



VEBA MEIP

A tax-free health reimbursement arrangement for Washington State employees in general government agencies and higher education institutions

Presented by:
Brian Riehs

Outline



- | General Plan Information
- | What is an HRA?
- | About the VEBA Trust
- | Growing Cost of Post-Employment Health Care
- | Contributions, Earnings and Withdrawals
- | Benefits vs. Conditions (IRS rules)
- | Participant Enrollment

What is the **VEBA MEP**?

- I Health reimbursement arrangement (HRA)
- I Accepts *tax-free* contributions
- I Provides *tax-free* earnings
- I Allows *tax-free* withdrawals for qualified out-of-pocket health care expenses and premiums
- I Can be used anytime



What is an HRA?

- I Defined by IRS as a “health reimbursement arrangement”
- I Reimburses healthcare expenses for employee, spouse, and qualified IRS dependents
- I Funded by employer
- I No individual choice
- I Not a health savings account (HSA)

What does “**tax-free**” really mean?

- I ***Tax-deferred*** plans (TSA, 457, IRA, etc.)
 - Subject to FICA (7.65%)
 - Postpone federal income tax
- I ***Tax-free*** VEBA MEP
 - No FICA or federal income tax on contributions, earnings, or withdrawals
 - Save up to \$300 or more in taxes for every \$1,000 contributed to the VEBA MEP

About the VEBA Trust

- I Created in 1984
- I Non-profit, tax-exempt employee benefit trust
- I Authorized under IRC Section 501(c)(9)
- I For employees of school districts, state agencies, community & technical colleges, and higher education institutions
- I IRS Letter of Determination updated in 1999

About the VEBA Trust

- I \$142 million in assets
- I 31,000 active participants
- I Participating employers
 - 95% of all school districts and educational service districts in Washington
 - 32 community & technical colleges
 - Over 80 state agencies and higher education institutions

VEBA Trust Operations

BOARD of TRUSTEES

CONSULTANTS

VEBA Service Group, LLC

- Local Service
- Presentations
- Plan Adoption Assistance
- Technical Support

THIRD-PARTY ADMINISTRATOR

REHN & ASSOCIATES

- Account Service
- Claims Payment
- Premium Payments
- Account Statements

Arnerich Massena & Associates, Inc.

INVESTMENTS

**Katten Muchin
Rosenman LLP**
Russell Greenblatt

LEGAL COUNSEL

**Schoedel & Schoedel
Certified Public Accounts**

AUDITOR

\$300,000 Growing Cost

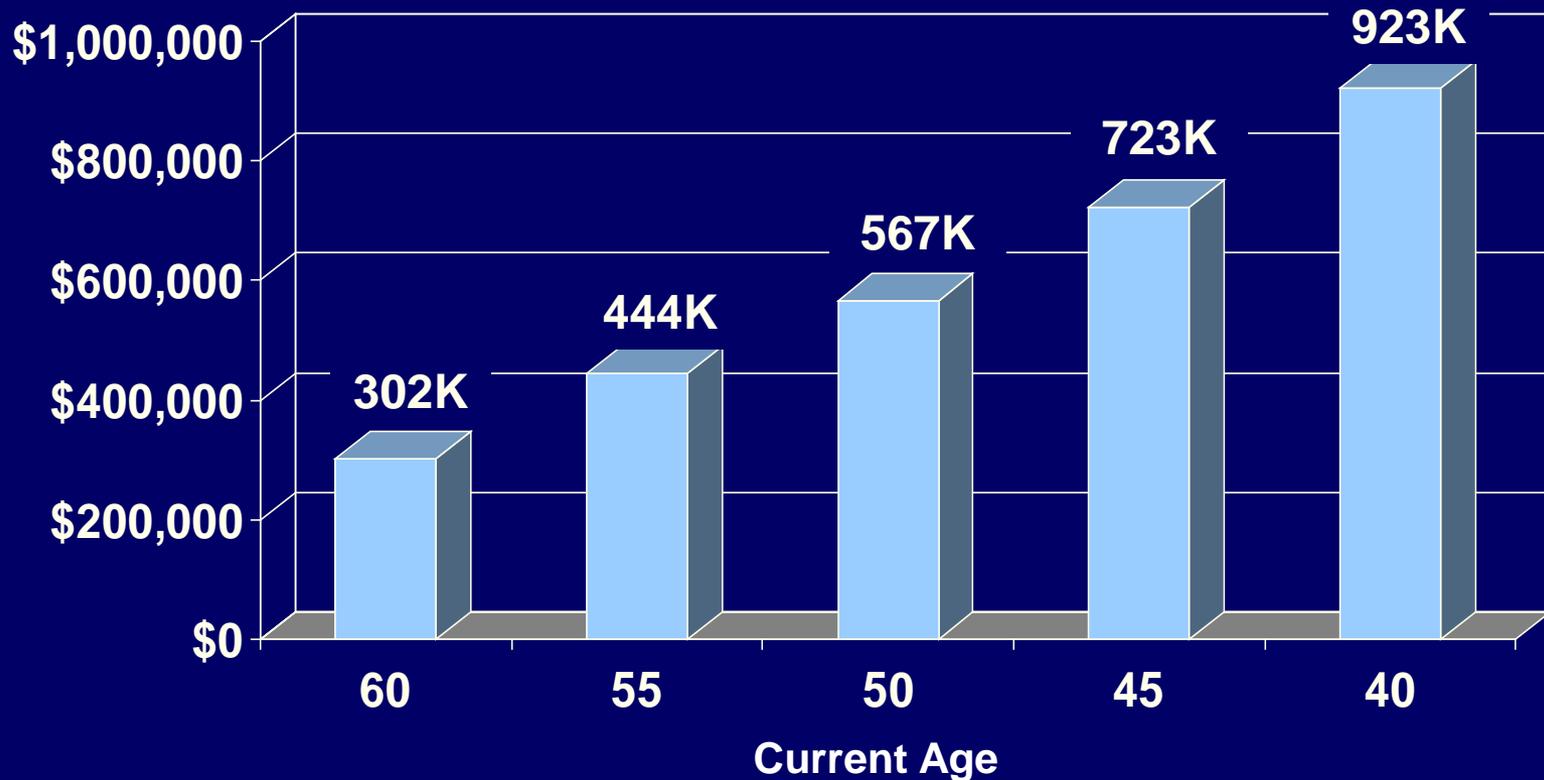


*Health care will
take a big bite
out of your
wallet!*



- I Your post-employment health care costs could exceed **\$300,000**
 - You and your spouse retire today at age 60
 - Normal life expectancy to age 84
 - PEBB Uniform Medical Plan until age 65
 - Medicare Part B; Medicare Part D; and Medicare supplement plan after age 65
 - PEBB dental insurance plan
 - \$500/year incidental out-of-pocket (deductibles, co-payments, etc.)
 - 5% annual increase in costs

How much will you need?



VEBA MEP Can Help

- I Turn-key HRA plan
- I Reimburses/pays out-of-pocket health care expenses and premiums
- I Access funds anytime
- I Covers retiree, spouse, and qualified dependents
- I No “use-it-or-lose-it”



Funding Source

- I Compensable unused sick leave cash-out contributions at retirement

Note: State law does not allow annual sick leave cash out contributions to VEBA MEP.

Tax-free Contributions

Sick Leave Cash Outs



	Cash Out Amount	25% Federal Income Tax	7.65% FICA Tax	Net Amount
Without VEBA MEP	\$10,000	<\$2,500>	<\$765>	\$ 6,735
With VEBA MEP	\$10,000	n/a	n/a	\$10,000

VEBA MEP Tax Savings = \$3,265*

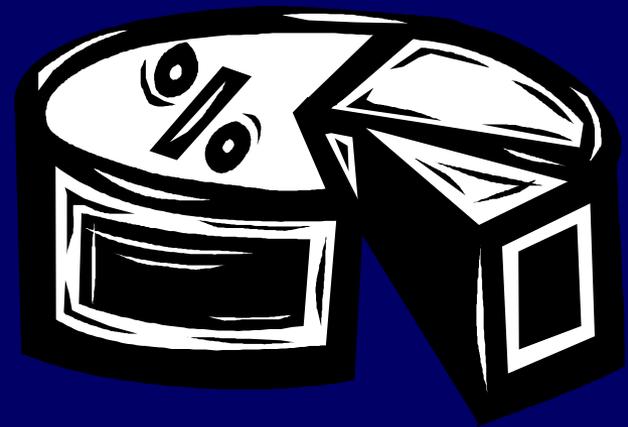
*Tax savings are approximate.

Investments

- I Earnings are tax-free
- I Participant-directed
- I Choose either one of two options
 - Option A: Do-it-yourself; or
 - Option B: Choose a pre-mix
- I Can change monthly
- I Management fees vary by fund(s) selected

Investments

- I Six asset classes
 - Stable Value
 - Large Cap Equity
 - Total Return Bond
 - Mid Cap Equity
 - Small Cap Equity
 - International Equity



Investments

- I Four pre-mixed asset allocation portfolios
 - **Immediate Use**
(begin to file claims within 0-1 years)
 - **Short-term Use**
(begin to file claims within 2-3 years)
 - **Medium-term Use**
(begin to file claims within 4-5 years)
 - **Long-term Use**
(begin to file claims within 6+ years)

Investments

- I Four pre-mixed asset allocation portfolios
 - Comprised of funds from some or all of the six asset classes
 - Designed by professionals
 - Routinely monitored using sophisticated financial analysis software and modern portfolio theory
 - Risk levels designed with strong consideration to target time horizon (i.e. length of time until participant anticipates filing claims)

Investments

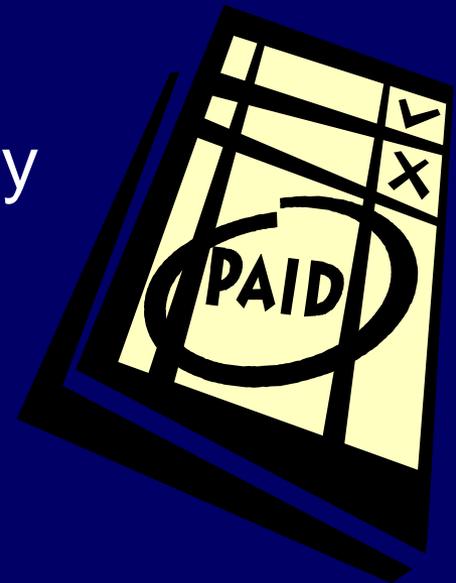
- I Quarterly **Investment Fund Overview** lists investment returns
- I **Investment Fund Information** brochure contains
 - More details
 - Important investment guidelines
- I Visit **www.veba.org**

Administrative & Operating Expenses

- I Average approximately 1.65% annually
 - Paid by reduction to investment earnings
 - Net earnings (+/-) credited monthly
- I \$2.00/month small inactive account fee
 - Charged only if account balance is less than \$250 and no contributions received during previous 12 months

Tax-free Withdrawals (Claims)

- | Can be submitted anytime
- | Efficient, hassle-free
- | Processed daily from Spokane
- | Mail, fax, or e-mail to third-party administrator (TPA),
REHN & ASSOCIATES



Tax-free Withdrawals (Claims)

- I Systematic (automatic) payment of ongoing premiums available
- I Direct deposit of reimbursements available
- I Required claims documentation
 - Explanation of Benefits (EOB)
 - Itemized bill or statement from provider
 - Itemized receipts for prescriptions and OTC medications
 - Detailed co-pay or office visit receipts

Whose expenses are eligible?



- | Employee (retiree)
- | Spouse
- | Qualified dependents
 - Children
 - Elderly parents, etc.

Qualified Expenses

- I Out-of-pocket health care expenses defined in IRC Section 213(d)
 - Co-payments, deductibles, co-insurance, prescription drugs
 - Crowns, root canals, orthodontia
 - Eyeglasses, contact lenses, etc.
 - Eligible over-the-counter (OTC) medications
- I Same as Section 125 health care flexible spending account (FSA)

Qualified Insurance Premiums

- I Medical
- I Dental
- I Vision
- I Long-term care (LTC)
 - Must be tax-qualified
 - Subject to IRS limits
- I Medicare Part B and Part D
- I Medicare supplement plans



NOTE: 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.

Death Benefit

- I Account can continue to be used by
 - Surviving spouse
 - Dependents
 - Heirs, if no spouse or dependents remain*
- I Reimbursements to surviving spouse and dependents are tax-free
- I Reimbursements to heirs are taxable*

* The current heir death benefit will expire on July 1, 2009 per IRS Revenue Ruling 2006-36.

Benefits vs. Conditions (IRS Rules)

I Benefits

- *Tax-free* contributions
- *Tax-free* earnings
- *Tax-free* withdrawals



I Conditions (IRS rules)

- Withdrawals for qualified health care expenses only
- All employee group members defined as eligible must participate (no individual choice)

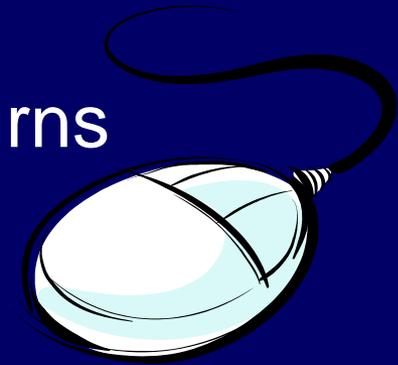
Participant Enrollment

- I Participant Enrollment Forms distributed, completed, and returned to benefits office
- I Completed forms and initial contribution sent from employer to TPA
- I Accounts opened and Welcome Packets sent from TPA to new participants

Your **VEBA** Account Online

www.veba.org

- I Review account activity
- I Change investment fund allocation
- I Update personal account information
- I Plan information
- I Quarterly investment fund returns
- I Printable forms



Contacts



- ü Account Information
- ü Claims Assistance
- ü Address Changes
- ü Account Changes

(1-800-832-2101)

1-800-VEBA101

Contacts



- ü Group Presentations
- ü Technical Support
- ü Plan Information
- ü Adoption Assistance

Brian Riehs

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Questions?

