SUMMARY PLAN DESCRIPTION

UNIVERSITY OF CALIFORNIA

Tax Savings on Insurance Premiums (TIP)

FEBRUARY 2007

Plan Summary of TIP

WHAT IS TIP?

The Tax Savings on Insurance Premiums (TIP) program, established under Internal Revenue Code (IRC) §125, allows you to pay your monthly health plan (medical, dental, vision) costs (if any) on a pretax, salary reduction basis.

HOW DOES TIP WORK?

If you enroll in a health plan that has an employee monthly cost, enrollment in TIP is automatic. Each month, your salary is reduced by the amount of your monthly cost. This arrangement continues unless you cancel your participation in TIP (see page 2).

HOW DOES TIP SAVE ME MONEY?

Your savings are strictly on taxes. Your premium payments are deducted from your paycheck on a pretax (tax-free) basis—before federal, state, Social Security, and Medicare taxes are calculated, thereby reducing your taxable income. For example, if you earn $3,000 a month and pay $100 for family medical coverage, you pay taxes on $2,900 a month. (This example does not consider other tax-deferred or tax-free amounts you may have withheld from your paycheck.)

$3,000	**Your gross monthly salary**
– 100	**Employee monthly cost for family medical coverage**
$2,900	**Your taxable monthly salary**

The tax savings are reflected in your paycheck each month, all year.

DOES TIP AFFECT MY SOCIAL SECURITY AND UNEMPLOYMENT INSURANCE BENEFITS?

As discussed in the previous section, "How Does TIP Save Me Money?" TIP deductions lower your earnings. Because your Social Security and unemployment insurance benefits are based on earnings, these benefits might be reduced, depending on the amount you earn.

If your earnings after TIP deductions are above the Social Security wage base ($97,500 in 2007), there will be little or no effect on your Social Security benefits. However, if your earnings are below the wage base, your future Social Security benefits may be reduced if earnings from your years in TIP are used to calculate your Social Security benefits.

The amount of your TIP deduction also reduces the wages used to figure your unemployment insurance benefits.

DOES TIP AFFECT MY 403(B) PLAN, 457(B) PLAN AND UNIVERSITY OF CALIFORNIA RETIREMENT PLAN (UCRP) BENEFITS?

No. Your TIP deductions do not reduce the wages used to calculate your UCRP benefits nor do they affect your 403(b) Plan or 457(b) Plan maximum annual contribution amounts.

WHO CAN PARTICIPATE?

You may participate in TIP if you are enrolled in a UC-sponsored health plan requiring an employee contribution, and if

- You're an active employee appointed by UC to work at least 50 percent time for one year or more, or 100 percent time for three months or more, or
- You're an active employee appointed by UC to work at least 43.75 percent time, or
- You're an active employee who has worked 1,000 hours in a 12-month period.

In addition, monthly health plan costs will automatically be paid through TIP (unless you cancel participation) for the following enrolled family members:

- Legal spouse,

- Adult dependent relative (enrolled before January 1, 2004),
- Natural or adopted child,
- Stepchild,
- Legal ward,
- Other child,
- Disabled child, and/or
- Grandchild or stepgrandchild.

In general, you may not use TIP to pay the out-of-pocket premium cost for medical coverage for family members who are not your tax dependents; for example, a natural or adopted child, your domestic partner, your partner's child/grandchild and/or your disabled child past age 23. Monthly costs for these individuals must be paid on an after-tax basis.

Exception: If you have registered your domestic partnership with the State of California and have submitted form UPAY 850 indicating such registration and the filing date, any out-of-pocket premium cost for medical coverage for your partner and/or your partner's child/grandchild is deducted from pay on a pretax basis for California income tax purposes only. For federal tax purposes, the out-of-pocket premium cost must still be paid on an after-tax basis. If these family members are your tax dependents, any necessary adjustments will be made at the end of the year when you respond to the annual tax dependency mailing. You may recover any excess federal or California State income tax withheld when filing tax returns.

CAN I CANCEL MY PARTICIPATION—OR RE-ENROLL IF I CANCEL?

You may cancel your automatic enrollment in TIP during your period of initial eligibility (your PIE), which begins the day you become eligible and ends 31 days later, or on the last working day[1] of that 31-day period. The cancellation is effective as soon as you complete the transaction, subject to payroll deadlines; no retroactive adjustments will be made.

You can always cancel your TIP participation or re-enroll during Open Enrollment (usually held in November); changes made during Open Enrollment are effective January 1 of the following year.

Certain changes in your family or employment status may also provide a new 31-day PIE, which allows you to change or cancel your participation or re-enroll during the plan year. Eligible changes include situations such as:

- If you, your spouse, and/or eligible family member loses other health plan coverage, you (and they) may enroll in TIP, or you may increase your TIP amount when you enroll the newly eligible family member(s) in a UC-sponsored health plan.
- If you acquire a new eligible family member as a result of marriage, birth, or adoption, you may enroll in TIP or increase your TIP amount when you enroll the new eligible family member(s).
- If a court order requires you or your spouse to provide your eligible child with health plan coverage, you may increase your TIP amount when you enroll the newly eligible child(ren) or decrease the amount when you de-enroll the child(ren);
- If you, your spouse, or other eligible family member enrolls in Medicare or Medicaid or loses coverage, you may decrease or increase the amount of your TIP deduction to correspond with the employee monthly cost for UC-sponsored medical coverage.
- If you enroll yourself and/or your eligible family member(s) after your 31-day period of initial eligibility (PIE) as a result of HIPAA (Health Insurance Portability and Accountability Act of 1996)[2] special enrollment provisions.
- If you have a significant change in medical insurance cost or coverage; for example, if you must change plans because your current plan eliminates your ZIP code from its coverage area.

You may also alter your TIP participation if you, your spouse, or other eligible family member experiences an eligible change in status because of:

- A change in legal marital status.
- The death of an eligible family member.
- A change in employment status that causes a gain or loss of benefit eligibility; for example, terminating employment, beginning or returning from unpaid leave, switching between part- and full-time employment, or a change in work schedule due to strike or lockout.
- A change in residence.

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1 Defined as a normal business day (i.e., Monday through Friday, not including holidays) for your local Payroll or Benefits Office.

2 Under HIPAA provisions, you may enroll in medical coverage after your PIE. However, you must complete a 90-day waiting period before your coverage is effective.

If an employee switches health plan coverage mid-year because of an eligible change in status, the TIP deduction amount will adjust automatically.

Changes to TIP participation during the plan year must be made on account of and consistent with an eligible change in status. Contact your local Benefits Office for more information.

WHAT IF I HAVE A BREAK IN SERVICE?

If you leave UC employment and are subsequently rehired during the same plan year, you have the following options, depending on the duration of your break in service.

- For a break in service of 120 days or longer, you have the same options as a new employee.
- For a break in service of less than 120 days, your pretax deductions under TIP are limited to those that were in effect when you left UC.

WHAT HAPPENS TO TIP IF I CHANGE OR CANCEL MY HEALTH COVERAGE?

If you change or cancel your health coverage during your PIE, during Open Enrollment, or during a new 31-day PIE because of an eligible change in status, the amount of your deduction under TIP automatically increases or decreases to reflect the change.

At all other times, your TIP deduction stays the same despite increases or decreases in your monthly health plan costs. According to the IRS, the following rules will apply:

- **A change that reduces the employee monthly cost:** You will be charged the higher monthly cost until the end of the calendar year; the carrier will receive the lower monthly amount. You forfeit the difference between the original and reduced monthly cost. The difference will be used by UC to pay program administrative costs.

  For example, assume that you pay $100 a month for family medical coverage, and you decide to change your family coverage to single-party coverage that costs $40 a month. You do not have an eligible change in status, nor do you make the change during Open Enrollment. Even though the monthly cost for the single-party coverage is only $40, you will continue to pay $100 each month until January 1 of the following year.

- **A change that increases the employee monthly cost:** You will continue to pay the original monthly cost on a pretax basis under TIP. You will pay the additional cost on an after-tax basis until the end of the calendar year.

Consult a tax advisor if you have questions about how TIP applies to your particular tax situation. UC is not permitted to provide legal, tax, or accounting advice.

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