



# Summary of Benefits

*Tax-free health reimbursement arrangements for school employees in Washington State*

## \$300,000 Growing Need

Do you know the average school district employee and spouse retiring today will probably spend well over \$300,000 in post-employment health care costs and premiums? Health care expenses for active employees are increasing as well. *Are you doing what is necessary to begin preparing for this growing need?*

## Is there a solution?

Yes. The VEBA plans are *tax-free* health reimbursement arrangements (HRAs) that can be used anytime to pay or reimburse qualified out-of-pocket health care costs and premiums for yourself, your spouse and your IRS qualified dependents.

## What does “tax-free” really mean?

Unlike your *tax-deferred* investments (TSAs, IRAs, 457s, etc.) which are subject to Social Security and Medicare taxes and only postpone the payment of federal income tax, your VEBA account(s) are *exempt* from all of these taxes. *All contributions, earnings and withdrawals are 100% tax-free!* You could save up to \$300 or more in taxes for every \$1,000 contributed to a VEBA plan.

## Tax-free Contributions

Tax-free funding of a VEBA account through your district could come from a variety of sources:

1. Annual sick leave buy back (for those with 180 or more sick leave days);
2. Sick leave cash out (upon retirement or separation from service);
3. Vacation, personal, other leave cash out;
4. Monthly payroll contributions (group salary reduction); and
5. Excess monthly benefit dollars (after pooling).

Example A: Leave Cash Out (VEBA III)				
	Cash Out Amount	25% Income Tax	7.65% FICA Taxes	Net Amount
Taxable Wages	\$10,000	<\$2,500>	<\$765>	\$6,735
VEBA Benefit	\$10,000	n/a	n/a	\$10,000
<b>VEBA saves \$3,265 in taxes!<sup>1</sup></b>				

Example B: Monthly Payroll Contributions (VEBA I)			
VEBA Contribution	Tax Savings <sup>1</sup>	Take-Home-Pay Difference	Annualized Tax Savings <sup>1</sup>
\$30	\$10	\$20	\$120
\$75	\$25	\$50	\$300
\$100	\$30	\$70	\$360

<sup>1</sup>Tax savings are approximate.

## Tax-free Investments

The VEBA plans offer three tax-free investment funds: Stable Value, Balanced and Growth. You can self-direct the investment of your VEBA account(s) among any one or all of these funds. Also, you can change your investment fund allocation as often as once a month.

Example C: Growth (VEBA I)		
Starting Age	Monthly VEBA Contribution	Account Value at Age 65 <sup>2</sup>
25	\$100	\$148,856
35	\$100	\$81,870
45	\$100	\$40,746
55	\$100	\$15,499

<sup>2</sup>Based on average annualized earnings of 5.00%.

## Tax-free Withdrawals Anytime

You don't have to wait until you retire to use your VEBA account(s). You can file claims to pay or reimburse qualified out-of-pocket health care expenses and premiums at any time. It's easy to file a claim and payments are processed daily from Spokane.

## Death Benefit

If you pass away, remaining funds in your VEBA account may continue to be used by your surviving spouse, qualified dependents or heirs to reimburse eligible health care expenses.

## Enrollment

When your employee group adopts a VEBA plan and you become eligible to participate, you will be asked to complete a Membership Enrollment Form and submit it to your employee benefits office. All employee group members defined as eligible must participate per IRS rules.

NOTE: When becoming eligible for VEBA III sick leave cash out contributions upon retirement or separation from service, failure to complete the required Membership Enrollment Form will make you ineligible under state law to participate in the plan and your sick leave balance will be reduced by up to 12 days with the cash out value (25%) of any remaining days paid as regular taxable wages.

## More Information

The VEBA plans allow you the opportunity to begin saving for out-of-pocket health care costs while putting the taxes you save where they belong—*back in your wallet!*

To learn more, visit the VEBA Trust website at [www.veba.org](http://www.veba.org) or contact the VEBA Service Group, LLC regional office nearest you. In Western Washington call 1-800-422-4023. In Eastern Washington call 1-800-888-VEBA (8322).

Plans sponsored by AWSP, WASA and WASBO.

# Qualified Expenses and Premiums

## ► Filing Claims

Participants may request reimbursements by submitting a properly completed and signed Claim Form along with proof of claim to the third-party administrator, REHN & ASSOCIATES.

Reimbursements or payments of recurring medical, dental, vision and/or tax-qualified long-term care insurance premiums may be requested using a Systematic Payment Form. Insurance premiums paid by an employer or through a pre-tax Section 125 cafeteria plan are not eligible for reimbursement. If you are a participant in a Section 125 healthcare flexible spending account (FSA), you must exhaust your FSA benefits before submitting an eligible claim.

## ► IRS Definition of Qualified Expenses and Premiums

Internal Revenue Code Section 213(d) defines qualified expenses, in part, as "medical care" amounts paid for insurance or "for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body..." To be eligible, these expenses must be to alleviate or prevent a physical defect or illness. Expenses solely for cosmetic reasons generally are not considered expenses for medical care. Examples include facelifts, hair transplants and hair removal (electrolysis). Expenses that are merely beneficial

to your general health (e.g., vacations) are not expenses for medical care. One fact or circumstance that often, but not always, indicates that medical care involves the treatment or prevention of disease is whether the care is prescribed by a physician. A mere suggestion by a physician probably is not enough. In addition, there should be a doctor-patient relationship between you and the physician prescribing the care.

## ► Over-the-Counter (OTC) Medicines and Drugs

Quantities purchased for reimbursement should be limited to reasonable quantities expected to be consumed in a reasonable period of time. Typically, two bottles of an item in any one reimbursement is the limit. Sales tax on OTC items purchased can be included in the reimbursement. "Covered Items" include OTC drugs, medications and treatments intended for use in the diagnosis, cure, mitigation, treatment or prevention of disease or injury. "Dual-purpose Items" may have a medical purpose and a personal/cosmetic or general health purpose. In this case, attach a note to your Claim Form from a licensed medical provider stating the beneficiary had a specific medical condition for which the item was purchased. "Excluded Items" are those used primarily for general health and well being.

The following is not a complete list, but contains many common qualified expenses and premiums.

### MOST COMMON EXPENSES

Co-pays  
Coinsurance  
Deductibles  
OTC medicines & drugs

### INSURANCE PREMIUMS

Medical  
Dental  
Vision  
Long-term care (tax-qualified, subject to IRS limits)  
Medicare Part B  
Medicare Part D  
Medicare supplement plans

### SERVICES and FEES

Acupuncture  
Anesthetist  
Chiropractor  
Christian Science  
Dentist  
Eye exams  
Gynecologist  
Hospital  
Laboratory  
Naturopath  
Nursing  
Obstetrician  
Oral surgery  
Ophthalmologist  
Optometrist  
Orthodontist

Osteopath  
Physicals  
Physician  
Physiotherapist  
Psychiatrist  
Psychologist  
Sex therapist  
Specialists

### MILITARY RETIREES (TRICARE)

Co-pays  
Coinsurance  
Deductibles  
Vision  
Miscellaneous

### Premiums:

EXTRA  
Medicare Part B  
Medicare Part D  
PRIME (HMO)  
PRIME supplement  
Retiree dental  
Standard

### OTHER EXPENSES

Adoption (medical expenses incurred before adoption is finalized)  
Air conditioning and air filters used for alleviating illness  
Alcoholism and drug treatment center costs

Ambulance hire  
Birth control pills  
Contact lenses, solutions, etc.  
Eye glasses  
Fertility treatments  
Food & beverage for specific diseases  
Hearing aids & batteries  
Immunizations  
Laser eye surgery  
Learning disability (special school or specially trained educator, recommended by doctor)  
Lifetime care at medical facility  
Lodging (for medical care or treatment)  
Medical supplies and equipment  
Norplant insertion or removal  
Obstetrical expense  
Operations  
Organ transplants  
Orthodontia  
Physical therapy  
Prescription medicines  
Retirement home (costs allocable to medical care)  
Seeing-eye dog  
Stop smoking programs  
Student health fees  
Telephone for deaf (TTY)

Therapy treatments  
Transportation (subject to IRS limits)  
Vaccines  
Vasectomy  
Viagra  
Wheelchair  
X-rays

### OTC MEDICINES and DRUGS

#### Covered Items:

Allergy medicines  
Antacids  
Anti-diarrhea medicines  
Bug bite medication  
Calamine lotion  
Cold medicines  
Cough drops  
Diaper rash ointments  
Eye products (i.e. Visine®)  
First aid creams/liquids  
Hemorrhoid creams  
Menstrual pain & cramp relief  
Motion sickness pills  
Muscle or joint ache pain relievers (i.e. BENGAY®)  
Nicotine gum/patches  
Pain relievers  
Sinus medications  
Sleeping aids  
Sunburn ointments  
Suppositories

Wart removal treatments

#### Dual-Purpose Items:

Acne medications  
Dietary supplements or herbal medicines  
Feminine hygiene products  
Glucosamine/Chondroitin for arthritis  
Menopause treatments for hot flashes, sweats  
Nasal sprays for snoring  
Orthopedic shoes & inserts  
Prenatal vitamins  
St. John's Wart  
Sunscreens  
Weight loss drugs

#### Excluded Items:

Cosmetics  
Face creams  
Lip moisturizers (i.e. ChapStick®)  
Medicated shampoos  
Soaps  
Toiletries  
Tooth brushes (including electronic)  
Toothpastes  
Vitamins

**Questions? Call the third-party administrator, REHN & ASSOCIATES, at 1-800-832-2101.**