

Q&A

VANTAGECARE RETIREMENT HEALTH SAVINGS PLAN Questions and Answers for Employees



VANTAGECARE RETIREMENT HEALTH SAVINGS PLAN

QUESTIONS AND ANSWERS FOR EMPLOYEES

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BASICS OF VANTAGECARE RETIREMENT HEALTH SAVINGS

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* for you, your spouse and/or your dependents (e.g., health insurance and prescription expenses) 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 is similar to your ICMA-RC retirement plan (either a Section 401 qualified retirement plan or a Section 457 deferred compensation plan) in that it allows you to invest dollars in the Vantagepoint Mutual Funds* for financial needs during retirement (or when otherwise eligible). RHS offers 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.

* *Vantagepoint Mutual Funds are distributed by ICMA-RC services, LLC, a controlled affiliate of ICMA Retirement Corporation. Member NASD/SIPC.*

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).
- **Convenience** – Once you are eligible to participate (See Q4), you only need to enroll (see Q3) and make decisions regarding investment of RHS funds (see Q10). Contributions are made directly by your employer and/or through converting your unused leave (see Q5).
- **Additional contributions** – Depending on your employer's plan, you may be able to

contribute additional amounts to the plan on a pre-tax and/or after-tax basis (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 (as allowed under Section 213 of the Internal Revenue Code).
- **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.
- **Familiar investment options** – RHS allows you to take advantage of the Vantagepoint Mutual Funds you are familiar with from your retirement plan, including model portfolio funds and low-cost index funds (see Q10).
- **Continuing use by your survivors** – Upon your death, your account balance is either transferred to an account to pay medical expenses for your surviving spouse and/or dependents, or passed on to a beneficiary for their medical expenses (See Q20).

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 indicative data (e.g. name and address) and your beneficiary designation.
3. If your employer's plan includes elective contributions, you will complete a separate election form for each type of contribution you will make (See Q5).
4. Your employer will verify your eligibility for participation and transmit the participant data to ICMA-RC.
5. ICMA-RC sets up your account the date of receipt of information from the employer, if the information is received prior to 4:00 p.m. Eastern Time.
6. ICMA-RC sends you a welcome letter the business day following the establishment of your new account.
7. Your employer will begin sending your contributions.*

* *See Q10 for important information regarding the investment of your RHS account assets.*

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

Although you may not choose to withdraw from the RHS plan once you are a participant, some employers as part of their plan design have provided their employees

with the opportunity to decide affirmatively that they wish to participate. Your employer will provide an election window of up to 60 days during which you may make your election. Newly hired and newly eligible employees may begin participation in the month following the end of the election window. If you do not elect to participate in the year of your initial eligibility, you may make your election in a later year. However, in that case, your participation will not begin until the year following the year of your election.

Until you have made that decision, which may not be changed once made, you are not required to participate in a plan which offers you this irrevocable election. Of course, you will not receive plan contributions that your employer may make nor receive the tax-free benefits of accumulating a retirement health nest egg.

Your election to participate in the RHS plan is made by completing the enrollment form. You do not need to complete the enrollment form until you choose to participate.

If your employer has not selected the plan feature that allows employees to choose to participate, you are required to participate if you are in a covered group.

CONTRIBUTIONS

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 be automatically 100% vested when you become benefit-eligible or when you retire, die, or become disabled. These contributions are not subject to FICA 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.*

- Elective pre-tax contributions of salary and/or accrued leave (irrevocable once elected). These contributions are not subject to FICA or income tax.**
- Annual elective contribution of leave to be earned during the coming year. These contributions are not subject to FICA or income tax.**
- Voluntary after-tax contributions**

* *These contributions will be made to all plan participants' accounts without completion of additional contribution forms.*

** *Additional information on the specific requirements of these contributions is available on the Contribution Election Form for that contribution type. These forms are available from your employer.*

Q6: How do I know what specifics govern my employer's RHS plan?

The RHS Announcement Letter provided by your employer contains information on the specific features of your plan: whether you must participate in 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. There is no dollar or percentage limit for any of these types, except for after-tax voluntary contributions which may not exceed 25% of total plan contributions. 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. 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 of the various RHS contribution types (employer, sick and vacation leave accrual, mandatory pre-tax, elective pre-tax, and voluntary after-tax) are considered part of compensation on which pension benefit calculations are made.

PLAN INVESTMENTS

Q10: 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, and index funds.

Upon initial enrollment in the RHS Program, your investment allocation is automatically established as the Vantagepoint Money Market Fund.^{*}

However, you may change the investment allocation for future contributions at any time through ICMA-RC’s VantageLine (toll-free automated service line), VantageLink (Internet Web site), 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, VantageLink, 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. 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 Account into the investments of their choice at any time.

^{*} *An investment in the Vantagepoint Money Market Fund is neither insured nor guaranteed by the US Government and there can be no assurance that the Fund will be able to maintain a stable net asset value of \$1.00 per share. Please read the current prospectus carefully prior to investing any money. Vantagepoint securities are distributed by ICMA-RC Services, LLC, a controlled broker dealer affiliate of ICMA Retirement Corporation. Member NASD/SIPC.*

MEDICAL BENEFITS

Q11: 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 appropriate 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*.

Q12: 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 benefit 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 www.irs.gov).

Note that your RHS account can also be used to pay for qualifying medical expenses incurred by your spouse and dependents (See Q13).

Please be advised, 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.

Q13: Who are my dependents?*

While you are alive, eligible dependents include individuals who meet **all** 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 **and**
- The person is a U.S. citizen or a resident of the U.S., Canada or Mexico for some part of the calendar year in which your tax year began **and**
- You provided over half of the person’s total support for the calendar year.

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 benefits to any person who is your dependent under the preceding definition 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.

* Note: The definition of dependent will change effective January 1, 2005, under the Working Families Tax Relief Act of 2004.

Note that there is no age limit on the definition of dependent. As long as the requirements outlined above are met (e.g. you provided at least one-half of the support for the person), the expenses can be covered regardless of the individual’s age.

After your death, an individual that qualified 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.

Q14: Who handles medical benefit claims?

Medical benefit claims processing and payment will be handled by Zenith Administrators, Inc. Zenith is a third-party claims administrator hired by ICMA-RC to perform administrative services for the RHS program as directed by ICMA-RC. Zenith is well versed in medical benefit claims processing (its 700 employees currently serve 400 client funds), and is familiar with the workings of ICMA-RC’s RHS program.

All questions regarding claims should be directed to Zenith at 1-800-788-5885. Please request to speak with the ICMA-RC VantageCare RHS claims representative. Zenith’s claims representatives are available from 9:30 a.m. to 5:30 p.m. Eastern Time.

Q15: What is the procedure for submitting a claim for a medical reimbursement? How long does it take?

After you become benefit-eligible (see Q11), claims for medical expenses that qualify under your employer’s RHS

Plan (see Q12) 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 Zenith Administrators. Zenith reviews the claim to make certain that you are eligible and that the expense is covered by the plan. Zenith will process the claim, which will be paid, suspended, or denied in writing, within 30 days.

Eligible monthly insurance premiums may be set up with recurring reimbursements directly from Zenith Administrators 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 Zenith when payments should cease. See the VantageCare RHS Plan Benefits Reimbursement Request Form for more information.

Q16: What if a claim is denied?

If your claim for reimbursement is denied, you will receive a written notice of the denial from Zenith Administrators, Inc. 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 Zenith Administrators, Inc. 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. Zenith Administrators, Inc. 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 Zenith Administrator, Inc.’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 PLAN DISTRIBUTIONS

Q17: 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 Q11). At that point, you can begin using the account for medical expense reimbursements. (See Q15.)

There is one exception to this general rule. If your employer's RHS plan so provides, you will receive an immediate, taxable lump sum of your vested account balance if you separate from service prior to attaining benefit eligibility and your vested account balance is \$5,000 or less. Your employer may have established a lower de minimis account value, or your plan may not include a de minimis feature. See the RHS employer Announcement Letter.

See Q22 for a discussion of the tax treatment of de minimis benefits.

Note that if you are eligible for benefits on the date of your separation from service, no de minimis payment will be made.

Q18: 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.

Q19: 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 that is eligible for medical

expense reimbursement will be able to use RHS assets in the event of a medical emergency or hardship. The only payments that may be made to you other than for medical benefits are de minimis benefits (see Q17).

Q20: 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, ICMA-RC, or Zenith Administrators, Inc. 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 continue to be available for medical expense use on a taxable basis by the named beneficiary(ies)* of the last spouse or dependent to die. This taxable use by a named beneficiary(ies)* will continue until there are no longer any assets, or no named beneficiary can be located. At that time, any remaining assets 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, the account assets will be transferred to an account for medical expenses on a taxable basis by the named beneficiary(ies)* of the participant. If assets remain in the account upon the death of the named beneficiary(ies), they will continue to be used on a taxable basis for health expenses of the beneficiary(ies)* of the participant's beneficiary. This taxable use by a named beneficiary(ies)* will continue until there are no longer any assets, or no named beneficiary can be located. At that time, any remaining assets will revert to the RHS trust to be used as outlined in the employer's RHS plan.
- * In the case of medical expense reimbursements for a non-spousal or dependent beneficiary, no payments will be allowed until the year following the year of the participant's death. This will ensure that no FICA taxes will be due on the distributions.

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

Q21: Whom can I name as beneficiary of my account?

There is generally no restriction on whom you may name as beneficiary for your RHS account. You are free to name whomever you wish as your beneficiary(ies), as long as you name an individual. You may not name an estate or trust as your beneficiary.

Important: Your designated beneficiary(ies) will only have use of your RHS account if you are not survived by your spouse or any dependents (see Q13). The individual(s) you designate as beneficiary(ies) should be someone other than your spouse and dependents (for example, your grown child or other family member).

Note: If you are a resident of a community property state (AZ, CA, ID, LA, NV, NM, TX, WA, or WI) and are married, your designation of a beneficiary other than your spouse does not constitute a waiver of your spouse's right to your RHS account assets upon your death. Your designated beneficiary will have access to the account only if you are not survived by a spouse or other qualifying dependents.

Beneficiaries are designated and may be changed on the *VantageCare Retirement Health Savings Plan Employee Enrollment/Change Form*. The form is available from your employer or from ICMA-RC.

TAXES

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

RHS benefits paid in the form of medical expense reim-

bursements 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.

Medical expense reimbursements paid to a non-spouse or non-dependent beneficiary will be taxable to the recipient. ICMA-RC will file Form 1099-R directly with the beneficiary and the IRS.

De minimis benefits (see Q17) are taxable benefits. In this instance, you will receive a tax reporting form from your employer, and income tax will be payable. FICA taxes will also be payable, if you are covered by the Social Security system.

Zenith Administrators, Inc. will remit the funds to the employer who will withhold all FICA and income taxes (as shown on the table on page 7) for transmittal to the Social Security Administration and IRS. The payment will be included on your Form W-2 from your employer.

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

ADMINISTRATIVE

Q23: What types of reports will I receive?

You will receive quarterly Summary Plan Statements provided by ICMA-RC, listing information on contributions, investment earnings, and distributions. You

| 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 | No | No | No |
| Medical benefits paid to your spouse/dependents | No | No | No | No |
| Medical benefits - paid to beneficiary (in year following year of death or later) | Yes - to beneficiary receiving the payment | No | No | No - OASDI/HI taxes are not required to be paid |
| De Minimis account payout | Yes - to you | Yes | Yes, if required by state/local law | Yes - if you were covered by OASDI and/or HI |

* OASDI = Social Security and HI = Medicare

will also receive a consolidated statement, showing your ICMA-RC 401/457 account activity and your RHS account activity.

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

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

Each quarter, the following RHS administration 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).
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 \$10 asset fee.

For de minimis benefits (if applicable to your plan), ICMA-RC will assess a flat \$25 fee, which will be collected through the sale of shares in your account just prior to the payment.

RHS fees are subject to change with appropriate prior notification.

RESOURCES

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

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

Your employer:

- For information on program specifics (benefit eligibility, eligible medical expenses, contributions, elections, etc.)
- To enroll and make contribution election(s) (if applicable)
- To establish benefit eligibility

Zenith Administrators, Inc.

(1-800-788-5885: please ask to speak with the ICMA-RC VantageCare RHS claims representative)

- 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)

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 Zenith Administrators if you are eligible for benefits)
-



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