

EMPLOYER QUESTIONS AND ANSWERS

1. What is the Montana VEBA HRA?

The Montana VEBA HRA is a pre-retirement and post-retirement health reimbursement plan funded with employer contributions.

2. What is the legal basis for the Montana VEBA HRA?

The 2001 legislature established the VEBA through enacting 2-18-1301 et seq. (http://data.opi.state.mt.us/bills/mca/toc/2_18_13.htm). This law instructed the Department of Administration to implement a VEBA Health Reimbursement Plan for Montana Public Employees. This Plan is the result of those efforts. Internal Revenue Code Section 501 (c)(9) authorizes the creation of a VEBA - an acronym for Voluntary Employees' Beneficiary Association - to hold assets to provide welfare benefits to employees. The State has received a 501(c)(9) letter of determination from the IRS, which confirms our tax-exempt status as a VEBA. The benefit provided is a medical reimbursement plan, which is also commonly referred to as an HRA or "health reimbursement arrangement." The IRS has issued Notice 2002-45, Revenue Ruling 2002-41, Revenue Ruling 2005-24, and Revenue Ruling 2006-36, which outline how employers and plan administrators properly operate a health reimbursement arrangement plan to achieve desirable tax results. Our Plan is an HRA, and we call it "Montana VEBA HRA."

3. Am I an eligible employer?

Eligible employers are defined in statute as "any public employer, defined under Montana statute as a legally constituted department, board, or commission of the state, a county, an incorporated city or town, or any political subdivision of the state, including a school district or a unit of the university system."

4. What is the benefit to me as an employer to offer the Montana VEBA HRA to my employees?

Employer advantages include:

- a. Providing the best tax-advantaged tool for employees to accumulate assets to pay for the rapidly rising costs of post-employment health care.
- b. Employer savings on taxes such as FICA, worker's compensation and unemployment insurance on the VEBA contribution.
- c. Employer savings on retirement for VEBA contributions
- d. Helping employees offset the increasing costs of medical plan deductibles and co-payments.
- e. Reducing future liability of unused sick leave cash-outs by paying a portion of these costs annually.

5. What are the benefits to my employees if they choose to belong to the Montana VEBA HRA?

Employee advantages include:

- a. Building a resource to pay for the increasingly high cost of post-employment health care.
- b. Saving federal income tax, state income tax, and employment taxes on the contributions.

- c. Avoiding tax on the earnings on their Montana VEBA HRA account balances.
- d. Avoiding taxes on withdrawals for qualified benefits.
- e. Enjoying the opportunity to participate in a new benefit plan offered by their employer.

6. What are my ongoing employer responsibilities going to be to the Montana VEBA HRA, should we decide to enroll?

- a. Communicate and enroll new eligible employees in the Plan.
- b. Notify the Department of Admin – Employee Benefits Bureau when a participant separates from service.
- c. Set-up and process contributions as required, depending upon the contribution method chosen.
- d. Assist employer groups with the facilitation of a vote on new contribution options or recurring contribution options.

7. How does an employer go about establishing the Plan?

In the link, "How to Set Up and Administer the Montana VEBA HRA" - you will find a step-by-step guide to establishing and administrating the Plan.

8. How does the employee enroll after the Plan is established?

Employers will be provided with a one-page Enrollment Form for employees to complete and return to your employee benefits/human resource department. The Enrollment Form should be sent to the Department of Admin – Employee Benefits Bureau office.

9. What Plan features of the program can an employer choose from?

All the benefits of this turnkey program are available to all employers. Employees and employers determine which contribution options are appropriate.

10. What type of contributions are available for Montana VEBA HRA contributions?

The primary type of contribution provided for in statute is sick leave cash-outs. For State of Montana employees, the ONLY source of contributions at this time is accumulated sick-leave balance at a rate of 25% at separation from service or retirement.

11. Where will the assets of the Plan be invested?

Nine investment options are offered to Plan participants. When each Plan participant completes their Enrollment Form, they will direct how their account is to be allocated among the choices. Employees may make changes as often as monthly and will communicate directly with the Montana VEBA HRA Third-party Administrator (TPA) with regard to fund allocation changes.

12. What are the fees charged to the employer? The employee?

There are no fees charged to the employer (State of Montana.) Employees will be charged a flat amount administration fee of \$5 each month, plus 1.75% of their assets will be reduced monthly.

13. What do I need to report for tax purposes?

There is currently no tax reporting, no W-2 reporting, no 1099 reporting, no individual 1040 reporting, no Montana income tax reporting. Beginning in 2012, reporting the value of Montana VEBA HRA coverage may be required on Form W-2 due to federal health care reform legislation.

14. What will my employees receive for materials?

At the education sessions, Employees will receive a Summary of Benefits, a list of qualified expenses and premiums, a Question & Answer brochure and an Investment Fund Overview. They may also review the websites of each particular investment fund for other fund performance and information.

15. When may employees begin participating once they enroll?

Participation begins immediately. Employees may file claims for expenses incurred after the TPA has received a properly completed Enrollment Form and a contribution from the employer on the employee's behalf. Claims are paid weekly.

16. Who will pay employee claims?

The Department of Administration has employed REHN & ASSOCIATES, an experienced VEBA HRA third-party administrator in Spokane, to pay employee claims. Participants will submit claims for benefits directly to the REHN.

17. What is an employee group and who can be in a group?

Group participation is required due to IRS rules that prohibit individuals from choosing to participate, or not, in the program. Therefore, the following group formation guidelines are intended to eliminate the possibility of an employee moving from one group to another, or choosing to join or not to join a group so they can be included, or not included, in the Montana VEBA HRA Plan. If individuals have the choice, the contributions to the program are no longer tax-free.

Groups should consider using existing group boundaries, such as collective bargaining or other agreements, to structure groups. Group means a collection of employees who are employed by the same employer under an existing organizational structure. The most common form of group will be employees eligible to retire voting on sick leave cash-out at retirement. Employees eligible for sick leave cash at separation from service, but not eligible to retire, will also be a common group. Groups may also be formed into smaller sub-units. Sub-unit means a collection of employees who are employed by the same employer under a recognized organizational division for the purposes of administration of the statutory or otherwise designated duties of the employer. A sub-unit must consist of at least five employees.

18. What types of reports will my employees receive?

Upon initial enrollment, employees will receive a Welcome Packet mailed to their home address, which includes the following:

- a. Welcome Letter confirming the deposit and investment allocation
- b. Claim Form
- c. Systematic Payment Form
- d. Account Change Form
- e. Plan Summary

In addition, employees will receive semi-annual statements detailing all activity in their account. An employee will also be able to view their account activity online at any time.

19. Do I have to set the Plan up on a calendar year basis?

No. The group may vote annually, but it does not have to be on a calendar year basis.

20. Whom should I contact for more information?

Contact the Department of Administration, Employee Benefits Bureau,
VEBA Health Officer at:

Melanie Denning
Phone: (406) 444-3745
[E-mail: mdenning@mt.gov](mailto:mdenning@mt.gov)

After the Plan is adopted, you may contact the TPA for additional questions regarding Plan operation and individual accounts at:

Montana VEBA HRA Third-party Administrator (TPA)
P.O. Box 5433
Spokane, WA 99205-0433
(509) 534-0600
1-800-VEBA101 (832-2101)
Fax: (509) 535-7883
[E-mail: montana@rehnonline.com](mailto:montana@rehnonline.com)