

HRA VEBA – Frequently Asked Questions

What is an HRA?

Defined by the IRS as a health reimbursement arrangement (HRA), HRA VEBA is a type of health plan that reimburses qualified health care costs and insurance premiums for you, your spouse and qualified dependents. The funding source for King County's HRA VEBA program is leave cash-out at the time of retirement from PERS, LEOFF 2, PSERS and the Seattle City Employees' Retirement System. Funds are deposited tax-free into participant accounts held by the nonprofit, tax-exempt HRA VEBA Trust, a voluntary employees' beneficiary association (VEBA) authorized under section 501(c)(9) of the Internal Revenue Code.

With an HRA VEBA:

- You pay no tax on contributions, earnings, or withdrawals (claims).
- You can use your account anytime after it is opened.
- 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 pre-mixed portfolios.

What is a VEBA?

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

Why are HRAs sometimes called VEBAs?

Many governmental 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.

How HRA VEBA works

Retirement triggers VEBA leave cashout benefit

To receive the leave cashout benefit with or without VEBA and any other retiree benefits, **retiring employees must, before their last day of employment, advise King County Benefits, Payroll and Retirement Operations of the intent to retire by completing a Termination Notice indicating that they have formally applied to the Washington State Department of Retirement Systems (DRS) for retirement benefits.**

Employees who fail to notify the County of their intent to retire before their last day of employment will be considered to have terminated employment and will forfeit the leave cashout with or without VEBA.

Enroll or forfeit

Retiring employees will have up to 12 months from their last day of employment with King County to submit a properly completed HRA VEBA enrollment form. **Failure to do so will result in forfeiture of their leave cashout.** You must formally retire before your last day of employment with the County.

Using HRA VEBA

Eligible retirees complete an HRA VEBA Membership Enrollment Form at the time of retirement to open an account into which their leave cashout is directly deposited. Retiree funds are held by a nonprofit, tax-exempt VEBA trust managed by a board of trustees of city, county and special purpose district representatives. Retirees can select from among several investment funds and can change investments easily. Accounts are subject to a monthly administrative fee. Claims for qualified medical expenses and insurance premiums are submitted to a third-party administrator for reimbursement. 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.

How do I get money into my HRA VEBA account?

HRA VEBA enables the County to make tax-free contributions on your behalf using funds that would otherwise be paid to you as taxable wages.

Following are the available HRA VEBA funding sources for your bargaining unit's consideration:

1. Your 35% sick leave cashout at retirement
2. Vacation cashout at retirement (50% to HRA VEBA; 50% paid as regular taxable wages)

What does “tax-free” really mean?

Your account is exempt from all taxes. All contributions, earnings, and withdrawals are 100% tax-free. You could save up to \$300 or more in taxes for every \$1,000 contributed to the HRA VEBA plan (tax savings are approximate).

Am I required to participate?

Yes. IRS rules do not permit individual choice; all employee group members defined as eligible must participate. In other words, if your bargaining unit votes to adopt any one or more of the available funding sources, the decision is binding on all members of that group.

How do I withdraw money from my HRA VEBA account?

For qualified medical expenses, simply submit a completed and signed claim form, along with proper verification, to the third-party administrator. If you have ongoing monthly insurance premiums (e.g. retiree medical plan), you can arrange to receive automatic reimbursements by submitting a systematic payment form. Sign up for direct deposit; it is faster and more secure.

Why is the payroll deduction option no longer available?

The County in consultation with Local 17, as part of the Joint Labor Management Insurance Commission, has researched and jointly reviewed feedback from legal advisors regarding elimination of the \$50 option in the 2015 VEBA vote. There are concerns about federal law requirements under “employer contribution” and that the deduction being made is without the express written authorization of the employee.

This will not impact other VEBA options (relating to sick leave and vacation leave) available to employees. The contributions made to date will remain in employee VEBA accounts and employees will continue to have access to these funds.

What types of healthcare expenses and insurance premiums are eligible (qualified) for reimbursement?

Common qualified expenses include co-pays, coinsurance, deductibles, prescriptions, etc. 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.

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

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

Yes. Premiums for medical plan coverage as described above are eligible for reimbursement, particularly during retirement.

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

There is no time limit. Unused account balances carry over from year to year.

Will I receive a statement of my account?

Yes. If you sign up for paper statements, you will receive semiannual participant activity statements in January and July detailing all activity in your account. You may also sign up to receive e-statements, which are available quarterly, and you can access your account online anytime.

More information

If you have more questions about VEBA, you can:

- Call Benefits, Payroll and Retirement Operations at 206-684-1556 weekdays from 9 a.m. to 4 p.m.
- E-mail kc.benefits@kingcounty.gov anytime.
- Contact Emily Spencer at Gallagher Consulting at emily_spencer@ajg.com or by phone at 800-422-4023.