VIII. FLEXIBLE SPENDING ACCOUNTS

A. MEDICAL EXPENSE FLEXIBLE SPENDING ACCOUNT
B. DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT
VIII. FLEXIBLE SPENDING ACCOUNTS

By taking advantage of tax laws, Flexible Spending Accounts (FSAs) work with your benefits to save you money on goods and services that you are already purchasing with after-tax dollars. Almost everyone has a number of necessary, predictable expenses that are not covered by their insurance programs, including, but not limited to health, dental and vision plan co-pays or deductibles and prescriptions and FSAs offer a unique way to help pay for health care expenses not covered by your health plan, as well as the expense of dependent care while you are working.

On 3/30/10, new legislation was passed in the Health Care Reform bill stating over-the-counter medicines and drugs will no longer be eligible for reimbursement through a health flexible spending account after 12/31/10 unless you have a prescription from your doctor.

A Flexible Spending Account is one of the only tax advantages available to individuals in any tax bracket.

DEBIT CARD

Get instant access to your FSA election.
Once you have elected into the plan, you will automatically receive a Claim Card that is pre-loaded with your annual election for your Medical FSA and/or your Dependent Care FSA.

What is the advantage of a debit card for claims payment?
The debit card provides payment convenience for you. At the point of sale, whether you are at a pharmacy or a physicians’ office, you will have the ability to instantly access your FSA funds by utilizing your debit card. This eliminates the process of having to pay for a medical or dependent care expense out-of-pocket and then submit a claim and wait for a check reimbursement. The debit card eliminates the “pay and wait” that goes along with paper-based claims processing.

This convenience comes with some stipulations set forth by the Internal Revenue Service (IRS) in order to maintain favorable tax treatment of your contributions to the plan. Following are some of the stipulations that you should be aware of:

- The debit card only will work at qualified medical/dependent care facilities as well as certain pharmacies and grocery stores. The debit card will NOT work at gas stations, restaurants, clothing stores and any other facility that does not normally sell medical/dependent care merchandise.

- The IRS requires FSA administrators (Total Administration Services Corporation) to adjudicate and substantiate any claim that cannot be automatically identified as a valid medical or dependent care expense. This process is performed by TASC requesting a copy of the receipt from any transaction in which you may have used the debit card that TASC cannot identify electronically as a valid and qualified expense. For example, TASC may need to request a copy of a receipt from a dentist’s office since they cannot identify cosmetic (not a qualified expense) from corrective or preventive services (qualified expenses) when using the debit card.

- You still will need to save all of your receipts in case you are contacted by TASC to provide more detail about a specific transaction.

- Should you use your debit card and not be able to provide/produce a requested receipt, the IRS allows TASC to block your debit card for future use until you can either produce a receipt for the transaction in question or you have paid back the plan for the transaction in question.

- Should you accidentally use your card for an ineligible expense, you will be required to re-pay that expense to the plan. If you fail to re-pay the plan, your debit card will be blocked and the amount in
question will be deducted from any subsequent claim that you submit manually. If for some reason, you don’t submit any manual claims, the IRS does allow for TASC to issue you a 1099 form (i.e. reported as income) in the amount of the expense in question.

**How do you use the Debit Card?**

The debit card is a MasterCard debit card and works just like any other bank card that you may have. The card does NOT have a PIN associated with it so you need to use the card as if it were a credit card when asked by the merchant.

**Can my spouse use the Debit Card?**

Once you enroll in the FSA, you will receive a welcome kit from TASC that will include an application for a debit card for one additional dependent – spouse or child. This additional debit card will be supplied at no additional cost to you.

**PLAN YEAR**

In order to make your funds available to you as they are deducted from your paycheck, the plan year for flexible spending accounts is **September 1 through August 31**. Be sure to take this into account when estimating your expenses – only include expenses that you will incur between September 1 and August 31.

It is necessary to re-enroll in your Medical Expense and/or Dependent Care FSA for each plan year.

The IRS permits a “grace period” of two months and 15 days following the end of your 2011-12 Plan Year (August 31, 2012) for a Medical Expense FSA. This new grace period ends on November 15, 2012. During the grace period, you may incur expenses and submit claims for these expenses. Funds will be automatically deducted from any remaining dollars in your 2011-12 Medical Expense FSA.

You should not confuse the grace period with the plan’s “run-out period.” The run-out period extends until November 30, 2012. This is a period for filing claims incurred anytime during the 2011-12 Plan Year, as well as claims incurred during the grace period mentioned above.

Your Dependent Care FSA also has a “run-out period” that extends until November 30, 2012. However, the “grace period” mentioned above does not apply to this account. You may not submit reimbursement requests for expenses that occur after August 31, 2012, against the 2011-12 Plan Year.

**Remember that for your 2011-12 Flexible Spending Accounts you will have until November 30, 2012, to submit receipts for reimbursement.**

The IRS requires FSA customers to maintain complete documentation, including keeping copies of statements, invoices or bills for reimbursed expenses, for a minimum of one year.

**WRITTEN CERTIFICATION**

When enrolling in either or both FSAs, written notice of agreement with the following will be required:

- I will only use my FSA to pay for IRS-qualified expenses eligible under my employer’s plan, and only for me and my IRS-eligible dependents
- I will exhaust all other sources of reimbursement, including those provided under my employer’s plan(s) before seeking reimbursement from my FSA
- I will not seek reimbursement through any additional source and
- I will collect and maintain sufficient documentation to validate the foregoing.
A. MEDICAL EXPENSE FLEXIBLE SPENDING ACCOUNT

The Medical Expense Flexible Spending Account (FSA) allows you to use pre-tax dollars to pay for medical expenses not covered under your health plan. With this account, you can pay for your out-of-pocket medical expenses during the plan year for yourself, your spouse and all eligible dependents. You and your dependents do not have to be enrolled in any other OCPS benefits to take advantage of this program. **The maximum you may place in this account for the plan year is $5,000. The minimum you may place in this account for the plan year is $200.**

**Whose expenses are eligible?**

Your Medical Expense FSA may be used to reimburse eligible expenses incurred by:
- yourself
- your spouse
- your qualifying child or
- your qualifying relative.

An individual is a **qualifying child** if they are not someone else’s qualifying child and:
- is a U.S. citizen, national or a resident of the U.S., Mexico or Canada
- has a specified family-type relationship to you
- lives in your household for more than half of the taxable year
- is 18 years old or younger (23 years, if a full-time student) at the end of the taxable year; and
- has not provided more than one-half of their own support during the taxable year.

An individual is a **qualifying relative** if they are a U.S. citizen, national or a resident of the U.S., Mexico or Canada and:
- is a tax dependent of the employee meeting the tests of either “qualifying child” or a “qualifying relative”
- is an employee’s child that is age 26 (or younger) and will not attain age 27 at the end of the employee’s taxable year; the child is not required to be your tax dependent.
- has gross income of less than the exemption found in Section 151(d) of the Internal Revenue Code ($3650 for 2010);
- have a specified family-type relationship to you, are not someone else’s qualifying child and receive more than one-half of their support from you during the taxable year **or**
- if no specified family-type relationship to you exists, are a member of and live in your household (without violating local law) for the entire taxable year and receive more than one-half of their support from you during the taxable year.

**NOTE:** There is no age requirement for a qualifying child if they are physically and/or mentally incapable of self-care. An eligible child of divorced parents is treated as a dependent of both, so either or both parents can establish a Medical Expense FSA.

**Your medical reimbursement account is pre-funded.** This means that if you have eligible expenses at the beginning of the plan year, you may submit documentation up to your total annual election and be reimbursed **before** the funds are deducted from your paycheck. Funds will continue to be deducted from your paycheck throughout the year. Once you have been reimbursed the total annual election amount, you will not receive further reimbursements for that plan year.
On 3/30/10, new legislation was passed in the Health Care Reform bill stating over-the-counter medicines and drugs will no longer be eligible for reimbursement through a health flexible spending account after 12/31/10 unless you have a prescription from your doctor. Please note the eligible list below contains over-the-counter items that may or may not be eligible after 12/31/10.

Examples of Medical Expenses Eligible for Reimbursement*
Acupuncture
Ambulance service
Birth control pills and devices
Chiropractic care
Contact lenses (corrective)
Dental fees
Diagnostic tests/health screening
Doctor fees
Drug addiction/alcoholism treatment
Drugs
Experimental medical treatment
Eyeglasses
Guide dogs
Hearing aids and exams
In vitro fertilization
Injections and vaccinations
Nursing services
Optometrist fees
Orthodontic treatment
Over-the-Counter items with a prescription.
Prescription drugs to alleviate nicotine withdrawal symptoms
Smoking cessation programs/treatments
Surgery
Transportation for medical care
Weight-loss programs/meetings
Wheelchairs
X-rays

NOTE: Budget conservatively. No reimbursement or refund of Medical Expense FSA funds is available for services that do not occur within your plan year and grace period.

* IRS-qualified expenses are subject to federal regulatory change at any time during a tax year. Certain other substantiation requirements and restrictions may apply, and will be supplied to you following enrollment.

Medical Expenses Not Eligible for Reimbursement
- Expenses and treatments for cosmetic purposes
- Vision warranties and service contracts
- Prepayment for medical expenses not yet rendered. Medical services do not have to be paid, but must have been rendered during the plan year, to be eligible for reimbursement
- Premiums for insurance policies
- Expenses paid by an insurance company: Expenses paid by an insurance company are not eligible for reimbursement – only the portion you have to pay out of your pocket for your medical expenses is eligible for reimbursement
Over-the-Counter (OTC) Items

On 3/30/10, new legislation was passed in the Health Care Reform bill stating over-the-counter medicines and drugs will no longer be eligible for reimbursement through a health flexible spending account after 12/31/10 unless you have a prescription from your doctor. Please note the eligible list below contains over-the-counter items that may or may not be eligible after 12/31/10.

Your Over-the-Counter (OTC) items, medicines and drugs may be reimbursable through your Medical Expense FSA. Save valuable tax dollars on certain categories of OTC items, medicines and drugs, such as: allergy treatments, antacids, cold remedies, first-aid supplies and pain relievers.

You may be reimbursed for OTCs through your Medical Expense FSA if:
- the item, medicine or drug was used for a specific medical condition for you, your spouse and/or your dependent(s)
- the submitted receipt clearly states the purchase date and name of the item, medicine or drug
- the reimbursement request is for an expense allowed by your employer's Medical Expense FSA plan and IRS regulations and
- you submit your reimbursement request in a timely and complete manner already described in your benefits enrollment information.

NOTE: OTC items, medicines and drugs, including bulk purchases, must be used in the same plan year in which you claim reimbursement for their cost. The list of eligible OTC categories will be updated on a quarterly basis by TASC. As soon as an OTC item, medicine or drug becomes eligible under any of the categories below, it will be reimbursable retroactively to the start of the then current plan year.

Newly eligible OTC items, medicines and drugs are not considered a valid change in status event that would allow you to change your annual Medical Expense FSA election or salary reduction amount. Be sure to maintain sufficient documentation to submit receipts for reimbursement. You may resubmit a copy of your receipt from your records if a rejected OTC expense becomes eligible for reimbursement later in the same plan year.

Examples of OTC Items Eligible for Reimbursement
Antacids, allergy medicine, pain reliever, cold medicine, anti-diarrhea medicine, menstrual pain relief, cough drops, throat lozenges, nasal sinus sprays, nicotine gum or patches, muscle or joint pain cream, first aid cream, calamine lotion, eye drops, hemorrhoid creams, motion sickness pills, bandages, rubbing alcohol, pregnancy test kits, thermometers, condoms, spermicidal foam, incontinence supplies, nasal strips, etc.

Examples of OTC Items Not Eligible for Reimbursement
Toothpaste, lip moisturizer, face cream, daily vitamins, suntan lotion, etc.

NOTE: Dual Purpose Products (need statement from licensed medical practitioner)
Calcium, vitamins, weight loss drugs, sunscreen, acne treatment, St. John’s Wart, fiber supplements, etc.

B. DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT

The Dependent Care Flexible Spending Account allows you to pay for daycare expenses for your dependents with tax-free dollars while you (and your spouse) are at work. You may use your Dependent Care FSA to receive reimbursement for eligible dependent care expenses for qualifying individuals.

A qualifying individual includes a qualifying child, if they:
- The dependent is under age 13 (other than in the case of total disability).
• are a U.S. citizen, national or a resident of the U.S., Mexico or Canada
• have a specified family-type relationship to you
• live in your household for more than half of the taxable year
• are 13 years old or younger and
• have not provided more than one-half of their own support during the taxable year.

Please note: If you are legally separated or divorced, you can claim reimbursement for Dependent Care Expenses only if you are the custodial parent for the greater portion of the calendar year, regardless of which parent is entitled to the dependency exemption on the tax return. For additional guidance on your eligibility to claim Dependent Care expenses, refer to the IRS Publication 503, Child and Dependent Care Expenses. The publication may be accessed at Http:/www.irs.gov/pub/irs-pdf/p503.pdf.

A qualifying individual includes your spouse, if they:

• are physically and/or mentally incapable of self care
• live in your household for more than half of the taxable year and
• spend at least eight hours per day in your home.

A qualifying individual includes your qualifying relative, if they:

• are a U.S. citizen, national or a resident of the U.S., Mexico or Canada
• are physically and/or mentally incapable of self care
• are not someone else’s qualifying child
• live in your household for more than half of the taxable year
• spend at least eight hours per day in your home and
• receive more than one-half of their support from you during the taxable year.

NOTE: Only the custodial parent of divorced or legally separated parents can be reimbursed using the Dependent Care FSA. For dependent care expenses to be eligible for reimbursement, you must be working during the time your eligible dependents are receiving care. If you are married, your spouse must be either working at the time the daycare services are provided, a full-time student for at least five months during the year or mentally or physically disabled and unable to provide care for him or herself.

The annual maximum contribution to a dependent care account must not exceed $5,000 if you are married filing jointly, or single and file Head of Household. The annual maximum contribution to a dependent care account must not exceed $2,500 if you are married and file Federal tax returns separately. The maximum must also be reduced by the amount your spouse is contributing to a dependent care reimbursement account through his/her employer.

If you participate in a Dependent Care FSA, you cannot take the full dependent tax credit on your income tax return. As a general rule, if your adjusted gross income is greater than $14,000, (families with a combined taxable income of more than $24,000 a year) you would probably receive a greater tax break using the Dependent Care FSA rather than the tax credit on your income tax return. If you set aside less than the IRS dependent care tax credit, you will be able to deduct the difference between your reimbursement from your Dependent Care FSA and the IRS dependent tax credit.

Eligible Dependent Care Expenses*
• After school care
• Baby-sitting fees
• Daycare services
• In-home care/au pair services
• Nursery and preschool
• Summer day camps
NOTE: Budget conservatively. No reimbursement or refund of Dependent Care FSA funds is available for services that do not occur within your plan year.

* IRS-qualified expenses are subject to federal regulatory change at any time during a tax year. Certain other substantiation requirements and restrictions may apply, and will be supplied to you following enrollment.

Dependent Care Expenses Not Eligible for Reimbursement
- Books and supplies
- Child support payments or child care if you are a non-custodial parent
- Health care or educational tuition costs
- Services provided by your dependent, your spouse's dependent or your child who is under age 19

Your dependent care reimbursement account is not pre-funded. This means that you will only be reimbursed up to your account balance at the time you submit your claim. If your claim is for more than your account balance, the un-reimbursed portion of your claim will be tracked by TASC. You will be automatically reimbursed as additional deductions are taken and deposited into your account, until your entire claim is paid out.

(NOTE: Because of the way the deductions are taken and the fact that you must pay the daycare, the 1st month of this plan creates a negative cash flow. In the subsequent months, the reimbursement from the previous month's deduction can be used to pay the daycare for the current month.)

* IRS-qualified expenses are subject to federal regulatory change at any time during a tax year. Certain other substantiation requirements and restrictions may apply, and will be supplied to you following enrollment.

IRS RULES APPLY

Consider these points before enrolling in either account:
- Before the beginning of each plan year, you designate the amount you wish to contribute to your FSA(s) for the year. Money set aside for health care expenses cannot be used for dependent care or vice versa.
- You may not change your annual contributions unless there is a change in family status, such as marriage, divorce, birth, adoption or death. To submit a change in family status, contact your employer.
- The plan is “use it or lose it.” At the end of the grace period, you forfeit any unspent money in your FSA(s).

IT IS IMPORTANT TO BE CONSERVATIVE IN YOUR ESTIMATES.

There is a worksheet provided for you at the end of this section to assist you in estimating your eligible annual expenses. Remember, it is necessary to re-enroll in your Medical Expense and/or Dependent Care FSA for each plan year. The IRS requires FSA participants to maintain complete documentation, including keeping copies of statements, invoices or bills for reimbursed expenses, for a minimum of one year.
- IRS regulations do not allow money to be transferred between FSAs. You cannot transfer unused funds from health care to dependent care accounts or vice versa.

REIMBURSEMENT PROCESS

You should use your FSA Claim Card wherever it is accepted. If you don’t use your debit card, you must submit your claims manually.
To obtain a manual reimbursement from your Medical Expense FSA, you must complete a claim form and attach itemized documentation that includes:

- an invoice or bill from your health care provider listing the date you received the service, the cost of the service, the specific type of service and the person for whom the service was provided or
- an Explanation of Benefits (EOB)* from your health insurance provider that shows the specific type of service you received, the date and cost of the service and any uninsured portion of the cost and
- a written statement from your health care provider indicating the service was medically necessary if those services could be deemed cosmetic in nature, accompanied by the invoice or bill for the service.

* EOBs are not required if your coverage is through an HMO.

To obtain a manual reimbursement from your Dependent Care FSA, you must complete a claim form and attach itemized documentation that includes:

- the name, age and grade of the dependent receiving the service
- the cost of the service
- the name and address of the provider and
- the beginning and ending dates of the service.

Claims forms will be sent to your home address after you enroll in the program. If you do not receive a claim form or have any questions regarding your FSA, please contact TASC at 1.800.720.4460. It is possible to view your Flexible Spending Account balances, check status, claims history and download a claim form at www.tasconline.com.
FLEXIBLE SPENDING ACCOUNT WORKSHEET

This worksheet will help you determine your annual expenses for your Medical Expense FSA and your Dependent Care FSA.

**MEDICAL EXPENSE FLEXIBLE SPENDING ACCOUNT**

<table>
<thead>
<tr>
<th>Eligible Health Care Expenses</th>
<th>Annual Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductibles, Co-payments for Health Plan</td>
<td>$ ____________</td>
</tr>
<tr>
<td>Vision Expenses (including Lasik Surgery)</td>
<td>$ ____________</td>
</tr>
<tr>
<td>Dental Expenses</td>
<td>$ ____________</td>
</tr>
<tr>
<td>Prescription Copayments</td>
<td>$ ____________</td>
</tr>
<tr>
<td>Orthodontic Care</td>
<td>$ ____________</td>
</tr>
<tr>
<td>Lab Fees</td>
<td>$ ____________</td>
</tr>
<tr>
<td>Other Eligible Expenses</td>
<td>$ ____________</td>
</tr>
<tr>
<td><strong>Total Estimated Health Care Expenses for the Plan Year (Max. $5,000)</strong></td>
<td>$ ____________</td>
</tr>
</tbody>
</table>

**DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT**

<table>
<thead>
<tr>
<th>Eligible Health Care Expenses</th>
<th>Annual Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child Daycare Expenses</td>
<td>$ ____________</td>
</tr>
<tr>
<td>Preschool Expenses</td>
<td>$ ____________</td>
</tr>
<tr>
<td>Summer Day Camp Expenses</td>
<td>$ ____________</td>
</tr>
<tr>
<td>Adult Daycare Expenses</td>
<td>$ ____________</td>
</tr>
<tr>
<td>Other Eligible Expenses</td>
<td>$ ____________</td>
</tr>
<tr>
<td><strong>Total Estimated Dependent Care Expenses for the Plan Year (Max. $5,000)</strong></td>
<td>$ ____________</td>
</tr>
</tbody>
</table>