

Healthcare Costs and Retirement Readiness

HRA Strategies for Public Sector Plans



2026 ANNUAL CONFERENCE
SEPTEMBER 27-30
Caribe Royale Orlando

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Today's Presenters

Industry Experts

- Garrett Pittman, SVP, Public Sector Markets, HUB Investment Partners
- Chris Williams, Benefit Consultant, Aviben
- Brad Carman, Director, Corebridge Financial

Moderator

- Ted Grigsby, Executive Director, Fiduciary Consulting Group

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How much will it cost the average couple that both retire at age 65 for out-of-pocket health care expenses?

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The Reality of Retirement Healthcare Costs

\$345,000

Projected lifetime healthcare costs
for a couple retiring at 65



Pre-65 Premiums:
Most expensive years of coverage



Medicare Parts B & D:
Ongoing monthly premiums after 65



Out-of-Pocket Costs:
Deductibles, co-pays, prescriptions

Source: Fidelity Retiree Health Care Cost Estimate, 2025

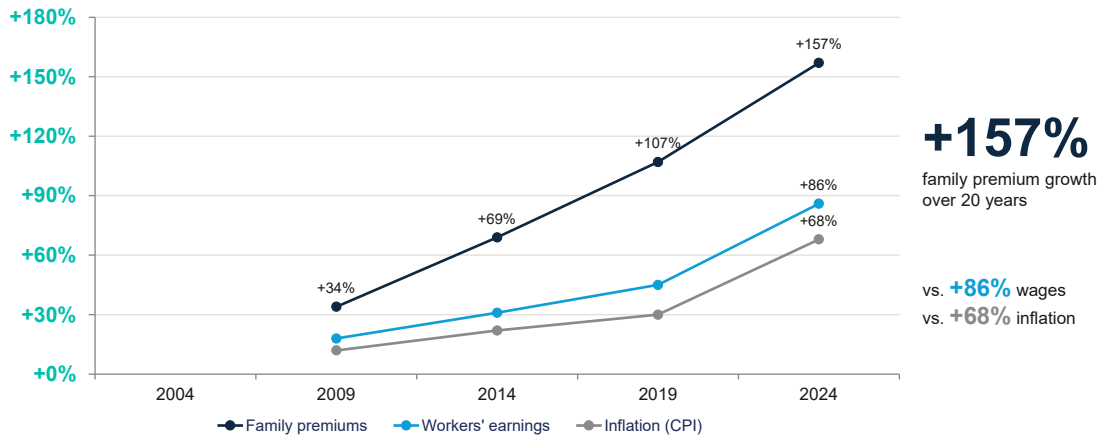
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Healthcare premiums have outpaced inflation and wages

Cumulative increase for family coverage, 2004–2024



Source: KFF Employer Health Benefits Survey (2024)

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The Tax Impact You Can't Ignore

Traditional Retirement Accounts
(401(k)/457/IRA)

\$410,000

Needed to net **\$345,000**
after taxes

Healthcare Dedicated Account
(Tax-Free HRA)

\$345,000

Needed for the same
healthcare costs

The Real Impact: That's \$65,000 lost to taxes — money that could fund years of healthcare.

Source: Fidelity Retiree Health Care Cost Estimate, 2025

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What is an HRA?

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Does your agency currently offer an HRA?

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What is an HRA?

- **Sponsor:** Employer sponsored Health Savings Account with some similarities to DC Plans. Goes by many names (VEBA, Retiree Health Savings Plan, Wellness Plan)
- **Reimbursement:** HRA's provide tax-free reimbursement of health care expenses incurred by the employee, their spouse, and/or legal dependents
- **Tax benefits:**
 - ✓ No federal tax
 - ✓ No state tax
 - ✓ No FICA
- Unused amounts in employee's account can be carried forward from year to year

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How an HRA works

- **Plan Design:** HRA Plan design and features can vary from plan to plan
- **Plan Document:** A written plan document and adoption agreement is required to formalize a specific plan design
- **Governance:** Established through Federal Revenue Rulings, IRS Notices, and Health Care Reform
- **Compliance:** Employers are responsible for maintaining a compliant plan and substantiating all reimbursement requests

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HRA Funding

- Funding cannot discriminate in favor of highly compensated employees – IRC 105(h)
- Can be Funded or Unfunded (DC vs DB)

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HRA Plan Designs

- **Retiree HRA**
- **Integrated HRA**
- Limited Purpose HRA
- ICHRA
- QSEHRA
- Excepted Benefit HRA

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Does your agency currently cash out unused sick and/or vacation time?

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HRA Funding

Convert separation payouts into tax-free healthcare dollars:



Unused Leave

- Sick leave balances
- Vacation/PTO hours
- Partial or full conversion



Direct Contributions

- Employer-funded benefit
- Retiree health stipend
- Service-based awards

Avoid taxation on separation payments while funding critical healthcare needs


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Funding Strategies: Active Employees

Multiple pathways to fund healthcare expenses:



Employer Contributions:

Per paycheck, monthly, or annual deposits



Wellness Incentives:

Bonus contributions for program participation



Medical Opt-Out Credits:

Redirect opt-out payments to build tax-free savings



Payroll Redirection:

Mandatory employee contribution as a percentage of wages (e.g., 4% of salary)

Benefit: Tax-free growth during working years + retroactive claims for immediate needs

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Health Reimbursement Arrangement (HRA)

A tax-advantaged health account designed specifically for retirement healthcare expenses



Secure

Assets held in trust, protected for your benefit



Tax-Free Growth

Earnings accumulate without taxation, compounding faster



Flexible Use

Covers premiums and qualified medical expenses

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Does your agency offer investment options for their HRA?

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What is an HRA?

Types of Trusts:

- OPEB Trust
- VEBA Trust
 - ✓ Unique EIN
 - ✓ IRS Form 1024 filing to obtain determination letter upon creation of trust
 - ✓ Annual Form 5500 filing requirement
 - ✓ Defined member involvement
- IRC Section 115 Governmental Trust


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Benefits to Employees

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**Are there any contribution limits
to an HRA?**

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Plan Comparison: Tax Advantages

Feature	HRA	HSA	401(a)/403(b)/457(b)	Special Pay
Tax-free contributions	✓	✓	✓	✓
Tax-free growth	✓	✓	✗	✗
Tax-free withdrawals*	✓	✓	✗	✗
Unlimited contributions	✓	✗	✗	✗

*For qualified medical expenses

The triple tax advantage creates more spending power for every dollar saved

*Benefit Cards may be offered

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The Power of Starting Early

Example: \$100/month contribution over 30 years

Starting Age: 25
Retirement Age: 55
Monthly: \$100
Annual Return: 6%

Result at Age 55:

~\$100,000

Total Contributions: \$36,000
Tax-Free Growth: \$64,000
All withdrawals: Tax-Free for healthcare

Time + tax-free growth = substantial healthcare security

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Real-World Impact: Case Example

Retired employee faces unexpected medical expenses:

Out-of-Pocket Expenses

Hearing Aids Replacements: \$12,000
Transmitter Device: \$300
Dental Work: \$2,500

Total Cost: \$14,800

Account Comparison

	HRA	457(b)
Withdrawal	\$14,800	\$14,800
Taxes (30%)	\$0	\$6,342
True Cost	\$14,800	\$21,142

HRA saves \$6,342 in taxes — money that stays in your pocket

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Benefits to Employers

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Benefits to Employers

- FICA Savings
- Offset to OPEB liability
- Plan Sponsor may add flexibility to design
 - ✓ Eligibility – who can participate
 - ✓ Contribution structure
 - ✓ Vesting
 - ✓ Recruitment and retention
- No contribution limits for most HRA plan designs

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What happens to the HRA when the employee/retiree dies?

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Which plan is right for me?

Feature	FSA	HRA	HSA
No high-deductible health plan required	✓	✓	✗
Unused funds roll over year to year	✗	✓	✓
Can be invested for long term growth	✗	✓	✓
Account is individually owned	✗	✗	✓

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Employer Best Practices

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Getting Started: Key Decisions

For organizations without an HRA:

-  Determine funding sources and amounts
-  Choose plan design (active vs. post-separation)
-  Select trust structure (VEBA or 115 Trust)
-  Decide on investment options for participants

For organizations with an existing HRA:

-  Review adequacy of funding levels
-  Evaluate in-service access options
-  Assess coverage scope (premiums vs. all expenses)
-  Consider enhancements or additional features

Every organization is unique. The best HRA strategy aligns with your workforce demographics, benefit philosophy, and long-term employee retention goals.



Employer Best Practices

CONTROL AND REDUCE LONG-TERM COSTS

- Reduce or better manage **OPEB liabilities**
- Reduce **taxable wages and payroll taxes**
- Support **lower-cost medical plan enrollment**

INFLUENCE EMPLOYEE DECISIONS

- Encourage **timely retirements** and **reduce job lock**
- Create **targeted incentives**
- **Employee education** on plan options

STRENGTHEN THE WORKFORCE AND RETIREMENT OUTCOMES

- Strengthen **retirement readiness**
- Improve **recruitment** and **retention**



The Bottom Line

- 1** Healthcare is a guaranteed expense in retirement — plan for it strategically
- 2** Tax-free accounts (HRA/HSA) create more spending power than traditional retirement accounts
- 3** The funding sequence matters:
Match → HSA/HRA → Max 457(b)

Empower your employees to retire with dignity by helping them make informed decisions about healthcare funding

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Questions?

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Thank you!

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