



HRA Funding Sources

The HRA VEBA Plan can provide lasting value and be a smart addition to any employee benefits package. In many cases, employers contribute funds that would otherwise be paid to employees as taxable income. The resulting payroll tax savings are a win-win.

HRA eligibility and funding sources are often the result of a group vote. Implementation is usually subject to employer policy or collective bargaining. IRS rules don't permit individual elections. All eligible employees must participate. Also, eligibility criteria and contributions must not favor highly compensated individuals (HCIs). HCIs are generally your top 25% wage earners.

Start with the basics.

Here are several of the most common HRA funding sources.

- Sick leave, vacation, PTO cash outs (annually or upon separation or retirement)
- Mandatory employee contributions (group salary reduction)¹
- Part or all of a COLA or pay raise¹
- Direct employer contributions (to offset higher medical deductibles, copays, etc.)¹
- Excess or leftover benefit dollars

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1-800-888-8322

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1-855-565-2555

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Then, get creative.

As healthcare costs go up, many groups are looking for ways to funnel more dollars into their HRAs. For example, HRA contributions triggered by voluntary employee actions, such as submitting notice of retirement, provide added benefit and can help drive positive outcomes. Contributions can be made monthly, annually, or as one-time incentives.

In today's competitive landscape, thinking outside the box is more important than ever to attract and retain top talent. Employers are looking for ways to provide value-added benefits at the bargaining table, promote longevity, and retain valued employees. Adding new and innovative HRA VEBA Plan funding methods can help reach these desired outcomes. Here are a few examples:

1. **Encourage enrollment in lower-cost medical plan**
2. **Incentive to opt out of employer-sponsored medical plan²**
3. **Reward for wellness plan participation**
4. **Longevity bonuses³**

Healthcare expenses are on the rise, both for active employees and retirees. Finding creative ways to implement tax-free benefits can result in winning solutions: a win for the employer in providing a benefit enhancement with a competitive edge, and a win for employees by enjoying an added benefit and gaining peace of mind knowing they are better prepared to tackle the growing cost of health care.

Contact your local Gallagher client consultant to learn more about the benefits of expanding your HRA VEBA Plan funding.

¹ To avoid discrimination in favor of your highly compensated employees, mandatory employee, direct employer, and COLA or pay raise contributions should be flat-dollar amounts (not a percent of pay). ² Employee must certify that he/she has other qualified group health plan coverage. ³ Longevity bonus funding should likely be limited to union groups.

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