

# VEBA Plan

Health reimbursement arrangements for public employees in Washington



Save Tax. Keep More.

veba.org

VEBA Trust<sup>1</sup> offers two separate health reimbursement arrangement (HRA) plan designs: the **Standard HRA Plan** and the **Post-separation HRA Plan**. These plans have been adopted by most school districts and nearly every community and technical college in Washington. Visit [veba.org](http://veba.org) for more information.

## Health reimbursement arrangement

A health reimbursement arrangement (HRA) is an account-based health plan you can use, after becoming claims-eligible, to reimburse your qualified out-of-pocket medical care 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 medical care reimbursements (claims) are tax-free and do not require any tax reporting. Your employer is not required to report HRA contributions on your IRS Form W-2. You should not report HRA contributions on your individual IRS Form 1040. You will not receive an IRS Form 1099 for any investment earnings or claims<sup>2</sup>.

## VEBA Plan benefits

Benefits of becoming a VEBA Plan participant include the following:

- You save money by paying zero tax on contributions, earnings, and reimbursements (claims)
- You can use your account anytime after becoming claims-eligible<sup>3</sup>
- You can choose how your account is invested
- Your legal spouse and qualified dependents<sup>4</sup> are covered—even if you pass away
- 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

The VEBA Plan covers you, your legal spouse, and qualified dependents<sup>4</sup>. Generally, dependents must satisfy the definition of **Qualifying Child** or **Qualifying Relative** at the time such expenses were incurred to be eligible for benefits. To learn more, read the **Definition of Dependent** handout available online (log in to your account at [veba.org](http://veba.org) and click **Resources**) or upon request from [customercare@veba.org](mailto:customercare@veba.org) or 1-888-828-4953.

<sup>1</sup> VEBA Trust was formed in 1984 and is a voluntary employees' beneficiary association (VEBA) authorized under Internal Revenue Code § 501(c)(9). VEBA Trust is managed by a board of trustees appointed by these founding associations: Association of Washington School Principals (AWSP), Washington Association of School Administrators (WASA), and Washington Association of School Business Officials (WASBO). <sup>2</sup> If you use a My Care Card to pay for a medical care item or service and do not submit proper supporting documentation as may be requested, we will issue an IRS Form 1099 to you, and the transaction amount will become subject to federal income tax. <sup>3</sup> If you have a participant account under the Post-separation HRA Plan and, after separating from service or retiring, become re-employed by the employer that made or is making contributions to that account, you will not be eligible to file claims to your Post-separation HRA Plan account for expenses you may incur while you are re-employed. <sup>4</sup> 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 medical care 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 to reimburse retiree medical premiums before and after age 65, including Medicare supplement and Medicare Part B and Part D premiums
- Does not require coverage under a high-deductible health plan (HDHP)

## Coordination with HSAs and Medicare

**Health savings accounts (HSAs):** You can have an HRA and an HSA, and you can use either your HRA (if claims-eligible) or HSA to reimburse your qualified 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-purpose" 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).

**Medicare:** Medicare is generally primary to your claims-eligible HRA account if you are retired or separated from the employer that made (or is making) contributions to your HRA account. If you are still working, your HRA is generally primary to Medicare unless you have elected limited-purpose coverage. To learn more, read the **Who Pays First, VEBA or Medicare?** handout available online (log in to your account at [veba.org](http://veba.org) and click **Resources**) or upon request from [customercare@veba.org](mailto:customercare@veba.org) or 1-888-828-4953.

## Premium Tax Credit

If you purchase insurance through a marketplace exchange and want to qualify for the Premium Tax Credit, you should (1) read the **Facts About Premium Tax Credit Eligibility** handout available online (log in to your account at [veba.org](http://veba.org) and click **Resources**) or upon request from [customercare@veba.org](mailto:customercare@veba.org) or 1-888-828-4953; and (2) consider whether you will need to first use up, limit, or waive your VEBA Plan benefits.



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

The cost of PEBB-sponsored medical insurance coverage for a retiree and spouse currently averages about \$1,100 per month prior to Medicare Part B eligibility. After both parties become covered under Medicare Part B, the average cost may decrease to about \$370 per month. The typical 60-year-old public employee and spouse retiring today may spend over \$270,000 on retiree medical insurance premiums during their retirement years!

If you retire today at:

Projected cost of retiree medical premiums<sup>5</sup>:

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

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

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

<sup>5</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); and (4) standard Medicare Part B premiums for both parties (\$244/month current); and (5) annual inflation of 5% for PEBB retiree medical premiums.

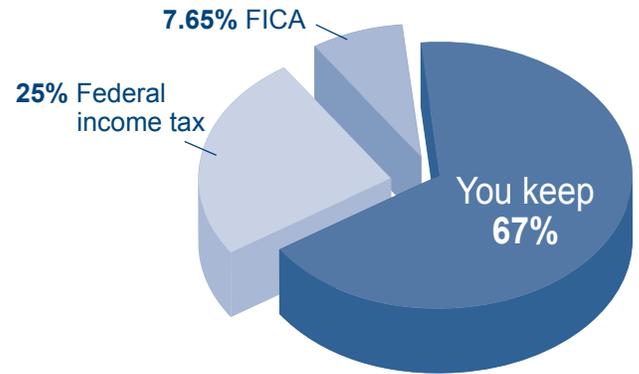
# Common funding sources

In most cases, your employer contributes funds that would otherwise be paid to you as taxable income. VEBA Plan 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 tax, and federal income tax is only postponed until you make withdrawals (claims). HRAs are exempt from payroll taxes, federal income tax, and most state income taxes.

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

- Mandatory employee contributions<sup>6</sup>
- Sick, vacation, personal, and other leave cash outs
- Part or all of a future pay raise or COLA
- Other eligible sources

## Taxable Income<sup>7</sup>:



## Tax-free VEBA Plan:



## Submitting claims

You can file claims at any time for qualified medical care expenses you incurred after you become and remain claims-eligible. Submitting claims (and proof of expense) using our mobile app, **HRago**, or online after logging in at **veba.org**, is **recommended**. You can also email or mail a fully-completed **Claim Form** (and proof of expense) as directed on the form. Standard processing time is **five to 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. A list of common **Qualified Expenses & Premiums** is contained on page 8 of this enrollment kit.

### QUICK TIP:

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

You can set up automatic reimbursement of your qualified insurance premiums after logging in at **veba.org** or by submitting an **Automatic Premium Reimbursement** form.

## 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. Read the **Investment Fund Information** brochure beginning on page 10 of this enrollment kit 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 online at **veba.org** or upon request from **customercare@veba.org** or 1-888-828-4953. Fund fact sheets and prospectuses are also available online.

<sup>6</sup> If you need to confirm how mandatory employee contributions (or other contributions) to the VEBA Plan may affect your pension benefit, contact your employer or your state retirement system. <sup>7</sup> 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.

# Plan designs



The main difference between the plans has to do with claims eligibility. Under the **Standard HRA Plan**, you can file claims at any time (subject to your employer's plan design). Under the **Post-separation HRA Plan**, you must first separate from service or retire from your employer before becoming claims-eligible. All other terms and conditions are the same.

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 you (a) are enrolled in or covered by your employer's qualified group health plan or (b) attest to your employer that you are enrolled in or covered by another qualified group health plan. Your Standard HRA is considered to be "integrated" with your employer's qualified group health 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 your employer utilizes the Post-separation HRA Plan for all eligible employees within your employee group. Participants in the Post-separation HRA Plan must first separate from service or retire before becoming eligible to file claims.

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

## Customer care center

The VEBA 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. You can contact the customer care center Monday through Friday from 8:00 a.m. to 5:00 p.m. Pacific Time.

[customer care@veba.org](mailto:customer care@veba.org)

1-888-828-4953

## 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 1.25%, is charged to your account. The monthly fee is waived if your account balance<sup>8</sup> is more than \$5,000. In addition, a 0.25% asset-based fee discount applies to any portion of your account balance<sup>8</sup> 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<sup>9</sup>.

<sup>8</sup> If you have more than one account, the balances in each account are combined when determining your eligibility for waived or discounted fees. <sup>9</sup> The Patient-Centered Outcomes Research Institute (PCORI) fee for the 2015-16 plan year is \$2.17 per claims-eligible participant (the fee does not apply to spouses and dependents). The PCORI fee is pro-rated and deducted from claims-eligible participant accounts quarterly. The PCORI fee is imposed on all group health plans by federal health care reform and could increase annually through the 2019-20 plan year.

# Becoming a participant



Typically, when you become eligible to participate and receive contributions, your employer will give you a **VEBA Plan Participant Enrollment Kit** and ask you to complete and return the **Enrollment** form, which will be included with the kit. Your kit will also include important plan information, investment information, and notice of online availability of the Summary of Benefits and Coverage. You must submit a fully completed and signed Enrollment form to become a participant and establish your account<sup>10</sup>. A single Enrollment form will enroll you into either the Standard HRA Plan or the Post-separation HRA Plan, as directed by your employer when making contributions on your behalf.

The VEBA Plan will send you a **welcome packet** after receiving both your signed Enrollment form and the first contribution from your employer. Your welcome packet will contain confirmation of your employer's contribution, your participant account number, a Plan Summary, and instructions for online account access. It will also confirm to which VEBA plan your employer has directed its contribution for you and whether you are claims-eligible. If you are not claims-eligible when you enroll, we will send you a **claims-eligibility packet** after receiving notice from your employer that you have become eligible to file claims.

Paper **participant account statements** are mailed in January and July. If you are signed up for e-communication in lieu of paper (recommended), you will receive quarterly email notification as soon as your statements are available for online viewing.

## GO GREEN:

Sign up for e-communication to receive quarterly e-statement notifications, newsletters, and EOB notices by email. Check the box on your enrollment form.

### e-Services

The VEBA Plan offers several convenient e-services:

- **Online account access**—Log in at [veba.org](http://veba.org) to manage your account online.
- **Online claims submission**—Submit claims and supporting documentation online after logging in at [veba.org](http://veba.org). It is easier than using a paper form. Plus, you will get your money back faster.
- **HRAgo® (mobile app)**—Keep track of your account on the go. Take pictures of supporting documentation and file claims right from your smartphone.
- **My Care Card<sup>SM</sup>**—Pay for medical care items and services directly from your HRA without first having to cover these expenses out of pocket, submit claims, and wait to be reimbursed. You may still need to submit supporting documentation for certain purchases, per IRS rules. You can elect a My Care Card when you enroll or by contacting the VEBA Plan's customer care center. To learn more, go to [veba.org](http://veba.org), and click the **My Care Card** button.
- **e-Communication**—Go green! Elect e-communication and get email notices when your quarterly participant account statements and explanations of benefits (EOBs) are available online.
- **Direct deposit**—Sign up for direct deposit. It is faster and more convenient than waiting to receive paper check reimbursement in the mail.

### Survivor benefit

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

In the unlikely event you pass away with an unused account balance and have no eligible survivors, the executor of your estate can spend down your account by filing claims for any unreimbursed medical care expenses you may have incurred prior to your death. Remaining funds (if any) after all final claims have been reimbursed may be used to reimburse medical care expenses incurred by your non-dependent heir(s). Medical care reimbursements paid to non-dependent heirs may be taxable.

<sup>10</sup> Failure to complete the required Enrollment form 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.



Plan education and group enrollment services provided by:



To schedule a group presentation, contact a Gallagher VEBA office near you.

**Spokane**  
1-800-888-8322

**Tacoma/Bellevue**  
1-800-422-4023

**Vancouver**  
1-877-695-3945

**Tri-Cities**  
1-855-565-2555