

HRA VEBA

FAQ



King County

Benefits, Payroll and
Retirement Operations

Introduction to HRA VEBA

The HRA VEBA Trust was established in 1990 at the request of the state, counties, cities and special districts to provide an opportunity for public employees to take advantage of the tax savings in HRA VEBAs that stretch their dollars for health care costs. The county's HRA VEBA benefit is the result of an agreement made between King County and a coalition of bargaining units which was implemented January 1, 2007.

More than 444 counties, cities and special purpose districts in Idaho, Oregon and Washington participate in the HRA VEBA Trust.

The trust is managed by a participant-elected board of trustees of city, county and special purpose district representatives. The IRS determines how VEBA trust funds are managed and used.

What is an HRA?

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

The IRS has issued several pieces of guidance on HRAs, including a series of Notices and Revenue Rulings. In addition, the tax exemption for HRA contributions and withdrawals (claims) is based on the provisions of sections 105 and 106 of the Internal Revenue Code.

The plan is also subject to the Patient-Centered Outcomes Research Institute fee, which is \$2.08 per year. This is not an administrative fee increase. Rather, the federal government is charging participants this fee to subsidize clinical effectiveness research by the Patient-Centered Outcomes Research Institute. This fee is compulsory for all group health plans as part of Health Care Reform.

What is a VEBA?

A voluntary employees' beneficiary association (VEBA) is a type of tax-exempt trust instrument through which employee benefits (for example, HRAs) are provided. VEBAs are authorized by Internal Revenue Code section 501(c)(9).

Why are HRAs sometimes called VEBAs?

Many government employers in Washington are familiar with the term "VEBA" and understand it to mean a benefit plan that reimburses health care expenses and premiums. These plans are technically HRAs as defined by the IRS but have been commonly referred to as "VEBA" plans for more than two decades.

Benefits of HRA VEBA

HRA VEBA is a program that reimburses qualified health care costs and insurance premiums for you, your spouse and your qualified dependents. HRA VEBA enables the county to make tax-free contributions on your behalf.

- You pay no tax on contributions, earnings or withdrawals for claims.
- Your unused account balance carries over from year to year.
- You can invest your account among the available investment funds, including any one of four premixed portfolios.

Simply put, VEBA contributions are exempt from Social Security, Medicare and federal income taxes. Investment earnings and withdrawals for qualified health care expenses and insurance premiums are also tax-free. HRA VEBA also benefits King County as contributions are not taxed the FICA.

How will an HRA VEBA help me if I have a sizable HRA VEBA cash-out and don't expect to have any significant health expenses?

Even employees who have access to health care coverage through a spouse, as a military retiree or through other programs will have out-of-pocket medical expenses at some point in their lives. Nearly everyone will have some out-of-pocket expenses which may include over-the-counter medications and other health insurance premiums such as Medicare Part B. See the list of qualified expense and premiums on the HRA VEBA website: <http://www.hraveba.org>.

How will an HRA VEBA benefit me once I am eligible for Medicare?

Once you are eligible to receive Medicare you will still be responsible for some out-of-pocket expenses which may include co-pays, Medicare Part B, or Medicare Part D premiums and dental/vision expenses. HRA VEBA helps bridge the gap between what Medicare covers and patient responsibility.

Eligibility for HRA VEBA

To become eligible to participate in the HRA VEBA benefit an employee must be eligible for King County benefits and be a member of an employee group that has voted to participate in VEBA. A list of HRA VEBA groups can be found on the county's main VEBA website: <http://www.kingcounty.gov/employees/benefits/Retirement/VEBA.aspx>.

To receive the benefits of HRA VEBA, the Internal Revenue Service (IRS) requires that employees decide in groups (either by bargaining unit or as non-represented employees organized for this purpose) whether to participate. The decision of the group is binding on all employees in that group.

Do I have an individual choice on whether to participate?

No, IRS rules do not permit individual choice – all employee group members defined as eligible must participate.

What if I retire from a different group than I am with now? Which decision determines whether I am VEBA-eligible?

The employee group you belong to at the time you retire determines your participation in HRA VEBA.

How do bargaining units determine who is eligible to vote on HRA VEBA?

It's entirely up to the individual bargaining unit to determine eligibility.

How often can employee groups vote on HRA VEBA?

Represented employees have the option to change their HRA VEBA elections on an annual basis but are not required to do so. Voting results take effect on January 1st of the year following the vote.

My group voted for different HRA VEBA options for the upcoming calendar year. If I retire on 12/31 of the current year which HRA VEBA plans will apply?

Although your retirement paperwork will be processed in the new year your HRA VEBA options in effect on your last day of employment will apply.

Enrolling into HRA VEBA

Eligible participants must complete the HRA VEBA Enrollment form to set up their account and begin to access their VEBA funds. Failure to complete and return the HRA VEBA Enrollment form within twelve months of eligibility may result in forfeiture of all pending and future HRA VEBA contributions.

Required documentation:

- HRA VEBA Enrollment form
- Leaving King County form
- DRS Acknowledgement of retirement application
- City of Seattle verification of retirement (as applicable)

How do I establish an HRA VEBA account?

First, you must belong to an employee group that has acted to participate in HRA VEBA and provide the applicable documentation referenced above. Retirees must qualify for retirement from King County as a member of PERS, LEOFF 2, PSERS or the Seattle City Employees' Retirement System.

Your HRA VEBA account will be established after Benefits, Payroll and Retirement Operations sends your enrollment paperwork and contributions to the HRA VEBA third-party administrator. You will then receive information about your account and how to use it from the third-party administrator.

Funding an HRA VEBA

HRA VEBA enables King County to make tax-free contributions on your behalf that would otherwise be paid to you as taxable wages. Funding options will depend on which HRA VEBA plan your employee group elected.

HRA VEBA Retiree Plans: Most county employees are eligible to be cashed out 35% of their sick leave and 100% of their vacation leave up to a maximum of 60 days (480 hours for a 40-hour workweek) at the time they retire. Employee groups that elected an HRA VEBA option at retirement will receive their sick leave cash out and/or 50% of their vacation leave cash out in their HRA VEBA account.

If I leave King County employment and do not officially retire how will this decision impact my HRA VEBA eligibility?

If you do not officially retire from county service you are not eligible to participate in an HRA VEBA plan. However, employees that leave county service in good standing will receive 100% of their vacation leave accrual up to a maximum of 60 days or according to your collective bargaining agreement.

Will the HRA VEBA affect how my PERS 1 pension is calculated?

No, the calculation for the sick or vacation leave cash-out benefit under the HRA VEBA is separate from the calculation of sick or vacation leave for the PERS 1 pension. The Washington State Department of Retirement Systems (DRS) makes the final calculations, not King County. If you are a PERS 1 member, we encourage you to go to the DRS Web site, www.drs.wa.gov, or call 1-800-547-6657 for assistance in determining your final retirement benefit.

Why can I only contribute 35 percent of my sick leave to HRA VEBA and not 100 percent at the time of retirement?

The only sick leave cash-out payment authorized for county employees at retirement is 35 percent at the time of retirement. Therefore, the 35 percent sick leave cash-out is the only option available with which to fund your HRA VEBA.

Using your HRA VEBA

Your HRA VEBA account is available for you to use for eligible out-of-pocket healthcare expenses, including premiums, until the account is exhausted.

- Funds are deposited into your HRA VEBA account tax-free and are withdrawn as tax-free reimbursements or payments for a broad list of IRS-qualified medical expenses, including health insurance premiums, prescriptions, certain over-the-counter medications, eye glasses and hearing aids. Health insurance premiums are the most commonly reimbursed expense. Automatic reimbursement for health insurance premiums can be arranged. You can find out more about how to use your HRA VEBA accounts by visiting www.hraveba.org.
- A third-party administrator handles account activity, including participant-directed investment fund allocations and claims. Claims can be submitted electronically, by fax or mail. Payments are made within seven days. Direct-deposit payments are usually made more quickly. Customer service representatives are available by calling 1-888-659-8828, 5 a.m. – 5 p.m. Pacific Time.
- Retirees select from among several investment choices and can change investments easily. Accounts are subject to a \$1.50 monthly account fee and a 1.25% average annualized asset-based fee, but there are no transaction fees.

Is there a time limit on spending funds in my HRA VEBA account?

There is no time limit to use the funds but once they are exhausted the account is closed. Unused account balances carry over from year to year

Can I request reimbursement for eligible healthcare expenses incurred prior to setting up my HRA VEBA account?

No.

What medical expenses and insurance premiums qualify for reimbursement?

Common qualified expenses include co-pays, coinsurance, deductibles and prescriptions. Qualified insurance premiums include medical, dental, vision, tax-qualified long-term care (subject to IRS limits), Medicare Part B, Medicare Part D and Medicare supplement plans. A more detailed list can be found online at www.hraveba.org. Qualified expenses and premiums are defined in section 213(d) of the Internal Revenue Code and described in IRS Publication 502 (2011).

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 or your spouse has a section 125 health care flexible spending account (FSA), you must exhaust the FSA benefits before submitting an eligible HRA VEBA claim.

How do I withdraw money from my HRA VEBA account?

You submit a completed and signed claim form for qualified medical expenses, along with proper verification, to the third-party administrator, or you can arrange to have automatic payment of insurance premiums by submitting a *Systematic Premium Reimbursement Form*. Claims payment is efficient and hassle-free. Sign up for direct deposit – it's faster and more secure.

Eligible claims include qualified out-of-pocket medical, dental and vision expenses incurred by yourself, your spouse and/or your qualified dependents. If your spouse or dependents are covered under different medical plans, their insurance premiums may also be reimbursed out of this account. Benefits will be paid until your account is exhausted.

Can the cost of retiree medical plans be paid from my HRA VEBA account?

Yes, premiums for medical plan coverage are eligible for reimbursement.

What is a qualified dependent? Are expenses for my domestic partner eligible?

Generally, dependents must satisfy the definition of "qualifying child" or "qualifying relative" as of the end of the calendar year in which qualified expenses are incurred. These requirements are defined in IRS Publication 502. The definition does not include non-dependent domestic partners. A definition of dependents is available online at www.hraveba.org.

I'm going to travel extensively or live abroad after retirement. Will health-related expenses incurred in other countries be eligible for reimbursement from my HRA VEBA account?

Generally, yes. If you're living in another country and incur health care expenses, those expenses are treated the same as if you lived in the United States. Expenses include IRS-qualified medical expenses, including the cost of health care premiums purchased in another country.

We encourage retirees planning to live abroad to contact the IRS at www.irs.gov to find out about tax-related matters related to living abroad. A general list of qualified expenses is on the HRA VEBA Trust Web site at www.hraveba.org. Questions about specific expenses should be directed to the HRA VEBA third-party administrator, Gallagher VEBA Health at 1-888-659-8828.

When I die, can my spouse or the executor of my estate file claims to my HRA VEBA account to pay for my health care expenses incurred before my death?

Yes, your surviving spouse or executor can file claims for qualified medical expenses you incurred before your death.

What happens if I don't withdraw money from my account or if I die before my account is depleted?

While this is a common question, it is a very rare occurrence for HRA VEBA funds to remain in an account following the death of the participant, the participant's spouse and qualified dependents. Given

the cost of health insurance premiums, prescription drugs and other health-related expenses, HRA VEBA accounts are usually drawn down very quickly.

If you are survived by a spouse or dependent children (or other dependents as defined by the IRS), they may submit requests for medical expense reimbursements for themselves until your account is exhausted.

Can anyone other than a spouse or dependent child use my remaining HRA VEBA funds if I should die?

Yes. The Consolidated Appropriations Act for 2016 amended Section 105(j) of the Internal Revenue Code. Medical reimbursement benefits are now permitted, on a taxable basis, to a deceased participant's non-dependent heir(s) or beneficiaries. Medical reimbursements to surviving spouses and dependents will still be tax-free.

Account Management

How does HRA VEBA affect my income taxes? What gets reported? What do I report? What kind of tax information will I get?

HRA VEBA contributions, investment earnings and withdrawals (claims) are not tax-reportable. Contributions will not be included on your Form W-2, and you will not receive a Form 1099 for any earnings or withdrawals. You cannot deduct qualified medical expenses that are equal to the distribution from HRA VEBA as an itemized deduction on Schedule A (Form 1040).

IRS Form 1095-B will be sent to active participants each year. This purpose of this form, a requirement under the Affordable Care Act, is to prove participants had "minimum essential coverage" during the year. Taxpayers are asked to check a box on their income tax return to indicate that each member of their family had qualifying health coverage for the whole year.

Additional information is provided on the IRS Web site:

Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans
www.irs.gov/publications/p969/index.html or www.irs.gov/pub/irs-pdf/p969.pdf (pdf version)

Publication 502, Medical and Dental Expenses
www.irs.gov/publications/p502/index.html or www.irs.gov/pub/irs-pdf/p502.pdf (pdf version)

IRS Form 1095-B
IRS.gov/aca: [questions and answers](http://www.irs.gov/aca/questions-and-answers)

Who is the third-party administrator?

Gallagher VEBA is the HRA VEBA third-party administrator. Gallagher VEBA is an experienced benefits administrator specializing in the administration of HRAs. All correspondence, accounting and benefit payment services are provided by Gallagher VEBA.

Who is responsible for managing this plan?

The HRA VEBA Trust is a nonprofit, tax-exempt health and welfare trust authorized by Internal Revenue Code 501(c)(9). It is managed by a board of trustees elected by the plan participants.

What are the trustee's responsibilities?

Trustees are elected by HRA VEBA participants from counties, cities and special purpose districts. The trustees are fiduciaries and have a duty to act prudently and in the best interest of you and all other plan participants and beneficiaries.

What are the Trust operating expenses and how are they paid?

Trust operating and administrative expenses vary slightly from month to month and include legal fees, consulting, local servicing, printing, postage, auditing, claims processing and account administration. All expenses of operating the HRA VEBA Trust are paid by a \$1.50 fee per account per month, plus an annualized fee of approximately 1.25%. The annualized fee is paid by a reduction in investment earnings or, if there are no earnings, charged as a deduction to participant accounts.

What participant investment options are available?

Participants can choose from either one of two participant-directed investment options:

Option A: Do-it-yourself

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

Option B: Choose a premix

Select any one of four professionally designed, premixed asset allocation portfolios.

You can change your investment fund allocation as often as once a month. After fund management and Trust operating and administrative expenses have been deducted, net investment earnings (or losses) are credited tax-free to your account on a monthly basis.

More information can be found in the Investment Fund Information brochure and on the quarterly Investment Fund Overview. These informational pieces are included in your Membership Enrollment Kit or are available online at www.hraveba.org.

Can my HRA VEBA investments lose money?

There are no guarantees. Funds are not FDIC-insured, are not guaranteed by a bank, and may lose value. Even the most conservative investment fund option may lose value. The Stable Value Fund is invested among interest-bearing guaranteed investment contracts (GICs) and is the most conservative fund choice. The remaining funds are invested in securities that will fluctuate in value on a monthly basis; withdrawals from these funds may be worth more or less than your original contribution.

Will I receive a statement of my account?

Yes, you will receive semi-annual participant activity statements in January and July detailing all activity in your account. You may also call or e-mail the third-party administrator to request additional statements at any time. Contact information is available at <http://www.hraveba.org> under the "Contact" link at the top of the page.