



Benefits 101

Using pretax dollars to reduce
your benefits costs



What's the big deal about pretax dollars?

While pretax benefits can be a bit complex, taking advantage of these cost-effective benefits can stretch your benefit dollars.



What are pretax accounts?

These are benefits you sign up for with BAE Systems and fund through payroll deductions **before** taxes (hence, "pretax").

Key aspects of pretax accounts include: The funds can only be used for specific items, or "**eligible expenses**" as determined by the IRS; and the IRS sets a maximum on the annual amounts that companies allow employees to contribute.



How do pretax accounts work?

With a pretax account, for every dollar you put aside, you'll likely save about 30 cents (or maybe more) in federal, state, and other taxes. These savings can add up quickly.



What are qualified, eligible care expenses?

Visit [irs.gov](https://www.irs.gov), and search for publication 502 for the full list of items that you can pay for using a Health Savings Account (HSA) or Health Care Flexible Spending Account (FSA). Search for publication 503 for eligible Dependent Care FSA expenses.

How much could you save with a pretax account? **See inside!**



Four pretax accounts offered by BAE Systems

Health Savings Account



What it is

A savings account *you* own, where you defer money to pay for qualified health expenses. You may contribute to an HSA only if you're covered by a BAE Systems high-deductible health plan (HDHP) and meet other IRS requirements. HSA contribution elections carry over each year, but you can also start, stop, or change them anytime.



Applies to

HSA Primary and HSA Plus medical plans

Limited Purpose Flexible Spending Account



What it is

A special flexible spending account (FSA) that you can only use for dental and vision expenses that are incurred the same year you contribute. You can only enroll in a Limited Purpose FSA if you are enrolled in a BAE Systems HDHP and you are eligible to contribute to an HSA. You must elect this FSA annually.



Applies to

HSA Primary and HSA Plus medical plans

Health Care Flexible Spending Account



What it is

A spending account that lets you contribute money from your paycheck to use for qualified medical, dental, vision, and other health expenses that are incurred the same year you contribute. FSA elections don't carry over – you must enroll each year.



Applies to

I&S Copay plan

Dependent Care Flexible Spending Account



What it is

A spending account that lets you contribute money from your paycheck to use for qualified adult and/or child care expenses that are incurred the same year you contribute. FSA elections don't carry over – you must enroll each year.



Applies to

All active employees who are eligible for benefits, whether or not they enroll

Not enrolled in BAE Systems benefit plans? You can generally still enroll in the Health Care and/or Dependent Care FSA plans that we offer. If your spouse also has an FSA with their employer, be sure your combined contributions don't exceed the IRS limits.

HSA

An HSA is only available if you enroll in a BAE Systems high-deductible health plan (HDHP). IRS limits for HSAs are higher to help you pay for higher out-of-pocket deductible costs you could incur. You can use or save the funds from year to year and take your balance with you if you leave BAE Systems.

Eligible expenses: Any qualified current or future medical, dental, or vision costs, up to your HSA balance. Expenses can include deductibles, coinsurance, and/or copays for doctor visits, prescriptions, over-the-counter medications, dental and vision care, and more.

Limits: The IRS sets annual HSA contribution limits, and they're higher if you're 55 or older. You can invest your HSA balance in a variety of investment options once it reaches \$1,000.

"My family mostly uses our medical coverage for preventive care and sports physicals, so we're enrolled in a high-deductible plan with an HSA. With the lower monthly premiums for the plan, I'm saving as much as I can in my HSA to use if we have an unexpected medical bill, and saving the rest for retirement."

Limited Purpose FSA

You must be enrolled in and eligible to contribute to a BAE Systems HSA plan to contribute to this restricted FSA. As a use-it-or-lose-it account, you must use these funds by year-end for eligible dental or vision expenses, then submit your receipts by April 30 of the next year. Your entire annual election amount is available for reimbursement as early as the first of the year.

Eligible expenses: Any dental or vision costs you incur in the current year, including out-of-pocket deductible costs, coinsurance, and/or copays for eye and dental appointments, crowns, glasses, contacts, and more.

Limits: The IRS allows companies to set FSA limits up to a maximum amount each year. For 2023, the FSA limit for BAE Systems employees was \$2,850.

"Last Annual Enrollment, I planned ahead and elected the maximum amount I could to my Limited Purpose FSA to cover my daughter's braces. It made a difference to have all the money available for reimbursement right after we had her appointment, and I'll definitely do it again next year to pay for her retainers."

Health Care FSA

As a use-it-or-lose-it account, you must incur qualifying health expenses by year-end and submit your receipts by April 30 of the next year. Your entire annual election amount is available for reimbursement as early as the first of the year.

Eligible expenses: Any medical, dental, or vision costs you incur in the current year, including deductibles, coinsurance, and/or copays for doctor visits, prescriptions, over-the-counter medications, dental and vision care, and more.

Limits: The IRS allows companies to set FSA limits up to a maximum amount each year. For 2023, the FSA limit for BAE Systems employees was \$2,850.

"My FSA dollars help me pay for my annual deductible costs before my plan starts to pay. If I have remaining funds in December, I'll visit fsastore.com (or there's one on Amazon) and purchase everyday health items like headache medicine, bandages, etc."

Dependent Care FSA

As a use-it-or-lose-it account, you must incur qualifying dependent care expenses by December 31 and submit your receipts by April 30 of the next year. Only your current account balance is available for reimbursement at any point in time. You must defer these pretax dollars from your paycheck before they can be reimbursed to you.

Eligible expenses: Day care, preschool, before- and after-school care, summer day camps, adult day care facilities, and other costs for a child under 13, a disabled spouse, or an older disabled child who meets IRS rules.

Limits: Per the IRS, you and your spouse can contribute up to a combined \$5,000 total to a Dependent Care FSA each calendar year. To comply with annual IRS testing requirements, BAE Systems sets lower contribution limits for higher-paid employees.

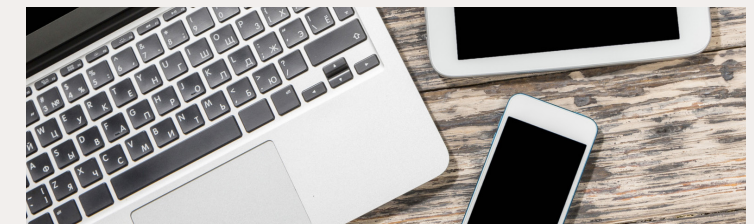
"I contribute the BAE Systems maximum each year to this account. I need child care, so paying for some of it with pretax dollars helps. And it's easy. I submit receipts after I pay my provider, or wait and submit multiple receipts all at once. Then, after my paycheck contributions are deposited in my account, I get reimbursed automatically."

How you can save with a pretax account

In the table on the right, we've shown an example comparing annual take-home pay with and without an FSA.* This example assumes **\$5,000** in health and dependent care expenses. Contributing that **\$5,000** to FSAs to pay for expenses using pretax dollars saves **\$1,500** in taxes!

	With FSA	Without FSA
Annual salary	\$100,000	\$100,000
Minus pretax deferrals to Health Care and Dependent Care FSAs	- \$5,000	N/A
Your taxable pay	\$95,000	\$100,000
Minus your estimated combined taxes at 30%	- \$28,500	- \$30,000
Your take-home pay	\$66,500	\$70,000
Minus your after-tax health and dependent care expenses	N/A	- \$5,000
Adjusted income after paying health and dependent care expenses	\$66,500 (no change)	\$65,000
Tax savings	\$1,500	\$0

* This is a hypothetical example for illustration purposes only.



For more details on these accounts, including contribution limits and eligibility requirements, as well as a refresher on out-of-pocket costs that were explained in last year's Benefits 101 mailer, visit benefits.baesystems.com.



BAE SYSTEMS

BAE Systems Benefit Center

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Reimbursement accounts
can stretch your money.

Use pretax reimbursement accounts to reduce your taxes and help pay your benefits costs. Elect yours when choosing your plans each year.

**Annual Enrollment for 2024 benefits:
October 25 – November 8**