



Payments for Sick Leave, Severance, Retiree Buy-Outs, and Incentives Using a Retiree-Only Health Reimbursement Arrangement (HRA)



Problem

Many school, city, and county employers pay retirees unused sick leave, vacation pay, or other early-retirement incentives. If these benefits are paid as wages, the employer must pay all wage-related costs, including the FICA (Social Security and Medicare) tax. Additionally, after income withholding and FICA tax, the retiree receives only a portion of the full benefit, and the value of the early-retirement incentive is diminished.

Solution

A contribution into a Retiree HRA is completely tax-free for both the employer and the participant. The tax-free HRA increases the value of the benefit, helping employees afford to retire earlier.

How It Works

- Instead of disbursing a check, the employer deposits payments for unused sick leave, severance, retiree buy-outs, or incentives into an HRA at retirement
- Money defaults into a fixed account (variable plan options are available)
- Retirees use the funds to pay for eligible medical expenses, including premiums

Advantages to Employer

- Save all payroll/FICA taxes

Advantages to Employee

- Save all payroll/FICA taxes
- Can use funds tax-free for eligible medical expenses and medical insurance premiums including dental and vision
- Surviving spouse/qualifying dependents can use remaining HRA balance for eligible medical expenses and premiums if retiree passes away

Why Choose National Insurance Services?

- National Insurance Services has extensive HRA expertise and experience since 2002
- Flexibility to customize based on school, city, or county needs
- No employer administrative fees
- Scheduled service calls and visits
- Debit card or website reimbursement process
- Fixed or variable investment options
- IRS audit and compliance support