



Document # 6: FLEXIBLE SPENDING HIGHLIGHTS

What is a Flex Plan? It is an Employee Benefit that provides employees with a choice between their cash salary and nontaxable benefit. It is intended to qualify as a "cafeteria" plan under Section 125 of the Internal Revenue Code of 1986, as amended.

Why should you participate? You will save on your taxes. This Plan enables you to use "pretax" dollars to pay for benefits expenses, which you would otherwise pay for with after-tax dollars.

What do I need to do/know before I participate? Carefully estimate your expenses. Once you choose an amount to be deducted from your pay, you can't cancel or change the amount until the next Open Enrollment. You can only be reimbursed for expenses incurred in the particular plan year. Under IRS rules, unused money must be FORFEITED.

What do I need to do to participate? You MUST complete the Flexible Spending Plan Form (Document #2) if you wish to participate in either or both of the Medical Expense Reimbursement Account and Dependent Care Expense Account for the next Plan Year (July 1, 2010 – June 30, 2011).

IMPORTANT CHANGE FOR UPCOMING PLAN YEAR!!!!

Effective January 1, 2011, the IRS regulations will no longer consider Over-the-Counter (OTC) drugs as eligible expenses for reimbursement under the Flexible Spending Plan unless they are prescribed by a doctor. Therefore, employees must factor this change in when determining their election amounts for the upcoming plan year.

Future Flexible Spending Plan changes: Effective January 1, 2013, the maximum Medical Expense Reimbursement election will be \$2,500.00 per calendar year. Employees will be provided additional information as the 2012-2013 plan year nears, but we are providing you this information now for your planning purposes.

YOU HAVE TWO (2) PLANS TO CHOOSE FROM:

1) MEDICAL EXPENSE REIMBURSEMENT ACCOUNT (OUT OF POCKET MEDICAL EXPENSES)

The maximum salary reduction for this plan year for which you may receive reimbursement is dependent on your years of service with RCUH. If you have less than 4 years of service with RCUH, your maximum contribution is **\$2,400.00 per year**. If you have 4 years or more years of service with RCUH, you may contribute up to **\$4,500.00 per year**. You may choose to reduce your cash salary by a prearranged amount which you estimate you will incur for IRS approved medical and/or dental expenses (for yourself, your spouse and your dependents) which are not covered by your health plan. The following is a list of some of the eligible expenses**:

<i>Chiropractic/Acupuncture</i>	<i>Medical/Dental Co-payments</i>	<i>Non-Cosmetic Reconstructive Surgery</i>
<i>Parking Fees for Office visits</i>	<i>Orthodontics/Dentures</i>	<i>Vision/Contact Lenses & Solutions</i>
<i>Massage/Shiatsu prescribed by Dr.</i>	<i>Hearing Aids</i>	<i>Orthopedic Shoes</i>
<i>Alcoholism/Drug Addict. Treatment</i>	<i>Prescription Drugs (including: Vitamin, Contraceptives & Birth Ctrl Pills)</i>	

NOTE: All medical expenses normally deductible on federal income tax return will be reimbursed under this program.

2) DEPENDENT CARE EXPENSE ACCOUNT

Reimbursement per Plan Year may not exceed the least of the following: 1) **\$5,000.00 per year**; 2) **\$2,500.00 per year** if you are married, but file taxes separately from your spouse; 3) your taxable compensation or 4) your spouse's earned income, if you are married. You may choose to reduce your cash salary by the amount which you estimate you will incur for IRS approved expenses for care of your dependents (children under the age of 13 or adults who are physically or mentally unable to care for themselves) claimed on your federal income tax. The following is a list of some of the Dependent Expenses**:

Note: A form W-10, properly completed by the dependent care provider, must be kept in your file.

<i>Baby-sitting</i>	<i>Preschool/day care fees</i>	<i>Summer Fun Programs (Summer School is NOT an eligible expense)</i>
<i>Before/After school care (A+)</i>	<i>Certain types of care for incapacitated dependents older than age 12</i>	

For a full listing of acceptable services and/or items, please refer to the Benefit Services of Hawaii, Inc. website at <http://www.bshi.net/products/flex/>

Other Rules of Participation

- Your Medical Expense and/or Dependent Care Expense election will be evenly deducted from each paycheck throughout the Plan Year.
- Elections are for the Plan Year and generally may not be changed during the Plan Year. However, changes are permitted if there is a change in family status, including the following events: marriage, divorce, death, birth, adoption, job status change for employee and/or spouse (including termination of spouse's employment), unpaid Leave of Absence of the employee or spouse, significant change to the benefit. See Flexible Spending Informational brochure on the www.rcuh.com website under Current News section or visit the www.bshi.net website for full listing of qualifying events. **Election changes must be completed no later than 30 days following the event.**
- Reimbursement requests must be for expenses incurred within the Plan Year. This means the date of service must fall between July 1, 2010 and June 30, 2011, but may be submitted for reimbursement up to 90 days after the Plan Year, in this case September 30, 2011.
- Year-end balances cannot be carried over to the next Plan Year and you will forfeit, to your employer, any balances remaining in your accounts after the 90-day period past the Plan Year.
- Following an Unpaid Leave of Absence, you will be required to "catch-up" on any missed deductions for the Medical Expense Account. The missed deductions may be taken out from one paycheck or deducted evenly from the remaining paychecks in the Plan Year.
- If you terminate employment with RCUH, you have until the end of that month in which you terminate to incur medical and/or dependent care services. You have a 90-day grace period from the end of that month in which you terminate to turn in your final receipts.
- You also have the option to continue your participation in the Medical Expense Account through COBRA. If you choose to continue, you will need to send in your after-tax payment to Benefit Services of Hawaii.
- You *cannot* transfer funds between accounts.

Stay tuned for Current News updates posted on www.rcuh.com! You may also call Benefit Services of Hawaii, Inc. at (808) 538-8900 with questions on the plans.