DEPENDENT CARE

Flexible Spending Account

Your time is worth money … Now you can save both.

Pay for dependent care expenses and save on taxes.

Aetna™

Turning promise into practice™

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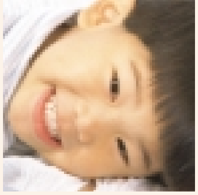

DEPENDENT CARE

Flexible Spending Account

If your family is like many of today's families, the need for dependent care has become a fact of life. You may have dependent children who need day care so that you can work. Or perhaps there is another person living with you, such as an elderly parent, whom you claim as a dependent and who is physically or mentally incapable of self-care. This person may also need care so that you can continue working. In cases like these, dependent care costs may add up to a significant part of your yearly expenses. A dependent care flexible spending account offers a way to better manage these expenses and gain real tax savings as well.

A dependent care flexible spending account allows you to direct part of your pay, on a pretax basis, into a special account that can be used throughout the year to reimburse yourself for certain dependent care expenses incurred so that you, or if you are married, you and your spouse, can work outside the home. Dependent care expenses that are not work-related, such as the cost of a Saturday night baby-sitter or overnight camps, cannot be reimbursed with a flexible spending account.

Because this money goes into your dependent care account before federal income or Social Security taxes are withheld, you pay less in taxes and, ultimately, have more disposable income. In most cases, your money is exempt from state and local taxes as well. (Check with your tax advisor to find out whether this tax exemption applies in your state.)

DEPENDING UPON YOUR TAX BRACKET AND RESIDENCY, USING A FLEXIBLE SPENDING ACCOUNT CAN BE WORTH THE EQUIVALENT OF RECEIVING A 20 PERCENT TO 50 PERCENT DISCOUNT ON ELIGIBLE SERVICES.

How the Account Works

Each year you decide whether or not you want to participate in a dependent care flexible spending account. Once you've made that decision, you then estimate the amount of eligible expenses you are likely to have during the year and decide how much of your salary you want to set aside to help pay for them. The amount you elect will be automatically deducted from your paychecks during the year and credited to your dependent care account. As you incur eligible expenses during the year and pay for them out of your own pocket, you reimburse yourself from your spending account with tax-free money.

Eligible Expenses

Money set aside in this account can be used to reimburse only those dependent care expenses necessary because you, or if you are married, you and your spouse, work. **The work-related expenses you can pay through this account include:**

- Wages paid to a baby-sitter or a companion in or outside your home, as long as the person providing care is not someone you also declare as a dependent.
- Services of a day-care center and/or nursery school if the center complies with all state and local laws.
- Cost for care at facilities away from home, such as family day-care or adult day-care centers, as long as your adult dependent spends at least eight hours a day at home.
- Wages paid to a housekeeper for providing care for an eligible dependent.
- Services provided for day care before and after school are eligible for reimbursement (when listed separately), though fees for Kindergarten education are not eligible.

Eligible dependents include:

- Your dependent children up to their 13th birthday.
- Any person living with you whom you claim as a dependent and who is physically or mentally incapable of self-care.

Contributions

The Internal Revenue Service (IRS) limits the annual maximum amount you can deposit in your dependent care flexible spending account to $5,000. If you are married and file a separate income tax return, the maximum annual reimbursement is $2,500. If either you or your spouse earns less than these amounts, then your maximum annual contribution would be limited to the amount of your earned income or that of your spouse, whichever is less.

If your spouse has no earned income for a plan year, you cannot use this account unless your spouse is disabled or a full-time student for at least five months during the year.

BY SELECTING THE DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT, YOUR INCOME IS NOT REDUCED FOR THE PURPOSES OF CALCULATING THE EARNED INCOME TAX CREDIT (EITC).

Tax Credit vs. Flexible Spending Account

The IRS allows you to claim work-related, dependent care expenses for credit when you file your income tax return. The tax credit amount is determined by applying a percentage to your total work-related dependent care expenses. These expenses may not exceed $2,400 for one eligible dependent or $4,800 for two or more.

You can use both a dependent care flexible spending account AND a tax credit, provided you do not claim the same expenses for both. If you do plan to use both, federal regulations require that whatever amount you have directed into a spending account be subtracted from your tax credit.

According to the current federal tax structure, in most cases (depending on your filing status) the tax credit is more beneficial than a dependent care flexible spending account if your family income is under $24,000. By selecting the dependent care flexible spending account, your income is not reduced for the purposes of calculating the Earned Income Tax Credit (EITC). But, keep in mind that contributions for spending accounts are taken out of your pay before taxes are applied, thus reducing your gross salary and your taxable income. You need to determine which is better for you.

If you elect to take advantage of a dependent care flexible spending account, you must complete IRS Form 2441 when filing your income taxes for the year. Your employer will assist you with this requirement by reporting all dependent care contributions in Section 10 of your W-2 Form(s).

Unused Funds

If you have not used all of the money deposited into your flexible spending account for expenses incurred during the plan year, IRS regulations dictate that these remaining funds must be forfeited. You will have access to a variety of tools throughout the year to help you keep track of balances and claim filing information. Keep in mind that any forfeiture of funds may be offset by your total tax savings. Remember, a portion of any money contributed to a flexible spending account would have been paid in taxes.

Effect on Other Benefits

Your dependent care flexible spending account contributions will not affect any company benefits that are based on pay. These benefits will continue to be based on your salary before any amount is deducted. However, because you don't pay Social Security taxes on your flexible spending account contributions, those benefits may be slightly less when you retire or become disabled. It will depend on the length of time between now and when you retire or become disabled and whether your taxable income exceeds the Social Security maximum wage level.

Reimbursement From Your Account

It is important to note that IRS regulations require that expenses must be incurred in order to claim reimbursement from your dependent care flexible spending account. Expenses are considered to be incurred when the service is rendered and not when they are billed, charged or paid.

Claim payments will be made a minimum of once per month — frequency is determined by your employer. An Explanation of Payment (EOP) will be sent with each payment. If you submit a claim and your account balance is less than the amount of the claim, you will be reimbursed only for the amount of money available in your account. The remainder will be reimbursed as additional payroll deductions are deposited into your dependent care flexible spending account. This enables you to submit a claim only once and receive funding on an ongoing basis, rather than be denied payment or be forced to resubmit the claim until it can be paid in full.

How to Enroll

If you decide to enroll in a dependent care flexible spending account, your employer will provide you with the necessary enrollment procedure. Only those expenses you incur on or after the effective date of your enrollment in this plan will be eligible for reimbursement.

- **Estimate expenses** — During the enrollment period each year, you should estimate what your eligible expenses are likely to be for the coming year. Review your dependent care costs from recent years and consider any changes that may occur during the coming year that may affect your expenses, such as marriage or the birth or adoption of a child.
- **Determine contributions** — Decide how much of your salary you want to set aside to fund these expenses. Remember, the amount you elect will be deducted automatically from your paychecks throughout the year and credited to your dependent care flexible spending account.
- **Plan carefully** — It is important to plan carefully. Federal regulations require that once you've designated the contribution amount, you cannot change your decision during the year unless your family status changes. Check with your company's benefits area for a full list of family status changes.

Following are examples of family status changes:

- Marriage
- Divorce
- Birth or adoption of a child
- Death of a child or a spouse
- Termination of spouse's employment
- Commencement of spouse's employment
- Transition from part-time to full-time work or from full-time to part-time work by employee or spouse
- Unpaid leave of absence taken by employee or spouse

Current Rules

This dependent care flexible spending account is offered on the basis of the current understanding of the provisions and regulations of the Internal Revenue Code. Because the current rules are subject to change, the plan may be amended or discontinued if changes in the law or regulation make it advisable to do so.

This brochure describes Aetna's Dependent Care Flexible Spending Account in general terms. If any conflict arises between this description and the plan document or if any point is not covered, the terms of the plan document will govern in all cases.

IF YOU DECIDE TO ENROLL IN A DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT, YOUR EMPLOYER WILL PROVIDE YOU WITH THE NECESSARY ENROLLMENT PROCEDURE.

Any determination as to qualification of an expense under a spending account is subject to review by the IRS. Should the IRS take a position contrary to that applied under the plan, the plan will be governed by IRS instructions. Employees who disagree with the IRS position and wish to appeal that decision must obtain their own legal counsel.

Expenses Worksheet

This worksheet (available on pages 8 – 10) will help you to estimate the amount you should put into your dependent care flexible spending account. As you think about what your expenses might be for the coming year, it could be helpful to review your dependent care costs for the past year. Also consider any anticipated changes that might affect your expenses, such as marriage or a new baby.

Types of Dependent Care Expenses

Wages or salary paid to a baby-sitter or a companion in or outside your home. These expenses are not covered if the care is provided by someone you claim as a dependent.	$______
Services of a day-care center and/or nursery school, if the center complies with all state and local laws.	$______
Costs for adult care at facilities away from home, such as family day-care or adult day-care centers, as long as your adult dependent spends at least eight hours a day at home.	$______
Wages paid to a housekeeper for providing care for an eligible dependent.	$______
Other dependent day-care services considered tax-deductible by the IRS.	$______
Total Estimated Dependent Care Expense	$______

Federal Income Tax Credit Savings

Eligible Dependent Care Expenses (maximum $2,400 for one dependent, $4,800 for more than one)	$______
Multiplied by tax credit percentage (from table on page 9)	x ______
Equals federal income tax credit	= ______

Compare your **estimated tax savings** (using the Dependent Care Savings Worksheet above) to your **estimated federal income tax credit** (above) to see which approach may be better for you. Because the tax credit reduces your federal income taxes on a dollar-for-dollar basis, it is a very attractive feature for many taxpayers.

NOTE: This is only a worksheet to help you think about a dependent care account — it provides tax information, NOT TAX ADVICE. Please consult a tax advisor to determine what is best in your individual situation.

Savings Worksheet Instructions

1. Enter your annual gross income.
2. Enter your estimated contribution into the dependent care account based on your estimated out-of-pocket expenses from the worksheet provided on page 8.
3. Subtract item #2 from item #1 for your total taxable income.
4. Using the Tax Credit Percentage chart provided below, estimate your federal income tax and enter in worksheet.
5. Subtract item #4 from item #3.
6. Using the Tax Credit Percentage chart provided below, estimate your Social Security tax and enter in worksheet.
7. Subtract item #6 from item #5.
8. Enter estimated dependent care expenses from the worksheet provided on page 8.
9. Subtract item #8 from item #7 to find your estimated total pay before the dependent care tax credit.
10. Enter your estimated dependent care tax credit from the worksheet provided on page 8.
11. Add item #10 to item #9 to find your estimated net pay.

Adjusted Gross Income	Tax Credit Percentage
$0 – $10,000	.30
$10,001 – $12,000	.29
$12,001 – $14,000	.28
$14,001 – $16,000	.27
$16,001 – $18,000	.26
$18,001 – $20,000	.25
$20,001 – $22,000	.24
$22,001 – $24,000	.23
$24,001 – $26,000	.22
$26,001 – $28,000	.21
Above $28,000	.20

Savings Worksheet

	With FSA	Without FSA
1. Annual Income	$ ______	$ ______
2. Spending Account Contribution	– ______	– ______
3. Taxable Income	=$ ______	$ ______
4. Estimated Federal Income Tax	– ______	– ______
5. Total	= $ ______	$ ______
6. Social Security Tax	– ______	– ______
7. Total	= $ ______	$ ______
8. Dependent Care Expenses	– ______	– ______
9. Total (before Dependent Care Tax Credit)	= $ ______	$ ______
10. Dependent Care Tax Credit	+ ______	+ ______
11. Net Pay	= $ ______	$ ______

BECAUSE THE TAX CREDIT REDUCES YOUR FEDERAL INCOME TAXES ON A DOLLAR-FOR-DOLLAR BASIS, IT IS A VERY ATTRACTIVE FEATURE FOR MANY TAXPAYERS.

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