Flexible Spending Accounts offer a convenient way to pay for health and dependent care expenses on a pre-tax basis.

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Highlights

The Flexible Spending Accounts...

... Give You Choices
You can contribute to the health care spending account, the dependent care spending account, or both per Internal Revenue Service (IRS) guidelines. Each year, you can contribute up to the limits set by the IRS for each account. You can use the health care spending account to pay for certain eligible out-of-pocket medical, dental, vision care, and prescription expenses, and the dependent care spending account to pay for day care and elder care expenses for eligible dependents.

... Offer Convenience
Your Flexible Spending Account contributions are automatically deducted from each paycheck and credited to your Flexible Spending Accounts.

... Save You Money in Taxes
The money in your accounts is not subject to federal income taxes, Social Security taxes, or Medicare taxes, and, in most places, state and local taxes also do not apply. This means that many of your routine health and dependent care services will actually cost you less.

... Require Careful Planning
You need to estimate your expenses for the upcoming year carefully, during the annual benefits Open Enrollment, when deciding how much to contribute to the Flexible Spending Accounts. According to IRS rules, any money left in your account will be forfeited.

What happens to your benefits when ...
For more information about what happens to your Flexible Spending Account participation when certain changes or events occur, see "How Changes Affect Your Benefits" in the "About Your Benefits" section.
How the Flexible Spending Accounts Work

Use these guidelines to put the Flexible Spending Accounts to work for you:

- **Estimate your expenses.** Each year, you calculate these expenses for the upcoming year: any out-of-pocket medical, dental, vision care, or prescription drug expenses and your dependent care expenses. You should estimate carefully because you will forfeit any unused funds. You can use the Flexible Spending Account calculators to help you plan your contributions.

- **Decide on your annual contributions to the health care spending account and the dependent care spending account based on the IRS annual limits.** The two accounts are separate, and you may not transfer funds between the two. Once you begin contributing, you may not change or stop your contributions during the year unless you have a Qualifying Life Event as described in the “About Your Benefits” section.

- **When the accounts are effective.** For new hires and newly eligible participants, you may use your accounts for expenses incurred beginning the day you first become eligible. For elections made during the annual Open Enrollment, the accounts are effective beginning the following January 1.

- **Using your account.** The Flexible Spending Account administrator maintains a web-based participant portal that makes account information readily available. Features include:
  - Set up direct deposit for your reimbursements
  - Get your account balance
  - View payment card charges
  - Enter claims and view claim status
  - Submit required receipts
  - View reimbursement schedule
  - Find eligible and ineligible expenses, consumer tools, and frequently asked questions.

- **Incurring expenses.** Expenses must be incurred in the plan year for which the election was made and while you were an active participant in the plan. The deadline for filing claims is March 31 following the plan year for which the election was made.

- **Receive reimbursement.** Reimbursements from your accounts are made with pre-tax dollars.

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**Should You Participate?**

Here are some questions you may want to ask yourself before you decide to contribute to a Flexible Spending Account:

- **What do you expect your out-of-pocket health care expenses will be?**
  
  Start with your deductibles, and then add any medical, dental, vision care, or prescription drug expenses that are not covered, such as copayments, charges above reasonable and customary charges or charges above plan maximums. **Note:** If you are enrolled in a High Deductible Health Plan (HDHP), you are not eligible to participate in a Health Care Flexible Spending Account.

- **What do you expect your dependent care expenses will be?**
  
  Consider any times of the year when you do not have these child care expenses, such as vacation periods. Also, if your child will turn 13 during the year, estimate your expenses only for the portion of the year before your child’s 13th birthday.
  
  You may also want to use a Flexible Spending Account calculator to help determine how much you should contribute.

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**Grace Period**

IRS regulations provide for a 2½ month grace period for both Health and Dependent Care Flexible Spending Accounts. Under this provision you are allowed to file claims for expenses incurred through March 15 of the following plan year.

However, if you elect to participate in the Health Savings Account following a year you participated in the Health Care Flexible Spending Account, you will only be reimbursed during the grace period from the Health Care Flexible Spending Account for...
Changing your Contribution

You may not change or stop your contributions to the Flexible Spending Accounts during the year unless you have a Qualifying Life Event, such as a birth, marriage or a job loss by your spouse. The change in contributions must be consistent with the Qualifying Life Event. For example, with the birth of a child, you can increase your contributions but not decrease them.

Changes in Cost for Dependent Care

If you contribute to the dependent care Flexible Spending Account, and there is a significant increase or decrease in the cost of services by a day care provider who is not your relative, you may be able to make corresponding changes to your contribution election for your dependent care spending account by submitting a new election within 30 days of the change. For example, if mid-year, your mother will begin taking care of your child at no cost and you no longer need your current dependent care center, you can revoke your election to contribute to the dependent care spending account due to a significant change in coverage. However, if your mother wants to start receiving an income, you cannot increase your contributions to this account due to a change in cost because she is your relative.

See the “About Your Benefits” section for more information on Qualifying Life Events. If you stop contributing to the Flexible Spending Accounts, you can be reimbursed only for eligible health and dependent care expenses incurred before you stopped contributing.

Tax Savings

The health care and dependent care spending accounts are designed for one purpose: to help you save on taxes. Your taxable income is reduced by the amount you contribute to the accounts.

Your participation in the Flexible Spending Accounts may reduce your Social Security retirement benefits. But the current tax advantages generally offset any reduction in Social Security benefits.

How much can you save on taxes?

Take the amount you will contribute to the dependent care and health care spending accounts times your federal tax percentage bracket to determine how much federal taxes you save. You may also save on Social Security and Medicare taxes—and depending on where you live, state and local taxes.
Health Care Spending Account

Contributions
You can contribute from $100 up to the IRS annual limit to the health care spending account. Contributions are deducted from your Pay each pay period and credited to your Flexible Spending Account.

Limit for Highly Compensated Employees
Certain highly compensated employees may be limited by the IRS as to how much they can contribute to the health care spending account each year. You will be notified if this limit applies to you.

Eligible Expenses and Dependents
You can use the health care spending account to pay for eligible out-of-pocket medical, dental, vision care, and prescription drug expenses for you and your eligible dependents.

The term “eligible dependents” is defined in the Glossary.

You and your eligible dependents do not have to be covered under the Company’s medical or dental plans to participate in the health care spending account. In general, you may be reimbursed for any health care expense that is not paid for by an insurance plan and is considered a deductible medical expense by the IRS, except health care insurance premiums. However, you cannot claim, as an income tax deduction, any expenses reimbursed or payable through the health care spending account.

Refer to IRS Publication 502 for a current list of eligible deductible expenses. To order a copy, call the IRS toll-free at 1-800-829-3676 or visit the IRS website at www.irs.gov.

Examples of eligible expenses that are currently allowable by the IRS include medically necessary:

- fees for physicians, surgeons, dentists, ophthalmologists, optometrists, chiropractors, podiatrists, psychiatrists, psychologists, social workers, and Christian Scientist practitioners
- fees for hospital services; therapy; nursing services; ambulance fees; and laboratory, surgical, obstetrical, diagnostic, dental, and x-ray services
- rehabilitation services
- special equipment such as wheelchairs, special handicapped automotive controls, and special phone equipment for the deaf
- special items such as dentures, artificial limbs, contact lenses, eyeglasses, hearing aids, crutches, and guide dogs for the vision or hearing impaired
- prescription medicines, drugs, and insulin
- cost of vasectomies, hysterectomies, and birth control
- acupuncture
- radial keratotomy and laser vision correction
- non-elective cosmetic surgery
- smoking cessation programs
- over-the-counter drugs that are prescribed and treat a medical condition
- weight loss programs prescribed by a physician to treat a medical condition.
Health Care Spending Account (cont.)

Expenses Not Eligible
Examples of health care expenses that are ineligible for reimbursement through the account include:

- expenses incurred before your date of participation
- expenses reimbursed or reimbursable through any other policy, plan, or program
- expenses claimed as a deduction or credit on your federal income tax return
- elective cosmetic surgery
- orthodontia for cosmetic purposes
- tooth-whitening procedures
- marriage or family counseling fees
- household and domestic help, even if recommended by a doctor
- custodial care in an institution
- funeral and burial expenses
- illegal operations or treatments
- weight-loss programs, unless prescribed by a doctor to treat an existing disease/medical condition
- maternity clothes, diaper services, etc.
- vitamins or food supplements taken for general health purposes
- cosmetics, toiletries, etc.
- health care insurance premiums
- hair transplant or removal
- transportation expenses to and from work, despite a physical handicap
- expenses merely beneficial to health, such as vacations or fitness programs, even if recommended by a doctor
- any expenses incurred after you stop making contributions.
- over-the-counter drugs that are not prescribed by a physician

Filing Claims
When you incur an eligible medical, dental, vision care, or prescription drug expense, you may pay using your Healthcare Payment Card or pay out of pocket and request reimbursement. In all cases, you must save itemized receipts as the IRS requires that your charges be verified. You may submit claims on the plan administrator’s website or submit paper forms, available on the Employee Benefits website.

If you have incurred eligible health care expenses, you may be reimbursed up to the total contribution amount you have elected for the plan year, regardless of your account balance.

Refer to IRS Publication 502 for a current list of eligible deductible expenses. To order a copy, call the IRS toll-free at 1-800-829-3676 or visit the IRS website at www.irs.gov.
Dependent Care Spending Account

Contributions
You may contribute to the dependent care spending account if you have eligible dependent care expenses (that is, you incur expenses to enable you to work). If you are married, you may contribute to this account only if your spouse is:

- gainfully employed outside the home
- actively searching for a job
- enrolled as a full-time student at least 5 months of the year
  or
- mentally or physically disabled, and unable to provide care for himself or herself.

If your spouse’s employment ends during the year, or your child turns age 13, you should contact your company’s benefit office immediately because you may no longer be eligible to participate in this account.

You can contribute from $100 up to the IRS annual limit in pre-tax dollars to your dependent care spending account. In some cases, however, the IRS limits the amount you can contribute, as shown in the following chart. Dependent care contributions are reported on your W-2, according to IRS rules.

Limit for Highly Compensated Employees
Certain highly compensated employees may be limited by the IRS as to how much they can contribute to the dependent care spending account each year. You will be notified if this limit applies to you.

Special Dependent Care Spending Account Limits if You are Married

<table>
<thead>
<tr>
<th>If this is your Situation …</th>
<th>You will be taxed on reimbursements that exceed …</th>
</tr>
</thead>
<tbody>
<tr>
<td>You or your spouse earn less than $5,000</td>
<td>The amount the lower-paid spouse earns*</td>
</tr>
<tr>
<td>Your spouse also participates in a similar dependent care spending account</td>
<td>$5,000 combined</td>
</tr>
<tr>
<td>You file separate federal income tax returns</td>
<td>$2,500</td>
</tr>
</tbody>
</table>

* If your spouse is a full-time student for at least 5 months of the year or is disabled, he or she will be treated as earning $250 a month if you have one eligible dependent ($500 a month if you have two or more eligible dependents), adjusted for future years as required by the IRS.
Dependent Care Spending Account (cont.)

Eligible Dependents
You may use the dependent care spending account to pay for the care of your eligible dependents so that you or, if you are married, you and your spouse, can work. Eligible dependents include:

- your children under age 13
- your spouse, if he or she is physically or mentally incapable of caring for himself or herself and has the same principal place of abode as you for more than one-half of the year
  
  or
  
- a disabled dependent of any age (including parents) if he or she is physically or mentally incapable of caring for himself or herself and has the same principal place of abode as you for more than one-half of the year.

An eligible dependent is someone you can claim as a dependent on your federal income tax return.

If you are divorced or legally separated and have custody of your eligible child, you may use the dependent care spending account even though you have agreed to let your spouse claim the child as a dependent for tax purposes. If you have joint custody, you may also use the dependent care spending account provided you have custody of your child for a longer period during the year than your spouse.

Eligible Expenses
Expenses eligible for reimbursement are those incurred to enable you to work and include:

- services provided in your home by a babysitter or companion, including wages and related taxes
- services provided by a dependent care center that meets local regulations, cares for more than six nonresidents, and receives a fee for such services, whether or not for profit
- services provided outside your home, such as day camp, preschool tuition or other outside dependent/child care services, such as before and after-school programs, but only if the care is for a dependent under age 13 or other eligible dependent who regularly spends at least 8 hours a day in your home.

Generally, eligible child care costs include only those for the actual care of your child, not costs for education, supplies, or meals—unless those costs cannot be separated.

Expenses Not Eligible
Expenses that are not eligible for reimbursement through the dependent care spending account include:

- dependent care provided by your child (or stepchild) who is under age 19 at the end of the taxable year or by another dependent whom you can claim as an exemption
- dependent care obtained for non-work-related reasons such as babysitting after your working hours
- dependent care provided while you are away from work because of illness or leave of absence
- dependent care that could be provided by your employed spouse whose work hours differ from yours
- expenses for overnight camp
- dependent care expenses incurred if your spouse does not work, unless your spouse is actively seeking employment, a full-time student, or disabled
- any expenses you claim for the dependent care tax credit on your federal income tax return
- expenses paid by another organization or provided without cost
- transportation to or from the dependent care location
- care provided in a group care center that does not meet state and local laws
- agency finder fees
- charges for referral to dependent care providers
- costs for after-school educational programs
- costs for clothing, entertainment, or food
- educational expenses (such as those for private school) for kindergarten or higher
- expenses incurred before you began contributing to the account or after you stop contributing.
Dependent Care Spending Account vs the Federal Tax Credit

Under the current tax law, you can save taxes on dependent care expenses by either claiming a tax credit on your federal income tax return or by participating in the dependent care spending account. Both are intended to offer you tax savings. The best method for you depends on your income, the number of eligible dependents you have, and other factors. However, for most people, using the dependent care spending account provides a greater tax advantage.

You may use both approaches, but you may not “double deduct” the same expense. In addition, the expenses you apply toward the tax credit will be reduced dollar-for-dollar by the amount of expenses reimbursed from your account.

You should consult a personal financial or tax advisor to help you decide whether the tax credit or the dependent care spending account is more favorable for you.

Refer to IRS Publication 503 for a discussion of the tax credit. To order a copy, call the IRS toll-free at 1-800-829-3676 or visit the IRS website at www.irs.gov.

Filing Claims

When you have an eligible dependent care expense, you must pay the provider and then submit a claim, along with a bill or receipt, to the Flexible Spending Account administrator. Be sure to include the dependent care provider’s Social Security or tax identification number.

Note: You may be reimbursed only up to the amount available in your account at the time you file a claim. The annual deadline for filing prior year claims is March 31.

You will be reimbursed only for dependent care services you have already received. For example, if you pay in advance for 3 months of care, you cannot be reimbursed for the entire amount until after the end of the 3 month period. However, you can be reimbursed for a portion of the bill at a time.

You will be reimbursed for the lesser of your current account balance or the amount of the claim. If you submit a claim for an amount that exceeds your account balance, you will be reimbursed for the remainder of the claim after you have made sufficient additional contributions for that year to cover the expenses.

Payment of eligible expenses incurred, received, and processed will be made weekly.

Flexible spending account reimbursement request forms are available on the Benefits Enrollment website or from the account administrator.
Remaining Funds

**No Transfers Allowed**

Remember, you may not transfer money between Flexible Spending Accounts. Money set aside in your health care spending account cannot be used to reimburse dependent care expenses or vice versa.

Estimate your Flexible Spending Account contributions carefully. You may continue to file claims for expenses incurred during the plan year until March 31 of the following year. According to IRS rules, you must “use up” amounts deducted from your pay by incurring and filing claims for eligible expenses up to the amount you have had deducted. Otherwise, you lose the money you have left in your account.

Any forfeited amounts will be used to offset the plan’s administrative expenses.

Account Statements

You may obtain account information any time by phone or by accessing the Flexible Spending Account vendor website.

In addition, each time you receive a reimbursement, the attached explanation provides a summary of year-to-date activity.

Continuation of Coverage

You may be eligible to continue your health care spending account participation in certain cases when your participation would otherwise end. You may not, however, continue your participation in the dependent care spending account. Refer to the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) in the "Administrative Information" section.

**Administrative Information**

Information about the administration of the Flexible Spending Accounts can be found in the section titled "Administrative Information."