

## Health Reimbursement Arrangements (HRAs) for governmental employees in Washington

This brochure contains a general overview of the VEBA Plan ([veba.org](http://veba.org)) and HRA VEBA Plan ([hraveba.org](http://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)

## Health Reimbursement Arrangement (HRA)

A health reimbursement arrangement (HRA) is a type of group health plan you can use to reimburse out-of-pocket medical expenses. Common expenses, as defined by the IRS, 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

Your HRA funds are held in a tax-exempt voluntary employees' beneficiary association (VEBA) trust. VEBAs are authorized under Internal Revenue Code section 501(c)(9). You may understand the term "VEBA" to mean

a benefit plan that reimburses out-of-pocket medical care expenses and premiums. Technically, these plans are HRAs, but they are commonly called "VEBA" plans. Hundreds of state and local governmental employers in Washington have adopted the VEBA Plan or HRA VEBA Plan as described in this brochure.

## HRA Advantages

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

- You save money by paying zero tax on contributions, investment earnings (if any), 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.

## Spouse and dependent coverage

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.

For more details, go to your HRA plan’s website and click **Plan Information**.

## Claims and automatic premium reimbursements

Submit claims and supporting documentation (proof of expense) online or with our handy mobile app, HRAgo®. Our paper **Claim Forms** is available online or upon request. Standard claims processing time is five to seven business days.

Automatic reimbursement of your retiree insurance premiums is available. You can set up an automatic premium reimbursement online or from HRAgo. Our paper **Automatic Premium Reimbursement** form is available online or upon request.

## Coordination with HSAs and Medicare

**Medicare:** Medicare is generally primary to your HRA after you separate from service or retire. This means you can save or use your HRA funds without any Medicare coordination concerns. However, if your HRA provides in-service benefits and you’re working for the employer who set up your HRA, Medicare may not pay claims until after you’ve used up all of your HRA funds. Medicare can also take your HRA funds to cover prior claims paid

by Medicare when your HRA should have been primary. You can protect your HRA (make Medicare primary) by electing “limited HRA coverage” for you and/or your family member(s) on Medicare.

**Health savings accounts (HSAs):** You can have an HRA and an HSA, and you can use either your HRA or HSA to reimburse your medical 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 first elect “limited HRA coverage.” Only certain dental, vision, and orthodontia expenses are covered while coverage is limited. You can switch your HRA back to full coverage after you stop making or receiving HSA contributions (certain limitations may apply).

For more details, go to your HRA plan’s website and click **Plan Information**. To elect “limited HRA coverage,” just complete and submit a **Limited HRA Coverage Election** form. Forms are available online after logging in from your HRA plan’s website and clicking **Resources**.

## Premium Tax Credit

If you purchase insurance through a marketplace exchange and want to qualify for the Premium Tax Credit (subsidy), you should consider whether you will first need to use up, limit, or waive your HRA plan benefits.

For more details, go to your HRA plan’s website and click **Plan Information**. Already a plan participant? Read **Premium Tax Credit and Your HRA** in the **Plan Summary** for your HRA plan. To get the latest version, log in from your HRA plan’s website and click **Resources**.

## How much will I spend on medical premiums during retirement?

PEBB-sponsored retiree health insurance coverage averages over \$767 per month for one person until Medicare eligibility. Medicare and Medicare Supplement premiums are lower. For example, Medicare Part B is about \$175 per month. Medicare Part G is about \$102 per month.

Projected cost if you retire today at<sup>3</sup>:

Age 55 .....	\$207,000
Age 60 .....	\$156,000
Age 65 .....	\$91,000

<sup>3</sup> These are retiree-only cost projections for 2024. The basic assumptions are: (1) employee retires at age 55, 60, or 65 and lives to age 84; (2) retiree enrolls in the PEBB-sponsored UMP Select medical plan for non-Medicare retirees until age 65 (\$766.61/month); (3) retiree enrolls in Medicare Supplement Plan G at age 65 (\$101.99/month); (4) retiree becomes covered by Medicare Part B at age 65 (\$174.70/month standard); and (5) annual inflation of 5% for UMP Select and Medicare Supplement premiums and 2% for Medicare Part B premium. The medical coverage assumptions used for these cost projections are merely examples, not recommendations. Your individual circumstances may warrant different coverage choices.

## Eligibility and funding sources

You may or may not be eligible to participate. Employee groups (union or non-union) typically vote to decide whether they will participate. Eligibility criteria is usually defined in writing within a collective bargaining agreement, some other form of agreement, or employer policy. Check with your employer if you need to confirm your eligibility.

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) plan, are subject to FICA taxes (Social Security and Medicare), and federal income tax is merely postponed until you make withdrawals. HRAs are exempt from FICA taxes and federal income tax. 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 and Higher Education

- Compensable unused sick leave at retirement

#### Community and Technical Colleges

- Sick leave cash out at retirement
- Vacation, personal, and other leave cash outs (for employees not covered by state-wide collective bargaining)
- Mandatory employee contributions (no individual elections)

#### K-12 School Districts

- Sick leave cash out at retirement
- Annual sick leave buy back
- Vacation, personal, other leave cash outs
- Mandatory employee contributions (no individual elections)

#### Counties, Cities, and Special Purpose Districts

- Sick leave, vacation, personal, and other leave cash outs
- Mandatory employee contributions (no individual elections)
- Excess monthly benefit dollars or medical opt-out incentives

## Plan designs

VEBA Trust and HRA VEBA Trust each offer two plans. You don't need to make a choice. Your employer will automatically send your HRA contributions to either the **Standard HRA Plan** or **Post-separation HRA Plan**. Generally, this will depend on your group health plan enrollment as described below. It may 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 send your contributions to the Standard HRA Plan. You must (1) be enrolled in your employer's qualified group health plan or (2) be eligible to enroll in your employer's plan and attest that you're covered under a different qualified group health plan. Your Standard HRA is considered to be "integrated" with your employer's

group health plan. You can file claims at any time after becoming claims-eligible.

- **Post-separation HRA** — Your employer will send your contributions to the Post-separation HRA Plan if you are not eligible for the Standard HRA Plan or if only the Post-separation HRA Plan is used for your employee group. Claims are limited to dental, vision, and qualified long-term care expenses and premiums while you're working. Your HRA may become fully claims-eligible after you separate from service or retire. If you later become re-employed by the same employer, claims will be limited until your re-employment ends.

You should check with your employer if you're 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, your employer will enroll you automatically. 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 have been enrolled 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 registration instructions. It will also confirm to which HRA plan you belong.

Quarterly e-statements are available online. If you sign up for e-communication (recommended), your HRA plan will notify you by email when your e-statement is available. If you don't elect e-communication, a paper account statement will be mailed to you in January and July.

## 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 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 about 1.00%, 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, a claim, or automatic premium reimbursement.

### VEBA Plan

1-888-828-4953 | veba.org

### HRA VEBA Plan

1-888-659-8828 | hraveba.org

## Plan Education

Plan education and group enrollment services are provided by Gallagher. To schedule a presentation for your group, call 1-800-888-8322.