



THE CALIFORNIA STATE UNIVERSITY HEALTH CARE REIMBURSEMENT ACCOUNT (HCRA)

January 2005

This brochure is intended to provide highlights of the California State University (CSU) Health Care Reimbursement Account (HCRA) Plan. There are many important rules regarding this plan, so please read this material carefully. Complete details of the plan are provided in the official plan document, which is at all times the ruling plan document. If you have questions about the plan, or wish to review a copy of the plan document, contact your campus Benefits Representative.

Overview

The CSU Health Care Reimbursement Account, a voluntary benefit for eligible employees, offers you the ability to pay for eligible out-of-pocket health care expenses with pre-tax dollars. If you enroll in the plan, the contributions you make to your account are deducted from your pay before federal, state and Social Security taxes are calculated. Your taxable income is reduced, and consequently, your taxable income reflected on your annual W-2 statement is reduced. Expenses eligible to be reimbursed from the Health Care Reimbursement Account are expenses that are medically necessary but not covered by your own, or another insurance plan, and are expenses incurred by you, your spouse, and your dependents¹ as defined under IRS Code 152. The "Eligible Expenses" section of this brochure provides more information on reimbursable expenses. Expenses solely for cosmetic reasons or expenses that are merely beneficial to your general health are not reimbursable, as they are not medically necessary.

If you wish to participate in this plan, you must enroll each year you want to participate.

Eligible Employees

You are eligible to enroll in the Health Care Reimbursement Account if you are in an Executive, Management Personnel Plan (MPP), Confidential or other nonrepresented position, or are covered by a collective bargaining agreement that provides the benefit. Rehired annuitants and employees under the Faculty Early Retirement Program (FERP) are not eligible to participate.

Enrollment and Effective Date of Coverage

The annual open enrollment period is normally September–October. The effective date of plan coverage will be Jan.1–Dec. 31 of the following year.

New employees may enroll in the plan within 60 days of becoming eligible or during open enrollment. Coverage will become effective on the 1st of the month following enrollment, subject to campus and State Controller's Office processing timelines.

Once your coverage begins, you will not be able to change your contribution amount until the next open enrollment period unless you have had a change in status. See explanation under the "Change in Status" section of this brochure.

Employees who do not enroll during the open enrollment period will be eligible to enroll during any subsequent annual open enrollment period, or due to a change in status, as stated above.

You must re-enroll in the Health Care Reimbursement Account plan **during every annual open enrollment period** to participate during the following calendar year.

How to Enroll

You will need to obtain a Health Care Reimbursement Account Authorization Form from your campus Benefits Representative. On the form, list the amount you want deducted each month from your paycheck on a pre-tax basis. You will be charged a small administration fee that is deducted from your salary on an after-tax basis.

¹ You may claim reimbursement for expenses paid for your domestic partner if your domestic partner is a dependent.

If you are a new employee, you must enroll within 60 days of your hire date to participate for the remainder of the calendar year.

Your Health Care Reimbursement Account (HCRA)

The Health Care Reimbursement Account provides reimbursement of eligible health care expenses that you or your eligible family members incur, via a special tax-free account set up for this purpose.

Each month, the dollar amount you preselect is deducted from your salary before federal, state and Social Security taxes are withheld. These deductions are held in your personal Health Care Reimbursement Account until you incur eligible expenses and file a reimbursement claim. Reimbursement claim payments are not taxable.

Tax-free Health Care Reimbursement Accounts are governed by a number of rules, most of which are set by the Internal Revenue Service (IRS) and can be changed only by that agency.

Eligible Expenses

Expenses eligible to be reimbursed from the Health Care Reimbursement Account Plan are those that are not eligible for reimbursement under another plan and medically necessary expenses that are incurred by you, your spouse, and your dependents during the plan year for medical care as defined in Section 213(d) of the Internal Revenue Code. You may include all medical, dental and vision expenses for the diagnosis, cure, treatment or prevention of disease, and for treatments affecting any part or function of the body that are not covered or not reimbursed by insurance. Expenses may also be to alleviate or prevent a physical defect or illness. Expenses incurred solely for cosmetic reasons or expenses that are merely beneficial to a person's general health are not eligible for reimbursement. Expenses qualify for reimbursement based on when incurred, not when paid, and federal regulations do not allow any insurance premiums or long-term care expenses to be included under the HCRA plan. You may refer to IRS Publication 502 for general information on deductible medical expenses. However, please be aware that not all the expenses listed as deductible in IRS Publication 502 are eligible for reimbursement under the HCRA plan. For example, insurance premiums and long term care expenses are not eligible for reimbursement under the HCRA plan, although they are listed as deductible expenses under IRS Publication 502.

Participants may claim reimbursement for over-the-counter (OTC) medicines available without a prescription, provided the expense is properly substantiated. The IRS ruling on OTC medicines specifically mentions such OTC medicines as antacids, allergy medicines, pain relievers, and cold medicines purchased without a doctor's prescription, but specifically disallows reimbursement for vitamins taken "for general good health."

Below is a partial list of expenses eligible for reimbursement under the Health Care Reimbursement Account.

Medical Expenses

- Deductibles;
- Copayments;
- Charges for routine check-ups, physical examinations, and tests connected with routine exams;
- Charges over the "reasonable and customary" limits;
- Expenses not covered by the medical plan due to a pre-existing condition, or exclusion by the insurance company;
- Prescription drugs or medicines (cost not covered by insurance);
- Certain over-the-counter medicines and drugs (see discussion on following page);
- Smoking cessation programs and related drugs;
- Weight loss programs, supported by a physician's statement, including membership, or program fees for individuals diagnosed with hypertension or obesity (weight-loss programs for general health improvement do not qualify as an eligible expense); and
- Other expenses not covered by the medical plan that qualify as a federal income tax deduction, such as special services and supplies for the disabled.

Dental Expenses

- Deductibles;
- Copayments;
- Expenses that exceed the maximum annual amount allowed by your dental plan;
- Charges over the "reasonable and customary" limits; and
- Orthodontia treatments that are not strictly cosmetic. Eligible orthodontic expenses can include: required down payments, monthly payments, and banding fees.

Initial requests for reimbursement of orthodontic treatment must include a contract or statement from the orthodontist. This docu-

mentation must reflect the beginning date of treatment, total cost of treatment, and estimated length of treatment. The entire cost of treatment must be prorated over the entire anticipated treatment period. This means that you can only receive reimbursement for orthodontic costs incurred during each plan year of participation, even if you pay the entire treatment cost in the current plan year. Participants who expect treatment to extend beyond the plan year he/she is currently enrolled in, are encouraged to re-enroll for the following plan year for reimbursement of pending expenses.

Vision and Hearing Expenses

- Vision examinations and treatment (cost not covered by insurance plan);
- Cost of eyeglasses, prescription sunglasses, contact lenses including lens solution and enzyme cleaner;
- LASIK surgery; and
- Cost of hearing aids and batteries.

Over-the-Counter Drugs and Medicines

The following provides a brief summary of qualifying and non-qualifying drugs and medicines:

Qualifying OTC Medicines and Drugs

(Purchased to alleviate or treat a personal injury or sickness)

- Allergy medicines;
- Cold medicines;
- Aspirin or pain medicines;
- Creams or ointments;
- Antibiotics; and
- Vitamins, herbs and nutritional supplements (only if to treat a specific medical condition – refer to the claims procedures listed above).

Ineligible Expenses

This is a brief summary of ineligible expenses under the CSU plan. If you have any questions, please contact your campus Benefits Representative.

- Any and all insurance premiums, warranty fees, or service contracts;
- Long term care expenses (including nursing home charges);
- Surgery or procedures that are strictly cosmetic, such as electrolysis, hair transplants, plastic surgery, spider vein removal, teeth whitening or veneers;
- Health club dues (even if doctor prescribed);

- Marriage and family counseling; and
- Non-prescription medicines and vitamins, if purchased only for purposes of general health.

Non-Qualifying OTC Medicines and Drugs

(Any over-the-counter medicine or drug purchased for general health purposes)

- Vitamins, herbs and nutritional supplements;
- Cosmetic supplies;
- Large supply of over-the-counter medicines and drugs;
- Band-aids or other non-medicines; and
- General hygiene items (toothpaste, deodorant, etc.).

Amount You Can Contribute

You can contribute a minimum of \$20 to a maximum of \$416.66 each month to your account. Contributions must be made by payroll deduction. The CSU permits an annual maximum of \$5,000 for a full plan year.

The limits noted above may be lower for employees who are classified as “highly compensated employees” according to IRS rules. You will be notified of the limit on your Health Care Reimbursement Account contributions, if any apply.

Your payroll deductions are exempt from federal, state and Social Security taxes, however, they are not exempt from CalPERS retirement contributions. Your account contributions have no impact on any other employer-provided benefits that are based on your salary. There may be some impact on your Social Security benefits as discussed in the section titled “Effect on Social Security.”

Change in Status

Once the plan year has begun, you cannot make changes in your authorization unless you experience a change in status, as defined by the IRS and recognized under this plan. Your election to change must be on account of and correspond with one of the following change in status events:

- Change in Legal Marital Status – Marriage, divorce, death of spouse, legal separation or annulment;
- Change in Number of Dependents – The birth, death, adoption, loss of legal custody or placement for adoption of a child;
- Termination/Commencement of Employment – The beginning or the end of employment of the employee, spouse or dependent,

that impacts coverage of the employee, spouse or dependent;

- Change in Work Hours – Start/stop of unpaid leave of absence or a strike or lockout of employee, spouse or dependent;
- Dependent Eligibility – Events that cause a dependent to satisfy or cease to satisfy eligibility requirements for coverage on account of attainment of age, student status, or any similar circumstance;
- Entitlement to Medicare or Medicaid – Employee, spouse or dependent gains or loses eligibility for Medicare or Medicaid; or
- Judgment, decree, court order, or Qualified Medical Child Support Order (QMCSO).

All events listed above qualify as a change in status event only if they result in a gain or loss of eligibility under the CSU or another plan.

If you experience a change in status event, you may increase (to the appropriate limit), decrease, start, or stop your contributions by filing a new Health Care Reimbursement Account Authorization form within 60 days of the status change. Any change you make must correspond and be consistent with the change in status event. If you stop your contributions, you may continue to submit eligible expenses incurred prior to the date your plan participation ends. (See the “COBRA” section for rules on continuing coverage if your CSU employment terminates for any reason, or you go on a leave of absence without pay.)

How to Plan Your Contributions

If you are already paying for health expenses (including medical, dental and vision) not paid by insurance, you probably know your annual expenditures. By looking at your records for the past year and identifying anticipated out-of-pocket medical, dental, and/or vision costs, you can estimate the contributions you want to make to the Health Care Reimbursement Account.

You must estimate your eligible expenses very carefully. As noted earlier, your authorization is irrevocable during the plan year unless you have a change in status event. In addition, any money left in your Health Care Reimbursement Account after your expenses have been paid for the year **will be forfeited**. The IRS will not permit excess contributions to be refunded or carried over into the next plan year.

In addition, the IRS prohibits the transfer of funds from one pre-tax account to another. If you participate in both the Dependent Care Reimbursement Account

and the Health Care Reimbursement Account, you cannot use your Health Care Reimbursement Account for reimbursement of dependent care costs, or vice versa.

Effect on Social Security

Depending upon your salary, your Social Security deductions may also be reduced by your contributions to the Health Care Reimbursement Account. This means your Social Security benefits at retirement also may be reduced slightly, because you have paid Social Security taxes on a lower wage amount. You should take this into consideration as you make your decision about enrolling in the Health Care Reimbursement Account. (For more information, you may wish to consult your tax advisor or financial planner.)

How to Claim Reimbursement

CSU Health Care Reimbursement Account claim forms are available from your campus Benefits Representative, or the Claim Administrator, ASI. These forms may also be downloaded from ASI’s website at: <http://www.asiflex.com>. ASI can be contacted toll-free at (800) 659-3035.

You can file a claim for reimbursement by completing the form and attaching an itemized bill for your health care expenses. If you wish to keep your originals, you may submit photocopies of your bills, but the information on the claim form itself must be original, not photocopied. Claims cannot be paid without such verification of expenses, and copies of canceled checks are not sufficient documentation.

In addition to the above claims procedures, claim reimbursement for over-the-counter drugs and medicines must include the following:

1. **The receipt or documentation** from the store must include the name of the drug purchased printed on the receipt. This information must be provided by the store, not just listed by the participant on the receipt or claim form.
2. The participant must **indicate the personal injury or sickness** on the receipt, on the claim form, or on a separate enclosed statement each time these items are claimed. Purchases for general health will not be accepted.
3. To claim reimbursement for vitamins, herbs or nutritional supplements, the participant must have a **written diagnosis of the medical condition from**

a doctor and “prescription” of all specific items for that condition on file with the claims office. The participant must renew this physician notice every 12 months and file it with the claims office with the first claim submitted for the participant each plan year.

You will need to send completed claims to the Claim Administrator’s address, as specified on the claim form. Reimbursements are paid twice per month. If your claim is received by the 5th of the month, reimbursement will be mailed, or sent to your account electronically (if you elect this option) by the 15th of the month. Claims received by the 20th will be reimbursed in like manner (as stated above) by the end of the same month. There is no minimum reimbursement amount.

You may file claims for expenses incurred during a plan year any time up to six months after the end of the plan year (June 30 of the next year). Any balance remaining in your Health Care Reimbursement Account after that date will be forfeited.

You will be reimbursed for the full amount of any eligible claim submitted, even though you may not have yet contributed enough money through payroll deductions to your HCRA account to cover the submitted expenses. The total claims paid will not exceed the maximum you elected to contribute for the plan year.

Claims Denial and Appeal

You will receive written notice of any denied claims. You will have 180 days from the date of the written notice to file an appeal of that specific claim denial with the Claims Administrator. The Claims Administrator will provide you with a written notice of the resolution of the appeal within 60 days of the appeal.

Continuation of Coverage

Consolidated Omnibus Budget Reconciliation Act (COBRA)

If you lose your eligibility to participate in the Health Care Reimbursement Account for any reason during the plan year (i.e., leave of absence without pay, retire, terminate, etc.), you may continue to make contributions on an after tax basis to your account under CSU’s Continuation of Coverage guidelines. The CSU extends the HCRA benefit to employees who lose coverage pursuant to COBRA through the end of the plan year. You must have a positive account balance at the time you separate or go on leave without

pay in order to participate. However, no account balance is required if you are on an unpaid Family Medical Leave (FMLA). You must elect to continue coverage within 60 days of notification of a qualifying event or the loss of eligibility, whichever is later. There are no tax savings on contributions you make to your account under COBRA. Your eligibility will terminate at the end of the month in which you last contributed, and you only will be reimbursed for eligible expenses that were incurred through this period. If you choose not to continue contributions under COBRA, the funds you have already contributed to your account will not be available for reimbursement of expenses you incur after the date you are no longer eligible.

Termination of Your Participation/Plan

Your participation in the Health Care Reimbursement Account will end as of the later of the following:

- At the end of the month in which you last contributed (for claim filing purpose, eligible expenses only will be reimbursed for services provided through the end of this period.) For example, if you terminate in May, your last contribution to HCRA is taken from your May salary, and your participation ends June 30.
- The end of the current plan year if you fail to reenroll during the annual open enrollment period.
- The date you have been reimbursed for the entire elected annual contribution amount, and have zero funds left in your account, following cancellation or failure to reenroll.
- Upon termination of your employment unless you qualify for and elect COBRA.
- The date of your death, unless your beneficiary qualifies for, or elects COBRA.
- Upon termination of this plan.

This plan may be terminated by the CSU only as of the end of any plan year. Any amounts credited to your account as of the end of the plan year, and unclaimed through the reimbursement process by the following June 30, will be forfeited.

Final Note

Through the Health Care Reimbursement Account, it is possible to pay for health care expenses on a tax-advantaged basis easily and automatically. Carefully consider your decision to participate. If you are eligible, you’ll find it a worthwhile addition to your CSU benefits package.



Refer to Internal Revenue Service (IRS) Publication 502 for additional information.
The IRS website address is: <http://www.irs.ustreas.gov>.

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