using after-tax dollars for eligible dependent care expenses	- 0	- 3,000
Annual take-home pay	\$ 21,114	\$ 19,944
Annual tax savings	\$ 1,170	

*Based on 1998 federal, state, city, and Social Security tax rates.

Example 2

Assume an employee:

- ◆ Earns \$30,000 per year and his spouse earns the same for a total household income of \$60,000;
- ◆ Contributes \$1,000 to a Health Care ESA to cover eligible health care expenses for himself, his spouse, and his child;
- ◆ Contributes \$5,000 to a Dependent Care ESA to cover eligible day care expenses so he and his spouse can work;
- ◆ Resides in New York City; and
- ◆ Is married, files jointly, takes the standard deduction, and claims two exemptions on his federal income tax return.

The table to the right shows this employee's tax savings when he uses the ESAs to reimburse himself for eligible health and dependent care expenses compared with paying for those same expenses with after-tax dollars.

Effects on Other Benefits

No Effect on Salary-Based Benefits

All NYU benefits that are based on salary are figured using your gross (pre-tax) annual salary. That means your contributions to the ESAs do not affect your contributions to the NYU Supplemental Tax Deferred Annuity Plan, if you participate in this plan.

Example 2	With the ESAs	Without the ESAs
Gross annual salary	\$ 60,000	\$ 60,000
Using pre-tax dollars for eligible health care expenses	- 1,000	- 0
Using pre-tax dollars for eligible dependent care expenses	- 5,000	- 0
Taxable pay	\$ 54,000	\$ 60,000
Taxes (federal, state, city, Social Security)*	- 13,223	- 15,291
Pay after taxes	\$ 40,777	\$ 44,709
Using after-tax dollars for eligible health care expenses	- 0	- 1,000
Using after-tax dollars for eligible dependent care expenses	- 0	- 5,000
Annual take-home pay	\$ 40,777	\$ 38,709
Annual Tax Savings	\$ 2,068	

*Based on 1998 federal, state, city, and Social Security tax rates.

Effect on Social Security

If your annual salary is less than the Social Security maximum taxable wage (\$76,200 in 2000), you'll see a decrease in the amount of Social Security taxes taken from your paycheck when you contribute to an ESA. That's because when you contribute pre-tax dollars to an ESA, you reduce the amount of federal income taxes deducted from your salary, as well as Social Security taxes. **Note:** *By reducing your Social Security taxes, there could be an impact on the amount of your Social Security benefits. Typically, the impact is very small—usually a 1% - 5% reduction. You may find that investing the money saved on taxes that you contribute to an ESA will minimize any loss of income for the reduction in Social Security benefits. You must decide if this is an appropriate course of action for you.*

Health Care ESA Versus Federal Income Tax Deductions

Under current IRS regulations, only health care expenses in excess of 7.5% of your annual income can be deducted from your income tax, provided you are itemizing deductions.

For example, if you earn \$30,000 per year, only unreimbursed expenses in excess of \$2,250 (or 7.5% of \$30,000) can be claimed as deductions. So, if you had \$3,000 in non-covered expenses, you would be able to deduct only \$750 (\$3000 - \$2,250) from your taxable income. With the ESA, you can avoid paying taxes on the entire \$3,000.

If your unreimbursed health care expenses are high, it's possible to first use the ESA, up to the maximum contribution amount of \$5,000, then apply the rules governing the tax deduction to the remaining balance. **Note:** *The federal income tax deductions for dependent care expenses differ from health care expenses. The child care expenses used to calculate the dependent care tax credit are reduced by the amount of your ESA contribution (see page 10 for more details). You may want to consult with your tax advisor to learn more about which approach works best for you.*

A Guide for **ESA** Participants

Annual Enrollment

The plan year is January 1 through December 31. You can only elect to participate in the ESAs during the annual open enrollment period each fall, unless you are a new employee (see “New Employee Enrollment”). After the open enrollment deadline, you cannot make any new elections or changes, unless you have a qualifying change in your status. (See page 9 for details.) Each year, you must re-enroll during the designated open enrollment period to continue your participation. If you do not re-enroll, you will not be eligible to participate in the ESAs for the year, unless you have a qualifying change in status that's consistent with your need to begin contributing to an ESA. The amount you elect to contribute to your ESAs for the upcoming year will be deducted from your first 48 paychecks of the year in equal monthly installments beginning in January.

New Employee Enrollment

If you begin employment at NYU during the plan year, the NYU Benefits Office must receive your completed enrollment form within 31 days after your date of hire or the date you receive benefits information, whichever is later. If you miss your deadline, the IRS requires that you wait until the next annual open enrollment period to participate in the ESAs, unless you have a qualifying change in status.

Participation in the ESAs will begin on the first day of the month following your enrollment deadline. The amounts you elect to contribute to your Health Care and/or Dependent Care ESA will be deducted from your salary beginning on pay dates that fall on or after the date your participation begins. You may be reimbursed through your ESAs for eligible expenses incurred on or after the effective date of your participation.

Important Rules for the ESAs ▼

Here are some restrictions imposed by the IRS when participating in the ESA Program.

▶ **Unused Funds Will Be Forfeited**

IRS regulations specify that all money allocated to Health Care and Dependent Care ESAs in any one year can only be used to reimburse qualified expenses incurred during that year. You have until April 15 of the following year to seek reimbursement for expenses incurred up to December 31 of the previous year. Any money remaining in your accounts after April 15 will be forfeited, as required by the IRS. The funds will be used to offset the administrative costs of the ESA Program at NYU.

▶ **No Transfers Permitted Between Accounts**

Under IRS rules, you are not permitted to transfer funds between your accounts. The accounts are separate, which means money designated for health care cannot be spent on dependent care, or vice versa.

▶ **Changing Your Contributions During the Year**

The amounts you elect to contribute to the ESA Program during the open enrollment period will be deducted from the first 48 paychecks of the plan year. Generally, outside the annual open enrollment period, you can only change your contribution amounts or participation in the ESAs during the calendar year if you have a **qualifying change in status**. If your status changes you have 31 days from the date the change occurs to make any changes - you must submit a written request and provide appropriate documentation to the NYU Benefits Office. Your change is retroactive to the actual date on which your status change occurs. *Note: Any changes you make must be consistent with your status change.*

A family status change occurs when:

- ◆ You get married;
- ◆ You get divorced;
- ◆ You gain a dependent;
- ◆ Your covered, unmarried child reaches the age limit for coverage (the end of the year in which the child reaches age 19, or age 25 if a full-time student) or gets married;

- ◆ A child between the ages of 19 and 25 regains eligibility by becoming a full-time student;
- ◆ Your spouse terminates employment, begins a new job, or switches from full-time to part-time employment (or vice versa);
- ◆ Your spouse experiences a significant change in medical coverage due to a change in his or her employment;
- ◆ You or your spouse experiences a significant change in the cost of medical coverage due to an independent third-party provider;
- ◆ Your spouse or dependent child(ren), who formerly was not a resident of the United States, arrives in the United States and assumes residency;
- ◆ You or your spouse begins or ends an unpaid leave of absence; or
- ◆ Your spouse or dependent child dies.

If one of these changes occurs and you choose to revoke or begin participation in the ESAs or change your contribution amounts, the change in the amount that's deducted from your paycheck will take place as soon as administratively feasible, based on the payroll schedule.




▶ **Special Limits on Dependent Care Contributions**

In accordance with IRS regulations, the maximum amount you can contribute to a dependent care ESA is the *least* of the following three amounts:

- ◆ \$5,000 per year for a married couple filing taxes jointly or a single head of household; or \$2,500 each for a married couple filing separate tax returns. These amounts are prorated if you participate for less than 12 months in any plan year.
- ◆ The amount of your federal taxable compensation from NYU before Dependent Care ESA contributions are deducted from your salary. Your federal taxable compensation is considered to be your gross salary for the plan year minus any salary reductions during that year. You should subtract:
 - Your pre-tax contributions to the NYU Supplemental Tax Deferred Annuity Plan;
 - Your pre-tax contributions to a Health Care ESA.

- ◆ If you are married, your spouse's gross salary minus any salary reductions. If your spouse does not work but is in school full time or is disabled, the allowable maximum is \$2,400 for one dependent or \$4,800 for two or more dependents. These amounts are prorated if your spouse is in school full time or disabled for only part of the year.



▶ **Possible Required Adjustments for Highly Compensated Employees**

In the event that any IRS regulations change, the plan sponsor/administrator may adjust your contribution amounts to comply with the changed regulations.

For example, due to non-discrimination regulations imposed by the IRS, the limits outlined in the previous section may be decreased for employees considered “highly compensated” in any plan year. For 2000, the IRS classifies an employee earning an annual salary of \$85,000 or more as highly compensated. Generally, if you earn more than this amount, you may not be able to contribute the maximum amount to your Dependent Care ESA.

Furthermore, the election you make for any plan year is subject to adjustment by the NYU Benefits Office at any time during the plan year if it is found necessary to do so to comply with these IRS requirements.

If you are participating in an ESA and have a spouse who is also employed by NYU and participating in an ESA, you should keep this adjustment in mind when making an election, especially if either you or your spouse is considered a “highly compensated” employee.

Federal Tax Deductions and Credits

▶ The health and dependent care expenses eligible for reimbursement through the ESA Program are generally the same kinds of expenses that are allowed as deductions or credits on your federal income tax return. **If you have been reimbursed for an expense through the ESA Program, you cannot claim that expense as a deduction or credit on your income tax return.** Also, the maximum amount you can claim for a dependent care tax credit (\$4,800) on your federal tax return is reduced by any amount you contribute to the Dependent Care ESA. The worksheet in the back pocket of this booklet will help you determine which type of reimbursement makes sense for you.

Qualified Expenses

Under the Health Care and Dependent Care ESAs, certain types of expenses qualify for tax-free reimbursement, as defined by the IRS.

Qualified Medical and Dental Expenses

The Health Care ESA can generally be used to pay for the types of medical and dental expenses that could qualify as federal income tax deductions (whether or not they exceed the IRS minimum applied to these deductions). Expenses may be incurred by you, your spouse, or your parents, and other dependents, as defined in Section 152 of the IRS Code.

You'll find a complete list of these expenses in IRS Publication 502–*Medical and Dental Expenses*. You can request a copy of this booklet directly from your local IRS office. In general, a health care ESA is used for medical and dental expenses not paid for by any insurance plan under which you and your dependents are covered.

Examples of Eligible Medical and Dental Expenses

The following medical and dental expenses qualify as eligible expenses:

- ♦ Coinsurance and deductibles;
- ♦ Copayments;
- ♦ Expenses that exceed reasonable and customary (R&C) limits or plan maximums;
- ♦ Certain expenses not covered under your medical option or the NYU Dental Assistance Plan;
- ♦ Vision expenses, including examinations, eyeglasses, and contact lenses;
- ♦ Guide dogs for the visually or hearing impaired;
- ♦ Hearing expenses, including examinations and hearing aids;
- ♦ Unreimbursed expenses for psychiatric care, including psychoanalysis, or amounts paid to a psychologist for medical care;

A Note About Health Plan Contributions

If you or your spouse make contributions to a medical or dental plan, you should not include these contributions in the amount you allocate to your Health Care ESA, as they cannot be reimbursed from an ESA. (Other insurance premiums, such as those paid by your spouse to another employer, also are not eligible for ESA reimbursement.)

 *continued on page 12*

Examples of Eligible Medical and Dental Expenses (continued)

- ◆ Unreimbursed expenses for chiropractors' fees;
- ◆ Special equipment installed in the home or car to accommodate the disabled condition of yourself, your spouse, or your dependent;
- ◆ Cosmetic surgery that is necessary to improve a deformity related to a congenital abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease;
- ◆ Non-prescription drugs related to diagnosis, cure, mitigation, treatment, and/or prevention of a sickness or injury;
- ◆ Unreimbursed expenses for care received in a treatment center for alcohol or drug addiction, including meals and lodging;
- ◆ Special medical equipment (e.g., wheelchairs and crutches) bought or rented for a specific medical problem; and
- ◆ Transportation expenses to receive medical care, including fares for public transportation and actual out-of-pocket expenses, such as gas and oil.

Examples of Medical and Dental Expenses That Are Not Eligible

The types of medical and dental expenses that are not eligible for reimbursement are those that do not qualify as medical expense deductions for federal income tax purposes. Here are some of the expenses that do not qualify:

- ◆ Cosmetic surgery that is not medically necessary (e.g., liposuction, hair transplants, electrolysis, and face lifts);
- ◆ Nursing services for home care of a normal and healthy newborn;
- ◆ Funeral and burial expenses;
- ◆ Household and domestic help (even though recommended by a physician due to the patient's inability to perform housework);
- ◆ Health club dues;
- ◆ Social activities, such as dance lessons or other classes (even though recommended by a physician for general health improvement);
- ◆ Bottled water;
- ◆ Maternity clothes, diaper service, etc.;
- ◆ Cosmetics, toiletries, toothpastes, etc. and non-prescription medicines used to promote general health and well being;
- ◆ Vitamins taken for general health purposes or those that can be purchased without a doctor's prescription;
- ◆ Automobile insurance premiums, including the segment of premiums providing medical coverage;
- ◆ Premiums paid for the cost of "other health coverage" (for example, premiums for a health plan through a spouse's or dependent's employer or individual health insurance policies and continuation coverage under the Consolidated Omnibus Budget Reconciliation Act [COBRA]);
- ◆ Premiums paid for life insurance policies or for policies providing payment for accidental loss of life, limb, sight, etc.;
- ◆ Premiums paid for policies providing repayment for loss of earnings;
- ◆ Vacation or travel for general health purposes or taken to relieve physical or mental discomfort not related to a particular disease or physical defect;
- ◆ Transportation expenses to and from work, even though a physical condition may require special means of transportation; and
- ◆ Premiums you pay for long-term care insurance.

Qualified Dependent Care Expenses

The Dependent Care ESA can be used to pay for eligible dependent care expenses in order for you and your spouse (if you're married) to work. You're also eligible to use the account if your spouse is a full-time student, is disabled, or is actively seeking work. You'll find a complete list of these expenses in IRS Publication 503. You can request a copy of this booklet directly from your local IRS office.

Dependent Eligibility

A dependent is considered eligible if he or she is:

- ♦ Under age 13; or
- ♦ Over age 13, is physically or mentally disabled, depends on you for at least half of his or her support, spends at least eight hours a day in your home (e.g., 24-hour-a-day care in a nursing home for a dependent parent would *not* qualify), and can be declared a dependent on your income tax return.

Examples of Eligible Dependent Care Expenses

Here are the types of eligible dependent care expenses for which you can seek reimbursement under the Dependent Care ESA:

- ♦ Payments for dependent care services provided in your home (e.g., by a baby-sitter or housekeeper), as long as the services are *not* provided by someone you also claim as a dependent, nor by a child of yours under age 19, whether or not a dependent;
- ♦ Payments for a housekeeper, maid, or cook, as long as he or she is at least partly responsible for the well-being and protection of an eligible dependent; and
- ♦ Payments for dependent care services outside your home, such as:
 - Pre-school and nursery school tuition (below first grade);
 - Day camp (not overnight camp);
 - After-school programs; and
 - Child care centers.

Examples of Dependent Care Expenses That Are Not Eligible

The following expenses generally do not qualify for reimbursement from the Dependent Care ESA:

- ♦ Expenses for food and clothing for an eligible dependent, unless food charges are included as part of a nursery school's or day care center's fees;
- ♦ Education expenses in the first grade or higher;
- ♦ Payments to a housekeeper while at home sick from work;
- ♦ Round-the-clock nursing home care;
- ♦ Expenses for overnight camp; and
- ♦ Transportation to and from a care site.

Taxpayer Identification Number

If you use the services of a dependent care center that provides care for at least six people (other than residents), the center must be in compliance with state and local laws. To be reimbursed for your eligible dependent care expenses through the Dependent Care ESA, you must provide the taxpayer identification number of your dependent caregiver. If dependent care is provided by an individual, you'll need to provide his or her Social Security number. If care is provided by a tax-exempt organization, such as a church, synagogue, or school, you do not need to provide a taxpayer identification number.

Reimbursement for Health and Dependent Care Expenses

Reimbursement From the Health Care ESA

When you submit a receipt for an eligible expense to the Health Care ESA, you will be reimbursed for the amount of that expense, up to the total contribution amount you elected during open enrollment, less any prior reimbursements for the year.

Reimbursement From the Dependent Care ESA

Unlike the Health Care ESA, you can only be reimbursed from the money that has been placed in your account as of the date you make the claim. Your contributions are made to your account in equal installments, which means your funds build up gradually in your account. If you submit a claim for more than the amount available in the account at that time, you'll only be paid up to the amount that's in your account at the time the claim is submitted. Any remaining expenses will be automatically reimbursed (according to the monthly schedule) as soon as additional contributions are available in your account.

A Note About the Minimum Reimbursement Amount

► You may submit claims as often as you like, but the minimum amount for which you can seek reimbursement of an expense at one time is \$25. To meet the \$25 minimum, you can combine claims for both the Health Care and Dependent Care ESAs and submit them to United HealthCare. You can submit a claim for less than \$25 after December 31 (up to the April 15 deadline of the following year) and be reimbursed for the eligible expense.

Filing Claims

Reimbursement claim forms are available through the NYU Benefits Office web site (www.nyu.edu/hr) or from the NYU Benefits Office. You need to submit supporting documents with your claim form to United HealthCare, the ESA claims administrator, so you can be reimbursed for the expense. Here are the documents you need to provide to support your claim:

▶ For health care expenses that were *partially* reimbursed by the health plan, send the Explanation of Benefits (EOB) statement you received with your reimbursement check.

▶ For health care expenses that are not covered under any health plan, submit the bills or receipts for reimbursement.

▶ For eligible dependent care expenses, submit original paid bills or other proof of payment which shows the name and taxpayer identification number or Social Security number of the provider.

Note: Bills or receipts must show when the health care or dependent care services were provided, for whom it was provided, and the type of service.

Account Statements

You will receive an Employee Spending Account Statement in October and January. The statement will show you the balance of each account for the most recent statement period and for the year to date. The statement will include the following details:

- ◆ Contributions made to the account;
- ◆ Payments made from the account;
- ◆ Remaining unpaid requests; and
- ◆ Ending balance.

Things to Consider

- ▶ Here are some things to consider when seeking reimbursement for eligible health and dependent care expenses through the ESAs:
- ◆ Keep properly itemized bills and receipts for all eligible expenses;
 - ◆ You may apply for reimbursement on a weekly basis;
 - ◆ Payments can only be made to you, so you must pay your provider directly, submit a claim for the expense to your ESA, and reimburse yourself with pre-tax dollars;
 - ◆ For your claim to be valid, you must not receive reimbursement for the same expense from any other source, and you must pay the bill for which you are seeking reimbursement; and
 - ◆ You must have incurred the expense during the plan year (January 1 through December 31).

When Participation Ends

Take Note

Before you become ineligible to participate in the ESAs, you'll receive additional information about continuation of participation in the Health Care ESA. However, in order to provide your spouse and dependents with this information before their participation ends, you need to notify the NYU Benefits Office within 60 days of the date your spouse or dependents become ineligible to participate in the ESAs. This way, they'll receive the information they need to decide whether to continue participation.

You will no longer be eligible to participate in the ESAs if you:

- ◆ Terminate employment;
- ◆ Retire;
- ◆ Become permanently and totally disabled;
- ◆ Go on an unpaid leave of absence;
- ◆ Transfer to an ineligible employment category; or
- ◆ Reduce your hours to part-time status.

If you become ineligible to participate in the ESAs, your pre-tax contributions to your ESAs will automatically stop with your last paycheck. In addition, your ESA contributions will be suspended for any pay periods in which your salary does not at least equal your ESA contributions. You have until April 15 of the following year to file a claim for an eligible expense you incurred up to December 31 of the previous year. Any amounts left in your accounts after this date will be forfeited. (See page 9 for details.)

Health Care ESA

If you are no longer eligible to participate in the Health Care ESA, you may be able to do the following:

- ◆ Funds already contributed to a Health Care ESA may be withdrawn to pay claims incurred *before* the date your participation in the ESA ends. If there are funds remaining in your account, they will be forfeited, unless you elect to continue contributing to your Health Care ESA on an *after-tax* basis.

Note: While contributing to the Health Care ESA on an after-tax basis may allow you to access funds that would otherwise be forfeited, there are no tax benefits when you continue to participate on an after-tax basis.

- ◆ You are eligible to continue contributing to your Health Care ESA on an after-tax basis for up to 18 months under the Consolidated Omnibus Budget Reconciliation Act (COBRA). (See the next page for details.)

- ♦ If, during the plan year, you are transferred from an ineligible employment category back to an eligible employment category and you choose to participate in the ESA Program again, you must continue to contribute the same amount you were contributing to the ESA before you were transferred; if the transfer takes place in a new plan year, you may make new contribution elections.

Your Right to Continue Participation in the Health Care ESA

The Consolidated Omnibus Budget Reconciliation Act (COBRA) provides special rules that allow you to continue participation in the Health Care ESA on an *after-tax* basis for a period of time after participation would otherwise end. Should this happen, NYU will contact you with instructions for continuing coverage for you, your spouse, and your dependents. During the continuation period, you'll be charged an administrative fee of 2% of the after-tax contributions allocated to your account.

Coverage continuation is available in the following situations:

- ♦ **If your coverage ends** because of termination (except for gross misconduct) or because you are no longer eligible for coverage, you and your covered dependents can continue participation in the Health Care ESA for **up to 18 months** (if you or your dependent becomes disabled within the first 60 days of COBRA continuation, participation can continue for an additional 11 months). If you have a newborn child or a child is placed with you for adoption while you're covered under COBRA, the child is eligible for immediate coverage under your COBRA policy.
- ♦ **If your spouse becomes ineligible to participate** because you become separated or divorced or you die, your spouse will have the opportunity to continue participation in the Health Care ESA for **up to 36 months**.
- ♦ **If your dependent child becomes ineligible to participate** because he or she no longer meets the age requirement under the plan or gets married, or you die, your dependent can continue participation in the Health Care ESA for **up to 36 months**.

Note: If the NYU ESA Program changes during the period that you, your spouse, or your dependents are continuing participation in the Health Care ESA, your coverage will also change accordingly.

How Continued Participation Could End

Continued participation under the Health Care ESA will end for you and your dependents under the following circumstances:

- ♦ NYU stops providing the Health Care ESA;
- ♦ NYU stops providing group health care benefits;
- ♦ You do not pay the monthly contribution amounts;
- ♦ You or a dependent obtains new coverage under another group health plan (for example, a new employer) unless the new plan has a pre-existing condition limitation; or
- ♦ Your participation in the Health Care ESA is canceled for just cause.

If You Die

If you die during the plan year, your dependents may submit claims for eligible expenses incurred during the plan year. They have until April 15 of the following year to submit claims for expenses incurred up to December 31 of the previous year. Your dependents cannot continue participation in the Health Care ESA after you die.

Administrative Information

This section provides you with some important administrative information about the Employee Spending Accounts.

Your Right to Appeal a Denied Claim

If your application for benefits from a plan governed by the Employee Retirement Income Security Act (ERISA) is denied, in whole or in part, you'll be notified in writing within 90 days of the date you filed your claim. This notification will include the reasons for denial; the plan provisions on which the denial was based; and, if needed, a request for further information. Also included will be additional information you may need if you choose to submit an appeal and an explanation of the claim procedure.

If you or your beneficiary wishes to contest the denial, you (or your legal representative) may request a review of the decision in writing within 60 days of the date you receive the denial. Your appeal should include a description of the benefits you're claiming and the reasons for your claim, as well as supporting documents and records. You should send your appeal to the plan sponsor/administrator (see page 19).

You'll be notified of the final decision within 60 days of the date you requested a review of your denied claim. Any action or decision made in the appeal process is final.

Your Rights Under ERISA

The NYU Employee Spending Account (ESA) Program is governed by the Employee Retirement Income Security Act (ERISA). Under ERISA, you are entitled to certain rights and protections, which include the following:

- ♦ Examine, without charge at the plan sponsor/administrator's office, all plan documents, including insurance contracts and copies of any documents filed by the plan with the U.S. Department of Labor, such as detailed annual reports and plan descriptions.
- ♦ Obtain copies of all plan documents and other plan information upon written request to the plan sponsor/administrator. The plan sponsor/administrator may charge a reasonable fee for copies.
- ♦ Receive each year (as required by law) a summary of the plan's annual financial report.

In addition, ERISA imposes certain obligations upon “fiduciaries,” the people who manage NYU’s benefits plans. These obligations include the following:

- ♦ The duties of the fiduciaries are performed solely in the interest of the participants and beneficiaries of the NYU Employee Spending Account Program.
- ♦ You cannot be fired, disciplined, or discriminated against in any way that would interfere with or prevent you from obtaining a benefit or exercising your rights under ERISA.
- ♦ If your benefit claim is denied, in whole or in part, you must receive a written explanation for the denial. You have the right to have the plan sponsor/administrator review and reconsider your claim.

Under ERISA, you can enforce the above rights in several ways:

- ♦ If you request materials from the plan sponsor/administrator and don’t receive them within 30 days, you may file suit in a federal court. In such case, unless there were reasons beyond the plan sponsor/administrator’s control, the court may require the plan sponsor/administrator to provide the materials and pay you up to \$110 a day until you receive them.
- ♦ If you have a claim for benefits which is denied or ignored, in whole or in part, you may file a suit in a state or federal court.
- ♦ If the plan fiduciaries misuse the plan’s money or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor or you may file a suit in a federal court.

The court will decide who will pay court costs and legal fees. If you win, the court may order the person you have sued to pay those costs and fees. If you lose, the court may order you to pay those costs and fees.

If you have further questions about your plan, contact the plan sponsor/administrator. If you have any questions about your rights under ERISA, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor listed in your telephone directory or send correspondence to:

Division of Technical Assistance
and Inquiries
Pension and Welfare
Benefits Administration
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210

Plan Sponsor/Administrator

New York University
7 East 12th Street, 2nd Floor
New York, NY 10003-4475
212-998-1270

Employer Identification Number

135562308

Identifying Plan Number

507

Plan Year

January 1 through December 31

Agent for Service of Legal Process

If, for any reason, you wish to seek legal action, you may serve legal process on the plan sponsor/administrator or the insurance company at the address listed below, or on the agent for service of legal process at the following address:

The Office of Legal Counsel
New York University
Elmer Holmes Bobst Library
70 Washington Square South
11th Floor
New York, NY 10012-1099

Organization Providing Administrative Services

United HealthCare is the organization that provides administrative services for the ESA Program. These services include administering claims and providing customer assistance. Send correspondence to:

United HealthCare
P.O. Box 925
Albany, NY 12201
1-877-311-7849

Plan Documents

This booklet summarizes the major features of the ESA Program; it is intended to meet the requirement for a Summary Plan Description (SPD) under ERISA. The NYU Benefits Office has a copy of the plan document, which governs your rights if there is a difference between it and this summary.

Program Amendments or Termination

Although NYU intends to offer the NYU ESA Program indefinitely, NYU reserves the right to change or end the program at any time.

Contact Information

You Can Call...	If You Need...	At This Number...	At This Web Site...
United HealthCare	Information about how the ESAs work or to file a claim	877-311-7849	www.uhc.com
IRS	Information IRS Publications 502 (eligible health care expenses) or Publication 503 (eligible dependent care expenses)	800-TAX-FORM (800-829-3676)	www.irs.gov
NYU Benefits Office	Information about the ESA Program and your other benefits	212-998-1270 (or via email: benefits@nyu.edu)	www.nyu.edu/hr