Human Resources Department

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PRIME-Choice©
PRECISION RETIREMENT GROUP
Sick Leave at Retirement

1-800-238-9101

Precision Retirement Group sets up and administers accounts for City of Madison employees for use of the value of accumulated sick leave after retirement. The dollar amount of the benefit is the employee's number of hours of accumulated sick leave multiplied by the employee's hourly rate of pay at retirement.

What is PRIME-Choice©? *PRIME-Choice©* (*Post-Retirement Incurred Medical Expense*) is a benefit administration program for using the value of sick leave after retirement. Money will be used in one of two kinds of accounts: **Either** (1) A health reimbursement account for payment of health expenses—insurance premiums for health, dental and/or long-term care insurance premiums or other medical expense, reimbursed to the retiree on a tax-free basis, **or** (2) A pre-tax 401(a) account for use of the value of sick leave. For 2021, the 401(a) account maximum is $58,000. (Minimum amount for both accounts is $2,000; an amount less than $2,000 will be paid out to the retiree on the final paycheck.)

Does the employee choose which account will be created? No, the City of Madison chooses which of the two account types will be used, based on the employee's expected need or lack of need for paying health care costs after retirement. Because the City makes the determination of which account type will be used, the value of the account is not subject to taxes that would otherwise apply.

Can a retiree change from one account type to the other after retirement? No; the plan will remain the one selected by the employer at the time of retirement.

What is the process for setting up a Health Reimbursement Account (HRA) or Special Pay 401(a) Account? Following the pre-retirement interview at the Human Resources Department (one to two months before expected retirement date), HR will provide basic information about the retiring employee to Precision. The employee will contact Precision and the Precision representative will ask detailed questions to identify the employee's post-retirement financial needs and, based on the employee's responses, will make a recommendation to the employer for which of the two account types within the program best fits the employee's expected needs. Precision will send the employee an enrollment packet with forms required for setting up the appropriate account.

How does the Health Reimbursement Account (HRA) work? Employees who **continue** City of Madison Group Health Insurance during retirement will have health insurance premiums deducted from their monthly annuity from the Wisconsin Retirement System (WRS). They will reimburse themselves for that deduction from their *PRIME-Choice©* HRA. The reimbursement process can be set up to provide automatic recurring monthly reimbursement to the checking or savings account to which the WRS annuity is paid. Other eligible expenses such as prescription co-pays, dental expenses, and insurance premiums for dental and long-term care may also be

reimbursed from the HRA, based on documentation submitted with a reimbursement request form. Employees who **do not continue** City of Madison Group Health Insurance, who have other coverage through a spouse or partner or private health insurance coverage, are eligible to submit premiums from these plans for reimbursement, as well as prescription co-pays and other reimbursable expenses.

Whose expenses may be reimbursed from the Health Reimbursement Account? The retiring employee's and eligible dependents' expenses may be reimbursed from the account. IRS regulations state that eligible dependents are a spouse and children who are being claimed as dependents for tax purposes.

What happens if the retired employee returns to work for the City of Madison? Effective January 1, 2014, the Affordable Care Act (ACA) mandates suspension of account access if the individual returns to work for their former employer. Individuals who retired prior to January 1, 2014 are grandfathered under the old rules. Precision discusses this ACA change with each retiree and has the retiree sign a "suspension notice" about this new regulation and its significance.

What happens if the retired employee dies and there is still money in the Health Reimbursement Account? An eligible surviving dependent (or more than one eligible dependent) may continue to use the account as it was being used before the retired employee's death. If there are no eligible dependents and money remains in the account, the money will be returned to the City of Madison and the City will issue a check for the remaining money payable to the retired employee's estate. Taxes will be withheld from that payment.

What is the Special Pay 401(a) Account? If the City determines (after the retirement planning interview and Precision's interview) that health care costs will not be a financial concern for an employee in retirement, the value of the employee's sick leave will be placed in a **Special Pay 401(a) tax-deferred retirement account**. The account provides the following:

- 100% liquidity
- No sales or surrender charges
- Competitive guaranteed interest and principal
- Long-term investment choices with The American Funds
- Elimination of FICA taxes
- Federal and State Tax deferral. *(Money in the account becomes taxable upon withdrawal.)*

The Special Pay 401(a) Account is different from the 457 plans (Lincoln or ICMA deferred compensation plans), which do not eliminate FICA taxes from sick leave conversion payouts into a defined contribution plan.

What happens if the retired employee dies and there's money remaining in the Special Pay 401(a) account? A retiree participating in the 401(a) account will have listed beneficiaries at the time of enrollment. If funds remain at the time of death of the participant, the funds will be paid to the named beneficiaries.

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