

The Cost of Healthcare in Retirement

Healthcare is one of the biggest costs in retirement. According to the latest retiree health care cost estimate from Fidelity Benefits Consulting, a 65-year-old couple retiring this year will need an average of \$275,000 (in today's dollars) to cover medical expenses throughout retirement.



And that applies only to retirees with traditional Medicare insurance coverage, and does not include costs associated with nursing home care. Medicare does not cover long term care expenses.

Healthcare costs are highly variable, and increased longevity equates to increased costs (even for those healthy individuals). While Medicare is designed to cover many of your health-related expenses in retirement, it does not cover everything. Even if Medicare covers a service or item, you generally have to pay your deductible, coinsurance, and copayments.

Some of the items and services that Medicare doesn't cover include:

- Long-term care (also called custodial care)
- Most dental care
- Eye exams related to prescribing glasses
- Dentures
- Cosmetic surgery
- Acupuncture
- Hearing aids and exams for fitting them
- Routine foot care

Supplemental insurance plans provide additional coverage, but do not cover everything (and have premium costs). Planning for healthcare costs should be an integral part of retirement planning.

What are the Benefits of a HRA?

HRAs have many benefits, including:

- ✓ **Tax advantages:** Contributions are not taxable to you, and distributions are not taxable as long as they are spent on eligible health care expenses. Basically, it is tax free money to be used for qualified medical expenses.
- ✓ **Flexibility:** There are hundreds of eligible expenses for your HRA funds, including prescriptions, some over-the-counter medications, doctor office copays, health insurance deductibles, long term care expenses and coinsurance. HRA funds can be used for eligible expenses for your spouse or federal tax dependents.
- ✓ **Easy to access:** Your account balance is available at any time online, or over the phone. Funds in the account are easily accessed with the prepaid benefits card.
- ✓ **Rapid reimbursements:** Paying for health care expenses is easy when you use your prepaid benefits card. If you do not use your card, you can quickly and easily create your claim online. Once you submit your receipts, we will reimburse you via check or direct deposit.
- ✓ **Out-of-pocket costs are covered:** You are responsible for any portion of your health care that is not covered by your medical, dental or vision plans, including the deductible, copays, coinsurance and other un-reimbursed amounts. The HRA can be used to cover these costs.



HEALTH REIMBURSEMENT ARRANGEMENT (HRA) Post-Employment



CITY OF
BURLINGAME

HRA FAQs

Q. What is a HSA, HRA and FSA?

A. HSAs, HRAs and FSAs are accounts used to save on taxes and pay for qualified medical, prescription, dental and vision expenses. Spelled out:

- HSA is health savings account
- HRA is health reimbursement account or arrangement
- FSA is flexible spending account or arrangement

Q. What is the difference between a HSA, a HRA and a FSA?

HEALTH SPENDING ACCOUNT COMPARISON	HSA	HRA	FSA
YOU OWN THE ACCOUNT	YES	NO	NO
YOUR EMPLOYER OWNS THE ACCOUNT	NO	YES	NO
YOU MUST HAVE A HIGH-DEDUCTIBLE HEALTH PLAN	YES	NO	YES
YOU CAN MAKE AN INDIVIDUAL ELECTION OF THE AMOUNT OF CONTRIBUTION TO YOUR ACCOUNT.	YES	NO	YES
YOU AND YOUR EMPLOYER CAN PUT MONEY IN.	YES	YES <small>(under limited conditions) Only if it is mandated by a collective bargaining agreement. Individual election amounts are not allowed</small>	YES
YOU CAN INVEST THE MONEY IN THE ACCOUNT.	YES	NO	NO
YOU MUST REPORT ACCOUNT WHEN YOU DO YOUR TAXES.	YES	NO	NO

Q. What is a HRA?

A. HRAs are employer sponsored Plans. Employer contributions, and non-elective employee contributions, are made to the Plan and held in a Section 115 Trust account. The contributions are not subject to payroll taxes. The Plan provides tax-free reimbursement of substantiated health care expenses incurred by employee, employee's spouse and legal dependents (up to age 26).

Q. What is a “non-elective employee contribution”?

A. This is a set amount mandated by a collective bargaining agreement - an employee must contribute based on their MOU language. The employee bargaining unit negotiates the amount and it is written into the MOU and in an Addendum to the Plan.

Q. Can I put my unused vacation and sick leave into my HRA account when I separate from employment?

A. Yes. If this is a part of your collective bargaining agreement (MOU), your unused vacation and (if eligible) unused sick leave will be contributed to your HRA.

Q. Can I stop making contributions?

A. A participant may opt-out of participation in the Plan and waive future reimbursements from the Plan. Each participant has an annual Opt-Out opportunity. See the Summary Plan Description for details.

Q. Can I increase or decrease my contribution?

A. No. Contributions are based on a fixed formula as agreed in respective Memorandum of Understanding, or Compensation and Benefit Plans. The amount cannot be changed unless the bargaining unit elects to change the amount in the MOU.

Q. Is there a limit on the amount that can be contributed in a year?

A. No.

Q. What is the ‘Triple Tax Benefit’ of the City’s HRA?

A. The money going in is not subject to payroll taxes, the contributions grow (tax free) in an interest bearing account (the Trust), and the reimbursement money is not taxed.

Q. The City has a ‘Retiree-Only HRA’ what does this mean?

A. This means that reimbursements are only available after separation from City service.

Q. When I leave the City, can I roll the funds into another account?

A. No. The funds remain in the City’s 115 Trust. You may begin to request reimbursements after you are no longer employed by the City.



Q. I have heard that the funds in my account may be forfeited. What does that mean?

A. Your account balance will not be subject to forfeiture unless you die without a legal spouse and/or dependent. At such time, the forfeited amount (if any) shall be used to pay City administrative expenses of the Plan or for future Plan contributions. If HRA participant dies without a legal spouse and/or dependent, participant’s estate has 12 months from date of death to submit medical reimbursement claims.

Q. What can I use the money for?

A. You can be reimbursed for qualifying medical expenses (including insurance premiums) for you, your spouse and eligible dependents. Qualifying medical expenses are those expenses allowed under the Internal Revenue Code, Section 213(d). You can find a list of qualifying expenses in IRS Publication 502 <https://www.irs.gov/pub/irs-pdf/p502.pdf>. Expenses that may be reimbursed from the HRA include the following: insurance premiums (medical, dental, vision, Medicare, and limited reimbursement for Long Term Care insurance), co-payments, co-insurance, prescription medications, vision expenses, dental expenses, long term care expenses, and other out-of-pocket health-related expenses.

Q. What happens if I use the account for a non-eligible expense?

A. If you file a manual request for reimbursement of a non-eligible expense, the request will be denied. If you used the prepaid benefits card and the expense is deemed ineligible after the expense is already paid, you will be required to reimburse your account for that transaction. If you fail to reimburse the account, you may be required to pay income taxes.

Q. Where can I find more information?

A. You can find more information on the Benefits Portal, under HRA, or by contacting the City’s Human Resources team, or HRA Administrator.

- City of Burlingame Human Resources (650) 558-7206
- HRA Plan Administrator, Employee Benefit Administrators (EBA) (888) 507-6053 hrasupport@ebcsolutions.com