

Health Flexible Spending Account Plan Employee Summary

This summary plan description is for informational and educational purposes only and does not constitute legal advice or a comprehensive guide to issues to be considered in establishing a Health Flexible Spending Account (FSA) or Health Reimbursement Arrangement. If your organization chooses to establish such a program, you should consult your own tax and/or legal adviser and prepare your organization's own written materials.

_____ (Employer name) has established a Health Flexible Spending Account Plan that lets you set aside before-tax dollars to cover certain qualified expenses for medical care that you would normally pay out of your pocket with after-tax dollars. You pay no federal or Social Security taxes on the money you deposit in the account. This means you lower your taxable income and pay lower taxes.

Enrolling in the Plan

Participation in the Health Flexible Spending Account Plan ("the plan") is completely voluntary. Actively employed employees regularly scheduled to work at least 20 hours a week may enroll in the plan. There may be an initial waiting period for new employees. Check with your employer for more information about your eligibility for enrollment and the forms to complete to enroll.

How to Set Up a Health Flexible Spending Account

If you participate in the plan, before the start of each plan year, you must estimate the amount you think you will spend out-of-pocket on eligible healthcare expenses during that year. These are expenses for medical care that cannot be reimbursed through any other source. You then decide how much to reduce your paycheck and deposit into your account under the plan. You will make the selection by completing a Salary Reduction Agreement. The amount you elect is deducted, on a pretax basis, in equal amounts each paycheck.

You may elect to reduce your cash compensation by up to \$_____ annually for deposit in the Health FSA. (Employer's plan should establish maximum contribution amounts.)

Healthcare Reimbursement Under the Plan

Examples of eligible expenses (for you and your eligible dependents) include:

- required copayments for office visits and specialty care
- annual medical and dental plan deductibles
- copayments for prescription drugs
- out-of-pocket expenses for vision exams, eyeglasses, contact lenses, and contact lens solution
- hearing exams and hearing aids

How to Claim Benefits from Your Health FSA

When you have an eligible expense, you submit a reimbursement form together with a receipt for your expense to the claims administrator.

(See Plan Administration on page 3.)

Be sure your receipt includes the:

- provider's name
- service or treatment rendered
- date(s) actual service was rendered
- cost of the service provided on that date(s)

For eligible healthcare claims, you will receive the full amount of your claim, up to the maximum amount you elected to deposit in your account for the plan year, less amounts already reimbursed to you.

You pay no federal or Social Security taxes, either when the money is deducted from your pay or when it is reimbursed to you.

To help you keep track of your plan account, you will receive a statement each _____ showing your account activity and your account balance.

Examples of eligible healthcare expenses:

- Acupuncture
- Alcoholism, inpatient treatment, transportation to AA meetings
- Ambulance hire
- Artificial limbs and teeth
- Birth control pills
- Braille books & magazines (excess cost of regular editions)
- Capital expenditure (primary purpose medical care)
- Car equipped to accommodate wheelchair passengers
- Chiropractors
- Christian Science treatment
- Contact lenses and contact lens solution
- Crutches
- Dental fees
- Eyeglasses, eye examinations
- Fertility enhancement
- Guide animals, cost and maintenance
- Hospital
- Laboratory fees
- Laser eye surgery
- Legal fees-authorization of treatment for mental illness
- Lifetime medical care, prepaid
- Lip reading expenses for deaf
- Lodging and meals, inpatient
- Medical treatment for substance abuse
- Nurse's aide, medical reasons
- Nursing home, medical reasons
- Operation, legal
- Orthodontia
- Osteopaths
- Oxygen, breathing equipment
- Patterning exercises, handicapped child
- Prescription drugs
- Psychiatric care
- Psychoanalysis
- Schools, special relief of handicapped dependents
- Sterilization
- Stop-smoking programs
- Transplants
- Trips to receive medical services
- Vasectomy
- Weight reduction program prescribed by a doctor to treat a disease
- Wheelchair
- Wigs prescribed by a doctor
- X-rays

Examples of non-eligible healthcare expenses:

- Any illegal treatment
- Car insurance, medical coverage
- Cosmetic surgery
- Dancing or ballet, even when recommended by a doctor
- Diaper service
- Electrolysis or hair removal
- Fee for exercise, athletic, or healthcare club membership
- Funeral expenses
- Hair transplants
- Maternity clothes
- Nutritional supplements
- Weight reduction programs for general well-being

For a more complete list of healthcare expenses that can be reimbursed through your Health FSA, you may visit the IRS Web site at IRS.gov or call the IRS at 800-829-3676 for publication 502.

A IRS Rules

In exchange for the tax advantages of the plan, the IRS imposes some restrictions:

Use it or lose it – Amounts left in your Health FSA at the end of the plan year are forfeited. They cannot be returned to you or carried over to the next year. The plan may include a grace period of an additional two and a half months during which expenses may be incurred for reimbursement.

Limited Changes – Once a year, during the enrollment period, you have an opportunity to enroll in the plan and decide how much to contribute. You may not change your contributions mid-year unless you experience a qualifying change in status event, a special enrollment event, or another recognized mid-year change event. All these events are subject to limits prescribed under the law.

Qualifying Change in Status Event – If you experience a qualifying change in status event and you properly complete, sign, and return an election change form to the plan administrator within 30 days of the date of the event, you may enroll for, waive, or change your coverage, provided that your coverage election change is consistent with your qualifying change in status event.

A qualifying change in status includes a change in:

1. Your legal marital status, including marriage, divorce, the death of a spouse, legal separation, or annulment
2. The number of your dependents, including birth, adoption, placement for adoption, or the death of a dependent
3. Your, your spouse's, or your dependent's employment status, as a result of a termination or commencement of employment, a strike or lockout, a commencement of or a return from an unpaid leave of absence, or a change in worksite, switching from salaried to hourly-paid, union to non-union, or part time to full time, incurring a reduction or increase in hours of employment, or any other similar change which makes the individual become (or cease to be) eligible for coverage
4. Your dependent's eligibility for coverage under the plan because of the attainment of a particular age, or other similar event
5. Your, your spouse's, or your dependent's change in residence

Your change in election will be effective on the date the plan's administrator receives and processes your properly completed election change form.

Other Permissible Mid-Year Changes – In addition to qualifying changes in status, you may also change your salary reduction agreement election mid-year on account of certain other mid-year events.

1. If you become divorced, separated, get an annulment, or have a custody change that requires your dependent child to be covered under this plan, you may change your election to provide coverage for this child.
2. If you or your dependent becomes entitled to Medicare or Medicaid coverage, you may change your election to cancel or reduce coverage.
3. If you, your spouse, or a dependent who has been entitled to Medicare or Medicaid loses eligibility, you may elect to commence or increase coverage.

It is important to plan carefully when deciding how much to contribute to your Health FSA because of these IRS-imposed restrictions and forfeitures.

B Plan Administration

_____ (name of employer) is the plan sponsor and the plan administrator.

Claims and day-to-day operations of the plan are handled by _____ (claims administrator).

You may submit claims for expenses incurred for services previously received, but in no circumstances later than _____ (date) following the end of the plan year (or grace period). Please submit claims to _____.

_____ will review each claim and respond within a reasonable period of time.

If Your Claim is Denied

If your claim for a benefit under the plan is denied, in whole or in part, you will receive a written explanation of the reason for denial. You have the right to ask the plan administrator to review and reconsider your claim. Any request for review should be sent to

_____ (name of person at organization responsible for plan administration).

C Taxation of Benefits

Benefits received from a Health FSA are intended to be qualifying benefits under Section 125 of the Internal Revenue Code. However, we do not warrant or make any representation that any benefit you receive is excludable from your gross income for local, state, or federal income tax purposes. By accepting a benefit paid through the plan, you agree to be liable for any tax that may be imposed with respect to that benefit, plus any penalty that may be imposed in connection with the tax.

When Participation Ends

Your participation in the plan will end:

- on the date you die, retire, or otherwise cease to be an eligible employee under the plan
- at the end of the plan year if you elect not to participate in the following plan year
- on the date the plan is terminated
- on the date the plan is amended to make you ineligible for benefits
- the date you enter the armed forces of any country in active, full-time duty

Right to Terminate

Your employer intends this plan to be permanent, but reserves the right to terminate or amend the terms of the plan at any time and for any reason. If the plan is terminated, you will be notified. Salary reduction amounts made prior to the plan termination date will not be affected and will be deposited into your Health FSA and available to pay claims incurred before the termination date.

If You Leave Employment

If you leave your employment, you may submit claims through your Health FSA for eligible expenses incurred through your last day of employment in accordance with the terms of the plan.

Official Plan Document Governs

This summary highlights key provisions of your Health Flexible Spending Account Plan. Complete terms of the plan are contained in the official plan document, which governs in all cases. A copy of the plan is available from your employer. Your employer reserves the right to change or end the plan at any time and for any reason.