

**M E M O R A N D U M**

To: PERSONNEL MANAGEMENT LIAISONS

Date: December 4, 1990  
Reference Code: 90-64

**THIS MEMORANDUM SHOULD BE DISTRIBUTED TO:**

**ALL PERSONNEL OFFICERS, PERSONNEL TRANSACTIONS  
SUPERVISORS, AND PERSONNEL TRANSACTIONS STAFF**

From: Department of Personnel Administration

Subject: FlexElect Program

- Tax Law Change to the Medical Reimbursement Account
- Claims Processing for 1991

Attached for your information is a letter which is being mailed to the home address of all 1991 plan participants, as well as 1990 participants enrolled in the medical and/or dependent care reimbursement accounts. This letter provides information on an important tax law change for 1991 medical reimbursement account participants. In addition, the letter contains information on the new process participants are to follow effective January 1, 1991 for submission of claims against their reimbursement accounts.

Since this letter was sent to the home address of only those Flex participants that the State Controller's (SCO) has currently processed, we realize that there could be a small group of employees whose enrollment documents for 1991 have not yet been processed due to incorrect documents, etc. Accordingly, we are asking your assistance in ensuring that a copy of the attached letter is sent to each field office location, as well as posted on employee bulletin boards.

**TAX LAW CHANGE IMPACTING 1991 MEDICAL REIMBURSEMENT ACCOUNT (MRA)  
PARTICIPANTS RELATING TO EXPENSES INCURRED FOR ELECTIVE COSMETIC  
SURGERY.**

Effective January 1, 1991, a provision in the federal reconciliation budget bill eliminates certain types of elective cosmetic surgery as tax deductible expenses. As a result of this change, only cosmetic surgery expenses for birth defects, or to repair a disfigurement due to injury or disease will be allowed to be reimbursed on a pre-tax basis. Other "elective" types of cosmetic surgery will no longer be considered qualified expenses. The provision also defines cosmetic surgery as "any procedure which is directed at improving the patient's appearance and which does not meaningfully promote the proper function of the body or prevent or treat disease".

Based on this new provision, employees who enrolled in a MRA for the 1991 plan year AND made that election for the purpose of cosmetic surgery will be allowed to cancel or decrease the amount they elected to have placed in their account. In order to make a change to the MRA, DPA must receive a correcting document by January 16, 1991. Accordingly, employees impacted and wishing to make a change have been instructed that they need to take IMMEDIATE action. Since your assistance will be needed to process election changes the following information is being provided:

**Participants who wish to remain in the Flex Program but wish to change their contribution to their MRA must:**

1. Complete a new FlexElect Enrollment Form Std. 701
2. The form is to be completed EXACTLY like their original election with the exception of the new monthly amount they wish to have placed in their MRA. Please note that the new amount must be lower than the original amount elected.
3. Section 17 - Must indicate "Decrease in monthly Medical Reimbursement Account deduction due to change in cosmetic surgery tax exemption."

**Participants who wish to cancel their 1991 Flex Enrollment based on the tax change to their MRA must:**

1. Complete a new FlexElect Enrollment Form Std. 701 cancelling their enrollment.
2. Section 17 - Must indicate "Cancellation of Flex election due to change in cosmetic surgery tax exemption".

Personnel Offices are being asked to review each form and complete the lower portion. The effective date of all documents resulting from this tax change will be January 1, 1991. Sections 10, 11, 12 and 13 should be left blank. All other sections must be completed exactly like the employee's original election. Completed forms are to be delivered or mailed directly to the Department of Personnel Administration for approval and processing through SCO.

**Timeframes for processing changes:**

Correcting documents received at DPA by December 13, 1990 will be processed by SCO and reflected on the participant's January 1st warrant.

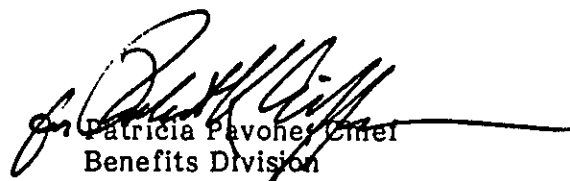
Documents received at DPA after that date, but prior to the final deadline of January 16, 1991, will be processed retroactively and the participant's warrant adjusted accordingly.

Attached is a notice regarding the cosmetic surgery tax change which should be duplicated and attached to any 1991 FlexElect brochures distributed to newly eligible employees. As indicated in the participant letter, we have had to establish very short timeframes for the processing of documents due to this recent tax law change. While we believe there will be a very small percentage of participants impacted, we apologize for any additional workload this change may have on Personnel Office staff.

**CLAIMS PROCESSING EFFECTIVE JANUARY 1, 1991**

Attached is a supply of the new claim forms to be used effective January 1, 1991. In addition, each reimbursement account participant has been sent a supply of claim forms. Additional claim forms may be obtained by contacting DPA at (916) 322-0300 or ATSS 492-0300. Should employees have any questions on the process for submission of claims, please refer them to the attached letter which indicates the new address claims are to be sent to, as well as the timeframes for submission.

If you have any questions regarding the information containing in this memorandum, please call Karen Alejo, Benefits Program Manager, at (916) 324-9366 or ATSS 454-9366. Thank you for your assistance.

  
Patricia Pavones, Chief  
Benefits Division

Attachments





**CLAIMS PROCESSING FOR 1990 AND 1991 PARTICIPANTS IN THE MEDICAL AND/OR DEPENDENT CARE REIMBURSEMENT ACCOUNTS.**

Effective January 1, 1991, Anthem Group Services Corporation (Anthem), formerly American General Group Insurance, will process all reimbursement account claims. While this change primarily impacts 1991 plan participants, it also impacts any 1990 plan participants who may have claims against their 1990 reimbursement accounts which they have not yet submitted.

- Effective January 1, 1991 claim forms are to be submitted directly to Anthem at the following address:

Anthem Group Services Corporation  
P.O. Box 650329  
Dallas, Texas 75265-0329

Questions regarding claims submitted to Anthem should be directed to their claims service representative at the following toll free number: 1-800-950-FLEX.

Should you have questions regarding claims or transactions which occurred prior to January 1, 1991, contact Deborah Alley at DPA. She can be reached on (916) 327-6429 or ATSS 8-467-6429.

Enclosed is a supply of new claim forms to be used effective January 1, 1991. The claim form has been simplified and consolidated so that it may be used for claims against either of the reimbursement accounts. Please note however, that those employees enrolled in BOTH the medical AND dependent care reimbursement accounts will be required to submit a separate claim form for each account. In addition, if you are submitting claims for 1990 and 1991, you must submit them separately and not combine them on one form.

There have been no changes made to the claim processing timeframes or the types of substantiation that must be attached to your claims. As a reminder, the processing timeframes are as follows:

Medical Reimbursement Account - (Paid Monthly)

Reimbursement checks for valid claims mailed directly to Anthem and postmarked by the 5th of the month should be issued between the 20th-25th of the same month. Reimbursement for valid claims postmarked later than the 5th of the month should be issued between the 20th-25th of the following month.

DEPENDENT CARE REIMBURSEMENT ACCOUNT - (Paid Semi-Monthly)

Reimbursement checks for valid claims mailed directly to Anthem and postmarked by the 5th of the month should be issued between the 20th-25th of the same month. Reimbursement for valid claims postmarked by the 15th of the month should be issued between the 1st-5th of the following month.

**NOTE:** Please be aware that participants could experience a delay in payment for those claims not forwarded directly to Anthem even though they were postmarked by the 5th of the month.

We believe that the changes described above will result in a significant improvement in the timeliness of the processing of your claims and receipt of payment. Your cooperation in following the procedures provided in the submission of all claims as of January 1, 1991 will help to ensure the prompt handling of your claims. Questions regarding the information provided should be directed to your Personnel Office.

  
Patricia Pavone, Chief  
Benefits Division

Enclosure

RTD/136

Addendum to 1991 FlexElect Brochure

**N O T I C E**

**IMPORTANT TAX LAW CHANGE IMPACTING  
MEDICAL REIMBURSEMENT ACCOUNT PARTICIPANTS  
FOR THE 1991 FLEXELECT PLAN YEAR**

Employees enrolled, or planning to enroll in the Medical Reimbursement Account for the 1991 plan year should be aware that a provision in the federal reconciliation budget bill eliminates certain types of elective cosmetic surgery as tax deductible expenses. This tax law change impacts the information provided on Page 7 of the 1991 FlexElect Brochure.

Accordingly, employees are hereby notified that effective January 1, 1991, only cosmetic surgery expenses for birth defects, or to repair a disfigurement due to injury or disease, will be allowed to be reimbursed on a pre-tax basis. Other "elective" types of cosmetic surgery, such as face lifts, or electrolysis which are not in response to injury, disease or a birth defect will no longer be qualified expenses. The provision also defines cosmetic surgery as "any procedure which is directed at improving the patient's appearance and which does not meaningfully promote the proper function of the body or prevent or treat disease".

