

Maximizing Your HRA VEBA and Health Care FSA Benefits

These scenarios illustrate how to use the HRA VEBA and Health Care FSA to maximize their value based on circumstances and needs. To estimate out-of-pocket healthcare expenses, we used the Healthcare Cost Estimator posted on www.mychelanpubbenefits.org.

Using Your HRA VEBA as a Retirement Savings Vehicle

When planning for retirement, consider using your Health Care FSA to pay for out-of-pocket healthcare expenses (on a pre-tax basis) while building your HRA VEBA balance. Your HRA VEBA balance can roll over from year-to-year and you can use it after leaving District employment to pay for out-of-pocket medical expenses and Medicare premiums. This is illustrated in the following example.

Meet Steve

Steve and his spouse are active empty nesters who are relatively healthy and have about \$2,000 in out-of-pocket expenses for medications and monthly chiropractic visits. Because they are 10 years away from retirement, they want to save their HRA VEBA funds to help pay for their Medicare premiums during retirement and use a tax-free Health Care FSA instead.

Steve's Annual Tax Savings	With FSA	No FSA
Annual pay	\$60,000	\$60,000
Annual Health Care FSA contribution	-2,000	0
W-2 income	58,000	60,000
Standard deduction	-12,400	-12,400
Taxable income	45,600	47,600
Federal income tax (Marginal rate 12%)	5,472	5,712
FICA tax (7.65% of W-2 income)	+ 4,437	+ 4,590
Total taxes	9,909	10,302
Health Care FSA Tax savings (\$10,302 – \$9,909)	+ \$393	

Steve has \$2,000 to spend on out-of-pocket medical expenses, while reducing his take home pay by only \$1,607 (\$2,000 – \$393). Steve also elected the CDHP medical plan. By saving the HRA VEBA contributions, when Steve is 65 and retires, he has \$27,391 to pay for his Medicare premiums and out-of-pocket medical expenses.

Steve's HRA VEBA Balance After 10 Years	
Annual HRA VEBA contribution	\$2,450
x 10 years	24,500
+ 2% annual compound interest	\$2,891
Total after 10 years	\$27,391

Using Your HRA VEBA to Pay for Out-Of-Pocket Medical Expenses

Meet Jennifer

Jennifer covers only herself and is generally healthy. Over the course of the year, she gets her checkup and has no other healthcare expenses. If Jennifer enrolls in the CDHP she will have \$2,450 saved in her HRA VEBA for future healthcare expenses.

Jennifer	PPO	CDHP
Medical premiums	\$1,872	\$0
Out-of-pocket expenses	\$0	\$0
Chelan County PUD's 2022 HRA VEBA contribution	\$1,200	\$1,200 +\$1,250 \$2,450
Jennifer's annual cost	\$1,872	\$0
Money remaining in HRA VEBA	\$1,200	\$2,450

Meet Matt

Matt covers himself and his spouse. Over the course of the year, he and his wife get their checkups. Matt's wife also has high blood pressure, so she sees her doctor two more times and takes one generic medication, which she fills through the mail order service four times a year. Matt has a bad lower back, so he visits a chiropractor every month. In addition, he gets a sinus infection, sees his doctor and fills a generic prescription at his local pharmacy. Matt will save money if he enrolls in the CDHP.

Matt	PPO	CDHP
Medical premiums	\$1,872	\$0
Out-of-pocket expenses	\$390	\$1,934
Chelan County PUD's 2022 HRA VEBA contribution used to pay expenses	-\$390	-\$1,934
Matt's annual cost	\$1,872	\$0
Money remaining in HRA VEBA	\$810	\$516

Meet Mason

Mason covers himself and his family. Mason’s two kids are both involved in sports. This spring, their youngest son had a leg injury, which required surgery and a two-day hospital stay — and physical therapy (\$12,000 total cost). Mason’s wife has a medical condition that requires regular office visits and ongoing treatment (\$2,000 cost per year). Mason is slightly better off with the PPO; however, if his son hadn’t been injured, Mason would have been much better off with the CDHP.

Mason (with Child Surgery)	PPO	CDHP
Medical premiums	\$1,872	\$0
Wife’s healthcare expenses: \$2,000		
Annual deductible*	\$0	\$1,250
Out-of-pocket expenses:		
PPO copays* (6 visits x \$20) or	\$120	
CDHP coinsurance (20% x \$750 in expenses over deductible)		\$150
Son’s healthcare expenses: \$12,000		
Annual deductible	\$300	\$1,250
Out-of-pocket expenses:		
Co-insurance (over deductible and under out-of-pocket maximum)	\$1,000	\$2,050
Chelan County PUD’s 2022 HRA VEBA contribution used to pay expenses	– \$1,200	– \$2,450
Mason’s annual cost	\$2,092	\$2,250
Money remaining in HRA VEBA	\$0	\$0

* Covered without meeting deductible (PPO plan).

Mason (without Child Surgery)	PPO	CDHP
Medical premiums	\$1,872	\$0
Wife’s healthcare expenses: \$2,000	\$120	\$1,400
Chelan County PUD’s 2021 HRA VEBA contribution used to pay expenses	– \$1,200	– \$2,450
Mason’s annual cost	\$1,872	\$0
Money remaining in HRA VEBA	\$1,080	\$1,050