LUZERNE COUNTY HEAD START, INC.

July 2016

FLEXIBLE BENEFITS PLAN

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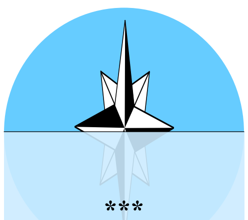

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FSA RULE CHANGE

"Participants will be able to "carryover" up to $500 of unused Medical FSA funds to the next Plan Year."

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Your Benefits strategy for the 2016-2017 Plan Year

Luzerne County Head Start (LCHS) takes pride in offering a variety of benefit programs for its eligible Full-Time employees. Part-Time employees can also contribute to many LCHS programs on a tax-preferred basis.

Flexible Spending Accounts (FSA) will continue to be offered, resulting in significant tax cost savings. The Medical Spending Account allows you to pay for uncovered medical expenses. The Dependent Care Spending Account allows you to pay for qualified day care expenses incurred while you're on the job.

To coincide with our Geisinger Health Plan, this election period will run from July 1, 2016 to June 30, 2017. Accordingly, we are now conducting an enrollment period for the election of Medical Spending and Dependent Care Accounts along with your Health Care election.

Full-Time employees can continue to receive a Cash Medical Plan Waiver for opting-out of the Health Care Plan if they maintain adequate medical coverage through another source. Also included is information concerning your health plan and the Pennsylvania CHIP program.

Cash as a Benefit Can I really take the Money?

In some cases, you can!

One of the surprising benefits of a Flexible Benefits Plan is that, in some circumstances, an employee may waive the LCHS Health Insurance Plan and receive additional Cash. Can that be right?

Indeed, it can! Based upon individual circumstances, it may be that you are able to maintain health coverage under a another plan and will not need the medical plan coverage offered by LCHS. If so, you may receive your unspent Benefit Fund Amount in Cash.

You should be aware that if you elect Cash, it will be subject to Federal Income Taxes (plus State & Local Taxes). However, if you elect to place that Cash surplus into the Medical or Dependent Care Spending Accounts, the use of that Cash is generally, non-taxable.

If your Cash Surplus is a result of not enrolling in a health plan, please pay special attention to the Flexible Benefit Plan Enrollment Form. You will need to supply evidence you're covered by another Health Insurance plan.

Employees who waive Medical Insurance may opt to maintain their Dental Plan.

****RULE CHANGE EASES FLEXIBLE SPENDING ACCOUNT (FSA) "USE-IT-OR-LOSE-IT" ****

The IRS has instituted a $500 Carryover Provision for Medical FSAs in lieu of the Grace Period. Participants will be able to "carryover" up to $500 of unused Medical FSA funds to the next Plan Year. The amount a participant carries-over into the next Plan Year *will not* effect the maximum allowable contribution of $2,550 to a Medical FSA. So, a participant can carryover $500 and also contribute $2,550 to a Plan Year. *The Grace Period is no longer available to participants.*

Important Reminders

You are encouraged to share this "newspaper" Summary Plan Description and all the attendant information with your spouse, your family or anyone else you may look to for advice.

To participate in the Cafeteria Benefits Plan, you must complete the Head Start Flexible Benefits Enrollment Form after reading this "newspaper". If you wish to participate in one of the optional health care plans, you should read the health plan materials carefully. If you are enrolling in a new health care plan, or enrolling for the first time, you must also complete Plan Applications for any new plan. These are available from the Head Start office in Wilkes-Barre.

Remember that your choices are unchangeable for one year, except in certain circumstances (see Page 4). You must complete a Flexible Benefits Enrollment Form or your prior choices for Flexible Spending Account options will not carried into the new Plan Year. If you have any questions, or require a Health Plan Booklet, call Pat Hunter at 829-6231 or call DeHEY McANDREW, the Plan Administrator at (570) 346-9960 or 800-353-9436.

Dependent Care Account

The roles that we employees fill are certainly different than those our grandparents filled when they worked. Dependent Care, whether for children or adults, typically was not as great a need as it is today. Dual wage earners, single parents and employees who must provide care to elderly, incapacitated parents or relatives make up a significant percentage of the American workforce.

That's why the Dependent Care Spending Account is a part of the LCHS's Flexible Benefit Plan. Head Start employees can elect to make payroll contributions into a savings account *before* Federal Income Taxes (10-39.6%) and FICA (7.65%) are taken out of your paycheck. Therefore, for every $100 you use through the Dependent Care Spending Account, the net effect of the tax-preferred treatment is a savings of between $17.65 and $47.25! Using the most common federal tax rate of 25%, a Dependent Care FSA saves an employee $32.65 for every $100 contributed.

An employee is allowed to set aside up to $5,000 per year for expenses to be paid to a Dependent Care Provider. If you are married and filing your federal taxes separately, you are limited to a $2,500 deduction per year. A Provider may be a professional organization, a relative (over age 18), a neighbor or any other individual not claimed by you as a dependent. Providers will be sent all necessary income tax forms.

Who can you claim as needing dependent care? Children under age 13 or any dependents who are incapable of caring for themselves due to a physical or mental problem are eligible beneficiaries of your Dependent Care Savings. To qualify, you and your spouse must need to pay dependent/child care expenses in order for you to remain gainfully employed.

How does the Dependent Care Spending Account work? Easy! Look at your expenses in this area last year, or make a reasonable prediction of what they'll be this year. Then, complete the "Flexible Spending Accounts" section in your Flexible Benefits Plan Enrollment Form.

When you receive a bill or pay for a dependent care expense, you merely submit a copy of the bill and an easy-to-complete Dependent Care Spending form to DeHEY McANDREW. You will be reimbursed with your tax-sheltered savings, usually within 2 weeks.

Use-It-Or-Lose-It Rule and New Carryover Provision

But beware! Uncle Sam says that your savings for dependent care must be "used up" within the Plan Year you sign up. If not, the savings must be surrendered to the Plan. In the past, participants have been able to utilize a 2.5 month Grace Period to submit claims after the Plan Year has ended. **FSA participants no longer are able to submit claims during the Grace Period against the previous Plan Year.** Dependent Care claims must be submitted within the Plan Year they are reimbursed.

Can I Make Changes To My Elections? Some May Be Allowed!

Flexible Benefit Plan elections are made during Open Enrollment and are not allowed to be changed during the Plan Year, **unless** you experience one of the following Qualifying Changes in Life Status: marriage/divorce, birth/adoption of a child, death of a dependent, unpaid leave of absence, significant change in benefits, entitled to Medicare, change of employment or a change in your Dependent Care provider.

If you experience one of these qualifying changes in life status and wish to change your elections, you must contact the Human Resource Department within 30 days of your qualifying event.

HOW "PRE-TAX" WORKS

As a participant in the Plan, you can authorize LCHS to deduct your share of the benefits cost from your pay before federal income taxes are taken out using Pre-Tax Savings. This results in your taxes being calculated on a lower amount, which means you pay less taxes.

Suppose your salary is $40,000 and you enroll yourself, your spouse and children in the Health Insurance Plan and other benefit options. The following tabulation, based on 2013 tax rates, illustrates how you can take home more each year by using the tax-savings advantages of the Plan.

	With Pre-Tax Savings	With After-Tax Deductions
Annual Wages	$40,000.00	$40,000.00
Pre-tax Benefit Cost	(1,500.00)	0.00
Taxable Income	38,500.00	40,000.00
Federal Income Taxes (25%)	(9,625.00)	(10,000.00)
FICA Taxes (7.65%)	(2,945.25)	(3,060.00)
PA Income Taxes (3.07%)	(1,181.95)	(1,228.00)
After-Tax Benefit Cost	0.00	(1,500.00)
Take Home Pay	$24,747.80	$24,212.00

Savings by Using "Pre-Tax" …$535.80!

By deducting $1,500.00 pre-tax to a FSA, you have purchased your qualified benefits that would have otherwise cost $2,035.80.

Medical Spending Account

Perhaps you or your family routinely spend money on medical expenses which are uncovered by the typical health insurance plan. It may be that the family dentist has prescribed braces for you or your children. Those orthodontic expenses may not be fully covered; as a result, the dentist requires a monthly payment from you. Or it may be that the cost of prescription drugs or over-the-counter medications means that you pay several hundreds of dollars during the course of the year that are uncovered through Major Medical Coverage. Well baby-care visits, eye glasses, hearing aids and health plan deductibles & co-payments are additional examples of expenses you must pay for out of your pocket.

Through the Flexible Benefit Plan, the IRS has OK'd a significant tax break for an employee who saves through payroll to pay for medical expenses. It's called the **Medical Spending Account** (MSA) and here's how it works:

Medical FSAs have a maximum limit of $2,550 per participant. A husband and wife can each contribute $2,550 to a Medical FSA.

The IRS says that employee MSA contributions are deducted "before" it taxes your paycheck. So, the money you set aside for the payment of medical expenses is virtually tax-free. The net effect is that for every $100, you save between 20.72%-50.32%; which is comprised of 10-39.6% in federal income tax (dependent on your federal tax rate, most common is 25%), 7.65% in FICA, 3.07% in PA state income tax, and your applicable local income tax rate. When you receive a bill or pay for an uncovered expense, you merely submit a copy of the bill and an easy-to-complete Medical Spending Form to DeHEY McANDREW. You will be reimbursed, usually within 2 weeks. It's that simple.

If you incur your annual savings amount as an expense before having set aside the annual amount, have no fear. The annual amount you target will always be available to you, even though you may not have saved the full amount at the time you receive your medical bill.

For all the tax breaks the Plan provides, it imposes on us two strict rules:

#1 - Reimbursements cannot be made for expenses related to cosmetic surgery, custodial care, certain over-the-counter medications, or care not provided by a medical professional;
#2 - Savings not utilized during the Plan Year cannot be reimbursed in the next year and must be surrendered to the Plan.

Use-It-Or-Lose-It Rule and New Carryover Provision

In the past, participants have been able to utilize a 2.5 month Grace Period to submit claims after the Plan Year has ended. FSA participants can no longer submit claims during the Grace Period against the previous Plan Year.

In place of the Grace Period, the IRS has allowed a $500 Carryover Provision to Medical FSA Plans. This allows a Medical FSA participant to rollover up to $500 of unused Medical FSA funds to the next Plan Year. This $500 will not affect the $2,550 annual maximum.

Examples of Health Care Reimbursements

Generally, any health care expense that qualifies as a deduction under the Internal Revenue Code for income tax purposes, also qualifies for reimbursement through Medical Spending Account. If you use this account for these expenses, you cannot also take a deduction on your Income Tax Return. Eligible Expenses typically include: (but are not limited to)

- Deductibles for Health plans;
- Coinsurance expenses for Health plans;
- Routine Physicals;
- Well-Baby Care;
- Pediatric visits.
- Dental improvement;
- Most Orthodontic procedure;
- Eye exams/Hearing exams;
- Eyeglasses/Contacts;
- Gynecological exams;
- Prescription medicines;
- Birth Control Pills;
- Acupuncture;
- Doctor's fees including chiropractors, podiatrists, dermatologists, psychiatrists, etc.;
- Long Term Medical Care;
- Convalescent Care;
- Physical Therapy;
- Special equipment;
- Care for Alcoholism/Substance Abuse Treatment;
- Weight loss-programs for Obesity;
- Over-the-counter medical supplies; and
- Smoking cessation programs.

Excluded items include:
- Health Club dues;
- Cosmetic Surgery; and
- General Vitamins & Supplements;
- Any Service Not Medically Necessary.
- Over-the-counter medications or drugs (will be reimbursable with a doctor's prescription).

* DMFLEX *

What is DMFLEX? DMFLEX is the new system for your Flexible Spending Accounts (FSAs).

What's New? On-line and Mobile Participant Portal. Medical FSA Debit Card.

mywealthcareonline.com/dmflex
- Submit claims
- Check balances
- Submit documentation
- Receive notifications

- For more information, please refer to the "DMFLEX" Insert in this booklet.
- To schedule a meeting with a DeHEY McANDREW representative for an explanation on the new DMFLEX procedures, contact DeHEY McANDREW at 800-353-9436 or 570-346-9960.

LUZERNE COUNTY HEAD START, INC.

23 Beekman Street
Wilkes-Barre, PA. 18702

Phone (570) 829-6231

NEW FSA PARTICIPANT PORTAL:

Mywealthcareadmin.com/dmflex

Your Plan Rights Under Your Plan

The "Flexible Benefit Plan" is classified by the Department of Labor as a "welfare plan". The Plan is often referred to as a "cafeteria" or "flexible benefits" plan and is governed by Internal Revenue Code Sec. 125. The Employer Identification Number(s) (EIN) assigned to Luzerne County Head Start Inc. is 23-2038753. The Plan Number (PN) assigned to the Flexible Benefit Account by Luzerne County Head Start is 510. You should refer to these numbers in any correspondence about the Plan. Luzerne County Head Start is designated as the Administrator for service of legal process in connection with claims under the Plan. Such process may be served by directing the process to the Plan Administrator at Luzerne County Head Start, 23 Beekman Street, PO Box 450, Wilkes-Barre, Pa., 18703-0540, (570) 829-6231.

ERISA Rights Statement

The Employee Retirement Income Security Act of 1974 (ERISA) was enacted to help assure that all employer-sponsored group benefits programs conform to standards set by Congress. An employee who is a participant in the Flexible Benefits Plan is entitled to certain rights and protections under ERISA, which provides that all participants will be entitled to (1) examine, without charge, at the Personnel Office, all Plan documents and copies of documents filed with the U.S. Dept. of Labor, such as detailed annual reports and Plan descriptions; (2) obtain copies of all Plan documents and other Plan information upon written request to the Personnel Office, subject to a reasonable charge for the copies; and (3) receive a summary of the Plan's annual financial report. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report. Plan records are kept on a plan year basis.

In addition to creating rights for Plan participants, ERISA imposes duties upon those responsible for the operation of a Plan who are called "fiduciaries" and who have a duty to operate the Plan prudently and in the interest of participants and beneficiaries. If a claim for a benefit under a Plan is denied in whole or part, the claimant must receive a written explanation of the reason for the denial. The claimant has the right to have the claim reviewed and reconsidered.

Under ERISA, there are steps an employee covered under a Plan can take to enforce the above rights. For instance, if the person requests materials and does not receive them within 30 days, the person may file suit in a Federal court. In such a case, the court may require Luzerne County Head Start to provide the materials and pay that person up to $100 a day until the person receives the materials, unless the materials were not sent because of reasons beyond Luzerne County Head Start control.

If a person has a claim for benefits which is denied or ignored, the person may file suit in a state or federal court. If it should happen that Plan fiduciaries misuse the Plan's money, or if an employee covered under a Plan is discriminated against for asserting his or her rights, the person may seek assistance from the U.S. Dept. of Labor, or may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If the claimant is successful, the court may order the person to pay these costs and fees. If the claimant loses, the court may order the claimant to pay these costs and fees, for example, if it finds the claim to be frivolous.

If an employee covered under a Plan has any questions about the Plan, the employee should contact the Personnel Department. If an employee has any questions about this statement of the employee's rights under ERISA, the employee should contact the nearest Area Office of the U.S. Labor-Management Services Administration, Dept. of Labor.

CHIP Act Creates Special Enrollment Rights for Group Health Plans

The Children's Health Insurance Program Reauthorization Act of 2009, imposes new obligations on employers who sponsor group health plans. CHIP is a program administered jointly through federal and state governments that provide health insurance coverage to children and expectant mothers who do not qualify for Medicaid, but fall within a specified income level. Beginning April 1, 2009, the Act creates two new special enrollment rights for group health plans. Special enrollment rights will be triggered when a participant or his or her eligible dependent loses Medicaid/CHIP coverage or becomes eligible for Medicaid/CHIP premium assistance. When one of the new special enrollment rights is triggered, an eligible employee must be permitted to enroll herself and her dependents in the group health plan within 60 days of the triggering event.

CHIP is short for the Children's Health Insurance Program - Pennsylvania's program to provide health insurance to all uninsured children and teens. There are a lot of reasons kids might not have health insurance - maybe their parents lost a job, don't have health insurance at work or maybe it just costs too much. Don't assume you earn to much to qualify. Qualification levels have changed. The local CHIP program is administered by Blue Cross of Northeastern Pennsylvania. To learn more about CHIP, its qualifications and enrollment procedures call (800) 986-KIDS or go to **www.chipcoverspakids.com**.