



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 2013 is estimated to need \$220,000 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
- HSA



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



HSA

Can I use my HSA to pay for health insurance premiums?


- No, with the following three exceptions:
- if the HDHP premium is part of a COBRA continuation coverage,
- if you (the HSA owner) are currently receiving unemployment under a state or federal program, and
- if the HSA owner is over age 65 and using the HSA to pay for Medicare or an employer sponsored health plan.



HSA

If the account beneficiary has attained age 65, are Medicare Part D premiums qualified medical expenses?

- Yes. If an account beneficiary has attained age 65, premiums for Medicare Part D for the account beneficiary, the account beneficiary's spouse, or the account beneficiary's dependents are qualified medical expenses. See also [Notice 2004-2](#) [DOC], Q&A-27, and [Notice 2004-50](#), Q&A-4 and Q&A-45, regarding Medicare Parts A and B.



Differences

- Type of Benefit Received
- Death Benefits
- Availability of Voluntary After-Tax Contributions
- Grantor Vs. Secured Trust
- Under 20 Eligible
- Management Only



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



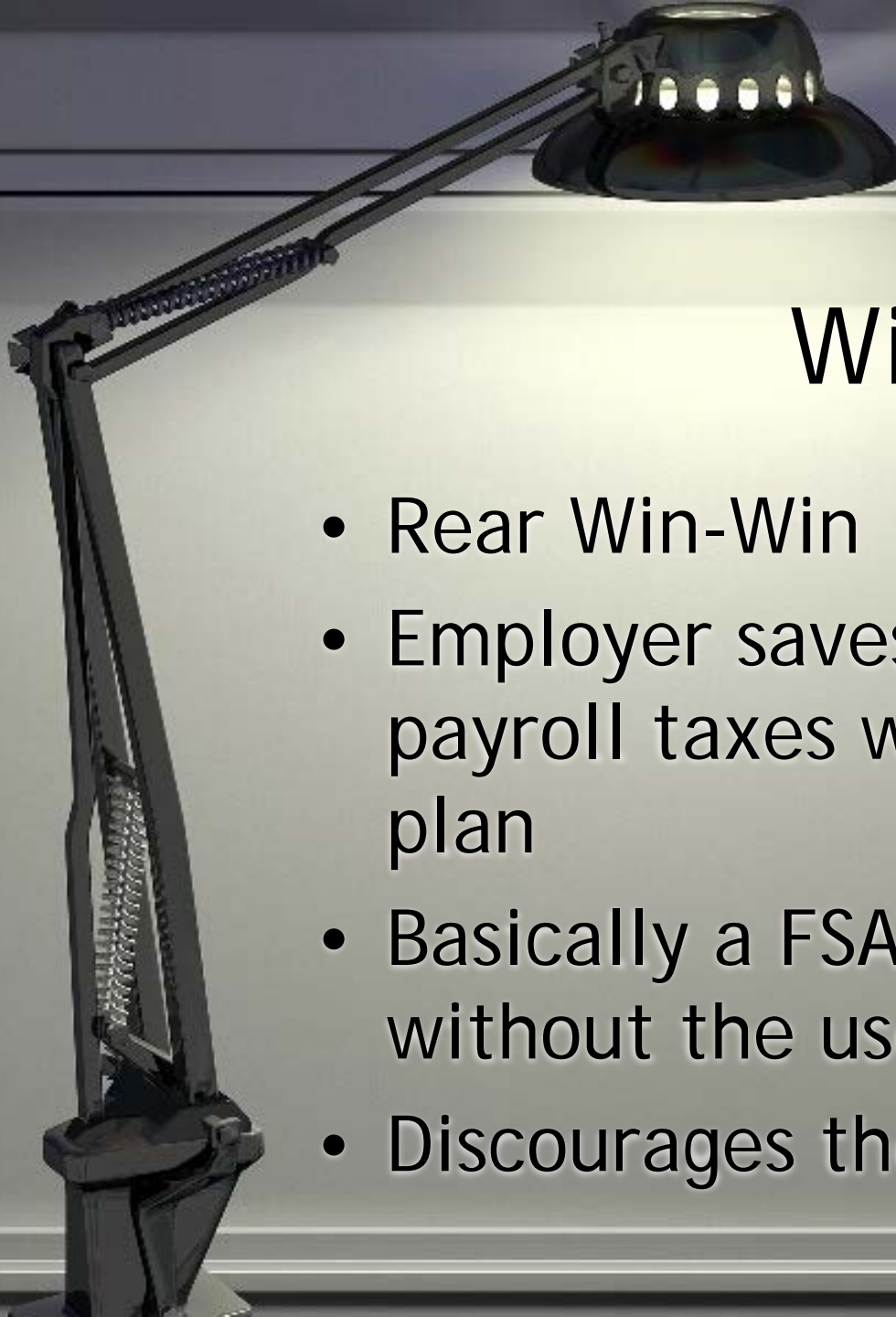
Example 1

- 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.



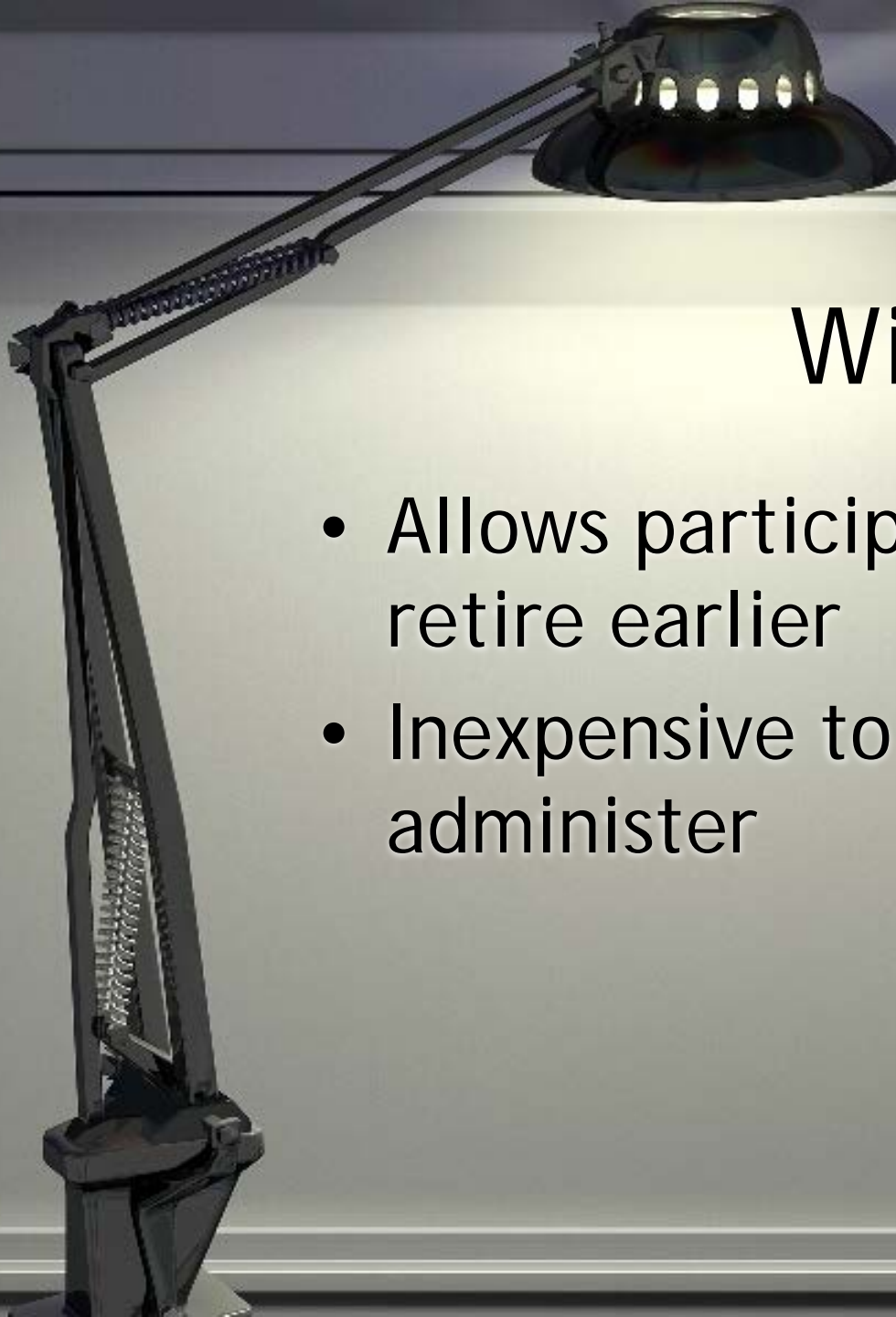
Example 2

- 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



Future?

- Health Insurance Exchanges
 - Pricing?
 - Plan Design?
 - Availability?



Exchanges

- Mass and Utah has exchanges already up and running
- Illinois is building the exchange currently



Retirement Benefits

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