



## HRA Funding Sources

The VEBA Plan can provide lasting value and be a smart addition to any employee benefits package. In many cases, employers contribute funds that would otherwise be paid to employees as taxable income. The resulting payroll tax savings are a win-win.

HRA eligibility and funding sources are often the result of a group vote. Implementation is usually subject to employer policy or collective bargaining. IRS rules don't permit individual elections. All eligible employees must participate. Also, eligibility criteria and contributions must not favor highly compensated individuals (HCIs). HCIs are generally your top 25% wage earners.

### Start with the basics.

Here are several of the most common HRA funding sources.

- Sick leave cash out at separation/retirement
- Annual sick leave buy back
- Vacation leave cash out
- Mandatory employee contributions<sup>1</sup>

[veba.org](http://veba.org)

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## Then, get creative.

**As healthcare costs go up, many groups are looking for ways to funnel more dollars into their HRAs.** For example, HRA contributions triggered by voluntary employee actions, such as submitting notice of retirement, provide added benefit and can help drive positive outcomes. Contributions can be made monthly, annually, or as one-time incentives.

**In today's competitive landscape, thinking outside the box is more important than ever to attract and retain top talent.** Employers are looking for ways to provide value-added benefits at the bargaining table, promote longevity, and retain valued employees. Adding new and innovative VEBA Plan funding methods can help reach these desired outcomes. Here are a few examples:

1. **Direct Employer Contributions<sup>1</sup>**—provided as an added benefit from the employer; usually paid monthly, but can be paid quarterly or annually;
2. **COLAs or Pay Raises<sup>1</sup>**—redirecting all or part of a COLA or pay raise saves taxes and helps employees pay for current healthcare expenses and better prepare for retirement; and
3. **Longevity Bonuses<sup>2</sup>**—helps retain employees by encouraging and rewarding longevity.

**Healthcare expenses are on the rise, both for active employees and retirees.** Finding creative ways to implement tax-free benefits can result in winning solutions: a win for the employer in providing a benefit enhancement with a competitive edge, and a win for employees by enjoying an added benefit and gaining peace of mind knowing they are better prepared to tackle the growing cost of health care.

Contact your local Gallagher client consultant to learn more about the benefits of expanding your VEBA Plan funding.

<sup>1</sup> To avoid discrimination in favor of your highly compensated employees, mandatory employee, direct employer, and COLA or pay raise contributions should be flat-dollar amounts (not a percent of pay). <sup>2</sup> Longevity bonus funding should likely be limited to union groups.

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