



Save Tax. Keep More.

## Health reimbursement arrangements for public employees in Washington

*Presented by*



**Gallagher**

Insurance | Risk Management | Consulting





# Topics

## What is the VEBA Plan?

- Tax advantages; key benefits; plan designs

## How to use the VEBA plan

- Getting money in; getting money out
- Investment options





# Retiree Medical Premiums

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

If you retire today at:

Projected cost of retiree medical premiums\*:

Age 55 .....\$352,000

Age 60 .....\$278,000

Age 65 .....\$184,000

\*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.



What is an  
HRA?

# HRA

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## Health Reimbursement Arrangement

- “Account-based” group health plan
- Funded by employer
- Tax-free money for future medical care costs
- Often called “VEBA”
  - Assets held in a voluntary employees’ beneficiary association (VEBA) trust

# Sick Leave Cash-out Upon Retirement/Separation

Who's eligible and what's the funding calculation?

## Eligibility

- Retirement
- Separation from Service if 55+ and
  - 15 years of service in Plan 2
  - 10 years of service in Plan 3



**180 day max – per state law**

**1:4 (25%) – per state law**

# Key Benefits

**...pay no tax** (federal income or FICA)

**...can use your account anytime**  
(after becoming claims eligible)

**...choose your investments**

**...unused balance carries over**  
*(no annual "use-it-or-lose-it" or carryover limitations)*

**...account can transfer to your spouse, children, beneficiaries, or other eligible survivors if you pass away**



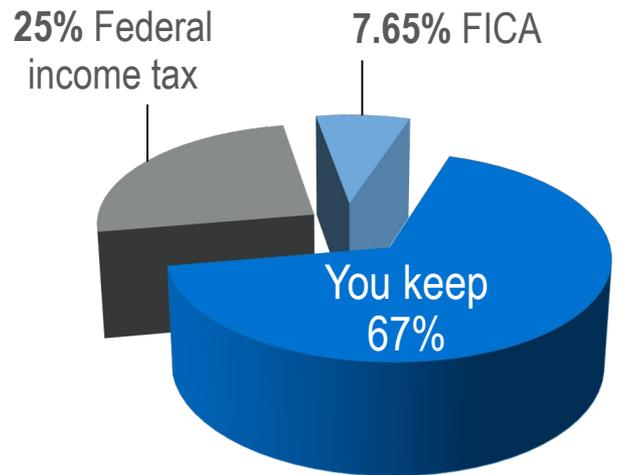
# Save Tax. Keep More.

## WITHOUT VEBA:

### Sick Leave Balance \$10,000

Cash or Tax-deferred (457, 403(b), 401(k), etc.)

Less FICA (7.65%):	\$765
Less income tax at (22%):	<u>\$2,200</u>
=	<b>\$7,035</b>



## WITH VEBA:

### Sick Leave Balance \$10,000

Less nothing:	<u>\$0.00</u>
=	<b>\$10,000</b>

Tax-free – *better than tax-deferred.*



# Common Qualified Expenses

## Retiree medical premiums

- Before and after age 65
- Including Medicare supplements and Medicare Part B and Part D

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NOTE: Premiums deducted pre-tax by an employer through a Section 125 cafeteria plan are not eligible for reimbursement.



## Deductibles

## Copays

## Prescription drugs

## Long-term care premiums

- Tax-qualified; subject to IRS limits

# Common examples

## General expenses

Acupuncture  
Alcoholism and drug treatment center costs  
Birth control pills  
Chiropractic  
Christian Science  
Contact lenses, solutions, etc.  
Co-pays  
Coinsurance  
Deductibles  
Dental  
Eye glasses  
Fertility treatments  
Gynecology/Obstetrics  
Hearing aids & batteries  
Immunizations  
Laser eye surgery  
Lifetime care at medical facility  
Medical supplies and equipment  
Naturopathic  
Organ transplants  
Orthodontia  
Osteopathy  
Physical therapy  
Prescription medicines  
Preventive care  
Psychiatric  
Retirement home (costs allocable to medical care)  
Stop smoking programs  
Transportation (subject to IRS limits)  
Vaccines  
Vasectomy  
Vision  
Wheelchair

## Over-the-counter (OTC)

### **PRESCRIPTION REQUIRED (medicines and drugs):**

Acne medications  
Allergy medicines  
Antacids  
Aspirin  
Cold medicines  
Cough suppressants  
Dietary supplements  
Eye products (e.g. Visine®)  
First aid creams/liquids  
Herbal medicines  
Nicotine gum/patches  
Pain relievers  
Sinus medications  
Sleeping aids  
St. John's Wort  
Weight loss drugs

### **NO PRESCRIPTION REQUIRED (non-medicine items):**

Bandages  
Crutches  
Insulin  
Diagnostic devices (e.g. blood sugar kits)

### **OTC ITEMS NOT ELIGIBLE:**

Cosmetics; face creams  
Medicated shampoos  
Tooth brushes (including electronic)  
Vitamins (most cases)

## Insurance premiums

Medical\*  
Dental  
Vision  
Long-term care (tax-qualified; subject to IRS limits)  
Medicare Part B  
Medicare Part D  
Medicare supplement plans

\*Includes marketplace exchange premiums that are not or will not be subsidized by the Premium Tax Credit.

## Medicare

Co-pays  
Coinsurance  
Deductibles  
Home health care  
Hospice care  
Hospital stay  
Outpatient hospital services  
Skilled nursing facility stay

## Military retiree coverage

Deductibles  
Medicare Part B premiums  
Medicare Part D premiums  
Office visit copays  
Miscellaneous medical, dental, and vision expenses  
TRICARE premiums (medical and dental plans)

# Investment Options

Are you comfortable making your own investment decisions?

NO

**Option A:**  
Choose a pre-mix

- Pre-mixed portfolios
- Professionally managed

YES

**Option B:** Do-it-yourself

- Individual asset classes
- Build your own portfolio



# Benefits Card

**No monthly fee!**

**Easy to use. Saves you time.**

**Pay for medical care items and services directly from HRA.**

**No more filing claims and waiting to get reimbursed!**

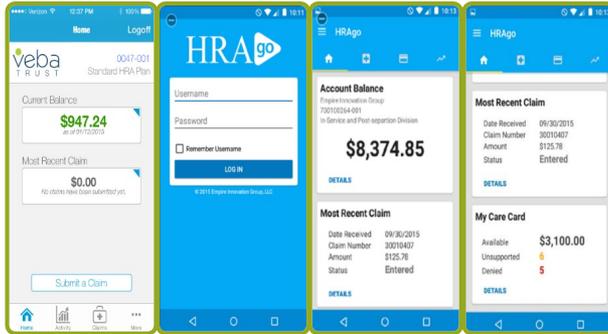
The screenshot displays the 'Benefits Card' section of a web application. At the top, there is a navigation bar with tabs for 'Home', 'Claims', 'Benefits Card', 'Account Activity', 'Investments', 'Resources', and 'My Profile', along with a 'Switch Accounts' button. Below the navigation bar, there are three main panels: 'Actions' with a 'Submit Supporting Documentation' button, 'Action Items' with the message 'No transactions require action at this time.', and 'Available Balance' with the message 'Your benefits card is currently suspended due to noncompliance with the benefits card documentation requirements.' Below these panels is a 'Transaction Search' section with filters for 'Occurred Within' (Last Month) and 'Status' (All), a 'Search' button, and a 'Rows Per Page' dropdown set to 10. A table with columns for Transaction ID, Transaction Date, Description, Type, Amount, and Status is shown, with the message 'No transactions found.' at the bottom.

- No monthly fee
- Spend up to 90% of HRA balance every day (a \$3,000 daily limit applies)
- Provider or merchant gets paid when card is swiped
- Plan will notify participant when supporting documentation is needed
- Participants can request separate cards for spouse or dependents (a one-time charge of \$1 per card will apply)

# Comprehensive Online Experience

Login at [www.veba.org](http://www.veba.org) or use HRAgo®

Submit claims for qualified expenses



- Simple drop-down menus
- Upload documentation and click Submit!
- Take pictures of supporting documentation and submit claims
- Particularly useful for My Care Card users who need to submit supporting documents

Check balance, view investments, and update contact information

Submit a Claim

Getting Started — Expense Details — Supporting Documents — Payment Method — Review & Submit

Required fields are marked with an asterisk (\*).

You can submit multiple expenses for one or more covered individuals. Please enter each expense separately. Do not combine separate expense amounts into a single amount. Click the "Add Expense" button after entering the Expense Details for each expense. When finished, click the "Next" button to proceed to the next step.

Expense Details

Date of Service\*  Expense Type\*

Covered Individual\*  Amount\*

Service Provider\*

Claim Expenses

Date of Service	Covered Individual	Service Provider	Expense Type	Amount

# Automatic Premium Reimbursements



## Provides reimbursement to participants for qualified premiums

- Set up automatic premium reimbursement online after logging in at [veba.org](http://veba.org), or submit an **Automatic Premium Reimbursement** form
- No direct payments to insurance companies or providers

# Limited Coverage

## When might a participant need to elect limited HRA coverage?

1

### Medicare coordination

Participant is an active employee (of the contributing employer)  
Participant, spouse, or dependent have Medicare coverage and want it to be primary to HRA coverage

2

### HSA eligibility

Participant, spouse, or dependent want to be eligible to make or receive contributions to an HSA

3

### Premium Tax Credit eligibility

Participants, spouse, or dependent are purchasing coverage through a marketplace exchange and want to be eligible for the Premium Tax Credit

# VEBA Trust Snapshot

Non-profit,  
tax-exempt

72,188  
Participants  
417  
employers

HRAs are  
health plans –  
not  
retirement  
plans

- Created in 1984
- For public employees in Washington
- Managed by board of trustees (your peers)
- Plan administrative fees:
  - \$1.50 per month\* (if claims-eligible), plus 1.25% (+/-) annualized asset-based fee
  - Monthly fee waived if account balance more than \$5,000
  - 0.25% asset-based fee discount on any portion of account balance in excess of \$10,000
- Expenses include: claims processing, customer care, account administration, local service, printing, postage, consulting, legal, auditing

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\*This is a monthly per-participant fee for claims-eligible participants; the fee is \$0.75 for non-claims-eligible participants. To the extent permitted or required by law, certain fees, taxes or other assessments payable to the federal government under health care reform may also be deducted from participant accounts. If you have more than one account, the balances in each account are combined when determining your eligibility for waived or discounted fees

# Customer Care Center



**1-888-828-4953**

- Located in Spokane
- Participant questions
  - Claims
  - Automatic premium reimbursements
  - Account activity
  - Address changes
  - And more



# Summary

Get more  
information:  
[www.veba.org](http://www.veba.org)  
Or  
**1-888-828-4953**

Use the VEBA Plan to help  
cover your out-of-pocket  
medical care costs

- You pay no tax on contributions, earnings, or reimbursements (claims)
- You choose your investment options
- You can use your account anytime (after becoming claims eligible)
- Your spouse and qualified dependents are covered
- Your unused account balance carries over