

## **VEBA to HSA transition Guidance**

The Minnesota Service Cooperatives offer high deductible health plans (HDHPs) that may be combined with either VEBA-funded health reimbursement accounts ("VEBA accounts") or health savings accounts ("HSAs"). Most participants in HDHPs offered through the Service Cooperatives maintain tax-advantaged VEBA accounts to help pay medical expenses below the deductible. The Service Cooperatives are working with SelectAccount to make HSAs available to interested employers. If your employer has approved an HSA arrangement, this guidance describes how you may transition from your VEBA account to an HSA.

Members electing to move from a VEBA account to an HSA must suspend their VEBA account prior to the beginning of the plan year for the HDHP/HSA Plan offering. Attached is the form that must be completed to suspend your VEBA account.

Below are questions and answers relative to the transition.

1. Question: Why would I transition to an HSA?

Answer: Both HSAs and VEBA help you to pay for medical expenses with pre-tax dollars. There are specific pros and cons to each vehicle, and whether an HSA makes sense depends on individual facts and circumstances. Generally, your VEBA account may be used for a broader range of health care expenses, including health insurance premiums in retirement. HSAs may also be used for medical expenses, but they are not available for the tax-free reimbursement of most health insurance premiums. On the other hand, HSAs may provide greater savings opportunities: individuals with HSAs may contribute a portion of their income to the accounts on pre-tax basis, while VEBAs are funded exclusively with employer contributions. Amounts contributed to HSAs may be withdrawn for any purpose, but will be subject to income tax if not used for medical expenses (including a 10% penalty tax on withdrawals before age 65).

The attached chart entitled "Comparison of HSA and VEBA" provides more information on the pros and cons of VEBA accounts and HSAs.

2. Question: How do I transition to an HSA?

Answer: In order to be eligible for an HSA, you must "suspend" your VEBA account prior to the beginning of the next plan year. If your plan renewal is January 1st, for example, and you want to change to an HSA, you must complete the VEBA suspension form within 30 days prior to January 1st. Your election to suspend your VEBA account will automatically renew each year until you revoke it. Although suspended, any balance in your VEBA account may still be used for limited-purposes, including dental and vision expenses, and out-of-pocket medical expenses in any plan year that you reach the deductible under your HDHP.

3. Question: What happens when I retire?

Answer: If you retire before age 65, and you remain covered by a HSA-eligible HDHP, you may continue to suspend your VEBA account and contribute to an HSA. If you no longer wish to contribute to an HSA, you may revoke your election to suspend the VEBA account, and use the dollars in both your VEBA account and HSA to help pay for medical expenses. (You may also use amounts that have accumulated in your HSA other purposes, subject to tax consequences). Once you reach age 65 and enroll in Medicare Part A or B, you will no longer be eligible for an HSA at any rate. At that time you may use both your VEBA account and HSA in any combination to pay for medical expenses (though only your VEBA may be used for Medicare Supplemental insurance premiums).

4. Question: What happens if I die?

Answer: Your spouse may elect to treat your HSA as his or her own. If you are not married or if you designate a beneficiary other than your spouse, medical expenses you incur prior to death may be reimbursed tax-free if paid within one year of death. The balance of your HSA will transfer to your beneficiary and be taxable in the year of death. If you die with a balance in your VEBA account, the account balance is available to reimburse medical expenses (including insurance premiums) of your spouse and eligible dependents, and medical expenses that you incur prior to death. If you do not have a spouse or eligible dependent(s) the monies revert back to the trust.

5. Question: If I change my mind can I move back to the VEBA account?

Answer: Yes. If you wish to return to the VEBA and your employer makes the option available, you may revoke your election to suspend the VEBA account prior to the beginning of the next plan year. If you revoke your suspension of the VEBA account, you will no longer be eligible to contribute to an HSA. Money you have contributed to your HSA, however, may continue to be used for medical expenses (or withdrawn for any purpose, subject to taxes).

Individual situations vary widely, and you should not rely on this document for tax or legal advice. See IRS Publication 969 at [www.irs.gov](http://www.irs.gov) for more information on HSAs, or consult a qualified tax professional.

