



Defined Contribution Plan

Using a Retiree-Only Health Reimbursement Arrangement (HRA) or Employer Sponsored 403(b)/401(a)



Problem

Due to increases in health insurance costs, schools, cities, and counties who offer retiree health insurance are finding their plans unsustainable over the long term, and may be accumulating large unfunded OPEB (Other Post Employment Benefit) liabilities.

Solution

Instead of defining the benefit (retiree health insurance), employers can instead define the amount of their contribution toward the benefit. Under a new defined contribution plan, new hires can be provided with an annual contribution to an HRA or 403(b)/401(a) that they can use in retirement. This plan reduces the employers unfunded liability. If paid during active employment and combined with a vesting schedule, this plan can be a powerful retention tool.

How It Works

- Employer deposits an amount into an employee's HRA, or 403(b)/401(a) account during active employment, but the employee cannot access the money until retirement or separation of service
- Contribution defaults into a fixed interest account (variable interest plan options are available)
- Can be subject to a years of service vesting schedule

Advantages to Employer

- Fund the benefit while it is being earned

- Save all payroll/FICA taxes
- Reduces/eliminates OPEB (post-employment) liability
- Predictable cash flow for the employer
- Vesting provides a retention tool
- Interest earnings over time increase the value of the benefit

Advantages to Employee

- Can use HRA funds tax-free for eligible medical expenses and medical insurance premiums including medical, dental, vision, and Medicare B, D, and supplement plans
- Surviving spouse/qualified dependents can continue to use the remaining HRA balance for eligible medical expenses and insurance premiums if the retiree passes away
- 403(b)/401(a) is tax-deferred and benefits are available at age 55 for retired employees without an early withdrawal penalty.

Why Choose National Insurance Services?

- National Insurance Services (NIS) has extensive HRA expertise and experience since 2002
- NIS specializes in schools, cities, and counties
- Flexibility to customize based on school, city, or county needs
- Scheduled service calls and visits
- HRA debit card or website reimbursement process (depends upon the plan)
- Fixed or variable investment options
- IRS audit and compliance support