Gallagher | HealthInvest HRA

Addressing the Budget Crunch in the Middle of a Pandemic

How a funded HRA can help school districts solve budget woes during uncertain times

Rich Dickman, Senior HRA Consultant

Dutch Ross, National Sales Director

Meet Your Gallagher Presenters

Dutch Ross

National Sales Director – HealthInvest HRA

Dutch is a thought leader and high respected presenter. His focus is on helping employers develop cost effective employee benefit plans while improving employee morale and engagement.

Rich Dickman

Senior HRA Client Consultant

Rich is a former California school business official in the Bay Area. For the last 22 years, Rich has worked to help School Districts and other government employers set-up and administer funded HRAs.

California Schools VEBA combines the power of collective purchasing with custom solutions to solve your most costly healthcare challenges.

Today, CSVEBA saves employers millions each year through:

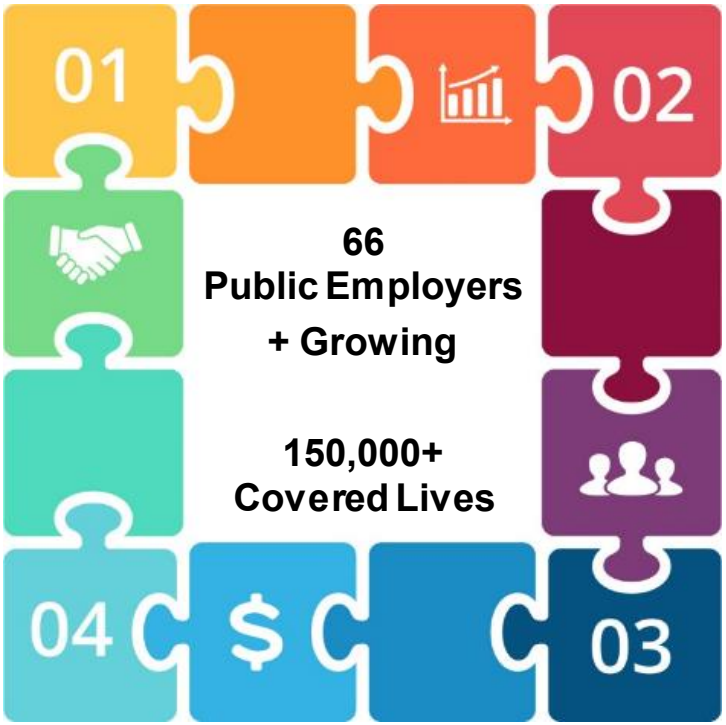
- High performance healthcare plans
- Personalized population health management programs
- Improving member health and district culture.

INCREASE PURCHASER NEGOTIATING POWER

By pooling resources, VEBA gives employers better pricing, enhanced access, unique products, and stable insurance renewals

EFFECTIVE LABOR-MANAGEMENT PARTNERSHIP

As a not-for-profit Healthcare Trust, VEBA is committed to long term partnerships with participating employers and employees. The VEBA Board is comprised of your peers with the sole focus of delivering the highest quality benefits at the most affordable price.



TARGETED INDIVIDUAL RESOURCES

VEBA connects employees with the right care, at the right time to:

- Maximize health outcomes and lower healthcare costs
- improve employee performance
- Reduce workplace absenteeism

VEBA designs custom strategies built around district specific goals. Our innovative solutions focus on actually improving the quality of healthcare to save employers millions each year.

IMPROVE QUALITY, REDUCE COSTS

Journey Plan

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Different generations of health care consumers utilize benefits differently. VEBA's Journey Plans are designed to provide coverage you need today and a way to save for tomorrow.

- The all new VEBA Journey Plan offers a unique approach to health care. In addition to covering everyday medical and pharmacy expenses, the Journey Plan helps members build wealth for long-term protection.
  - Lowest premiums in the market.
  - Provides first dollar, no deductible, coverage for routine care such as like office visits, lab work, x-ray and prescription drugs.
  - VEBA will annually fund the HRA to go towards the deductible
  - Allows healthy individuals to build wealth and save for future healthcare costs through HealthInvest HRA
  - Invest HRA money similar to a 403(b) plan.
  - Unused HRA dollars roll over, in full, from year to year.
  - Triple Tax advantage
  - Can be used in conjunction with other HealthInvest HRA Funding sources.

Agenda

- **What's the challenge?**
- **What is an HRA?**
  - Key benefits
- **What is a funded HRA?**
  - How can a funded HRA help?
- **How to move forward**
- **Questions**

Retiree Medical Premiums

How much will you spend on health care during retirement?

If you retire today at:	Projected cost of retiree medical premiums*:
Age 55	$190,000
Age 60	$151,000
Age 65	$102,000

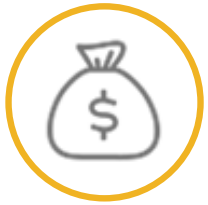
*These projections are based on current median COBRA rates for single coverage (2018 Gallagher National Benchmarking Survey). The basic assumptions are: (1) employee retires at age 55, 60, or 65 and lives to age 84: (2) employee enrolls in a retiree medical plan ($582/month current); (3) standard Medicare Part B premiums ($135.50/month current average); and (4) Medicare Supplement Plan G ($290/month current average) (5) annual inflation of 5% for retiree medical premiums (not Medicare).

What is an HRA?

HRA = "Health Reimbursement Arrangement"

Account-based group health plan

- IRS Notice 2002-45
- Revenue Ruling 2002-41
- Subsequent guidance



Funded by the employer

- Unfunded or notional
- Funded into participant accounts

Tax-free reimbursement of qualified health care expenses

- IRC § 213(d)
- Copays, coinsurance, prescriptions, dental, vision, premiums

Key Benefits for Employees

HRA = "Health Reimbursement Arrangement"

…pay no tax, federal income, state income or FICA
*(**employees** up to 40%+ savings, **employers** up to 7.65% savings)*

…can use your account anytime
(after becoming claims eligible)

…can choose your investments

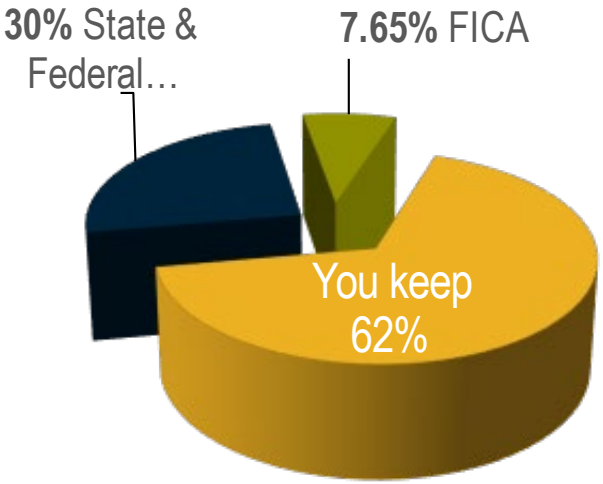
…unused balance carries over
(no annual "use-it-or-lose-it" or carryover limitations)

…spouse and dependent coverage *(children through age 26);*
account transfers to your spouse and dependents if you pass away

Save Tax. Keep More.

WITHOUT HRA:

Leave Balance Cash or Tax-deferred (457, 403(b), 401(k), etc.)		**$10,000**
−	Less FICA (7.65%):	$765
	Less income tax at (30%):	$3,000
=		**$6,235**



WITH HRA:

Leave Balance		**$10,000**
−	Less nothing:	$ 0
=		**$10,000**

Tax-free – *better than tax-deferred.*

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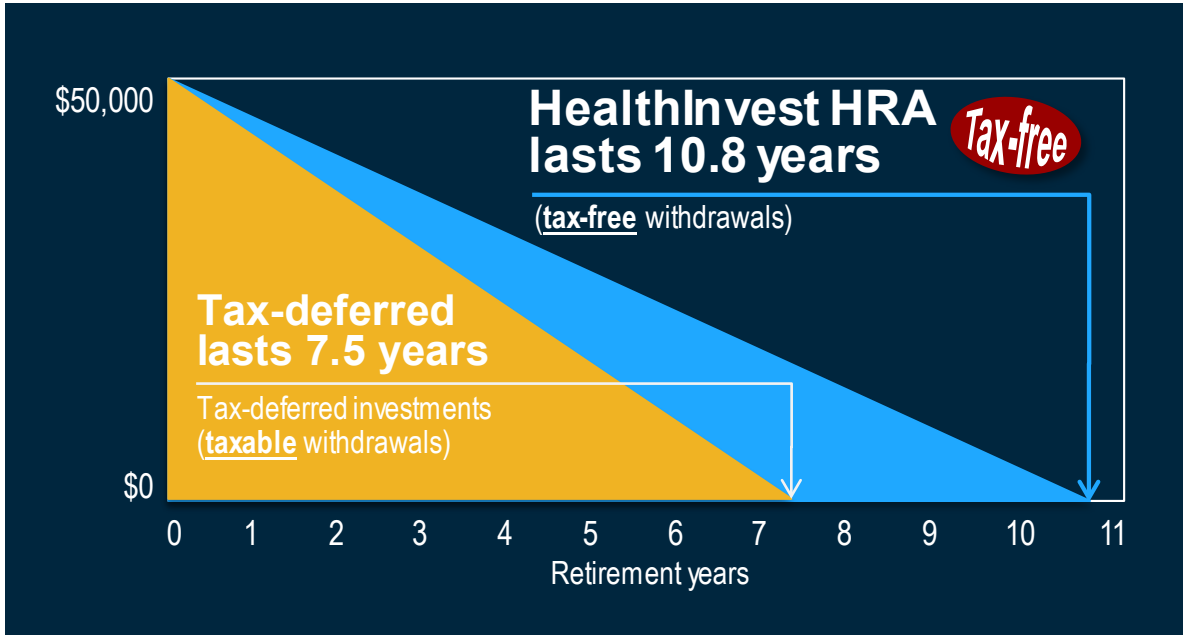
Make Your Money Last Longer

HealthInvest HRA may last over 40% longer than an equivalent tax-deferred investment



Assumes each account (1) holds $50,000 at time of retirement; (2) is used to pay $500 per month for medical expenses; and (3) earns a 5% annualized investment return net of fees.

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Key Benefit for Employers

- Save 7.65% FICA
- Save budget dollars
- Show employees you care
- Powerful collective bargaining tool
- Increase morale
- Help job-locked employees retire
- Attract and retain good employees
- Potential lower pension fund obligation

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What is a funded HRA?

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What is a funded HRA?

HRA = Health Reimbursement Arrangement

(Sometimes referred to as a VEBA)

Defining characteristics of a funded HRA:

- **Assets generally held in a trust (VEBA or 115)**
- **Can be designed like a 401(k)**
  - participant-directed investments
  - investment earnings accumulate tax-free
- **Often used primarily as a way to cover retiree health insurance premiums and other medical expenses**

How can a funded HRA help?

For the employee…

- ***Tax-free*** savings for current and future health care

For the employer…

- Help aging workforce retire
- Help furloughed employees transition
- Transition to higher-deductible health plan and/or encourage greater participation in plan
- Incentivize medical plan opt-out for employees with access to other group coverage
- Better way to deal with leave cash-out obligations

How are employers using funded HRAs?

- Direct employer contributions
- Wellness incentives
- Executive/Key employee contributions (Section 115 trust; post-separation premiums only)
- Retirement incentives
- Separation (furlough) benefits
- Cash-outs of unused leave
- Excess benefit dollars
- Medical opt-out dollars
- Mandatory employee contributions

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Case Study # 1

Excess benefit dollars

Problem:

High medical plan utilization resulting in year-over-year double digit premium increases

Goals:

Transition employees to lower cost, higher-deductible medical plan; engage employees; change behavior

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Case Study # 1

Solution:

- Moved to high-deductible health plan—funded HRA with cost-savings to make employees whole
- Implemented wellness program—provided participating employees with an extra HRA contribution

Results:

- Employer saved 19% in total benefit cost – even after HRA contributions!
- Employees more engaged in benefits, making better healthcare choices
- Rewarded good behavior, drove down overutilization

Case Study # 2

Medical opt-out dollars

Problem:

Multiple double-covered (over-insured) employees

Goals:

Encourage double-covered employees to opt out; reduce overall health benefits spend

Case Study #2

Solution:

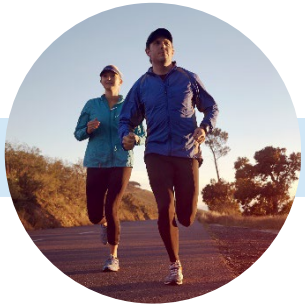
- Established HRA eligibility for employees who had other qualified group health insurance coverage
- Employer contributed 50% of what it would have spent on insurance coverage for the employee

Results:

- More double-covered employees opted out
- Employer saved approximately $1M annually
- Employees who opted out are building tax-free emergency and retiree healthcare savings

Case Study # 3

Wellness plan incentive



Problem:

Low wellness program participation

Goals:

Increase engagement and participation in wellness program; help employees better manage chronic conditions

Case Study # 3

Solution:

Monthly HRA contribution for program participation, including:

- Completion of annual health risk assessment
- Completion of biometric screening
- Completion of periodic wellness activities and challenges

Results:

- Near 100% wellness program participation
- Double digit increase in employee biometric screenings
- Increased enrollment in high-deductible (lower-cost) health plan

Case Study # 4

PTO cash-out; retirement incentive

Problem:

Employees unable to retire when eligible due to retiree medical costs

Goals:

Help employees retire on time

Case Study #4

Solution:

- Offered HRA retirement incentive for employees who retire at 30 years or at age 60 with five years
- Implemented PTO cash outs into HRA for separating employees (groups vote annually on cash-out percentage)

Results:

- Employees retiring on time with tax-free funds to cover retiree medical costs
- Employer saving 7.65% (FICA match) on PTO cash outs previously paid as taxable wages
- Employer able to afford new talent

Case Study # 5

Mandatory employee contributions

Problem:

Employees not saving enough for out-of-pocket healthcare costs, including retiree premiums

Goals:

Help employees save more

Case Study #5

Solution:

- Each employee group surveyed its members and voted on a mandatory monthly HRA contribution
- Union and non-union groups voted on either $50, $100, or $150 per month

Results:

- Employees saving up tax-free funds to cover current and retiree healthcare costs
- Employees saving up to $500 or more per year in taxes, depending on HRA funding amount
- Employer enjoying about $15k per year in FICA match savings

Case Study # 6

Direct Employer Contribution

Problem:

Employer has to negotiate contracts during a challenging budget year.

Goals:

Find a way to give a benefit to the employees.

Case Study #6

Solution:

- Employer added an HRA contribution based on what would have been 1% of a pooled salary increase.

Results:

- Employees can invest and save up their HRA funds for retirement or, in the event of an emergency, can use them while still working, depending on the HRA plan design.
- Employees morale and satisfaction remained high despite not being able to get the standard salary increase

Case Study # 7

Executive-only employer contribution

Problem:

Cell phone stipend outdated; increasing competition for executive talent

Goals:

Eliminate cell phone stipend; build up more robust compensation package for better talent attraction and retention

Case Study # 7

Solution:

$200/mo Section 115 trust

- $100/mo in place of cell phone stipend, plus
- $100/mo to bolster administrative compensation package

Results:

- Outdated cell phone stipend eliminated with no reduction to compensation package
- New added benefit not provided by surrounding districts helps retain key talent

Typical Group Adoption Process

Plan education

↓

Collective Bargaining

↓

Enrollment

↓

Employer contributions

↓

Welcome Letters

In-service Benefits Plan

Reimburses expenses while you're working and after you separate from service or retire, subject to your employer's plan design

For participants who

- Are **eligible to enroll in** their employer's qualified group health plan;

and

- Are **actually enrolled in or covered by their employer's qualified group health plan** or attest to their employer that they are **enrolled in or covered by another qualified group health plan**

Post-separation Benefits Plan

Reimburses expenses after you separate from service or retire*

For any HRA-eligible employee, including those who are not eligible to receive contributions to the In-service Benefits Plan

Depending on your employer's plan design, you may be able to use your post-separation account for dental and vision expenses during active employment.

* If you become re-employed by the employer that made (or is making) contributions to your post-separation account, you will not be eligible to file claims to that account for expenses you incur while re-employed.

Getting Money Out (claims)

Who's covered?

- Employee
- Spouse
- Qualified dependent(s)

Expenses

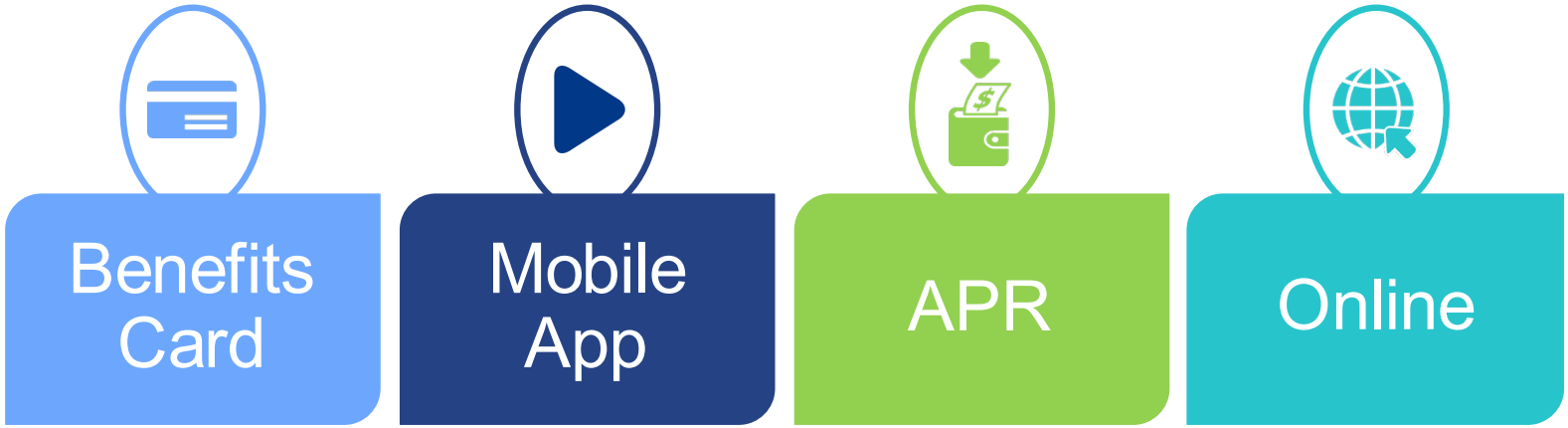
- Deductibles
- Copays
- Prescriptions

Premiums

- Medical, dental, vision
- Long-term care
- Medicare plans

NOTE: Premiums deducted pre-tax by an employer through a Section 125 cafeteria plan are not eligible for reimbursement.

Getting Money Out



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Questions?

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Thank You!

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