

## ***Explanation of Benefits***

### **City of Mandan Premium Reduction Plan**

Effective 01/01/2016, a new Plan Year for the City of Mandan Premium Reduction Plan (known as the PRP or Plan) will begin. This Explanation of Benefits will detail the Plan and the benefits available to you and your covered dependents.

**What is a Premium Reduction Plan?** Section 125 of the Internal Revenue Code allows employers to set up a Premium Reduction Plan as a benefit for employees enrolled on certain plans. With the implementation of a PRP, employees may pay for their portion of premiums (or costs on such plans) on a pretax basis. When you pay for premiums on a pretax basis, you are lowering your taxable income; therefore reducing your income taxes.

**Who is eligible to enroll in the PRP?** All employees who are eligible for the group health/insurance plans and have met the 3 month new hire waiting period are eligible to enroll in the PRP.

There are some special situations whereby the employee would not have to meet the waiting period to become eligible for the Plan.

- 1) Employees who were on a leave of absence under FMLA or were absent from employment on account of military service covered by the Uniformed Services Employment and Reemployment Rights Act (USERRA) are immediately eligible upon their return to work.
- 2) Individuals who separate employment with the organization and are rehired within thirty days of their separation date are eligible without meeting the waiting period.

Once you are deemed eligible to enroll in the Plan, you must complete the necessary paperwork and submit it to the Plan Administrator prior to (or within thirty days if you receive immediate entry into the Plan) your Entry Date. Your Entry Date is determined based upon your eligibility for the Plan. The following should help you determine your Entry Date.

- 1) Newly hired employees shall have an Entry Date of the day after satisfying the waiting period.
- 2) Active employees that have met the waiting period prior to the effective date of this Plan Year shall have an Entry Date of 01/01/2016.
- 3) Employees having their waiting period waived (for the special situations explained earlier), shall have an immediate Entry Date.

**What health/insurance plans are eligible under the Plan?** Section 125 allows employees to use pre-tax dollars to fund their portion of premiums for the following types of benefit plans:

- 1) One or more eligible Accident and Health Plans (i.e. Medical, Dental and other health plans);
- 2) Health Savings Account (HSA) Plan;
- 3) A Group Life Insurance Plan (This Plan is limited to \$50,000 of group life insurance on the life of the employee only. The cost of coverage exceeding the \$50,000 limit shall be included in the Employee's gross income. Excess life insurance costs will be calculated using Table 1 shown in Section 11.1 and will be treated as taxable income);
- 4) Accidental Death and Dismemberment (AD&D) Plan;
- 5) A 401k Retirement Plan;
- 6) COBRA Premium Reimbursement Plan;
- 7) Health FSA Plan (separate plan document); and
- 8) Dependent Care FSA Plan (separate plan document).

**How long is the Plan in effect?** The 2016 Plan Year will begin on 01/01/2016 and end on 12/31/2016. Every year thereafter will begin a new Plan Year requiring eligible employees to submit a new Enrollment Form and Salary Reduction Agreement.

**How does a Premium Reduction Plan work?** You shall be notified of the premium costs (or your contributions) under each of the eligible health/insurance plans prior to the beginning of a Plan Year. Upon completing an Enrollment Form and Salary Reduction Agreement, the company will reduce the enrolling employee's income in equal amounts (every pay period) and place the funds in a personalized administrative account (known as a "Benefit Account"). Since the company

has reduced your income (and not payroll deducted the premiums), your federal taxes should be less.

As premiums become due for the group, we will utilize the funds from your Benefit Account to pay for your premiums. If there are not enough funds available in your Benefit Account, funds may be obtained through payroll deduction or receiving payment directly from the participating individual.

**How do I enroll in the Plan?** To enroll in the plan, you must have met the eligibility criteria as explained above. Next, you must complete the Enrollment Form, Salary Reduction Agreement and the applicable insurance carrier enrollment form and submit it to the Plan Administrator. If you do not submit the appropriate paperwork prior to your Entry Date, you will not be eligible to enroll in the plan until the next Plan Year. It is the employee's responsibility to obtain and complete an enrollment form and submit it to the appropriate company representative. If the form is incomplete or late, the employer has the right to deny the form and your entry into the Plan. (Enrollment in the plan does not constitute a contract of employment and has no affect on your employment with the company.)

**May I change my Salary Reduction Amount?** Under the federal laws governing a PRP, you may only change your Salary Reduction Amount under the following circumstances (commonly known as a 'Changes in Life Status'):

- 1) Employee gets married, divorced, legally separated or his marriage is annulled;
- 2) Adoption, birth or death of a dependent child;
- 3) Death of the employee or his spouse;
- 4) Employee, spouse or dependent becomes newly employed or unemployed;
- 5) Employee, spouse or dependent's employment goes from part-time to full-time or full-time to part-time;
- 6) Dependent spouse/child becomes (or ceases to be) an eligible "dependent" under a Component Plan;
- 7) Employee or spouse has a judgment, decree or order resulting from a divorce, legal separation, annulment or custody change regarding health coverage of a child. Any Qualified Medical Child Support Order (QMCSO) must state the recipient covered by the order and which Component Plan;
- 8) A significant change in the spouse's or dependent's health care coverage attributable to the spouse's or dependent's employment;
- 9) Any change between an hourly paid and a salaried position or between a non-bargaining unit position and a bargaining unit position;
- 10) An employee's, spouse's or dependent's move to a work location outside the service area of the Component Plan in which the employee was enrolled prior to the move;
- 11) A change in the spouse's or dependent's employment status including a change attributable to a strike or lockout, or the commencement of or return from an unpaid leave of absence;
- 12) Employee, spouse or dependent becomes entitled to Medicare, COBRA or FMLA; or
- 13) The insurance carrier (for the employee or spouse) has a "significant change" in benefits or premiums;
- 14) Employee's hours are reduced to under 30 hours per week (avg.) but is still eligible for the group plan; or
- 15) Revocation Due to Enrollment in a Marketplace Qualified Health Plan.

Any change in a participant's existing election must be consistent with the Change in Life Status. A change in election must be made no later than thirty (30) days after the date of the Change in Life Status. The Plan Administrator shall determine whether a Change in Life Status has occurred and whether a participant's change in coverage is consistent with such Change in Life Status.

**If I experience a Change in Life Status during the Plan Year, may I enroll at that time?** Yes.

**What happens if I separate employment from the company?** If you separate employment either voluntarily or involuntarily, your coverage under the PRP will terminate (unless you have continuation rights under the Plans covered by this PRP). If you are eligible to continue coverage under the COBRA legislation, you will be notified of your rights and premium costs. Any unused funds will be forfeited and used to pay for Plan expenses or used for the benefit of all participants, equally and uniformly.

**Since I am reducing my salary/income, will this affect my Social Security Benefits?** For employees earning less than the FICA Taxable Wage Base (\$118,500 for 2015 and adjusted as needed), your Social Security benefits may be minimally affected. Employees earning in excess of the Taxable Wage Base would not be affected. Social Security benefits are based upon your income while working so if you decrease your salary, it may affect your benefits upon retirement. If you have a concern or are close to retirement, you may want to speak to a tax advisor for further information on how your Social

Security benefits will be affected.

**How do I file a claim under the Plan?** You may submit a written claim to the Plan Administrator for review. The Plan Administrator shall make a decision in writing, within 60 days upon receipt of the claim. The Plan Administrator's explanation as to why benefits were denied will refer to the specific sections of the Plan relied upon.

If benefits are denied, you may file a written request for review with the Plan Administrator within 60 days. The Plan Administrator will decide your appeal within 60 days.

**Who should I contact if I have further questions or have issues with the Plan?** For further information regarding the Plan or if you wish to review the Plan Document, feel free to contact the Plan Administrator. The Plan Administrator for this Plan Year is:

Kevin Wilson  
City of Mandan  
205 2nd Ave NW,  
Bismarck, ND 58554  
701-667-3217

**Can the Plan change?** The company reserves the right to alter (or terminate) the Plan to maintain compliance with the Code. A major compliance issue is whether the Plan favors "highly compensated" or "key" employees. If the Plan is determined to discriminate in favor of highly compensated employees, the company reserves the right to terminate any (or all) of the highly compensated employees from the PRP to maintain compliance.

**Can you illustrate my savings if I make \$45,500 per year, claim 2 withholding allowances and I elect to reduce my salary by \$100 per pay period to pay for insurance premiums?** The following example is based upon the 2015 Wage Withholding Tables for a married employee, claiming 2 withholding allowances.

<u>Explanation</u>	<u>Enrolled in PRP</u>	<u>Not Enrolled in PRP</u>
Salary per Pay Period	\$1,750.00	\$1,750.00
Salary Reduction Amount	<u>100.00</u>	<u>0.00</u>
Taxable Base	\$1,650.00	\$1,750.00
Less: Taxes		
Federal	\$ 116.00	\$ 131.00
FICA	126.22	133.88
State (Varies among States)	<u>29.00</u>	<u>32.75</u>
Income After Taxes	\$1,378.78	\$1,452.37
Less: Insurance Premiums	<u>\$ 0.00</u>	<u>\$ 100.00</u>
Take Home Pay	\$1,378.78	\$1,352.37
<b>Savings Under the PRP</b>	<b>\$ 26.41</b> (or 26.4% of the cost of premiums)	

*(This is for example purpose only. Your savings under the Plan may vary.)*

## **Compliance with the Employee Retirement Income Security Act of 1974 (ERISA)**

The information provided in this Explanation of Benefits is required by law. The following shall provide you with further information you may need now or in the future.

### **Plan Information**

Name of the Plan: The City of Mandan Premiums Reduction Plan

Effective Date of the Plan: 01/01/2016

Plan Year: Beginning on 01/01/2016 and ending on 12/31/2016.

Plan Number: 504

Governing Laws: The Plan shall be construed and enforced according to the laws of the State of North Dakota to the extent not preempted by Federal law.

### **Employer Information**

Name and Address of the Employer:

Kevin Wilson  
City of Mandan  
205 2nd Ave NW,  
Bismarck, ND 58554  
701-667-3217

Federal Identification Number: 45-6002118

Plan Administrator and Agent for Services of Legal Process:

Kevin Wilson  
Administrator  
City of Mandan  
205 2nd Ave NW,  
Bismarck, ND 58554  
701-667-3217