

# Q&A

## VANTAGECARE RETIREMENT HEALTH SAVINGS PLAN Questions and Answers for Employees



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## Questions and Answers for Employees

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## BASICS OF VANTAGECARE RETIREMENT HEALTH SAVINGS

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### Q1: What is the VantageCare Retirement Health Savings Plan?

The VantageCare Retirement Health Savings (RHS) Plan is the ICMA Retirement Corporation's employer-sponsored health benefit savings vehicle that allows you to accumulate assets to pay for *medical expenses* (e.g., health insurance and prescription expenses) for you, your spouse and/or your dependents in retirement (or other eligibility) on a *tax-free* basis. Your employer has chosen to offer you this benefit. This booklet, along with the RHS Announcement Letter from your employer, outlines how the program works and explains the benefits that are available to you under your employer's plan.

RHS offers you a number of benefits, including tax-deferred accumulation of earnings and, when account assets are used to pay for tax qualified medical benefits for you, your spouse and/or your dependents, the additional benefit of tax-free withdrawals.

### Q2: What are the benefits of the VantageCare Retirement Health Savings Plan?

You can enjoy substantial benefits from the RHS Plan.

- **Accumulation of assets to pay for one of retirement's greatest financial needs** – You have the opportunity to prepare to meet a significant financial outlay facing you in your retirement, whether for insurance premiums and/or out-of-pocket expenses, co-pays, or prescription drugs (as specified by your employer's plan).
- **Convenience** – Once you are eligible to participate (see Q4), you only need to enroll (see Q3) and make decisions regarding investment of your RHS funds (see Q11). Contributions are made directly by your employer and/or from your compensation or your unused leave (see Q5).
- **Tax-free medical expense reimbursement** – Medical expense reimbursements are *tax-free* when used for qualified medical expenses for you, your spouse and/or your dependents.
- **Tax-deferred accumulation of savings** – Assets grow in a *tax-deferred* account.
- **Flexibility** – You may use RHS dollars to pay medical expenses for you, your spouse and dependents.
- **Appropriate investment options** – RHS allows you to take advantage of the Vantagepoint Mutual Funds, including model portfolio funds, low-cost index funds, and age-related milestone funds. (see Q11).
- **Continuing use by your survivors** – Upon your death, your account balance is transferred to an account to pay medical expenses for your surviving spouse and/or dependents for their medical expenses (see Q21).

### Q3: How do I get started?

1. Your employer will provide you with enrollment material when you are eligible to participate (see Q4).
2. You complete the enrollment form and return it to your employer. This form provides your personal information (e.g. name and address) and your survivor information.
3. Your employer will verify your eligibility for participation and transmit the participant data to ICMA-RC.
4. ICMA-RC sets up your account the date of receipt of enrollment information, if the information is received prior to 4:00 p.m. Eastern Time.
5. ICMA-RC sends you a welcome letter the business day following the establishment of your RHS account.
6. Your employer will begin sending your contributions to ICMA-RC.\*

\* See Q11 for important information regarding the investment of your RHS account assets.

### Q4: Can I opt out of the VantageCare Retirement Health Savings Plan?

Mandatory participation is required in the RHS plan if you are in a covered group, and you must complete the enrollment process.

## CONTRIBUTIONS

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### Q5: What types of contributions will be made to my RHS plan?

Depending on your employer's RHS plan features, the following contributions may be available in your plan:

- Employer contribution of a fixed percentage or dollar amount or a discretionary amount which may vary from year to year. A vesting schedule may apply to this type of contribution. Your account will automatically be 100% vested when you become benefit-eligible or when you retire, die, or become disabled. These contributions are not subject to FICA (Social Security or Medicare) or income tax.
- Mandatory contributions of accrued leave (e.g., sick or vacation) on a pre-determined schedule. These contributions are required by the employer of all participants. They are not subject to FICA or income tax.
- Mandatory contributions of employee compensation. These contributions are required by the employer of all participants. They are not subject to FICA or income tax.

## Q6: How do I know what features are included in my employer's RHS plan?

The RHS Announcement Letter 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. If you do not have a copy of the RHS Announcement Letter, please contact your employer.

## Q7: 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.

## Q8: 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.

## Q9: 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.

## Q10: Do RHS contributions reduce my Social Security benefits?

If you earn less than the Social Security earnings maximum and make pre-tax employee contributions to your RHS account, slight reductions in your Social Security benefits may occur.

## PLAN INVESTMENTS

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### Q11: Where will my RHS assets be invested?

The investment funds available to RHS participants are ICMA-RC's Vantagepoint Funds\*. These funds consist of actively managed funds, model portfolio funds, index funds, and age-based milestone funds.

Upon initial enrollment in the RHS Program, your investment allocation is automatically established as the Vantagepoint Money Market Fund\*\* (or another fund specified by your employer). However, you may change the investment allocation for future contributions at any time through ICMA-RC's VantageLine (toll-free automated service line), on-line Account Access, or an ICMA-RC Investor Services Representative (1-800-669-7400). Additionally, existing balances can be transferred among the Vantagepoint Funds at anytime through VantageLine, Account Access, or an ICMA-RC Investor Services Representative.

If you should die while participating in the RHS Plan, your account balance will automatically be transferred into the Vantagepoint Money Market Fund (or other default fund specified by your employer). Moving the account balance into the Vantagepoint Money Market Fund may provide protection to your survivors against a market downturn. This will avoid potential problems arising from a reduction in the value of the account due to a drop in the market. Your survivors may transfer the account balance from the Money Market Fund into the investments of their choice at any time.

*\* Please consult the current Vantagepoint Funds Prospectus carefully for a complete summary of all fees, expenses, charges, financial highlights, investment objectives, risks and performance information. Investors should consider the Fund's investment objectives, risks, charges, and expenses prior to investing or sending money. The prospectus contains this and all other information about the investment company. Please read the prospectus carefully before investing. Vantagepoint Funds are distributed by ICMA-RC Services, LLC, a wholly owned broker-dealer subsidiary of ICMA-RC, member NASD/SIPC. For a current prospectus, contact ICMA-RC Services, LLC, by calling 1-800-669-7400 or by writing to 777 North Capitol Street, NE, Washington, DC 20002-4240 or by visiting [www.icmarc.org](http://www.icmarc.org).*

*\*\*Investments in the fund are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.*

## MEDICAL BENEFITS

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### Q12: 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 your employer's RHS Announcement Letter. For example, your plan might specify "retirement" as the time for benefit eligibility. Alternatively, a specific age (e.g. 65) could be chosen, or a

combination of retirement or separation from service and a specific age. 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*, available from your employer or ICMA-RC.

Note that medical expenses incurred before your benefit eligible date for RHS benefits will not be reimbursed. Additionally, once you are benefit eligible, claims must be submitted within two years from the date of the medical expense.

### Q13: 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 Announcement Letter.

Information about what constitutes a qualifying medical expense can be found in IRS Publication 502, Medical and Dental Expenses, available on the IRS Web site at <http://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 (see Q14).

The availability of benefits for domestic partners, same-sex spouses, and civil unions varies by state. The tax treatment of RHS reimbursements in these situations may also vary. Please consult your employer and/or tax advisor for more information.

Please note that if you are considered a highly compensated individual and use your account for reimbursement of eligible expenses other than insurance premiums, you may be subject to income taxes on a portion or all of the amount paid to you.

### Q14: Who are my dependents?

Once you are eligible for RHS benefits under the terms of your employers plan (see Q12), your RHS account can be used to pay for qualifying medical expenses incurred by you, your spouse, and eligible dependents. Dependent eligibility is determined by IRS rules but generally includes individuals who are either a "qualifying child" or a "qualifying relative".

*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, or 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.

Note that there is no age limit on the definition of qualifying relative. As long as the requirements outlined above are met, the expenses can be covered regardless of the individual's age.

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.

*After your death*, any individual that qualifies as a dependent on the date of your death will continue to be considered a dependent, and will remain eligible for medical benefits until his or her own death, along with your surviving spouse. (see Q21.)

### Q15: Who handles medical benefit claims?

Medical benefit claims processing and payment will be handled by ICMA-RC's third-party claims administrator, chosen to perform administrative services for the RHS program as directed by ICMA-RC. Our claims processor is well versed in

medical benefit claims processing, and is familiar with the workings of ICMA-RC's RHS program.

All questions regarding claims should be directed to the claims processor. Please request to speak with the ICMA-RC VantageCare RHS claims representative.

## Q16: What is the procedure for submitting a claim for a medical reimbursement? How long does it take?

After you become benefit-eligible (see Q12), claims for medical expenses that qualify under your employer's RHS Plan (see Q13) are submitted for reimbursement on the *VantageCare Retirement Health Savings Plan Benefits Reimbursement Request Form*. This form is available from your employer, ICMA-RC or from the claims processor. The claims processor reviews the claim to make certain that you are eligible and that the expense is covered by your plan. Your claim will be paid, suspended, or denied in writing, within 30 days. Most claims are paid within 10 business days.

Eligible recurring insurance premiums may be set up with recurring reimbursements directly from the claims processor to you or your employer. So long as you have a balance in your account, the payment will be made automatically and you will not need to submit any additional request for the insurance premium reimbursement. However, you will need to notify the claims processor when payments should cease. See the *VantageCare RHS Plan Benefits Reimbursement Request Form* for more information.

## Q17: 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.
5. If the matter is still not decided to your satisfaction, you are entitled to pursue your right to legal or equitable relief.

## OTHER DISTRIBUTION QUESTIONS

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### Q18: 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 (see Q12). At that point, you can begin using the account for medical expense reimbursements. (see Q16.)

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).

### Q19: 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.

### Q20: Can I take the balance under an emergency withdrawal or other circumstance?

Unlike Section 457 plans, there are no provisions for withdrawals in the event of a financial hardship. However, an RHS participant who is eligible for medical expense reimbursement (see Q12) will be able to use RHS assets in the event of a medical emergency or hardship.

### Q21: 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. (See Q14 for a definition of "dependent".) 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.

Note also that the availability of benefits for domestic partners, same-sex spouses and civil unions varies by state. The tax treatment of RHS reimbursements in these situations may also vary. Please consult your employer and/or tax advisor for more information.

See Q22 for a discussion of the tax treatment of benefits paid after the participant's death.

## TAXES

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### Q22: How are payments from RHS accounts treated for tax purposes?

RHS benefits paid in the form of medical expense reimbursements will never be taxed to you,\* your spouse, or dependents. No income tax withholding or reporting is required, and you do not need to report any medical benefits at all on your income tax return.

\* *Certain payments for non-insurance premium reimbursement to "highly compensated individuals" may be taxable under the IRS welfare plan non-discrimination rules.*

The chart on the next page outlines the tax rules for RHS payments.

## ADMINISTRATIVE

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### Q23: What types of reports will I receive?

You will receive quarterly Summary Plan Statements from ICMA-RC, listing information on contributions, investment earnings, and distributions. You will also receive a consolidated statement, showing your ICMA-RC 401/457 account activity and your RHS account activity.

You will receive confirmations of benefit payments, address changes, investment allocation changes, and fund-to-fund transfers from ICMA-RC.

The third-party administrator will also send you an Explanation of Benefits ("EOB") for each claim that is paid or denied.

### Q24: What fees does ICMA-RC charge for the RHS Program?

Each quarter, the following RHS fees will be assessed to your account. These fees will be reflected on your quarterly statement.

- Account fee: An annual account fee of \$30 will be charged to your account on a quarterly basis (\$7.50/quarter). This fee will only be charged once you attain benefit eligibility (see Q12).

PLUS

- Asset-based fee: An annual asset-based fee of 30 or 40 basis points (0.30% or 0.40% of your account) will be assessed to your account on a quarterly basis. Contact your employer to determine the asset fee that applies to your employer's RHS plan.

Fee Example: If your account balance as of the close of the prior quarter was \$10,000 and your employer's plan has an annual asset fee of 40 basis points, the fee charged to your account for the quarter will be \$17.50: a \$7.50 account fee plus a \$10 asset-based fee.

RHS fees are subject to change with appropriate prior notification.

## RESOURCES

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### Q25: Whom should I contact with questions regarding the RHS Program?

The following above 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 (1-800-669-7400)

- 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)

#### Third-Party Claims Administrator (TPA)

- 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)

Type of RHS Benefit	Income Taxes			FICA
	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 you	No <sup>+</sup>	No	No	No
Medical benefits paid to your spouse/dependents	No	No	No	No

\* OASDI = Social Security and HI = Medicare

+ Certain payments to "highly compensated individuals" may be taxable under the IRS welfare plan nondiscrimination rules.