

Montana Public Entity Employee/Participant Questions & Answers

QUESTIONS & ANSWERS

What is the State of Montana VEBA Health Reimbursement Account (“Montana VEBA HRA”)?

The State of Montana VEBA HRA is a health reimbursement arrangement (HRA). Your employer may make tax-free contributions to the Montana VEBA HRA plan on your behalf. The funds are held in a non-profit, tax-exempt voluntary employees’ beneficiary association (VEBA) trust authorized under Internal Revenue Code (IRC) § 501(c)(9). You can use these tax-free funds to reimburse eligible out-of-pocket healthcare costs and premiums for yourself, your legal spouse, qualified dependents and young adult children (through the end of the calendar year in which they turn 26).

What is an HRA?

An HRA is a type of health plan that reimburses qualified out-of-pocket healthcare costs and insurance premiums. All contributions, investment earnings, and withdrawals (claims) are tax-free.

What is a VEBA?

VEBA stands for voluntary employees’ beneficiary association and is a tax-exempt trust authorized by IRC § 501(c)(9).

Who is eligible for contributions to the Montana VEBA HRA?

Employees from state, city, county, university system and K-12 public entities in Montana. These employees, both represented and non-represented, may be eligible for contributions when bargaining

agreements, employer policy, or applicable resolution(s) are amended to provide for such contributions.

Why should I participate in the Montana VEBA HRA?

A Montana VEBA HRA account produces a source of funds to pay for the cost of health care expenses for you, your legal spouse, qualified dependents and young adult children (through the end of the calendar year in which they turn 26). A Montana VEBA HRA account may be used to pay qualified pre or post-retirement medical, dental, or vision out-of-pocket expenses (deductibles, co-payments, co-insurance, etc.), plus premiums for post-retirement medical, dental, or vision insurance, Medicare Part B, Medicare supplement plans, and tax-qualified long-term care insurance premiums.

How much will I spend on health related costs after I retire?

Probably over \$300,000! If you and your spouse retire at age 60, purchase medical and dental insurance, spend \$500 per year on non-covered expenses such as co-pays, deductibles, vision care, etc., and your costs grows by only 5% per year, you may need over \$350,000. If medical costs continue to increase at current levels, you may need over \$500,000!

Is the Montana VEBA HRA the best vehicle for me to save for retiree health care?

Employees are encouraged to consult with a professional regarding their individual circumstances.

The Montana VEBA HRA is tax-free, while 403(b)s, 457 plans, IRA’s, etc. are tax-deferred, meaning participants pay tax on them when they withdraw the funds.

What funding sources are available for Montana VEBA HRA contributions?

The primary source of funding provided for in statute is sick leave cash-outs. For public entity employees, the source of contribution is your accumulated sick leave balance at retirement at a rate of 25%, times your hourly salary. Termination pay and potential other sources agreed upon by the group are also an option. The group may also decide to add 100% of their annual leave separation from service. The *entire* group must decide on the contribution source BEFORE a vote takes place, as the contribution source(s) for the group must be the same.

If my employee group has voted to make the Montana VEBA HRA available, must I contribute my sick leave and annual leave cash-out to Montana VEBA HRA when I separate from service?

Yes. If your group has a current Montana VEBA HRA agreement in place and you separate from service and are eligible for cash-out of unused sick leave, and annual leave, it must be contributed to Montana VEBA HRA. You will no longer have a cash option. IRS regulations state that individual employees cannot have the choice between tax-exempt Montana VEBA HRA contributions and taxable cash.

May I contribute unused sick leave on an annual basis to the Montana VEBA HRA?

Yes, it is an option, however it is at the discretion of your employer. Your group will vote on any new contribution methods.

Do VEBA contributions reduce my State of Montana pension benefits?

PERS members – potentially. If you have a sick leave balance at termination/separation, MPERA may enhance your monthly retirement benefit by using it to increase the calculation of your highest average compensation (HAC). For State of Montana members, the PERS calculation of your FAS compensation will NOT include the 25% balance in your sick leave account or the 100% balance in your annual/vacation leave account if you are participating in the VEBA. You will only receive 100% of your annual leave toward the PERS FAS calculation if it is not considered part of your VEBA.

TRS members – potentially. TRS members who elect to contribute sick leave at termination / separation to the enhancement of their TRS benefit will likely see a greater retirement benefit than by receiving contributions to the Montana VEBA HRA.

In either case, please consult with your financial advisor, PERS or TRS to determine the amount of the impact.

What is a health savings account (HSA) and can I contribute to an HSA?

HSAs are a type of tax-favored medical reimbursement account (your Montana VEBA HRA plan is

not an HSA). If you want to make contributions to an HSA, you must meet the contribution eligibility requirements. HSA eligibility requirements are contained in IRS Publication 969 at www.irs.gov or www.ustreas.gov.

Current IRS rules require that you limit your Montana VEBA HRA plan coverage to permit the reimbursement of only certain types of expenses and insurance premiums as one of the eligibility requirements necessary to make contributions to an HSA. To limit withdrawals from your Montana VEBA HRA account, simply submit a completed and signed Election of Limited Scope Montana VEBA HRA Plan Coverage Form.

Can I have both a VEBA HRA and an HSA?

Yes, you can have an HRA and an HSA, and you can use either your HRA or HSA to reimburse your qualified expenses (there are no ordering rules). But, if you have a claims-eligible HRA that provides full coverage and you want to become eligible to make or receive contributions to an HSA, current IRS rules require that your Montana VEBA HRA be limited as described later in this section.

What is “limited-scope” VEBA HRA coverage, and why might I need it?

“Limited scope” VEBA HRA coverage limits the types of expenses that are eligible for reimbursement from your HRA. Only the following types of expenses are eligible for reimbursement while your HRA coverage is limited: standard dental care services (not related to a medical condition or accident), including dentures;

orthodontia; and routine eye exams, contact lenses and eyeglasses (excluding initial lenses and standard frames after cataract surgery). All other expenses incurred while coverage is limited, including qualified insurance premiums, are not covered. You may need to elect “limited scope” HRA coverage if you (or a family member covered under your HRA) want to become eligible to make or receive contributions to an HSA. Keep in mind that limiting your VEBA HRA Plan coverage is not the only HSA contribution eligibility requirement. You should check with your HSA provider, but generally any adult can contribute to an HSA if they (1) have coverage under an HSA-qualified high deductible health plan (HDHP); (2) have no other first-dollar medical coverage, which would include a claims-eligible HRA that is a general-purpose or full-coverage HRA (other types of insurance, such as specific injury insurance or accident, disability, dental care, vision care, or long-term care insurance, are permitted); (3) are not enrolled in Medicare; and (4) cannot be claimed as a dependent on someone else’s tax return. Your maximum annual HSA contribution amount depends upon your HSA eligibility during the current calendar year. If you become HSA eligible mid-year, a 12-month testing period may apply to determine your maximum annual HSA contribution.

Can any retiree medical premium be reimbursed from my VEBA HRA account?

Yes, the cost of any qualified medical insurance plan you elect to use during retirement can be reimbursed from your VEBA HRA account, including marketplace

exchange premiums that are or will not be subsidized by the Premium Tax Credit, Medicare Part B, Medicare Part D, and Medicare supplement plans. Retiree dental and vision insurance premiums and tax-qualified long-term care insurance premiums (subject to IRS limits) are also eligible for reimbursement.

What expenses are eligible for reimbursement?

Eligible expenses include qualified medical, dental, and vision expenses not covered by your insurance plans, or medical, dental, vision, Medicare Part B and Part D, Medicare supplement, and tax-qualified long-term care insurance premiums. Purchases made prior to January 1, 2011 of certain over-the-counter drugs, if properly substantiated, qualify for reimbursement. After January 1, 2011, the law permits expenses for over-the-counter drugs (other than insulin) to be reimbursed only if documentation is provided that the drug was prescribed. Eligible expenses are defined in Internal Revenue Code § 213(d).

Premiums paid by an employer, or premiums that are or could be deducted pre-tax through your or your spouse's Section 125 cafeteria plan, are not eligible for reimbursement.

Whose expenses are eligible?

Expenses incurred by the participant, their legal spouse, qualified dependents and young children (through the end of the calendar year in which they turn 26) are eligible for reimbursement.

How do I file a claim for benefits? When you or a qualified child or dependent incur a qualified expense you may complete and submit a Montana VEBA HRA Claim Form (along with proof of your claim) to the third-party administrator (TPA). Proof for your claim includes receipts for qualified services or an Explanation of Benefits (EOB) from provided by your insurance company. Claims are paid weekly and direct deposit is available.

NOTE: Reimbursable health related benefits must be for expenses incurred after your account is first opened.

Can my HRA account automatically reimburse me for my insurance premiums?

Yes. If you join the Montana Retiree Medical Plan, you can authorize the MPERA to deduct your medical premium from your monthly defined benefit pension check. You can then arrange with the TPA to directly reimburse you from your Montana VEBA HRA account using the Montana VEBA HRA Systematic Payment Form. A direct deposit option is available. You may also complete the Montana VEBA HRA Systematic Premium Reimbursement Form and the TPA will mail a check each month to you.

What happens if I get divorced?

In the event that you become divorced or legally separated, your account cannot be split as part of a property settlement agreement. Contact the TPA for more information on how a

divorce or legal separation affects your account.

What happens if I die before I use up my HRA account?

If you are survived by a spouse or qualified children (or other dependents as defined by the Internal Revenue Code) their qualified medical expenses may be reimbursed. If you have no eligible survivors, remaining funds will be forfeited and redistributed per the terms of the Plan Document. IRS Revenue Ruling 2006-36 does not permit the payment of benefits to non-dependent heirs.

How are the Montana VEBA HRA funds invested?

You may choose from among the investment funds listed on the enrollment form. You may have your account invested in any combination of the listed investment funds and you may change your investment allocations as often as monthly. An Investment Fund Overview with investment performance history and fund objectives is available and updated quarterly. In addition, you may view up-to-date fund fact sheets and prospectuses on each fund's website which are listed on the Investment Fund Overview.

Will I receive a statement of my account?

Yes. You will receive semi-annual statements detailing all activity in your account. You may also call or e-mail the TPA with a request for additional statements at any time. If you have questions about your account, pending claim, or need claim forms, contact the TPA.

May I view my personal account information online?

Yes. You may login and view your personal account information online at

www.montana.rehnonline.com

including: account balance, detailed account activity, investment fund allocation, etc.

You may also review a list of qualified expenses online, plus change your fund allocations, change your address, etc.

Who is the Montana VEBA HRA Third-party administrator (TPA)?

REHN & ASSOCIATES in Spokane, Washington is the TPA. REHN specializes in the administration of VEBA health reimbursement plans. All correspondence, accounting, and benefit payment services are provided by REHN. Please notify REHN of any address, name, or premium payment changes.

Who is the Trustee of the Plan?

Washington Trust Bank in Spokane, Washington is the Trustee of the Plan. The Trustee safeguards the plan assets and assists the Department of Administration with selection of the investment funds to be made available to plan participants.

Who is responsible for developing and managing the Plan?

The State of Montana, Department of Administration, Healthcare and Benefits Bureau is responsible for ongoing management of the Plan. The Department of Administration has contracted with various service providers to assist with operating the Plan.

What are the Plan expenses and how are expenses paid?

Plan expenses include costs for the following: and fees such as: claims administration, preparing and issuing statements, legal, consulting, trustee, printing, postage, investment management, auditing, mail service, and custodial and banking services.

Plan expenses are paid by plan participants. Participant accounts will be charged 1.50% of assets calculated on an annualized basis and deducted monthly.

Investment fund management expenses depend on the fund(s) selected and are listed on the Investment Fund Overview. As the Trust assets grow and the Plan becomes more popular, the fees could be reduced. The Department of Administration retains the right to change the fees. The State of Montana does not financially profit in any way by offering this plan.

Where do I get more information?

Check with the State of Montana Department of Administration for Plan information, or call the Montana VEBA HRA TPA.

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State of Montana
Department of Administration
100 N. Park, Suite 320
P.O. Box 200130
Helena, MT 59620-0130
Melanie Denning
(406) 444-3745
(406) 444-3573 fax
mdenning@mt.gov

Montana VEBA HRA
Third-party Administrator (TPA)
REHN & Associates, Inc.
P.O. Box 5433
Spokane, WA 99205-0433
1-800-VEBA101 (832-2101)
montana@rehnonline.com
www.montana.rehnonline.com

INVESTMENT INFORMATION

Investment Risk

Stock, bond, and asset allocation funds are not guaranteed and will fluctuate in value on a monthly basis. Benefit withdrawals from these types of funds may be worth more or less than your original deposit.

Periodically review your selected investment fund choice(s). Should your objectives change, you should reevaluate your fund selection(s) and notify the third-party administrator (TPA) of any changes. Remember, there have been numerous loss periods in the past in these types of funds and there will be others in the future. Please remember that investment returns, particularly over shorter time horizons, are highly dependent on trends in various investment markets. Thus, stock, bond, or asset allocation investments are suitable primarily as longer-term investments and should not be for short-term use.

Using Multiple Funds

You may have your Montana VEBA HRA allocated to any combination of the available funds.

Transfers

You may transfer among funds monthly. Transfers are effective the first business day of each month. The Montana VEBA HRA TPA must receive transfer requests by the 25th of each month in order to be effective on the first business day of the following month.

Withdrawals

If you have multiple funds, benefit withdrawals made from your account will be prorated based on your fund allocation percentage on file with the TPA, unless you request otherwise in writing.

Investment Advice

Participants are encouraged to seek advice regarding the investment funds from their personal financial advisor.

Investment Expenses

Expenses are calculated as a percent of assets on an annualized basis and are deducted monthly from investment earnings, or if there are not earnings, from participant account balances.