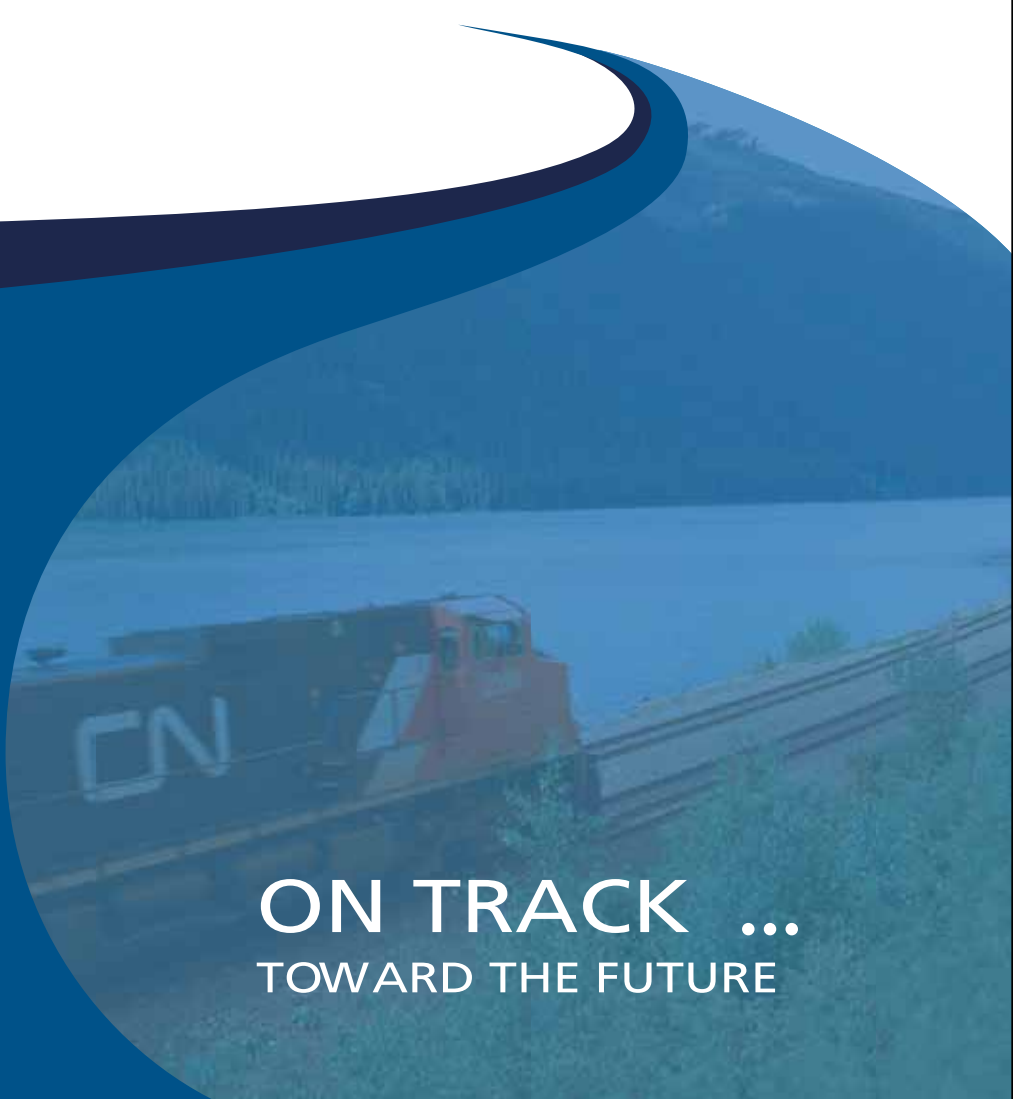




Post-Retirement Health Care  
Spending Account for  
CAW Retired Employees – Canada



*Issued April 2011*

**ON TRACK ...**  
**TOWARD THE FUTURE**

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## Introduction

Your dedication to CN throughout the years has played an important role in making this railroad the great company that it is today. As you approach retirement, you'll need to make some important decisions in order to choose a retiree health care plan that fits your needs and the needs of your family.

Having the appropriate level of health care protection is important for you and your family. That is why this post-retirement CN Health Care Spending Account (HCSA) was introduced.

At retirement, a HCSA will be created in your name as long as you have met the eligibility requirements. The HCSA will provide you with a fixed amount based on your age and service at retirement that can be used to pay the monthly premiums required under the Health Care Plan for CN Pensioners sponsored by the National Council of CN Pensioners' Associations (HCP-CNPA) as well as reimburse eligible medical and dental expenses incurred following retirement.

This guide is intended to provide you with the details you need to understand the operation of your HCSA.

### In this guide:

**HCSA** refers to the post-retirement CN Health Care Spending Account administered by Blue Cross under Service Contract n° 93524.

**HCP-CNPA** refers to the Health Care Plan sponsored by the National Council of CN Pensioners' Associations and insured by Blue Cross under Group Insurance Contract n° 93115.

**Health expenses** refers to medical and dental expenses.

**Plan Administrator** is Blue Cross.

It should be emphasized that the HCSA and the HCP-CNPA are two separate and different plans. The HCSA is the CN-sponsored Health Care Spending Account provided for new eligible retirees. The HCSA can be used to pay the monthly premiums due under the HCP-CNPA and/or certain eligible health expenses. Both the (HCSA) and the HCP-CNPA are administered by Blue Cross, so it will be very important for you to properly identify which of the two you are referring to when corresponding with Blue Cross.



## Eligibility

Upon retirement from CN, you will be eligible to participate in the HCSA if you were a permanent employee in Canada and were part of an employee group listed below immediately prior to retirement.

No enrollment is required. You will automatically become a participant if you were actively at work on the applicable effective date, or later. (Refer to the table below.) You will also be eligible if you were in receipt of short-term or long-term disability benefits, or were on maternity, parental, compassionate care or union office leave as of the applicable effective date, or later.

In order to be entitled to receive benefits, you must retire from CN and begin receiving immediate pension payments from the CN Pension Plan on or after the applicable effective date. You must be at least age 55 and have at least 85 pension points\* at the time of retirement.

If you have been severed (including bridged under article 7 of the Employment Security and Income Maintenance Agreement) under any separation agreement you are not eligible to receive benefits under this plan. If you retired prior to the applicable effective date, or if you retire at age 65 or later, you are also not eligible to receive benefits under this plan.

*\* Sum of age plus Pensionable Service as defined in the CN Pension Plan. For greater clarity, the same Pensionable Service that is used to calculate an employee's pension under the CN Pension Plan will be used to calculate benefits payable under the HCSA. Former employees of BC Rail will also have Pensionable Service under the BC Rail Pension Plan count towards this plan.*

Employee Group	Effective Date
CAW 5.1	January 1, 2007
CAW 5.5	January 1, 2007
CAW 12.35	January 1, 2007
CAW 12.90	January 1, 2007

## Plan Description

The HCSA provides you with a fixed amount between your early retirement date and the age of 65. You can use this amount to pay HCP-CNPA premiums and/or be reimbursed for eligible health expenses as defined under the tax laws.

### *Dollar Amount in My Account*

The fixed amount to which you are entitled in respect of a full calendar year of retirement is calculated as follows:

**For Retirements Between January 1, 2007 and December 31, 2010:**

\$35 x (Pensionable Service\*\* in excess of 15 years)

The maximum eligible service is 20 years for a maximum fixed benefit amount of \$700 per year (i.e. \$35 x 20 years = \$700 per year).

**For Retirement After January 1, 2011:**

$\$45 \times (\text{Pensionable Service}^{**} \text{ in excess of 15 years})$

The maximum eligible service is 20 years for a maximum fixed benefit amount of \$900 per year (i.e.  $\$45 \times 20 \text{ years} = \$900 \text{ per year}$ ).

*\*\* Pensionable Service as defined in the CN Pension Plan.*

**Example**

Date of retirement	January 31, 2011
Age at retirement:	55
Pensionable Service at retirement:	32.5
Points at retirement:	87.5
Eligible Service at retirement:	$32.5 - 15 = 17.5$
Annual fixed benefit amount:	$17.5 \times \$45 = \$787.50$

**Form and Method of Payment**

Following your retirement, your fixed annual amount will be allocated on a monthly basis to your HCSA on the first day of each month at the rate of 1/12<sup>th</sup> of the fixed annual amount.

Your account will continue to grow each month with your monthly allocation and will be reduced by any withdrawals you make for payment of premiums or benefits. Using the example above, the monthly allocation would be equal to \$65.63, i.e. \$787.50 divided by 12.

Federal and Quebec tax laws define the eligible health expenses which can be paid from a HCSA.

**Period of Coverage**

You will become eligible to the HCSA on the first day of the month following your retirement and cease to be eligible on the last day of the month of your 65<sup>th</sup> birthday. For greater clarity, the monthly allocations to your HCSA will cease upon reaching age 65 regardless of the start date. The maximum number of monthly allocations is 120 (10 years X 12 months).

**Survivor Benefit**

Should you pass away prior to your 65<sup>th</sup> birthday while in receipt of this benefit and should you have an eligible spouse as defined in the CN Pension Plan, your surviving spouse will thereafter be entitled to 55% of your fixed monthly allocation. The reduced benefit (55% of your monthly amount) will be allocated to your surviving spouse in the same form and until the same date at which your benefits would have ceased, i.e. the first day of the month preceding your 65<sup>th</sup> birthday. Any unused amounts in your account will be transferred to the HCSA of your eligible surviving spouse.



### *Use it or Lose it Rule*

Note that Canada Revenue Agency and Ministère du Revenu du Québec rules allow unused amounts in your HCSA to be carried forward for a maximum of 12 months following the calendar year in which they have been allocated. **Therefore, any amounts allocated in a calendar year must be used by the end of the next calendar year or they will be forfeited.**

Once unused amounts have been carried forward to the next calendar year, they can only be used to reimburse eligible health expenses incurred in that next year – subject to a 90-day reporting period at the start of the new calendar year. During this 90-day reporting period, you will be allowed to claim eligible health expenses incurred in the prior calendar year; however, you may only pay those eligible health expenses with unused amounts you have carried forward.

Amounts allocated to your HCSA in the new calendar year may not be used to reimburse reported eligible health expenses incurred in the previous calendar year.

#### *Example 1:*

- A total amount of \$500 has been allocated to your HCSA in calendar year 1;
- You incur eligible expenses of \$400 in calendar year 1 and submit these eligible expenses in calendar year 1;
- The \$100 remaining in the HCSA is carried forward to the following calendar year (year 2) and must be used in this calendar year 2 or it will be lost.

#### *Example 2:*

- A total amount of \$500 has been allocated to your HCSA in calendar year 1;
- You incur eligible expenses of \$300 in calendar year 1 and submit these eligible expenses in calendar year 1;
- You also incur eligible expenses of an additional \$100 in calendar year 1 but do not submit these eligible expenses in calendar year 1;
- You have 90 days in calendar year 2 to claim your additional eligible expenses of \$100 incurred in calendar year 1 to your unused allocated amount of \$200 (\$500 - \$300) carried forward to calendar year 2.

## Options under the HCSA

Upon retirement from CN, if you have met the eligibility requirements, you **must** indicate if you wish to use your HCSA monthly allocation to pay the HCP-CNPA monthly premiums or to reimburse other eligible health expenses **by completing the selection form included in your retirement package and returning it to Blue Cross, the Plan Administrator**. This must be done within 60 days after your retirement date (the same timeframe allowed to retirees to enroll in the HCP-CNPA).

If you decide to use your HCSA monthly allocation to pay the monthly premiums required under the HCP-CNPA, the HCSA will be used first to pay the premiums and the excess, if any, will be available to reimburse other eligible health expenses.

Retirees residing in the province of Quebec should be aware that they must by law enroll themselves and their dependents in one of the options of the HCP-CNPA that provide drug insurance protection, unless they are covered by another group insurance plan.

### *Example 1:*

- A monthly amount of \$45 is allocated to your HCSA;
- You have elected to use your HCSA to partially pay the HCP-CNPA monthly premium of \$75;
- Your HCSA would be completely used to pay your HCP-CNPA monthly premium; therefore, no excess amount would be available to reimburse other eligible health expenses.

### *Example 2:*

- A monthly amount of \$45 is allocated to your HCSA;
- You have elected to use your HCSA to pay the HCP-CNPA monthly premium of \$35;
- Your HCSA would be partially used to pay your HCP-CNPA monthly premium; therefore, a monthly amount of \$10 would be available to reimburse other eligible health expenses.

### *Example 3:*

- A monthly amount of \$45 is allocated to your HCSA;
- You have elected to use your HCSA to reimburse your eligible health expenses (i.e. other than the monthly premium required under the HCP-CNPA);
- Your HCSA can only be used to reimburse your eligible health expenses (you will not be able to use it to pay your monthly premium under the HCP-CNPA).



### *How to make your selection*

You must complete the selection form provided with your retirement package and indicate your choice between option 1, to pay the HCP-CNPA premiums, or option 2, reimbursement of eligible health expenses, before returning the completed form to the address below, regardless of your province of residence:

**Medavie Blue Cross**

P.O. Box 1330  
Station B  
Montreal, Quebec  
H3B 3K9

Blue Cross will subsequently send you a certificate, a supply of HCSA claim forms and instructions on how to access the Blue Cross member portal.

### *Default Option*

If your selection form is not returned to the Plan Administrator, the amount allocated to your HCSA will first be used to pay any premiums due under the HCP-CNPA.

You or your spouse, as applicable, will be able to change or review your choice at a later date as follows:

- When you reach age 60;
- At the 65<sup>th</sup> birthday of your spouse;
- Upon your death or the death of your spouse;
- Upon your divorce or legal separation;
- Upon the breakdown of a common law relationship;
- When you move to another province;
- When you no longer participate in the HCP-CNPA;
- Upon joining the HCP-CNPA at a later date, when your coverage under another plan terminates.

## **Who Pays for this Plan?**

CN pays the full cost of the monthly allocation plus any administrative fees required by the Plan Administrator to administer the HCSA plan. Your monthly allocation will be used to pay eligible health expenses and premiums plus, any applicable provincial retail sales tax (currently 8% in Ontario; 9% in Quebec and none elsewhere).

## **How to Make a Claim**

If you wish to use the HCSA to be reimbursed for an eligible medical or dental expense, simply complete a HCSA claim form bearing contract number 93524 and send it to the address indicated on the form for your home province.

You may submit a claim under the HCSA whenever you have an eligible health expense that is not fully reimbursed elsewhere.



The Plan Administrator will provide you with an explanation of benefits every time you claim against your HCSA, which explanation will include the balance in your account.

Note that your account balance can also be obtained at any time on the Blue Cross member portal once you have registered yourself on-line.

For additional claim forms you may call free of charge the following number: 1-866-660-7670.

## **Statements**

The Plan Administrator will issue statements at the end of every calendar year indicating the amount available in your HCSA and when such amount expires.

## **Eligible Medical and Dental Expenses**

Your HCSA is non-taxable under the federal Income Tax Act, provided it covers only certain specified eligible expenses.

Here is a partial list:

- Medical and dental expenses, or portion of expenses, not reimbursed due to the application of a deductible under any group plan, including HCP-CNPA.
- The portion of eligible medical and dental expenses that you must pay due to a reimbursement percentage other than 100%, or a maximum reimbursement amount under any group plan, including HCP-CNPA.
- Prescribed over-the-counter drugs not reimbursed by any group plan, such as decongestants and certain vitamins prescribed by a doctor.
- Eyeglasses.
- Full-time services of medical attendants.
- Acquisition of special equipment for a visually impaired person.

Please refer to the income tax return guides for a more complete list of the medical and dental expenses that you can claim under your HCSA. You can also visit the Canada Revenue Agency and the Ministère du revenu du Québec Web sites.

Furthermore, your HCSA can be used to reimburse eligible medical and dental expenses incurred by anyone who qualifies as a dependant on your income tax return.

If you are unsure whether an expense is eligible to be claimed under your HCSA, please call the Plan Administrator for confirmation.



## Taxes

### *Retail Sales Tax*

Provincial retail sales taxes apply to health expenses in some provinces. These taxes are paid for out of the amounts allocated to your HCSA. Currently, these taxes exist in Quebec (9%) and Ontario (8%), however, any change to provincial retail sales taxes in the future will also be paid out of your HCSA allocation.

Here is an example of how retail sales taxes would be charged to your HCSA:

#### **Example:**

You are a resident of Quebec and purchase prescription drugs for a total of \$45.00 which you claim against your HCSA. An amount of  $\$45.00 + 9\% = \$49.05$  will be charged to your HCSA.

Note that the retail sales tax is already included in the monthly premiums for the HCP-CNPA. So, if you use your HCSA to pay for such premiums, no additional sales tax will be charged.

### *Taxable Benefit for Quebec Residents*

If you reside in Quebec, the following amounts constitute taxable income at the provincial level: withdrawals from your HCSA for payment of premiums or health expenses + administration fees paid by CN + taxes.

Each year, your Quebec provincial taxable benefit will be calculated by the Plan Administrator and will be reported in box J of the Relevé 1 provided by CN.

#### **Example 1:**

You are a Quebec resident and \$600 was allocated to your HCSA in calendar year 1. Assume you used your HCSA to reimburse \$367 of eligible expenses and assuming that the administration fees were 5% of the amount reimbursed.

Your taxable benefit will be \$420.03 (as described below) and you will have to include such amount in your taxable income.

Eligible expenses:	\$367.00
Administration fees:	$0.05 \times (\$367) = \$18.35$
Quebec retail sales tax (9%):	$0.09 \times (\$367 + \$18.35) = \$34.68$
Taxable benefit:	\$420.03

**Example 2:**

You are a Quebec resident and \$600 was allocated to your HCSA in calendar year 2 and \$200 was carried forward from calendar year 1. Assume you used your HCSA to reimburse \$734 of eligible expenses and assuming that the administration fees were 5% of the amount reimbursed.

Your taxable benefit will be \$840.06 (as described below) and you will have to include such amount in your taxable income.

Eligible expenses:	\$734.00
Administration fees:	$.05 \times (\$734) = \$36.70$
Quebec retail sales tax (9%):	$0.09 \times (\$734 + \$36.70) = \$69.36$
Taxable benefits:	\$840.06

**Contact Information**

Blue Cross, the Plan Administrator, can be reached by calling 1-866-660-7670 Monday to Friday from 8:30 am to 5:00 pm. Further information can also be obtained by accessing their website at [www.medavie.bluecross.ca](http://www.medavie.bluecross.ca).

*This guide provides an overview of the benefits made available to you under the HCSA. Its purpose is to assist you in understanding the HCSA. CN does not intend for it to be a complete summary of your benefits. In case of discrepancy between this guide and the official contracts that govern the administration of the HCSA, the official contracts will govern. Such contracts also describe exclusions and limitations.*

*The HCSA is also intended to comply with all applicable federal and provincial laws. In the event of any conflict, the terms of any applicable laws will govern. CN reserves the right to amend or terminate the plan described herein. In particular, CN reserves the right to amend or terminate the HCSA plan as required so that any change in applicable legislation or regulations, or in the interpretation thereof, shall not have the effect of increasing the costs initially intended to be incurred by CN upon the establishment of the plan.*

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