# HRA-VEBA FREQUENTLY ASKED QUESTIONS – December 2018

**Q. What is an HRA?**

A Health Reimbursement Account (HRA), or health reimbursement arrangement, is a type of health plan that reimburses qualified out-of-pocket healthcare costs and insurance premiums. All contributions, investment earnings, and qualified withdrawals (claims) are tax-free. This is what the City offers as part of our health package.

**Q. What is the HRA-VEBA plan?**

The HRA-VEBA plan is also a health reimbursement arrangement. Post retirement, the City can make tax-free contributions to the HRA-VEBA on your behalf. The funds are held in a non-profit, tax-exempt voluntary employees' beneficiary association (VEBA) trust authorized under Internal Revenue Code (IRC) § 501(c)(9). You can use these tax free funds to reimburse eligible out-of-pocket healthcare costs and premiums for yourself, your spouse, and your qualified children and dependents.

**Q. What benefit does the HRA-VEBA Trust plan provide post-retirement?**

HRA-VEBA Trust offers a post-retirement medical account designed to stay compliant with applicable federal health care reform regulations. This account can be used post-retirement to reimburse your qualified out-of-pocket medical care costs as defined by the IRS. Common qualified expenses include co-pays, deductibles, prescriptions drugs, retiree insurance premiums, Medicare supplement and Medicare Parts B and D premiums, etc.

It acts just like your current HRA for qualified medical reimbursements with the added benefit of having those funds invested. You are able to choose which investment option works best for you either through a pre-selected allocation portfolio (managed by professionals) or a do-it-yourself option that lets you build your own portfolio.

Employer contributions, investment earnings, and withdrawals for qualified claims are tax-free. Contribution amounts (sick leave payouts, HRA rollovers, etc.) are not required to be included on Form W-2, and you will not receive a Form 1099 for earnings or withdrawals.

**Q. How is the HRA-VEBA different from the City's current HRA and FSA?**

The Flexible Spending Account (FSA) is something that employees contribute to themselves and the amounts are elected by the employee during Open Enrollment for the following plan year. Open enrollment happens in the Fall of each year and is effective January 1st of the following year. If you do not use the funds in the FSA during the specified timeframe, you may forfeit some or all of the money in the account. The IRS limits how much can be contributed to these accounts.

The HRA and HRA-VEBA are similar in that only the employer can contribute to them at no cost to the employee, both can be used for qualified medical expenses, and the balance rolls over from year to year.

The biggest difference between the City's current HRA and the post-retirement HRA-VEBA account is that the HRA-VEBA can gain interest (or incur losses) depending on the market. Thought both the City's HRA and HRA-VEBA can be used on Medicare premiums, the City's HRA cannot be used for marketplace exchange insurance premiums.

In addition, when an employee retires, the (MyBenny) credit card used to pay for expenses is inactivated and all reimbursements from the City's HRA must be submitted via paper/through the website. HRA-VEBA has a MyCare card and a smart phone app to make paying for care and submission of documentation for reimbursement more convenient.

**Q. What are the benefits of participation in HRA-VEBA?**

Zero tax is paid on the employer contributions, earnings, and retiree withdrawals (claims.) You can use your account any time after becoming claims-eligible (post-retirement), and you can choose how your account is invested. You can use these tax free funds to reimburse eligible out-of-pocket healthcare costs and premiums for yourself, your spouse, and your qualified children and dependents. Your unused account balance carries over from year to year, and you accumulate funds in your account for future use.

Retirees can access their accounts online, arrange for automatic payments of health insurance premiums and direct deposit of reimbursements, submit claims electronically or by mail or fax, and talk to a person if they have questions.

**Q. What fees are associated with this account?**

In 2018, the administration fee for a retiree's HRA account managed through the City was $5.25/month paid for by the retiree. The HRA-VEBA plan costs include a per-participant fee of $1.50/month plus an annualized, asset-based fee of approximately 1.25%. The fee is paid by a reduction to investment earnings or, if there are no earnings, charged as a deduction to participant accounts. These fees cover the costs of claims processing, customer service, account administration, postage, legal, consulting, local servicing, auditing, etc. If/when your account is over $5000, the monthly fee of $1.50 is waived.

**Q. What does "Employer Contributions" mean? What are possible sources of contributions?**

Employer contribution means dollars the employer contributes to the HRA-VEBA account. Currently, the City has been directing sick leave payouts to the post-retirement account based on the percentage voted on by participating employee groups. The HRA accounts are also eligible to be rolled over to the HRA-VEBA based on voting. There may be other sources that could qualify for contribution similar to sick leave payouts including vacation, personal leave, or other leave cash outs. New contribution sources must be reviewed and approved by HRA-VEBA as qualifying under IRS rules.

**Q. I belong to an employee group that qualifies for sick leave fold-in. How would this affect me?**

Sick leave fold-in is a PERS program. At the City of Springfield, this program only applies to specific groups in the public safety departments. Under this program, sick leave hours are reported to PERS and no cash is paid out at retirement.

**Q. How would switching vacation payout to VEBA impact me?**

That depends on a few factors.  PERS looks at whether a payment type (vacation, sick, PTO, etc.) is subject to the IAP contributions (employee/employer) and also to determine if it is used in the "final average salary" (FAS) benefit calculations. Depending on your tier, it may or may not qualify as subject or for FAS calculation.

As we understand it, if you're in Tier 1 and receive a vacation payout at retirement, those funds are subject to IAP contributions and to FAS calculation. If you're in Tier 2, those funds are subject to IAP contribution, but not to FAS. If you are OPSRP, those funds are not subject to either one.

It is important that you contact PERS directly to discuss how receiving vacation payouts as cash versus moving those dollars to a VEBA account may impact your FAS at retirement.

**Q. What if my group votes for different options in the upcoming calendar year? If I'm scheduled to retire on 12/31 of the current year, which plan options will apply?**

Although your HRA-VEBA disbursement paperwork may be processed in the next calendar year, the HRA-VEBA options in effect on your last day of employment will apply.

**Q. Why am I being asked to vote? I'm not going to retire next year.**

The short answer is that we need a majority of eligible voters to weigh in on the final decisions for the next calendar year. The reason you're included is because of how the voting group was formed.

IRS rules do not permit individual elections so all employee group members defined as eligible must participate. In other words, if your employee group votes to adopt any one or more of the available options, the decision is binding on all members of that group who retire until the next vote. And, if you happen to retire unexpectedly, don't you want to have a say in what happens to those funds?

Groups can be formed by almost any segment of employees, but someone can't belong to more than one group or be their own group. The non-union voting group was established to include anyone who is eligible to retire for either full or reduced benefits. This includes anyone who meets requirements either through age, years of service, or a combination of these.

From the IRS IRC 501(c)(9) regulation: Eligibility for membership must be defined by reference to objective standards that constitute an employment related common bond among such individuals. This "bond" can be a common employer, coverage under a collective bargaining agreement, or a labor union affiliation. Eligibility for membership may be restricted by geographic proximity, or by objective conditions or limitations reasonably related to employment, such as a limitation to a reasonable classification of workers, a limitation based on maximum compensation, or a requirement that a member be employed on a full-time basis.

**Q. How do we form different groups? What are the requirements?**

Groups can be formed at almost any time, but they must be mutually exclusive and specific in their description. For example, let's say the non-union group decided to form smaller groups than the one described above. The groups would need to be specific and exclusive meaning someone couldn't qualify to belong in both (i.e. choose which group to belong to).

Let's say the following groups are under consideration for formation:

A. PERS Tier 1 and are eligible to retire with full benefits in the next calendar year.
B. PERS Tier 2 and are eligible to retire with full benefits in the next calendar year.
C. PERS Tier 1 or 2 who are eligible to retire with full benefits in the next calendar year.
D. PERS Tier 1 or 2 who are eligible to retire with reduced benefits in the next calendar year.

Of these examples, we could form groups A, B, and D at the same time, but we couldn't do groups A, B, C and D at the same time. Including group C with either A or B would mean that people would qualify for more than one group and that isn't allowed under IRS regulation IRC 501(c)(9).

It is recommended that groups not be changed or reformed more than once a year, but some circumstances may be cause for an accelerated vote. For example, several retirements leave an existing group with one person in it. New groups must be reviewed and approved by HRA-VEBA as qualifying under IRS rules.

**Q. I have previous PERS service that I'm not getting credit for and I think I should be included in the voting. What do I do?**

Contact Human Resources. We can't see any previous PERS credit so we need to hear from you regarding other service. It's best if you log in to the PERS site and confirm your service time there.

**Q. What are the requirements to meet retirement eligibility?**

To retire from the City of Springfield, you must either meet PERS eligibility with two years of service with the City, or your age plus years of service with the City must equal 70.

PERS retirement eligibility requires you be vested in your tier which means you've made contributions in each of five calendar years. It also requires that you be old enough depending on your classification and Tier.

| | Age | | |
|---|---|---|---|
| **Retirement with Unreduced Benefits** | **Tier 1** | **Tier 2** | **PERS Service** |
| General Service | 58 | 60 | Any Age + 30 years |
| Police & Fire | 55 | 55 | Age 50 + 25 years |
| | | | |
| **Retirement with Reduced Benefits:** | **Tier 1** | **Tier 2** | **PERS Service** |
| General Service | 55-57 | 55-59 | Less than 30 years |
| Police & Fire | 50-54 | 50-54 | Less than 30 years |

OPSRP retirement eligibility also requires you to be vested meaning you've completed at least 600 service hours in each of five calendar years (do not have to be consecutive). If you're an active member any time on or after reaching normal retirement age, you become vested regardless of years of service.

| **Retirement with Unreduced Benefits** | **Age** | **Service Time** |
|---|---|---|
| General Service | 65 | Age 58 + 30 Years of Service |
| Police & Fire* | 60 | Age 53 + 25 Years of Service |
| | | |
| **Retirement with Reduced Benefits** | **Age** | |
| General Service | 55 | |
| 911 Operator (General Service) | Any age with 25 years of service (also applies to Tier1/Tier2) | |
| Police & Fire* | 50 | |

*You must have held the position of police officer or firefighter continuously for five or more years immediately before the effective date of retirement.

Visit the PERS website to review your account information, service dates, estimated benefits, and other associated activities.

**Q. How do I establish an account and access my funds?**

Eligible participants must complete the HRA-VEBA Enrollment form to set up their account and access their funds. Only those employee groups who have acted to participate in the HRA-VEBA plan are considered eligible participants. This form will be shared with you as part of your retirement medical meetings with Human Resources. Failure to complete this form and establish an account may result in forfeiture of all pending contributions.

**Q. What if I do not enroll and my group has agreed to certain contributions? May I receive those on my paycheck as taxable income or a lump sum payment?**

Per IRS rules, all employees defined as eligible (per group) must participate, and funding into the HRA-VEBA cannot allow for individual choice. If eligible employees do not enroll, they are not able to receive wages in lieu of the contribution. If you do not enroll, you do not get compensated in another way.

**Q. What if I need to travel for a medical procedure? Are those costs qualifying for reimbursement?**

The cost of transportation primarily for and essential to, medical care is an eligible medical expense. A receipt would need to be submitted to show the travel costs, as well as a copy of Mapquest or Google Maps reflecting the distance from their start point to their destination. There should also be corresponding documentation with the transportation claim showing the date of the medical appointment.

**Q. What happens to the money in the account if I pass away?**

If you pass away, your spouse and/or qualified dependents continue to have access the HRA-VEBA funds.

**Q. I don't have a spouse or any qualified dependents. What happens if I pass away and there's money left in the account?**

Recent tax code amendments allow remaining HRA-VEBA funds to transfer to certain survivors after a participant passes away. If there is not a surviving spouse or qualifying dependent, then the account may be transferred (inherited) only once in the order listed below.

1. Children (adult and minor) and other dependents
2. Designated beneficiaries
3. Participant's grandchildren
4. Participant's siblings

If the participant has more than one survivor in the categories listed above, their HRA-VEBA account would be split equally among all of them. For example, if they have three adult children as beneficiaries, each beneficiary would receive a third of the participant's HRA-VEBA account.

The participant may, but is not required to, name a beneficiary. Any designated beneficiary should be someone other than their spouse, children (adult and minor), or other qualified dependents. These individuals will automatically have continued rights to any remaining account balance after their death. Continued HRA-VEBA coverage for non-dependent survivors and beneficiaries is taxable.