



Gallagher

HealthInvest HRA

Case Studies

HRAs Can Help with Shrinking Budgets

Gallagher HealthInvest HRA (health reimbursement arrangement) can be an effective tool to help free up much needed resources when budgets are tight or shrinking. Contributions can come from a variety of sources, including early retirement incentives and cash outs of unused leave. Additional contribution sources can also help solve problems and meet the shared goals of employee groups and employers. Employees and employers enjoy significant tax savings, and the outcomes are win-win.

Common funding sources include:

- Early retirement incentives
- Layoff or furlough assistance
- Unused annual leave, vacation, sick leave, and PTO cash outs
- Savings from lower cost, higher deductible medical plans
- Per-hour or per-pay-period employer contributions
- Mandatory employee contributions
- COLAs or pay raises

Goal: Offer a Retirement Incentive to Help Employees Transition Out of the Workforce

ISSUE:

Shrinking budgets creating need for workforce reduction/reorganization; growing number of employees eligible or nearly eligible to retire.

HRA Funding: Lump sum contributions for eligible employees who retire and agree not to seek re-employment within the organization.

Example:

1. Employer contributes a lump sum amount equal to the current employee-only COBRA rate times the number of months until employee reaches age 65.
2. Employer contributes a lump sum of \$10,000, plus a cash out of any unused sick, vacation, or personal leave time.
3. Employer contributes lump sum of \$15,000, plus a bonus amount of \$500 times the number of completed years of service with the organization.

OUTCOME:

Employees eligible or nearly eligible to retire able to separate employment and cover medical insurance. Employer able to save money and reorganize workforce to meet budget.

Sample Language:

1. Eligible employees will receive an amount equal to the current employee-only COBRA rate times the number of months until they attain age 65, not to exceed [\$], [as a one-time lump sum upon retirement].
2. Eligible employees will receive [\$10,000], plus the full cash out value of all unused sick, vacation, or personal leave time [as a one-time lump sum upon retirement].
3. Eligible employees will receive [\$15,000], plus \$500 times the number of months of completed service, not to exceed [\$], [as a one-time lump sum upon retirement].

Goal: Provide Medical Premium Assistance to Laid off Employees

ISSUE:

Shrinking budgets creating need for workforce reduction/reorganization, including layoffs.

HRA Funding: Direct employer contribution to help laid-off employees cover medical insurance (COBRA) for a period of time.

Example: Employer contributes a lump sum amount equal to six months of the employee-only COBRA rate, plus \$250 for each year of service.

OUTCOME

Laid-off employees get tax-free source of funds to help cover their medical premiums as they look for new work or wait to be rehired by the organization.

Sample Language: Eligibility is limited to employees who are laid off due to economic conditions resulting in budget cuts. Eligible employees will receive an amount equal to six months of the employee-only COBRA rate, plus [\$250] for each year of service, rounded to the nearest full year [as a one-time lump sum upon retirement].

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, compensatory, personal, PTO, etc.).

Example: Employer implements or converts existing cash outs of unused leave time to HRA contributions: All sick leave over 720 hours cashed out at 50% annually; all sick leave up to 720 hours cashed out at 50% upon retirement; all vacation over 160 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 and can begin saving for future medical costs; employees become more conscientious when managing leave time.

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: Offset Higher Cost-Sharing; Assist with Choice of Lower-cost Plan

ISSUE:

Employer needs to cut back on health plan budget and change from traditional medical plans to lower-cost, higher-deductible plan options.

HRA Funding: A portion of the medical plan's annual deductible amount, or some other formula.

Example: Employer makes an annual contribution of \$1,000 for all employees who enroll in the lowest-cost plan with \$2,000 deductible.

OUTCOME

Employees are now rewarded for taking more control over their healthcare spending and can choose to use or save up their annual HRA contributions for future medical costs. Employer is saving premium dollars with more employees on lowest-cost medical plan.

Sample Language: Employer contributions shall be equal to [\$1,000], which shall be contributed [annually] on behalf of all eligible Group members who enroll in the [higher-deductible medical plan].

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); can also implement a group percent of pay contribution as part of compensation increase package.

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

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.

Plan Adoption Information

To learn more about adopting HealthInvest HRA for your group, visit www.ajg.com/healthinvesthra or contact:

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