Operated for the U.S. Department of Energy by

Sandia Corporation
P.O. Box 5800, MS 1021
Albuquerque, NM 87185

September 2005

Dear Reimbursement Spending Accounts Plan Participant:

The information provided in this letter is a summary of material modification to the current Reimbursement Spending Accounts (RSA) Plan Summary Plan Description (SPD), dated January 1, 2003, and should be kept as a supplement with your RSA Plan SPD.

IMPORTANT CHANGE: With the issuance of Notice 2005-42, the IRS and the Treasury relaxed the "use it or lose it" rule. Now known as the "Grace Period" employees have an additional 2 months and 15 days following the end of the plan year in which eligible expenses may be incurred. The Grace Period will apply to the health care reimbursement account only. The deadline to file claims for the previous plan year will remain April 15, 2006.

Example: The grace period allows active participants 2½ months longer to incur eligible healthcare expenses before the account is closed. Once the account is closed any remaining account balance is no longer available. It will be forfeited. In other words, if you enrolled as of January 1, 2005 and are an active participant as of December 31, 2005, you have until March 15, 2006 to incur eligible healthcare expenses and until April 15, 2006 to submit those eligible healthcare expenses and all corresponding documentation for reimbursement. After April 15, 2006, any remaining account balance is no longer available for reimbursement.

Sincerely,

Benefits Department, 3332

SUMMARY OF MATERIAL MODIFICATIONS
TO THE
SUMMARY PLAN DESCRIPTION
FOR THE
FLEXIBLE BENEFIT PLAN

Please consider this your notice of the following changes effective for the Plan Year beginning 2005. Attach this document to your current Summary Plan Description and retain for future reference. The numbering corresponds to the original Question/Answer.

20. ***When are Health Care Expenses incurred?***

A health care expense is incurred when the service that gives rise to the expense is provided, and not when you pay for the expense, or when you are billed for it. If you have paid for the expense but the service has not yet been rendered, then the expense has not been incurred and is not eligible. You cannot be reimbursed for an expense that has not been incurred (service rendered). Also, you may not be reimbursed for expenses arising before the Plan was effective or before your effective date of coverage under the Plan; or for expenses incurred after the end of the Plan Year's grace period or after your coverage ends. The grace period immediately follows the end of each Plan Year and runs for 2 ½ months. As a result of the grace period, you have until the fifteenth day of the third calendar month following the immediately preceding plan year to incur an eligible expense. For example: If the plan year ends December 31, you have until March 15 to incur an eligible expense. In other words, you may have as long as 14 months and 15 days to
incur eligible expenses.

28. ***What happens if I do not submit claims for the amounts credited to my health care and/or dependent care FSA accounts?***

The amounts credited to your health care FSA account for any Plan Year shall be used only to reimburse you for eligible expenses INCURRED during the plan year and up to the end of the grace period, or until the end of your applicable period of coverage. The amounts credited to your dependent care FSA account for any Plan Year shall be used only to reimburse you for eligible expenses INCURRED during the plan year. In addition, funds in one account cannot be used for expenses in another account. You must apply for reimbursement on or before the 90th day following the close of the plan year. After all claims for a plan year have been settled, according to IRS Regulations, any remaining money left in any one account (health care and/or dependent care) must be forfeited and this money would revert to the Company (to be used to offset FSA administrative expenses and future costs.). For example, if you designate $5,000 annually to your dependent care FSA account and by the end of the plan year you spent only $4500, you will forfeit $500. Unused benefits or contributions cannot be cashed out by Plan participants.

Your FSA expense account(s) will begin the new plan year with a zero balance. Because health care money is forfeited if it is left in the account at the end of the plan year's grace period, it is important that you carefully estimate what you will spend in each area of the benefit plan.

Also, any benefit payments that are unclaimed (for example, uncashed benefit checks) by the close of the Plan Year following the Plan Year in which the expense was incurred shall be forfeited.

FAQ RE: GRACE PERIOD

As of 8/5/2005

What is the Grace Period?

The Grace Period extends the timeframe a participant has to **incur** eligible expenses before the remaining account balance is no longer available. The normal timeframe called the plan year, runs for a 12-month period. For a calendar plan year this would be from January 1 through December 31. The grace period, in effect, allows for a 14½-month timeframe. As a result, for a calendar plan year the grace period will run from January 1 through March 15. This gives active participants an additional 2½ months to incur eligible expenses. Requests for reimbursement must be filed before the end of the run-out period.

Example: As of 12-31-05 (PY1), active participant has an account balance of $25 and elects $500 for PY2 that runs from January 1, 2006 through December 31, 2006. Eligible expense incurred 2-15-06 for $100. Participant files claim for $100 on March 1, 2006. At next check print, participant receives $100 reducing PY2 account balance to $400. In early April, adjustments will be made to reduce PY1 account balance to $0 and $25 will be added to PY2 bringing the account balance to $425.

When did this new practice go into effect?

It depends when your employer amends their plan. Since your employer amended their plan for the current plan year, it is effective for the plan year that started January 1, 2005 and ends December 31, 2005 (PY1). This means that active participants as of December 31, 2005 now have until March 15, 2006 to incur eligible expenses. If after all eligible expenses incurred during the prior plan year (PY1) have been processed and reimbursed before the run-out period, eligible expenses incurred during the grace period will be applied against any remaining account balance before the account is closed and any remaining balance is forfeited. Since you have a longer period of time to incur expenses, you should be able to further limit the possibility of not spending all of your PY1 annual election.

How is the Grace Period different than the run-out period?

The run-out period is the period of time (usually 90 days) immediately following the end of the plan year. It is the time during which you may file claims that apply against the prior plan year's account balance before the plan year is closed. The run-out period for this plan runs from January 1 through March 31. Although you are encouraged to file your claims as the expenses are incurred, any paper claims for expenses that occurred during the plan year plus those incurred during the grace period must be post marked no later than March 31 in order to be processed. However, don't wait until the last minute to file your claims as you take a chance that you might submit the wrong information and there is no time left for you to re-submit. In other words, claims postmarked after March 31 will not be processed.

What is the benefit of the grace period?

The grace period allows active participants 2½ months longer to incur eligible expenses before the account is closed. Once the account is closed, March 31 in this example, any remaining account balance is no longer available. It will be forfeited. In other words, if you enrolled as of January 1, 2005 and are an active participant as of December 31, 2005, you have until March 15, 2006 to incur eligible expenses and until March 31, 2006 to submit those eligible expenses and all corresponding documentation for reimbursement. After March 31, 2005, any remaining account balance is no longer available for reimbursement.

Does this effect my enrollment for the new plan year?

It may. If you did not incur enough eligible expenses during the regular plan year to fully use-up your annual election so that you still have an available account balance as of December 31, and you will submit eligible expenses incurred during the grace period as PY 1 expenses, you will need to take this into account when planning your PY 2 enrollment. PY 2 runs from January 1, 2006 through December 31, 2006. Although a similar grace period will also apply to PY 2, you want to be conservative so you fully utilize your account balance each plan year.

Do I have to file my claim any special way to take advantage of the grace period?
No. That's the great thing. Eligible expenses incurred during the grace period will first be processed as PY2 expenses. Following the end of the run-out period (March 31) and if you had a PY1account balance remaining, it will be reduced by the amount of the grace period expenses. In other words, your PY 1 account will be reduced and your PY2 account balance will be increased by the corresponding amount.

Example: As of 12-31-05 (PY1), active participant has an account balance of $25; eligible expense incurred 1-15-06 for $100. Participant files claim for $100 on March 1, 2006. The $100 will be reimbursed from PY2 (January 1, 2006 through December 31, 2006). After the run-out period ends on March 31, 2006, if no other eligible expenses were submitted for PY1, an adjustment will be made to PY1 and PY2. $25 will be posted to reduce PY1 account balance to $0 and $25 will be added to PY2 account balance.

May I use my debit card for transactions incurred during the grace period?
Yes. Since the card always debits the current plan year's account balance, grace period transactions will first be posted against PY2. After the run-out ends (March 31), any card transactions that need to be applied to PY1 will be used to reduce the PY1 account balance and increase the PY2 account balance.

Why are you waiting until the run-out period ends to apply the grace period expenses to my prior plan year (PY1) account balance?
By waiting until the end of the run-out period (March 31), you have the benefit of filing all expenses actually incurred before December 31, 2005 before you need to apply the grace period expenses. In this way, you are more likely to use your entire PY1 and PY2 account balances.

My employment terminated during the plan year. Do I have the grace period?

No. You must be an active participant on the last day of the plan year in order to be able to use the grace period feature.

PayFlex™ Special Update

IRS Issues Over-the-Counter Guidance *September 2003*

PayFlex will now reimburse for over-the-counter medicines and drugs!!!

Effective immediately, your health care Flexible Spending Account has been improved and expanded. The IRS recently issued Revenue Ruling 2003-102 and IR-2003-108 authorizing the reimbursement of over-the-counter medicines and drugs through health FSAs.

- **Over-the-counter** medicines and drugs which are used to alleviate or treat sickness or injuries, such as allergy and cold medications and pain relievers such as aspirin and antacids, are eligible for reimbursement.
- Items such as vitamins and dietary supplements that are for general good health are not included and remain **ineligible** expenses.
- Proper expense **substantiation** is still required. However, a doctor's prescription is no longer necessary.

Frequently Asked Questions:

May I change my Health Care FSA election immediately as a result of this new decision?
No. However, as you reach the end of your current plan year, keep this change in mind so you are sure to use up all of your existing account balance. In addition, this change could significantly impact your election for the next plan year.

Will Claritin now be eligible for reimbursement?
Yes. As more and more prescription drugs move to over-the-counter status and insurance will no longer cover the cost, the health care FSA will provide an effective way to reduce the financial impact of purchasing over-the-counter drugs like Claritin.

What type of expense substantiation will be required?
Proper expense substantiation includes the completion of the claim form and the attachment of an itemized and descriptive cash register receipt.

Is this change legal?
Yes. The IRS issued the revenue ruling that authorized the change. It affects health care FSAs and HRAs. It does **not** pertain to medical care deductions on your income tax return.

Will I need my physician's prescription or a medical necessity form completed?
No. A doctor's drug prescription is not needed. Although we can't anticipate the need at this time, there could be an occasional need for a completed medical necessity form. We would let you know if and when that might be necessary.

What time period does this change apply to?
The change is effective immediately. Expenses incurred for over-the counter medicines and drugs during your current plan year can be submitted for reimbursement.

Can the Flex Convenience® Card be used for these expenses?
Yes. More than ever, be sure to retain your itemized receipts for all transactions as these will be requested.

As the Revenue Ruling is studied, reviewed, and utilized, PayFlex will continue to keep you informed of the ramifications and interpretations. Educational information, forms and the FSA Service Center content will be changed as soon as possible.

Sandia National Laboratories

Operated for the U.S. Department of Energy by
Sandia Corporation

P.O. Box 5800
Albuquerque, NM 87185

August 2004

Dear Reimbursement Spending Accounts Plan Participant:

The information provided in this letter is a summary of material modification to the current Reimbursement Spending Accounts (RSA) Plan Summary Plan Description (SPD), dated January 1, 2003, and should be kept as a supplement with your RSA Plan SPD.

IMPORTANT CHANGE: Beginning with Open Enrollment in the fall of 2004 (October 20 – November 9, 2004) employees no longer have until December 31 to increase or decrease their annual election amounts or cancel their participation in the RSA Plan for the following benefits year. Final decisions on RSA Plan participation and the annual election amount must be made by the end of the Open Enrollment period (usually October 20 – November 9).

Example **prior to** 2004:

If an employee called the Open Enrollment phone system during Open Enrollment and elected $1000, he/she had until December 31 to increase or decrease the election amount, or cancel participation.

Example **beginning** with Open Enrollment in the fall of 2004:

If an employee calls the Open Enrollment phone system on the first day of Open Enrollment and elects RSA Plan participation with an annual election amount of $1000, he/she only has until the end of Open Enrollment (a three-week period) to increase or decrease the annual election amount or cancel participation.

Sincerely,

Benefits Department, 3332

Sandia National Laboratories
A Department of Energy National Laboratory

Reimbursement Spending Accounts

Summary Plan Description

Effective: January 1, 2003

SAND 2004-2783 W

Reimbursement Spending Accounts

The Reimbursement Spending Accounts (RSA) Plan provides certain employees the option to set aside tax-free dollars from their paychecks to pay for eligible health care and day care expenses.

This Plan will be referred to as the RSA Plan in plan documents and all subsequent communications.

This booklet is the Summary Plan Description (SPD) and is provided in accordance with the requirements of the Employee Retirement Income Security Act (ERISA) of 1974 and Sections 105, 125, and 129 of the Internal Revenue Code. This SPD summarizes eligibility, benefits, reimbursement-request filing procedures, and other provisions of interest. The Plan is administered in accordance with this SPD, the administrative manual, the contracts between Sandia National Laboratories and the Claim Administrator, and relevant federal laws (which are subject to change). Copies of these documents, with the exception of the federal laws, are available from your Sandia Benefits Department.

The Reimbursement Spending Accounts Plan is maintained at the discretion of Sandia and is not intended to create a contract of employment. The Sandia Board of Directors (or designated representative) reserves the right to change, modify, or discontinue the Reimbursement Spending Accounts Plan at any time without prior notice, subject to applicable collective bargaining agreements.

Contents

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HIPAA Privacy Rule

Effective April 14, 2003, a federal law known as the Health Insurance and Portability and Accountability Act of 1996 (HIPAA) will require that health plans protect the confidentiality of private health information. A complete description of your rights under HIPAA can be found in the Plan's privacy notice.

This Plan, and Sandia Corporation, will not use or further disclose information that is protected by HIPAA ("protected health information") without your written authorization except as necessary for treatment, payment, health plan operations, and plan administration, or as permitted or required by law. By law, the Plan requires all of its business associates to observe HIPAA's privacy rules. In particular, the Plan will not, without authorization, use or disclose protected health information for employment-related actions and decisions or in connection with any other benefit or employee benefit plan of Sandia National Laboratories.

Under HIPAA, you have certain rights with respect to your protected health information, including certain rights to see and copy the information, to receive an accounting of certain disclosures of the information and, under certain circumstances, to amend the information. You also have the right to file a complaint with the Plan or with the Secretary of the U.S. Department of Health and Human Services if you believe your rights under HIPAA have been violated.

This Plan maintains a privacy notice, which provides a complete description of your rights under HIPAA's privacy rules. Privacy notices will be distributed to all current enrollees in the Plan by April 14, 2003, and to new primary participants upon enrollment in the Plan. In addition, a copy of this notice will be available upon request by contacting the Benefits Customer Service Center. If you have questions about the privacy of your health information or you wish to file a complaint under HIPAA, please contact the HIIPAA Privacy Officer in the Benefits Department.

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Highlights of Changes

- PayFlex Systems USA, Inc., is the Claim Administrator as of July 1, 2002.
- All regular employees, limited-term employees, post-doctoral appointees, and "year-round" faculty sabbatical employees are eligible to participate in both the Health Care RSA and the Day Care RSA.
- The maximum annual election amount is $4,000 for the Health Care RSA.
- For the purpose of figuring the day care election amount, while your spouse attends school full time, earned income is deemed to be $250 a month if you have one eligible dependent or $500 a month if you have two or more eligible dependent.
- The debit (Flex Convenience®) card is provided to all RSA participants.
- The IRS has informally approved Total Payment Option for orthodontia treatment.
- The appeals procedure has changed for denied eligibility to participate in the Plan, for denied claim because you are not enrolled in the Plan, for denied request for a mid-year election change, and for denial of request for reimbursement.
- The Health Care RSA reenrollment has changed for employees returning from leave of absence, sickness absence, or non-pay absence under FMLA.
- Common Allowable and Excluded Health Care Expenses, has been revised.

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Basic Provisions

Reimbursement Spending Accounts (RSA) are authorized under federal tax law and are established by employers for employees. The RSA are categorized as the **Health Care Reimbursement Spending Account (HCRSA)** and the **Day Care Reimbursement Spending Account (DCRSA)**. This RSA Plan allows participants to set aside money from their paychecks in one or both Accounts before deduction of federal tax, FICA (Social Security and Medicare) tax and, in most jurisdictions, state and local taxes. Each Account has specific rules and regulations that must be followed, as described in detail in this Summary Plan Description (SPD). For questions relating to the tax consequences of this Plan, please contact a tax advisor.

Claim Administrator

PayFlex Systems USA, Inc. is the Claim Administrator. As Claim Administrator, PayFlex Systems USA, Inc. determines the eligibility of reimbursement of expenses, makes benefit payments to claimants, and administers the claims appeal procedure.

Plan Information

The RSA Plan is provided to eligible employees (see Eligibility section) of Sandia National Corporation, P.O. Box 5800, Albuquerque, New Mexico, 87185 (Employer Identification Number 85-0097942).

For information concerning service of legal process, refer to your ERISA Information SPD.

This Plan (PN 519) is administered on a calendar-year basis from January 1 through December 31 for the filing of reports to the Department of Labor. Expenses to be reimbursed under this Plan must be for services rendered during the applicable year that the participant was enrolled in the Plan.

Member Services

PayFlex Systems USA, Inc., has customer service representatives available to assist you with the following:

- Status of claim reimbursement
- Reasons for denial of reimbursement
- Appeals procedure for denied claims
- Questions about eligible expenses for reimbursement
- Account balances
- Account pin number
- Debit cards.

Service representatives can be reached toll free at **1-800-284-4885** (**Option 1; Option 3** at each prompt) from **7:00 AM to 4:00 PM MT**, Monday through Friday.

PayFlex Systems' Info Line is available 24 hours a day, seven days a week to receive current account information. The Info Line is **1-800-284-4885** (**Option 1; Option 1** at each prompt). You will be connected to the "Interactive Voice Response" system for your account information. You will need to provide your SSN and Pin # as requested by each prompt.

You can also get your pin #; information on account balances and eligible expenses; request additional debit cards; ask questions; and provide feedback to PayFlex Systems at www.mypayflex.com.

The mailing address is:

PayFlex Systems USA, Inc.
Flex Dept.
P. O. Box 3039
Omaha, NE 68103-3039

Claims can be faxed to: (402) 231-4310.

ERISA Information

As a member in the Plan, you are entitled to certain rights and protections under the Employee Retirement Income and Security Act (ERISA) of 1974. This information, as well as certain general information concerning the Plan, is included as a separate booklet in your *Sandia Employee Benefits Binder* and is called "ERISA Information."

Impact of Payroll Deductions on Social Security

Because these deductions are pre-FICA tax, there may be a small impact on your Social Security benefits. Consult your tax advisor for a determination of the future dollar impact.

Assignment of Benefits

You or your spouse, eligible dependent, or beneficiary cannot use the value in the RSA as collateral for a loan nor assign the funds in any other way.

"Use It or Lose It" IRS Rule

According to IRS rules, if you have money left in your RSA at the end of the Plan year and have no outstanding incurred, unreimbursed eligible expenses for services rendered during your participation that Plan year, your unspent balances are forfeited. You must file and mail to PayFlex Systems USA, Inc., your RSA reimbursement claim by no later than **April 15** (postmarked) of the subsequent Plan year. (See "When Participation Ends" section below.)

The forfeited balances in each of the Accounts in a given Plan year will be used to offset Plan expenses incurred. Any forfeitures left after payment of Plan expenses will be distributed equally among employees participating in the RSA Plan in the subsequent Plan year. Forfeited Account balances for the HCRSA and the DCRSA are kept separately. The money will be distributed by a deposit to the Accounts of participants **if individual amounts exceed $1.** These deposits are nontaxable to participants and can only be used to reimburse you for eligible health care or day care expenses.

When Participation Ends

Participation* in the RSA stops when

- the employee voluntarily requests an end to contributions, based only on an eligible mid-year election change event as referenced in "Mid-year Changes or Disenrollment" section (for HCRSA only) because of an absence that qualifies as an absence under the Family and Medical Leave Act (FMLA);

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* For purposes of the **DCRSA**, this means that although you are no longer making contributions, you can be reimbursed for eligible expenses for services rendered through the end of the Plan year, up to the balance in your Account. For purposes of the **HCRSA**, this means that expenses for services rendered after disenrollment are not eligible for reimbursement.

- the employee fails to pay a contribution when the contribution is due because of termination, death, retirement, or taking a leave of absence;**
- the employee is no longer eligible as defined in the "Eligibility" section,**
- the RSA Plan ends at the end of the calendar year, or
- the RSA Plan is terminated.

You cannot end your participation in the RSA unless you meet one of the criteria above.

In the Event of Death

If you die, your dependents, estate, or duly authorized representative will have until **April 15** (postmarked date) following the end of the Plan year to request reimbursements.

Maintaining Records

For tax purposes, you, the participant, must maintain the records of your participation in the RSA Plan, including copies of receipts, requests for reimbursement, and reports to you showing balances reflected in the Plan administrative records. As part of the documentation for the DCRSA, the IRS requires you to retain Form W-10, "Dependent Care Provider Identification and Certification Form," which shows information about the caregiver, and to file Form 2441 with your annual tax return.

In late January, Sandia will provide you with your W-2 for the previous year. This W-2 will reflect the amount you contributed to your DCRSA but not to your HCRSA as required by the IRS. In the event of an IRS audit, you will be responsible for providing the above information if requested.

The Claim Administrator (PayFlex Systems USA, Inc.) will send you a statement of your RSA activity at the end of September. The statement will reflect deposits made to your Accounts, claims submitted for reimbursement, amounts paid, and Account balances. You should keep these statements with your tax records.

Information on Sandia's Internal Web

Sandia's internal web contains information about your Health Care and Day Care RSA. To access this information, go to Sandia's Home Page, click on "My Benefits", and then enter your user ID name and Kerberos password. By mid-January you can find information there based on your Open Enrollment RSA election.

** Participation may be continued for the **HCRSA** by request of the participant under provisions of temporary continued participation (see "Temporary Continued Participation in the HCRSA" section) when certain events have caused a loss of participation.

Debit Card

All employees participating in the RSA will receive a debit (*mbi* Flex Convenience®) card. That debit card may be used to pay for eligible expenses that are incurred for services rendered during the Plan year and that are either not reimbursed or only partially reimbursed by any medical, dental, or vision care plan, or other health insurance plan. You may also be able to use the debit card to pay for day care expenses if the payment is for services rendered.

For the HCRSA, your full annual election amount is available at the beginning of the Plan year.

For the DCRSA, only your current balance is available for using your debit card.

Additional cards may be ordered through www.mypayflex.com for your spouse and other eligible dependents that you claim as exemptions on your federal income tax return. Use of the debit card is not mandatory. The card is good for three years. Even if you do not plan to use the debit card the first year, keep the debit card in a safe place for possible use the following two years if you reenroll in the RSA.

The debit (*mbi* Flex Convenience®) card is authorized for use at locations offering qualified health care and dependent care products and services and that accept MasterCard®. All RSA participants must retain all receipts for debit card transactions. PayFlex Systems will be auditing the debit card transactions and will be requesting receipts. Failure to provide the requested information to PayFlex Systems will result in loss of debit card privileges and the possibility that the expense will be deemed ineligible and that you will be required to repay the amount to the Plan.

Please read carefully the "Employee Enrollment Agreement/Cardholder Agreement" that will accompany your debit (*mbi* Flex Convenience®) card. The Agreement describes how to use your debit card and your responsibilities when using it. Also read the series of "Frequent Questions" related to proper card usage at the FSA Service Center at www.mypayflex.com.

Immediately notify PayFlex Systems USA, Inc., (Claim Administrator) at www.mypayflex.com or *mbi* (card issuer) at www.theflexcard.com of loss or theft of debit cards, as well as any unauthorized usage or errors on your statements.

Potential Tax Savings

The amount you elect to contribute is deducted from your pay before federal tax, FICA (Social Security and Medicare) tax, and, in most cases, state and local taxes are taken out. Each participant will have different savings results depending on that participant's tax bracket, filing status, and amount of contributions that are deducted on a pre-tax basis.

The following example is intended to illustrate the potential tax savings under the RSA Plan. Calculations are based on the 2001 tax rate structure for a married individual who is filing a joint income tax return. Because of variable state income tax calculations, these taxes are not considered in the examples.

EXAMPLE: You are married with combined wages and salary of $70,000 per year. You have one dependent child, age 3, and elect to contribute $4,000 to the DCRSA and $500 to the HCRSA. You claim 3 exemptions and the standard deduction (per 2001 Form 1040).

	Without Accounts	With Accounts
Wages/Salary	**$70,000**	**$70,000**
Less HCRSA deductions	$ (0)	$ (500)
Less DCRSA deductions	$ (0)	$(4,000)
Gross Income	**$70,000**	**$65,500**
Exemptions (3 @ $2900)	$(8,700)	$(8,700)
Standard deduction	$(7,600)	$(7,600)
Taxable Income	$53,700	$49,200
FICA tax (7.67% of gross)	$(5,355)	$(5,011)
Federal Income Tax	$(9,124)	$(7,887)
Income after taxes	**$55,521**	**$52,602**
Less health care expenses	$ (500)	$ (0)
Less day care expenses	$(4000)*	$ (0)
Spendable income	**$51,021**	**$52,602**

Potential RSA Savings = $1,581

* Federal tax credit not considered in this example.

Eligibility

This section discusses the eligibility criteria for the RSA Plan including eligibility of dependent expenses. Criteria concerning eligible expenses are described in detail under the sections "Specific HCRSA Rules," subsection "Eligible Expenses," and "Specific DCRSA Rules," subsection "Eligible Expenses."

Employees

You are eligible to participate in the HCRSA and the DCRSA if you are a

- Regular full- or part-time Sandia employee,
- Limited-term employee,
- Post-doctoral employee, or
- Full-time, year-round faculty sabbatical employee.

Note: You are an employee if

- you satisfy all other tests for coverage under this Plan,
- Sandia Corporation actually withholds required federal, state, or FICA taxes from your paycheck, and
- Sandia Corporation issues you a W-2 for the year in which a health care service was provided giving rise to a claim for RSA reimbursement.

Dual Sandians

An eligible Sandia employee and his or her spouse who is also an eligible Sandia employee (referred to as Dual Sandians) may each have separate Accounts. Each Sandia employee may open a **HCRSA** for the maximum annual election amount of $4,000. An employee does not have to be the primary participant under the health care plans in order to open up a **HCRSA** and obtain reimbursement for qualified dependents

EXAMPLE: Two Sandia employees are married to each other. The wife enrolls in the Basic PPO Plan and lists her husband as a dependent. The husband opens a HCRSA for $4,000. The wife has LASIK eye surgery in January that cost $3,500. Her husband can file a claim for the LASIK eye surgery against his HCRSA. This is allowed as long as they file a joint federal income tax return.

EXAMPLE: Two Sandia employees are married to each other and file joint federal tax returns. One has elected to cover his spouse and their children as dependents under the Top PPO Plan. The other spouse has elected to enroll in a HCRSA to be reimbursed for eligible expenses for her spouse, herself, and their children, whom they claim as dependents on their federal income tax return. This is allowed.

The **DCRSA** is limited to a combined maximum annual election amount of $5,000, subject to the rules stated under the "Specific DCRSA Rules" section, subsection "Annual Election Amount."

Other Eligible Persons

You are also eligible for the HCRSA if you are a current participant who elects and pays for temporary continued coverage, as described in the "Temporary Continued Participation" section.

Eligible Dependents under the HCRSA

Dependents whose expenses are eligible for reimbursement under your HCRSA include your spouse, children, and any other person whom you claim as an exemption on your federal income tax return. In the situation of a dependent child of divorced or separated parents, if you as a participant can claim the child as a dependent under the rules for divorced or separated parents as outlined in IRS Publication 502, "Medical and Dental Expenses," you can be reimbursed for expenses you pay for the dependent child even if an exemption for the dependent child is claimed by the other parent.

Note: Dependents whose expenses are eligible for reimbursement from this Account do not have to be covered under the Sandia health care plans.

Eligible Dependents under the DCRSA

Dependents whose expenses are eligible for reimbursement under your DCRSA include:

- any person whom you claim as an exemption on your federal income tax return and who is under age 13,

Expenses incurred during a Plan year after a dependent attains age 13 are not reimbursable (see "Mid-Year Changes or Disenrollment" section.

- a dependent who is physically or mentally incapable of caring for himself or herself without regard to age,* or
- your spouse who is physically or mentally incapable of caring for himself or herself.*

If your spouse is not physically or mentally incapable of self-care; not a full-time student; not actively employed or looking for work and does not earn any income, then your day care expenses are not eligible to be reimbursed.

If you are divorced or separated, an exception may apply to the requirement of claiming your dependent child as an exemption on your federal income tax return. Under the exception, the custodial parent can treat the dependent child as an eligible dependent under the DCRSA. If you are the noncustodial parent, you cannot treat your child's expenses as eligible under the DCRSA even if you can claim the child's exemption. Refer to IRS Publication 503, "Child and Dependent Care Expenses," or consult a tax advisor for more information.

* Notify the Benefits Department within 31 calendar days of the onset of a physical or mental incapacity to enroll in the DCRSA or change your amount. Refer to Appendix A, Acronyms and Definitions, for a definition of physically or mentally incapable of self-care.

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Enrollment

This section discusses enrollment in the HCRSA and the DCRSA. Please refer to the eligibility criteria in the "Eligibility" section.

You have the opportunity to enroll in these Accounts

- upon hire or reclassification into an eligible employee category;
- during the annual Open Enrollment period; or
- because of certain mid-year election change events.

Enrollment Upon Hire or Reclassification

You can enroll in the HCRSA and/or the DCRSA upon hire or reclassification into an eligible employee category within 31 calendar days. The Benefits Department **must** receive your completed enrollment form within 31 calendar days of hire or reclassification.

Upon enrollment, you can claim expenses for services rendered from the date the Benefits Department receives your completed enrollment form. You cannot enroll before being eligible. You **must** reenroll every year during the Open Enrollment period to have an Account for the subsequent year. (See "Specific HCRSA Rules" and "Specific DCRSA Rules" sections for details of eligible expenses reimbursement.)

Two enrollment forms are required in the following situation. Your hire date or reclassification date is after the end of the Open Enrollment period but before January 1st, and you want to enroll for both the current calendar year and the next calendar year. The Benefits Department **must** receive your two completed "RSA Mid-Year Enrollment/Change Forms" (indicate Plan year at top of form) within 31 calendar days of your hire date or reclassification date for both the current Plan year and the next Plan year.

To enroll, complete the "RSA Mid-Year Enrollment/Change Form" and fax or mail to the Benefits Department within 31 calendar days of your hire date or reclassification date. This form is available from the Benefits Department or Sandia's internal web. *To obtain it from the web, click on the Form/Template icon, then click on Corporate Forms, then click on Benefits/Lab*

News in the left column, and select form SF 4400-CFB, "RSA Mid-Year Enrollment/Change Form".

Enrollment During Annual Open Enrollment

You can enroll in the HCRSA and/or the DCRSA during the Open Enrollment period held every year. The Open Enrollment period is usually held from October 20 through November 9. The RSA Plan year is from January 1 through December 31 of the subsequent calendar year.

EXAMPLE: You enrolled during the Open Enrollment period in 2002 and you remain actively enrolled through the end of the 2003 Plan year. Coverage begins on January 1, 2003, and ends on December 31, 2003. You will be reimbursed for eligible expenses for services rendered during that period.

If you enroll in the RSA during Open Enrollment, you have until midnight on December 31 (same year as the Open Enrollment event) to decrease (no lower than the minimum), increase (no higher than the maximum) or cancel your annual election through the Open Enrollment Phone System.

EXAMPLE: You open a HCRSA for $300 during the Open Enrollment period for the 2003 Plan year. On December 15, 2002, you realize you will need new glasses the next year that are not covered by the Vision Care Plan, and you did not take this into consideration when making your election. You can increase your annual election amount any time before midnight, December 31, 2002, by calling the Open Enrollment Phone System.

Reenrollment is required each year for those participants who wish to continue their Accounts.

Note: Instructions for enrolling in these Accounts during Open Enrollment are printed in the Benefits Choices booklet distributed each year before Open Enrollment.

Enrollment Because of a Mid-Year Election Change Event

As mentioned earlier, this Plan is governed under the Internal Revenue Code (IRC) Section 125. The IRC Section 125 allows an employer to designate mid-year election change events to allow *enrollment* (at a time other than during Open Enrollment) in either the HCRSA and/or the DCRSA. For a complete list of these events and procedures for enrollment, refer to the following section "Mid-Year Election Change Events."

Mid-year Changes or Disenrollment

This section discusses making mid-year changes to your annual election amount, as well as enrolling in or disenrolling from the Accounts. The RSA Plan is administered in accordance with the Internal Revenue Code. The IRS regulations permit employers to allow employees to make certain mid-year changes (including enrollments and disenrollments) to their HCRSA and/or their DCRSA (as allowed by the Internal Revenue Code, Section 125).

Mid-Year Election Change Events

The information in this section lists the mid-year election change events permitting enrollments, changes, and/or disenrollments. **Not every mid-year election change event, however, permits enrollment, a change in election amount, or a disenrollment.** Also, see sections on "Specific HCRSA Rules" and "Specific DCRSA Rules" for information on allowable changes during a leave of absence, sickness absence, or a nonpay absence

You have **31 calendar days** from the date of the mid-year election change event to make a mid-year change, to enroll, or to disenroll. The effective date of the change is the **later** of the date of the mid-year election change event or the date the Benefits Department receives completed paperwork.

Note: Reimbursement for expenses may be affected by a mid-year change, so read the subsection "Reimbursement Rules After an Election Change" very carefully.

For the DCRSA, the request must be consistent with and on account of the mid-year election change event.

For the HCRSA, there **must** be both

- a gain or loss of eligibility for health care coverage, and
- a corresponding gain or loss in health care coverage, and

the request must be consistent with and on account of the gain or loss in eligibility/coverage.

Unanticipated medical expense is not an eligible mid-year election change event.

EXAMPLE: Your spouse loses his or her job and consequently loses eligibility in health care coverage with a corresponding loss in health care coverage. You are allowed to

increase your HCRSA or enroll in the HCRSA. The change in HCRSA is consistent with and on account of the event of the loss of job and the loss of eligibility of health care with a corresponding loss of health care coverage.

EXAMPLE: You change your work hours from part-time to full-time and you would like to increase the amount of your HCRSA or enroll in a HCRSA. The increase or enrollment would **not** be allowed because your eligibility for medical coverage has not changed.

EXAMPLE: If you have a baby, you can enroll in a HCRSA or increase your HCRSA because this is consistent with and on account of the birth of the baby.

Mid-Year Election Change Events for HCRSA

- Change in employee's legal marital status:
  - Marriage
  - Death of spouse
  - Divorce
  - Legal separation
  - Annulment.
- Change in employee's number of tax dependents:
  - Birth
  - Death
  - Adoption
  - Placement for adoption.
- Change in the employment status of the employee, the employee's spouse, or the employee's dependent:
  - Termination (including retirement) or commencement of employment
  - A strike or lockout
  - A commencement of or return from an unpaid leave of absence, or
  - Other change in employment status that makes the employee, the employee's spouse, or the employee's dependent eligible or ineligible for health care coverage.
- Change in dependent eligibility whereby the dependent satisfies or ceases to satisfy eligibility under an employer's group health plan (due to age, student status, marriage, or similar circumstance).
- If you, your spouse, or your dependent becomes enrolled in or disenrolled from Medicare or Medicaid (other than for pediatric vaccines).

- Judgment, decree, or order resulting from a divorce, legal separation, or annulment or change in legal custody [including a Qualified Medical Child Support Order (QMCSO)]. Refer to "Qualified Medical Child Support Order" section.*

Mid-Year Election Change Events for DCRSA

- Change in employee's legal marital status:
  - Marriage
  - Death of spouse
  - Divorce
  - Legal separation
  - Annulment.
- Change in employee's number of tax dependents:
  - Birth
  - Death
  - Adoption
  - Placement for adoption.
- Change in the employment status of the employee, the employee's spouse, or the employee's dependent:
  - Termination (including retirement) or commencement of employment
  - A strike or lockout, or
  - A commencement of or return from an unpaid leave of absence.
- Changes in dependent eligibility whereby the dependent ceases to satisfy the definition of "qualified individual" (e.g., dependent turns 13 or a change in legal custody).
- Changes in dependent eligibility whereby the dependent commences to satisfy the definition of "qualified individual" (e.g., becomes physically or mentally incapable of self-care).
- Spouse enrolls in or disenrolls from his/her employer's DCRSA and the Plan year is other than from January 1 through December 31.
- Change in coverage or a change in the cost of coverage (other than for care provided by a relative).

EXAMPLE: Your 3-year-old daughter is enrolled in a day care center that charges you $80 a week. The center has just informed you they are closing at the end of June. On June 20, you find a new day care center that will take your daughter beginning July 6. The new day care center charges $100 a week. Provided you notify the Benefits Department within 31 calendar days of the day care center closing, you

* A judgment, decree, or order pertaining to an employee's child allows the employee to change his or her election to cover the child if required by the order or the employee can cancel coverage for the child if the order requires the former spouse or other individual to provide coverage.

can increase your annual election amount to take into consideration the increase in day care expenses.

EXAMPLE: Your 3-year-old daughter is enrolled in a day care center that charges you $80 a week. Your mother will be coming to stay with you and will take care of your daughter. Provided you notify the Benefits Department within 31 calendar days of the change, you can decrease your annual election amount or disenroll.

Changing Your Annual Election Amount or Enrolling/Disenrolling Mid-Year

If you have an **eligible** mid-year election change event, you have 31 calendar days from the date of the change in status to

- Increase your annual election amount,
- Decrease your annual election amount,
- Enroll in the HCRSA and/or DCRSA, or
- Disenroll from the HCRSA and/or DCRSA.

The effective date of your new annual election is the **later** of the date of the mid-year election change event or the date the completed paperwork is received by the Benefits Department. The request for a change to your annual election amount must be consistent with and on account of the event. The Benefits Department determines whether your request is consistent with and on account of the mid-year election change event.

Contribution Amount

- Your new contribution amount will be calculated by taking your new annual election amount and subtracting what has already been contributed. That amount is then divided by the remaining pay periods. Your annual election amount may need to be rounded up or down to the nearest penny to be evenly divisible by the remaining pay periods.
- In no event may you decrease your annual election to below the amount you have already contributed.
- If you cancel your HCRSA, you are **not** eligible for reimbursement of any claims incurred after termination of your participation.
- If you cancel your DCRSA, you may request reimbursement of qualified day care expenses for services rendered through the end of the Plan year up to the balance in your Account.

The annual election amount cannot be increased above $4,000 or decreased below $100 (other than for a termination from the Plan) for the HCRSA, nor can it be increased above

$5,000 or decreased below $100 (other than for a termination from the Plan) for the DCRSA. [Retroactive elections are not allowed.]

To change or cancel your annual election amount, complete the "RSA Mid-Year Enrollment/Change Form" and submit it to the Benefits Department so that it will be received within 31 calendar days of the mid-year election change event. This form is available from the Benefits Department or Sandia's internal web. *To obtain it from the web, click on the Form/Template icon, click on Corporate Forms, then click on Benefits/Lab News in the left column, and select form SF 4400-CFB, "RSA Mid-Year Enrollment/Change Form."*

Reimbursement Rules After an Election Change

Specific rules govern what happens to your reimbursement if you make a mid-year change to your HCRSA or DCRSA.

Reimbursements for expenses for services rendered during the Plan year are applied to the respective periods in which the services were rendered as outlined in the rules below:

1. **Pre-change expenses cannot be reimbursed from post-change coverage.**

EXAMPLE: You enroll in the HCRSA during Open Enrollment for $500. On May 1, you have a baby and you submit paperwork on May 3 to increase your annual election to $1,000. Health expenses for services rendered before May 3 are limited to $500. If you submit a claim for $700 for health expenses rendered before May 3, only $500 of the expenses would be eligible for reimbursement.

2. **The reimbursement of expenses for services rendered in the post-change period cannot exceed the post-change annual election amount.**

EXAMPLE: You enroll in the HCRSA during Open Enrollment for $1,000. You get a divorce on March 15 and you submit paperwork on March 30 to decrease your annual election to $700. If you submit a claim for $800 for health expenses rendered before March 30, the full $800 would be eligible for reimbursement. If you submit a claim for $800 for health expenses rendered after March 30, only $700 of the expenses would be eligible for reimbursement.

3. **The total annual reimbursement during the Plan year cannot exceed the highest election amount chosen during any period of the year.**

EXAMPLE: You enroll in the HCRSA during Open Enrollment for $500. On May 1, you have a baby and you submit paperwork to the Benefits Department on May 3 to increase your annual election to $1,000. You cannot be reimbursed for more than $500 for expenses rendered before May 3, or for more than $1,000 for expenses rendered after May 3. In no case will you be reimbursed for more than $1,000 in total during the Plan year.

EXAMPLE: You enroll in the HCRSA during Open Enrollment for $1,000. You get a divorce on March 15 and you submit paperwork to the Benefits Department on March 30 to decrease your annual election to $700. You cannot be reimbursed for more than $1,000 for expenses rendered before March 30, and no more than $700 for expenses rendered after March 30. In no case will you be reimbursed for more than $1,000 in total during the Plan year.

Qualified Medical Child Support Order

Generally, your Plan benefits may not be assigned or alienated. However, an exception applies in the case of a qualified medical child support order (QMCSO). This Plan will comply with the terms of a QMCSO. A QMCSO is an order or judgment from a court or administrative body directing the Plan to cover a child of an insured participant under a group health plan. Federal law provides that a medical child support order must meet certain form and content requirements in order to be a QMCSO. When an order is received, each affected participant and each child (or the child's representative) covered by the order will be given notice of the receipt of the order and a copy of the Plan's procedure for determining if the order is valid. Coverage under the Plan pursuant to a QMCSO will not become effective until the Plan Administrator determines that the order is a QMCSO. If you have any questions or would like to receive a copy of the written procedure for determining whether a QMCSO is valid, please contact the Sandia Benefits Customer Service Center at 505-845-BENE (2363).

Specific HCRSA Rules

This section discusses the annual election amount, how contributions are made, eligible expenses, ineligible expenses, reimbursement rules, and what happens to your HCRSA when you retire or leave Sandia, take a leave of absence, go on sickness absence, or take a nonpay absence. (See "Appendix A, Acronyms and Definitions," for definition of leave of absence and nonpay absence).

HCRSA Summary

The HCRSA is used to help pay for eligible health care expenses that are not reimbursed or are only partially reimbursed by any medical, dental, or vision care plan or other health insurance plan.

Eligible expenses include copayments, annual deductible amounts, and eligible out-of-pocket medical, dental, and vision expenses not fully covered by insurance, including costs that are above usual and customary fees. These expenses must be for you, your spouse, or the dependents you claim as exemptions on your federal income tax return.

Your full election amount in the HCRSA is available for the reimbursement of eligible expenses at any time during the Plan year, regardless of the amount of contributions you have made to the Plan as of that date.

Annual Election Amount (HCRSA)

You can choose to contribute an annual election amount of $100 to $4,000 (in whole dollars) each year in the HCRSA. Use the worksheet in "Appendix B, Worksheets for Calculating Annual Elections," to assist you.

If you and your spouse both work at Sandia, you can each contribute up to $4,000 in the HCRSA each year.

CAUTION: Avoid forfeiture by being conservative in estimating your expenses.

How Contributions Are Made

Contributions are taken evenly throughout the Plan year as a payroll deduction, beginning with the second biweekly paycheck of the Plan year. Your annual election amount may need to be rounded up or down to the nearest penny to be evenly divisible by the remaining pay periods. These contributions are taken before federal tax, FICA (Social Security and Medicare) tax, and, in most jurisdictions, state and local taxes are taken out.

Eligible Expenses for HCRSA

Generally, eligible expenses are health care expenses for you, your spouse, and any other person whom you claim as an exemption on your federal income tax return, that are:

- Authorized by the IRS for deduction on your income tax return (exceptions to this are listed under "Ineligible Expenses for HCRSA," section;
- For services rendered during the Plan year and for the period during which you are actively enrolled; and
- Medically necessary services and supplies that are not reimbursed, or are only partially reimbursed, by any health care plan or by any insurance company. Refer to "Appendix A, Acronyms and Definitions," for the definition of medically necessary.

EXAMPLES: Eligible expenses are HMO, prescription, or health plan copayments; deductibles; co-insurance; or out-of-pocket (unreimbursed) expenses for vision care, hearing exams, and dental care.

See "Appendix C, Common Allowable and Excluded Health Care Expenses," for a partial list of the more common expenses that qualify for reimbursement from the HCRSA. Other expenses not listed may also qualify for reimbursement. If you are uncertain as to whether your expense is eligible for reimbursement under the RSA, contact the Claim Administrator (PayFlex Systems) for verification.

Note: Certain expenses are required to have a letter of medical necessity from a physician and are subject to review by the Claim Administrator every year.

Consult IRS Publication 502, "Medical and Dental Expenses," for a listing of IRS deductible medical, dental, and vision expenses.

Note: Some of the IRS Publication 502 allowable deductions are not eligible expenses for the HCRSA. See "Ineligible Expenses for HCRSA" section.

If you are reimbursed for health care expenses with money from your HCRSA, you cannot deduct those same health care expenses on your income tax return.

Ineligible Expenses for HCRSA

As a general guideline, expenses that are not considered medically necessary are not reimbursable under the HCRSA. In addition, the following are specific examples of expenses that cannot be reimbursed from your Account:

- Expenses reimbursed by another source, such as an insurance company or health care plan.
- Cosmetic surgery or health costs for services for cosmetic reasons, unless the surgery is to correct a deformity directly related to a congenital abnormality, accident, or disfiguring disease.
- Premiums paid for health insurance coverage, such as monthly premiums you pay for your health insurance with Sandia, Class II dependent premiums (refer to "Appendix A, Acronyms and Definitions," for the definition of Class II dependent), premiums for Sandia's Long-Term Care Plan and the Long-Term Disability Plus Plan, or premiums for temporary continued coverage under group health plans.

Note: Monthly premiums for your health insurance with Sandia, as well as Class II dependent premiums, can be taken on a pre-tax basis under the Pre-Tax Premium Plan. For information on the Pre-Tax Premium Plan, refer to the "Pre-Tax Premium Plan" booklet.

- Expenses for qualified long-term care services. See "Appendix A, Acronyms and Definitions," for the definition of qualified long-term care services.

See "Appendix C, Common Allowable and Excluded Health Care Expenses," section for a listing of additional ineligible expenses.

HCRSA Reimbursement (other than for orthodontic expenses)

If you enroll in the HCRSA during Open Enrollment, your full election amount is available beginning the first day of the Plan year for which you enrolled during Open Enrollment. Eligible expenses must be for services rendered during that Plan year during the period that you were actively enrolled.

EXAMPLE: You open a HCRSA during the 2001 Open Enrollment for $1000 for the Plan Year 2002. On January 2, 2002, you incurred $500 of eligible unreimbursed dental expenses. You are eligible to be reimbursed for the full $500 even though you have not yet contributed $500 to your HCRSA.

EXAMPLE: You open a HCRSA during the 2002 Open Enrollment for $500 for the Plan Year 2003. On December 31, 2002, you order a new pair of glasses. This is not an eligible expense for Plan Year 2003 because services were rendered before the beginning of the Plan Year on January 1, 2003.

EXAMPLE: You open a HCRSA during the 2002 Open Enrollment for $1000 for the Plan Year 2003. On December 30, 2002, your dentist tells you that you will need a root canal sometime in January. The cost for the office visit on December 30, 2002, is not eligible for reimbursement from the 2003 Plan Year. The cost for the root canal in January is eligible for reimbursement in the 2003 Plan Year.

Reimbursement for Orthodontic Expenses

The following guidelines will help you determine the amount to elect for orthodontic expenses and assist you in preparing the documentation required for reimbursement.

Guidelines:

1. Obtain a treatment plan from your dentist/orthodontist that shows the anticipated services, estimated charges for the services, billing plan, and the dates that the services will be rendered. If a lump sum deposit is required initially, request that the orthodontist indicate what services will be covered by the deposit. Likewise, if continuing payments (in addition to a deposit) will be made, request that the orthodontist indicate which services will be covered by the payments.

2. Determine the amount of expenses that will be paid under the provisions of the Dental Expense or Dental Deluxe Plan (or any other insurance plan). This information can be most easily obtained by requesting a "Predetermination of Benefits" on the dental claim form, attaching the treatment plan prepared by the orthodontist. Send these documents to the Claim Administrator of the Dental Expense/Deluxe Plan. (See your "Dental Expense/Dental Deluxe Plan" Summary Plan Description in your Benefits binder.)

3. The HCRSA will reimburse those eligible expenses for services rendered that are not reimbursed or are only partially reimbursed by the dental plan or any other insurance plan. Therefore, when the orthodontic service is rendered and you receive a statement, file the dental claim under the provisions of the Dental Expense/Dental Deluxe Plan (or any other insurance plan). Subsequently, file for reimbursement from your HCRSA.

The IRS has informally approved the following reimbursement options for orthodontia treatment under a flexible spending account. You may choose to get reimbursement for orthodontia expense by one of the following reimbursement options.

Reimbursement Options:

a) **Coupon Payment Option.** You may choose to pay as services are rendered and request reimbursement from PayFlex Systems after each visit. To request reimbursement, complete a claim form and attach a copy of the Explanation of Benefits (EOB) (from the Claim Administrator for the Dental Expense/Dental Deluxe Plan or any other insurance plan), a copy of the orthodontist's treatment plan and/or a copy of the orthodontist's billing statement. PayFlex Systems, Inc., will verify that the service was rendered during the Plan year (from the treatment plan or orthodontist billing statement) and the amount reimbursed by the Dental Expense/Dental Deluxe Plan or any other insurance plan (from the EOB).

b) **Monthly Payment Option.** You may choose to have HCRSA reimbursement made to you automatically on a monthly basis. Obtain a contract agreement from the orthodontist showing the patient name, the date the service begins, and the length of service, charges for the initial banding work and the dollar amount charged each month. Submit this with your first claim form and PayFlex Systems, Inc. will automatically reimburse you each month, according to the contract. This eliminates the need for you to send a claim form in each month. You do need to send a new claim form with your contract agreement at the beginning of the next plan year if you wish to continue.

c) **Total Payment Option.** You may choose to get a one-time lump sum payment for the entire orthodontia treatment. If you paid the entire amount for treatment when the service began, attach to the claim form a copy of your paid receipt, along with an itemized statement showing the provider name, patient name, date treatment started, dollar amount and the amount insurance will pay. Under this option you can file for orthodontia treatment expense only once. You cannot submit an orthodontia expense again in future plan years.

Termination of Employment or Retirement

Contributions to HCRSA

Contributions to your HCRSA stop following your termination or retirement from Sandia. You may be able to continue your Account beyond retirement or termination. Contributions that would otherwise stop may be continued, on an after-tax basis plus an administrative fee, at the request of the participant under the provisions of temporary continued participation (see "Temporary Continued Participation in the HCRSA," section). If you do not elect to continue your HCRSA, your Account will be canceled.

Reimbursements under HCRSA

You may request reimbursement of eligible health care expenses for services rendered through the date of termination or retirement, up to your election amount less any reimbursements you

have received. You have until **April 15** (postmarked date) of the subsequent year to request reimbursements for such expenses incurred during your period of coverage. Reimbursements are not linked to the amount you have contributed to date. If you do not elect temporary continued participation, expenses for services rendered after you retire or terminate will **not** be eligible for reimbursement.

You cannot withdraw the remaining cash balance in your HCRSA when you leave or retire. If you do not have eligible expenses to submit for reimbursement, any remaining amounts will be forfeited.

HCRSA During Leave of Absence (LOA)

Upon receiving notice that you are taking a non-paid, non-FMLA LOA, the Benefits Department will cancel your HCRSA. The Benefits Department will send you information and a form for you to complete if you want to continue your HCRSA. If you want to continue your HCRSA, complete that form and return it to the Benefits Department within the guidelines stated on the form. Refer to "Continuing Your HCRSA (LOA)," subsection below. If you cancel your HCRSA, you can reenroll upon your return to work. Refer to "Reenrolling in Your HCRSA," subsection below.

Note: If you are a Sandian married to another Sandian, your spouse may be eligible to make a mid-year election change that is consistent with and on account of the event when you take a LOA.

Note: If you did not have a HCRSA before you went on a LOA and you want to enroll in one upon returning from a LOA, refer to "Enrollment Because of a Mid-Year Election Change Event" section.

If your LOA falls under the FMLA, your HCRSA will be continued unless you do not continue to make your contributions while on the LOA. If you do not continue to make your contributions during the LOA, your HCRSA will be cancelled. Refer to the following subsections on "Continuing Your HCRSA (LOA)" and/or "Canceling Your HCRSA."

Continuing Your HCRSA (LOA)

You can continue participating in your HCRSA while on a LOA. If you want to continue your HCRSA, you will pay your contributions biweekly on an **after-tax** basis. You will not have to pay any additional administrative fees to continue your HCRSA while on a LOA. So long as you continue to pay your contributions on a biweekly basis within the required time frame, you will remain an eligible participant and will be reimbursed for eligible expenses submitted until the end of the current year.

If you continue your participation, it will run concurrently with temporary continued participation under COBRA as explained under "Temporary Continued Participation in the HCRSA" section.

Canceling Your HCRSA (LOA)

If you do not elect to continue your HCRSA while on a LOA, your HCRSA will be canceled, retroactive to the first day of your LOA. Any eligible expenses incurred for services rendered before the first day of your LOA will be eligible for reimbursement. If you do not elect to continue participating, expenses incurred for services rendered after you began your LOA will not be eligible for reimbursement.

Reenrolling in the HCRSA (LOA)

If your HCRSA terminated while you were on a LOA, you can reenroll within 31 calendar days of returning to work.

Reenrolling in the HCRSA (FMLA LOA)

If you take a LOA under FMLA and you do not elect to continue your HCRSA, upon returning to work, you can reenroll in the HCRSA within 31 calendar days. You have the option of reinstating your annual election amount and making up the missed contributions OR you can resume coverage at a reduced prorated level by paying the same contribution amount as before the LOA. If you have a mid-year election change event while on the LOA, upon reenrolling, you can make an election change that is consistent with and on account of the event.

If you cancel and then reenroll, any expenses for services rendered while on the LOA will not be eligible for reimbursement.

To reenroll in your HCRSA, complete the "RSA Mid-Year Enrollment/Change Form" and submit it to the Benefits Department so that it will be received within 31 calendar days of your return to work. This form is available from the Benefits Department or Sandia's internal web. *To obtain it from the web, click on the Form/Template icon, then click on Corporate Forms, then click on Benefits/Lab News in the left column, and select form SF 4400-CFB, "RSA Mid-Year Enrollment/Change Form."*

HCRSA During Sickness Absence

When you go on sickness absence, your HCRSA will continue. If you are on sickness absence, your contributions will be deducted pre-tax from your biweekly paycheck, and you can submit eligible expenses for reimbursement.

Option to Cancel Your HCRSA (FMLA Sickness Absence)

If your sickness absence qualifies as a leave under the FMLA, you have the option to cancel your HCRSA. Refer to the Family and Medical Leave Act Fact Sheet under Business Rules on the Sandia internal web for information on which absences qualify under FMLA.

Note: If the reason for sickness absence is the birth of a child, and you want to cancel your HCRSA, complete the form located in the Guide for Expectant/Adoptive/Foster Parents.

If you cancel your HCRSA, you are not eligible for reimbursement of expenses for services rendered after termination and before reenrollment (if applicable).

To cancel your HCRSA, complete the "RSA Mid-Year Enrollment/Change Form" and submit it to the Benefits Department so that it will be received within 31 calendar days of the first day of your absence. This form is available from the Benefits Department or Sandia's internal web. *To obtain it from the web, click on the Form/Template icon, then click on Corporate Forms, then click on Benefits/Lab News in the left column, and select form SF 4400-CFB, "RSA Mid-Year Enrollment/Change Form".*

Reenrolling in Your HCRSA (FMLA Sickness Absence)

If you take a sickness absence under FMLA and you do not elect to continue your HCRSA, upon returning to work, you can enroll in the HCRSA within 31 calendar days. You have the option of reinstating your annual election amount and making up the missed contributions OR you can resume coverage at a reduced prorated level by paying the same contribution amount as before the sickness absence. If you have a mid-year election change event while on the sickness absence, upon reenrolling, you can make an election change that is consistent with and on account of the event.

To reenroll in your HCRSA, complete the "RSA Mid-Year Enrollment/Change Form" and submit it to the Benefits Department so that it will be received within 31 calendar days of returning to work. This form is available from the Benefits Department or Sandia's internal web. *To obtain it from the web, click on the Form/Template icon, then click on Corporate Forms, then click on Benefits/Lab News in the left column, and select form SF 4400-CFB, "RSA Mid-Year Enrollment/Change Form."*

HCRSA During Nonpay Absence

When you take a nonpay absence, your HCRSA will continue. Any contributions missed will be made up over the remainder of the year upon your return from the absence.

Note: If you return from an unpaid absence in a subsequent calendar year, your contributions will be made up at one time on an after-tax basis.

Option to Cancel Your HCRSA (During FMLA Nonpay Absence)

If your nonpay absence qualifies as a leave under the FMLA, you have the option to cancel your HCRSA. Refer to the Family and Medical Leave Act Fact Sheet under Business Rules on the Sandia internal web for information on what absences qualify under FMLA. If your nonpay absence immediately follows a qualified FMLA paid sickness absence and you elected to

continue your participation during your FMLA paid leave, this option of immediately canceling your HCRSA is not available to you.

Note: If the reason for the nonpay absence is the birth or adoption of a child, complete the form located in the Guide for Expectant/ Adoptive/Foster Parents. If you are taking a nonpay absence under A510, you should receive a form with your application to complete.

If you cancel your HCRSA, you are not eligible for reimbursement of expenses for services rendered after termination and before reenrollment (if applicable).

To cancel your HCRSA, complete the "RSA Mid-Year Enrollment/Change Form" and submit it to the Benefits Department so that it will be received within 31 calendar days of the first day of your absence. This form is available from the Benefits Department or Sandia's internal web. *To obtain it from the web, click on the Form/Template icon, then click on Corporate Forms, then click on Benefits/Lab News in the left column, and select form SF 4400-CFB, "RSA Mid-Year Enrollment/Change Form".*

Reenrolling in Your HCRSA (FMLA Nonpay Absence)

If you take a nonpay absence under FMLA and you do not elect to continue your HCRSA, upon returning to work, you can reenroll in the HCRSA within 31 calendar days. You have the option of reinstating you annual election amount and making up the missed contributions OR you can resume coverage at a reduced prorated level by paying the same contributions amount as before the nonpay absence. If you have a mid-year election change event while on the nonpay absence, upon reenrolling, you can make an election change that is consistent with and on account of the event.

To reenroll in your HCRSA, complete the "RSA Mid-Year Enrollment/Change Form" and submit it to the Benefits Department so that it will be received within 31 calendar days of returning to work. This form is available from the Benefits Department or Sandia's internal web. *To obtain it from the web, click on the Form/Template icon, then click on Corporate Forms, then click on Benefits/Lab News in the left column, and select form SF 4400-CFB, "RSA Mid-Year Enrollment/Change Form."*

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Specific DCRSA Rules

This section discusses the annual election amount, how contributions are made, eligible expenses, ineligible expenses, special considerations for schooling, special considerations while on sickness absence, the federal tax credit, and how reimbursement works. It also discusses what happens to your DCRSA when you retire or leave Sandia, take a LOA, go on sickness absence, or take a nonpay absence.

DCRSA Summary

The DCRSA is used to set aside pre-tax dollars to pay for eligible day care expenses that are incurred for services rendered while you work or, if you are married, so that both you and your spouse can work, or your spouse can attend school full time. Expenses are also eligible if your spouse or your dependents (who can be claimed as exemptions on your federal income tax return) are physically or mentally incapable of self-care (refer to "Appendix A, Acronyms and Definitions," for the definition).

Eligible expenses include costs for a childcare provider or qualified childcare center for your dependent under age 13. Eligible expense also include costs for a home care provider or a qualified adult care center for your spouse or other dependents (who are physically or mentally incapable of self-care) who reside with you at least 8 hours each day. Refer to "Eligible Dependents under the DCRSA" in the "Eligibility" section.

You can only be reimbursed up to the current balance in your DCRSA at any time during the Plan year.

Annual Election Amount (DCRSA)

The DCRSA is limited to a minimum annual election amount of $100, up to a possible maximum annual election amount of $5,000

The following special IRS rules apply to the annual election amount:

- If you are married, you and your spouse are limited to $5,000 annually if you file a joint tax return, or to $2,500 each if you file separate returns.
- If you are single or divorced, you may elect the full $5,000 each Plan year.

- Each family's total annual election from any combination of Day Care Reimbursement Spending Accounts or other dependent care assistance program provided by any employer cannot be more than $5,000 a year.

EXAMPLE: If you have a DCRSA at Sandia for $3,000, your spouse cannot have a DCRSA either through Sandia or his/her employer for more than $2,000 (subject to the tax filing and income requirements).

- The annual election amount or total contributions into your DCRSA for the Plan year cannot be greater than your income or your spouse's income, whichever is lower.

EXAMPLE: If you earn $50,000 a year and your spouse earns $4,500, the maximum you can elect (or contribute and be reimbursed) for day care expenses through the DCRSA is $4,500.

- If your spouse is a full-time student or is physically or mentally incapable of self-care and has no income, according to the Internal Revenue Code, you can deem his or her income to be $250 a month if you have one eligible dependent or $500 a month if you have two or more eligible dependents.

For assistance, use the worksheet in "Appendix B, Worksheets for Calculating Annual Elections."

CAUTION **Avoid forfeiture by being conservative in estimating your expenses.**

How Contributions Are Made

Contributions are taken evenly throughout the Plan year as a payroll deduction, beginning with the second biweekly paycheck of the Plan year. Your annual election amount may need to be rounded up or down to be evenly divisible by the remaining pay periods. These contributions are taken before federal tax or Social Security (FICA) tax, and, in most jurisdictions, state and local taxes are taken out.

Eligible Expenses for DCRSA

Generally, you can be reimbursed for eligible expenses rendered during the Plan year such as payments to

- A child care or adult care center that complies with state and local regulations and is licensed, including registration fees (see "Special Considerations for Schooling" section);
- A day camp (see "Special Considerations for Schooling" section);

- A babysitter inside or outside your home for your children under age 13;
- A housekeeper whose duties include dependent care;
- A relative (whom you cannot claim as an exemption on your federal income tax return) who cares for your dependents;
- Your child who is at least age 19 as of the close of the Plan year and not claimed as an exemption on your federal income tax return.

Note: The, age 19, restriction applies to an employee's child only, not to other relatives (e.g., a niece or nephew). Refer to Internal Revenue Code Section 151(c)(3) for the definition of child.

- Person who cares for an elderly or incapacitated spouse or dependent who is physically or mentally incapable of self-care.

For expenses for disabled dependent care outside the home, a disabled dependent (other than a dependent under age 13) must regularly spend at least eight (8) hours per day in the employee's household in order for the employee to be reimbursed for day care expenses in the DCRSA.

You may not be reimbursed for services rendered by a caregiver who is claimed as an exemption on your federal income tax return.

Under your DCRSA, expenses are reimbursable only if incurred to care for your spouse or an individual who is claimed by you as a dependent on your federal income tax return and who meets the guidelines as referenced in the "Eligible Dependents Under the DCRSA" section.

Contact the IRS for additional questions or clarifications, or consult IRS Publication 503, "Child and Dependent Care Expenses."

Ineligible Expenses for DCRSA

The following are examples of expenses **not** eligible for reimbursement through the DCRSA.

- Food or clothing for a dependent,
- Education of a dependent (including kindergarten),
- Transportation between your house and the place where day care services are provided or to pick up a babysitter,
- Expenses used on your income tax return (Form 2441, "Child and Dependent Care Expenses"),

- Health care expenses (these expenses may be reimbursable through the HCRSA),
- Overnight camp (not even the portion attributable to the daytime hours),
- Long-term or nursing home care.

Special Considerations for Schooling

According to IRS rules, educational expenses are generally not reimbursable from a DCRSA.

However, you can count the total cost of sending your child to school if

- your child is in a grade level below the first grade **and**
- the amount you pay for schooling is incidental to and cannot be separated from the cost of care.

If your child is in the first grade or higher, or if the cost of schooling can be separated, you must divide the total cost between the cost of care and the cost of schooling. You can count only the cost of care in figuring your reimbursable expenses.

Note: If the kindergarten does not separate the cost into educational and day-care expenses, then the entire expense is **not** allowable. If the school separates the expenses, the portion allocated to day care is allowable.

EXAMPLE: You take your 4-year-old child to a nursery school that provides lunch and educational activities as a part of its preschool child care service. You can receive reimbursement for the total cost.

EXAMPLE: Your 5-year-old child goes to kindergarten in the morning. In the afternoon, she attends an after-school day care program at the same school. Your total cost for sending her to the school is $4,000, of which $2,400 is for the after-school program. Only the $2,400 qualifies for reimbursement under the DCRSA.

Special Considerations While on Sickness Absence

Expenses you incur for day care that do not enable you to be gainfully employed are not eligible for reimbursement under the DCRSA.

Tip: Contact the IRS if you have additional questions or need clarifications, or consult IRS Publication 503, "Child and Dependent Care Expenses."

Federal Tax Credit

The IRS makes available a federal child and dependent care tax credit for day care expenses. Expenses used to claim the federal child and dependent care tax credit are offset dollar for dollar with the amounts reimbursed under the DCRSA.

Under the federal child and dependent care tax credit, for taxable years beginning after December 31, 2002, the taxpayer is allocated a maximum of $3,000 in qualified expenses for one qualified dependent and a maximum of $6,000 in qualified expenses for two or more eligible dependents. These maximums are used in determining your dependent care tax credit amount for filing your individual income tax return.

The DCRSA has a maximum of $5,000 in expenses regardless of the number of dependents.

Generally, you will probably save more in taxes by using the DCRSA rather than the child and dependent care tax credit. To be certain you use the method that gives you the most tax savings, you should consult a tax advisor.

If you plan to use both the DCRSA and the federal child and dependent care tax credit, there are limitations. The amount you contribute to your DCRSA reduces the day care expenses used to calculate the federal child and dependent care tax credit on your income tax return.

EXAMPLE: You are married filing joint return, have two eligible dependents ages 2 and 4, and spend $6,000 for day care. You are entitled to apply a maximum of $6,000 of your expenses toward the child and dependent care tax credit. If you decide to put $3,000 into the DCRSA, you have $3,000 in remaining expenses that you may use to calculate your child and dependent care tax credit for your income tax return. If you put $5,000 (maximum annual election) in the DCRSA, you will have $1,000 that can be taken into account in determining your child and dependent care tax credit on your income tax return.

Reimbursement for Expenses (DCRSA)

You can only be reimbursed from the DCRSA up to the amount currently available in your DCRSA. This amount equals the year-to-date payroll deductions less prior reimbursements. To be reimbursed for eligible expenses, you must have already incurred the expense for services rendered.

The method of reimbursement results in a lag from the time expenses are paid by you until you are reimbursed. Consider the lag when budgeting for outlay of funds under the DCRSA.

EXAMPLE: You elect $2,600 for the DCRSA for the 2003 Plan year. Payroll will deduct $100 from each paycheck ($2,600 ÷ 26 = $100). The first payroll deduction of $100 is taken on January 16 and the second payroll deduction of $100 is taken on January 30 for a total of $200 in your DCRSA. You incur $300 for day care services rendered through the end of January. On January 31, when you submit your reimbursement claim of $300 for services rendered in January, your claim will be processed for payment of $200 (your current year-to-date balance in your DCRSA). Any excess claim amount will be pended and will be released as further deposits are put into your DCRSA on a biweekly basis.

Note: Payroll deductions are credited to your DCRSA on the date of each paycheck (which is generally a Thursday). Because claims are processed on Wednesdays, this money is not available until the following week for reimbursement.

Termination of Employment or Retirement

Contributions to DCRSA

Contributions to your DCRSA stop following your termination or retirement from Sandia. You **cannot** continue the DCRSA beyond retirement or termination.

Reimbursement under DCRSA

You may request reimbursement of eligible day care expenses for services rendered through the end of the Plan year, up to the balance in your DCRSA. You have until **April 15** (postmarked date) of the subsequent year to request reimbursements.

EXAMPLE: If you elect $1,000 for the Plan year and terminate from Sandia on March 31 because you have found another job, you are eligible to be reimbursed, up to the balance in your DCRSA, for services rendered through December 31 of that year because of day care needs on your subsequent job.

You cannot withdraw the remaining cash balance in your DCRSA when you leave or retire. If you have money left in your DCRSA at the end of the Plan year and have no outstanding requests for eligible expenses for services rendered during that Plan year, your balances will be forfeited.

DCRSA During Leave of Absence

You **cannot** continue to contribute to your DCRSA while on a LOA. Upon taking a LOA, your contributions to the DCRSA will stop, and your DCRSA will be canceled. Any expenses incurred for services rendered throughout the Plan year so that you and your spouse can work,

look for work, or attend school full time are eligible for reimbursement, up to the balance in your DCRSA.

Only expenses incurred so that you and your spouse can work, look for work, or attend school full time are eligible for reimbursement. Therefore, if your spouse is at home, not working, and taking care of your newborn child, but your older child is still in day care, these expenses are NOT eligible for reimbursement.

Note: If you did not have a DCRSA before you went on a LOA and you want to enroll in one upon returning from a LOA, refer to "Enrollment Because of a Mid-Year Election Change Event" section.

If you are a Sandian married to another Sandian, your spouse **may** be eligible to make a mid-year election change that is consistent with and on account of the event.

Reenrolling in Your DCRSA (LOA)

You can reenroll in your DCRSA within 31 calendar days of returning to work.

To reenroll in your DCRSA, complete the "RSA Mid-Year Enrollment/Change Form" and submit it to the Benefits Department so that they will receive it within 31 calendar days of your return to work. This form is available from the Benefits Department or Sandia's internal web. *To obtain it from the web, click on the Form/Template icon, then click on Corporate Forms, then click on Benefits/Lab News in the left column, and select form SF 4400-CFB, "RSA Mid-Year Enrollment/Change Form."*.

DCRSA During Sickness Absence

When you go on sickness absence, your DCRSA will continue unless you elect to cancel your Account. Any contributions missed will be made up over the remainder of the year upon your return from the absence.

Day care expenses that you incur for services rendered while on sickness absence are not eligible for reimbursement.

Option to Cancel Your DCRSA

You have the option to cancel your DCRSA upon going on sickness absence. Upon your return from sickness absence, your DCRSA will be reinstated at the biweekly contribution amount that was in effect before your absence. You will not be able to change your biweekly contribution amount unless you had another eligible mid-year election change event while on sickness absence, the request is consistent with and on account of the event, and you provide written notification to the Benefits Department within 31 calendar days of your return from sickness absence.

EXAMPLE: You went out on sickness absence on September 1 and canceled your DCRSA. Your biweekly contribution amount before the sickness absence was $20. As you did not have an eligible mid-year election change event during your sickness absence, your DCRSA will be reinstated at the $20 biweekly contribution. Even though you are not a participant in the DCRSA while on sickness absence, eligible expenses up to the amount in your DCRSA can be submitted for reimbursement. Expenses for services rendered during your sickness absence are not eligible.

To cancel your DCRSA, complete the "RSA Mid-Year Enrollment/Change Form" and submit it to the Benefits Department so that it will be received within 31 calendar days of your first day of sickness absence. This form is available from the Benefits Department or Sandia's internal web. *To obtain it from the web, click on the Form/Template icon, then click on Corporate Forms, then click on Benefits/Lab News in the left column, and select form SF 4400-CFB, "RSA Mid-Year Enrollment/Change Form."*

DCRSA During Nonpay Absence

When you take a nonpay absence, your DCRSA will continue unless you elect to cancel your Account. Any contributions missed will be made up over the remainder of the year upon your return from the absence.

Note: If you return from a nonpaid absence in a subsequent calendar year, your contributions will be made up at one time on an after-tax basis.

Day care expenses that you incur while not working are not eligible for reimbursement.

If you went out on sickness absence in conjunction with the birth of a baby and took a nonpay absence immediately following your sickness absence, you can enroll in the DCRSA within 31 calendar days of returning to work. If you took a nonpay absence in conjunction with the adoption of a child, you can enroll in the DCRSA within 31 calendar days of returning to work.

Option to Cancel Your DCRSA

You have the option to cancel your DCRSA upon taking a nonpay absence. Upon your return from the nonpay absence, your DCRSA will be reinstated at the biweekly contribution amount that was in effect before your absence. You will not be able to change your biweekly contribution amount unless you had another eligible mid-year election change event while on the nonpay absence, the request is consistent with and on account of the event, and you provide written notification to the Benefits Department within 31 calendar days of your return from nonpay absence.

EXAMPLE: You took a 20-day nonpay absence for personal reasons and canceled your DCRSA. Your biweekly contribution amount before the nonpay absence was $20. As you did not have an eligible mid-year election change event during the nonpay absence, your DCRSA will be reinstated at the $20 biweekly contribution. Even though you are not a participant in the DCRSA while on the nonpay absence, eligible expenses up to the amount in your DCRSA can be submitted for reimbursement. Expenses for services rendered during your nonpay absence are not eligible.

To cancel your DCRSA, complete the "RSA Mid-Year Enrollment/Change Form" and submit it to the Benefits Department so that it will be received within 31 calendar days of your first day of sickness absence. This form is available from the Benefits Department or Sandia's internal web. *To obtain it from the web, click on the Form/Template icon, then click on Corporate Forms, then click on Benefits/Lab News in the left column, and select form SF 4400-CFB, "RSA Mid-Year Enrollment/Change Form."*

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Obtaining Reimbursement

If you did not use your debit (*mbi* Flex Convenience®) card to make payments to your provider then you will need to file a claim form.

This section discusses how to obtain reimbursement forms, how to submit HCRSA and DCRSA reimbursement requests, the deadline for filing requests for reimbursement, when reimbursements are made, the right to recover excess payments, and what to do if you have questions about reimbursements.

Obtaining Reimbursement Forms

To receive reimbursement, you will need to complete an RSA claim form. These forms can be obtained from

- Sandia's internal web, under Corporate Forms (SF-4400 SSG);
- Sandia's external web at www.sandia.gov;
- PayFlex FSA Service Center at www.mypayflex.com;
- PayFlex Fax Back Service at 1-800-284-4885, Option 1 and Option 2 at each prompt;
- Sandia Line (845-6789, enter 9#, then enter 1284#; from outside Albuquerque, call 1-800-417-2634, then enter 845-6789);
- Sandia Benefits Customer Service Center, call (505) 845-2363.

Pre-addressed envelopes are also available from the Sandia Benefits Customer Service Center (BCSC) at (505) 845-2363.

Submitting HCRSA Reimbursement Requests

For Eligible Expenses Covered by Your Health Care Plans but Not Paid or Only Partially Paid

1. **Obtain the Explanation of Benefits (EOB)**

   File a claim with your health care plan and obtain an EOB from the Claim Administrator of that particular health plan.

   Copayment receipts (prescriptions, office visits, hospital admissions, etc.) do not need to be submitted to the Claim Administrator of the respective health plan. In addition, services and products received under the Vision Care Plan network do not need to be submitted to the Vision Care Plan Claim Administrator.

   Receipts must show provider name, description of service, date of service, patient name, and dollar amount. Write on the bill that this is your copayment receipt or out-of-pocket expense under your health care plan.

2. **Complete an RSA claim form.**

   Complete the employee name and Social Security number. Complete the Service Date, Patient Name, Relationship to You, Name of Provider, and Amount Requested in the Health Care Certification boxes on the claim form. You must sign and date the form to receive reimbursement.

IMPORTANT **By signing the form, you are confirming that the expenses are not eligible for reimbursement from any other insurance.**

Note: Refer to the special reimbursement options for orthodontic treatment under "Specific HCRSA Rules" section.

3. **Attach the EOB or copayment receipt that shows the partial payment.**

   Examples of copayments that can be submitted include prescription copayments, copayments made under an HMO, and copayments made under PPO Medical Plans. Copayments do not need to be submitted to the carriers first. The copayment receipt must show the service date, patient name, name of provider, service provided, and amount of copayment.

4. **Mail or fax the RSA claim form and EOB/copayment receipt(s) to the Claim Administrator:**

Address: PayFlex Systems USA, Inc.
Flex Dept.
P.O. Box 3039
Omaha, NE 68103-3039

Fax: (402) 231-4310.

PLEASE NOTE: Canceled checks, balance-forward statements, and received-on-account statements are **not** sufficient documentation for reimbursement purposes.

For Eligible Expenses NOT Covered by Your Health Care Plans

5. **Complete an RSA claim form.**

   Complete the employee name and Social Security number. Complete the Service Date, Patient Name, Relationship to You, Name of Provider, and Amount Requested in the Health Care Certification boxes on the claim form. You must sign and date the claim form to receive reimbursement.

By signing the form, you are confirming that the expenses are not eligible for reimbursement from any other insurance.

6. **Attach an itemized bill or receipt as proof of services rendered. Your bill or receipt must include the following:**
   - Who rendered the service or provided the product,
   - Address of provider who rendered service or provided product,
   - Name of employee/dependent for whom provided,
   - Date services were rendered or products were ordered,
   - Description of the expense such as office visit, eye exam, prescription,
   - Amount of the charge.

   If you are not eligible to receive a benefit under the Vision Care Plan because you have received your benefit for the two-year period, you do not need to file the claim with the Vision Care Plan administrator. Just write on the bill that this expense is not reimbursable under the Vision Care Plan because you are not eligible to receive a benefit until (and indicate the next date you will be eligible).

7. **Mail or fax the RSA claim form and the itemized bill or receipt to the Claim Administrator:**

Address:	PayFlex Systems USA, Inc. Flex Dept. P.O. Box 3039 Omaha, NE 68103-3039
Fax:	(402) 231-4310.

PLEASE NOTE: Canceled checks, balance-forward statements, and received-on-account statements are **not** sufficient documentation for reimbursement purposes.

Submitting DCRSA Reimbursement Requests

To obtain reimbursement for eligible day care expenses, follow these steps:

1. **Complete an RSA claim form**

   Complete the employee name and Social Security number.

   If you complete all of the boxes under Day Care Certification, including the provider's address, and your day care provider signs it, you can skip to Step 3.

   If you send in an itemized statement with the information listed in Step 2 below, you only need to complete the Service Dates, Dependent Name, Age, and Amount Requested boxes under Day Care Certification.

2. **Attach an itemized bill or receipt as proof of services rendered. Your bill or receipt must include the following:**
   - Who rendered the service,
   - Address of the provider,
   - Name of dependent for whom provided,
   - Date services were rendered,
   - Description of the services,
   - Amount of the charge,
   - Social Security number or federal tax identification number (or nonprofit equivalent) of the person or organization that rendered the service.

3. **Mail or fax the RSA claim form and the itemized bill or receipt to the Claim Administrator:**

Address: PayFlex Systems USA, Inc.
Flex Dept.
P.O. Box 3039
Omaha, NE 68103-3039

Fax: (402) 231-4310.

PLEASE NOTE: Canceled checks, balance-forward statements, and received-on-account statements are **not** sufficient documentation for reimbursement purposes.

Deadline for Filing Reimbursement Request

Reimbursement requests for expenses for services rendered during the Plan year ending December 31 must be submitted no later than **April 15** (postmarked date) of the following Plan year.

EXAMPLE: During the 2002 calendar year, you have unreimbursed health expenses for services rendered during 2002 that are eligible for reimbursement under your HCRSA. You have until April 15, 2003 (postmarked date), to submit these for reimbursement. If you submit these after April 15, 2003, you will be denied reimbursement and forfeit the money.

You may be granted an exception to the claim filing deadline if and only if the reason for late filing is due to events that resulted from the action or inaction of the Claim Administrator of a health care plan and are beyond your control. Not submitting a claim for processing in a timely manner is **not** considered beyond your control. Written documentation must be provided to the Benefits Department with the request for exception. No exception will be granted if PayFlex Systems has "closed the books" for the Plan year in question.

When and How Reimbursements Are Made

Reimbursements are processed on a weekly basis. Claims received by PayFlex Systems, by 10:00 AM MT each Tuesday will be processed and a letter or check/Explanation of Benefits will be mailed on Friday. Claim checks include an explanation of the claims considered for payment and your Account balances. Payments are made directly to the Plan participant. You can elect to have your reimbursement deposited directly into the bank account of your choice by completing a direct deposit authorization form. This form is available under Sandia's internal web under "Corporate Form" or from PayFlex Systems at www.mypayflex.com or the PayFlex Fax Back Service at 1-800-284-4885, Option 1 and then Option 2 at each prompt.

Although you may submit requests for any amount, the minimum amount of reimbursement is $25, except during the last month of the Plan year and through April 15 (postmarked date) of the subsequent Plan year.

IMPORTANT: Do not file a claim for debit card transactions. You must keep all debit card transaction receipts and documentation, as you will need to submit these to the claims administrator upon request.

Right to Recover Excess Payments

The Claim Administrator has the right at any time to recover any amount paid under the RSA Plan in excess of the amount that should have been paid under the Plan provisions.

By enrolling in the RSA Plan, the participant agrees to cooperate in recovery of excess payments.

Questions About Reimbursements

If you have questions concerning your reimbursement request or denied claims, call PayFlex Systems' flexible spending accounts customer service **at 1-800-284-4885 (Option 1; Option 3** at each prompt).

You can also submit your question to PayFlex Systems at www.mypayflex.com "Contact Us" "I have a question…".

Appeals Procedure

This section discusses how to appeal an eligibility decision, a denial of a mid-year election change, or a denial of a claim for reimbursement.

IMPORTANT **As a Plan participant, you are required to pursue all your claim and appeal rights described in this section before you seek any other legal recourse.**

Appealing Eligibility or Mid-Year Election Change

If you

- are denied eligibility to participate in the Plan,
- have a claim denied because you are not enrolled, or
- have a request for a mid-year election change denied,

you may request a review by the Employee Benefits Committee (EBC). You must request this in writing within 180 calendar days of the date of the written notification informing you of the denial. You will be informed of the EBC's decision, in writing, within 60 calendar days of the date the appeal was received. The EBC has the exclusive right to interpret the provisions of the RSA plan with respect to the eligibility to participate and mid-year election changes and their determination is conclusive and binding. You must exhaust the appeals process before you pursue any legal recourse.

Appealing Denial of Claim for Reimbursement

You, your dependents, or another duly authorized person may appeal this denial or other action if a request for reimbursement is denied with respect to the Plan.

The Claim Administrator (PayFlex Systems USA, Inc.) has the exclusive right to interpret the provisions of the RSA Plan (other than that right which is reserved to Sandia to determine an employee's eligibility) and to determine benefits payable, and to construe disputed or ambiguous terms. The decision of the Claim Administrator is conclusive and binding. As a Plan participant, you are required to pursue all your claim and appeal rights described in this section before you seek any other legal recourse.

As a participant, you may have further rights under the Employee Retirement Income Security Act of 1974. This information is included as a separate booklet in your *Sandia Employee Benefits Binder* and is called "ERISA Information."

Time Frame for Initial Claim Determination

The Claim Administrator (PayFlex Systems USA, Inc.) will notify you of a denial of a claim within 30 days after receipt of such claim.

A 15-day extension may be allowed to make a determination, provided that the Claim Administrator determines that the extension is necessary due to matters beyond its control. If such an extension is necessary, the Claim Administrator must notify you before the end of the first 30-day period of the reason(s) requiring the extension and the date it expects to provide a decision on your claim. If such an extension is necessary due to your failure to submit the information necessary to decide the claim, the notice of extension must also specifically describe the required information. You then have 45 days to provide the information needed to process your claims.

If an extension is necessary due to your failure to submit necessary information, the plan's time frame for making a benefit determination is stopped from the date the Claim Administrator sends you an extension notification until the date you respond to the request for additional information.

Information Provided by the Claim Administrator

If a request for some or all of the reimbursement is denied, PayFlex Systems USA, Inc. (the Claim Administrator), must provide the participant with

- Written notice of the specific reason(s) for the denial;
- Reference to the specific Plan provisions on which the denial is based;

- A description of any additional material or information needed to process the claim and an explanation of why that material or information is necessary;
- A description of the Plan's appeal procedure and the time limits applicable to those procedures;
- A statement describing your right to bring a civil action under ERISA.
- If the adverse benefit determination was based on a medical necessity or experimental treatment or similar exclusion or limit, either an explanation of the scientific or clinical judgement for the adverse determination, applying the terms of the plan to your medical circumstances, or a statement that such explanation will be provided free of charge upon request.

Procedure to Appeal Denial

The procedure to appeal a denial of a request for reimbursement is as follows:

Who	Action Required	Time Frame
Employee or authorized representative	Submit to the Claim Administrator ■ A written request for reconsideration (appeal) ■ Documents or records in support of the appeal **Note:** The employee and/or representative are entitled to review related documents in the Claim Administrator's possession.	Within 180 days after receipt of denial
Claim Administrator	Notify the employee in writing of the decision on the appeal, including specific reasons for the decision and references to pertinent plan provisions.	Within 60 days of receipt of appeal

Temporary Continued Participation in the HCRSA

This section discusses what temporary continued participation in the HCRSA is, who can elect it, the cost of temporary continued participation, the events that trigger those rights, the notification and election procedures, and termination of temporary participation.

The federal law known as the Consolidated Omnibus Budget Reconciliation Act (COBRA) requires Sandia to offer a temporary extension of the HCRSA to covered employees who would lose this benefit as a result of certain events.

IMPORTANT **Temporary continued participation is only available for the Health Care Reimbursement Spending Account for the remainder of the current Plan year. It is not available for the Day Care Reimbursement Spending Account.**

Because your temporary participation in the HCRSA is on an after-tax basis, and includes an administrative fee, you are advised to consult a tax advisor to determine if temporary continued participation is appropriate for you.

If you do not continue temporary participation in the HCRSA because of an event causing loss of participation, then your Account will be canceled the day of the qualifying event. Any expenses you incur for services rendered beyond this date are not eligible for reimbursement.

IMPORTANT **Temporary continued participation is only available in the current Plan year if, as of the qualifying event date for COBRA, the qualified beneficiary has received less in reimbursements than he or she has contributed.**

Who May Elect Temporary Continued Participation

In order to continue temporary participation in the HCRSA, you must be a "qualified person." Qualified persons under COBRA are those covered under this Plan the day before the events causing loss of coverage. Qualified persons include:

- You (the employee),
- Your spouse,
- Your dependent children, and
- Newborns, adopted children, or a child placed for adoption with the covered employee, who were born or adopted after the COBRA continuation period began.

If you have another group health care Plan or are entitled to Medicare on the date of your qualifying COBRA event, you may still be eligible for COBRA. Only other group health coverage or Medicare entitlement that begins after your COBRA election may be used to terminate your COBRA rights.

If you obtain Medicare coverage or enroll in another group Plan after electing temporary participation, you are not eligible to continue the temporary participation.

Cost of Participation

The cost of continued participation is the originally elected contribution amount on an after-tax basis, plus an administrative fee. The administrative fee is 2% of the contribution amount. Employees on a LOA who continue their HCRSA do not pay the 2% administrative fee.

EXAMPLE: Your current biweekly deduction for the HCRSA is $40. If you continue your participation, you will pay $40.80 biweekly, on an after-tax basis, to continue your Account.

Qualifying Events Triggering Temporary COBRA Participation Rights

The following table describes the events that trigger a right to COBRA continuation for an employee, the spouse of an employee, and the employee's dependent children.

If you are the...	and if you, the covered person, lose participation because of...	then, under COBRA you may have the right to choose temporary continued coverage...
employee, spouse, or dependent child	■ termination of employment, or ■ retirement,	until the end of the Plan year in which the qualifying event occurred
spouse	■ the death of the Sandia employee/retiree, or ■ a divorce or legal separation from a Sandia employee/ retiree,	until the end of the Plan year in which the qualifying event occurred
employee's dependent child	■ the death of a Sandia employee/retiree, ■ a divorce or legal separation, or ■ loss of dependent status,	until the end of the Plan year in which the qualifying event occurred

Notification and Election of COBRA

The following table shows notification and election actions for temporary continued coverage under COBRA.

Who	Action Required	Time Frame
Employee or family member	Notify Sandia BCSC in writing of ■ divorce or legal separation ■ loss of dependent status	 Within 60 days Within 60 days
Sandia Benefits Department	Notify Sandia BCSC of participant's ■ death ■ termination of employment	Within 30 days of death or termination of employment
Sandia BCSC	Notify participant of the right to choose continued temporary participation	Within 14 days from the latter of ■ notification by Sandia Benefits Department ■ notification by employee or family member ■ when coverage actually ends
Participant	Elect temporary continued participation Make your timely contribution payment if you elect to continue temporary participation	Within 60 days of the date of the notice sent to you by Sandia or your loss of coverage date, whichever is later Within 45 days of election (and biweekly thereafter)

Termination of Temporary Participation

Temporary continued participation under the HCRSA terminates as of the earliest of the following:

- when the Reimbursement Spending Accounts Plan is terminated
- at the end of the Plan year in which the qualifying event occurred
- when the participant fails to pay the required contribution on a timely basis
- when the participant first becomes covered in another group health plan after the COBRA election date
- when the person first becomes entitled to Medicare after the COBRA election date

Coverage extensions required under other laws (for example, because of state law) continue concurrently with temporary continued participation in the HCRSA.

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Appendix A

Acronyms and Definitions

Acronyms

BCSC	Sandia Benefits Customer Service Center
COBRA	Consolidated Omnibus Budget Reconciliation Act (see definition)
DCRSA	Day Care Reimbursement Spending Account
EBC	Employee Benefits Committee
EOB	explanation of benefits
ERISA	Employee Retirement Income and Security Act
FMLA	Family and Medical Leave Act (see definition)
FSA	Flexible Spending Account.
HCRSA	Health Care Reimbursement Spending Account
HMO	Health Maintenance Organization
IRS	Internal Revenue Service
IRC	Internal Revenue Code
PPO	Preferred Provider Organization
RSA	Reimbursement Spending Accounts. Sandia's name for a flexible spending accounts (FSA).
SPD	Summary Plan Description

Definitions

Claim Administrator	The third party that has been designated by Sandia to receive, process, and pay claims according to the provisions of the RSA Plan.
Class II dependents	Those dependents under the Sandia PPO Medical Plans who meet the criteria for coverage as a Class II dependent. Refer to your pertinent Basic, Intermediate, or Top PPO Medical Plan Summary Plan Description for more information.
COBRA	The law requiring Sandia to offer temporary continued participation in the HCRSA to primary covered members and certain dependents who would otherwise lose their coverage as a result of certain events.
Co-insurance	The cost-sharing feature by which the covered member pays a percentage for the health service rendered or product purchased, and the health plan pays the remaining percentage.
Contribution	The amount taken out of the employee's biweekly paycheck.
Copayment	The cost-sharing feature by which the covered member pays a specific amount for the health service rendered or product purchased, and the health plan pays the balance.
Deductible	The covered charges incurred during a calendar year that the covered member must pay in full before the medical plan reimburses the covered member for additional covered charges.
Dual Sandians	Both spouses are employed by Sandia National Laboratories.
Family and Medical Leave Act	The law that requires covered employers to provide up to 12 weeks of unpaid, job-protected leave to eligible employees for certain family and medical reasons.
Leave of absence	Refer to Corporate Process Requirement 300.6.18
Medically necessary	The diagnosis, cure, mitigation, treatment, or prevention of disease.

Mid-year	Any time between the start of the Plan year on January 1 and the end of the Plan year on December 31.
Mid-year election change event	An event that occurs mid-year that may permit enrollment or disenrollment or may permits a change in the annual election amount.
Nonpay absence	Time off without pay. Nonpay absences are identified through the use of A500, A501, A502, A503, A505, or A510 time charges. Refer to Employee Time Charging, Corporate Process Requirement 300.6.15.
Open Enrollment period	Every year a period of time (usually October 20 through November 9) that is designated for allowing employees to enroll, disenroll, or change health care coverage for the subsequent calendar year without having to have a qualifying event.
PPO	Preferred Provider Organization. Refer to Sandia's Basic, Intermediate, or Top PPO Medical Plan Summary Plan Description for more information.
Physically or mentally incapable of self-care	Refers to persons who cannot dress, clean, or feed themselves because of physical or mental problems, and those who must have constant attention to prevent them from injuring themselves or others.
Placement for adoption	The assumption and retention by the covered employee of a legal obligation for total or partial support of a child in anticipation of the adoption of the child. A child, who is immediately adopted (without a preceding placement for adoption period), is considered to be placed for adoption on the date of the adoption. If the legal obligation for support of the child on the part of the covered employee terminates (e.g., the placement does not proceed to adoption), the child's placement for adoption terminates.
Plan	Reimbursement Spending Accounts Plan
Pre-Tax Premium Plan	A plan that allows employees to pay for health care premiums on a pre-tax basis

Qualifying event	Under COBRA, an event that but for the COBRA requirements would result in the loss of coverage to a qualified beneficiary
Qualified long-term care services	Those services provided to a chronically ill individual under a plan of care prescribed by a licensed health care practitioner. Services would include necessary diagnostic, preventive, therapeutic, curing, treating, mitigating and rehabilitative services, and maintenance or personal care services.
Term of employment	Refer to Term of Employment, Corporate Process Requirement 300.6.21
Usual and customary fees	The amount determined by the health plan Claim Administrator based on the range of fees charged by physicians for the same or similar service within the locality

Appendix B

Worksheet for Calculating Annual Elections

The following worksheets for the Health Care Reimbursement Spending Account and the Day Care Reimbursement Spending Account will help guide you in estimating your annual elections. Consult your tax advisor for additional guidance.

How to Estimate HCRSA Expenses

Review the booklets in your Benefits Binder for your relevant Sandia Basic, Intermediate, or Top PPO Medical Plan; Cigna POS; Kaiser HMO; the Dental Expense/Dental Deluxe Plans; and the Vision Care Plan to familiarize yourself with the deductibles/copayments required and the types of expenses that are not covered. If you enroll in Sandia's Basic, Intermediate, or Top PPO Medical Plan or Cigna POS Medical Plan, consider the differences in your expenses depending on which option(s) you intend to use.

REMINDER—Cosmetic surgery or health costs for services for cosmetic reasons are not reimbursable unless the surgery is to correct a deformity directly related to a congenital abnormality, accident, or disfiguring disease.

Step 1: Estimate your expenses

If you are covered under...	Then...	Out-of-pocket
Sandia's Top PPO Medical Plan;	• estimate of copayments for doctor visits for you and your dependents • estimate of cost for maintenance prescription drugs • annual deductible if normally access out-of-network material or service	$
Sandia's Intermediate PPO Medical Plan; Sandia's Basic PPO Medical Plan	• estimate of copayments for doctor visits for you and your dependents • estimate of cost for maintenance prescription drugs • annual deductible • annual deductible if normally access out-of-network material or service	$
Cigna Point of Service	• estimate of copayments for doctor visits for you and your dependents • estimate of cost for maintenance prescription drugs • annual deductible • annual deductible if normally access out-of-network material or service	
Kaiser HMO	• estimate of copayments for doctor visits for you and your dependents • estimate of cost for maintenance prescription drugs	

If you are covered under...	Then...	Out-of-pocket
Dental Expense/Dental Deluxe Plan and you or your eligible dependents are planning on any dental procedures (including orthodontics) that are partially covered or not covered.	estimate of the amount of out of pocket for you and your dependents*	$
Vision Care Plan and you or your eligible dependents require an exam or prescription lenses more frequent than once every 12 months or frames for prescription glasses more frequent than once every 24 month. **Note:** Contact lens supplies are eligible for reimbursement under HCRSA.	estimate of the amount of out of pocket expenses for you and your dependents	$
No Coverage: LASER EYE SURGERY	It is recommended that you consult your eye doctor in November/December time frame for procedure in early part of year as candidacy for the procedure may change over time as eyes mature.	$
TOTAL		$

Note: It is a good idea to be conservative in your estimates as you must forfeit any money that is left over at the end of the year in your Health Care Reimbursement Spending Account.

Step 2: To determine your biweekly payroll deduction, divide your annual election amount by the number of pay periods remaining for that year. RSA payroll deductions are taken beginning with the second paycheck at the beginning of the year. The number of payroll deductions (25 or 26) for RSA depends on the number of paycheck(26 or 27) for the year.

$_____ / __25 or 26_____ = $_____*

Annual Election Number of Payroll Deductions Contribution per pay period

*This amount may need to be rounded up or down to be evenly divisible by the number of remaining pay periods.

How to Estimate DCRSA Expenses

Note: If you are divorced or separated, refer to "Eligible Dependents" under the "Specific DCRSA Rules" section.

Step 1: For expenses to be eligible for the DCRSA, you and (if married) your spouse must both work or your spouse must be a full-time student, actively looking for work, or physically or mentally unable to care for himself or herself.

Do you fulfill this requirement?

If yes, continue completing the worksheet.

If no, your day care expenses are not eligible for reimbursement. Do not complete the worksheet.

Step 2:

A. Do you pay someone to care for your dependents during the Plan year so that you and your spouse may be gainfully employed or so that your spouse may attend school full time?

Yes No

If you answered No to A, your expenses are not eligible for reimbursement under the Plan. If during the Plan year you have an eligible mid-year election change event, you may elect to participate at that time.

B. Are your dependents (**whom you claim as exemptions on your tax return**) under the age 13?

Yes No

C. Do you have a mentally or physically disabled spouse or dependent whom you claim as a tax exemption and who regularly spends at least 8 hours per day in your home? (Required for reimbursement of care provided outside the home.)

Yes No

If you answered Yes to either B or C, continue with the worksheet.

Step 3: How much are you planning to pay someone to care for your child or disabled spouse or dependent while you work this year? Examples:

	Cost
A day care center	$
A babysitter (in or outside the home)	
A day care center for the elderly	
A nurse at home	
Maids or housekeepers who care for your eligible dependent	
Your Day Care Cost	$

Step 4: Look carefully at your day care costs and decide how much you would like to contribute to your DCRSA. Consider the limits for married taxpayers filing jointly or single parents ($5,000) and for married taxpayers filing separately ($2,500) as well as the income rules noted under "Annual Election Amount" section.

Final Amount: $_____

Step 5: To determine your biweekly payroll deduction, divide your annual election amount by the number of pay periods remaining for that year. RSA payroll deductions are taken beginning with the second paycheck at the beginning of the year. The number of payroll deductions (25 or 26) for RSA depends on the number of paychecks (26 or 27) for the year.

$_____ / 25 or 26 = $_____*

Annual Election | Number of Payroll Periods | Contribution per pay period

*This amount may need to be rounded up or down to be evenly divisible by the remaining pay periods.

Using the federal child and dependent care tax credit?

If you plan to use both the DCRSA and the federal child and dependent tax credit, there are limitations. The amount you contribute to your DCRSA reduces the total amount of childcare expenses that are eligible to be used to calculate the child and dependent care tax credit on your individual tax return.

EXAMPLE: If you are married filing a joint return, have two dependents, and spend $6,000 for day care, then you may be entitled to apply a maximum of $6,000 of your expenses toward the dependent care tax credit. If you decide to put $3,000 into the DCRSA, you have $3,000 in remaining expenses that you may apply towards calculating your dependent care tax credit. If you decide to put $5,000 (maximum annual election) in the DCRSA, you will have $1,000 in remaining expenses that you may apply towards calculating your dependent tax credit on your individual tax return.

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Appendix C

Common Allowable and Excluded Health Care Expense

Consult IRS Publication 502, "Medical and Dental Expenses," for a listing of authorized IRS deductions. Note that some of the expenses that are allowed for itemized deductions are not eligible for the HCRSA (e.g., insurance premiums).

IMPORTANT **Allowable and unallowable expenses eligible for reimbursement under the HCRSA are subject to change at any time. Before you allocate money for any medical expenses to your HCRSA, check with the Claim Administrator to verify if the expenses will be eligible for reimbursement.**

Allowable Expenses

The following is a partial list of health care expenses that qualify for reimbursement from the HCRSA. The portion of these expenses that has not been reimbursed by any other health care or insurance plan can be paid for with tax-free dollars through the HCRSA.

- Acupuncture services
- Alcoholism treatment
- Allergy shots
- Ambulance service
- Artificial insemination
- Artificial limbs/artificial teeth
- Birth control pills and devices
- Braille books and magazines in excess of the cost of regular editions
- Childbirth expenses (physician, midwife)
- Chiropractor services for medical care

- Christian Science Practitioner fees
- Coinsurance amounts
- Contact lenses not covered in full by your vision plan
- Contact lens supplies such as saline solutions and enzyme cleaners
- Copayments under your health plan
- Corrective eye surgery (LASIK, cataract)
- Crutches
- Deductibles under your health plans
- Dental treatment (includes exams, x-rays, fillings, root canals, gum disease treatment, crowns, bridges, dentures, implants, and orthodontia. (Does **not** include cosmetic treatments such as teeth whitening veneers, bonding, etc.)
- Detoxification or drug abuse center
- Dyslexia treatment
- Expenses in excess of medical, dental, and vision coverage limits
- Eye examination, frames, and lenses not covered in full by your vision plan
- Fertility treatments such as in vitro fertilization and operations to reverse prior sterilization
- Flu shots
- Guide dogs or other animals for persons who are visually or hearing impaired or for persons with other physical disabilities
- Hearing exams and hearing aids/batteries
- Hospital services
- Immunizations
- Insulin and syringes
- Laboratory fees
- Language training for child with dyslexia or disabled child
- Laser eye surgery if procedure is done primarily to promote the correct function of the eye
- Legal fees directly related to authorizing treatment for a mentally ill person
- Meals and lodging at hospital or similar institution if the main reason for being there is to receive medical care
- Medical monitoring and testing devices
- Medical records charges

- Medical services provided by physicians, surgeons, specialists, or other medical practitioners
- Norplant insertion and removal
- Nursing services
- Occlusal guards to prevent teeth grinding
- Oral surgery
- Orthodontic expenses not reimbursed under the Dental Expense Plan/Dental Deluxe Plan, or any other insurance plan
- Orthopedic shoes (can reimburse only the amount that exceeds the cost of a normal pair of shoes)
- Osteopath fees
- Ovulation monitor
- Oxygen and oxygen equipment
- Physical exams, routine physicals
- Physical therapy
- Pregnancy test, over-the-counter
- Prescription drugs prescribed by physicians to alleviate specific medical conditions
- Prosthesis
- Smoking cessation programs and prescription drugs used to stop smoking
- Special devices, such as tape recorder and typewriter, for persons who are visually impaired
- Specialized equipment for disabled persons
- Sterilization (vasectomy or tubal ligation)
- Support hose that are medically necessary
- Transplants—surgical, hospital, laboratory costs, and transportation expenses for donors or possible donors only if paid by the donor
- Transportation expenses that are medically related except personal gasoline costs. Mileage for a medically necessary doctor or dentist visit is reimbursed according to IRS regulations.
- Vaccines
- Wheelchair
- X-ray fees

Excluded Expenses

The IRS has specifically excluded certain expenses. The following are expenses that are not eligible for reimbursement, but they do not represent the complete list of exclusions.

- Adoption fees
- Auto insurance premiums for insurance providing medical coverage
- Babysitting, childcare, or nursing services for a healthy baby
- Breast pump
- Childbirth expenses (not medically necessary such as Lamaze or childbirth classes)
- Contact lens replacement fee
- Contributions to state disability funds
- Cosmetics and toiletries
- Cosmetic surgery or health costs for services for cosmetic reasons unless the treatment is to correct a deformity directly related to a congenital abnormality, accident, or disfiguring disease
- Counseling (marriage or behavioral) where there is no medical condition diagnosed and being treated
- Dancing lessons
- Diaper service
- Distilled water purchases to avoid drinking municipal water
- Electrolysis or hair removal
- Exercise equipment
- Expenses reimbursed or reimbursable by another service, such as an insurance company or health care plan
- Facelifts or other similar cosmetic treatments (dermabrasion, chemical peels, etc.)
- Fees for exercise, athletic or health club memberships to improve general health (i.e., not specifically prescribed by a physician as treatment for a specific illness, injury, or disease), or mechanical exercise devices not specifically prescribed by the physician
- Funeral expenses
- Hair transplant
- Health club dues
- Household help

- Illegal treatment/drugs
- Insurance premiums
- Lifetime care fees
- Liposuction or other similar cosmetic treatments
- Massage therapy
- Maternity clothes
- Meals while traveling to obtain medical care
- Medical savings account
- Nonprescription drugs, medicines, and supplements (except for insulin)
- Nursemaids or practical nurses who render general care for healthy children
- Nutritional supplements, vitamins, herbal supplements, and similar products unless they can **only** be obtained legally with a physician's prescription
- Pajamas purchased to wear in the hospital
- Payments to domestic help, companion, babysitter, or chauffeur who primarily render services of a nonmedical nature
- Premiums paid for health insurance coverage such as those that you pay for your Sandia health insurance or premiums for:
  - Class II dependent(s)
  - Sandia's Long-Term Care Plan
  - Sandia's Long-Term Disability Plan
  - Temporary continued coverage under group health plans
- Qualified long-term care services (see definition in Appendix A)
- Swimming lessons
- Tattoos and ear piercing
- Teeth bleaching/whitening
- Vacuum cleaner purchased by individual with dust allergy
- Vision service agreements
- Warranties/service contracts
- Weight loss programs/treatments (unless undertaken at a physician's direction to treat an existing disease, such as heart disease)