Flexible Spending Accounts

Leidos offers eligible participants the opportunity to save money by paying for eligible health care and/or dependent day care expenses on a pre-tax basis through the Health Care Flexible Spending Account and the Dependent (Day) Care Flexible Spending Account. A participant may make contributions to one or both Flexible Spending Accounts, which can reduce his or her tax liability. Participation in a Flexible Spending Account program is voluntary.

To learn more about the Flexible Spending Accounts, visit:

- Health Care Flexible Spending Account
- Dependent (Day) Care Flexible Spending Account
- Important Rules About Flexible Spending Accounts

Health Care Flexible Spending Account

Leidos offers two types of Health Care FSAs:

- Limited Purpose Health Care FSA (HSA Compatible)
- Health Care FSA

<table>
<thead>
<tr>
<th>Limited Purpose Health Care FSA (HSA-Compatible)</th>
<th>Health Care FSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Use it when you have an HSA</td>
<td>• Use it when you are not enrolled in a Healthy Focus plan and are not enrolled in any other High Deductible Medical Plan with an HSA</td>
</tr>
<tr>
<td>• For eligible dental and vision expenses</td>
<td>• For eligible medical, prescription drug, dental and vision expenses</td>
</tr>
<tr>
<td>• For medical and prescription drug expenses after you meet the deductible (Contact WageWorks if you meet the deductible to find out what you will need to provide to begin using your account for eligible medical and prescription drug expenses)</td>
<td></td>
</tr>
</tbody>
</table>
A participant can set aside between $100 and $2,500 each year — on a pre-tax basis — to pay for eligible medical, dental, vision, and hearing care expenses, including:

- Eligible services not covered by a medical, dental or vision plan (except for cosmetic procedures);
- Annual deductibles;
- Copayments; and
- Out-of-pocket expenses.

See list of eligible and ineligible health care expenses later in this section.

Once enrolled in the Health Care Flexible Spending Account, a participant may not change the amount he or she contributes to the account, unless the participant experiences a qualified status change. See "Changing Coverage (Qualified Status Changes)" in the Participating in the Plans section for more information about qualified status changes.

Important: Participants must make an annual election each year. Health Care Flexible Spending Account elections cannot automatically roll over into the next plan year.

Under certain circumstances, IRS regulations permit continuing contributions to a Health Care Flexible Spending Account on an after-tax basis after employment or eligibility to participate in the plan ends. Contact WageWorks customer service at 1-877-WageWorks (1-877-924-3967) for information.

Eligible Health Care Expenses

Generally, any health care expense that the IRS allows as a deduction on income tax returns is eligible for reimbursement, provided it is not reimbursed from any other source. This includes expenses incurred for anyone a participant is entitled to claim as a dependent on his or her tax return, regardless of whether that dependent is covered under Leidos' medical, dental or vision plans. Please note that neither participant insurance premiums nor expenses for registered domestic partners are eligible for reimbursement under the Health Care Flexible Spending Account.
Below are examples of eligible health care expenses. This list is meant to provide only a summary of eligible expenses. For a more comprehensive list, view the WageWorks list of eligible and ineligible expenses:

- Acupuncture;
- Alcohol/substance abuse treatments;
- Ambulance services;
- Artificial limbs;
- Artificial teeth;
- Birth control pills and devices prescribed by a physician;
- Braille books and magazines;
- Capital expense — amount paid for home-installed special equipment, or for improvements, if their main purpose is medical care for the participant, the participant's spouse, or the participant's dependent;
- Car — the cost of special hand controls and other special equipment installed in a car for the use of a person with a disability;
- Contact lenses/eyeglasses;
- Copayments (under insurance plan);
- Crutches and canes (prescribed);
- Deductibles (under insurance plan);
- Fees for physical and mental health services provided by:
  - Chiropodists;
  - Chiropractors;
  - Christian Science practitioners;
  - Dentists;
  - Ophthalmologists;
  - Optometrists;
  - Osteopaths;
  - Podiatrists;
  - Psychiatrists;
  - Psychologists;
  - Surgeons;
- Fertility enhancement;
• Guide dogs for the blind;
• Health institute — treatment that is prescribed by a physician and the physician issues a statement that the treatment is necessary to alleviate a physical or mental defect or illness;
• Hearing aids and diagnostic services;
• Hospital services;
• Laboratory fees;
• Laser eye surgery;
• Lead-based paint removal;
• Learning disability treatment and special schools;
• Legal fees to authorize treatment for mental illness;
• Lodging/meals at hospitals or while away from home for treatment;
• Medical conference — amounts paid for admission and transportation to a medical conference if the conference concerns the chronic illness of a participant or the participant's spouse or dependent;
• Medical equipment (prescribed);
• Medical information plan — amounts paid to a plan that keeps a participant's medical information so that it can be retrieved from a computer data bank for needed medical care;
• Nursing services;
• Operations/surgery, including abortions;
• Orthopedic shoes (excess cost of regular shoes);
• Over-the-counter medications (with Rx);
• Some over-the-counter items available without RX;
• Oxygen;
• Prescription drugs;
• Psychoanalysis;
• Routine physical exams and immunizations;
• Smoking cessation programs;
• Special schools for the mentally and/or physically handicapped;
• Sterilization/vasectomy;
• Telephone and television equipment for the deaf;
• Therapy (physical, psychiatric, occupational);
• Transplants;
• Transportation to or from medical treatment;
• Weight-loss programs (only for treatment of a medical condition, not for general well-being);
• Wheelchair; and
• X-rays.

Ineligible Health Care Expenses

Some expenses are not eligible for reimbursement from the Health Care Flexible Spending Account. Below are examples of ineligible health care expenses. This list is meant to provide only a summary of ineligible expenses:

• Bottled water;
• Care of a normal and healthy baby by a nurse;
• Cosmetic dentistry, including teeth bleaching;
• Cosmetic medical procedures, such as face lifts;
• Dance lessons;
• Diaper services;
• Electric toothbrushes, even if recommended by a dentist;
• Funeral and burial expenses;
• Household help;
• Insurance premiums;
• Medical coverage premiums;
• Marriage counseling fees;
• Maternity clothes;
• Special foods, even if required for allergies;
• Swimming lessons;
• Toothpaste and other sundries;
• Trips or vacations for general health improvement;
• Vitamins, supplements or tonics (unless specifically directed to use by a medical provider to treat a specific medical condition); and
• Weight-loss programs for general well-being.

Example of Tax Savings

The following example* shows how contributing to the Health Care Flexible Spending Account can result in money saved:

Jack and his wife, Anne, earn a combined annual gross income of $65,000 per year. Jack is an Leidos employee and elects to contribute $2,000 to the Health Care Flexible Spending Account to help pay for his family's eligible medical, dental, vision, and hearing expenses next year. Jack saves taxes using his Flexible Spending Account in the following way:

<table>
<thead>
<tr>
<th></th>
<th>WITH A FLEXIBLE SPENDING ACCOUNT</th>
<th>WITHOUT A FLEXIBLE SPENDING ACCOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined annual gross income</td>
<td>$65,000</td>
<td>$65,000</td>
</tr>
<tr>
<td>Flexible Spending Account contribution</td>
<td>$2,000</td>
<td>$0</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$63,000</td>
<td>$65,000</td>
</tr>
<tr>
<td>Estimated federal tax</td>
<td>$8,584</td>
<td>$8,884</td>
</tr>
<tr>
<td>Estimated Social Security tax</td>
<td>$4,820</td>
<td>$4,973</td>
</tr>
<tr>
<td>Eligible health care expenses</td>
<td>$0</td>
<td>$2,000</td>
</tr>
<tr>
<td>Combined annual net income</td>
<td>$49,596</td>
<td>$49,143</td>
</tr>
<tr>
<td>Money saved with Flexible Spending Account</td>
<td>$453</td>
<td>$0</td>
</tr>
</tbody>
</table>

* The calculations above are based on 2012 tax table rates and assume various tax deductions. The calculations don't take standard deductions, family exemptions, state and local tax savings, or 401(k) participation into account.
Flexible Spending Account Reimbursement

Participants have three options in which to receive reimbursement from their flexible spending account:

- **Healthcare Debit Card (not available for dependent day care)** — Participants can use their WageWorks healthcare debit card at select pharmacies, healthcare providers and general merchandise stores that have an IRS-approved inventory and checkout system. In most instances, the card transaction will be automatically verified at checkout. With this verification, participant may have to submit a receipt to WageWorks after the transaction. Participant is required to keep each receipt for tax purposes and in the event it is needed for verification.

- **Pay Me Back** — Participants will be able to claim funds from their flexible spending account using the WageWorks online or the paper Pay Me Back process. As part of the online process, they can upload the backup documentation and associate them directly to the claim. Most claims are processed within one to two days after they are received and payments are sent shortly thereafter. Participant will receive a check in the mail if they do not set up their direct deposit information with WageWorks prior to submitting the first claim form.

- **Pay My Provider Online** — Participant can pay many of their eligible healthcare expenses directly from their flexible spending account without filling out paper claims forms. Just enter the provider’s name and other requested information with the backup documentation and payment will be sent directly to the provider.

View a list of eligible and ineligible expenses.

If a participant leaves Leidos employment, he or she may submit claims for expenses incurred only through the employment end date; however, April 30 of the following year is the deadline for filing for reimbursement of those claims.

Participants in the Health Care Flexible Spending Account can be reimbursed for the full amount they contribute during the year at any time during the year, even if they do not currently have that much money in their account.

The Leidos Flexible Spending Accounts are administered by WageWorks. Log on to WageWorks’ web site (www.wageworks.com) to submit verification, order additional healthcare debit cards, file a claim, check claim status or account balance information.
The participant can fax or mail their claim form, by downloading the Health Care Flexible Spending Account claim form or Dependent Care Flexible Spending claim and faxing the completed form to 1-877-353-9236 or mailing it to:

**WageWorks Claims**
P.O. Box 14053
Lexington, KY 40512

If participants have concerns about how a claim has been administered, or wish to appeal a claims decision, information on relevant procedures is available in the Plan Information section.

**Dependent (Day) Care Flexible Spending Account**

A participant can set aside money on a pre-tax basis to pay for eligible dependent day care expenses for qualified dependents. These expenses must be necessary in order for a participant (and spouse, if married) to work. The amount that can be set aside each year is a minimum of $100 up to:

- $5,000* if the participant is single, or married and filing tax returns jointly;
- A total amount of $5,000* together if the participant's spouse has a dependent care Flexible Spending Account through his or her company; or
- $2,500* if the participant is married but files separate tax returns.

* These are the maximum contributions allowed for dependent care expenses under current IRS rules.

**Important:** Participants must make an annual election each year. Dependent (Day) Care Flexible Spending Account elections cannot automatically roll over into the next plan year.

If a participant or spouse earns less than $5,000, the combined amount that the participant and spouse can contribute may not exceed the amount of the lower salary.

If a participant is married but has a spouse who is a full-time student or is disabled, the IRS considers the spouse's earned income to be:

- $250 a month if the participant has one qualified dependent; and
- $500 a month if the participant has two or more qualified dependents.
Under the Dependent (Day) Care Flexible Spending Account, a qualified dependent is:

- A child under age 13 whom the participant claims as a dependent on his or her federal income tax return;
- A participant's spouse who is physically or mentally incapable of self-care; or
- Any other dependent who is physically or mentally incapable of self-care, whom the participant claims as a dependent on his or her federal income tax return, and who normally spends at least eight hours in the participant's home each day.

Once enrolled in the Dependent (Day) Care Flexible Spending Account, a participant generally may not change the amount he or she contributes to the account, unless the participant experiences a qualified status change. See "Changing Coverage (Qualified Status Changes)" in the Participating in the Plan section for more information about qualified status changes.

In addition, a participant may change the amount he or she contributes when there is a change in providers, a change in child care or adult care costs or a general change in his or her care situation.

**Eligible Dependent (Day) Care Expenses**

Generally, any dependent care expense that the IRS allows as a deduction on income tax returns is eligible for reimbursement, provided it is not reimbursed from any other source. This includes expenses incurred for anyone a participant is entitled to claim as a dependent on his or her tax return, regardless of whether that dependent is covered under Leidos' medical, dental or vision plans. Please note that expenses for registered domestic partners and dependent children of registered domestic partners are not eligible for reimbursement under the Dependent (Day) Care Flexible Spending Account.

Below are examples of eligible dependent care expenses. This list is meant to provide only a summary of eligible expenses.

- Care at a licensed nursery school, day camp, or day care center;
- Services from individuals who provide dependent care in or outside a participant's home, unless the provider is the participant's spouse, own child under age 19, or any other dependent;
- After-school care for children under age 13;
Leidos Benefits Summary Plan Description

- Household services related to the care of an elderly or disabled adult who lives with a participant; and
- Any other services that qualify as dependent care expenses under IRS regulations.

**Important:** For a detailed list of eligible dependent care expenses, please refer to IRS publication 503, (called "Child and Dependent Care Expenses") available from your local IRS office, or go to the IRS web site (www.irs.gov).

### Ineligible Dependent (Day) Care Expenses

Below are examples of ineligible dependent care expenses. This list is meant to provide only a summary of ineligible expenses:

- Expenses for food, clothing or education (unless incidental to the care);
- Registrations fees;
- Expenses for overnight camp;
- Expenses for transportation between a participant's house and the place that provides day care services, or the cost of transportation for a care provider;
- Expenses for dependent care when either the participant or his or her spouse is not working or is not looking for work;
- Charges for convalescent or nursing home care for a parent or a disabled spouse;
- Expenses paid to the spouse, a participant's own children under age 19, or any other dependents; and
- Expenses for which a federal child-care tax credit would be taken.

**Important:** For a detailed list of eligible dependent care expenses, please refer to IRS publication 503, (called "Child and Dependent Care Expenses") available from your local IRS office, or go to the IRS web site (www.irs.gov).

### Child Care Credit

Another way to reduce dependent care expenses is to take a tax credit when filing an income tax return. However, a participant may not contribute to a Dependent (Day) Care Flexible Spending Account and take the tax credit for any expenses reimbursed through the Dependent (Day) Care Flexible Spending Account.

With the tax credit, a participant can claim a deduction for a percentage of eligible dependent...
care expenses (the same expenses as defined for the Dependent (Day) Care Flexible Spending Account). The tax credit may be taken only on expenses up to $3,000 for one dependent and up to $6,000 for two or more dependents.

The tax credit percentage applied to eligible expenses decreases as a participant's adjusted gross income rises. Generally, if a participant's family income is greater than $24,000 per year, the Dependent (Day) Care Flexible Spending Account will save more in taxes than the child care income tax credit. However, the advantages of the Flexible Spending Account or the tax credit depend on a participant's overall tax situation and should be discussed with a tax adviser.

**Example of Tax Savings**

The following example* shows how contributing to the Dependent (Day) Care Flexible Spending Account can result in money saved:

Sarah and her husband, Henry, earn a combined income of $65,000 per year and file a joint tax return. They have two children. Sarah elects to contribute $5,000 to the Dependent (Day) Care Flexible Spending Account to help pay for her family's eligible child care expenses next year. Sarah saves money using her Flexible Spending Account in the following way:

<table>
<thead>
<tr>
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<th>WITH A FLEXIBLE SPENDING ACCOUNT</th>
<th>WITHOUT A FLEXIBLE SPENDING ACCOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined annual gross income</td>
<td>$65,000</td>
<td>$65,000</td>
</tr>
<tr>
<td>Flexible Spending Account contribution</td>
<td>$5,000</td>
<td>$0</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$60,000</td>
<td>$65,000</td>
</tr>
<tr>
<td>Estimated federal tax</td>
<td>$8,134</td>
<td>$8,884</td>
</tr>
<tr>
<td>Estimated Social Security tax</td>
<td>$4,820</td>
<td>$4,973</td>
</tr>
<tr>
<td>Eligible dependent care expenses</td>
<td>$0</td>
<td>$5,000</td>
</tr>
<tr>
<td>Combined annual net income</td>
<td>$47,046</td>
<td>$46,143</td>
</tr>
<tr>
<td>Money saved with Flexible Spending Account</td>
<td>$903</td>
<td>$0</td>
</tr>
</tbody>
</table>

* The calculations above are based on 2012 tax table rates and assume various tax deductions. The calculations don’t take standard deductions, family exemptions, state and local tax savings, or 401(k) participation into account.
Flexible Spending Account Reimbursement

Participants must pay for **eligible dependent day care expenses**, save the receipts, then file a claim for reimbursement from their accounts.

- **Pay Me Back** — Participants will be able to claim funds from their flexible spending account using the WageWorks online or the paper Pay Me Back process. As part of the online process, they can upload the backup documentation and associate them directly to the claim. Most claims are processed within one to two days after they are received and payments are sent shortly thereafter. Participant will receive a check in the mail if they do not set up their direct deposit information with WageWorks prior to submitting the first claim form.

- **Pay My Provider Online** — Participant can pay many of their eligible dependent day care expenses directly from their flexible spending account without filling out paper claims forms. Just enter the provider's name and other requested information with the backup documentation and payment will be sent directly to the provider.

Unlike with the Health Care Flexible Spending Account, a participant may receive reimbursement only up to the balance available in his or her account at the time the claim is filed.

The Leidos Flexible Spending Accounts are administered by **WageWorks**. Log on to WageWorks’ web site ([www.wageworks.com](http://www.wageworks.com)) to submit verification, order additional healthcare debit cards, file a claim, check claim status or account balance information.

The participant can fax or mail their claim form, by downloading the **Dependent (Day) Care Flexible Spending claim** and faxing the completed form to 1-877-353-9236 or mailing it to:

**WageWorks Claims**

P.O. Box 14053  
Lexington, KY 40512

If participants have concerns about how a claim has been administered, or wish to appeal a claims decision, information on relevant procedures is available in the Plan Information section.
Important Rules About Flexible Spending Accounts

• **Use it or lose it** — Estimate annual health care and dependent (day) care expenses carefully! Any money put aside in a Flexible Spending Account must be used for eligible health care expenses or dependent care expenses incurred between January 1 and December 31 (or during the period of plan participation). April 30th of the following year is the deadline to submit claims for the current year’s expenses. *Any money left in the account after April 30th will be forfeited.*

• **No double dipping** — Health care expenses reimbursed through the Health Care Flexible Spending Account and dependent care expenses reimbursed through the Dependent (Day) Care Flexible Spending Account cannot also be deducted on federal income tax returns.

• **No transferring of funds** — Transfers of funds from the Health Care Flexible Spending Account to the Dependent (Day) Care Flexible Spending Account and vice versa are not permitted.

• **Must enroll annually** — Participants must enroll during each Open Enrollment period in order to participate each calendar year.