

# VEBA Overview



Health reimbursement arrangements (HRAs) for governmental employees in Washington

Save Tax. Keep More.

This brochure contains a general overview of the VEBA Plan (veba.org) and HRA VEBA Plan (hraveba.org) available to governmental employees in Washington. The plan for which you may be eligible depends on your employer type.

- The **VEBA Plan**<sup>1</sup> covers eligible employees/retirees of **state agencies, higher education institutions, community and technical colleges, and K-12 school districts**
- The **HRA VEBA Plan**<sup>2</sup> covers eligible employees/retirees of **cities, counties, and special purpose districts**

Please note that eligibility to become a plan participant and receive contributions varies by employer. You should check with your employer to find out when you may become eligible to participate and what funding sources may be available to you (read **Eligibility and funding sources** on page 3 of this brochure).

## Health reimbursement arrangement (HRA)

A health reimbursement arrangement or HRA is a type of group health plan you can use, after becoming claims-eligible, to reimburse your qualified out-of-pocket medical care expenses as defined by the IRS. Common qualified expenses include retiree medical premiums, co-pays, deductibles, prescription drugs, 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 reimbursements (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 claim reimbursements.

## Voluntary employees' beneficiary association

A voluntary employees' beneficiary association (VEBA) is a tax-exempt trust instrument that provides employee benefits. VEBAs are authorized under Internal Revenue Code section 501(c)(9). Hundreds of state and local governmental employers in Washington have adopted VEBA programs that offer HRAs. Many are familiar with the term "VEBA" and understand it to mean a benefit plan that reimburses out-of-pocket medical care expenses and premiums. These plans are actually HRAs as defined by the IRS, but are commonly referred to as "VEBA" plans.

## HRA advantages

An HRA is one of the best ways to cover your out-of-pocket medical care expenses for several reasons:

- You save money by paying zero tax on contributions, earnings, and reimbursements (claims)
- Can be used to cover retiree medical premiums before and after age 65, including Medicare supplement and Medicare Part D premiums
- No annual "use-it-or-lose-it" requirement; unused account balance carries over from year to year
- Does not require coverage under a high-deductible health plan (HDHP)

HRAs are **tax-free** and last longer than **tax-deferred** investments

<sup>1</sup> The VEBA Plan is offered by VEBA Trust, a multiple employer voluntary employees' beneficiary association (VEBA) formed in 1984 and authorized under Internal Revenue Code § 501(c)(9). VEBA Trust is managed by a board of trustees appointed by the founding associations. <sup>2</sup> The HRA VEBA plan is offered by HRA VEBA Trust, a multiple employer VEBA formed in 1990 and authorized under Internal Revenue Code § 501(c)(9). HRA VEBA Trust is managed by a board of trustees elected by the plan participants, participating employers, or the board of trustees, depending upon the trustee position.

<p>Spouse and dependent coverage</p>	<p>Your spouse and qualified dependents are covered. 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. Refer to the <b>Plan Summary</b> for your HRA plan to learn more. To get a current copy, log in at your HRA plan’s web site and click <b>Resources</b>.</p>
<p>Claims and automatic premium reimbursements</p>	<p>After enrolling and becoming claims-eligible, you can submit claims and supporting documentation (proof of expense) online after logging in at your HRA plan’s website. You can also use our mobile app (HRAgo), e-mail, or regular mail as indicated on the paper <b>Claim Form</b>. Standard claims processing time is five to seven business days.</p> <p>Automatic reimbursement of your retiree insurance premiums is available. You can set up an automatic premium reimbursement online after logging in at your HRA plan’s website or via our mobile app (HRAgo), e-mail, or regular mail as indicated on the <b>Automatic Premium Reimbursement</b> form.</p> <p><b>NOTE:</b> If you have a participant account under a Post-separation HRA Plan (read Plan Designs on page 3 of this brochure) and, after separating from service or retiring, become re-employed by the employer that made (or is making) contributions to that account, you will be able to file claims only for dental, vision, and tax-qualified long-term care expenses and premiums you incur while re-employed.</p>
<p>Coordination with HSAs and Medicare</p>	<p><b>Health savings accounts (HSAs):</b> You can have an HRA and an HSA, and you can use either your HRA (if claims-eligible) or HSA to reimburse your medical care expenses (no ordering rules). But, if you have a claims-eligible HRA and want to become eligible to make or receive contributions to an HSA, you must elect “limited” HRA coverage. Only certain dental, vision, and orthodontia expenses are covered while coverage is limited. You can switch your HRA account back to full coverage after you stop making or receiving HSA contributions (certain limitations may apply). Go to your HRA plan’s website and click <b>Plan Information</b> to learn more.</p> <p><b>Medicare:</b> Medicare is generally primary to your claims-eligible HRA if you are retired or separated from the employer that made (or is making) contributions to your HRA. If you are still working, your HRA is generally primary to Medicare unless you have elected limited HRA coverage. Go to your HRA plan’s website and click <b>Plan Information</b> to learn more.</p>
<p>Premium Tax Credit</p>	<p>If you purchase insurance through a marketplace exchange and want to qualify for the Premium Tax Credit, you should read <b>Premium Tax Credit and Your HRA</b> in the <b>Plan Summary</b> for your HRA plan. To get a current copy, log in at your HRA plan’s web site and click <b>Resources</b> on the menu bar. You should also consider whether you will need to first use up, limit, or waive your HRA plan benefits.</p>

## How much will I spend on health care during retirement?

PEBB-sponsored health insurance coverage for a retiree and spouse currently averages over \$1,100 per month prior to Medicare Part B eligibility. After both parties become covered under Medicare Part B, this amount may decrease to about \$370 per month. The average 60-year-old public employee and spouse retiring today may spend over \$290,000 on health insurance premiums during their retirement years!

If you retire today at:	Projected cost of retiree medical premiums <sup>3</sup> :
Age 55 .....	\$352,000
Age 60 .....	\$278,000
Age 65 .....	\$184,000

<sup>3</sup> These projections are based on current average PEBB-sponsored retiree medical premium amounts for public retirees 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 (\$1,116/month current average); (3) reduced PEBB retiree medical premium at age 65 for both parties after becoming eligible for Medicare (\$369/month current average); (4) standard Medicare Part B premiums for both parties (\$244/month current); and (5) annual inflation of 5% for PEBB retiree medical premiums.

## Eligibility and funding sources

Not all employees/retirees are eligible to participate. After an employer adopts the plan, employee groups (union and/or non-union) typically vote to decide whether to participate. Your eligibility to participate is usually defined by a collective bargaining agreement (or other form of written agreement), employer policy, etc. You should check with your employer to find out if you are eligible to participate.

HRA funding sources vary by employer and by employee group. In most cases, your employer contributes funds that would otherwise be paid to you as taxable income. For example, the most common HRA funding source is sick leave cash out at retirement. Other common funding sources (based on employer type) are contained in the chart below. You should check with your employer to find out what funding sources may apply to you.

HRA contributions are **tax-free** to both you and your employer. Contributions to **tax-deferred** programs, such as an IRA, 457, 401(k), or 403(b) plans, are subject to FICA tax, and federal income tax is only postponed until you make withdrawals. HRAs are exempt from payroll taxes, federal income tax, and most state income taxes. You may save up to \$300 or more in taxes for every \$1,000 contributed to your HRA, depending on your personal income tax bracket. You should consult a professional advisor regarding your personal tax situation.

### Common funding sources by employer type<sup>4</sup>:

State Agencies & Higher Education	Community & Technical Colleges	K-12 School Districts	Counties, Cities, & Special Purpose Districts
<ul style="list-style-type: none"> <li>Compensable unused sick leave at retirement</li> </ul>	<ul style="list-style-type: none"> <li>Sick leave cash out at retirement</li> <li>Vacation, personal, and other leave cash outs (for employees not covered by state-wide collective bargaining)</li> <li>Mandatory employee contributions (no individual elections)</li> </ul>	<ul style="list-style-type: none"> <li>Sick leave cash out at retirement</li> <li>Annual sick leave buy back</li> <li>Vacation, personal, other leave cash outs</li> <li>Mandatory employee contributions (no individual elections)</li> </ul>	<ul style="list-style-type: none"> <li>Sick leave, vacation, personal, and other leave cash outs</li> <li>Mandatory employee contributions (no individual elections)</li> <li>Excess monthly benefit dollars or medical opt-out incentives</li> </ul>

## Plan designs

VEBA Trust and HRA VEBA Trust each offer two plans. You do not need to choose a plan. Your employer will automatically direct its contributions for you to either the **Standard HRA Plan** or **Post-separation HRA Plan**. Generally, this will depend upon your eligibility to enroll in your employer's qualified group health plan and whether you are actually enrolled in or covered by your employer's qualified group health plan or another qualified group health plan. It could also depend upon the terms of employer policy, collective bargaining agreements, or other factors that may be unique to your employer's HRA program or your employee group.

- Standard HRA** — In most cases, your employer will direct its contributions for you to the Standard HRA Plan, so long as you are eligible to enroll in your employer's qualified group health plan and are either (a) enrolled in or covered by your employer's qualified group health plan or (b) attest that you are enrolled in or covered by another qualified group health plan. HRA accounts for such participants are considered to be "integrated" with their employer's group medical plan. Participants in the Standard HRA Plan can file claims at any time after becoming claims-eligible.
- Post-separation HRA** — Your employer will direct its contributions for you to the Post-separation HRA Plan if you are not eligible to participate in the Standard HRA Plan or if the Post-separation HRA Plan is utilized for all eligible employees within your employee group. Participants in the Post-separation HRA Plan must first separate from service or retire before becoming fully claims-eligible. Prior to separating from service or retiring, participants in the Post-separation HRA Plan can file claims only for dental, vision, and tax-qualified long-term care expenses and premiums.

You should check with your employer if you are unsure about which plan applies to you.

<sup>4</sup> Contact your employer or Department of Retirement Systems (DRS) if you need to find out whether a particular HRA funding source (employer contribution) is reportable compensation for purposes of computing a retirement benefit.

## Becoming a participant

Typically, when you become eligible to participate and receive contributions, your employer will enroll you automatically or ask you to complete and return a paper Enrollment form. You must be enrolled to become a plan participant and establish your account. Failure to enroll will result in the forfeiture of funds that would have otherwise been contributed on your behalf. IRS rules do not permit individual choice; all employees defined as eligible must participate.

Your HRA plan will send you a **welcome packet** after you enroll and have received a contribution from your employer. Your welcome packet will contain confirmation of your employer's contribution, your participant number, a Plan Summary, and online account access instructions. It will also confirm to which HRA plan your employer has directed its contribution for you.

Paper participant account statements are mailed in January and July. If you are signed up for e-communication in lieu of paper (recommended), participant account statements are generated quarterly, and your HRA plan will notify you via email when statements are available for online viewing.

## Investment options

You can invest your account by choosing either one of two investment options. **Option A: Choose a pre-mix** allows you to select a pre-mixed asset allocation portfolio designed and managed by investment professionals. **Option B: Do-it-yourself** lets you build your own portfolio using any combination of available funds. Go to your HRA plan's website and click **Investments** for more details.

You can change your investment allocation 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 available at your HRA plan's website. Fund fact sheets and prospectuses are also available online.

## Survivor benefit

If you pass away, your surviving spouse or estate may be able to spend down (use up) your remaining HRA funds by submitting claims. Medical, dental, and vision expenses and premiums incurred by you (prior to your passing), your spouse, and any dependents will remain eligible for tax-free reimbursement.

If funds still remain after all claims have been reimbursed, your HRA will be transferred to your **surviving spouse**. All of your dependents will remain eligible for coverage. After your spouse passes away, or if you have no spouse, any remaining funds may be transferred equally (and only once) to your **dependents and non-dependent (adult) children, designated beneficiaries, or other survivors**.

For more details, read our **What happens if I pass away?** packet. To get a current copy, log in from your Plan's web site and click **Resources**.

## Plan administrative fees

Plan expenses include claims processing, customer service, account administration, printing, postage, legal, consulting, local servicing, auditing, etc. To cover these costs, a monthly per-participant fee of \$1.50 (if claims-eligible) or \$0.75 (if not claims-eligible), plus an annualized asset-based fee of approximately 1.10% to 1.25%, is charged to your account. The monthly fee is waived if your account balance is more than \$5,000. In addition, a 0.25% asset-based fee discount applies to any portion of your account balance in excess of \$10,000. Your account value changes daily based on activity, which includes investment earnings/losses, contribution and claims activity, and assessment of the asset-based fee.

To the extent permitted or required by law, certain fees, taxes or other assessments payable to the federal government under health care reform law may also be deducted from participant accounts.

## Customer care center

Your HRA plan's customer care center is ready to help if you have questions about your account, need forms, or have a claims or automatic premium reimbursement question. Contact your HRA plan's customer care center at:

**VEBA Plan**  
veba.org  
customercare@veba.org  
1-888-828-4953

**HRA VEBA Plan**  
hraveba.org  
customercare@hraveba.org  
1-888-659-8828

## Plan education

Gallagher VEBA, a division of Gallagher Benefit Services, Inc. provides education and group enrollment services. To schedule a presentation for your group, contact a Gallagher VEBA office near you:

Spokane  
1-800-888-8322  
  
Portland  
1-877-695-3945

Tacoma/Bellevue  
1-800-422-4023  
  
Tri-Cities  
1-855-565-2555