What Are Flexible Spending Accounts (FSAs)?

If you are a Participant who is actively at work, you can choose to contribute a portion of your compensation to flexible spending accounts on a pre-tax basis through the cafeteria plan. The flexible spending account for health care expenses is called the Medical Reimbursement Account (MRA), and the flexible spending account for dependent day care expenses is called the Dependent Care Account (DCA). Together they are called reimbursement accounts or FSAs. You can elect to reduce your salary for a Plan Year (or the remainder of the Plan Year if you are a newly hired eligible Employee), through a salary-reduction agreement. Your employer deducts the contribution amounts pro rata each month or payroll period from your compensation.

Reimbursement accounts are subject to strict rules and requirements of the Code, under §105, §106, §125 and §129. FSAs can only reimburse you for health care expenses or dependent day care expenses. The Plan maintains FSAs as bookkeeping entries, with the "account balance" representing the amount of your salary reduction contributions that are available to reimburse your eligible expenses.
To participate in the FSAs, you must be enrolled in the Plan and covered in a medical Benefit Option. For each year in which you want to have FSAs, you must make an election to contribute a portion of your salary. If you do not elect an amount for the FSAs in any Plan Year, you are presumed to have made an election to contribute zero dollars. FSA elections do not carry over from one year to the next; they are not "evergreen." **Amounts remaining in your FSAs at the end of a Plan Year do not carry over to the following year**, other than in the limited manner permitted by the Grace Period (see below) for the MRA; you forfeit them to the Plan.

FSAs can help you save significantly on the cost of health care and dependent care by allowing you to pay for qualified expenses on a tax-advantaged basis. However, the funds you contribute are subject to certain restrictions in their use, as explained below, and are subject to the *"use-it-or-lose-it"* rule.

When you elect to contribute to the MRA or DCA, you are choosing to contribute that amount over the applicable Plan Year, which is a Calendar Year, not a Conference or appointment year or season. If you enroll in the Plan mid-year and elect to contribute to an MRA or DCA, your election will apply to the remaining portion of the Calendar Year.

Medical Reimbursement Accounts

The MRA allows reimbursement only for eligible medical expenses. To be an eligible expense, you cannot otherwise be reimbursed for the expense by the Plan or through other insurance or similar group health coverage; you cannot claim the expense as an itemized deduction on an individual income tax return. In other words, the expense must be out-of-pocket to you and you cannot "double dip." Many out-of-pocket health care expenses, such as Co-payments, Coinsurance amounts, Deductibles and out-of-network charges are reimbursable. In addition, only with a physician's prescription order, the costs of some over-the-counter medications may be reimbursable. Importantly, you cannot use an MRA to pay for long-term care expenses, HealthFlex Required Contributions or any premiums for health insurance. Contact the General Board or the Claims Administrator for a list of permissible and impermissible MRA expenses.

Under the MRA, the amount you elect for the entire Plan Year is available to you beginning with the first day of the Plan Year. This requirement is called the *uniform coverage rule*.

To be an eligible expense, you must incur the expense during the applicable Plan Year. You incur an expense when the service or care is provided, not necessarily when you are billed or pay for the service. HealthFlex has incorporated a grace period (Grace Period) for the MRA, as allowed by the Internal Revenue Service (IRS), so you can submit eligible health care expenses incurred from January 1 through March 15 after the end of a Plan Year. You may be reimbursed through your MRA for out-of-pocket health care expenses incurred by your Spouse or Dependents (even for qualified expenses for dependents not covered under a HealthFlex medical Benefit Option).

If you elect to contribute to an MRA, you must contribute at least $300, but you may not contribute more than $2,500 in any Plan Year.

Dependent Care Accounts

If you contribute to a DCA, you set aside part of your compensation on a before-tax basis to reimburse yourself for certain eligible dependent day care expenses (even for qualified expenses for dependents not covered under a HealthFlex medical Benefit Option). You may be reimbursed for expenses incurred for care of your dependents that enable you and your Spouse to work. Dependent day care expenses may include expenses for summer day camp, babysitting services while you work or a day care center for children or dependent adults. Eligible expenses include dependent care expenses for your dependent children (age 12 and younger) or your Spouse or other tax dependents who are physically or mentally incapable of self-care.

Unclaimed amounts in your DCA at the end of the Plan Year cannot be used to pay for benefits in future years or returned to you. You forfeit these unused amounts. The DCA is also subject to the *use-it-or-lose-it rule*. The General Board uses forfeited amounts to offset the Plan's administrative expenses. You must be able to provide substantiation of your dependent day care expenses and the provider's name, address and tax identification number (Social Security number if it is a home provider). In addition to submitting this information to the Claims Administrator to request your reimbursement, you may want to save a copy of this information for reference when you prepare your income tax return. Qualifying dependent care providers include, but are not limited to:

- Dependent care centers. If the center provides care for more than six non-resident individuals, it must meet all applicable state and local regulations;
- An individual who provides care inside or outside your home. However, your own child younger than age 19 or any other individual for whom you can claim a personal income tax exemption does not qualify as a care provider;
- Facilities for pre-school children; and
- A housekeeper whose services include, in part, providing care for a qualifying dependent.

It is relatively easy to estimate your expenses for a DCA, since you most likely know the cost of the services in advance. Generally, if you contribute to a DCA, you must contribute at least $300, but you may not contribute more than $5,000 in any Plan Year. However, your DCA contributions are subject to the following additional limits. In a Plan Year, the amount you may contribute to the DCA is limited to the smallest of the following:

- $5,000 (or $2,500 if you are married, but filing separately);
- your earned income; or
- if you are married at the end of the taxable year, your Spouse's earned income.

If you are married, but your Spouse has no earned income, your Spouse is deemed to have an earned income of $250 per month ($500 per month if there are two or more qualifying individuals) in each month that he or she is either a full-time student or incapable of self care.

To be eligible to use the DCA, you must be at work during the time your eligible dependent receives care. You also must meet one of the following eligibility guidelines:

- you are a single parent;
- you have a working Spouse;
- your Spouse is a full-time student at least five months during the year while you are working;
- your Spouse is physically or mentally unable to provide for his or her own care; or
- you are divorced or legally separated and have custody of your child most of the time even though your former Spouse may claim the child for income tax purposes.

An eligible dependent for DCA purposes is an individual who spends at least eight hours per day in your home and is one of the following:

- a child younger than age 13 for whom you have custody most of the time even though your former Spouse may claim the child for income tax purposes;
- any other dependent who is physically or mentally unable to care for himself or herself; or
- your Spouse, if he or she is physically or mentally incapable of self-care.

Certain types of expenses are not eligible for reimbursement under the DCA. Examples of ineligible expenses include:

- services that are primarily educational or medical in nature (pre-school is generally regarded as primarily for the child's well-being and protection and not primarily educational);
- educational expenses at kindergarten level or higher;
- services provided on behalf of a qualified dependent while you or your Spouse is not working;
- household services provided by individuals who are not responsible for providing care to the dependent; and
- overnight camp costs.

Unlike the MRA, the amount of DCA reimbursement available to you at any time during the Plan Year is limited to the amount already credited to your DCA at the time of the request, i.e., the amounts your employer has withheld from your compensation, reduced by the amounts you have already been reimbursed in that Plan Year. In other words, the DCA is not subject to the *uniform coverage rule*.

Which Is Better for You—the DCA or Dependent Care Tax Credit?

Any reimbursements received through the DCA are not eligible for the Dependent Care Tax Credit on your personal income tax return and DCA reimbursements can reduce the amount of eligible expenses that you can claim under the Dependent Care Tax Credit. You should speak to a tax advisor to determine if a DCA or the Dependent Care Tax Credit is more advantageous to you.

Tax Reporting

Although you will not have to pay federal, Social Security (FICA) or state (except in a few states) taxes on amounts you contribute to the DCA, the amount you are reimbursed should be recorded in a separate box on your Form *W-2*. When preparing your personal income tax return, you should complete and file an IRS *Form 2441* or *Schedule 2*; depending on the type of income tax return you file (*Form 1040 or 1040A*). *Form 2441* or *Schedule 2* requires that you report the name, address and taxpayer ID number of your dependent care providers. These forms allow the IRS to identify dependent care reimbursements received through the DCA and to calculate any expense which may remain eligible for the Dependent Care Tax Credit. For more information about income tax filing requirements related to the DCA, you should review *IRS Publication 503*.

"Use-It-or-Lose-It" Rule

Amounts you contribute to the MRA and DCA cannot carry over from one year to the next. This prohibition is known as the *use-it-or-lose-it rule*. You will forfeit unused MRA funds if you do not incur enough expenses during the Plan Year and the Grace Period to exhaust your MRA. You will forfeit unused DCA funds if you do not incur enough expenses during the Plan Year to exhaust your DCA.

You do have a run-out period (Run-Out Period) during which you may continue to submit Claims for reimbursement from FSA accounts for eligible expenses that you incurred during the Plan Year.

Generally, you have until the April 30 that immediately follows the end of a Plan Year to submit all Claims for that just-ended Plan Year. You will not be reimbursed for any Claims submitted after the Run-Out Period deadline. You forfeit all amounts remaining in MRA and DCA accounts after the end of the applicable Run-Out Period. The General Board uses such forfeited amounts to offset the administrative expenses of the Plan.

Grace Period

HealthFlex has established a Grace Period for the MRA as permitted by the Internal Revenue Service. The Grace Period is the 2½-month period immediately following the end of a Plan Year. MRA expenses incurred during this Grace Period (i.e., expenses for health care services received from January 1 to March 15 of the year that immediately follows the end of a Plan Year) may be reimbursed from the just-ended Plan Year's MRA balance, if any, or from the then current year's balance. Prior to this rule change, you could only request reimbursement for expenses that were incurred during the 365-day Plan

Year. Now, you the 2½ months after the end of a Plan Year to incur claims and seek reimbursement, thus helping you "use" your MRA balance rather than "lose" it.

For example, expenses (e.g., a Co-payment for an office visit) you incur during the Grace Period from January 1, 2014 until March 15, 2014 may be reimbursed from your 2013 MRA if it has a positive balance. Otherwise, they will be reimbursed from your 2014 MRA balance, if any.

Moreover, the Grace Period will run concurrently with the Run-Out Period described above. That means that after the end of the Grace Period on March 15, you will have only until April 30, to submit any and all Claims incurred through March 15, for reimbursement from the MRA balance remaining from the preceding Plan Year and its just-ended Grace Period. Any Claims submitted after April 30 that you incurred during the previous Plan Year or the just-ended Grace Period will not be reimbursed. Eligible Claims incurred during the Grace Period but submitted after April 30 (after the end of the Run-Out Period) may be reimbursed from the then current Plan Year MRA funds, if any.

You must be a Participant with an MRA as of the last day of the Plan Year in order to take advantage of the Grace Period for that Plan Year. It is important to remember that you can still forfeit MRA funds if you do not incur enough expenses during the Plan Year and the Grace Period to exhaust your MRA contribution.

Important: The Grace Period *does not apply* to the DCA. All claims under your DCA must be incurred during the applicable Plan Year, by December 31, and you must submit them before the end of the Run-Out Period.

Termination of Employment

If you terminate employment, you will no longer be eligible to participate in the premium conversion plan. Typically, your pre-tax contributions (and Plan coverage) will continue through your last regular payroll period. Contact your Plan Sponsor for more information regarding pre-tax contributions if your employment terminates. If you terminate employment, your participation in the MRA and DCA will automatically terminate. You may receive reimbursement for eligible expenses incurred prior to termination if you submit your Claims within 90 days of termination.

If you terminate employment and are rehired in less than 30 days, you will re-enter the Plan with the same election you had before you terminated. In this case, you do not have to pay the missed contributions, but expenses incurred during the time not employed are not eligible for reimbursement. If you are rehired more than 30 days but less than 90 days after your termination, the Plan will allow you to continue with the same election as before your termination, but you must make up missed contributions. If you are rehired more than 90 days after your termination, you must make a new election or wait until the next Plan Year to participate.

Key Provisions of the MRA and DCA

• To use an MRA or DCA each year, you must elect to contribute part of your compensation to the MRA or DCA during the Annual Election Period or upon enrollment. If you make no election, you will not have an MRA or DCA for that year; your contributions will be zero. MRA and DCA elections do not carry over from year to year.

- For the MRA, the total annual amount that you elected to contribute for the Plan Year is available at any time during the Plan Year (reduced by the amount of prior MRA reimbursements already paid to you). For the DCA, only the amounts your employer has withheld from your pay, less expenses already reimbursed, are available to you at any time during the Plan Year.
- You must incur the eligible expenses during the Plan Year (or during the Grace Period for MRA Claims). Expenses are incurred when services are performed, not necessarily when payment is made (subject to certain exceptions for orthodontia and eyeglasses).
- The amount you elect to contribute is for a Plan Year (calendar year), not a conference or appointment year or season. If you enroll in the program mid-year and elect to contribute to an MRA or DCA, your election will apply to the remaining portion of the Plan Year.
- If you terminate from HealthFlex, you have 90 days from the date of termination to submit all Claims you incurred before your termination date.

• Eligible MRA expenses must be allowed as deductions for medical expenses as described in §213(d) of the Code, other than premiums for health insurance or coverage (Required Contributions). Eligible MRA expenses may include Deductibles, Co-payments and amounts over the maximum the Plan pays for reasonable and customary care. Other health care charges that may be reimbursed include routine physicals, vision care, hearing care, dental care and orthodontic care. In addition, if prescribed by a doctor, expenses for many over-the-counter medications may be reimbursable.
• Examples of expenses specifically non-reimbursable under the MRA include cosmetic surgery that does not treat an illness or disease, gym membership fees, costs of weight loss programs done for your general health, long-term care expenses and premiums you pay for insurance coverage.
• Expenses that are reimbursed through the MRA cannot also be used as deductible expenses when filing your personal income tax return. However, the MRA allows you to reduce taxes on many health-related expenses, even if the expenses do not exceed the 7.5% of your gross income required to claim them as a deduction on your personal income tax return.
• You cannot change the amount that you elected to set aside in your FSAs during the Plan Year. Generally, you may contribute between $300 and $2,500 to each type of FSA, to be deducted from your salary in equal amounts through the year. However, certain Life Status Events may allow you to make election changes during the Plan Year.
• The Claims Administrator will reimburse your DCA Claim up to the available balance in your DCA at the time you submit the Claim. If there are insufficient funds in your DCA to reimburse the entire Claim, the remaining amount of the Claim will be paid as soon as there have been enough payroll deductions credited to your DCA. You will not have to re-submit the Claim.
• You have tax reporting requirements related to the DCA that you should make sure you understand.
• The General Board may amend or terminate the cafeteria plan at any time. Your consent is not required to terminate the Plan.

Tax Consequences for You

There are important tax implications associated with electing to pay your Required Contributions through the cafeteria plan and with contributing to an MRA or DCA. You may want to speak with your tax advisor before electing to participate in the MRA or DCA if you have questions about the tax savings and implications. Salary reduction contributions will reduce your gross taxable income for Social Security purposes. This means that your future Social Security benefits could be impacted by the decreased amount of taxable income considered for Social Security purposes.

Nondiscrimination

FSAs are subject to certain nondiscrimination requirements in the Code. This means that in terms of eligibility and contributions, FSAs cannot improperly favor highly compensated Employees (HCEs). The General Board tests the FSAs periodically to ensure the Plan meets these requirements. And the General Board may reject any Participant's election and reduce the amount of any Participant's contributions or nontaxable benefits to the extent necessary to assure that the Plan does not discriminate in violation of Code §125. If it must take these actions, the General Board will do so on a reasonable and nondiscriminatory basis. Contributions that the Plan is unable to return to Participants will be forfeited.