

## Case Studies

Lump-sum payments upon retirement, such as unused leave cash outs, are common HRA funding sources. While these are certainly valuable, creative in-service contributions can add up and become even more valuable over time. Increasing retiree healthcare costs prompt many employers to help their employee groups implement various forms of in-service HRA contributions. This can help solve problems and meet common goals. Employees and employers enjoy significant tax savings, and the outcomes are win-win.

### Common funding sources include:

- Unused annual leave, vacation, sick leave, and PTO cash outs
- Per-hour or per-pay-period employer contributions
- Mandatory employee contributions
- COLAs or pay raises
- Unused benefit dollars
- Wellness participation incentives
- Retirement incentives
- Notional HRA rollovers

### Goal: Offer a General or Early Retirement Incentive; Help Retirees Bridge the Gap to Medicare

#### ISSUE:

Growing number of employees eligible or nearly eligible to retire.

**HRA Funding:** Minimum lump sum contribution, plus an additional amount based on number of months until Medicare eligibility.

**Example:** Employer contributes an amount equal to \$20,000, plus \$250 for each month until retiree reaches Medicare eligibility (age 65).

#### OUTCOME:

**Job-locked employees eligible to retire and those nearing retirement are provided with tax-free funds for retiree medical costs.**

**Sample Language:** Eligible employees will receive [\$20,000], plus [\$250] for each month prior to reaching age 65, which shall be contributed [as a one-time lump sum upon retirement].

## Goal: Pre-Fund Retiree Medical Costs; Help Employees Retire on Time

### ISSUE:

Employees cannot afford retiree medical premiums, particularly prior to Medicare, and are job-locked.

**HRA Funding:** Employer contribution (annually or per-pay-period); can also implement a group percent of pay contribution as part of compensation increase package.

**Example:** Employer contributes \$1,200 per year to each eligible employee's HRA.

### OUTCOME

Employees can invest and save up their HRA funds for retirement or, in the event of an emergency, can use them while still working, depending on the HRA plan design.

**Sample Language:** Employer and union agree that the compensation package will be changed such that eligible members shall receive additional benefits in the form of HRA contributions equal to [\$1,200], which shall be prorated and contributed on a [per-pay-period] basis. Such contributions shall be made on behalf of all members defined as eligible and shall be considered and referred to as Employer contributions.

## Goal: Offset Higher Cost-Sharing; Assist with Choice of Lower-Cost Plan

### ISSUE:

No employee reward for switching to lower-cost medical plan with higher deductibles, copays, or other coverage reductions.

**HRA Funding:** All or a portion of the medical plan's annual deductible amount, or some other formula.

**Example:** Employer makes an annual contribution of \$1,000 for all employees who switch to lower-cost plan with \$2,000 deductible.

### OUTCOME

Employees are now rewarded for taking more control over their healthcare spending and can choose to use or save up their annual HRA contributions for future medical costs, such as retiree premiums.

**Sample Language:** Employer contributions shall be equal to [\$1,000], which shall be contributed [annually] on behalf of all eligible Group members who enroll in the [higher-deductible medical plan].

**Goal:** Grow Wellness Plan Participation; Improve Employee and Family General Health

**ISSUE:**

Employees often do not take advantage of and participate in wellness plan activities.

**HRA Funding:** Contribution(s) for employees who participate in defined wellness plan activities.

**Example:** Employer contributes \$250 at year-end for all employees who participate in the wellness program by completing certain activities, such as annual blood screening, smoking cessation, exercise challenges, etc.

**OUTCOME**

**Increased wellness plan participation; potential health risks are discovered early; possible win-win through future reduced health plan costs.**

**Sample Language:** Eligible employees who participate in the wellness program shall receive [\$250], which shall be contributed [annually].

**Goal:** Reward Leave Time Accumulation; Provide a Tax-Free Conversion of Accrued Leave Time

**ISSUE:**

Need incentive for employees to avoid high utilization of sick leave and other forms of paid time off.

**HRA Funding:** Cash out of unused leave time (sick, vacation, compensatory, personal, PTO, etc.).

**Example:** Employer implements or converts existing cash outs of unused leave time to HRA contributions: All sick leave over 720 hours cashed out at 50% annually; all sick leave up to 720 hours cashed out at 50% upon retirement; all vacation over 160 hours cashed out at 100% annually; all vacation up to 160 hours cashed out at 100% at retirement.

**OUTCOME**

**Employees get a tax-free incentive; more employees manage leave time to their advantage.**

**Sample Language:** Eligibility is limited to employees with leave cash-out rights during the term hereof. Employer contributions shall include the cash-out value of all unused [sick and vacation] leave days accrued and available for cash-out [annually and upon retirement] per negotiated agreement or Employer policy.

**Goal:** Implement a Tax-Free Benefit as an Alternative to Losing Excess Benefit Dollars

**ISSUE:**

Employees with single or spousal coverage may have excess benefit dollars that aren't being used.

**HRA Funding:** All or a portion of unused employee benefit allocation dollars.

**Example:** Employer contributes excess benefit dollars to HRA.

**OUTCOME**

Employees take advantage of tax-free benefit opportunity and increase their total benefit coverage by using HRA funds to offset insurance deductible or save for retiree medical.

**Sample Language:** Employees with an unused benefit allocation shall receive [100%] of their unused benefit allocation, which shall be contributed on a [monthly] basis.

Plan education and local service provided by:



To learn more about the HRA VEBA Plan, or to schedule a group presentation, contact a Gallagher office near you.

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