

Lump-sum payments upon retirement, such as unused leave cash outs, are common HRA funding sources. While these are certainly valuable, creative in-service contributions can add up and become even more valuable over time. Increasing retiree healthcare costs prompt many employers to help their employee groups implement various forms of in-service HRA contributions. This can help solve problems and meet common goals. Employees and employers enjoy significant tax savings, and the outcomes are win-win.

### Common funding sources include:

- Sick, vacation, personal, and other leave cash outs annually or upon separation or retirement
- Per-hour or per-pay-period employer contributions
- Mandatory employee contributions or as part of COLAs / pay raises
- Retirement notification incentives

### Goal: Reward Leave Time Accumulation; Provide a Tax-Free Conversion of Accrued Leave Time

#### ISSUE:

Need incentive for employees to avoid high utilization of sick leave and other forms of paid time off.

**HRA Funding:** Cash out of unused leave time (sick, vacation, personal, etc.).

**Example:** Employer implements or converts existing cash outs of unused leave time to HRA contributions: Eligible unused sick leave cashed out at 25% annually; all sick leave up to 180 days cashed out at 25% upon separation or retirement; all vacation over 80 hours cashed out at 100% annually; all vacation up to 160 hours cashed out at 100% at retirement.

#### OUTCOME:

**Employees get a tax-free incentive; more employees manage leave time to their advantage.**

**Sample Language:** Eligibility is limited to employees with leave cash-out rights during the term hereof. Employer contributions shall include the cash-out value of all unused [sick and vacation] leave days accrued and available for cash-out [annually and upon retirement] per negotiated agreement or Employer policy.

## Goal: Pre-Fund Retiree Medical Costs; Help Employees Retire on Time

### ISSUE:

Employees cannot afford retiree medical premiums, particularly prior to Medicare, and are job-locked.

**HRA Funding:** Employer contribution (annually or per-pay-period).

**Example:** Employer contributes \$1,200 per year to each eligible employee's HRA.

### OUTCOME

**Employees can invest and save up their HRA funds for retirement or, in the event of an emergency, use them while still working, depending on the HRA plan design.**

**Sample Language:** Employer and union agree that additional benefits will be provided in the form of direct employer HRA contributions equal to [\$1,200 annually], which shall be prorated and contributed on a [per-pay-period] basis. Such contributions shall be made on behalf of all members defined as eligible.

## Goal: Save up Tax-Free Money For Out of Pocket Medical Expenses During Working Years; Pre-Fund Retiree Medical Costs

### ISSUE:

Employees not saving enough to cover rising out-of-pocket medical expenses; need better emergency medical savings and a way to pre-fund retiree medical costs.

**HRA Funding:** Employer and employee group agree to exchange taxable wages for an HRA contribution (annually or per-pay-period).

**Example:** Employee group agrees to have their pay reduced by \$1,200 per year (\$100 per month) and contributed to an HRA; part of future COLAs also redirected as HRA contributions.

### OUTCOME

**Employees able to better absorb rising deductibles, co-pays, co-insurance, and out of pocket maximums. Unused amounts carry forward year over year for future expenses and build savings for retiree medical.**

**Sample Language:** Employer and union agree that the compensation package will be changed such that eligible members shall receive additional benefits in the form of HRA contributions equal to [\$1,200], which shall be prorated and contributed on a [per-pay-period] basis. Such contributions shall be made on behalf of all members defined as eligible and shall be considered and referred to as Employer contributions.

**Goal:** Offer a General or Retirement Notification Incentive; Help Retirees Bridge the Gap to Medicare

**ISSUE:**

Growing number of employees eligible or nearly eligible to retire.

**HRA Funding:** Minimum lump-sum contribution, plus an additional amount based on number of months until Medicare eligibility.

**Example:** Employer contributes an amount equal to \$15,000, plus \$250 for each month until retiree reaches Medicare eligibility (age 65). Employee agrees to separate employment and not seek reemployment with the employer for a specified period of time.

**OUTCOME**

**Job-locked employees eligible to retire and those nearing retirement are provided with tax-free funds for retiree medical costs.**

**Sample Language:** Eligible employees will receive [\$15,000], plus [\$250] for each month prior to reaching age 65, which shall be contributed [as a one-time lump sum upon retirement].

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