

VEBA MEP

Medical Expense Plan for Sick Leave Cash-out Contributions at Retirement



For Washington State Employees in General Government Agencies and Higher Education Institutions

Save Tax. Keep More.

veba.org

VEBA Trust¹ offers the **VEBA Medical Expense Plan (VEBA MEP)** for Washington State employees in general government agencies and higher education institutions. VEBA MEP is designed to stay compliant with applicable federal health care reform regulations and has been adopted by more than 90 state agencies and every state university in Washington. Visit veba.org for more information.

Health reimbursement arrangement

A health reimbursement arrangement (HRA) is an account-based health plan you can use to reimburse your qualified out-of-pocket medical care costs as defined by the IRS. An HRA is not an insurance plan, and you do not pay a premium. In Washington, these arrangements are commonly referred to as “VEBA” plans. However, the technical term defined by the IRS is “HRA.”

When you retire, the total amount equivalent to your sick leave cash-out, based on your salary at the time of retirement, will be contributed to your VEBA MEP account. Your cash-out amount is calculated at one-fourth of your accumulated unused sick leave balance.

Employer contributions, investment earnings, and reimbursements (claims) are tax-free. Contribution amounts are not required to be included on Form W-2 from your employer, and you will not receive a Form 1099 for earnings or reimbursements (claims).

Qualified Expenses & Premiums

You can use your VEBA MEP account to reimburse the cost of any qualified medical, dental, or vision insurance plan you elect to use during retirement, plus Medicare Parts B and D, Medicare supplement plans, and tax-qualified long-term care coverage (subject to annual IRS limits). Deductibles, co-payments for office visits and prescription drugs, and prescribed over-the-counter (OTC) medications are also eligible for reimbursement. A list of common **Qualified Expenses & Premiums** is contained on page 8 of this enrollment kit. NOTE: IRS regulations provide that insurance premiums paid by an employer, or premiums that are or could be deducted pre-tax through your employer’s Section 125 cafeteria plan, are not eligible for reimbursement. Premiums deducted from your spouse’s paycheck after tax may be eligible for reimbursement.

¹VEBA Trust was formed in 1984 and is a voluntary employees’ beneficiary association (VEBA) authorized under Internal Revenue Code § 501(c)(9). VEBA Trust is managed by a board of trustees appointed by these founding associations: Association of Washington School Principals (AWSP), Washington Association of School Administrators (WASA), and Washington Association of School Business Officials (WASBO).

Spouse and dependent coverage

The VEBA MEP covers you, your legal spouse, and qualified dependents. Generally, dependents must satisfy the IRS definition of “qualifying child” or “qualifying relative” as of the end of the calendar year in which expenses were incurred. To learn more, read the **Definition of Dependent** handout available online (log in to your account at veba.org and click **Resources**) or upon request from customer care@veba.org or 1-888-828-4953.

VEBA MEP benefits

Governmental retirees everywhere are struggling to cope with the increasing cost of post-employment health care. You may even risk becoming job-locked and forced to keep working instead of retiring because you cannot afford to pay for retiree health insurance coverage. The VEBA MEP is one of the best ways to cover your retiree medical care costs for several reasons:

- You save money by paying zero tax on contributions, earnings, and reimbursements (claims)
- You can use your account anytime after retiring and becoming claims-eligible²
- You can choose how your account is invested
- Your legal spouse and qualified dependents are covered—even if you pass away
- Your unused account balance carries over from year to year; no annual “use-it-or-lose-it” provision
- Can be used to reimburse retiree medical premiums before and after age 65, including Medicare supplement and Medicare Part B and Part D premiums
- Does not require coverage under a high-deductible health plan (HDHP)

Premium Tax Credit

If you purchase insurance through a marketplace exchange and want to qualify for the Premium Tax Credit, you should (1) read the **Facts About Premium Tax Credit Eligibility** handout available online (log in to your account at veba.org and click **Resources**) or upon request from customer care@veba.org or 1-888-828-4953; and (2) consider whether you will need to first use up, limit, or waive your VEBA MEP benefits.

How much will I spend on health care during retirement?



The cost of PEBB-sponsored medical insurance coverage for a retiree and spouse currently averages about \$1,100 per month prior to Medicare. After becoming covered under Parts A and B of Medicare, the average cost may decrease to about \$370 per month. The typical 60-year-old public employee and spouse retiring today may spend over \$290,000 on retiree medical insurance premiums during their retirement years!

If you retire today at:

Projected cost of retiree medical premiums⁴:

Age 55 \$387,000

Age 60 \$314,000

Age 65 \$221,000

²If you become re-employed in any capacity by the employer that made your sick leave cash-out contribution, you will not be eligible to file claims for expenses you may incur while you are re-employed. ³These projections are based on current average PEBB-sponsored retiree medical premium amounts for public retirees in Washington. The basic assumptions are: (1) employee and spouse retire at age 55, 60, or 65 and live to age 84; (2) both parties enroll in a PEBB-sponsored retiree medical plan (\$1,116/month current average); (3) reduced PEBB retiree medical premium at age 65 for both parties after becoming eligible for Medicare (\$369/month current average); and (4) annual inflation of 5% for PEBB retiree medical premiums.

Contributions

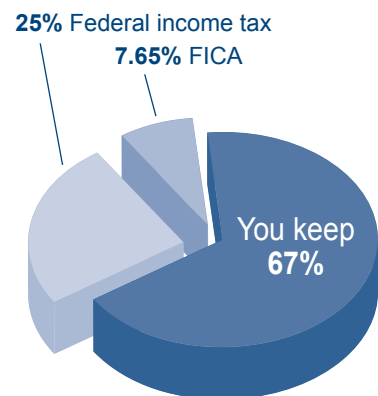
At retirement, your compensable unused sick leave cash-out, which would otherwise be paid as taxable wages, will be contributed to the VEBA MEP if: (1) Your collective bargaining agreement, other written agreement, or employer policy, whichever is applicable, provides for such contributions; and (2) You submit a signed Enrollment form as a condition of VEBA MEP participation.

VEBA MEP contributions are **tax-free** to both you and your employer. Contributions to **tax-deferred** programs, such as an IRA, 457, 401(k), or 403(b) plan, are subject to FICA tax, and federal income tax is only postponed until you make withdrawals. The VEBA MEP is exempt from FICA tax and federal income tax.

VEBA MEP contributions do not reduce the amounts reported by your employer to Department of Retirement Systems (DRS) for pension calculation purposes.

Keep in mind that IRS rules do not permit individual elections; all retirees defined as eligible must participate. Also, state law does not provide the authority for annual January sick leave cash-out funds to be contributed to VEBA MEP. However, you may choose to not cash-out your unused sick leave annually and instead accumulate more sick leave days, which will increase your retirement cash-out amount.

Taxable Income⁴:



Tax-free VEBA MEP:



Submitting claims

You can file claims at anytime for qualified expenses and premiums incurred after you become and remain claims-eligible. Submitting claims (and proof of expense) using our mobile app, **HRago**, or online after logging in at **veba.org**, is recommended. You can also email or mail a fully-completed **Claim Form** (and proof of expense) as directed on the form. Standard processing time is **five to seven business days** from the date received. If you're not signed up for direct deposit, remember to allow additional time to receive your paper check in the mail. A list of common **Qualified Expenses & Premiums** is contained on page 8 of this enrollment kit.

If you have a VEBA MEP participant account and, after retiring, become re-employed in any capacity by the employer that made contributions to that account, you will not be eligible to file claims for expenses you incur while re-employed.

You can set up automatic reimbursement of your qualified insurance premiums after logging in at **veba.org** or by submitting an **Automatic Premium Reimbursement** form.

QUICK TIP:

Sign up for **direct deposit** when you enroll. It's faster and easier than waiting for paper checks in the mail.

Coordination with HSAs and Medicare

Health savings accounts (HSAs): You can have an HRA and an HSA, and you can use either your HRA (if claims-eligible) or HSA to reimburse your qualified expenses (no ordering rules). But, if you have a claims-eligible HRA and want to become eligible to make or receive contributions to an HSA, you must elect "limited-purpose" coverage. Only certain dental, vision, and orthodontia expenses are covered while coverage is limited. You can switch your VEBA MEP account back to full coverage after you stop making or receiving HSA contributions (certain limitations may apply).

Medicare: Medicare is generally primary to your VEBA MEP account during retirement.

To learn more: Read the **Coordination of Benefits** handout available online (log in to your account at **veba.org** and click **Resources**) or upon request from **customercare@veba.org** or 1-888-828-4953.

⁴Example is for illustrative purposes only and will vary based on your personal tax situation. You should consult a professional advisor regarding your personal tax situation.

Investment options

You can invest your account by choosing either one of two investment options.

Option A: Choose a pre-mix

Select a pre-mixed asset allocation portfolio designed and managed by investment professionals.

Option B: Do-it-yourself

Build your own portfolio using any combination of available funds.

Read the **Investment Fund Information** brochure beginning on page 10 of this enrollment kit (or available online at veba.org) for more details and to learn which investment option may be right for you. The trustees, plan consultant, and customer care center do not give investment advice.

You can change your investment allocation up to once per calendar month. Net investment earnings (or losses) after fund management and plan administrative expenses have been deducted are credited tax-free to your account daily. Fund management fees vary by fund(s) selected and are listed on the **Investment Fund Overview**, which is updated quarterly and available online at veba.org. Fund fact sheets and prospectuses are also available at veba.org.



Customer care center

The VEBA MEP's customer care center is ready to help if you have questions about your account, need forms, or have a claims or automatic premium reimbursement question. If you have questions or need help, contact the customer care center at:

customercare@veba.org
1-888-828-4953

Plan administrative fees

Plan expenses include claims processing, customer service, account administration, printing, postage, legal, consulting, local servicing, auditing, etc. These costs are paid by a monthly, per participant fee of \$1.50, plus an annualized, asset-based fee of approximately 1.25%. Your account value changes daily based on activity, which includes investment earnings/losses, contribution and claims activity, and assessment of the annualized, asset-based fee.

To the extent permitted or required by law, certain fees, taxes or other assessments payable to the federal government under health care reform law may also be deducted from participant accounts⁵.

⁵ The Patient-Centered Outcomes Research Institute (PCORI) fee for the 2014-15 plan year is \$2.08 per claims-eligible participant (the fee does not apply to spouses and dependents). The PCORI fee is pro-rated and deducted from claims-eligible participant accounts quarterly (fifty-two cents once every three months). The PCORI fee is imposed on all group health plans by federal health care reform and could increase annually through the 2019-20 plan year.

Becoming a participant



Typically, before you retire, your employer will give you a **VEBA MEP Participant Enrollment Kit** and ask you to complete and return the **Enrollment** form, which will be included with the kit. Your kit will also include important plan information, investment information, and notice of online availability of the Summary of Benefits and Coverage. You must submit a fully completed and signed Enrollment form to become a participant and establish your account⁶. You will become eligible to file claims for qualified expenses incurred on or after your retirement date, provided the VEBA MEP has received both your completed and signed Enrollment form (or online enrollment) and a contribution from your employer.

The VEBA MEP will send you a **welcome packet** after receiving both your signed Enrollment form and contribution from your employer. Your welcome packet will contain confirmation of your employer's contribution, your participant account number, a Plan Summary, and instructions for online account access.

Paper **participant account statements** are mailed in January and July. If you are signed up for e-communication in lieu of paper (recommended), you will receive quarterly email notification as soon as your statements are available for online viewing.

GO GREEN:

Sign up for e-communication to receive quarterly e-statement notifications, newsletters, and EOB notices by email. Check the box on your enrollment form.

e-Services

The VEBA MEP offers several convenient e-services:

- **Online account access**—Log in at veba.org to manage your account online.
- **Online claims submission**—Submit claims and supporting documentation online after logging in at veba.org. It is easier than using a paper form. Plus, you will get your money back faster.
- **HRago (mobile app)**—Keep track of your account on the go. Take pictures of supporting documentation and file claims right from your smartphone.
- **My Care CardSM**—Swipe your My Care Card as you would a traditional credit or debit card to pay for qualified medical care items and services directly from your participant account. You may still need to submit supporting documentation for certain purchases, per IRS rules. You can elect a My Care Card when you enroll or by contacting the customer care center. To learn more, go to veba.org, and click the **My Care Card** button.
- **e-Communication**—Go green! Elect e-communication and get email notices when your quarterly participant account statements and explanations of benefits (EOBs) are available online.
- **Direct deposit**—Sign up for direct deposit. It is faster and more convenient than waiting to receive paper check reimbursement in the mail.

Survivor benefit

If you pass away, remaining funds in your account (if any) may continue to be used by your surviving legal spouse and qualified dependents to reimburse their eligible medical care expenses and premiums. Surviving spouses and dependents enjoy the same tax advantages as participants.

In the unlikely event you pass away with an unused account balance and have no eligible survivors, the executor of your estate can spend down your account by filing claims for any unreimbursed medical care expenses you may have incurred prior to your death. Remaining funds (if any) after all final claims have been reimbursed would then be forfeited and re-contributed per the terms of the Plan document or otherwise applied as directed by your former employer. IRS Revenue Ruling 2006-36 does not permit the payment of benefits to non-dependent heirs.

⁶ Failure to complete the required Enrollment form will result in the forfeiture of funds that would have otherwise been contributed on your behalf. IRS rules do not permit individual choice; all retirees defined as eligible must participate.



Plan education and group enrollment services provided by:



Gallagher VEBA
ARTHUR J. GALLAGHER & CO.

To schedule a group presentation, contact a Gallagher VEBA office near you.

Spokane
1-800-888-8322

Tacoma/Bellevue
1-800-422-4023

Vancouver
1-877-695-3945

Tri-Cities
1-855-565-2555