



# County of Orange Health Reimbursement Arrangement (HRA) Plan Questions and Answers for Employees

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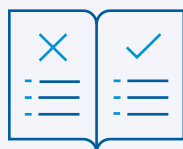
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Tax benefits and references in this publication are based on federal tax laws. Most states do not tax HRA contributions, but benefits may be subject to state and local taxes. Check with your benefits office and/or a qualified tax professional to learn more.

The County of Orange HRA 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 HRA program enables you to prepare in advance for these costs.

## Contributions

### 1 How do I know the specific rules for my account?

A plan summary of the HRA 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.

### 2 What types of contributions will be made to my HRA plan?

Your employer determines the contribution\* type(s) available to your plan, which may include an employer contribution of a fixed percentage or dollar amount or a discretionary amount that may vary from year-to-year.

\* Other contributions made as a condition of employment as required by a memorandum of understanding.

### 3 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.

### 4 How are my HRA contributions coordinated with Section 457 and 401 plans?

Contributions to HRA 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 HRA 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.

### 5 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 HRA contribution types (employer and mandatory pre-tax) are considered part of compensation on which pension benefit calculations are made.

## Plan Investments

### 6 How will my HRA assets be invested?

The investment funds available to HRA participants include actively managed funds, model portfolio funds, index funds, stable value, and target-date funds. Upon initial enrollment in the HRA Program, your investment allocation is automatically established as 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 by logging into your participant website at [www.missionsq.org](http://www.missionsq.org), or contact a MissionSquare representative.

## Medical Benefits

### 7 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 HRA 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 MissionSquare of your eligibility and, before beginning to receive benefits, you must complete the *MissionSquare 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 MissionSquare.

You will then be able to submit reimbursement requests directly to the third-party claims administrator on the *MissionSquare 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 MissionSquare. Medical expenses incurred before you are eligible for HRA benefits will not be reimbursed.

You can also use the online claims portal to submit claims, update information such as spouse and dependent(s), set up direct deposit, and much more. To use the portal, you will need to log in to your account through MissionSquare Retirement's website ([www.missionsq.org/login](http://www.missionsq.org/login)), select your plan number referenced above, then select "Claims" to be directed to Meritain's claim portal.

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.

### 8 What medical expense payments will be covered?

When your employer adopted the HRA 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 HRA 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](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 HRA plan.

**NOTE:** Your HRA account can also be used to pay for qualifying medical expenses incurred by your spouse and dependents, if covered by your HRA plan.

### 9 Who are my dependents?

Once you are eligible for HRA benefits under the terms of your employer's plan, your HRA 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](http://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, foster 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

\* For reimbursement of qualifying medical expenses only, the IRS has different definitions for a "child" and a dependent that includes a "qualifying child".

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 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.

#### **10** What medical expense payments will be covered?

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 MissionSquare. 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.

#### **11** What medical expense payments will be covered? What is the procedure for reimbursement? How long does it take?

When you become benefit-eligible, your employer notifies MissionSquare and you notify the third-party claims administrator. You may then submit medical claims for reimbursement on the *MissionSquare RHS Plan Benefits Reimbursement Request Form*. The claim is reviewed to ascertain that you are benefit-eligible, that the claim is covered by your HRA 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 and received, if by mail, 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.

#### **Claims Outside of the U.S.:**

The third-party claims administrator is able to process claims for participants who reside outside of the United States. If services are paid in a foreign currency, the third-party claims administrator will convert to U.S. dollars to process in their system. If the documentation is in a foreign language, the third-party claims administrator will do their best to translate. If they are unable to translate it, the claim would be denied and the participant would need to translate. To avoid delays, participants should submit claims and documentation in English.

Due to increased security and fraudulent issues, single sign-on from MissionSquare to the claims portal is not permitted from foreign countries. Participants need to fax or mail in claims to the third-party claims processor.

Additionally, participants must have a U.S.-based bank account in order to establish direct deposit.

#### **12** What medical expense payments will be covered? 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**

#### **13 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).

#### **14 When I leave my job, can I roll my HRA account balance into an IRA, another employer's retirement plan, or another HRA account?**

Your HRA account must remain in your employer's HRA 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 HRA account with a different employer when you separate from service.

#### **15 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 HRA assets in the event of a medical emergency or hardship.

#### **16 What happens to the account balance when a participant dies?**

MissionSquare Retirement must be notified of the death by the filing of the *MissionSquare RHS Plan Decedent Information Form*, available from your employer or MissionSquare Retirement. Upon the death of a participant, the HRA 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 HRA trust to be used as outlined in the employer's HRA 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 HRA trust to be used as outlined in the employer's HRA plan.

### **Taxes**

#### **17 How are payments from HRA accounts treated for tax purposes?**

HRA 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.

**Tax and Reporting**

Type of HRA Benefit	Income Taxes*		FICA	Tax Reporting by
	Is the benefit income taxable?	Is federal income tax withheld?	Is OASDI/Hi** withheld if applicable?	
Medical benefits paid to employee	No	No	No	N/A
Medical benefits paid to spouse/dependents	No	No	No	N/A
Excess reimbursements to highly compensated individuals***	Yes – to participant	No	No	Employer

\* Tax benefits related to the MissionSquare Retirement Health Savings (HRA) Program and tax references in this publication are based on federal tax laws. Most states do not tax HRA 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.

\*\* 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.

**Same-Sex Marriages**

Federal law recognizes same-sex marriages and MissionSquare Retirement HRA provides same-sex spouses with the same rights as spouses of the opposite sex including with respect to the following:

- **Eligible Expenses:** Participants may request HRA 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 HRA plan account.

**Administrative**

**18 Does MissionSquare Retirement charge a fee for the HRA Program?**

An annual asset fee of 19.5 basis points (0.195% of your account) will be assessed on a quarterly basis.

All Program fees will be reflected in your quarterly statement, which contains complete and up-to-date fee information.

**NOTE:** HRA fees are subject to change with prior notification.

**Resources**

**19 Whom should I contact with questions regarding the HRA Program?**

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

**Your Employer**

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

**MissionSquare Retirement**

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)

**Meritain Health (Third-Party Claims Administrator)**

Phone: 888-587-9441 | Fax 888-665-8495

Email: [missionsq@meritain.com](mailto:missionsq@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 MissionSquare Retirement)
- Submit claims online through single sign-on from [www.missionsq.org](http://www.missionsq.org)