



FlexChoice

Your benefits. Your decisions.

Dependent Care Flexible Spending Account Benefit

Summary of Benefits



Babcock & Wilcox Investment Company
Effective January 2014

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B&W Dependent Care Flexible Spending Account Plan Overview

The dependent care flexible spending account offers you a tax-free way to pay yourself back for eligible dependent care expenses throughout the year. You contribute a set amount each paycheck – you decide how much – on a before-tax basis to the account. This means you pay less in taxes, and are reimbursed for eligible expenses with tax-free dollars. Essentially, it's like getting a tax deduction without having to itemize on your income tax return. You deposit money before taxes to pay yourself back with tax-free dollars for eligible expenses.

Dependent Care Flexible Spending Account – At-a-Glance

Dependent Care Flexible Spending Account	
How much can I contribute?	Up to \$5,000 each calendar year, \$2,500 if married and filing separately
What does it pay for?	Certain dependent care expenses that allow you (and your spouse, if you are married) to work, or to attend school on a full-time basis for at least five months out of the year, such as: <ul style="list-style-type: none">• Before- and after-school care for children under age 13• Day care for children under age 13• Day care for an older dependent who is incapable of self-care• Household help primarily for the care of dependents
Why enroll?	To save money on taxes
What else should I know?	<ul style="list-style-type: none">• Any account balance unused by year end is forfeited• The account can be used only for eligible dependent care expenses

Eligibility

You are eligible to enroll in the dependent care flexible spending account if you are an active, full-time or part-time employee of any of the following or their participating subsidiary and affiliated companies:

- Babcock & Wilcox Nuclear Operations Group, Inc.
- Babcock & Wilcox Nuclear Energy, Inc.
- Babcock & Wilcox Power Generation Group, Inc.
- Babcock & Wilcox Technical Services Group, Inc.
- The Babcock & Wilcox Company

You may request, in writing from the Corporate Benefits Department, information as to whether a particular subsidiary or affiliated company participates in this benefit.

You are not eligible for coverage under this benefit if you are:

- A non-resident alien who has no U.S. source income (as defined in the U.S. tax code)
- Covered by a collective bargaining agreement that does not provide for participation in this benefit
- Classified as a part-time employee who has less than 12 months of consecutive service or works less than 20 hours per week
- Classified as a temporary employee
- A person who provides services to the company under an agreement with a leasing organization
- Classified by the company as an independent contractor or consultant, regardless of whether you are subsequently re-classified as an employee by a court or governmental agency for any reason.
- A temporary resident alien. For this purpose, you are a temporary resident alien if you are a nonresident alien who is transferred to employment in the United States with Babcock & Wilcox Investment Company, or any subsidiary or affiliate thereof, for a temporary period, for a temporary job, for educational, or for training purposes. In that case, you will retain the classification of temporary resident alien during the period of your employment in the United States. However, if you remain employed in the United States in a temporary resident alien status for a period of 36 consecutive months, you will be reclassified as a regular United States employee.

Enrolling for Benefits

You must enroll for coverage in the Plan through the FlexChoice program.

Newly Hired Employees

As a new employee, you must enroll for participation within 30 days of your date of hire. You may enroll by using the **Enrollment** feature on the Web site or by calling the FlexChoice toll-free phone line at 1-877-222-4015.

You will not be able to make changes to your dependent care flexible spending account election until the next annual enrollment period, unless you experience a qualifying life event (see Making Changes During the Year on page 4).

Annual Enrollment

Each year in the fall, the company conducts annual enrollment for the following calendar year. During the annual enrollment period, you have the opportunity to enroll in benefits, make changes to coverage, or continue your previous elections for the following year. Your choices will remain in effect from the next January 1 to December 31.

The IRS does not allow you to make changes to your dependent care flexible spending account election during the year unless you have a qualifying life event (see Making Changes During the Year on page 4).

Cost of Coverage

You pay the full cost of participation through pre-tax payroll deductions.

When you pay for coverage on a pre-tax basis, the money is taken out of your paycheck before federal income and Social Security taxes are withheld, as well as state taxes in most cases. That means you lower your taxable income for the year. As a result of these tax savings, you may have slightly reduced Social Security contributions for the year.

When Coverage Begins

For new hires – You must enroll in the dependent care flexible spending account within 30 days of your date of hire. Participation begins on the first of the month coincident with or next following your hire date, provided you enroll within your first 30 days.

During annual enrollment – You must make an affirmative election for coverage during the annual enrollment period, or you will be deemed to have waived coverage. Your election will take effect on January 1 of the following year. Once your election becomes effective it will be irrevocable until the next annual enrollment period unless you experience a qualifying life event. (See below under “Making changes During the Year.”)

A statement confirming the Plan’s understanding of the coverage you have elected will be mailed to you at the most recent address on file with your employer. If you do not receive a confirmation statement within two weeks of the date annual enrollment ends, please contact the FlexChoice Service Center at 1-877-222-4015 or 1-972-720-3985 from outside the U.S.

It is very important that you read your confirmation statement in order to ensure that the Plan’s records regarding your election are consistent with your intention. If the information on your confirmation statement is not an accurate reflection of your intended election, please contact the FlexChoice Service Center before January 1 and you will be permitted to correct all inaccuracies. All elections are irrevocable on January 1, subject to the rules regarding qualifying life events.

For qualifying life events (including special enrollment events) – If you make changes to your coverage selection during the year because of a qualifying life event, your new coverage begins as follows, provided you request a change in coverage according to the “Making Changes During the Year” provisions below:

- Special Enrollment due to other coverage that ended – New coverage begins on the date the other coverage ended.

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- Special Enrollment due to you or your dependent meeting a lifetime limit on all benefits under other coverage – New coverage begins on the date your claim under the other coverage is denied based on the limit.
 - For all other qualifying life events – New coverage generally on the first of the month following the election date, if you made your elections within 30 days of the event.

Section 125 of the Internal Revenue Code governs Cafeteria Plans and allows participants to agree to have their salary reduced by the amount of any employee contributions that may be required under the plan, and to have the employer contribute that money to the plan on their behalf. Since the employees never actually receive that money, the amount that is contributed to the plan doesn't count in their gross income for federal income tax purposes. In order to qualify for this tax benefit, the Code places strict restrictions on enrollments, withdrawals and changes to your level of coverage. The FlexChoice Program is governed by Section 125 of the Code.

As a result Plan enrollments, withdrawals and changes to your level of coverage are only permitted during the annual enrollment period or within 30 days following a qualifying life event if the enrollment, withdrawal or change in level is consistent with the life event.

Making Changes During the Year

Once you enroll in the dependent care flexible spending account, you can only change your coverage during the year if you have a qualifying life event. Any changes you make to your dependent care flexible spending account election must be consistent with and on account of the event. For example, if you have a baby you can increase your contributions but you cannot stop contributing or decrease contributions.

Life events that may allow you to change your dependent care flexible spending account contributions include:

- Birth, adoption, or placement for adoption of a child
- Marriage
- Divorce, legal separation or annulment
- Spouse gains or loses employment
- Death of a spouse
- Death of a dependent child
- Spouse becomes Medicare/Medicaid-eligible or ineligible
- A change in residence that affects coverage
- A court order requiring a change in coverage

If any of these events happen to you, you must make your dependent care flexible spending account changes within 30 days of the actual event. Go to the LifeTools website at www.babcocklifetools.com and on the Home page, under Tools in the

right navigation, select FlexChoice. Or you can call the FlexChoice Service Center toll free at 1-877-222-4015 or 1-972-720-3985 (outside the U.S.). If you do not report an event within this time period, you cannot make changes until the next annual enrollment period.

How the Dependent Care Flexible Spending Account Works

B&W offers you the opportunity to save money on day care expenses for eligible dependents through the dependent care flexible spending account. The dependent care flexible spending account makes it possible for you to pay certain expenses with tax-free dollars. If you are married, your spouse must also be working (or actively searching for work), unless he or she is a full time student or disabled, in order for you to be eligible to participate.

Eligible Dependents

You can use the dependent care flexible spending account to receive tax-free reimbursement of eligible day care expenses for a dependent who lives with you and relies on you for more than half of his or her financial support. You must claim the person as a dependent on your federal income tax return. Eligible dependents include:

- Children under age 13, and
- Disabled dependents of any age (such as your disabled spouse, older child or parents), if the person meets all of the following criteria:
 - Lives with you and depends on you for support,
 - Is physically or mentally incapable of self care, and
 - Is claimed as a dependent on your federal income tax return.

How Much You Can Contribute

You decide how much to contribute, up to \$5,000 each year (including your spouse's contribution to his/her employer's plan). Your family and tax filing status determine the maximum amount you can deposit per calendar year:

If You Are ...	This Annual Limit Applies ...
Single	Lesser of \$5,000 or your income
Married, filing jointly and your spouse earns at least \$5,000 per year	\$5,000
Married, filing jointly and your spouse earns less than \$5,000 per year	Your spouse's income
Married, filing separately	Lesser of \$2,500, your income or your spouse's income

<p>Married with a spouse who is disabled or a full-time student for at least five months of the year</p>	<p>Lesser of:</p> <ul style="list-style-type: none"> • <i>For one dependent:</i> \$2,400 or \$200 for each month your spouse is disabled or a full-time student • <i>For two or more dependents:</i> \$4,800 or \$400 for each month your spouse is disabled or a full-time student
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Eligible Dependent Care Expenses

You may only be reimbursed for day care that enables you and your spouse to work or attend school as a full-time student, not occasional baby sitters. Expenses paid to the following providers may be reimbursed through your dependent care flexible spending account:

- A licensed child care center or adult day care center, including church or non-profit centers
- A babysitter or au pair inside or outside your home if the sitter does not care for more than six children at a time (not including the sitter's own dependents)
- A relative who cares for your dependents, but is neither your spouse nor your dependent child under age 19
- Before and after school programs
- Someone who cares for an elderly or disabled dependent inside or outside your home

Refer to IRS Publication 503, *Dependent and Child Care Expenses*, for a complete list of eligible expenses. Publication 503 is available from your local IRS office or online at <http://www.irs.gov/pub/irs-pdf/p503.pdf>. If you do not have access to a computer, a list of eligible expenses is available from your local HR office and will be provided free of charge.

Expenses Not Eligible

Expenses that are not eligible for reimbursement through the dependent care flexible spending account include, but are not limited to:

- Cost of food and clothing
- Cost of transportation between your house and the place where day care services are provided or the cost of transportation for a care provider
- Cost for any person caring for your child when either you or your spouse is not working
- Expenses for which the federal child care tax credit is taken
- Overnight camp expenses
- Payments for care provided by a dependent under age 19 or by anyone claimed as a dependent on your income tax return
- Educational expenses

Refer to IRS Publication 503, *Dependent and Child Care Expenses*, for a complete list of expenses that are **not** eligible for reimbursement. Publication 503 is available from your local IRS office or online at <http://www.irs.gov/pub/irs-pdf/p503.pdf>.

Estimate Your Expenses

Estimate the amount you'll spend in the calendar year on day care for your eligible dependents using the following worksheet (this worksheet is also available online through the FlexChoice enrollment tool). Review the list of eligible dependent care expenses carefully as you complete the worksheet.

Dependent Care Expenses	Prior Year Expenses You Paid	Current Year Estimated Expenses
Weekly Expenses	\$	\$
Number of Weeks	X	x
TOTAL		

Keep in mind, you may not change — increase or decrease — your dependent care flexible spending account contributions during the year, unless you have a qualifying life event. Refer to “Making Changes During the Year” on page 4 for details.

Estimating Your Expenses

Consider the following guidelines when enrolling in the dependent care flexible spending account:

- Carefully determine the number of weeks of dependent care you purchase. Estimate and deduct weeks that might include vacation, illness or occasions where your dependents might have free care.
- Don't anticipate expenses you are not sure about, such as day care for a child not yet born. Birth of a child is considered an eligible life event, so you may change your election for the dependent care flexible spending account at that time.
- If you and your spouse are separated and your spouse has temporary custody of the children, those children no longer qualify for dependent day care reimbursement from your account.

Other Things to Know

Tax Effects of Using the Dependent Care Flexible Spending Account

Once you are enrolled, your dependent care flexible spending account contributions are automatically deducted from your pay before Social Security, federal and, in most cases, state and local income taxes are withheld. That means that the amount

you contribute is **not** included in the taxable income reported on your W-2, so you pay less in taxes. The amount of tax savings will vary by individual.

Example

To understand how the potential tax savings could affect you, take a look at the following example. This assumes that federal taxes are withheld at 15% and your annual salary is \$38,000. If you contribute \$5,000 to your dependent care flexible spending account, your tax savings might look like this:

	Without Accounts	With Accounts
Annual salary	\$38,000	\$38,000
Dependent care flexible spending account contributions	– 0	– 5,000
Taxable income	\$38,000	\$33,000
15% Federal income tax	– 5,700	– 4,950
7.65% Social Security tax	– 2,907	– 2,525
Net income after taxes	\$29,393	\$25,525
After-tax dependent care expenses	– 5,000	– 0
Spendable pay	\$24,393	\$25,525
Tax savings/increased income	\$0	\$1,132

In this example, you can save \$1,132 in current taxes and increase your take-home pay by this amount. Your actual savings will depend on your personal situation and the tax laws currently in effect. Regardless of how the rates change in your situation, before-tax contributions to your dependent care flexible spending account will result in tax savings.

If you receive reimbursement for your dependent care expenses, you cannot take a deduction or a tax credit for these expenses on your federal income tax returns.

Federal Tax Credit for Dependent Care Expenses

Expenses eligible for your dependent care flexible spending account are also eligible for credit on your federal income tax return, but you can't use the same expenses for both types of tax savings. The two types work differently:

- **Federal child care tax credit** — directly reduces the amount of tax you pay.
- **Dependent Care Flexible Spending Account** — reduces the amount of your income that is taxed.

Any eligible expenses not claimed under one method may be applied toward the other. If you plan to use both the spending account and the tax credit for different expenses, keep in mind that the amount of reimbursements you receive from your

dependent care flexible spending account will reduce — *dollar for dollar* — the expenses that count for a credit on your federal income tax return.

Your financial situation will determine which method is better. Generally, if your household income is less than \$28,000, the tax credit method may be a better option for you. Consult a tax expert for advice about your personal situation.

Use It or Lose It

The IRS restricts how you may use the funds in your spending account, so if you decide to make deposits to the accounts, you should carefully estimate your expenses for the coming year. Only set aside the amounts you know you will use — because in exchange for the tax savings, federal law requires you to forfeit any unused money. You have until March 31 of the following year to file claims for reimbursement of your eligible dependent care expenses incurred between January 1 and December 31.

Any remaining funds in your spending account will be forfeited. If you participate in both the health care and dependent care flexible spending accounts, you cannot share or transfer money between the two accounts. The IRS requires that these accounts remain separate.

Effects on Other Benefits

Even though you reduce your taxable income by using the spending account, your contributions do not reduce your pay for determining certain other pay-related benefits, such as life insurance, disability or retirement benefits.

Your future Social Security income at retirement or disability may be affected by your participation in a spending account if your taxable pay is below the Social Security wage base. Because your contributions are automatically deducted from your pay before Social Security taxes are withheld, your Social Security benefit may be slightly reduced.

Filing a Claim

When you have expenses that are eligible for reimbursement, complete a claim form (available under **Forms** on the LifeTools website or by calling the Claims Administrator) and attach bills, statements, or other proof of expenses. **A canceled check is not acceptable documentation of expenses.**

Your proof of expenses must include:

- Name of the dependent care provider
- Provider's tax ID number (or Social Security number if the provider is an individual)
- Date(s) the care was provided
- Name of the person who received the dependent care
- Total cost for the care

Return your completed form and receipts to:

PayFlex Systems, USA
Attn: Claims
PO Box 3039
Omaha, NE 68103

Once your claim is processed, a reimbursement check will be mailed to your home, along with a statement showing the amount of the payment and any amount remaining in your spending account. If you do not have enough money in your dependent care flexible spending account to cover the full amount of the expense, your check will be for the amount in your account. You will be reimbursed for the rest of your expense as contributions are made by payroll deduction. If you submit a claim for an expense that is not eligible for reimbursement, you will receive a Claim Notification Letter indicating it is not eligible.

You have until March 31 of the following year to file claims for reimbursement for dependent care services provided in the prior year.

If a Claim is Denied

If a claim is denied, you will receive a written notice from the Claims Administrator within a reasonable period of time after you first filed the claim explaining:

- The specific reasons for the denial
- Which additional materials are needed to complete your claim
- What steps you can take to have your claim reevaluated

When Participation Ends

Under most circumstances, your participation in B&W's dependent care flexible spending account ends:

- On the day you terminate employment
- On the day you transfer to an affiliated company not participating in the benefit
- On the date your employer ceases to be a participating employer
- On the last day of the pay period before the date that any required contributions are not received
- On the day the plan is terminated

Deadline for Incurring Expenses

You can incur expenses until the date your participation ends.

Deadline for Filing Claims

You have until March 31 of the following year to file claims for dependent care expenses. Expenses must be incurred in the same calendar year as your contributions.

Life Events and Your Coverage

This section provides a quick look at how your participation is affected during certain life events, or qualified status changes. Any changes you make to your benefits must be consistent with the type of life event you experience.

If You Take a Leave of Absence

Coverage available during a leave of absence varies depending on the type of leave and your employer. Contact HR for more information about your coverage during leaves of absence.

If You Take a Military Leave of Absence

If you enter into active duty in the Armed Forces of the United States (except for temporary active duty service of two weeks or less) and you do not elect to continue paying for coverage while on active duty, coverage for you and your enrolled dependents ends on the last day of the month in which:

- You stop paying for coverage
- You no longer meet the eligibility requirements

If You Become Disabled, Leave the Company, Retire or Die

Your dependent care flexible spending account contributions end when you become disabled, leave the company, retire or die while employed by the company. You may file claims for reimbursement of eligible expenses incurred up to the date of your disability, the day you leave the company or retire, or the date you die.

Important Plan Information

<i>Plan Details</i>	
Official Plan Name	Babcock & Wilcox Cafeteria Plan
Plan Sponsor	Babcock & Wilcox Investment Company The Harris Building 13024 Ballantyne Corporate Place, Suite 700 Charlotte, NC 28277 1-704-625-4900
Claims Administrator/ Insurance Company	PayFlex Systems, USA Attn: Claims PO Box 3039 Omaha, NE 68103 1-800-284-4885

This summary contains general information about the Dependent Care Flexible Spending Account benefits available to eligible employees. Full details of the plan are contained in the official plan documents. If a provision described in this summary differs from the provisions of the applicable plan document, the plan document prevails.

This description of the Dependent Care Flexible Spending Account Program is not intended as an employment contract or a guarantee of current or future employment. **The Plan Sponsor reserves the right to modify, amend, suspend or terminate the plan at any time.**