Y-12 BOOK OF BENEFITS

# FLEXIBLE SPENDING ACCOUNTS

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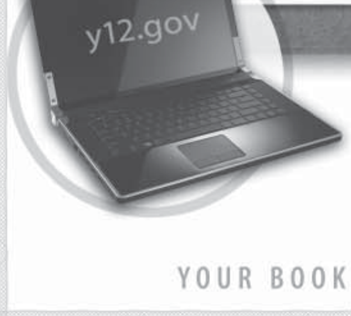


YOUR BOOK OF BENEFITS—ACTIVE EMPLOYEES

Y-12 BOOK OF BENEFITS

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

## 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 medical, dental, vision care, prescription and prescribed over-the-counter drug expenses which have not been otherwise reimbursed, 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, during the annual benefits Open Enrollment, when deciding how much to contribute to the flexible spending accounts. According to Internal Revenue Service rules, any money left in your account after March 15th of the following year 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

Follow these steps 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, prescription and prescribed over-the-counter drug expenses and your dependent care expenses. You should estimate carefully because you will forfeit any unused funds.

- **Decide on your annual 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 by March 15th of the following year and while you were an active participant in the plan.

  The deadline for filing claims is June 30th following the plan year for which the election was made.

- **Receive reimbursement**.

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

  Worksheets and reimbursement forms are available from the Benefit Plans Office, or on your company's Benefit Forms website.

## ⓘ 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, prescription or prescribed over-the-counter drug expenses that are not covered—like copayments, charges above Reasonable and Customary Charges 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 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.

## 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 allow you to pay for certain medical expenses on a pre-tax basis. 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 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 certain medical, dental, vision care, prescription and prescribed over-the-counter drug expenses for you and your Eligible Dependents which have not been otherwise reimbursed.

Expenses for medicine or drugs are reimbursable only if the medicine or drug (i) requires a prescription, (ii) is available without a prescription and you obtain a prescription for it, or (iii) is insulin.

*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 Internal Revenue Service, 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 Internal Revenue Service Publication 502 for more information about what items are – and are not – medical care expenses. To order a copy, call the Internal Revenue Service toll-free at 1-800-829-3676 or visit the IRS website at www.irs.gov.**

Note: Use IRS Publication 502 with caution. It was intended only to help taxpayers figure out what medical expenses can be deducted on their tax return, not what is reimbursable under a healthcare spending account. Some of the statements in IRS Publication 502 are not correct when determining whether that same expense is reimbursable from your health care spending account. Not all expenses that are deductible are reimbursable under the health care spending account and vice versa.

Examples of eligible expenses that are currently allowable by the Internal Revenue Service 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, 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 treat a medical condition, provided that you have a prescription for such drugs
- weight loss programs prescribed by a physician to treat a medical condition.

## 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.

### 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 and eligible prescribed over-the-counter drugs, you will need to include other evidence clearly showing that you have paid the expense, such as a receipt from the provider. Eligible medically necessary items that you bought over-the-counter require the store receipt, the description and the dollar amount of the item, and the applicable sales tax amount.

The third-party administrator for the plan releases reimbursement payments weekly for eligible expense claims which have been received and processed. 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.

# 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 your company's benefit 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 exceed:** |
| 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 Eligible Dependent ($500 a month if you have two or more Eligible 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 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. A modified definition of dependent applies when determining whether a person who is incapable of self-care (other than a spouse) is a tax dependent. The married dependent limitations and gross income limitation do not apply.

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. This means:

- If you have one Eligible Dependent, your total expenses eligible for the tax credit are $3,000 in 2008 (or your actual expenses, if less) minus any amount received through the dependent care spending account.

- If you have two or more Eligible Dependents, your total expenses eligible for the tax credit are $6,000 in 2008 (or your actual expenses, if less) minus any amount received through the dependent care spending account.

These amounts are subject to change annually.

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 discussion of the tax credit. To order a copy, call the Internal Revenue Service 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 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. The annual deadline for filing prior year claims is June 30th.

### 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 or visit the IRS website at www.irs.gov.

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.

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

Flexible spending account reimbursement request forms are available on your company's website.

## 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 plan year until June 30th of the following year. According to Internal Revenue Service rules, you must "use up" amounts deducted from your pay by incurring and filing claims for eligible expenses up to the amount of your annual election by March 15th of the following year. 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 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 COBRA within the "Administrative Information" section.