

FLEXIBLE SPENDING ARRANGEMENT

Presbytery of Lake Michigan November 29, 2005

POLICY

The Presbytery of Lake Michigan (PLM) flexible spending arrangement (FSA) program is drafted under the provisions of Sections 125 and 129 of the Internal Revenue Code.

The FSA program includes a health care account and a dependent care account. An employee may elect to participate in either or both accounts and makes his/her voluntary election annually.

Contributions to the account(s) are made on a pre-tax basis, i.e., before federal, state and Social Security taxes are deducted from the employee's paycheck. Money in the health care account may be used to pay for eligible health care expenses (for the employee, the employee's spouse and any dependent children). Money in the dependent care account may be used to pay for eligible day care expenses, as listed below. FSA-eligible expenses include the following:

I.1 Health Care Expenses: All eligible out-of-pocket medical, dental, prescription, and eye care expenses, which qualify as expenses under Section 125 of the Internal Revenue Code.

These expenses may not be also reimbursable or payable under a group medical, dental, and/or vision plan. The aggregate amount of expenses claimed cannot exceed 100 percent of salary.

I.2 Dependent Day Care Expenses: Eligible day care expenses for eligible children or other dependents, provided they can be claimed as a dependent on the employee's tax return.

The expenses must qualify as eligible expenses under Section 129 of the Internal Revenue Code. In addition, the Internal Revenue Service has certain requirements concerning where care may be provided and who may provide care. The aggregate amount of expenses claimed are limited to the current IRS published maximum.

[IRS regulations do not allow amounts set aside in the FSA program to be carried over from one plan year to the next and prohibit PLM from returning any unclaimed dollars to the employee. Amounts set aside in the health care account cannot be used to pay for expenses related to the day care account or vice versa.]

I.3 Retirement Savings

Employees may designate a portion of their compensation for direct deposit in qualified 401(k) or 403(b) accounts.

PROCEDURES

2.1 Enrollment and Changes

The plan year for the flexible spending arrangement program begins on January 1 of each calendar year and continues through December 31 of the calendar year. Enrollment for the next calendar year for all employees occurs between December 1 and December 15 of the preceding year. Employees must re-enroll yearly. A new employee may enroll within 60 days of his/her hire date.

Once enrolled in the FSA program, an employee may not change or stop his/her contribution rate during that enrollment year, unless the employee has a family status change that affects his/her need for benefits or the ability to pay for them. The IRS allows the following family status changes:

- the employee marries or divorces
- a child is born or adopted
- a spouse or dependent dies
- a spouse starts or terminates employment
- the employee or spouse changes from full-time to part-time employment (or vice versa)
- the employee or spouse takes an unpaid leave of absence

Employees wishing to make a family status change must notify PLM and complete the necessary paperwork within 31 days of the event.

2.2 Reimbursements

Employees may only be reimbursed for expenses that have been incurred between January 1 of the plan year in which the dollars have been withheld through March 15 of the following year. Any money not claimed by the end of this period will be forfeited by the employee.

Procedures and forms for filing a reimbursement claim against the FSA are available from the Presbytery office.

2.3 Termination of FSA Participation Before Plan Year End

An employee's right to participate in the flexible spending arrangement ends upon termination of employment for any reason (including retirement). The departing employee may be able to continue to submit claims for reimbursement from his/her account(s) for expenses the employee incurred while employed by PLM and participating in the account(s). Employees should contact PLM for additional information regarding these procedures.

If employment ends, the employee may be able to extend his/her participation in the Health Care account through COBRA on an after-tax basis. PLM will provide the terminating employee with information regarding this feature.

RESPONSIBILITY

3.1 Presbytery of Lake Michigan

Responsible for providing assistance in implementing this policy in accordance with PLM's flexible spending arrangement and in accordance with the Internal Revenue Service Code, Sections 125 and 129.

3.2 Employees

Responsible for obtaining information about PLM's flexible spending arrangement directly from PLM and keeping records of expenditures from the account(s). In the event of a family status change, employees must notify PLM within 31 days.