

VEBA III

HEALTH REIMBURSEMENT PLAN FUNDED WITH LEAVE CASH-OUTS Questions & Answers

Description of Plan Benefits and VEBA III Membership Enrollment Form

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“What is the VEBA III Plan?”

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The VEBA III Plan is a pre-retirement and post-retirement health reimbursement account, also referred to as an "HRA." The VEBA III Plan enables your district to use funds that would otherwise be paid to you for unused leave cash-outs to instead be deposited tax-free into a VEBA Trust account on your behalf.

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“What is an HRA?”

A

An HRA is a "health reimbursement arrangement." The Internal Revenue Code defines an HRA as an arrangement that is funded by the employer and reimburses employees for medical care expenses incurred by the employee or the employee's spouse or dependents. HRAs are not health savings accounts (HSAs). HRA participants may make contributions to HSAs in certain circumstances.

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“Why should I participate in the VEBA III Plan?”

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A VEBA III account provides a source of funds to pay for the cost of health care expenses for you, your spouse, and your qualified dependents. A VEBA III account may be used to pay qualified pre- or post-retirement medical, dental, or vision out-of-pocket expenses (deductibles, co-payments, co-insurance, etc.), plus premiums for post-retirement medical, dental, or vision insurance, Medicare Part B, Medicare supplement plans, and tax-qualified long term care insurance.

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“Is the Plan available to me, and what types of funding options are available?”

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Most school districts offer the Plan. Each year your school district and employee group must agree in writing to make the Plan available to your group and determine which VEBA funding option(s) will be made available:

- 1) Annual sick leave buy back
- 2) Retirement and separation from service sick leave cash-out
- 3) Vacation cash-out

- 4) Personal leave cash-out
- 5) Other leave cash-out

Note: State law requires employee benefit contracts to be renewed each year (including VEBA III).

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“When will I be eligible for annual sick leave contributions and how much may be contributed?”

A

To be eligible for annual contributions, each year you must have an earned sick leave balance of at least 180 days on the day prior to your employment contract start date. The maximum contribution is 25% of 12 days.

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“What are the eligibility rules for sick leave contributions at retirement and separation from service?”

A

When you leave service, you may be eligible for either retirement contributions or separation from service contributions, but not both. To be eligible for contributions at retirement, you must immediately begin receiving state pension benefits. To be eligible for contributions at separation from service, you must be a TRS, PERS, or SERS Plan II member, age 55 or older, with 15 years of service; or a TRS or SERS Plan III member, age 55 or older, with 10 years of service.

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“How much sick leave cash-out may be contributed to VEBA III?”

A

If your employee group has adopted the Plan for contributions at retirement and separation from service, your entire sick leave cash-out will be contributed when you leave employment. The maximum cash-out of unused sick leave is 25% of 180 days. There is no minimum.

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“How do I become a participant in the Plan?”

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Upon reaching eligibility, you become a participant by completing the attached Membership Enrollment Form and delivering it to your district office. The Membership Enrollment Form includes a statutorily required hold harmless agreement that all VEBA III participants must sign.

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“ Can I contribute vacation, personal, or other leave cash-outs?”

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It depends. District policies regarding these types of cash-outs vary by district and by employee group. Check with your benefits office. If your employee group adopts one or more of these funding sources, all members defined as eligible must participate.

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“ Do VEBA contributions reduce my State of Washington pension benefits?”

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No. VEBA contributions do not reduce the wage base reported to the Department of Retirement Systems which is used to calculate your pension.

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“ What is a VEBA and what are the tax objectives of the Plan?”

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A VEBA is a tax-exempt trust authorized by Internal Revenue Code Section 501(c)(9). The tax objectives are to enable your district to make tax-free deposits on your behalf to the Plan, for your account to be credited with tax-free investment earnings, and to enable you to obtain tax-free reimbursements for your medical expenses and insurance premium payments. VEBA III contributions will not be reported on your W-2.

NOTE: For example, if you are eligible for a \$10,000 leave cash-out when you retire, your district will deposit the full \$10,000 into your VEBA III account without tax. Likewise, benefits paid from your account will not be taxable to you. Without VEBA III, your unused leave cash-out would be paid in cash to you and the after-tax value of \$10,000 may only be \$6,735 (\$10,000 – 25% assumed federal income tax (\$2,500) – 7.65% FICA tax (\$765) = \$6,735).

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“ When and how do I get money out of my VEBA III account?”

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Your VEBA III account is opened when your district sends leave cash-out funds to the VEBA Plan Administrator. You will be mailed a Welcome Packet and then you may submit a VEBA Claim Form for your qualified out-of-pocket medical, dental, or vision expenses incurred by yourself, your spouse, and/or your qualified dependents. Certain over-the-counter drugs, if properly substantiated, are eligible expenses. Claims payment is efficient and hassle free, and you may choose direct deposit.

You may file claims for any amount. You may also arrange to have monthly insurance premiums paid by using the VEBA Systematic Payment Form. If your spouse or dependents are covered by different medical plans, their insurance premiums can also be paid out of this account. Benefits will be paid until your account is used up.

VEBA forms may be obtained from your benefits' department, on our website at www.veba.org, or by

writing:

**VEBA Plan Administrator
c/o REHN & Associates, Inc.
P.O. Box 5433
Spokane, WA 99205-0433**

or by calling: **1-800-VEBA101 (832-2101) or (509) 534-0600**

or e-mail: **veba@rehnonline.com**

NOTE: Reimbursable health related benefits must be for expenses incurred after your VEBA account is first opened. Withdrawals from your VEBA account may be made only for qualified medical, dental, or vision expenses/premiums. A list of qualified expenses is available on our website. Qualified dependents are outlined in IRS Publication 501. You may obtain IRS publications by calling 1-800-TAXFORM or at www.irs.gov.

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“ Can the cost of any qualified retiree medical plan be paid from my VEBA III account?”

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Yes. The cost of any qualified medical plan you elect to use after retirement can be paid for out of this account, including PEBB plans, Medicare supplement plans, etc. If you join the PEBB K-12 retiree medical plan, you can authorize the Department of Retirement Systems to deduct your medical premium from your defined benefit pension check. You can then arrange with the VEBA Plan Administrator to directly reimburse you from your VEBA account by using the VEBA Systematic Payment Form. Direct deposit is available.

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“ What happens if I die before my VEBA III account is used up?”

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If you are survived by a spouse or dependent children (or other dependents as defined by the IRS) they may submit requests for medical expense reimbursements until your account is used up. If you have no eligible dependent(s), the funds remaining in your account will be paid as medical expense reimbursements to the heir(s) of your estate.

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“ Who is the VEBA Plan Administrator?”

A

REHN & Associates, Inc. in Spokane is the VEBA Plan Administrator. REHN is an experienced employee benefits administrator specializing in the administration of VEBA health reimbursement plans. REHN provides all correspondence, accounting, and benefit payment services.

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“ Who is responsible for developing and managing this Plan?”

A

This VEBA Trust was developed and is sponsored by the Association of Washington School Principals (AWSP), Washington Association of School

Administrators (WASA), and the Washington Association of School Business Officials (WASBO). It is managed by six Trustees appointed by the sponsoring organizations. Over 30,000 employees have participated in the VEBA Trust since its inception in 1984.

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“What are the Trustee’s responsibilities?”

The Trustees are fiduciaries and have a duty to act prudently and in the best interest of all Plan participants and beneficiaries.

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“Will I receive a statement of my account?”

You will receive a semi-annual statement detailing all activity in your account. You may also call or e-mail and request additional statements at any time. You may also view your personal VEBA account information on the VEBA website at www.veba.org.

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“Will my account grow?”

The net investment earnings or losses (after expenses are deducted) are allocated tax-free to your account on a monthly basis.

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“How is the VEBA money invested?”

The Trust offers you three fund options. You may choose to have all or a portion of your VEBA account in any or all of the following funds:

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- Stable Value Fund
- Balanced Fund
- Growth Fund

Investments in the Balanced and Growth Funds will fluctuate in value. Please carefully study the Investments Summary Sheet on the back of this brochure or call the VEBA Plan Administrator and ask for additional investment information. Investment information is updated quarterly and may be viewed on the VEBA website.

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“How are expenses paid?”

All expenses of operating the Plan are paid by reductions of investment earnings or, if there are no earnings, charged as a deduction to participant accounts.

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“How do I find out more?”

If you have questions about your VEBA account, or about a claim, or need claim forms, go to the VEBA website, or contact the VEBA Plan Administrator. For general plan information, contact the VEBA Service Group, LLC’s Western Washington Regional Office at 1-800-422-4023, or the Eastern Washington Regional Office at 1-800-888-VEBA (8322).

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Trust Website: www.veba.org

VEBA Plan Administrator:

REHN & Associates, Inc.
P.O. Box 5433
Spokane, WA 99205-0433
1-800-VEBA101 (832-2101)
(509) 534-0600
Fax (509) 535-7883
Tim Yeager
veba@rehnonline.com

Plan Consultants:

VEBA Service Group, LLC
Eastern Washington Regional Office
827 West First Avenue, Suite 301
Spokane, WA 99201-3901
1-800-888-VEBA (8322)
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fundmgr@veba.org

VEBA Investment Fund Key Information

INVESTMENT RISK

- ▼ The Balanced and Growth Funds are invested in securities which will fluctuate in value on a monthly basis. Benefit withdrawals from these funds may be worth more or less than your original deposit(s).
- ▼ The Stable Value Fund does not fluctuate in value and is invested in interest bearing, guaranteed investment contracts.
- ▼ Prior to submitting your Membership Enrollment Form to the VEBA Plan Administrator, please carefully review your selected investment fund choice(s). Should your objectives change, you should reevaluate your fund selection(s) and make appropriate changes. Remember, any investment which contains stock market investments entails the risk of loss. While the funds are designed to minimize large losses, there have been numerous loss periods in the past in these types of funds and there will be others in the future. We must stress that investment returns, particularly over shorter time horizons, are highly dependent on trends in various investment markets. Thus, the Balanced and Growth Funds are suitable primarily as longer term investments and should not be for short term use.

CONTRIBUTIONS

- ▼ Contributions are held in a short term investment fund (STIF) and credited with monthly interest until the 1st of the month following receipt when they will be allocated per the participant's current allocation instructions on file with the VEBA Plan Administrator.

TRANSFERS

- ▼ You may transfer among the three funds monthly. Transfers are effective the 1st business day of each month. Participants may use a VEBA Account Information/Fund Allocation Change Form or the VEBA website to make fund transfers. Transfer requests must be received by the VEBA Plan Administrator by the 25th of each month in order to be effective on the 1st business day of the following month.

WITHDRAWALS

- ▼ If you have multiple funds, withdrawals made from your account will be withdrawn prorata based on your fund allocation percentage on file with the VEBA Plan Administrator, unless you request otherwise.

USING MULTIPLE FUNDS

- ▼ You may have your VEBA account allocated to a single fund, two funds, or to all three funds.

INVESTMENT MANAGERS

- ▼ Dwight Asset Management Company manages all three funds. However, the stock component of the Balanced and Growth Funds is invested in the Institutional (S&P 500) Index Fund managed by The Vanguard Group and the money market component is managed by Goldman Sachs.

INVESTMENT ADVICE

- ▼ Participants are encouraged to seek advice regarding these investment funds from their personal financial advisor. The VEBA Trustees do not give investment advice.

EXPENSES

- ▼ Trust expenses average 1.95% - 2.25% and are expressed as an annualized percentage of average net assets:

	Operating & Administrative	Fund Mgmt.	Total
Stable Value Fund	1.75%	.20%	1.95%
Balanced Fund	1.75%	.40%	2.15%
Growth Fund	1.75%	.50%	2.25%

Operating and administrative expenses vary slightly month to month and include legal fees, consulting fees, local servicing, printing, postage, auditing, claims payment, etc. Fund management expenses include services provided by Dwight Asset Management Company, The Vanguard Group, and Goldman Sachs. The effect of the expenses is reflected in the return of each fund.

Please keep a copy of this information for your records.

Visit the VEBA Trust website at: www.veba.org



VEBA III MEMBERSHIP ENROLLMENT FORM

VEBA Plan Administrator
c/o REHN & Associates, Inc.
P.O. Box 5433
Spokane, WA 99205-0433
1-800-VEBA101 (832-2101)
(509) 534-0600
Fax (509) 535-7883
E-mail: veba@rehnonline.com

Employee Information

Employee Name _____ SSN _____ DOB _____

Address _____ City _____ St _____ Zip _____

Daytime Phone No. (____) _____ Employer _____

Spouse's Name _____ DOB _____ Dependent _____ DOB _____

Dependent _____ DOB _____ Dependent _____ DOB _____

Dependent _____ DOB _____ Dependent _____ DOB _____

Investment Fund Selection

Please choose the investment fund or fund(s) for your VEBA account.

Stable Value Fund (Conservative) _____ %

Balanced Fund (Moderate) _____ %

Growth Fund (Moderately Aggressive) _____ %

Total must equal 100 %

Please use whole numbers, we cannot account for fractions.

If you do not choose an investment fund, the total value of your VEBA account will be allocated to the Stable Value Fund. If you have multiple VEBA accounts, each account will be allocated the same. Benefit withdrawals from your funds will be made proportionately, unless you request otherwise.

Hold Harmless Agreement & Required Signature

"I hereby become a Participant of the VEBA Health Reimbursement Plan III (VEBA III). I realize that the parties involved in this plan (including, but not limited to, my employer, its agents, my bargaining representative and the Trustees) cannot guarantee any federal or state tax results or investment results.

I acknowledge that any benefits to which I may become entitled are subject to the terms and conditions of the governing Plan documents and applicable law, and that the Plan or its agents may withhold from such benefits (and may transmit to the government) any tax, charge, penalty or assessment which is determined to be attributable to or allocable to such benefits or on account of the operations of the Plan and to hold the Plan and its agents harmless with respect to such actions taken in good faith."

Signed this _____ day of _____, _____ .

Signature of Employee

To the Employee: Please make a copy of this form for your personal records and forward this original form to your employer's personnel/benefits office. Your employer will also keep a copy for their records. Your employer will send this form to the VEBA Plan Administrator, along with their check for your leave cash-out contribution. Upon receipt of the funds, the VEBA Plan Administrator, REHN & Associates, Inc., will send you a Welcome Packet confirming the deposit, plus an initial VEBA Claim Form, a VEBA Systematic Payment Form and a Summary Plan Description.

To the Personnel/Benefits Department: Keep a copy of this form. Please mail this original form to the VEBA Plan Administrator: c/o REHN & Associates, Inc., P.O. Box 5433, Spokane, WA 99205. To order VEBA brochures or forms contact the VEBA Plan Administrator: 1-800-VEBA101 (832-2101) or (509) 534-0600 (Spokane), or e-mail: veba@rehnonline.com or FAX (509) 535-7883, or you may print forms from the VEBA website: www.veba.org.

Employer Contact Person: _____ Phone: _____

Participants are encouraged to consult their tax, investment, or legal advisor regarding participation in this Plan.

VEBA Investments Summary Sheet

Stable Value Fund

Investment Objective

The Stable Value Fund seeks to provide preservation of capital with competitive interest earnings. This fund is the original VEBA investment portfolio.

Investment Strategy

The fund assets are divided among various guaranteed investment contracts in insurance companies or high quality bonds. Book value withdrawals are guaranteed by insurance companies or banks. The fund is managed by Dwight Asset Management Company. The credit quality of the portfolio has averaged AA and the target maturity is 2.75 years.

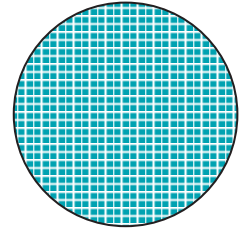
Who Should Use This Fund

- Participants seeking preservation of their principal.
- Participants making substantial withdrawals in the near future.
- Participants seeking competitive short term returns.
- Participants wanting the original VEBA portfolio.

Who Should Not Use This Fund

- Participants willing to risk fluctuation in principal for the potential of higher returns.

100% Stable Value



Risk Level = Conservative

Investment Objective

The Balanced Fund seeks to provide asset diversification in an attempt to provide moderate capital appreciation and moderate fluctuations of principal value.

Investment Strategy

The fund assets are divided among stocks, stable value, and money market instruments. The fund seeks to maintain investment ratios as follows:

50% Stocks

40%-50% Stable Value

0%-10% Money Market

The stable value component of the fund is managed by Dwight Asset Management Company. The stock component is invested in the Institutional (S&P 500) Index⁽¹⁾ Fund managed by The Vanguard Group. The money market component is managed by Goldman Sachs.

Balanced Fund

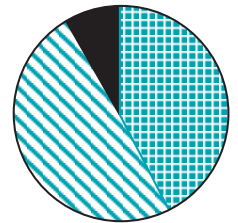
Who Should Use This Fund

- Participants seeking moderate growth.
- Participants not making substantial withdrawals in the near future.
- Participants willing to accept some fluctuation of their principal value.

Who Should Not Use This Fund

- Participants not willing to accept fluctuations in their principal value.
- Participants making substantial withdrawals in the near future.

50% Stocks
40%-50% Stable Value
0%-10% Money Market



Risk Level = Moderate

Investment Objective

The Growth Fund seeks to provide long term growth potential.

Investment Strategy

The fund assets are divided among stocks, stable value, and money market instruments. The fund seeks to maintain investment ratios as follows:

70% Stocks

20%-30% Stable Value

0%-10% Money Market

The stable value component of the fund is managed by Dwight Asset Management Company. The stock component is invested in the Institutional (S&P 500) Index⁽¹⁾ Fund managed by The Vanguard Group. The money market component is managed by Goldman Sachs.

Growth Fund

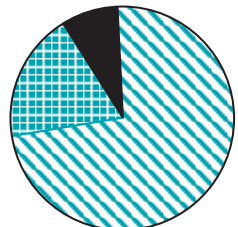
Who Should Use This Fund

- Participants seeking long term growth.
- Participants not making substantial withdrawals for many years.
- Participants willing to accept potentially large fluctuations in their principal value.

Who Should Not Use This Fund

- Participants not willing to accept fluctuations in their principal value.
- Participants making large withdrawals in the next few years.

70% Stocks
20%-30% Stable Value
0%-10% Money Market



Risk Level = Moderately Aggressive

For additional investment information, please call 1-800-VEBA101 (832-2101). If you have questions, please call the VEBA Service Group, LLC: Eastern Washington: 1-800-888-VEBA (8322) Western Washington: 1-800-422-4023.

⁽¹⁾The S&P 500 Index is an unmanaged index consisting of the securities of the 500 issuers which the Standard & Poors Corporation believe represent the U.S. economy. The S&P 500 Index is a trademark of the Standard & Poors Corporation.

Data about the performance of these funds is prepared or obtained from The Vanguard Group or Dwight Asset Management Company.

