



Understanding VEBA Plan Benefits



veba
TRUST

HEALTH REIMBURSEMENT ARRANGEMENT



Group participation
funded by employer



Annual, transitional
or monthly funding options



Once funded, the
account can be used
at any time



Invest and
grow your funds



IRS-approved
medical/vision/dental
expenses



Contributions, withdrawals
and account growth are
tax free



Transferrable to spouse, children or eligible beneficiaries

What is an HRA?

HRA

Health Reimbursement Arrangement

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

History & Background

- VEBA Trust was founded in 1984
- WASBO, AWSP and WASA are the founding organizations
 - Each found association appoints two Trustees to serve on the Board
- Why VEBA?
 - A couple retiring from a school district today at age 60 will need approximately \$80,000* just to cover medical premiums until age 65

*Based on 2018 PEBB retiree medical rates for the UMP Classic medical plan

Common Examples

General expenses

- Acupuncture
- Alcoholism and drug treatment center costs
- Birth control (male and female)
- Blood pressure monitor
- Chiropractic
- Christian Science office visits
- Contact lenses
- Copays
- Coinsurance
- Deductibles
- Dental
- Flu shots
- Fertility treatments
- Gynecology/Obstetrics
- Hearing aids and batteries
- Immunizations
- Lactation aids, consultation
- Laser eye surgery
- Massages (may be with letter of medical necessity)
- Medical supplies and equipment
- Naturopathic office visits
- Organ transplants
- Orthodontia
- Orthotics
- Osteopathy
- Physical therapy
- Physicals (annual, DOL)
- Prescription medicines
- Preventive care
- Psychiatric
- Retirement home (medical care costs)
- Stem cell therapy
- Stop smoking programs
- Transportation
- Vaccines
- Vasectomy
- Vision (exams, glasses, prescription sunglasses)

Over-the-counter (OTC)

NO PRESCRIPTION REQUIRED (effective 01-01-20)

Medicines and Drugs:

- Acne medications
- Allergy and sinus medicines
- Antacids
- Aspirin
- Cold medicines
- Cough syrup
- Eye drops
- First aid creams/liquids
- Nasal sprays or drops
- Nicotine gum/patches
- Pain relievers
- Sinus medications
- Sleep aids
- Stomach remedies

Non-medicine items:

- Bandages
- Birth control products and devices
- Contact lens solution
- Crutches
- Insulin
- Diagnostic devices (blood sugar kits)
- Menstrual products (effective 01-01-20)

OTC ITEMS NOT ELIGIBLE

- Aromatherapy
- Cosmetics; face creams
- Medicated shampoos; hair growth products
- Tooth brushes (including electronic)
- Vitamins (most cases)

Insurance premiums

- Medical*
 - Dental
 - Vision
- } **Post-tax premiums**
- 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

- Copays
- Coinsurance
- Deductibles
- Home health care
- Hospice care
- Hospital stay
- Medicare Part B premiums
- Medicare Part D premiums
- Medicare Supplement premiums
- Outpatient hospital services
- Skilled nursing facility stay

Military retiree coverage

- Copays
- Deductibles
- Medicare Part B Premiums
- Medicare Part D Premiums
- Miscellaneous medical, dental, and vision expenses
- TRICARE premiums (medical and dental plans)

Key Benefits



- Pay no tax (income or FICA)
- Account can be used at anytime (once claims eligible)
- Choose investments
- Do not have to be covered under a high-deductible health plan (HDHP)
- Unused balance carries over (no “use-it -or- lose it” carryover limitations)
- Account can transfer to the spouse, children, beneficiaries, or other eligible survivors

Common Funding Sources

- Sick leave cash-out at retirement/separation
- Annual sick leave buy-back
- Monthly contributions



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 any Plan 2
 - 10 years of service in any Plan 3

- Calculation

- 180 day max- per state law
- 1:4(25%) - per state law

Annual Sick Leave Buy-back



- Eligibility

- 180 earned days, typically
 - 8/31(before September front load); or
 - 12/31(back out any unearned days)

- Calculation

- Based on prior calendar year
 - Number of days earned minus number of days used

*ESD employees must retire to receive a sick leave cash-out

**CTC employees do not have a maximum accrual and may have different guidelines for separation

Monthly Contributions



- Direct employer contribution or a mandatory salary reduction
- Eligibility can be defined in a variety of ways
 - All employees
 - Only benefits eligible employees
 - Only full time employees or those at a certain FTE threshold and above
 - Based on medical plan enrollment
- Funding
 - Group's compensation package changed
 - Eligible employees receive additional benefits in the form of a monthly VEBA Plan contribution(e.g. \$50/month)
 - Each eligible employee's salary is reduced by an equal amount

Compliance Reminders



- No individual choice
 - Employees cannot choose whether or not to participate or have control over how much is contributed
- IRS non-discrimination rules - § 105(h)
 - Eligibility and funding should not favor your top 25%
 - Flat dollar contributions are recommended - percent of pay may be considered discriminatory

How do we document participation in VEBA?



- Memorandum of Understanding (MOU) - for represented and non-represented groups
- Specific sections in Collective Bargaining Agreements (CBAs) - unions

Limited Coverage Option for Special Cases

1) Medicare coordination

- Do you plan on working past age 65?

2) Health Savings Account (HSA) eligibility

- Are you, a spouse or dependent making or receiving contributions to an HSA?

3) Premium Tax Credit eligibility

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

The image shows a 'Limited HRA Coverage Election' form from Veba. The form is titled 'Limited HRA Coverage Election' and includes the Veba logo. It contains several sections for the employee to fill out, including '1. MEDICARE COORDINATION', '2. HSA ELIGIBILITY', '3. PREMIUM TAX CREDIT ELIGIBILITY', and '4. CERTIFICATION AND SUBMITTING'. The form also includes a 'Check here' box for 'I am electing to receive my HRA benefits through a limited coverage election'. The form is dated 1/1/2014 and includes a 'Veba' logo in the top right corner.

Customer Care Center



1-888-828-4953

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



Highlights

- No tax paid on contributions (employee or district), earnings or reimbursements
- Funds are invested
- The account can be used at anytime
- The unused account balance carries over
- Spouse & qualified dependents are covered



Employee Example #1 for a tenured certificated employee:

▪ Annual VEBA sick leave over 180 days contribution accumulated	\$34,000
▪ Projected retirement max cash out of sick leave (180 days x .25 x per diem)	\$25,000
▪ VEBA Account total:	\$59,000 (Non-taxable income!)

This will fund health care plan premiums (i.e. PEBB or private insurance) to supplement Medicare upon retirement plus other health care expenses for spouse and employee.

This will accumulate interest which will extend the years that these funds can help with health care costs.



Employee Example #2 where VEBA account funded from a previous district:

- Started with cashing out vacation days in 2010 (from a different district) starting with \$3,200.
- Without adding anything since then, with the funds earning interest, VEBA account is \$7,700.

This is an important way to ensure that individuals have tax free dollars for health care tax free.



Employee Example #3 with high annual vacation use:

▪ Annual VEBA over 180 days contribution accumulated	\$1,000
▪ Projected retirement max cash out of sick leave (180 days x .25 x per diem)	\$17,325
▪ Projected retirement cash out of vacation leave = (25 days x per diem)	\$9,625
▪ VEBA Account total:	\$27,950
	(Non-taxable income!)

This will fund health care plan premiums (i.e. PEBB or private insurance) to supplement Medicare upon retirement plus other health care expenses for spouse and employee.

This will accumulate interest which will extend the years these funds can help with health care costs.