Flexible Spending Accounts

Leidos offers eligible participants the opportunity to save money by paying for eligible health care and/or dependent day care expenses on a pre-tax basis through the **Health Care Flexible Spending Account** and the **Dependent (Day) Care Flexible Spending Account**. A participant may make contributions to one or both Flexible Spending Accounts, which can reduce his or her tax liability. Participation in a Flexible Spending Account program is voluntary.

The Leidos Flexible Spending Accounts are administered by **HealthEquity.** Participants may log on to **HealthEquity** to submit verification, order additional health care debit cards, file a claim, check claim status or account balance information.

To learn more about the Flexible Spending Accounts, visit:

- **Health Care Flexible Spending Account**
- **Dependent(Day) Care Flexible Spending Account**
- **Important Rules About Flexible Spending Accounts**

Health Care Flexible Spending Account

Leidos offers two types of Health Care FSAs:

- Limited Purpose Health Care FSA (HSA Compatible)
- Health Care FSA

Limited Purpose Health Care FSA (HSA-Compatible)	Health Care FSA
• Use it when you have an HSA	• Use it when you are not enrolled in a Healthy Focus plan and are not enrolled in any other High Deductible Medical Plan with an HSA
• For eligible dental and vision expenses	• For eligible medical, prescription drug, dental and vision expenses
• For medical and prescription drug expenses after you meet the deductible (Contact HealthEquity if you meet the deductible to find out what you will need to provide to begin using your account for eligible medical and prescription drug expenses)	

A participant can set aside between $100 and $2,650 each year — on a pre-tax basis — to pay for eligible medical, dental, and vision care expenses, including:

- Eligible services not covered by a medical, dental or vision plan (except for cosmetic procedures);
- Annual deductibles;
- Copayments; and
- Out-of-pocket expenses.

See list of **eligible** and **ineligible** health care expenses later in this section.

Once enrolled in the Health Care Flexible Spending Account, a participant may not change the amount he or she contributes to the account, unless the participant experiences a qualified status change. See "**Changing Coverage (Qualified Status Changes)**" in the Participating in the Plans section for more information about qualified status changes.

Important: Participants must make an annual election each year. Health Care Flexible Spending Account elections cannot automatically roll over into the next plan year.

Carry-over Feature

Employees are able to carry-over up to $500 of unused Limited Purpose Health Care FSA or Health Care FSA balance remaining at the end of the year into the next plan year. These funds will be added to the Participant's Health Care FSA or Limited Purpose Health Care FSA balance in the subsequent Plan Year. Participants who elect to contribute to a Health Savings Account (HSA) for the next Plan Year, may carry over up to $500 of unused FSA funds to a Limited Purpose Health Care FSA balance in the subsequent Plan Year. Any remaining balances in excess of the $500 carry-over feature at the end of the Plan year will be forfeited.

Eligible Health Care Expenses

Generally, any health care expense that the IRS allows as a deduction on income tax returns is eligible for reimbursement, provided it is not reimbursed from any other source. This includes expenses incurred for anyone a participant is entitled to claim as a dependent on his or her tax return, regardless of whether that dependent is covered under Leidos' medical, dental or vision plans. **Please note that neither participant insurance premiums nor expenses for registered domestic partners are eligible for reimbursement under the Health Care Flexible Spending Account.**

You may be reimbursed for your own expenses as well as those for your qualified dependents. A dependent means an individual who qualifies as a dependent under a Company-sponsored health plan. This generally includes your spouse and your children up to age 26. For this purpose, "children" means your natural children, your stepchildren, your legally adopted children, and children placed with you for adoption. (Expenses for a domestic partner or children of a domestic partner are generally not eligible for reimbursement unless the person qualifies as your dependent for federal tax purposes). Your dependents do not need to be enrolled in a Company-sponsored health plan for you to receive reimbursement of their eligible health-related expenses. Only expenses incurred while you are participating in the Health Care FSA are eligible for reimbursement.

Health-related expenses that qualify for reimbursement are defined by the IRS (details can be found in IRS Publication 502, which provides general guidance as to whether expenses qualify as medical care under Section 213). Keep in mind that eligible expenses may change if the tax laws are revised. The health care expenses below are examples of covered expenses when not reimbursed by another plan, insurance policy or Medicare. This list is meant to provide only a summary of eligible expenses. For a more comprehensive list, visit the HealthEquity website:

- Acupuncture;
- Alcohol/substance abuse treatments;
- Ambulance services;
- Artificial limbs;
- Artificial teeth;
- Birth control pills and devices prescribed by a physician;
- Braille books and magazines;
- Capital expense — amount paid for home-installed special equipment, or for improvements, if their main purpose is medical care for the participant, the participant's spouse, or the participant's dependent;
- Car — the cost of special hand controls and other special equipment installed in a car for the use of a person with a disability;
- Contact lenses/eyeglasses;
- Copayments (under insurance plan);
- Crutches and canes (prescribed);
- Deductibles (under insurance plan);
- Fees for physical and mental health services provided by:
    - Chiropodists;
    - Chiropractors;
    - Christian Science practitioners;
    - Dentists;

  - Ophthalmologists;
  - Optometrists;
  - Osteopaths;
  - Podiatrists;
  - Psychiatrists;
  - Psychologists;
  - Surgeons
- Fertility enhancement;
- Guide dogs for the blind;
- Health institute — treatment that is prescribed by a physician and the physician issues a statement that the treatment is necessary to alleviate a physical or mental defect or illness;
- Hearing aids and diagnostic services;
- Hospital services;
- Laboratory fees;
- Laser eye surgery;
- Lead-based paint removal;
- Learning disability treatment and special schools;
- Legal fees to authorize treatment for mental illness;
- Lodging/meals at hospitals or while away from home for treatment;
- Medical conference — amounts paid for admission and transportation to a medical conference if the conference concerns the chronic illness of a participant or the participant's spouse or dependent;
- Medical equipment (prescribed);
- Medical information plan — amounts paid to a plan that keeps a participant's medical information so that it can be retrieved from a computer data bank for needed medical care;
- Nursing services;
- Operations/surgery, including abortions;
- Orthopedic shoes (excess cost of regular shoes);
- Over-the-counter medications (with Rx);
- Some over-the-counter items available without RX;
- Oxygen;
- Prescription drugs;

- Psychoanalysis;
- Routine physical exams and immunizations;
- Smoking cessation programs;
- Special schools for the mentally and/or physically handicapped;
- Sterilization/vasectomy;
- Telephone and television equipment for the deaf;
- Therapy (physical, psychiatric, occupational);
- Transplants;
- Transportation to or from medical treatment;
- Weight-loss programs (only for treatment of a medical condition, not for general well-being);
- Wheelchair; and
- X-rays.

Ineligible Health Care Expenses

Some expenses are not eligible for reimbursement from the Health Care Flexible Spending Account. Below are examples of ineligible health care expenses. This list is meant to provide only a summary of ineligible expenses:

- Bottled water;
- Care of a normal and healthy baby by a nurse;
- Cosmetic dentistry, including teeth bleaching;
- Cosmetic medical procedures, such as face lifts;
- Dance lessons;
- Diaper services;
- Electric toothbrushes, even if recommended by a dentist;
- Funeral and burial expenses;
- Household help;
- Insurance premiums;
- Medical coverage premiums;
- Marriage counseling fees;
- Maternity clothes;
- Special foods, even if required for allergies;
- Swimming lessons;

- Toothpaste and other sundries;
- Trips or vacations for general health improvement;
- Vitamins, supplements or tonics (unless specifically directed to use by a medical provider to treat a specific medical condition); and
- Weight-loss programs for general well-being.

Flexible Spending Account Reimbursement

Participants have three options in which to receive reimbursement from their **flexible spending account:**

- **Health Care Debit Card (not available for dependent day care)** — Participants can use their HealthEquity health care debit card at select pharmacies, healthcare providers and general merchandise stores that have an IRS-approved inventory and checkout system. In most instances, the card transaction will be automatically verified at checkout. With this verification, participants may have to submit a receipt to HealthEquity after the transaction. Participant is required to keep each receipt for tax purposes and in the event it is needed for verification.
- **Request Reimbursement** — Participants will be able to claim funds from their flexible spending account by requesting reimbursement on the HealthEquity website. As part of the online process, they can upload the backup documentation and associate them directly to the claim. Most claims are processed within a few days after they are received and payments are sent shortly thereafter. Participants will receive a check in the mail if they do not set up their direct deposit information with HealthEquity.

  The participant can fax or mail their claim form, by downloading the Health Care Flexible Spending Account **claim form** to 1-801-999-7829 or mailing it to:

  HealthEquity
  Attn: HealthEquity Claims
  15 W. Scenic Pointe Dr. Suite 100 Draper, UT 84020

- **Pay Provider Online** — Participants can pay many of their eligible healthcare expenses directly from their flexible spending account without filling out paper claims forms. Just enter the provider's name and other requested information with the backup documentation and payment will be sent directly to the provider.

Participants in the **Health Care Flexible Spending Account** can be reimbursed for the full amount they contribute during the year at any time during the year, even if they do not currently have that much money in their account.

If participants have concerns about how a claim has been administered, or wish to appeal a claims decision, information on relevant procedures is available in the Plan Information section.

If You Leave the Company

If you leave the Company during the year, any contributions you are making will stop and you have until April 30 of the following plan year to submit claims for reimbursement for any remaining balance. You will not be reimbursed for any eligible expenses incurred after your date of termination (or end of plan participation, if later). However, you may be able to continue your Health Care Flexible Spending Account coverage under COBRA on an after-tax basis.

Electing COBRA Coverage

When your participation in your Health Care Flexible Spending Account ends due to one of the qualifying events listed below, you may have limited rights under the Consolidated Omnibus Budget Reconciliation Act (COBRA) to continue your account until the end of the calendar year in which your participation ends.

- You leave the Company (for reasons other than gross misconduct);
- Your coverage stops because you no longer meet the eligibility requirements;
- You die;
- You fail to return to work at the end of your leave under FMLA.

If you have funds remaining in your Health Care Flexible Spending Account, the COBRA administrator will provide you with a COBRA election form for continued coverage. To elect COBRA continuation coverage, you must complete and return the form to the COBRA administrator within 60 days after your coverage ends or within 60 days after you receive the form (whichever is later). If you elect COBRA coverage, the effective date of the coverage is the date of the qualifying event. You will have an additional 45 days following your election of COBRA coverage to pay any outstanding premiums.

You can continue the coverage until the end of the calendar year, as long as:

- You continue to make contributions for coverage within 30 days of the due date, and
- The Company is still offering the Plan to its employees.

You will have to pay 100% of the monthly contribution plus a 2% administrative charge for coverage under COBRA. Your contributions will be made on an after-tax basis.

Dependent (Day) Care Flexible Spending Account

A participant can set aside money on a pre-tax basis to pay for eligible dependent day care expenses for qualified dependents. These expenses must be necessary in order for a participant (and spouse, if married) to work. The amount that can be set aside each year is a minimum of $100 up to:

- $5,000* if the participant is single, or married and filing tax returns jointly;
- A total amount of $5,000* together if the participant's spouse has a dependent care Flexible Spending Account through his or her company; or
- $2,500* if the participant is married but files separate tax returns

* These are the maximum contributions allowed for dependent care expenses under current IRS rules.

Important: Participants must make an annual election each year. Dependent (Day) Care Flexible Spending Account elections cannot automatically roll over into the next plan year.

If a participant or spouse earns less than $5,000, the combined amount that the participant and spouse can contribute may not exceed the amount of the lower salary.

If a participant is married but has a spouse who is a full-time student or is disabled, the IRS considers the spouse's earned income to be:

- $250 a month if the participant has one qualified dependent; and
- $500 a month if the participant has two or more qualified dependents.

Under the Dependent (Day) Care Flexible Spending Account, a qualified dependent is:

- A child under age 13 whom the participant claims as a dependent on his or her federal income tax return;
- A participant's spouse who is physically or mentally incapable of self-care; or
- Any other dependent that is physically or mentally incapable of self-care, whom the participant claims as a dependent on his or her federal income tax return, and who normally spends at least eight hours in the participant's home each day.

Once enrolled in the Dependent (Day) Care Flexible Spending Account, a participant generally may not change the amount he or she contributes to the account, unless the participant experiences a qualified status change. See "**Changing Coverage (Qualified Status Changes)**" in the Participating in the Plan section for more information about qualified status changes.

In addition, a participant may change the amount he or she contributes when there is a change in providers, a change in child care or adult care costs or a general change in his or her care situation.

Eligible Dependent (Day) Care Expenses

Generally, any dependent care expense that the IRS allows as a deduction on income tax returns is eligible for reimbursement, provided it is not reimbursed from any other source. This includes expenses incurred for anyone a participant is entitled to claim as a dependent on his or her tax return, regardless of whether that dependent is covered under Leidos' medical, dental or vision plans. **Please note that expenses for registered domestic partners and dependent children of registered domestic partners are not eligible for reimbursement under the Dependent (Day) Care Flexible Spending Account.**

Below are examples of eligible dependent care expenses. This list is meant to **provide only a summary of eligible expenses**:

- Care at a licensed nursery school, day camp, or day care center;
- Services from individuals who provide dependent care in or outside a participant's home, unless the provider is the participant's spouse, own child under age 19, or any other dependent;
- After-school care for children under age 13;
- Household services related to the care of an elderly or disabled adult who lives with a participant; and
- Any other services that qualify as dependent care expenses under IRS regulations.

Important: For a detailed list of eligible dependent care expenses, please refer to IRS publication 503, (called "Child and Dependent Care Expenses") available from your local IRS office, or go to the **IRS web site** (www.irs.gov).

Ineligible Dependent (Day) Care Expenses

Below are examples of ineligible dependent care expenses. This list is meant to **provide only a summary of eligible expenses**:

- Expenses for food, clothing or education (unless incidental to the care);
- Registrations fees;
- Expenses for overnight camp;
- Expenses for transportation between a participant's house and the place that provides day care services, or the cost of transportation for a care provider;
- Expenses for dependent care when either the participant or his or her spouse is not working or is not looking for work;
- Charges for convalescent or nursing home care for a parent or a disabled spouse;
- Expenses paid to the spouse, a participant's own children under age 19, or any other dependents; and
- Expenses for which a federal child-care tax credit would be taken.

Important: For a detailed list of eligible dependent care expenses, please refer to IRS publication 503, (called "Child and Dependent Care Expenses") available from your local IRS office, or go to the **IRS web site** (www.irs.gov).

Child Care Credit

Another way to reduce dependent care expenses is to take a tax credit when filing an income tax return. However, a participant may not contribute to a Dependent (Day) Care Flexible Spending Account and take the tax credit for any expenses reimbursed through the Dependent (Day) Care Flexible Spending Account.

With the tax credit, a participant can claim a deduction for a percentage of eligible dependent care expenses (the same expenses as defined for the Dependent (Day) Care Flexible Spending Account). The tax credit may be taken only on expenses up to $3,000 for one dependent and up to $6,000 for two or more dependents.

The tax credit percentage applied to eligible expenses decreases as a participant's adjusted gross income rises. Generally, if a participant's family income is greater than $24,000 per year, the Dependent (Day) Care Flexible Spending Account will save more in taxes than the child care income tax credit. However, the advantages of the Flexible Spending Account or the tax credit depend on a participant's overall tax situation and should be discussed with a tax adviser.

Dependent (Day) Care Flexible Spending Account Reimbursement

Participants must pay for **eligible dependent day care expenses**, save the receipts, and then file a claim for reimbursement from their accounts.

- **Request Reimbursement** — Participants will be able to claim funds from their flexible spending account by requesting reimbursement on the HealthEquity website. As part of the online process, they can upload the backup documentation and associate them directly to the claim. Most claims are processed within a few days after they are received and payments are sent shortly thereafter. Participant will receive a check in the mail if they do not set up their direct deposit information with HealthEquity.

  The participant can fax or mail their claim form, by downloading the **Dependent Care Flexible Spending claim form** and faxing the completed form to 1-801-999-7829 or mailing it to:

  HealthEquity
  Attn: HealthEquity Claims
  15 W. Scenic Pointe Dr. Suite 100 Draper, UT 84020

- **Pay Provider Online** — Participants can pay many of their eligible dependent day care expenses directly from their flexible spending account without filling out paper claims forms. Just enter the provider's name and other requested information with the backup documentation and payment will be sent directly to the provider.

Unlike with the Health Care Flexible Spending Account, a participant may receive reimbursement only up to the balance available in his or her account at the time the claim is filed.

If participants have concerns about how a claim has been administered, or wish to appeal a claims decision, information on relevant procedures is available in the Plan Information section of the complete SPD.

If You Leave the Company

If you leave the Company during the year, any contributions you are making will stop and you have until April 30 of the following plan year to submit claims for reimbursement for any remaining balance. You will not be reimbursed for any eligible expenses incurred after your date of termination.

Important Rules About Flexible Spending Accounts

- **Must enroll annually** — Participants must enroll during each Open Enrollment period in order to participate each calendar year.
- **Use it or lose it** — Estimate annual dependent (day) care expenses carefully! Any money put aside in a Dependent (Day) Care Flexible Spending Account must be used for eligible **dependent care expenses** incurred between January 1 and December 31 (or during the period of plan participation). The deadline to submit claims for the previous year's expenses is April 30th of the following. Any money left in the account after April 30th will be forfeited.
- **Carry-Over Provision –** IRS regulations specify that an employer may choose to provide a carry-over of unused funds to the next plan year. Starting in 2018, Leidos will allow active participants to carry over up to $500 of unused funds to be reimbursed for qualified medical expenses incurred in the following Plan Year. Any unused funds in excess of the carryover will be forfeited after the April 30th deadline to submit claims for the previous Plan Year.
- **No double dipping** — Health care expenses reimbursed through the **Health Care Flexible Spending Account** and dependent care expenses reimbursed through the **Dependent (Day) Care Flexible Spending Account** cannot also be deducted on federal income tax returns.
- **No transferring of funds** — Transfers of funds from the Health Care Flexible Spending Account to the Dependent (Day) Care Flexible Spending Account and vice versa are not permitted.
- **Credit Balance at End of Coverage Period –** Claims received by the Plan Administrator on or after the earlier of (a) 90 days after termination of employment, or (b) April 30 following the end of the Plan Year for expenses incurred during the prior Plan Year, will be considered untimely and not eligible for reimbursement under the Plan. If any balance remains credited to the Participant's Health Care FSA after all reimbursements are made for that Plan Year, such balance in excess of $500 is not carried over to reimburse the Participant for Qualifying Medical Care Expenses incurred during the subsequent Plan Year, and is not available to the Participant in any other form or manner. Instead such balance remains the property of Leidos and the Participant forfeits all rights with respect to such balance.

- **Continuation of Coverage**—Participants who would lose coverage under the Health Care F S A as a result of a qualifying life event can elect, within a stated election period, continuation of coverage of benefits previously received under the Health Care FSA. If a participant timely elects continuation of coverage under COBRA, the benefits elected will be available for the time period prescribed by law (i.e., the end of the Plan Year). In addition, the Plan allows participants to carry-over up to $500 of any amount remaining in their Health Care FSA as of the end of the calendar year in which the individual became eligible for continuation of coverage. Such carry-over amount may be used to pay or reimburse medical expenses incurred during the maximum duration of the COBRA continuation period (i.e., 18, 29, or 36 months, as applicable). Any unused amount of more than $500 remaining in the Health Care FSA at the end of the calendar year in which the participant became eligible for continuation of coverage will be forfeited.