VANTAGECARE RETIREMENT HEALTH SAVINGS PROGRAM

QUESTIONS AND ANSWERS FOR EMPLOYEES

ICMARC

BUILDING PUBLIC SECTOR RETIREMENT SECURITY

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Tax benefits related to the VantageCare Retirement Health Savings (RHS) Program are based on federal tax laws. Most states do not tax RHS contributions, but benefits may be subject to state and local taxes. Check with your benefits office and/or a qualified tax professional to learn more.

ICMA-RC's VantageCare Retirement Health Savings (RHS) Program helps you build assets for medical expenses before you leave service on a tax-free basis. Retirees are increasingly responsible for growing medical costs, including out-of-pocket expenses associated with Medicare. The RHS program enables you to prepare in advance for these costs.

CONTRIBUTIONS

Q1: How do I know the specific rules for my RHS account?

A plan summary of the RHS plan provided by your employer contains information on the specific features of your plan: the employee group(s) covered by the plan, the types of contributions available to you, and the types of medical expenses covered by the program.

Q2: What types of contributions will be made to my RHS plan?

Your employer determines the contribution type(s) available to your plan, which may include:

- **Employer contribution** of a fixed percentage or dollar amount or a discretionary amount that may vary from year-to-year.
- **Mandatory contributions of accrued leave** (e.g., sick or vacation) on a pre-determined schedule.
- **Mandatory contributions of employee compensation.**

Both employee and employer contributions are not subject to FICA (Social Security or Medicare) or income tax.

Mandatory employee contributions of accrued leave and compensation are always 100% vested. Employer contributions may be subject to a vesting schedule.

Always refer to the RHS plan summary provided by your employer for specific and most current information pertaining to your plan.

Q3: Are there limits to the amount of contributions that may be made in a given year?

Contributions can be made in any combination as allowed by your employer's plan. Your employer may provide specific limits for different types of contributions.

Q4: How are my RHS contributions coordinated with Section 457 and 401 plans?

Contributions to RHS are not coordinated with and do not offset contributions that may be made to Section 457 and 401 plans, unless your employer has made a specific provision in regard to these plans. However, since pre-tax RHS contributions are not considered gross compensation for Form W-2 purposes, they may lower the base on which the contributions to a 457 or 401 plan are calculated, depending upon the terms of your employer's 457 or 401 plan.

Q5: Are contributions made to the account included in "pensionable" compensation?

The definition of compensation covered by your employer's pension plan will need to be examined to determine whether any RHS contribution types (employer and mandatory pre-tax) are considered part of compensation on which pension benefit calculations are made.

PLAN INVESTMENTS

Q6: How will my RHS assets be invested?

The investment funds available to RHS participants include actively managed funds, model portfolio funds, index funds, stable value, and target-date funds. Upon initial enrollment in the RHS Program, your investment allocation is automatically established as an age-based target-date fund or another default fund selected by your employer. You may subsequently change the investment allocation for future contributions or existing balances at any time through Account Access (www.icmarc.org/login), or an ICMA-RC Investor Services Representative.

MEDICAL BENEFITS

Q7: At what point will I be eligible for medical benefits?

Your employer's plan determines the benefit eligibility criteria for participating employees, as outlined in the RHS plan summary provided by your employer. For example, your plan might specify "retirement" as the time for benefit eligibility. Alternatively, a combination of separation from service and a specific age can be chosen. When you satisfy the criteria, you will be eligible for medical benefits. At that time, your employer will notify ICMA-RC of your eligibility and, before beginning to receive benefits, you must complete the *VantageCare RHS Plan Employee Benefit Eligibility Form*, automatically sent to you as part of your Welcome package by the third-party administrator and also available from your employer or ICMA-RC.

You will then be able to submit reimbursement requests directly to the third-party claims administrator on the *VantageCare RHS Plan Benefits Reimbursement Request Form,* automatically sent to you as part of your Welcome package by the third-party administrator and also available from your employer or ICMA-RC. Medical expenses incurred before you are eligible for RHS benefits will not be reimbursed.

Note that eligible claim expense(s) for reimbursement must be incurred on or after your eligibility date. Generally, claims should be submitted within two years from the date

of the expense, but this limit may vary among plans. If you have questions regarding this limit or your claims, please contact the third-party claims administrator. See Q19 for contact information.

Q8: What medical expense payments will be covered?

When your employer adopted the RHS Plan, the medical benefits that are offered to participating employees were selected. Your plan may allow reimbursement for only one type of expense or for any combination of eligible medical costs. The qualifying medical costs allowed by your plan are outlined in the RHS plan summary provided by your employer.

Information about what constitutes a qualifying medical expense can be found in IRS Publication 502, Medical and Dental Expenses, available on the IRS website at www.irs.gov. Generally, the expenses permitted are all expenses "paid for diagnosis, cure, mitigation, treatment, or prevention of disease, and for treatments affecting any part or function of the body" other than direct long-term care expenses. Qualified long-term care insurance premiums are allowable expenses under the RHS plan.

Note that your RHS account can also be used to pay for qualifying medical expenses incurred by your spouse and dependents, if covered by your RHS plan.

Q9: Who are my dependents?

Once you are eligible for RHS benefits under the terms of your employer's plan, your RHS account can be used to pay for qualifying medical expenses incurred by you, your spouse, and eligible dependents. An eligible dependent is (a) the Participant's lawful spouse, (b) the Participant's child under the age of 27, as defined by IRC Section 152(f)(1) and Internal Revenue Service Notice 2010-38, or (c) any other individual who is a person described in IRC Section 152(a), as clarified by Internal Revenue Service Notice 2004-79. Dependent eligibility under IRS rules generally includes individuals who are either a "qualifying child" or a "qualifying relative".

Visit www.irs.gov for more information on the definition of dependent, but generally a qualifying child is any person who meets the following requirements:

- The person is your child or a descendant of your child, or is your brother, sister, stepbrother, stepsister, or a descendant of any such relative;
- The person lived with you for more than one-half of the year;
- The person is under age 19 or under age 24 if a full-time student (age requirements do not apply to individuals that are permanently and totally disabled); and
- The person did not provide over one-half of his or her own support for the calendar year for which dependency is claimed.

A qualifying relative is any person who meets the following requirements:

- The person is related to you (see below) or lived with you for the entire year as a member of your household;
- You provided over one-half of the support for the person for the calendar year for which dependency is claimed; and
- The person is not a qualifying child of you or any other person.

A person will be considered to be related to you if he or she falls in one of the following classifications:

- Your son or daughter (or a descendant of either)
- Your stepson or stepdaughter
- Your brother, sister, stepbrother, or stepsister
- Your mother or father (or an ancestor of either)
- Your stepfather or stepmother
- Your nephew or niece
- Your aunt or uncle
- Your son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law

Your RHS account can provide medical expense reimbursements on behalf of your spouse and any person who qualifies as your dependent under these rules even if you cannot or do not claim an exemption for the person on your income tax return. See IRS Publication 502, *Medical and Dental Expenses,* for more information.

Q10: Who will pay medical benefit claims?

You (or your survivor) will make the initial payment for medical expenses that are paid directly to the service or insurance provider. Your employer may also make the initial payment for insurance premiums.

Reimbursement for eligible benefits (whether direct expenses or insurance premiums) will be handled by a third-party administrator (TPA) hired by ICMA-RC. The TPA will reimburse you or your employer on receipt of completed benefit reimbursement forms. An exception to this procedure exists for situations where you have recurring expenses (e.g. insurance payments). In this case, reimbursement can be made on an automatic payment basis to you after the appropriately completed request is filed with the TPA. In situations where your employer pays insurance premiums on your behalf, your employer may request reimbursement directly from the TPA by using the appropriate form. An automatic reimbursement can be established for recurring premium payments.

Q11: What is the procedure for reimbursement? How long does it take?

When you become benefit-eligible, your employer notifies ICMA-RC and you notify the third-party claims administrator. You may then submit medical claims for reimbursement on the *VantageCare RHS Plan Benefits Reimbursement Request Form*. The claim is reviewed to ascertain that you are benefit-eligible, that the claim is covered by your RHS balance, and that the expense is covered by your employer's plan. If these conditions are met, the claim is processed and paid. All claims will be paid, suspended, or denied in writing within 30 days. Most claims are paid within 10 days. If claims are denied, there is an appeal process, which ends with a final determination on any denied claim by your employer.

Q12: What if a claim is denied?

If your claim for reimbursement is denied, you will receive a written notice of the denial from the third-party claims administrator. The notice will include

- The specific reason(s) for the denial
- Reference to plan rules upon which the denial was based
- Description of any additional information that might be required and an explanation of why it is needed
- An explanation of the plan's claim review procedure.

You may appeal a denied claim. Generally, the appeals process will consist of the following steps:

1. You submit a written request for a review of the denied claim to the third-party claims administrator. Your request must be filed within 60 days of your receipt of the denial notice. You may also review documents regarding administration of your employer's plan, and you may submit issues and comments in writing. You are entitled to representation, if you desire, throughout the appeals process.
2. The third-party claims administrator will review your request within 60 days of receipt. Special circumstances can extend this to 120 days; you will receive a notice of extension.
3. You will receive a written summary of the third-party claims administrator's decision regarding your appeal, which will include specific reasons for the decision.
4. If you are dissatisfied with the written decision, you may appeal your claim to your employer.

OTHER DISTRIBUTION QUESTIONS

Q13: What happens to my account balance if I leave my job before I am eligible for benefits?

If you leave employment prior to becoming eligible for medical benefits, your account balance will continue to accrue tax-deferred earnings until you reach eligibility as established by your employer. At that point, you can begin using the account for medical expense reimbursements.

If you separate from service prior to becoming benefit-eligible, your employer's plan will specify the time your eligibility will begin (e.g., a specific age).

Q14: When I leave my job, can I roll my RHS account balance into an IRA, another employer's retirement plan, or another RHS account?

Your RHS account must remain in your employer's RHS Plan. Due to IRS requirements, the program does not allow your account to be rolled into any other type of plan, including an IRA, an employer-sponsored retirement account (such as a 457 or 401 plan) or another RHS account with a different employer when you separate from service.

Q15: Are there any emergency withdrawal provisions?

Unlike 457 deferred compensation plans, there are no provisions for withdrawals in the event of a financial hardship. However, if you are otherwise eligible for medical expense reimbursement, you will be able to use RHS assets in the event of a medical emergency or hardship.

Q16: What happens to the account balance when a participant dies?

ICMA-RC must be notified of the death by the filing of the *VantageCare Retirement Health Savings Plan Decedent Information Form,* available from your employer or ICMA-RC. Upon the death of a participant, the RHS account balance will automatically become 100% vested. Remaining account assets will be available to the participant's survivors as follows:

- **Surviving spouse and/or dependent(s):** Upon the participant's death, remaining assets will be transferred to an account for continuing tax-free use by the surviving spouse and/or dependents ("survivors") for their own qualifying health expenses. If there are assets remaining upon the death of the spouse and all dependents, they will revert to the RHS trust to be used as outlined in the employer's RHS plan.
- **No surviving spouse or dependent(s):** If the participant is not survived by a spouse or dependents, any remaining assets will revert to the RHS trust to be used as outlined in the employer's RHS plan.

TAXES

Q17: How are payments from RHS accounts treated for tax purposes?

RHS benefits paid in the form of medical expense reimbursements will not be taxed to you, your spouse, or your dependents (whether paid before or after your death). No income tax withholding or reporting is required, and the benefits need not be reported at all by the recipient on his or her income tax return.

SAME-SEX MARRIAGES

Federal law recognizes same-sex marriages and VantageCare Retirement Health Savings (RHS) Programs provide same-sex spouses with the same rights as spouses of the opposite sex including with respect to the following:

Eligible Expenses — Participants may request RHS plan assets for reimbursement of qualifying medical expenses attributable to their spouses.

Survivor Benefits — In the event of a participant's death, his or her spouse is entitled to receive any remaining benefits from the RHS plan account.

	Income Taxes			FICA	Tax Reporting by
Type of RHS Benefit	Is the Benefit Income Taxable?	Is Federal Income Tax Withheld?	Is State/Local Income Tax Withheld?	Is OASDI/HI* Withheld if Applicable?	
Medical benefits paid to employee	No	No	No	No	N/A
Medical benefits paid to spouse/dependents	No	No	No	No	N/A
Excess reimbursements to highly compensated individuals**	Yes - to participant	No	No	No	Employer

* *OASDI = Social Security and HI = Medicare*

** *Reimbursements made to highly compensated individuals may be subject to taxes if the plan discriminates in favor of highly compensated individuals with respect to eligibility or benefits.*

ADMINISTRATIVE

Q18: Does ICMA-RC charge a fee for the RHS Program?

An annual account fee of $25 will be charged to your account ($6.25 per quarter). If your plan offers certain mutual funds, ICMA-RC may also assess an asset-based fee. All RHS Program fees will be reflected in your quarterly statement, which contains complete and up-to-date fee information.

Note: RHS fees are subject to change with appropriate prior notification.

RESOURCES

Q19: Whom should I contact with questions regarding the RHS Program?

The following outlines whom you should call with questions about your RHS account.

YOUR EMPLOYER

- For information on program specifics (benefit eligibility, eligible medical expenses, contributions, etc.)
- To enroll
- To establish benefit eligibility

ICMA-RC
(PHONE 800-669-7400)

- For all account issues not claim-related
- With questions regarding your account statement
- With questions on the posting of your contributions
- To change personal data (also inform the TPA if you are eligible for benefits)

MERITIAN HEALTH, THIRD-PARTY CLAIMS ADMINISTRATOR
(PHONE 888-587-9441 • FAX 888-665-8495 • EMAIL ICMARC@MERITAIN.COM)

- For all claim-related issues once you are eligible to receive benefits
- To change personal data if you are eligible for benefits (also inform ICMA-RC)

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