

Frequently Asked Questions

2017 Irrevocable Election into the Voluntary Employees' Beneficiary Association

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1. What is a Voluntary Employees' Beneficiary Association (VEBA)?

A VEBA is a tax-exempt trust instrument authorized by Internal Revenue Code 501(c)(9) through which eligible healthcare benefits can be reimbursed. The City's VEBA will be set up to reimburse eligible medical expenses in retirement.

2. What is a Health Reimbursement Arrangement (HRA)?

While many people are familiar with the term VEBA and understand it to mean a benefit plan that reimburses healthcare expenses and premiums, these plans are technically health reimbursement arrangements (HRA). An HRA reimburses eligible out-of-pocket healthcare expenses and insurance premiums.

3. Why are HRAs sometimes called VEBAs?

Many people are familiar with the term VEBA and understand it to mean a benefit plan that reimburses healthcare expenses and premiums. The plans are technically HRAs as defined by the IRS, but have more commonly been known as VEBAs. The VEBA is the trust fund that holds the money in an individual's account while the HRA reimburses the individual for their eligible medical expenses in retirement. The City of San Jose's plan is an HRA VEBA, but we refer to it in this document as the VEBA.

4. How will the City of San Jose's VEBA work?

While employed with the City of San Jose, eligible employees will make mandatory ongoing contributions into the VEBA on a pre-tax basis. Reimbursements for medical expenses after retirement are also tax-free. Contribution rates will vary based on the employee's bargaining unit and retirement tier. The VEBA account reimburses eligible medical expenses for individuals who have either 1) terminated City service and have reached the required retirement age based on their retirement tier and system or 2) retired for service, service-connected disability, or non-service connected disability. The VEBA reimburses out-of-pocket healthcare costs (including but not limited to insurance premiums, co-pays and deductibles, prescription costs, Medicare Part B premiums, supplemental insurance premiums, and most over-the-counter medications and supplies, etc.) incurred by employees, their spouses and qualifying dependents. Voya, the VEBA's third party administrator, will provide participants with a more comprehensive list of eligible expenses. As a defined contribution plan, the only funds available in the VEBA are the contributions made while employed and any investment returns on those funds. Once the funds in the VEBA are exhausted, the employee will no longer be able to reimburse their eligible healthcare expenses.

5. Does the opt-in also require me to terminate my eligibility for the defined benefit dental plan?

Yes, if an employee opts-in to the VEBA, they will no longer be eligible for the defined benefit plan based on their employment with the City.

6. If I terminate my eligibility for the defined benefit retiree healthcare plan, but my spouse keeps their eligibility as a City employee or retiree, will I still be able to be a dependent on their insurance?

Yes, an employee in the VEBA and who opted out of the plan with a spouse who will be eligible for the defined benefit retiree healthcare plan will continue to be eligible to enroll in the City's defined benefit plan as a spouse of a plan member.

7. How will I know if I am eligible for the VEBA?

City of San Jose employees are eligible to participate in the VEBA if they are in Tier 1, Police and Fire Tier 2, or Federated Tier 2A and will need to make the irrevocable election to join the VEBA. This irrevocable election will take place October 18, 2017 through **December 15, 2017**. Rehired employees who are now in Tier 1A, 1B, and 1C will be eligible to make the irrevocable election to join the VEBA. Employees represented by bargaining units in Federated Tier 2B (with the exception of Unit 99) are required to join the VEBA. Unit 99 employees may opt-in to the VEBA to receive the one-time contribution of funds into an individual VEBA account from the Retiree Healthcare 115 Trust, but will not be eligible to contribute a percentage of pay into the VEBA on an ongoing basis. Employees in Tier 2B who have recently qualified for the Tier 1 "Classic" pension benefit will be automatically placed in the VEBA. Please note that Tier 2B employees in Unit 99 will not be required to join the VEBA.

8. What is the contribution rate for a Tier 1 or Tier 2A employee who elects to opt-in to the VEBA?

An individual will have the opportunity to make a one-time irrevocable election to join the VEBA. Please note that if they elect to enroll in the VEBA, they will become ineligible for the Defined Benefit Retiree Healthcare plan based on their employment with the City. The rates for individuals who choose to stay in the Defined Benefit Retiree Healthcare plan will be 8.0% for Police and Fire employees or 7.5% for Federated employees.

For those who elect to opt-in to the VEBA, their mandatory contribution will be as follows:

Tier 1 or Tier 2A – VEBA Election	
Bargaining Unit	Mandatory Contribution
SJPOA and IAFF, Local 230	4.0%
ABMEI, CEO, IBEW, MEF, and OE#3	3.5%
AEA, AMSP, CAMP, and ALP	2.5%
Unit 99	No ongoing contribution*

*Previous employee contributions to the Defined Benefit Retiree Healthcare plan will be deposited into an individual VEBA account.

9. What is the contribution rate for Police and Fire Tier 2 or Federated Tier 2B employees (or previously in Tier 2B but are now in the Tier 1 "Classic" plan)?

Your VEBA contribution rate will be different depending on your bargaining unit or employee unit.

Police/Fire Tier 2, Federated Tier 2B, Tier 1 “Classic” – Mandatory VEBA	
Bargaining Unit	Mandatory Contribution
SJPOA and IAFF, Local 230	4.0%
Federated	2.0%
Unit 99	No contributions

10. What happens to an individual’s opt-in VEBA contribution rate if they move into a different bargaining unit or employee unit?

An individual’s VEBA contribution rate will be different depending on their bargaining unit or employee unit. For example, if they promote from MEF to CAMP, their VEBA opt-in contribution rate will go from 3.5% to 2.5%. If an employee promotes into Unit 99, they would no longer make on-going contributions to the VEBA.

11. Will an individual be able to contribute more than the required amounts?

No, the above stated contribution amounts are the only amounts an employee can contribute into the VEBA. However, an employee may also make contributions into the City's voluntary deferred compensation 457 plan. It is important to note that the 457 plan is not specifically for retirement medical costs and withdrawals from the 457 plan may be subject to taxation, even if used for medical expenses.

12. Will the City match my VEBA contributions?

No, the City will not make any contributions to the VEBA.

13. Why are employees in Unit 99 not required to make on-going contributions into the VEBA?

In order to avoid potential issues under tax laws, new and current employees in Unit 99 will not be mandated to make contributions into the VEBA.

14. Can I view the amount of my previous retiree healthcare contributions?

Yes, in addition to the letter you will receive in the mail if you are Tier 1 or Federated Tier 2A, an employee can log into PeopleSoft to view their amounts. This feature is now available.

The navigation path is: Main Menu > Self Service > Benefits > Benefits Information > View VEBA Status. Everyone will have access to only their own information on this page based on their individual Employee ID.

15. When would I be eligible to start using the funds in the VEBA to reimburse my eligible medical expenses?

An individual may start using their VEBA funds once they have retired from the City of San Jose. If they separate from City service before retiring, they may begin reimbursements from the VEBA upon reaching the required retirement age based on the Federated City Employees' Retirement System or the Police and Fire Department Retirement Plan.

16. How will an individual's eligible medical expenses be reimbursed?

The VEBA will be provided by Voya and TASC/Genesis will be the third-party administrator of the program. Voya will provide investment management services and TASC/Genesis will provide individual account management and claims processing services.

Once you are eligible to submit claims, claims and any receipts can be submitted by mail, fax, or online using Voya's HRA website at <http://voya.com/hra/genesis>. Through this website you can view your account balances, investment allocations, personal performance, fund information, transaction history, claim submissions, and reimbursement history. You can also manage your account making investment elections, fund-to-fund transfers, realign portfolios, and generate a personal statement on demand. You may also file paperless claims online, view claims and payment history and print all of the forms necessary to manage your account.

Once funds within the VEBA account are exhausted, participants will not be able to make additional contributions, as individuals can only contribute to the VEBA while employed with the City of San Jose.

17. What are "eligible medical expenses"?

You can find a list of eligible medical expenses on the VEBA website at www.sanjoseca.gov/VEBA.

18. Can I use the funds for international expenses?

Yes. Expenses for medical diagnosis and treatment as well as prescription drugs outside of the US are reimbursable medical expenses.

Universal healthcare premiums are reimbursable provided that they are truly "premiums" and are not a tax.

19. Is there a VEBA contribution cap?

There is no IRS limit on the amount that an employee can contribute to a VEBA on an annual basis. An employee is only limited by the agreed-upon, mandated contribution rate.

20. What are the benefits of a VEBA?

The VEBA allows employees to make tax-free contributions to save for retiree healthcare expenses. An individual will not pay tax on their contributions, earnings, or reimbursements for claims.

21. Does this election affect my current healthcare coverage as an active employee?

No. The election only applies to Retiree Healthcare. If an employee elects to opt-in to the VEBA, they will remain eligible for healthcare coverage as an active employee.

22. Can I have a Health Savings Account at the same time as the VEBA?

Yes. An employee can have both an HSA and the VEBA. The HSA can be used for eligible medical expenses at any time. The assets in the VEBA cannot be used until the employee reaches the required retirement age and retires from City service. Please note that HSA is subject to applicable laws and contribution limitations.

The City will begin offering the Kaiser \$3,000 deductible plan with a Health Savings Account (HSA) during open enrollment for 2018 insurance coverage. If an employee chooses the Kaiser \$3,000 deductible plan with an HSA while an active employee, they can also participate in the VEBA plan.

23. What is the deadline to enroll in the VEBA plan for Tier 1 and Federated Tier 2A employees?

The City will be holding the irrevocable election for eligible employees from October 18, 2017, through December 15, 2017. If you are choosing to opt-in to the VEBA, you must do so before 5:00 p.m. on December 15, 2017. If you do not submit an election form to opt-in to the VEBA, you will remain in the Defined Benefit Retiree Healthcare plan. Before and during this time period, employees will receive individualized communication that contains their previous Defined Benefit Retiree Healthcare contributions through pay period 13 of 2017. The City will also be holding education sessions before and during this time period with an independent benefits consultant. The program will be effective as of the later of January 1, 2018, or at the time that the IRS provides final approval of the VEBA election process and the transfer of funds from the Section 115 Trust as described in FAQ 31 below.

24. How do I enroll in the VEBA if I am a Police/Fire Tier 2, Federated Tier 2B, or Classic employee?

Employees who are not subject to the irrevocable election will be sent an enrollment form from the third-party VEBA administrator, Voya. This form will need to be completed and returned as soon as possible once it is made available.

25. Are there fees for the VEBA account?

There is a fee associated with the VEBA account. Each VEBA member will pay a monthly fee of \$2.00 that will be automatically deducted from their VEBA account.

26. Can I change my election at a later date?

No, employees cannot make any changes after the opt-in period. During the initial opt-in period (October 18, 2017 through **December 15, 2017**), employees will have a seven (7) day revocation period if they decide to change their opt-in election.

27. How are the funds in the VEBA invested?

VEBA participants are able to self-direct the investment in their individual VEBA accounts based on a pre-mixed portfolio or by selecting their own portfolio based on the investment options provided.

28. Is the VEBA an annual "use it or lose it"?

No, an individual's account balance carries over from year to year.

29. Will my survivors be able to use the funds in the VEBA account?

If an individual passes away with funds remaining in their VEBA, the funds may continue to be used by their surviving designated spouse/domestic partner and qualified dependent(s) for eligible medical expenses. If an individual passes away and has no eligible survivors, the remaining funds would be forfeited and redistributed to the VEBA plan members. The executor of their estate may spend down any remaining funds for any unreimbursed medical claims they may have incurred prior to their death.

30. Should I discuss my options with other financial advisors?

Yes. Each individual situation is different and may require additional advice from tax and financial advisors.

31. What does the IRS have to approve in order for the VEBA to be implemented?

The City recently received a closing agreement from the IRS that approved the VEBA election which allows employees to opt out of the defined benefit plan into the VEBA. In addition, a Private Letter Ruling request is still pending approval from the IRS regarding the transfer of employee funds in the Section 115 Trust to the VEBA account.

Although the IRS has now provided its approval of the VEBA opt-in election, the implementation of the VEBA will not take place until after the IRS has provided direction on the transfer of funds from the Section 115 Trust to the VEBA. If the IRS does not approve the transfer of the funds from the Section 115 Trust, the VEBA will not be implemented and the parties will meet and confer over another solution. If this is the case, employees who opted in to the VEBA will stay in the Defined Benefit Retiree Healthcare plan.

32. What happens if I opt-in to the VEBA, leave the City with less than 15 years of service, and the IRS does not approve the Private Letter Ruling?

An employee who does not have 15 years of service and leaves the City will not be eligible for the Defined Benefit Retiree Healthcare plan regardless of the status of the Private Letter Ruling because the vesting period for the Defined Benefit Retiree Healthcare Plan is fifteen (15) years of service. If the IRS does not approve the Private Letter Ruling, then the former employees would not receive their previous Defined Benefit Retiree Healthcare contributions in a VEBA or the Defined Benefit Retiree Healthcare Plan.

33. What will the VEBA health plans and rates be for VEBA members?

We are currently working with the City's insurance carriers to develop the rates that will be specifically for the VEBA members who wish to participate in the City's health and dental plans. Please be aware that these VEBA plan rates may be significantly higher than the rates for the Defined Benefit Retiree Healthcare plans.

If you leave the City and do not have health or dental insurance, you can enroll in COBRA within 60 days of your separation for benefits continuation for eighteen (18) months. The City's internet website has more information about COBRA: <http://www.sanjoseca.gov/index.aspx?nid=5753>

COBRA will be the only City option available for those in the VEBA who retire or leave the City in 2018. Beginning in 2019, in addition to the COBRA option, VEBA participants who retire or separate from the City with at least 5 years of service will have the option to enroll in City health and dental plan options. As noted above, it is likely that these rates will be significantly higher than the Defined Benefit Retiree Healthcare rates and getting healthcare coverage through Covered California may also be an option worth exploring. More information on the VEBA health and dental plans and rates will be provided as they become available

34. What if I retire before the VEBA has been implemented and have 15 or more years of service, but I opted in to the VEBA?

If an individual retires before the VEBA is implemented and has 15 or more years of service, the retired person will have to wait until IRS approval and implementation of the VEBA for their VEBA accounts to be funded and eligible for reimbursement. Until that time, the retiree will be able to enroll in the City's Defined Benefit Retiree Healthcare plan until such time as the City receives the Private Letter Ruling from the IRS and can implement the VEBA.

35. Who can I talk to if I have questions?

The City has contracted with an independent benefits consultant, Parallel Advisors, to provide individual and group counseling regarding the decision to continue in the Defined Benefit Healthcare plan or opt-in to the VEBA. These services are provided at no cost to the employee. We encourage employees to take advantage of this service and attend one of the VEBA presentations listed on the VEBA Information page at www.sanjoseca.gov/VEBA or to schedule a 1-1 appointment by contacting staff below.

You may also contact veba@sanjoseca.gov or 408-535-VEBA (8322).