

# Montana VEBA HRA Summary of Benefits

A tax-free health reimbursement arrangement for Montana **state agency** employees

## ☐ \$300,000 Growing Cost

Public retirees everywhere are struggling to cope with the soaring cost of post-employment healthcare. The average public employee and spouse retiring today at age 60 will likely spend **over \$300,000 of their own money** in out-of-pocket healthcare expenses and premiums during their retirement years.

## ☐ Your best source of help

Montana VEBA HRA is a **tax-free** health reimbursement account (HRA), or as technically defined by the IRS, a health reimbursement arrangement (HRA). Your Montana VEBA HRA account can be used to pay or reimburse qualified out-of-pocket healthcare costs and premiums for yourself, your spouse, and your qualified children and dependents.

## ☐ What does “tax-free” really mean?

Unlike your **tax-deferred** investments (IRAs, 457s, etc.) where contributions are subject to Social Security and Medicare taxes, and state and federal income taxes are merely postponed until you make withdrawals, your Montana VEBA HRA account is **exempt** from all of these taxes. **All contributions, earnings and withdrawals are 100% tax-free!** You could save up to \$400 or more in taxes for every \$1,000 contributed to the Montana VEBA HRA plan.

## ☐ Tax-free Contributions

Tax-free funding of a Montana VEBA HRA account is primarily provided by sick leave cash-outs. For State of Montana employees, the source of contributions is your accumulated sick leave balance at retirement at a rate of 25%, times your hourly salary. 100% of annual leave at separation from service is another option but the entire group must decide on the contribution source BEFORE a vote takes place.

Example A: Lump Sum Cash-Outs				
	Cash Out Amount	35% Income Taxes	7.65 FICA Tax	Net Amount
Taxable Wages	\$10,000	<\$3,500>	<\$765>	\$5,735
VEBA HRA Contribution	\$10,000	n/a	n/a	\$10,000
<b>Total Savings<sup>1</sup> = \$4,265</b>				

<sup>1</sup> Tax savings are approximate.

## ☐ Tax-free Investments

Your Montana VEBA HRA plan offers nine investments funds: Marshall Money Market; Vanguard Short-Term Bond Index Fund; Vanguard Long-Term Bond Index Fund; Vanguard Institutional Index Fund; Federated Capital Appreciation Fund; Federated Kaufmann Fund; American Century Strategic

Allocation Conservative Fund; American Century Strategic Allocation Moderate Fund; and American Century Strategic Allocation Aggressive Fund. You can self-direct the investment of your account among any one or all of these funds. Also, you can change your investment fund allocation as often as once a month.

Example B: Growth		
Starting Age	Monthly VEBA HRA Contribution	Account Value at Age 65 <sup>2</sup>
25	\$100	\$148,856
35	\$100	\$ 81,870
45	\$100	\$ 40,746
55	\$100	\$ 15,499

<sup>2</sup> Based on average annualized earnings of 5.00%

## ☐ Tax-free Withdrawals

Once becoming claims eligible, you can file claims to pay or reimburse qualified out-of-pocket healthcare expenses and premiums at any time. Qualified premiums and expenses are defined by Internal Revenue Code Section 213(d) and cannot be reimbursed from any other source. It’s easy to file a claim. Claims are paid weekly by the third-party administrator, REHN & ASSOCIATES.

## ☐ Survivor Benefit

If you pass away, IRS rules provide that remaining funds in your account may continue to be used by your surviving spouse and qualified children and dependents to reimburse eligible health care expenses and premiums. If you have no eligible survivors remaining, funds will be forfeited and redistributed per the terms of the Plan Document.

## ☐ Group Adoption

A decision from each employee group is necessary to adopt/renew VEBA HRA plan participation for the following calendar year. Typically, interested employee groups make a decision by conducting a group vote in the fall.

## ☐ Enrollment

When your employee group adopts the VEBA HRA plan and you become eligible to participate, you will be asked to complete an Enrollment Form and submit it to human resources/benefits department. All employee group members defined as eligible must participate per IRS rules.

## ☐ More Information

To learn more, contact State of Montana Department of Administration at (406) 444-3745 or visit [www.montanaveba.org](http://www.montanaveba.org).