



Retirement Healthcare Funding

Presented By:

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What's Going On?













search ID: bbon86

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I Need How Much?

- A 65-year-old couple retiring in 2012 is estimated to need \$240,000 to cover medical expenses throughout retirement, according to the latest retiree health care costs estimate calculated by Fidelity Investments.®



What about Pre-65?

- Pre-Medicare premium runs from \$600 to \$1,400 per month for public sector employees in Illinois (Median for our claimant is \$800 per month)
- Post-Tax




What Do These Plans Do?

- Pre-Tax Contributions
- Tax-Free Accumulation
- Tax-Free Receipt of Funds for Covered Benefits
- Above the line Deductions for
 - Medicare Taxes
 - Social Security Taxes if Applicable



Retirement Healthcare Funding

- Gov't Inherent Function Trust
- Veba
 - Defined Benefit
 - Defined Contribution



Grantor Trust

- Grantor Trust (Assets remain on City Balance Sheet)
- Tax advantages come from status of sponsor
- To date, authority comes from Private Letter Rulings
- Started in 1999 (Long Beach, CA)



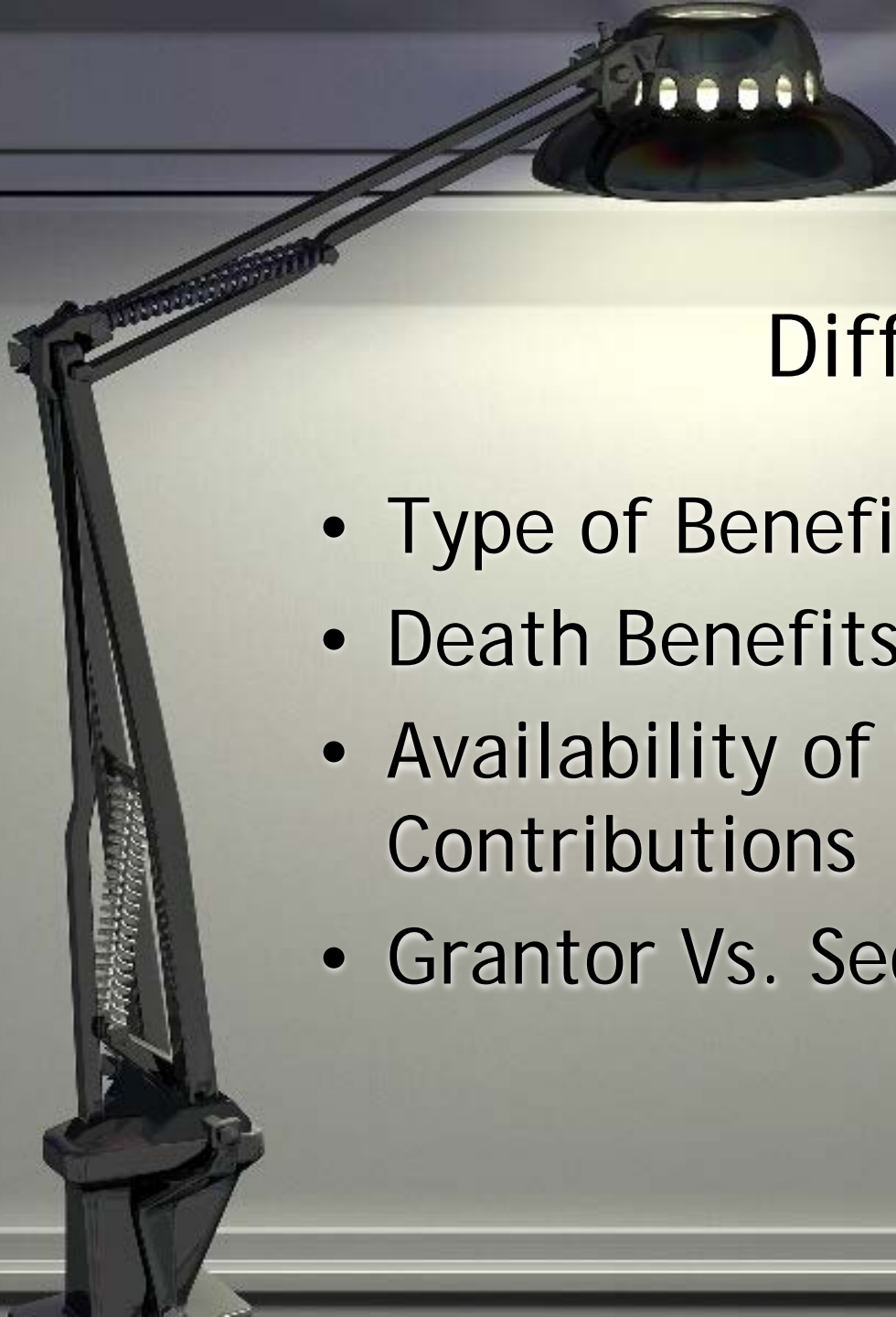
VEBA

- A “VEBA” is a voluntary employees’ beneficiary association under Code Section 501(c)(9)
- Since 1928
- An employer executes a written document establishing an independent formal trust organization



VEBA

- Contributions to the VEBA can be made by the employer (tax deductible) and by active employees as a 'give-up" of wages by union contract or by job title
- Can be set up as a pooled fund available to pay medical expenses, including premiums (including Medicare premiums), deductibles and co-pays. Alternatively, VEBA can be set up in "defined contribution" with individual accounts



Differences

- Type of Benefit Received
- Death Benefits
- Availability of Voluntary After-Tax Contributions
- Grantor Vs. Secured Trust



Defined Benefit Style/OPEB Funding

- Operates Just Like DB Pension Plan
 - Fixed Benefit
 - Actuarially Determined Contributions
 - Pooled Asset Account
- Usually Premium Only



Specifics

- Typically Employer/Mandatory Employee Contribution
- Non-Diminimus Death Benefit Limited to Tax Dependents Only
- No Access Pre-Retirement Except for Disability and LTC



Funding Alternative

- Employer Contributions
 - Flat Dollar
 - Percent of Pay
- Sick Time/Comp
Time/Bonus/Longevity Pay
 - If Allocated in Uniform and Consistent Manner, Pre-tax. If Controlled by Employee, Post-Tax Contribution.



Where Does The Funding Come From?

- Sick pay, Vacation time, Comp Time, and any other form of compensation either annually or at end of career
- Direct Employer Contribution



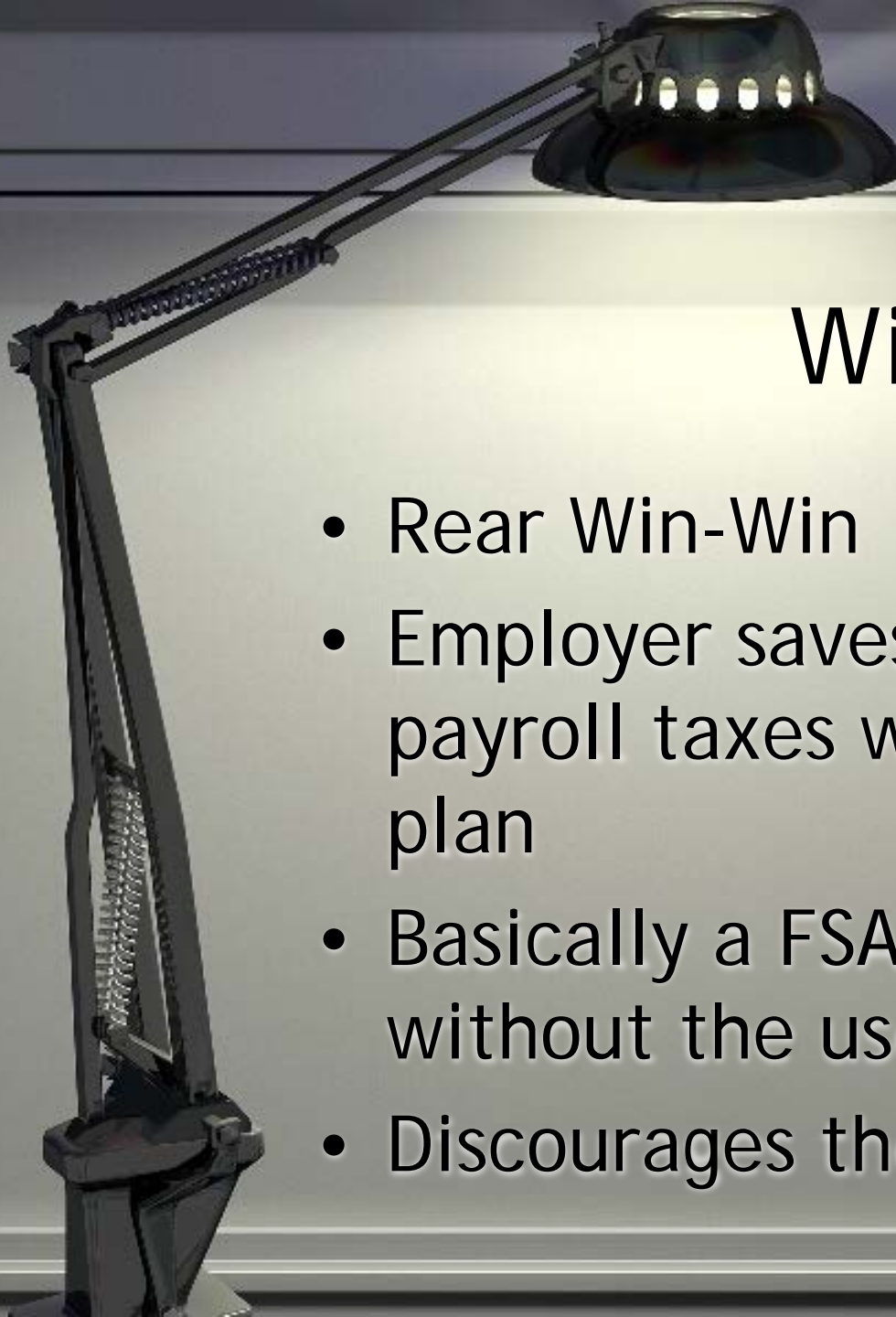
Example 1

- Every Officer is deferring 32 hours of sick pay with the employer contributing an additional lump sum of \$750 per year. In addition, the officer receives 100% for every accumulated sick and vacation hour that is unused up to 720 hours. There is no conversion from hour 721-1000. Then there is a 10% credit for every hour above 1000 deposited into account at end of their career.



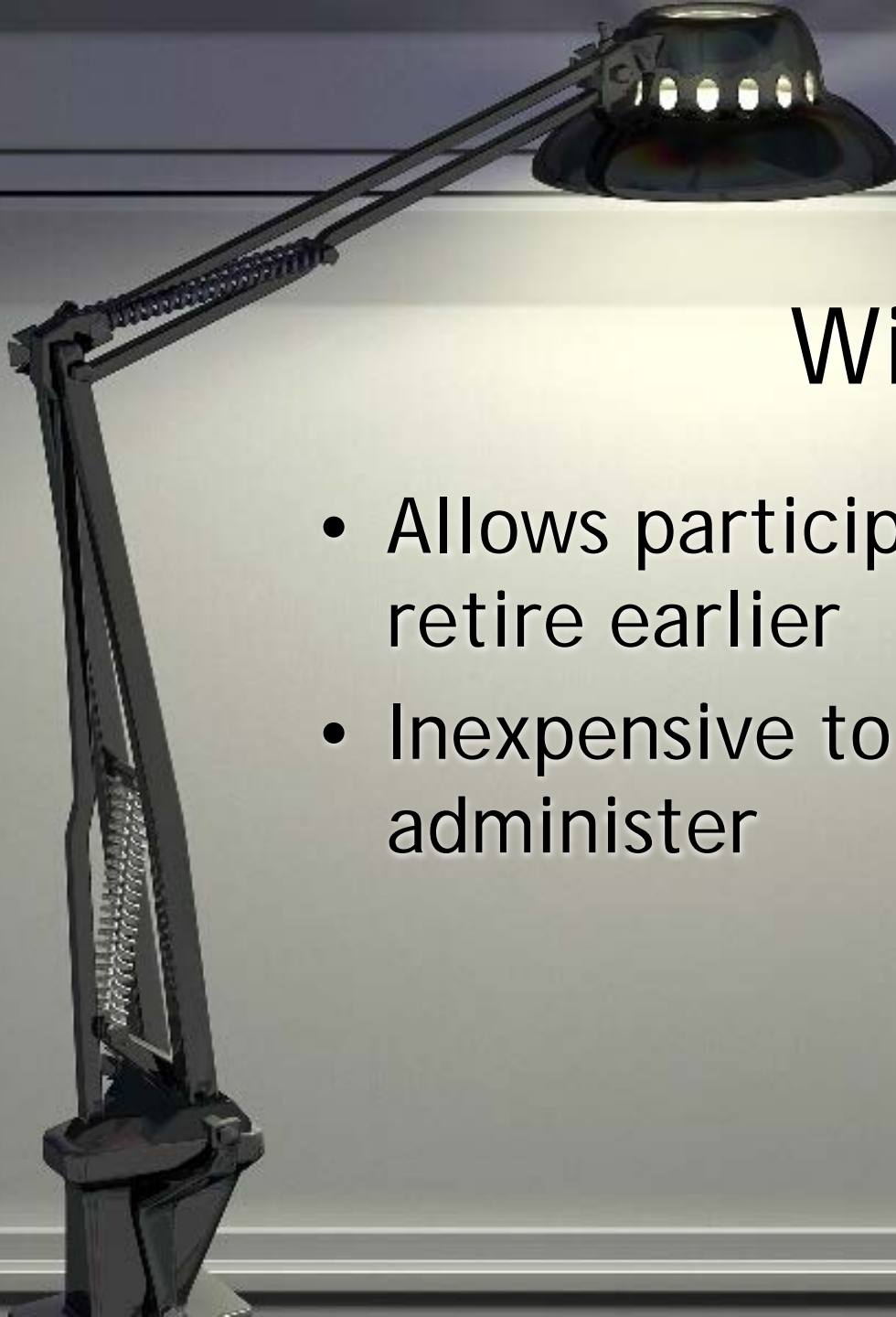
Example 2

- When sick day bank accumulates over 318 hours to finish the year, all hours over 318 are deposited into the VEBA at 100% of value. Upon retirement, all accumulated sick day and vacation time automatically is deposited into the VEBA within 30 days of retirement.



Win-Win

- Rear Win-Win
- Employer saves all associated payroll taxes with deposits into plan
- Basically a FSA for retirement without the use it or lose it feature
- Discourages the use of Sick Time



Win-Win

- Allows participants the ability to retire earlier
- Inexpensive to set up and administer



Retirement Healthcare Funding

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