

Enloe Medical Center

QUESTIONS AND ANSWERS

We are pleased to provide you with an employee benefit which may enable you to pay for dependent care expenses and/or unreimbursed expenses for health care with pre-tax dollars (i.e. money that is not subject to tax before you can use it). By taking advantage of a section of the Internal Revenue Code, we are able to provide you with the opportunity to pay for these expenses with pre-tax dollars. In addition, if you participate in the Flexible Spending Account, you will lower the amount of taxable income that you must pay taxes on each year.

Q - WHAT IS A FLEXIBLE SPENDING ACCOUNT?

A - In 1978 the United States Congress created Section 125 in an effort to make benefit programs more affordable for employees. Section 125 is the part of the Internal Revenue Code that allows employees to convert a portion of their salary into non-taxable benefits. Section 125 programs, including Flexible Spending Accounts, have become one of the fastest growing benefits offered.

Q - HOW DOES A FLEXIBLE SPENDING ACCOUNT WORK?

A - The concept behind a Flexible Spending Account is much like banking money before the IRS can tax it. The "banked" money is then used to pay for certain benefit items. These items would otherwise be paid for with an individual's take home pay after taxes have been withheld. Under a Flexible Spending Account, a participant may redirect (before taxes) a portion of their salary to pay benefits such as health care expenses not covered by insurance and dependent care expenses.

Health Care Reimbursement Plan - Employees may elect to pay, with pre-tax dollars, for qualified health care costs that are not covered by their insurance. Employees may contribute a maximum of \$5,000 per plan year. The amount allocated by the employee must be determined prior to the plan year and the maximum amount of reimbursement for health care expenses must be available at all times. Any funds left in the employee's reimbursement account at the end of the plan year must be forfeited.

Dependent Care Reimbursement Plan - Dependent day care expenses that are necessary for the employee to work can also be used to pay for qualified dependent day care services on a pre-tax basis. Employees may contribute a maximum of \$5,000 if single or married and filing a joint return; \$2,500 if married and filing separately; or the lower annual income earned by the employee or spouse, if married. Qualifying dependents are children under age 13 or any other dependent, including your spouse, incapable of self-care. If the dependent is not a qualified child, as defined by the tax code, then, in order to qualify for the Dependent Care Reimbursement Plan, you must also be responsible for at least half of that dependent's support during the year and the dependent would have qualified as a dependent in your tax return except that the individual's income for the previous year exceeded an amount that would have qualified them as your dependent.

Q - WHO CAN BENEFIT FROM A FLEXIBLE SPENDING ACCOUNT?

A - No one is required to participate; however, both employees and employers benefit from significant tax savings with a flexible spending account. Employees who lower their taxable income will realize federal and state tax savings.

Q - WHAT DOES THIS MEAN TO ME?

A - It means you will be paying less in taxes because your income will be calculated on a smaller salary base, which has been reduced by your contributions to the plan.

Q - CAN I CHANGE MY PARTICIPATION DURING THE YEAR?

A - The IRS requires that your election to pay for benefits under the Plan with pre-tax dollars may only be changed for each January 1 unless there is a change in family status. Of course, if you terminate employment, you do not have to contribute. A change in family status is considered one of the following:

- Marriage
- Birth or adoption of a child
- Full-time to part-time employment changes (or vice versa)
- Divorce
- Significant change in employee or spouse's health coverage attributable to employment
- Death of a spouse or dependent
- Termination of spouse's employment
- Employee or spouse takes unpaid leave of absence

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Q - DOES THIS PLAN AFFECT ANY OF MY OTHER EMPLOYEE BENEFITS?

A - There is no reduction in any other employee benefits related to compensation. However, since your taxable income will be reduced, your FICA contribution for Social Security could also be slightly reduced. Usually the effect will not be great over the lifetime of covered earnings.

Q - WHAT HAPPENS TO THE FUNDS I SET ASIDE?

A - The funds you set aside for dependent care expenses and out-of-pocket health care expenses are deposited into two separate accounts. The full amount that you elected to set aside for the year for your health care reimbursement account is available immediately without regard to the amount actually deducted from your pay. Dependent care expenses are reimbursed up to the amount actually contributed by you into the dependent care reimbursement account at the time the claim for reimbursement for dependent care is processed. You cannot transfer or "borrow" funds from one account to the other.

Q - HOW CAN I FIND OUT ABOUT MY BALANCE(S) IN MY FLEXIBLE SPENDING ACCOUNT(S)?

A - The Flexible Spending Account program through Keenan HealthCare (FSA Administrator) includes an online account balance inquiry feature to help you manage your funds. Within 30 days after signing up for participation in either program, you will be provided with easy instructions to register online at Keenan along with an assigned password. This feature will allow you to check your annual election amount, year-to-date contributions, year-to-date payments, current balance and remaining unused election amount.

Keenan HealthCare will also furnish you with a quarterly statement for each account in which you participate, which will reflect all activity on the account during that time period (contributions, reimbursement requests and disbursements). You may also call Keenan HealthCare at any time to inquire about your account. The toll-free number is (800) 653-3626.

Q - WHAT HAPPENS IF THERE IS MONEY LEFT IN MY ACCOUNT AT THE END OF A YEAR AND I HAVE NO MORE REIMBURSABLE EXPENSES?

A - Under IRS rules, you will forfeit the money in the account. This is known as the "use it or lose it" feature of a Flexible Spending Account. For this reason, you need to make conservative estimates of your reimbursable expenses prior to each plan year. You have 4 months after the end of the plan year to file claims for expenses incurred during the plan year. Forfeited monies, if any, are used by Enloe Medical Center for general future benefit expenses.

Q - WHAT HAPPENS IF I LEAVE MY EMPLOYMENT DURING THE PLAN YEAR AND HAVE MONEY IN MY ACCOUNT(S)?

A - See your Human Resources Department for specifics regarding COBRA continuation. If you choose NOT to participate in COBRA, any remaining funds in your health care expense account will be forfeited if you do not have an eligible incurred expense prior to termination. Your dependent care expenses must be incurred prior to termination as well. The IRS allows a 90-day grace period from the date of separation in order that you may file all of your claims with Keenan HealthCare for reimbursement.

Q - WHEN IS THE PLAN EFFECTIVE?

A - The plan is effective **January 1, 2011**.

Q - DO I NEED TO COMPLETE AN ENROLLMENT FORM?

A - Yes, you must complete the enrollment form to indicate if you are electing to participate in the plan or if you are waiving participation for the plan year.

Q - WHAT HAS CHANGED FOR OVER-THE-COUNTER DRUGS AND HEALTH CARE REIMBURSEMENT?

A - **Effective Effective January 1, 2011**, over-the-counter drugs or medicines (with the exception of insulin) are ineligible for reimbursement unless you have a physician's prescription. Purchases of over-the-counter drugs made on or before December 31, 2010, will be reimbursable. Any over-the-counter drug purchased on or after January 1, 2011 without a physician's prescription will be rejected.

The information presented in this document represents a brief summary of the Health Care Reimbursement Plan. It is not intended to substitute for your Plan Document or Summary Plan Description. Please consult with the Plan Document or your Summary Plan Description for complete details regarding this Plan.