

FAQs: Funding Retiree Health Care

Real-world insight for negotiating and implementing solutions

Funding retiree health care is complicated. We can help. And the time to act is now. Employee groups must agree on a uniform funding formula to satisfy regulatory requirements. Don't worry – it's more flexible than you think.

RPA has helped dozens of public employers and employee groups successfully negotiate and implement retiree health care solutions to the benefit of all parties. Here's what you need to know.

WHY WOULD WE ESTABLISH A RETIREE HEALTH CARE FUNDING PLAN?

The number one reason public employees, particularly public safety personnel, delay retirement beyond pension eligibility is concern about covering health care expenses in retirement. Retiree health care funding plans provide tax-free contributions, earnings, and withdrawals for qualified medical expenses and insurance premiums.

HOW DO WE ESTABLISH A RETIREE HEALTH CARE FUNDING PLAN?

There are two types of retiree health care funding plans: a 501(c)(9) VEBA Trust or 115 Integral Part Trust. Both types of plans are established by the employer, with eligibility and funding detailed in your employment agreement. Eligibility requirements and funding formula generally are negotiated through collective bargaining.

DOES EVERYONE HAVE TO PARTICIPATE?

While the eligibility requirements and funding formula must be uniformly applied to all members of an employee group, they can be tiered based on hire date or length of service. For example: members hired before 1985 will have 100% of their accumulated payout contributed to the plan, whereas members hired after 1985 have a different contribution amount (e.g., 0%, 25%, or 50%).

HOW CAN WE MAKE CONTRIBUTIONS?

Sources of contributions include:

- Per-check amounts (flat dollar or percentage)
- Holiday pay
- Sick time
- Uniform allowance
- Good attendance bonus contributions
- Accumulated payouts at retirement

WHAT CAN MY FUNDS BE USED FOR?

Generally funds can be used only for qualified medical expenses (e.g., health insurance premiums, deductibles, office visit co-pays, prescription medications, long-term care) and are received tax-free. Through RPA-enhanced plan design, taxable distributions may be available for non-medical expenses.

HOW DO I ACCESS MY FUNDS?

At separation from service, you may access your funds by submitting proof of medical expenses to your dedicated claims and recordkeeping vendor.

WHAT HAPPENS IN THE EVENT OF MY DEATH?

In the event of your death, remaining funds (if any) may be used by your spouse or any qualified dependent (a person listed on your tax return). In the absence of a spouse or qualified dependents, assets in your account revert to the trust and are divided proportionately among the other plan members.

I ALREADY HAVE HEALTH INSURANCE COVERAGE WHEN I RETIRE, THROUGH A SPOUSE, MILITARY, OR NEW EMPLOYER. DO I HAVE TO USE THE FUNDS FOR MEDICAL AND INSURANCE EXPENSES ONLY?

RPA-enhanced plan design allows for needs testing. If the needs test determines that you don't have medical expenses in retirement, accumulated benefits to be contributed at retirement can be directed to a 401(a) special pay plan and used for non-medical expenses.

MY EMPLOYER PROVIDES SOME HEALTH INSURANCE COVERAGE UNTIL MEDICARE. HOW WILL ADDITIONAL RETIREE HEALTH CARE FUNDS BENEFIT ME?

Plan reimbursements cover all qualified medical expenses (e.g., deductibles, office visit co-pays, prescription medications, long-term care), not just insurance premiums. Further, we estimate that the average retiree will spend approximately \$60,000 on Medicare Part B and prescription drug plans after age 65.

CAN I CHOOSE MY OWN INVESTMENTS?

Yes. Similar to your 457 deferred compensation plan, you will have your own account and can choose from a list of investment options.

TO LEARN MORE ABOUT RETIREE HEALTH CARE FUNDING, CONTACT YOUR RPA FINANCIAL ADVISOR.