

Flexible Spending Accounts



Flexible Spending Accounts offer a convenient way to pay for health and dependent care expenses on a before-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. Each year, you can contribute up to \$5,000 to the health care spending account to pay for certain unreimbursable medical, dental, vision care and prescription drug expenses, and up to \$5,000 to 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 when deciding how much to contribute to the flexible spending accounts. According to Internal Revenue Service rules, any money left in your account at the end of the year will be forfeited.



What happens to your benefits when...

For more information about what happens to your flexible spending account participation when you have a qualifying life event, see the "About Your Benefits" section.



How the Flexible Spending Accounts Work

Follow these steps to put the flexible spending accounts to work for you:

- **Estimate your expenses.** Each fall, you calculate these expenses for the upcoming year: any out-of-pocket medical, dental, vision care and 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 worksheets to help you plan your contributions. Worksheets are available from the Benefit Plans Office or, if you have access to the World Wide Web, in the Benefit Forms section of the Benefits Delivery home page.
- **Decide on your contribution.** You can contribute from \$100 to \$5,000 before-tax to the health care spending account and from \$100 to \$5,000 before-tax to the dependent care spending account. 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.
- **File a claim.** When you have eligible expenses, you pay for them as you normally would. Then you submit a receipt, reimbursement request and any other supporting documentation to the claims administrator. The address is on the bottom of the form. 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 31st following the plan year for which the election was made. Flexible spending account reimbursement request forms are available from the Benefit Plans Office and will be mailed to you along with each reimbursement check.

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

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 - like copayments, charges above reasonable and customary or charges above plan maximums.

- **What do you expect your dependent care expenses will be?**

Consider any times of the year when you do not have these 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 worksheet to help determine how much you should contribute.



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. 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.

How much can you save on taxes? Suppose you contribute \$1,000 to the health care spending account and are in the 15% federal tax bracket. You could save \$150 in federal income taxes and

\$76.50 in Social Security and Medicare taxes for a total of \$226.50. Your savings are even greater when you add state and local tax savings.

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.

Tax Savings: An Example

Amount You Contribute	Estimated Annual Federal Income Tax Savings		
	15% Tax Bracket	28% Tax Bracket	31% Tax Bracket
\$ 100	\$ 15	\$ 28	\$ 31
\$ 250	\$ 38	\$ 70	\$ 78
\$ 500	\$ 75	\$ 140	\$ 155
\$1,000	\$150	\$ 280	\$ 310
\$3,000	\$450	\$ 840	\$ 930
\$5,000	\$750	\$1,400	\$1,550

Note: This example only takes federal income tax savings into account. You may also save an additional 6.20% on Social Security taxes, 1.45% on Medicare taxes and, depending on where you live, state and local taxes.

Health Care Spending Account

Contributions

You can contribute from \$100 to \$5,000 annually 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 Internal Revenue Service 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 unreimbursable medical, dental, vision care, and prescription drug expenses for you and your eligible dependents.

Eligible dependents are your spouse and anyone you claim as a dependent on your federal income tax return. 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. If you are divorced or legally separated, your child may be an eligible dependent even if not claimed as a dependent on your return.

In general, you may be reimbursed for any health care item that is not paid for by an insurance plan and is considered a deductible medical expense by the Internal Revenue Service. However, you cannot claim, as an income tax deduction, any expenses reimbursed or payable through the health care spending account.

Examples of eligible expenses that are currently allowable by the Internal Revenue Service include medically necessary:

- fees for physicians, surgeons, dentists, ophthalmologist, optometrists, chiropractors, podiatrists, psychiatrists, psychologists, social workers, and Christian Scientist practitioners
- fees for hospital services, therapy, nursing services, ambulance fees, 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 classes.



Health Care Spending Account (cont'd.)

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 classes or programs, unless prescribed by a doctor to treat an existing disease
- maternity clothes, diaper services, etc.
- vitamins or food supplements taken for general health purposes
- cosmetics, toiletries, etc.
- health care insurance premiums
- nonprescription drugs, including products to assist in smoking cessation
- 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.

Filing Claims

When you incur an eligible medical, dental, vision care or prescription drug expense, you must pay the provider, file a claim with the insurance company and then submit a flexible spending account reimbursement request form, along with the explanation of benefits you receive from the insurance company, to the claims administrator, at the address on the bottom of the form.

Your claim must include a copy of the Explanation of Benefits (EOB) you receive after filing your insurance claim. For expenses that are not covered by your insurance, including copayments, you will need to include other evidence clearly showing that you have paid the expense, such as a receipt from the provider.

Claims are processed on the 15th and the last day of the month. For prompt reimbursement of your expenses, the claims administrator should receive your claim at least five days before these processing dates. You may be reimbursed up to the total annual contribution you have elected, regardless of your account balance.

Refer to Internal Revenue Service Publication 502 for a complete, current list of eligible deductible expenses. To order a copy, call the Internal Revenue Service toll-free at 1-800-829-3676.

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 five 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, you should contact the Benefit Plans Office immediately because you may no longer be eligible to participate in this account.

You can contribute from \$100 to \$5,000 annually in before-tax dollars to your dependent care spending account. In some cases, however, the Internal Revenue Service limits the amount you can contribute, as shown in the following chart. Dependent care contributions are reported on your W-2, according to Internal Revenue Service rules.

Special Dependent Care Spending Account Limits if You are Married

If this is your situation...	You will be taxed on reimbursements that exceeds...
You or your spouse earn less than \$5,000	The amount the lower-paid spouse earns*
Your spouse also participates in a similar dependent care spending account	\$5,000 combined
You file separate federal income tax returns	\$2,500

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

Limit for Highly Compensated Employees

Certain highly compensated employees may be limited by the Internal Revenue Service 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.

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 disabled spouse
- or*
- disabled dependents of any age (including parents).

A dependent is someone you can claim as a dependent on your federal income tax return. However, 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.



Dependent Care Spending Account (cont'd.)

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 (cont'd.)

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 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. This means:

- If you have one dependent, your total expenses eligible for the tax credit are \$2,400 (or your actual expenses, if less) minus any amount received through the dependent care spending account.
- If you have two or more dependents, your total expenses eligible for the tax credit are \$4,800 (or your actual expenses, if less) minus any amount received through the dependent care spending account.

These amounts are subject to change in 2003. The \$2,400 credit will be increased to \$3,000 and the \$4,800 credit will be increased to \$6,000.

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 Internal Revenue Service Publication 503 for a complete discussion of the tax credit. To order a copy, call the Internal Revenue Service toll-free at 1-800-829-3676.

Filing Claims

When you have an eligible dependent care expense, you must pay the provider and then submit a flexible spending account reimbursement request form, along with a bill or receipt, to the claims administrator, at the address on the bottom of the form. Be sure to include the dependent care provider's Social Security or tax identification number on the form.

Dependent Care Provider Identification

When you file a claim for reimbursement through the dependent care spending account, you must include an original receipt from your dependent care provider. You will have to provide the caregiver's name, address and taxpayer identification number (or Social Security number) on Internal Revenue Service Form 2441 when you file your federal income tax return and when you submit a claim for reimbursement. If you cannot supply this information, you should not use the dependent care spending account.

To obtain IRS Form 2441, call the Internal Revenue Service at 1-800-829-3676.

You will be reimbursed only for dependent care services you have already received. For example, if you pay in advance for three months of care, you cannot be reimbursed for the entire amount until after the end of the three-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.

Claims are processed on the 15th and the last day of the month. For prompt reimbursement of your expenses, your claim should reach the claims administrator at least five days before these processing dates.

Flexible spending account reimbursement request forms are available from the Benefit Plans Office and will be mailed with each reimbursement check.



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 and vice versa.

Estimate your flexible spending account contributions carefully. You may continue to file claims for expenses incurred during the year until March 31st of the following year. According to Internal Revenue Service rules, any money left in your account(s) will be forfeited.

Any forfeited contributions will be used to offset the plan's administrative expenses.

Account Statements

You will receive a quarterly statement of your flexible spending accounts at the beginning of each quarter. The statement shows contributions, payments made and account balances.

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 COBRA within the "Administrative Information" section.

Administrative Information

Information about the administration of the flexible spending accounts can be found in the section entitled "Administrative Information."