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HR/BENEFITS 2001-10

To: Human Resources Directors
Benefits Officers

From: 
Cathy Robinson, Senior Director
Human Resources Administration

Subject: **NEW HEALTH CARE REIMBURSEMENT ACCOUNT PLAN (HCRA)**

Effective June 1, 2001, the California State University (CSU) will implement a Health Care Reimbursement Account Plan (HCRA). This technical letter highlights program details and provides information on the upcoming Open Enrollment.

Plan Features:

The CSU Health Care Reimbursement Plan allows eligible employees to pay for eligible out-of-pocket health care expenses with pre-tax dollars, in accordance with Internal Revenue Code section 125. Contributions to the plan are deducted from the employee's pay before Federal, State, and FICA taxes are withheld. Taxable income is reduced, and consequently, taxable income reflected on a participant's W-2 statement is reduced.

Eligible Expenses:

Medical, dental and vision expenses eligible to be reimbursed must be uninsured and medically necessary, and incurred by employees and/or their tax dependents, including a Domestic Partner who is claimed as a tax dependent by the employee. Expenses must be for the diagnosis, cure, treatment, or prevention of disease, and for treatments affecting any part or function of the body. Expenses must be to alleviate or prevent a physical defect or illness. Expenses incurred solely for cosmetic reasons, or that are merely beneficial to a person's general health are not eligible for reimbursement.

Listed below is a partial list of eligible expenses reimbursable under the HCRA Plan. A comprehensive list of qualifying/non-qualifying expenses and limitations refer to IRS Publication No. 502, located at the following website: <http://ftp.fedworld.gov/pub/irs-pdf/p502.pdf>.

1. **Medical Expenses:**

- ✓ Deductibles and Co-payments
- ✓ Charges for routine check-ups, physical examinations, and tests

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CSU Presidents
Vice Chancellor, Human Resources
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Director, SOSS
Payroll Managers

All Without Attachment

- ✓ 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
- ✓ Drugs requiring a doctor’s prescription that are not covered by insurance
- ✓ Smoking cessation programs and related prescription drugs
- ✓ Expenses not covered by the medical plan that qualify as a federal income tax deduction, such as services and supplies for the disabled

2. Dental Expenses:

- ✓ Deductibles and Co-payments
- ✓ Expenses that exceed the maximum annual amount by your dental plan
- ✓ Charges over the “reasonable and customary” limits
- ✓ Orthodontia Treatments that are not strictly cosmetic

3. Vision and Hearing Expenses:

- ✓ Vision Examinations and Treatment not covered by insurance plan
- ✓ Cost of eyeglasses, prescription sunglasses, contact lenses including lens solution and enzyme cleaner
- ✓ Laser Eye Surgery, if done primarily to promote the correct function of the eye

Ineligible Expenses:

Listed below is a partial list of expenses that are generally not reimbursable under the HCRA plan:

- ✓ Payroll Contributions made to the Health Care Reimbursement Plan
- ✓ Cosmetic Surgery (unless necessary to improve a deformity arising from or related to a congenital abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease)
- ✓ Electrolysis, Hair Removal or Hair Transplants
- ✓ Health Club Dues
- ✓ Non-Prescription Drugs and Medicines
- ✓ Nutritional Supplements
- ✓ Cost of Weight Loss Programs (unless the program is recommended by a physician to treat an existing disease, i.e., heart disease)
- ✓ Life Insurance Premiums
- ✓ Long Term Care Insurance Premiums

Employee Eligibility

Represented and non-represented employees are eligible to participate in the HCRA Plan with the exception of employees appointed in the following classes (unless concurrently appointed in an eligible class):

- ✓ Student classifications (0100, 1870, 1871, 1872, 1874, 1875, 1876)
- ✓ Graduate Assistants (2355)
- ✓ Instructional Faculty, Designated Discipline – Extra Quarter Assignment (2367), Instructional Faculty, Extra Quarter Assignment - QSYRO (2368), Instructional

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- ✓ Faculty, Executive Committee, Academic Senate (2394)
- ✓ Trade rate employees
- ✓ Special pay classifications (2322, 2323, 2356, 2357, 2363, 2365, 2392, 2417, 2418, 2974, 4660)
- ✓ Retired Annuitants
- ✓ Employees appointed without a timebase, in any classification (e.g., intermittent, indeterminate)

A resolution is being presented for action at the March 20-21, 2001 Board of Trustees' meeting extending the HCRA Plan to CSU Executives.

Open Enrollment:

All eligible employees may enroll in the HCRA Plan during the initial open enrollment that will be held from April 1 through April 30, 2001. The effective date of this enrollment period will be June 1, 2001, contingent upon the State Controller's Office receiving enrollment forms from campuses by May 10. Forms received by the SCO after the tenth (10th) may delay enrollment by one month. For ease of processing, Benefits Officers are requested to submit enrollment forms on a flow basis.

The initial 2001 plan year period will be from June 1, 2001 through December 31, 2001 (7 months). The annual contribution limit of \$5,000 (\$2,500 for married couples filing separate tax returns) has been prorated to a maximum of \$2,917 and \$1,459, respectively, for the 2001 partial plan year. Thereafter, the HCRA Plan will continue on a calendar year basis from January 1 through December 31. Scheduled annual open enrollments will be held in the fall in conjunction with other CSU benefit programs. Eligible employees who wish to begin or continue payroll contributions for future plan years must enroll/re-enroll during the annual open enrollment period. Newly hired eligible employees may enroll in the plan within sixty (60) days of their hire date.

An after-tax administrative fee of \$2.00 has been established for the HCRA Plan and it will be deducted from participants' pay on a monthly basis. The deduction code for the 2001 plan year is 378-014. The deduction code for the administrative fee is 375-001. In preparation for open enrollment, each campus has already received a supply of brochures. A draft letter that can be used by campus Benefits Officers to introduce HCRA to employees has been included with this technical letter (Attachment A). HCRA Enrollment forms and HCRA Claim forms will be delivered to campuses prior to the open enrollment period.

Claim Reimbursements:

The CSU will utilize the services of Management Applied Programming (MAP) to administer the claims reimbursement process.

In order to be reimbursed for eligible expenses, employees must complete and sign a HCRA Claim Reimbursement form. This completed form must include a copy of the bill or statement describing the expenses to be reimbursed. Copies of cancelled checks are not acceptable. Claim forms must be mailed to the address specified on the form. Facsimiles will not be accepted.

Reimbursements are processed once per month, and must be received by MAP by the tenth (10th) of the month to be processed within the same month. Claims received by MAP after the tenth

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(10th) of the month will be processed by the end of the following month.

To be reimbursed, expenses must be incurred within the plan year the employee was enrolled in the HCRA Plan. Expenses are considered incurred when services are provided, not when the bill is paid, or received. Only eligible expenses incurred between June 1, 2001 and December 31, 2001 are eligible for reimbursement this plan year.

Employees 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 the account after that date will be forfeited.

Employees will be reimbursed up to the full amount of any eligible claim submitted, even though they may not have contributed enough money through payroll deductions into the HCRA Plan to cover the submitted expenses. The total claims paid, however, will not exceed the maximum the employee elected to contribute for the plan year.

Change in Status Events:

Once enrolled in the HCRA Plan, the payroll authorization is irrevocable, unless a change in status event, as defined by the IRS and recognized under this plan, occurs. The election to change must be on account of and correspond with the events listed below. An event qualifies as a change in status **only** if the event causes the gain or loss of eligibility under CSU's plan or another plan.

- ✓ Change in legal marital status: marriage, divorce, legal separation/annulment, death of spouse;
- ✓ Change in number of dependents: birth, adoption, loss of legal custody or placement for adoption of child, death;
- ✓ Termination/Commencement of Employment and/or Coverage: beginning or end of employment of the employee, spouse, or dependent, that impacts health, dental, or vision coverage of the employee, spouse or dependent;
- ✓ Change in Work Hours: change in work schedule, including a reduction or increase in hours, full time/part time switch, 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 circumstances;
- ✓ Residence: a change in the place of residence of the employee, spouse, or dependent;
- ✓ Entitlement to Medicare or Medicaid: employee, spouse or dependent becomes eligible for Medicare or Medicaid;
- ✓ Special Enrollment events: adding medical coverage following a loss of other coverage; or
- ✓ Judgment, Decree, Court Order, or Qualified Medical Child Support Order (QMCSO).

If a change in status event occurs, an employee may be allowed to increase (to the appropriate (limit), decrease, start or stop monthly contributions, by filing a new Health Care Reimbursement

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Account Authorization form within 60 days of the status change. The change must correspond with the change in status event. If contributions are discontinued, the employee may continue to submit eligible expenses incurred prior to the date plan participation ends.

Direct Pay and COBRA:

If an employee becomes eligible for COBRA (The Consolidated Omnibus Budget Reconciliation Act of 1986) or chooses to continue participation while on leave without pay, the employee must have an account balance prior to the separation, or leave without pay. For continued participation, the employee must complete a "Request for Direct Pay" enrollment form. Payment would be 102% of the monthly contribution, and would be remitted directly to MAP. More detailed information regarding Direct Pay and COBRA can be obtained from the Health Care Reimbursement Account Plan Administrative Guide, which will be delivered under separate cover.

If you have any questions, please contact systemwide benefits at (562) 951-4411. This technical letter is also available on the Human Resources Administration's web site at: <http://www.calstate.edu/tier3/HR-Adm/memos.html>.

CR/mh

Attachment

Dear CSU Employee:

This letter highlights details of a new voluntary benefit program that California State University (CSU) is pleased to offer. Effective June 1, 2001, CSU will implement a Health Care Reimbursement Account Plan (HCRA) that allows you to pay for eligible out-of-pocket health care expenses with pre-tax dollars. Contributions to this plan are deducted from your pay warrant prior to federal, state and FICA taxes being withheld.

Medical, dental and vision expenses eligible to be reimbursed by the HCRA Plan include uninsured and medically necessary expenses incurred by you, and your tax dependents, including a Domestic Partner you claim as your tax dependent. Expenses must be for the diagnosis, cure, treatment or prevention of disease, and for treatments affecting any part or function of the body. Expenses must 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.

Represented and non-represented employee groups are eligible to participate, with the exception of certain classifications. Please contact your Benefits Office for eligibility requirements.

The effective date of plan coverage for the 2001 plan year will be from June 1, 2001 through December 31, 2001. The annual contribution limit of \$5,000 (\$2,500 for married couples filing separate tax returns) has been prorated to a maximum of \$2,917 and \$1,459 respectively for the 2001 partial plan year. A \$2.00 after-tax administrative fee will be deducted from your pay warrant each month you participate. **Please be advised that in the 2001 plan year you may only claim reimbursement for expenses incurred between June 1, 2001 and December 31, 2001.**

All eligible employees may enroll in the new HCRA Plan during the initial open enrollment that will be held from April 1 through April 30, 2001. The effective date of this new plan will be June 1, 2001, contingent upon the Benefits Office receiving your enrollment form no later than _____. Once payroll deductions have been initiated, the authorization is irrevocable during the plan year, unless a status change event has occurred.

If you decide not to enroll during the 2001 plan year but wish to enroll in the future, you will have an opportunity during subsequent annual open enrollment periods held in the fall in conjunction with enrollment for other CSU benefit programs.

For complete plan details, please refer to the HCRA brochure available in the Benefits Office. For additional information, please contact _____ at XXXX.

Kindest Regards,

Campus Benefits Officer