International Brotherhood of Teamsters – UA Mechanics

Cheiron
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VEBA HRA

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Topics

- VEBA Trust
  - Definition/Purpose
  - Advantages
- HRA Account
  - Definition/Purpose
  - Advantages
- How they work together

What are we trying to establish?

- Provide employees with financial support with regard to:
  - Employee health benefit contributions (e.g., medical, dental, vision), and/or
  - Health cost shares (e.g., deductibles, coinsurance, copays), and/or
  - Retiree medical premiums and cost shares
- Using a Health Reimbursement Account (HRA)
- That is administered by a VEBA Trust

We refer to the arrangement as “the VEBA” or “the VEBA HRA”

What is a VEBA Trust?

- Voluntary Employee's Beneficiary Association (VEBA)
- Qualified trust established under Internal Revenue Code (IRC) 501(c) (9) that provides health and welfare benefits
- Purpose is to provide employee benefits
  - Certain benefits (e.g., commuter benefits or pension) cannot be provided by a VEBA

Advantages of a VEBA Trust

For the Employer	For the Employee
• Tax deductible contributions • No FICA tax	• Contributions not subject to income tax or FICA tax • Withdrawals are not taxable income since used for health & welfare benefits • Funds can be withdrawn at any age, without penalty. • Assets must be used for the exclusive benefit of the participants and are protected from creditors • Tax-free investment income

What is an HRA?

- Health Reimbursement Account:
  - IRS-sanctioned, employer-funded
  - Tax-advantaged employer health benefit plan
  - Can be used to pay for eligible health expenses under IRC Section 213(d)
    - Member cost share under medical, dental, vision plans
    - Health insurance premium for active plan, Medicare Supplement, Medicare, Long Term Care
    - Qualified medical, dental, vision expenses not covered under the plan
    - With a prescription, certain over-the-counter drugs

Source:
http://www.irs.gov/publications/p969/ar02.html#en_US_2013_publink1000204194

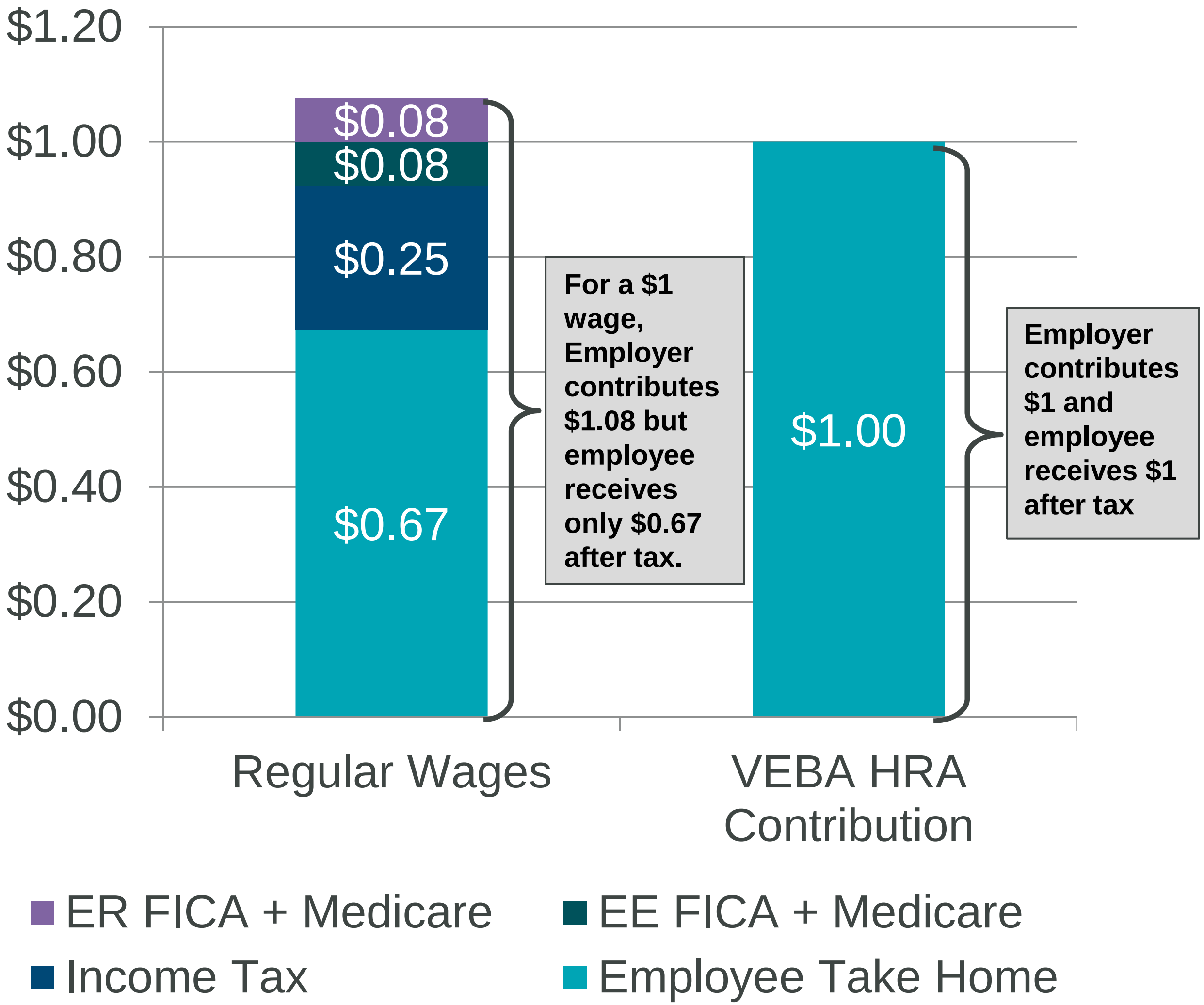
Advantages of an HRA

HRA vs. HSA
HRA vs. FSA
HRA vs. HSA
HRA and FSA

- **Can be offered with any medical plan** unlike a Health Savings Account (HSA), which requires a minimum deductible of $1,300/$2,600 for single/family coverage (in 2016)
- **Fund balance can be rolled over year-to-year** unlike a Flexible Spending Account (FSA), where unused funds are forfeited at the end of the year
- **There is no limit on the annual employer contributions amount** unlike an HSA, which limits total contributions to $3,350/$6,750 (single/family for 2016)
- **Can be offered along with an FSA**
  – Use FSA funds first, HRA second
- **Additionally, under the HRA proposed**
  – An employee's fund vests immediately
  – Fund balance earns interest

Sources: http://www.hsacenter.com/2014limits.html & "HRA, HSA, FSA Comparison" http://media.wix.com

Tax Advantage of the VEBA HRA



For an employee to receive regular wages of $1 after tax, the gross wages need to be $1.48, and the cost to the employer is $1.68.

For an employee to receive $1 in the VEBA HRA, the gross wages need to be $1, and the cost to the employer is $1.

Assumptions: 25% combined federal and state income tax rate for sampled EE, FICA at 7.65% (1.45% for Medicare, 6.2% for Social Security), no other payroll taxes.

How does the proposed VEBA work?

- VEBA will manage two accounts per employee:
  - Active HRA
    - Available to all employees with company **medical** coverage
    - Funds transferred to Retiree HRA when employees leave the company
  - Retiree HRA ("RHA" account)
    - For employees who opt out of the company medical coverage or who have left the company
    - Funds available to be spent only when employees leave the company
- Funds in the employee accounts vest immediately. The entire account balance belongs to the employee.

How does the proposed VEBA work?

- Monies in the HRA accounts are invested conservatively to ensure preservation of capital while keeping up with inflation
  - VEBA Board of Trustees to choose investments according to Trust agreement (TBD)
  - VEBA to manage the investments
  - All individual accounts are invested the same way
- The company is responsible for all administration expenses related to the VEBA HRA
  - Investment management expenses
  - Claim Administration expenses
- Company is already familiar with VEBA accounts as Pilots have a VEBA RHA and a VEBA for active life insurance

How does the proposed VEBA work?

- For each hour of pay up to 2,080 hours per calendar year, the company will contribute $1.20 to the employee active and/or retiree accounts
- The contributions to the VEBA have to be the **same** for each employee (same $ per compensated hour, or same $ per employee)
  - No contribution taken out of bonus
  - Employee cannot put additional funds into the VEBA HRA
- Contributions are in addition to all in wages
  - Do not count in calculation of other benefits such as pension, 401(k), profit sharing, etc…

How does the proposed VEBA work?

- Active employees enrolled in the company health plan can use these funds for qualified medical, dental, vision expenses
- Active employees who waive coverage under the company health plan may NOT access these funds until they elect the company health coverage or leave the company
- When an individual leaves the company, the balance of their active account will be transferred to their retiree account
  - Funds in the individual's accounts vest immediately. The entire balance belongs to the employee

How does the proposed VEBA work?

- Funds in the retiree account can be used to pay for eligible medical, dental, vision expenses as soon as an individual leaves the company
- When an employee dies, funds are transferred to the surviving spouse and/or an eligible tax dependent (as defined in IRC Section 152)
- If an employee dies without a spouse or eligible tax dependent, the remaining funds are re-allocated on a flat dollar basis (i.e., per capita) among the remaining employees with a VEBA HRA account
  - Funds are not returned to the employer

Contributions to the VEBA HRA

- Contributions will be made by the company only
  - Tax exempt
  - Same amount per compensated hour for all mechanics
  - Capped at 2,080 compensable hours per calendar year
- Contributions are made to individual accounts established in the worker's name
  - Vested immediately

Disclosures

- This presentation was prepared exclusively for the IBT Airlines Division to provide educational background on the VEBA HRA account that has been discussed during their negotiations of Health & Welfare benefits for the United Airlines Mechanics (sUA, sCAL, CMI)
- This presentation has been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practices set out by the Actuarial Standards Board
- This information is based on our knowledge as employee benefits consultants. We recommend you consult appropriate counsel regarding contractual and legal issues. We are not attorneys and our firm does not provide any legal services or advice
- This presentation was prepared exclusively for the IBT Airlines Division for the purposes as stated above. Other users of this presentation are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user

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***Cheiron** (pronounced kī́ · ron), the immortal centaur from Greek mythology, broke away from the pack and was educated by the gods. Cheiron became a mentor to classical Greek heroes, then sacrificed his immortality and was awarded in eternity as the constellation Sagittarius.*

Appendix – Account Comparison

	HRA	HSA	FSA
Eligibility & Funding			
Establishment of account	Any employer	Eligible individual, employer or as part of Section 125 plan	As part of Section 125 plan
High Deductible Health Plan Required	No	Yes	No
Eligibility	Defined by employer	Eligible individual covered by HDHP & no other non-HDHP coverage	Defined by employer
Funding	Employer	Individual, employee salary reduction, employer	Employee salary reduction, employer
Maximum Contribution	None	\$3,350/\$6,750 (2016)	No limit on employer; \$2,550 on employee salary reduction

Source: “HRA, HSA, FSA Comparison” http://media.wix.com

Appendix – Account Comparison

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Taxation			
Taxation of Contributions	No federal or state income tax or social security/Medicare tax	No federal or state income tax or social security/Medicare tax	No federal or state income tax or social security/Medicare tax
Taxation of earnings	Tax free if assets are in tax-exempt trust	Tax-free/deferred compensation withdrawals for non-medical expenses result in federal and/or state income tax, plus excise tax before age 65	To employer if assets held in employer general asset account
FICA savings	Yes	Yes as long as used for qualifying medical expenses. No otherwise	Yes

Source: "HRA, HSA, FSA Comparison" http://media.wix.com

Appendix – Account Comparison

	HRA	HSA	FSA
Account Use			
Qualified Medical Expenses	Qualified medical expenses as defined in IRC 213(d), including OTC drugs if prescribed	Qualified medical expenses as defined in IRC 213(d), including OTC drugs if prescribed	Qualified medical expenses as defined in IRC 213(d), including OTC drugs if prescribed
Non-medical withdrawals	Not allowed	Yes, but included in gross income and subject to 20% (except after age 65, death or disability)	Not allowed
Qualified retiree insurance premiums	Retiree health insurance, including qualified LTC	Only: - Post-65 health insurance (except Medicare Supplement) - Medicare - COBRA - Qualified LTC - Health insurance if on unemployment	None
Carryover from Year to Year	Yes	Yes	Up to $500
Portable after termination	Yes (as immediately vested)	Yes	No

Source: “HRA, HSA, FSA Comparison” http://media.wix.com