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:

- Sick, vacation, personal, and other leave cash outs annually or upon separation or retirement
- Per-hour or per-pay-period employer contributions
- Mandatory employee contributions or as part of COLAs / pay raises
- Retirement notification incentives

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, personal, etc.).

Example: Employer implements or converts existing cash outs of unused leave time to HRA contributions: Eligible unused sick leave cashed out at 25% annually; all sick leave up to 180 days cashed out at 25% upon separation or retirement; all vacation over 80 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: 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).

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, use them while still working, depending on the HRA plan design.

Sample Language: Employer and union agree that additional benefits will be provided in the form of direct employer HRA contributions equal to [$1,200 annually], 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.

Goal: Save up Tax-Free Money For Out of Pocket Medical Expenses During Working Years; Pre-Fund Retiree Medical Costs

ISSUE:

Employees not saving enough to cover rising out-of-pocket medical expenses; need better emergency medical savings and a way to pre-fund retiree medical costs.

HRA Funding: Employer and employee group agree to exchange taxable wages for an HRA contribution (annually or per-pay-period).

Example: Employee group agrees to have their pay reduced by $1,200 per year ($100 per month) and contributed to an HRA; part of future COLAs also redirected as HRA contributions.

OUTCOME

Employees able to better absorb rising deductibles, co-pays, co-insurance, and out of pocket maximums. Unused amounts carry forward year over year for future expenses and build savings for retiree medical.

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: Offer a General or Retirement Notification 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 $15,000, plus $250 for each month until retiree reaches Medicare eligibility (age 65). Employee agrees to separate employment and not seek reemployment with the employer for a specified period of time.

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 [$15,000], plus [$250] for each month prior to reaching age 65, which shall be contributed [as a one-time lump sum upon retirement].

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