

**ABRAHAM BALDWIN AGRICULTURAL
COLLEGE**

FLEXIBLE SPENDING ACCOUNTS

Health Care Spending Account

and

Dependent Care Spending Account

COMBINED SUMMARY PLAN

Revised 10/09

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INTRODUCTION

The health and welfare of you and your family are important to Abraham Baldwin Agricultural College (ABAC) and we recognize that safeguarding both is frequently a difficult and expensive task. Single parents, and families in which both spouses work outside the home often have significant dependent care expenses, and many of you may still incur a variety of health care expenses which are not covered by your insurance plan.

To assist you with these kinds of expenses, we are offering you the opportunity to participate in the ABAC Flexible Spending Account (FSA) plans for Health Care and Dependent Care. These spending account plans allow you to pay for those health care and/or dependent care expenses with before-tax dollars.

Under a spending account arrangement, you make contributions to the account(s) from your salary pay period—before payroll taxes are computed—and are then reimbursed for eligible expenses from your Flexible Spending Account(s) as you present your claims for payment.

We have written this booklet with as few technical terms as possible, so that you will be aware of your rights and benefits. Every effort has been made to make the booklet as complete and accurate as possible. However, if any conflict should arise between this booklet and the plans, the terms of the plans will govern.

The ABAC Human Resources Office will be happy to supply you with any additional information so that you will have a complete understanding of the benefits to which you are entitled.

EFFECTIVE DATE, ELIGIBILITY, AND CHANGE IN ELECTIONS

Effective Date

The ABAC Flexible Spending Account for health care expenses and dependent care expenses was effective beginning March 1, 1991. Plan years will be the 12 month period beginning on January 1 of each calendar year.

Eligibility and Elections

All regular workers employed one-half time or more are eligible for enrollment in the Flexible Spending Account plans. You may enroll within 31 days of your employment or during an Open Enrollment Period offered once a year.

Eligible dependents of an employee are:

- Your spouse
- Your dependent children
- Any other person considered an eligible dependent for federal income tax purposes, such as an elderly parent

To open your spending account, you must make a selection by completing an election form and returning it to the ABAC Human Resources Office before the date you become eligible for the plan. If you do not complete the election form on a timely basis, you will be deemed to have elected not to make any salary reduction contributions to pay for eligible health care and/or dependent care expenses you may incur during the plan year.

Change in Elections

You may only change your elections during the open enrollment period of each year, unless there is a change in your family status (i.e., marriage, divorce or legal separation, death or disability of dependent, birth or adoption of a child, change in employment status of spouse). If you experience a change in family status, you will be permitted to change your benefit election to accommodate that change. The change must, however, be consistent with the change in family status.

GENERAL RULES FOR SPENDING ACCOUNTS

When you are first eligible to participate in the ABAC Flexible Spending Account plans, and prior to each plan year, you may elect to contribute a portion of your salary to your individual spending account(s) to pay for eligible health care and/or dependent care costs you will incur during the plan year. Your contribution is made on a salary reduction basis (i.e., before-tax)

Your contributions for a plan year to the Flexible Spending Account can only be used to reimburse eligible health care or dependent care expenses which you incur for yourself and/or eligible members of your family during that plan year.

Expenses that you incur in excess of your account balance at the end of the plan year cannot be reimbursed nor carried forward for reimbursement in a subsequent plan year, except for the expenses incurred in the Grace Period. (See Grace Period section, below.)

Use It or Lose It Rule for Flexible Spending Accounts

The IRS has imposed several rules regarding the use of spending accounts. The most significant rule is the USE IT OR LOSE IT Rule. Any unused funds at the end of the plan year must be forfeited and cannot be returned in any manner. Because of this rule, it is very important that employees estimate their eligible expenses very carefully and conservatively. If employment should terminate during the plan year, all contributions to the spending account will cease effective the date of termination. However, those employees, who have been terminated, will be entitled to submit claims for eligible expenses through the end of that plan year or until the account has depleted, whichever comes first.

Grace Period

Beginning with the 2005 Plan Year, there will be a grace period of 2 ½ months after the Plan Year ends. During this Grace Period we will extend the deadline until March 15 for an employee to use any funds left from the previous plan year. Expenses for qualified benefits incurred during the grace period may be paid or reimbursed from benefits or contributions remaining unused at the end of the immediately preceding plan year. The effect of the grace period is that the participant may have as long as 14 months and 15 days (the 12 months in the current plan year plus the grace period) to use the benefits or contributions for a plan year before those amounts are “forfeited” under the “use-it-or-

lose-it” rule. If the two-and-a-half month extension period has passed and there is still money left in the account, the money will be subject to the “use-it-or-lose-it” rule, and the balance will be forfeited to the employer as it has always been done in the past..

Example:

An employee has elected a salary reduction of \$1,000 for a health FSA (Flex Spending Account) for the plan year ending December 31, 2005. As of December 31, 2005, the employee has \$200 remaining unused in his health FSA. During open enrollment the employee elected a salary reduction for a health FSA of \$1,500 for the plan year ending December 31, 2006. During the grace period from January 1 through March 15, 2006, the employee incurs \$300 of unreimbursed medical expenses. The unused \$200 from the plan year ending December 31, 2005 is applied to pay or reimburse \$200 of the employee’s \$300 of medical expenses incurred during the grace period. Therefore, as of March 16, 2006 the employee has no unused benefits or contributions remaining for the plan year ending December 31, 2005. The remaining \$100 of medical expenses incurred between January 1 and March 15, 2006 is paid or reimbursed from the employee’s health FSA for the plan year ending December 31, 2006. As of March 16, 2006, the employee has \$1,400 remaining in the health FSA for the plan year ending December 31, 2006.

2005

\$1,000
800 reimbursed before 12/31/2005
\$ 200 @ 1/1/2006
200 incurred during Grace Period
0

2006

\$1,500
100 incurred during Grace Period not reimbursed on 2005 FSA
\$1,400

HEALTH CARE SPENDING ACCOUNT

Contributions

You may elect to contribute up to \$3,000 per year for the Unreimbursed Health Care Flexible Spending Account. The annual amount you decide to contribute will be deducted as a fixed amount from each paycheck and is not subject to Federal, State, or FICA (Social Security) tax.

Eligible Expenses

In general, health care expenses for you and your dependents are eligible for reimbursement from your Flexible Spending Account if those expenses:

- would qualify as a medical expense for Federal Income Tax purposes under Section 213 of the Tax Code.
- have not been and will not be reimbursed by the ABAC health insurance plan or by another employer's group health insurance plan, and
- have not been and will not be deducted on your income tax return

Eligible reimbursable expenses under this plan include, but are not limited to:

- otherwise unreimbursed medical expenses (including deductibles and coinsurance payments) for hospital, physician, prescription drug, dental, and vision care,
- non-covered health services, such as prescription glasses and hearing aids,
- routine checkups and physicals,
- over the counter drugs that were formerly prescription drugs. (Limit of 5 packages per month) List is available from Human Resource Office,
- transportation expenses, to and from the doctor and/or hospital, which are essential to medical care (\$.27 per mile, must have a mileage log)

- physical fitness programs, smoking cessation clinics and weight-loss institutions, when prescribed by a health practitioner for a specific health condition.
- cosmetic surgery for congenital defects, injury, trauma or disfiguring illness, (vision correction surgery, breast reconstruction surgery, etc.)
- long-term rehabilitation services (alcoholism and drug abuse)

Further information on the types of health care expenses eligible for reimbursement from the plan is available from the ABAC Human Resources Office.

Reporting Requirements

Prescription Drugs – A receipt from the drug store showing:

- Patient Name
- Drug
- Date
- Pharmacy Name
- Amount paid

Doctor or Hospital

- If covered by insurance:
 - An Explanation of Benefits from the insurance company which shows the amount paid by insurance and the amount to be paid by the patient.
- If not covered by insurance:
 - A receipt from the doctor or hospital showing:
 - Date of service
 - Patient Name
 - Doctor or hospital name
 - Amount to be paid by the patient

Over the counter drugs, supplies, etc. – A receipt from the store from which purchased showing:

- Name of the store
- Date of the purchase
- Name of the item purchased to be reimbursed
- Amount paid

DEPENDENT CARE SPENDING ACCOUNT

Contributions

If you are married and file a joint tax return, file as head of household, or are single, you may elect to contribute up to \$5,000 per plan year to your dependent care spending account. The limit is \$2,500 if you are married and file a separate tax return. These limits are imposed by the Tax Reform Act of 1986.

Your contribution is deducted in equal amounts from each of your paychecks except biweekly paid employees. (The third biweekly check in any month will not have deductions taken from it.)

Additional Employment and Earnings Limitations

If you are married, generally both you and your spouse must be employed in order to use this plan to reimburse your eligible dependent care expenses.

However, during any month in which your spouse is a full-time student at an educational institution or is physically or mentally unable to care for himself or herself, your spouse will be deemed to have a monthly salary of \$200 if there is one dependent or \$400 if there are at least two dependents who qualify for assistance under the Dependent Care Flexible Spending Account Plan.

The amount by which you may reduce your salary to make pre-tax contributions for dependent care is limited to the lessor of your earned income or the earned income of your spouse.

Eligible Expenses

Eligible dependent care expenses are work-related expenses incurred for qualifying individuals (see next subsection). These expenses include housekeeper (when babysitting services are included), babysitter, licensed daycare center costs and schooling costs for children not yet in the first grade. Costs which are not eligible include transportation and overnight camping costs and schooling costs for children in the first grade or above.

You may be reimbursed by this plan for payments you make to a relative who provides dependent care services except for payments you make to your child or other dependents.

Qualifying Individuals

Individuals who qualify as dependents for the purpose of this plan are:

- Children under age 13
- Your spouse, or any other person who is your dependent for federal income tax purposes, who is physically or mentally incapable of caring for himself or herself

If you are divorced or legally separated, you can generally have your child's dependent care expenses reimbursed if you are the custodial parent, i.e., if you have custody of the child for a longer period of time during the plan year than the other parent.

The following exceptions would override the custodial parent rule and permit the noncustodial parent to have the child's dependent care expenses eligible for the Flexible Spending Account.

- The custodial parent formally released claim to the Federal income tax dependent exemption for the tax year,
- You may provide over half of the support of the child under a multiple agreement, or
- You are entitled to the dependent exemption for Federal income tax as a result of an agreement executed prior to 1985.

Alternative Source of Dependent Care Assistance

Section 129 of the Internal Revenue Code also allows a dependent care income tax credit which may apply to your dependent care costs. You cannot use the same dependent care expenses for both the spending account plan and the tax credit. And, the dollar limit available under the tax credit is reduced dollar for dollar by the amount used under the Spending Account. You will want to consider carefully which option will give you the greater tax savings. Further information about making that decision is available in the Human Resources Office.

Reporting Requirements

Effective in 1991, as a condition to the dependent care credit or exclusion, a taxpayer must provide the name, address, and taxpayer identification number of the dependent care provider.

EFFECT OF THE PLAN ON OTHER BENEFITS

The salary dollars you contribute to a Spending Account are not subject to Federal, State, or FICA taxes, and will not be included in the income reported on your W-2 Form.

Some of the benefits provided by ABAC (e.g., Teachers Retirement, group life insurance benefits, long-term disability) are determined on the basis of your earnings. For the purpose of determining these benefits, the Spending Account Plan will provide that your earnings will be those earnings before any salary reduction contributions to the spending account plan is taken into account.

However, under present law, your earnings for the purpose of determining your maximum contribution to a tax-deferred annuity plan and your Social Security benefits do not include salary reduction contributions made under the Flexible Spending Account plans. In almost all cases, the value of the FICA, Federal, and State income tax savings to you will substantially exceed the reduction in your eventual Social Security benefits.

CLAIMS INFORMATION

In order to receive reimbursement for an eligible claim for health care or dependent care expenses, you must complete a claim form which is available in the ABAC Human Resources Office. Please read each claim form carefully to be sure you have included all required information before you submit a claim.

A claim will be paid to the extent of your total eligible account for the plan year. However, at the end of a plan year, if the total funds remaining in your account are not sufficient to cover the entire claim, you will be entitled only to reimbursement of the remaining balance of your account.

To enable you to use your spending account for expenses incurred up to the end of the plan year, you may continue to submit claims for 2 ½ months following the close of the plan year. Those claims must be for expenses incurred during the actual plan year, or for expenses incurred during the 2 ½ months grace period ending March 15 after the plan year.

Each quarter, you will receive a statement providing detailed information about the activity in your spending account. Thus, you will be notified three months before the end of the plan year if your account balance indicates potential forfeiture.

