

HRA VEBA Plan

A health reimbursement arrangement for public employees in the Northwest

The **HRA VEBA plan** is a health reimbursement arrangement designed exclusively for public employees in the Northwest. The HRA VEBA plan is offered by a multiple employer non-profit trust¹ and has been adopted by over 400 governmental employers in Washington, Oregon, and Idaho. Visit hraveba.org for more information, including a list of participating employers.

Health reimbursement arrangement

A health reimbursement arrangement (HRA) is an account-based health plan you can use to reimburse your qualified out-of-pocket healthcare costs as defined by the IRS. Common qualified expenses include co-pays, deductibles, prescription drugs, retiree insurance premiums, etc. An HRA is not an insurance plan, and you do not pay a premium. Your account is funded with contributions from your employer.

Employer contributions, investment earnings, and withdrawals (claims) are tax-free. Contribution amounts will not be included on Form W-2 from your employer, and you will not receive a Form 1099 for earnings or withdrawals (claims).

HRA VEBA Plan benefits

Benefits of becoming an HRA VEBA participant include the following:

- You save money by paying zero tax on contributions, earnings, and withdrawals (claims)
- You can use your account anytime after becoming claims-eligible²
- You can choose how your account is invested
- Your spouse and qualified dependents³ are covered—even if you die
- Your unused account balance carries over from year to year
- You can accumulate funds in your account for future use, such as during retirement

Spouse and dependent coverage

HRA VEBA covers you, your spouse, and qualified dependents³. Generally, dependents must satisfy the IRS definition of “qualifying child” or “qualifying relative” as of the end of the calendar year in which expenses were incurred. See **Definition of Dependent** at hraveba.org for more details.

¹ HRA VEBA Trust was formed in 1990 and is a voluntary employees' beneficiary association (VEBA) authorized under Internal Revenue Code § 501(c)(9). HRA VEBA Trust is managed by a board of trustees elected by the plan participants. ² Depending on your employer's plan design, account usage may be subject to vesting or post-separation coverage only. ³ Effective September 1, 2010, your young adult children's expenses incurred through the end of the calendar year in which they turn age 26 are eligible for reimbursement.

HRA advantages

Like most public employees, you're probably struggling to cope with the increasing cost of health care. You may even risk becoming job-locked and forced to keep working instead of retiring because you can't afford to pay for retiree health insurance coverage.

An HRA is one of the best ways to cover your current and future out-of-pocket healthcare costs for several reasons:

- Significant tax savings (both federal income tax and FICA taxes)
- No annual "use-it-or-lose-it" requirement
- No annual contribution limits
- Can be used now or saved to cover retiree medical premiums before and after age 65, including Medicare supplement and Medicare Part D premiums
- Does not require coverage under a high-deductible health plan (HDHP), which is required by a health savings account (HSA)

Coordination with HSAs and Medicare

Health savings accounts (HSAs): You can have an HRA and an HSA, and you can use either account to reimburse your qualified expenses (no ordering rules). But, to become eligible to make or receive contributions to an HSA, you must elect "limited purpose" HRA VEBA coverage. Only certain dental, vision, and orthodontia expenses are covered while coverage is limited. You can switch your HRA VEBA account back to full coverage after you stop making or receiving HSA contributions (certain limitations may apply). Go to hraveba.org and click **Limited Purpose Coverage** to learn more.

Medicare: Generally, your HRA VEBA account is primary to Medicare if you're still employed by the employer that made (or is making) contributions to your HRA VEBA account. However, if you have elected limited purpose HRA VEBA coverage, Medicare is primary. Go to hraveba.org and click **Who pays first, HRA VEBA or Medicare?** for more information.

How much will I spend on health care during retirement?

PEBB-sponsored health insurance coverage for a retiree and spouse currently averages over \$1,000 per month prior to Medicare. After becoming covered under Parts A and B of Medicare, this amount may decrease to about \$300 per month. The average 60-year-old public employee and spouse retiring today may spend over \$250,000 on health insurance premiums during their retirement years!

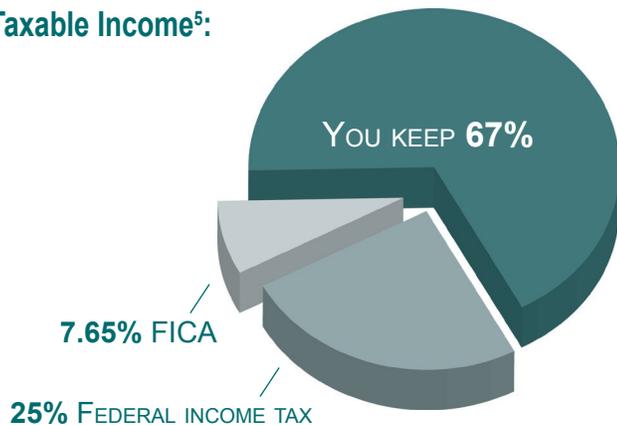
IF YOU RETIRE TODAY AT:

PROJECTED COST OF RETIREE MEDICAL PREMIUMS⁴:

Age 55	\$323,000
Age 60	\$256,000
Age 65	\$170,000

⁴These 2012 projections are based on current average PEBB-sponsored retiree medical premium amounts for public retirees in Washington, current standard Medicare Part B premiums, and current average Medicare Part D premiums for subscribers in Washington. The basic assumptions are: (1) employee and spouse retire at age 55, 60, or 65 and live to age 84; (2) both parties enroll in a PEBB-sponsored retiree medical plan (\$1,075/month current average); (3) at age 65, both parties enroll in Medicare Part A (no cost), Part B (\$199.80/month), and Part D (\$78.80/month current average); (4) reduced PEBB retiree medical premium at age 65 for both parties (\$300/month current average); and (5) annual inflation of 5% for PEBB retiree medical premiums and 2% for Medicare Part B and Part D premiums.

Taxable Income⁵:



Tax-free HRA VEBA Plan:



Common funding sources

In most cases, your employer contributes funds that would otherwise be paid to you as taxable income. HRA VEBA contributions are **tax-free** to both you and your employer. Contributions to **tax-deferred** programs, such as your IRA, 457, 401(k), or 403(b) plans, are subject to FICA tax, and federal income tax is only postponed until you make withdrawals.

Listed below are several of the most common HRA VEBA funding sources⁶. Keep in mind that IRS rules do not permit individual elections; all employee group members defined as eligible must participate.

- Mandatory employee contributions
- Sick, vacation, personal, and other leave cash outs
- Part or all of a future pay raise or COLA
- Unused monthly benefit dollars
- Premium savings from lower-cost medical plans
- Other eligible sources

Participant-directed investments

You can invest your account by choosing either one of two investment options. **Option A: Do-it-yourself** lets you build your own portfolio using any combination of available funds from seven individual asset classes. **Option B: Choose a pre-mix**, allows you to select any one of four pre-mixed asset allocation portfolios designed and monitored by investment professionals. Read the **Investment Fund Information** brochure enclosed (or available online at hraveba.org) for more details.

You can change your investment selection up to once per calendar month. Net investment earnings (or losses) after fund management and plan administrative expenses have been deducted are credited tax-free to your account daily. Fund management fees vary by fund(s) selected and are listed on the **Investment Fund Overview**, which is updated quarterly and enclosed (or available online at hraveba.org). Fund fact sheets and prospectuses are also available at hraveba.org.

Submitting claims

You can file claims at anytime for qualified expenses and premiums incurred after you enroll and become claims-eligible. Simply email, fax, or mail a fully-completed **Claim Form** (and proof of expense) to the third-party administrator. Standard processing time is **seven business days** from the date received. If you're not signed up for direct deposit, remember to allow additional time to receive your paper check in the mail.

Automatic reimbursement of your monthly qualified insurance premiums is available. Just submit a completed **Systematic Premium Reimbursement Form**. Forms are available online at hraveba.org or by request from the third-party administrator. A list of common **Qualified Expenses & Premiums** is enclosed (or available online at hraveba.org).

QUICK TIP:

Sign up for **direct deposit** when you enroll. It's faster and more secure than waiting for paper checks in the mail.

⁵ Example is for illustrative purposes only and will vary based on your personal tax situation. You should consult a professional advisor regarding your personal tax situation. ⁶ If you need to confirm how mandatory employee contributions (or other contributions) to HRA VEBA plan may affect your pension benefit, contact your employer or state's Department of Retirement System.

Becoming a participant

Typically, when you become eligible to participate and receive contributions, your employer will supply you with an **enrollment kit**. Your enrollment kit will include an Enrollment Form, Plan Benefits brochure, Investment Fund Information brochure, Investment Fund Overview, list of common Qualified Expenses and Premiums, and a Summary of Benefits and Coverage. You must submit a fully completed and signed **Enrollment Form** to become a plan participant and establish your account.

QUICK TIP:

Elect **e-communication** on your Enrollment Form. You'll be notified via email as soon as your account statements and explanations of benefits (EOBs) are available for online viewing.

Your **participant effective date** will be either the date specified by your employer on your Enrollment Form or, if no date is specified, the latter date upon which the third-party administrator has received both your signed Enrollment Form and the first contribution from your employer. The third-party administrator will then send you a **welcome packet**, which will include confirmation of your employer's initial contribution, your participant account number, a Plan Summary, **myHRA VEBA online** login instructions, and a Claim Form.

Paper **participant account statements** are mailed in January and July. If you're signed up for e-communication, statements are generated quarterly, and you'll receive quarterly email notification as soon as your statements are available for online viewing.

Online services

You can view your account balance, investment performance, claims history, and explanations of benefits (EOBs) online. You can also submit name and address changes and investment allocation changes. To log in, go to **hraveba.org** and click **myHRA VEBA online**.

E-communication is recommended in lieu of paper. Instead of waiting to receive private information in the mail, e-communication provides email notification as soon as your participant account statements and explanations of benefits (EOBs) are available online.

Survivor benefit

If you pass away, remaining funds in your account may continue to be used by your surviving spouse and qualified dependent(s) to reimburse eligible healthcare expenses and premiums. Surviving spouses and qualified dependents enjoy the same tax advantages as participants.

If you have no eligible survivors, the executor of your estate can file claims for any unreimbursed expenses you incurred prior to your death. Remaining funds (if any) after all final claims have been reimbursed would then be forfeited and redistributed per the instructions in your employer's adoption documents. IRS Revenue Ruling 2006-36 does not permit the payment of benefits to non-dependent heirs.

Fees

Plan expenses include claims processing, printing, postage, legal, consulting, local servicing, auditing, etc. These costs are paid by a monthly fee of \$1.50 per participant, plus an annualized asset-based fee of approximately 1.25%. Your account value changes daily based on activity, which includes investment earnings/losses, contribution and claims activity, and assessment of the annualized asset-based fee.

Meritain Health, HRA VEBA's third-party administrator, is ready to help if you have questions about your account, need forms, or have a claims or systematic premium reimbursement question. Contact Meritain Health's dedicated customer service team at: **myHRAVEBA@meritain.com** or **1-888-659-8828**.

VEBA Service Group, a Division of Gallagher Benefit Services, Inc. (VSG) provides education and group enrollment services. To schedule a group presentation, contact a VSG office near you.
Spokane 1-800-888-8322
Sumner 1-800-422-4023
Vancouver 1-877-695-3945