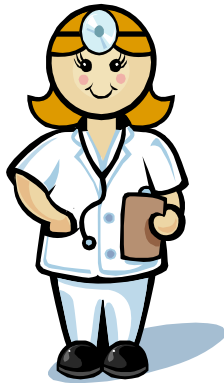


# HEALTH CARE REIMBURSEMENT ACCOUNT PROGRAM (HCAP)

## HIGHLIGHTS

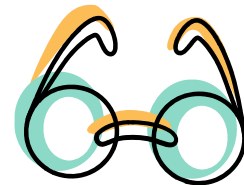
Medical



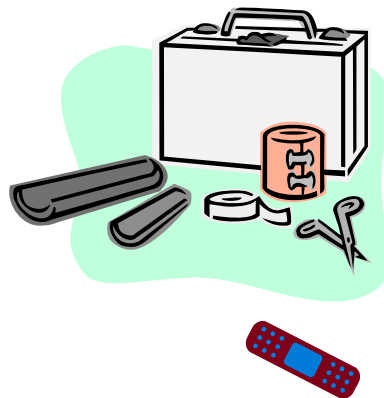
Dental



Vision



Over-the-counter (OTC) expenses



Sonoma County Tax Exempt Program (STEP)

**HEALTH CARE  
REIMBURSEMENT ACCOUNT PROGRAM (HCAP)**

**HIGHLIGHTS BROCHURE**

- Estimate your 2009 health care expenses including office and prescription co-pays and eligible over-the-counter (OTC) expenses (up to \$3,900 out-of-pocket).
- Authorize a biweekly pre-tax payroll deduction equal to your estimated health care expenses. The *minimum* biweekly deduction is \$5; the *maximum* bi-weekly deduction is \$150.
- Start saving Federal, State, Social Security and Medicare taxes beginning with the first pay date in 2009.
- Turn in itemized receipts, insurance company statements, and a completed claim form for reimbursement directly to you.
- That's it!! Enjoy the tax savings.



**Introduction**

Sonoma County employees have a benefit called the Health Care Reimbursement Account Program (HCAP). It allows eligible employees the option to set aside, on a pre-tax basis, the estimated costs of certain eligible health care expenses for themselves and their dependents that are not reimbursed under a health, dental, or vision plan. Such expenses can include any deductible you pay, your co-payments, and most charges for services or medical supplies not covered by your plan such as orthodontia and vision care. Proof of insurance benefit determination (your Explanation of Benefits (EOB) statement) is required along with a claim form.

The advantages of electing to participate in this program are that your Federal and State taxable wages, and Social Security taxes are reduced, and you can pay for eligible medical, dental and vision expenses with tax-free dollars. The contribution period for this program runs from January 1 through December 31. New hires and participants who join or cancel mid-year due to a change in status are eligible only during the period in which they are contributing (read further for specific effective dates).

This brochure describes important features of the Health Care Reimbursement Account Program. Please read it carefully to evaluate the advantages and disadvantages of participating before enrolling.

**Eligibility**

All regular County employees paid through the County payroll system are eligible to participate in HCAP except extra help, contract employees, and board or commission members.

**Enrollment**

Each tax year is separate and enrollment or re-enrollment is required every year in order to participate. Prior to the start of every plan year, you will receive notification of the open enrollment period. During that time, eligible employees may enroll in HCAP for the following year by submitting an enrollment form. You may obtain an enrollment form from your payroll clerk, the intranet, or from the Central Payroll office. You will designate how much of your salary you want deducted on a pre-tax basis and placed in your account during the plan year. Deposits will be taken in equal installments from each paycheck

throughout the year. Once you have selected an amount to be deposited, you cannot change your decision during the plan year unless you have a qualified change in status. See *Changing Enrollment* below for details. If the ACTTC's Central Payroll office does not receive your completed enrollment form prior to the announced deadline, you must generally wait until the next annual enrollment period to enroll for the following plan year. Your first deduction will appear on your first paycheck in January. You will receive HCAP Documentation Guidelines along with an acknowledgment of your enrollment. Review these guidelines carefully. If you enrolled and no acknowledgment is received or no deduction is withheld, notify the ACTTC's Central Payroll office immediately at 565-6024.

Eligible employees who experience a qualified change in status or are hired after the start of a plan year may enroll within 31 days of their date of hire or date of status change. The first deduction will be withheld from the first available pay check following enrollment.

### **When Coverage Begins**

The annual open enrollment is the time to enroll for the first time or to re-enroll for the following plan year. If you enroll during the annual open enrollment, coverage will be effective on January 1 of the following plan year. For employees enrolling during the plan year (such as new hires or those who enroll due to a change in status), coverage will be effective on the first available pay date on which a contribution is made. In no case will coverage extend beyond the last day of the plan year or before January 1.

If you wish to participate, you must re-enroll and make an election for each new period of coverage. If at any time during the plan year your contribution changes (due to leave without pay (LWOP), change in status, or termination), your period of coverage will change. Keep in mind this program works like purchasing insurance coverage. You are fully "covered" for the total election amount for the period of time you are making the stated contribution. This means you may claim reimbursement up to the full amount you have elected even if you have not contributed the entire amount. When contributions stop or change, a new period of coverage is established; these changes are effective on the pay date when the change occurs.

### **Changing Enrollment**

Generally, you can make changes to your HCAP election only once each year, during the annual open enrollment period. However, you may make enrollment and coverage changes during the year due to certain "changes in status" and other events, as permitted by IRS rules, as described below. In general, your change in coverage must be due to and consistent with your change in status event.

#### **Change in Status Events**

Change in status events include the following:

- *Legal marital status.* You marry, divorce, become legally separated, your marriage is annulled, or your spouse dies.
- *Number of (tax) dependents.* You gain a dependent through birth, adoption or placement for adoption, or your dependent dies.
- *Employment status.* You, your spouse, or your dependent experiences a change in employment status that results in gaining or losing eligibility for coverage. For example, beginning or ending employment; changing from part-time to full-time employment or vice versa; taking an unpaid leave of absence or returning from an unpaid leave of absence lasting 30 days or longer; experiencing a strike or lockout; or changing work sites.
- *Dependent status.* Your dependent satisfies or ceases to satisfy the requirements for coverage due to attainment of age, student status, or similar circumstances.

- *Residence.* You, your spouse or your dependent changes place of residence.

**For benefit election changes involving HCAP, the consistency rule is satisfied if both of the following requirements are met:**

- *Effect on eligibility.* The change in status event affects eligibility for coverage under the plan or under a plan sponsored by the employer of your spouse or dependent.
- *Corresponding election change.* The election change corresponds with the change in status event. (For example, if you marry or gain a dependent, you may enroll or increase your HCAP coverage election).

### **Medicare or Medicaid Entitlement**

You may decrease your election for HCAP coverage during a period of coverage if you, your spouse, or dependent becomes entitled to coverage under Medicare or Medicaid, or increase your election for HCAP coverage if you, your spouse, or dependent loses entitlement to Medicare or Medicaid.

### **Judgment, Decree, or Order**

You may revoke an election for HCAP coverage during a period of coverage and make a new election if a judgment, decree, or order requires health coverage for your child, including a foster child, who is your tax dependent. The order must have resulted from a divorce, legal separation, annulment, or change in legal custody, and include a qualified medical child support order. You may increase your HCAP coverage if the order requires coverage under your health plan. You may also decrease or cancel HCAP coverage for the child if the order requires your former spouse to provide coverage.

### **Family and Medical Leave Act**

You may revoke an election for HCAP coverage mid-year when you begin a leave, subject to the provisions of the Family and Medical Leave Act (FMLA). If you revoke coverage or if you fail to make payments during your FMLA leave, you have the right to be reinstated to the same elections you made prior to taking your FMLA leave.

You must contact the ACTTC's Central Payroll office within 31 days of the event to request an election change. Otherwise, your next opportunity to make changes will be the next annual enrollment period or when you have another change in status, whichever occurs first.

### **Annual Minimum/Maximum Deductions**

The **minimum** amount you may deduct for HCAP participation on an annual basis is \$130 (\$5 bi-weekly). The **maximum** amount you can deduct on an annual basis is \$3,900 (\$150 bi-weekly).

### **Leave Without Pay (LWOP)**

Leave without pay (LWOP) and the return from LWOP may each be considered a change in status (qualified event) for purposes of the STEP program if the event affects eligibility for coverage. A *Change in Election* form is **required** for each qualified event and must be submitted within 31 days of the event.

The employee's period of coverage ends when contributions stop due to unpaid leave. Expenses incurred (services provided) while on unpaid leave are **not eligible** unless special arrangements are made with the ACTTC's Central Payroll office to continue contributing on an after-tax basis. In any case, be sure to complete a *Change in Election* form as soon as possible if you will be going on LWOP. When returning to work, a new *Change in Election* form is required within 31 days if the contributions are to be restarted.

### Eligible Expenses

Under the plan, you may submit bills for most health care expenses that you are legally obligated to pay and for which you **did not** receive reimbursement from any medical, dental, vision, or any other source.

Services must be received while you are a participant in HCAP, and expenses may be incurred for any person who is your dependent for income tax purposes (even though the dependent may not be covered under your health plan). Proof of insurance benefit determination (i.e. EOB) is required. Eligible expenses when properly documented may include:

- \* Health care that is not covered by a medical plan
- \* Medical and dental plan deductibles and co-payments
- \* Expenses that are higher than reasonable and customary fees thus excluded from coverage under a health plan
- \* Prescription drugs and some over-the-counter (OTC) medical necessities
- \* Capital expenses related only to the sick person and not related to government improvement or betterment of property
- \* Adult or child orthodontia (**Special documentation requirements: since only services provided during each plan year are eligible, you will be required to provide a statement from the dentist that itemizes services provided in each plan year, in addition to providing a copy of the dental insurance Explanation of Benefits (EOB).** An example will be provided in your Welcome packet.
- \* Services and supplies not covered under a plan because of limitations, such as having your teeth cleaned more often than provided by the dental plan
- \* Vision care, eye surgery, glasses, contacts, over-the-counter reading glasses, and lens care supplies
- \* Essential transportation, e.g. ambulance, taxi because you are medically unable to drive, etc.

This is not a complete listing of eligible expenses. Use IRS Publication 502 as a guideline. (<http://www.irs.gov/pub/irs-pdf/p502.pdf>) However, some rules for this type of plan differ from what the IRS allows individuals to write off on their personal income taxes. For example, premiums for insurance or expenses for long-term care services are **not eligible** for reimbursement under HCAP. We recommend that you obtain and review IRS Publication 502, as well as our Documentation Guidelines before calculating your deduction and completing an enrollment form.

### Ineligible Expenses

Expenses **not** considered eligible by the IRS include any expense that is not primarily for the prevention or treatment of a physical or mental illness or defect. The IRS does not consider the following eligible:

Cosmetic surgery or other similar procedures, unless the surgery or procedure is necessary to improve a deformity arising from, or directly relating to, a congenital abnormality, a personal injury resulting from an accident or trauma, or disfiguring disease. Ineligible cosmetic surgery is further defined as “any procedure that is directed at improving the patient’s appearance and does not meaningfully promote the proper function of the body or prevent or treat illness or disease.”

### **Ineligible Expenses (con't)**

- Health club dues for general health
- Special food as part of a weight loss plan
- Health foods & Vitamins
- Tooth brushes (including electric)
- Teeth whitening
- Non-prescription sunglasses
- Premiums or contributions to individual health policies; outside health plans; including COBRA continuation coverage, Medicare, or plans of another employer; or contact lens insurance
- Employee-paid premiums for current health coverage

### **Getting Reimbursed**

Expenses incurred during the calendar year and during the plan's "grace period" are eligible for reimbursement. If you participate in the plan in 2009, expenses incurred between January 1, 2009 and March 15, 2010, are eligible for reimbursement from your 2009 account contributions. (The "grace period" runs from January 1, 2010 through March 15, 2010.) Claims incurred during the "grace period" will be applied to any remaining 2009 account balance, and then to your 2010 balance, if you elect to participate in 2010.

The deadline for submitting your claims for reimbursement from your 2009 contributions is March 31, 2010.

For reimbursement, you can pick up a claim form (Reimbursement Request) from your payroll clerk or the ACTTC's Central Payroll office.

Complete the claim form, provide all information requested, and attach your itemized bill or receipt for the expense. Include proof of your insurance coverage's determination, Explanation of Benefit form (EOB), if applicable. Be sure to keep copies of the documentation you provide. All claim forms must be filled out completely. If information is missing from your claim form, it may be returned to you for completion delaying your reimbursement.

### **Claims can be submitted at any time during the plan year and reimbursement for several expenses can be included on one form. The minimum claim amount is \$20.**

Claims are processed bi-weekly according to the Payment Schedule. If you miss the cutoff date, your claim will be processed on the next processing cycle. Send the claim form and attachment(s) to the ACTTC's Central Payroll office. For a claim to be processed for the current payroll processing cycle, the claim must be received in the ACTTC's Central Payroll office by 5 p.m. on or before the current pay date.

Generally, your reimbursement and Explanation of Benefit form (EOB) will be mailed to your home address within approximately 14 days. If you sign up for direct deposit you will receive only the EOB, your reimbursement will be deposited directly in your bank account.

As this program is a "stand-alone" program, you can have your reimbursement directly deposited to a different bank than you have for your bi-weekly paycheck. A direct deposit enrollment form and payment schedule will be included with your welcome packet. You can also request a copy by calling 565-6024 or 565-4690 or get one online at [http://sc-intranet/acttc/payroll\\_docs.htm](http://sc-intranet/acttc/payroll_docs.htm).

You may be reimbursed up to the total annual amount you elected at any time during the calendar year and plan's "grace period." You may file claims until the deadline noted above; after that date you will lose any unclaimed balance. Read the "Use it or Lose It" Provision below.

### **The “Use-It-or-Lose-It” Rule**

Plan your contributions carefully! As required by the Internal Revenue Code, any unclaimed funds remaining in your Health Care Reimbursement Account at the end of the plan’s “grace period” will be forfeited. This rule should be used to encourage you to plan carefully, not as a deterrent to participate in the plan.

The deadline for reimbursement for eligible expenses is March 31, 2010. After that, the forfeiture provision will apply.

Any forfeited amounts remaining after all claims have been paid at the end of the plan’s “grace period” will be distributed equally to all participants whose account is active on the last day of the plan’s “grace period.” This distribution is taxable income in the year in which it is paid.

### **Continuation Coverage**

If you terminate service with the County during a plan year and you meet the criteria, you may elect continuation coverage through the Consolidated Omnibus Budget Reconciliation Act (COBRA) for the rest of the year. For participation in HCAP to continue, you must pay your elected contributions, plus administrative fees, on an after-tax basis. Unless you elect to continue contributing to your Health Care Reimbursement Account through COBRA, you cannot be reimbursed from your health care account for services you receive **after** you stop contributing to the plan. Notify the ACTTC’s Central Payroll office within 7 working days of your intent to contribute on an after-tax basis.

### **A Final Important Note**

Participation in the program generally does not change your base salary in terms of your coverage for other salary-based benefits such as life insurance, long-term disability, Workers’ Compensation and qualified retirement benefits. However, when you participate in a plan such as the Health Care Reimbursement Account Program, your Social Security taxes are reduced. That reduction may have an impact on your Social Security benefits at the time of retirement. For most people, the savings in income taxes will usually outweigh any loss in Social Security benefits. However, you should consider that before enrolling in the program.