

# What is HRA VEBA?

A tax-free  
health reimbursement  
arrangement for  
public employees in  
the Northwest

- ▶ Health care costs are a growing problem for public employees
- ▶ Start saving now
  - *Contributions are tax-free*
  - *Earnings are tax-free*
  - *Withdrawals (claims) are tax-free*
- ▶ Speak with your employer and/or union leadership today about adding HRA VEBA to your benefits package

# What is a health reimbursement arrangement?

A health reimbursement arrangement (HRA) is a type of health plan that reimburses out-of-pocket health care costs incurred by you, your spouse, and qualified dependents. All contributions, investment earnings, and withdrawals (claims) are tax-free!

The HRA VEBA plan is offered by the non-profit HRA VEBA Trust<sup>1</sup>. HRA VEBA has been adopted by over 250 governmental employers in Washington, Oregon, and Idaho.

# Why should I have an HRA?

Public employees everywhere are struggling to cope with the soaring cost of health care, particularly after retiring. Many who are eligible to retire keep working. Why? Because their retirement pensions and other taxable retiree income sources aren't enough.

Don't become job-locked. You work hard and deserve to enjoy a stress-free retirement. A properly funded HRA can help.

An HRA allows you to save a portion of what you earn today for when you need it most.

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<sup>1</sup> The HRA VEBA Trust was formed in 1990 and is a voluntary employees' beneficiary association (VEBA) authorized by section 501(c)(9) of the Internal Revenue Code. The HRA VEBA Trust is managed by a board of trustees elected by the plan participants.

<sup>2</sup> Depending on your employer's plan design, account usage may be subject to vesting or post-separation coverage only.

## Plan Benefits:

- Pay no tax on contributions
- Pay no tax on investment earnings
- Pay no tax on withdrawals (claims)
- Use your account now or save it for when you retire<sup>2</sup>
- Reimburse health care expenses and premiums for you, your spouse, and qualified dependents
- No contribution limits
- Account balances carryover from year to year (no "use-it-or-lose-it" requirement)
- Participant-directed investment funds, including four professionally designed pre-mixed portfolios
- Upon death, remaining funds can continue to be used by your surviving spouse and qualified dependents

## Tax-free Contributions

HRA VEBA is completely *tax-free*. Contributions to *tax-deferred* programs (IRA, 457, 401(k), 403(b), pension plans) are subject to FICA tax, and federal income tax is merely postponed until withdrawals are made.

Exchanging taxable wages for tax-free HRA VEBA contributions has significant tax-saving benefits- even better than your tax-deferred investments!

Below are several of the most common HRA VEBA funding sources<sup>3</sup>.

1. Mandatory employee contributions (no individual elections permitted)
2. Sick leave, vacation, personal, and other leave cash outs
3. Part or all of a future pay raise or COLA
4. Unused monthly benefit dollars
5. Premium savings from lower-cost medical plans
6. Other eligible sources

## Here's how the tax savings<sup>4</sup> work:

<b>\$100 Monthly Contribution</b> Estimated Tax Savings = \$33		
	Without HRA VEBA	<b>With HRA VEBA</b>
Monthly Amount	\$100	<b>\$100</b>
25% Federal Income Tax	<25>	<b>0</b>
7.65% FICA Tax	<8>	<b>0</b>
Amount You Keep	\$ 67	<b>\$100</b>

<b>Cumulative Growth Comparison</b> \$100 per month; 5.00% return (net of fees)		
	Taxable Equivalent <sup>4</sup>	<b>HRA VEBA</b>
After 1 year	\$ 825	<b>\$ 1,234</b>
After 5 years	4,522	<b>6,977</b>
After 10 years	10,183	<b>16,388</b>
After 20 years	26,140	<b>46,204</b>
After 30 years	51,145	<b>100,452</b>

Oregon and Idaho participants also save approximately 8% state income tax on contributions.

## Enrollment

After your employee group adopts HRA VEBA and you become eligible to participate, you will be asked to submit a completed and signed Membership Enrollment Form to your employee benefits office. All employee group members defined as eligible must participate per IRS rules.

<sup>3</sup> If you need to confirm how mandatory employee contributions (or other contributions) to HRA VEBA may affect your pension benefit, contact your employer or your state's retirement system.

<sup>4</sup> Tax savings examples (1) are for illustrative purposes only and vary based on your personal tax situation; and (2) assume 25% federal income tax on contributions and earnings and 7.65% FICA tax on contributions. You should consult a professional advisor regarding your personal tax situation.

AMOUNT TODAY'S AVERAGE PUBLIC RETIREE AND SPOUSE  
WILL SPEND ON HEALTH CARE DURING RETIREMENT:

**\$300,000+**

## Tax-free Investments

Invest your account by choosing either one of two options. You can change your investment decision as often as monthly. Fund management fees vary by fund(s) selected.

### Option A: Do-it-yourself

Build your own asset allocation portfolio with funds from seven individual asset classes.

- Stable Value
- Total Return Bond
- Balanced
- Large Cap Equity
- Mid Cap Equity
- Small Cap Equity
- International Equity

### Option B: Choose a pre-mix

Select any one of four professionally designed pre-mixed asset allocation portfolios. Each pre-mixed portfolio's risk level gives strong consideration to your projected time horizon (i.e. the length of time until you expect to begin filing claims).

- Immediate Use (0-1 years)
- Short-term Use (2-3 years)
- Medium-term Use (4-5 years)
- Long-term Use (6+ years)

## Online Account Access

Online account access allows you to:

- Check your account balance and transaction history
- Review and/or change your investments
- Print Claim Forms
- Change your address

## Tax-free Withdrawals (Claims)

### It's easy to file a claim

After becoming eligible to file claims, simply submit a properly completed and signed Claim Form along with proof of expense. Claims are processed daily.

Use a Systematic Payment Form to request automatic reimbursement (or payment) of recurring qualified insurance premiums.

### Direct deposit is fast and secure

Sign up for direct deposit. It's a faster and more secure way to receive reimbursements.

## Survivor Benefit

If you pass away, remaining funds in your account may continue to be used by your surviving spouse, qualified dependents, or heirs to reimburse eligible health care expenses and premiums.

NOTE: IRS Revenue Ruling 2006-36 requires HRA VEBA to discontinue providing reimbursements to non-dependent heirs for expenses incurred on or after October 1, 2009. This ruling only affects benefits paid to non-dependent heirs; benefits on behalf of a surviving spouse or dependent(s) will continue to be available.

To learn more, or to schedule a group presentation, contact:

**VEBA Service Group, LLC**

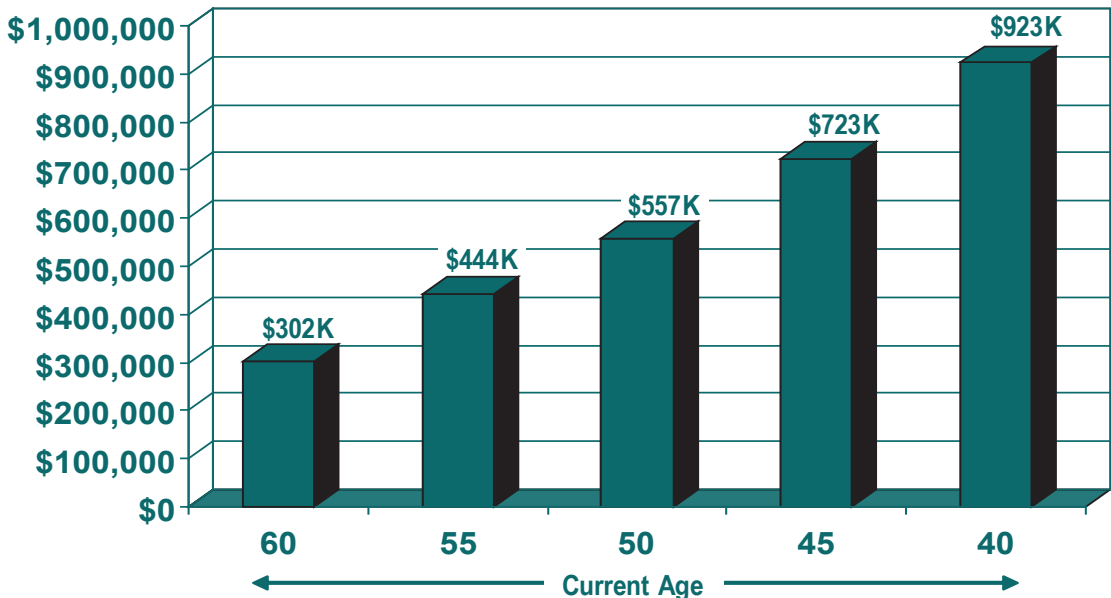
Western Washington  
**1-800-422-4023**

Eastern Washington, Oregon & Idaho  
**1-800-888-VEBA (8322)**

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

Find your current age on the chart below.

The average 60-year-old public employee and spouse retiring today may spend *well over \$300,000 of their own money* on health care expenses and insurance premiums during retirement! Fortunately, HRA VEBA can help. Contact a VEBA Service Group, LLC office near you. In Western Washington, call 1-800-422-4023; in Eastern Washington, Oregon, or Idaho, call 1-800-888-VEBA (8322).



The above figures assume employee and spouse retire today at age 60; life expectancy to age 84; retiree medical plan for retiree and spouse to age 65; Medicare Part B, Medicare Part D, and Medicare supplement plan after age 65; retiree dental insurance plan; \$500/year incidental out-of-pocket expenses (deductibles, co-pays, etc.); and 5% annual increase in costs.

## Fees

Plan expenses include claims processing, printing, postage, legal fees, consulting, local servicing, auditing, etc.

These costs are paid by a \$1.50/month per account fee, plus an annualized fee of approximately 1.25%. The annualized fee is paid by a reduction to investment earnings or, if there are no earnings, charged as a deduction to participant accounts.

## Third-party Administrator (TPA)

Founded in 1961, REHN & ASSOCIATES is an experienced employee benefits administrator with highly-trained staff specializing in HRA administration. The TPA provides account administration and claims payment services.

REHN & ASSOCIATES

P.O. Box 5433 • Spokane, WA 99205-0433  
1-800-VEBA101 (832-2101) or (509)534-0600  
(509)535-7883 fax  
hraveba@rehnonline.com

## Qualified Expenses & Premiums

Below is a partial list of basic qualified expenses and premiums. Visit [www.hraveba.org](http://www.hraveba.org) to view a more extensive list.

### COMMON EXPENSES

Co-pays  
Coinsurance  
Deductibles

PRIME (HMO)  
PRIME supplement  
Retiree dental  
Standard

### SERVICES and FEES

Acupuncture  
Chiropractor  
Christian Science  
Dentist  
Gynecologist  
Laboratory  
Naturopath  
Nursing  
Obstetrician  
Oral surgeon  
Ophthalmologist  
Optometrist  
Orthodontist  
Osteopath  
Physicals  
Physician

Physiotherapist  
Psychiatrist  
Psychologist

Telephone for deaf (TTY)  
Transportation (subject to IRS limits)  
Wheelchair  
X-rays

### INSURANCE PREMIUMS

Medical/Dental/Vision  
Long-term care (tax-qualified, subject to IRS limits)  
Medicare Parts B and D  
Medicare supplement plans

### MEDICARE COSTS

Deductibles  
Co-pays  
Coinsurance  
Clinical laboratory services  
Home health care  
Hospice care  
Hospital stay  
Mental health services  
Outpatient hospital services

### OTHER EXPENSES

Alcoholism and drug treatment center costs  
Contact lenses, solutions  
Eye glasses  
Hearing aids & batteries  
Immunizations  
Laser eye surgery  
Medical supplies and equipment  
Physical therapy  
Prescription medicines  
Stop smoking programs

### OTC MEDICINES & DRUGS

Allergy medicines  
Antacids  
Cold medicines  
Eye care products  
First aid creams/liquids  
Nicotine gum/patches  
Pain relievers  
Sinus  
Sleeping aids

Section 213(d) of the Internal Revenue Code defines qualified expenses and premiums, in part, as “medical care” amounts paid for insurance or “for the diagnosis, cure, mitigation, treatment, or prevention of disease...” Expenses solely for cosmetic reasons generally are not eligible (e.g. face-lifts, hair transplants, hair removal, etc.).

Insurance premiums paid by an employer, or premiums that are or could be deducted pre-tax through your or your spouse’s Section 125 cafeteria plan, are not eligible for reimbursement.

If you have a Section 125 health care flexible spending account (FSA), you must exhaust your FSA benefits before submitting an eligible claim.

Claims for over-the-counter (OTC) medicines and drugs should be for reasonable quantities expected to be consumed within a reasonable period of time. Typically, two bottles of an item is the limit. Sales tax can be included.

Questions? Call the third-party administrator, REHN & ASSOCIATES, at 1-800-VEBA101 (832-2101).