Presenters:

MODERATOR INFO:

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Community Unit School District 200
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Introductions

Dr. Brian K. O'Keeffe, CSBO, SFO (Moderator)
Assistant Superintendent for Business Operations
Community Unit School District 200

Edward Brophy (Speaker)
Director of Human Resources
& Administrative Services, Northbrook School District 28

Introductions

Name: Joel Babbitt, (Speaker)
- *Partner, NPPFA Benefits*

Name: Debby Karton, (Speaker)
- *Partner, NPPFA Benefits*

Do You Have a Plan for Health Insurance When You Retire?

Joel J. Babbitt & Debby Karton

NATIONAL **PUBLIC PENSION FUND ASSOCIATION**

Not-For-Profit

A not-for-profit organization, founded in 1985 by a Barrington, IL police union President, whose primary function is the education of Public Pension Fund Trustees.

Over 300 units

Currently over 300 units of government participating nationally with over $1 billion of AUM.

Over $1 Trillion of AUM.

Board of Trustees provide oversite that collectively represent over $1 Trillion of AUM.

Created Wise Choice co-op suite of products w/ the following priorities:

- Lower Administrative & Investment Fees
- Provide Financial Education & Negotiation Assistance
- Provide Single Pricing for all units of government, regardless of size
- Provide Ongoing Fiduciary Oversite and Compliance

Wise Choice co-op includes:

- 457(b) – 2001
- Retirement Healthcare Funding plan - 2004
- 403(b)/457(b) - 2008
- 401(a) - 2010

School Districts and Municipalities Are More Alike Than Different

- Pension
- Health Insurance Availability in Retirement
- Comparable Salaries
- Large Employee Groups Not Covered By Social Security
  - TRS & 99% of Police and Fire Fighters in IL
- Shortage of Applicants – Specific Jobs

RECRUITING **NEW CANDIDATES**

IMPEDIMENT TO HIRING **NEW CANDIDATES**

FIRE STATION

NOW HIRING!
APPLY WITHIN
JOB OPENINGS
Full-Time
Part-Time
PLEASE WAIT HERE
NO APPLICANTS

RETAINING & HIRING THE RIGHT PEOPLE FOR YOUR TEAM

MUNICIPAL RECRUITING STORY - SAFETY

- **Start Your Employment Strong with us – We Help You Plan for Tomorrow Today**
  Retirement planning begins on your first day, not your last. Our benefits and compensation policy helps you build smart habits early, so time and compounding work in your favor from the start.

- **A Career That Starts with a Future in Mind**
  We help you save with providing you tax-free income in retirement from the day you start.

- **From Day One, We Invest in Your Future**
  Your retirement isn't something to figure out later. We provide tools, education, and tax-free income so you can start building long-term security as soon as you start your career with us, this is in addition to your pension.

RECRUITMENT **& RETAINING**

- Are recruits knocking on your door to work in your organization?
- Are you using benefits to recruit and retain employees?
- Are employees leaving for more money?
- Are you optimizing your benefits package to retain employees?

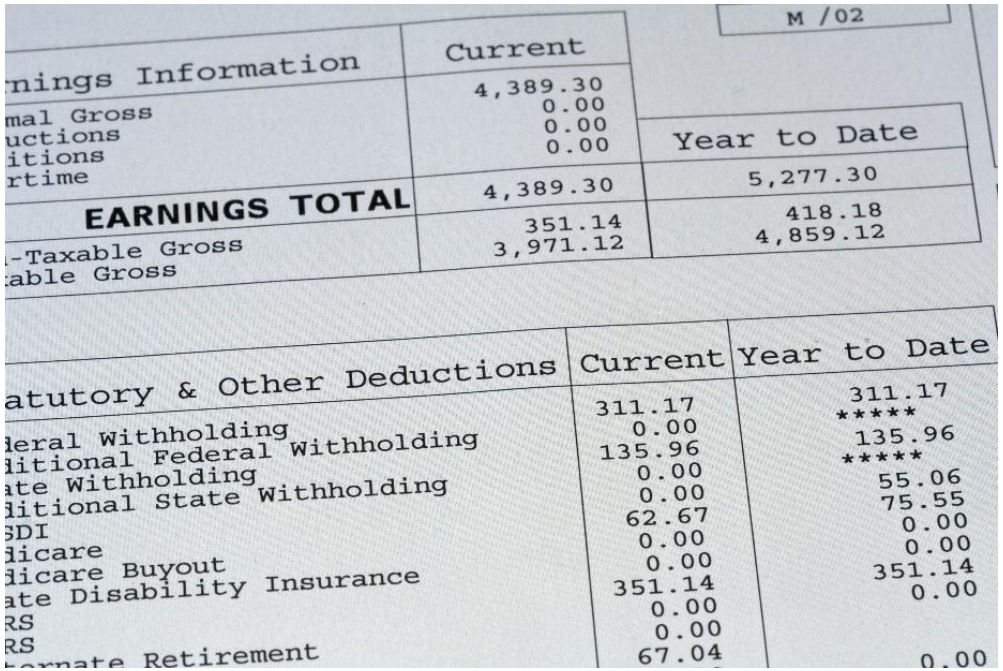
Retirement Healthcare Funding Plan

WHAT IS A RETIREMENT HEALTHCARE FUNDING PLAN?

A Retirement Healthcare Funding Plan (RHFP) is a health care investment account that provides a source of tax-free funds to reimburse participants for the cost of health care expenses, including premiums for themselves, their spouses, and any other qualified tax-dependents.

HOW MUCH DO YOU PAY INTO MEDICARE EVERY PAYCHECK?

- You Pay **1.45%** of every dollar you earn over your career as an employee into Medicare.
- Your employer matches the tax you pay.
- Between you and your employer, you are paying **2.90%** of your salary over your career into Medicare.



rnings Information	Current	Year to Date
mal Gross	4,389.30	
uctions	0.00	
itions	0.00	
rtime	0.00	
EARNINGS TOTAL	4,389.30	5,277.30
-Taxable Gross	351.14	418.18
able Gross	3,971.12	4,859.12

M /02

atutory & Other Deductions	Current	Year to Date
deral Withholding	311.17	311.17
ditional Federal Withholding	0.00	*****
ate Withholding	135.96	135.96
ditional State Withholding	0.00	*****
SDI	0.00	55.06
dicare	62.67	75.55
dicare Buyout	0.00	0.00
ate Disability Insurance	0.00	0.00
RS	351.14	351.14
RS	0.00	0.00
ternate Retirement	0.00	
	67.04	0.00

J.B
LOUVET

HOW MUCH MONEY SHOULD I PLAN ON SPENDING ONCE I AM ON MEDICARE?

In order, to have a **90%** chance of meeting their health care spending needs once on Medicare, a female will need to have saved **$252,000** and a male will need to have saved **$212,000** on their 65th birthday – EBRI March 2025 – Total of **$464,000**

Medicare's Part B premiums have increase **6.7%** annually over the past 6 years

According to U.S. Department HHS, a person aged 65 today has almost a **70%** chance of needing long-term care services in their remaining years

According to the Fidelity Retiree Health Care Cost Estimate, an average retired couple age 65 in 2025 will need approximately **$345,000** saved (after tax) to cover health care expenses throughout retirement

MEDICARE **WHAT IT DOES NOT COVER…**

- Prescription Drugs (Part D)
- Long-Term Care
- Deductibles and co-pays
- Most dental care, notably dentures, implants
- Most vision care, notably eyeglasses and contact
- Most cosmetic surgery
- Medical marijuana
- Medical care outside the US

TYPICAL **PRE-65 LOCAL GOVERNMENT RETIREE TODAY**

- Pre–Medicare healthcare premiums run from **$700 to $4,400** per month for public sector employees
- Healthcare premium are paid with **After-Tax** dollars
- The Pension fund may remit the Premium to the **Employer/TRIP** if applicable

MEDICAL CARE **INFLATION**

Consumer Price Index

- 2001-2020 Averaged **1.91%***
- 2021 increased **6.2%***
- 2022 increased **6.5%***
- 2023 increased **3.4%***
- 2024 increased **3.1%***
- 2025 increased **2.7%***

Medical Insurance Premium Inflation

- Annual **5.27%** from 2001-2020
- 2021 **10%****
- 2022 **4.05%****
- 2023 **7%*****
- 2024 **8.5%******
- 2025 **8.5%******
- 2026 **10%+******

*Bureau of Labor Statistics
** Employee Benefit Research Institute
*** Health Affairs.org **** PwC US

EXAMPLE **PENSION CHECK**

$135,000 Salary x 35 YOS = 75%

Pension = $8,438/month

Monthly Gross Pension Check	**$8,438**
Taxes Withheld	$1,519
Net Check	$6,919
Health Insurance Premiums Withheld (*TRIP*)	$2,583
Net Check	$4,336
Insurance and Taxes Consumes	**49% of monthly check**

EXAMPLE **PENSION CHECK – TRS Tier 2**

$135,000 Salary x 35 YOS = 75%
Final Calculated 8 Year Average = $112,321
Net Effect is a 63% Pension

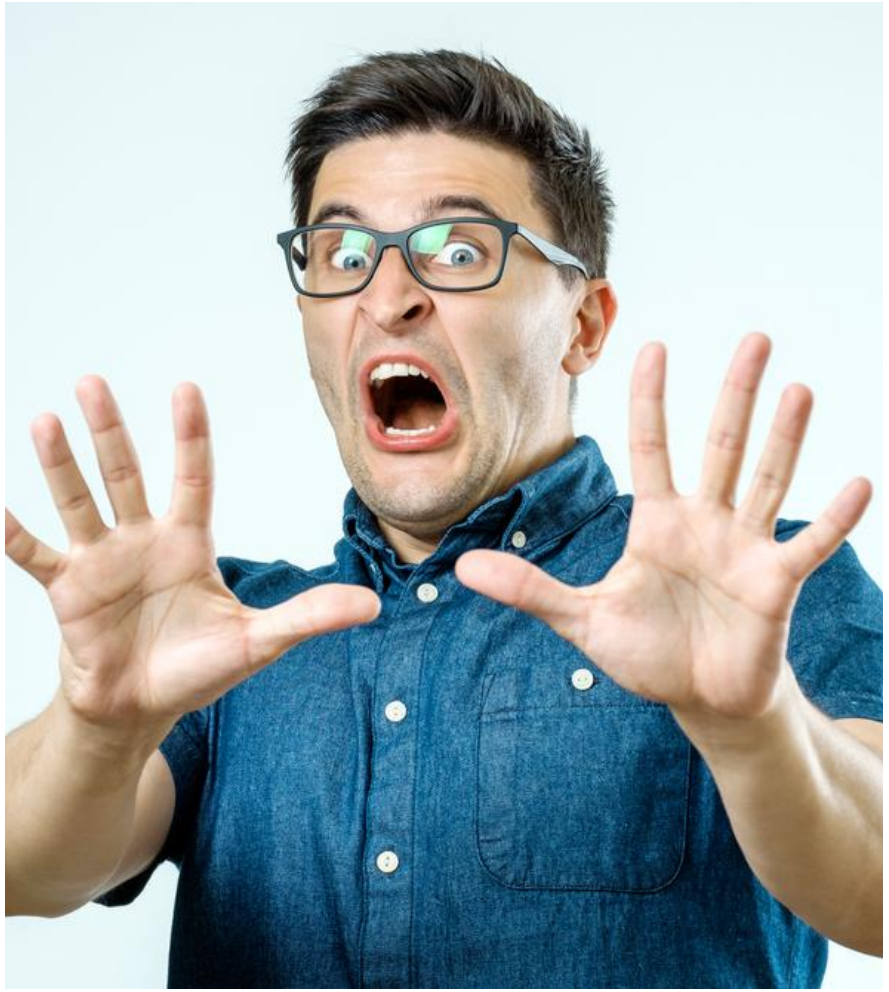
Pension = $7,020/month

Monthly Gross Pension Check	**$7,020**
Taxes Withheld	$1,264
Net Check	$5,756
Health Insurance Premiums Withheld (*TRIP*)	$2,583
Net Check	$3,173
Insurance/Medicare and Taxes Consumes	**54% of monthly check**

PREMIUM COSTS **IN RETIREMENT FROM AGE 60-64**

Monthly Premium Today	5 Year Cost From Age 60-64	After-Tax Dollars Needed*
$800	**$53,333**	**$65,041**
$1,000	$66,666	$81,300
$1,250	$83,337	$101,631
$1,500	$99,999	$121,950
$2,000	$133,332	$162,600
$2,500	**$166,665**	**$203,250**

PREMIUM ONLY **FROM 60-64 AND ESTIMATED MEDICARE COSTS AFTER-TAX**



I NEVER REALIZED HOW MUCH MONEY I NEEDED FOR HEALTHCARE IN RETIREMENT

WHAT DO **THESE PLANS DO?**

- Tax-Free In (Contributions)
- Tax-Free Growth
- Tax-Free Out
  - Money can only come out of plan for qualified medical expenses including premiums

WHAT DO **THESE PLANS DO?**

- Reduces Taxable Income
  - Medicare Taxes (1.45%)
  - Social Security Taxes if Applicable (6.2%)
  - State Income Taxes (4.95%)
  - Federal Income Taxes (15%-20%)
  - Contributions are deposited prior to any of these taxes are paid!

Employer saves payroll tax match!

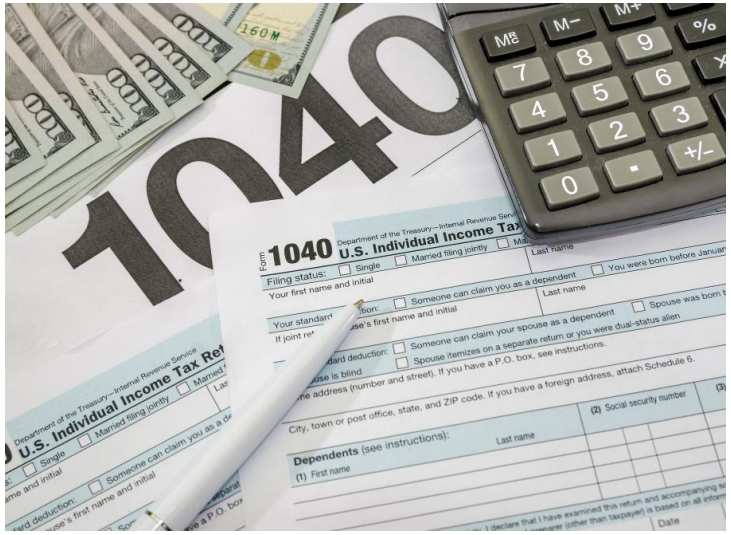
WHAT CAN I USE MY ACCOUNT FOR?

Reimburse yourself for all qualified medical expenses, including premiums once you separate service*

- Co-pays
- Deductibles
- Dental
- Vision
- Chiropractic
- Co-Insurance
- **PREMIUMS**

WHO CAN I USE THIS ACCOUNT ON?

- Any qualified Tax Dependent
  - Yourself
  - Spouse
  - Child
  - Parent



- Anyone you claim an exemption for on your Federal income Tax Return

RETIREMENT **HEALTHCARE FUNDING**

- VEBA (IRC Section 501c9 Trust)
- IRC Section 115 Trust
- Health Savings Account

VEBA **(501C9 TRUST)**

- A “VEBA” is a Voluntary Employees’ Beneficiary Association
- Started in 1928
- Available to pay medical expenses, including premiums, deductibles and co-pays
- No non-tax dependent benefit
- Some vendors have a 1 or 2 bucket claims process

115 **TRUST**

- Started in 1999
- Authority comes from Private Letter Ruling
- Available to pay medical expenses, including premiums, deductibles and co-pays
- Death benefit to non-tax dependent*

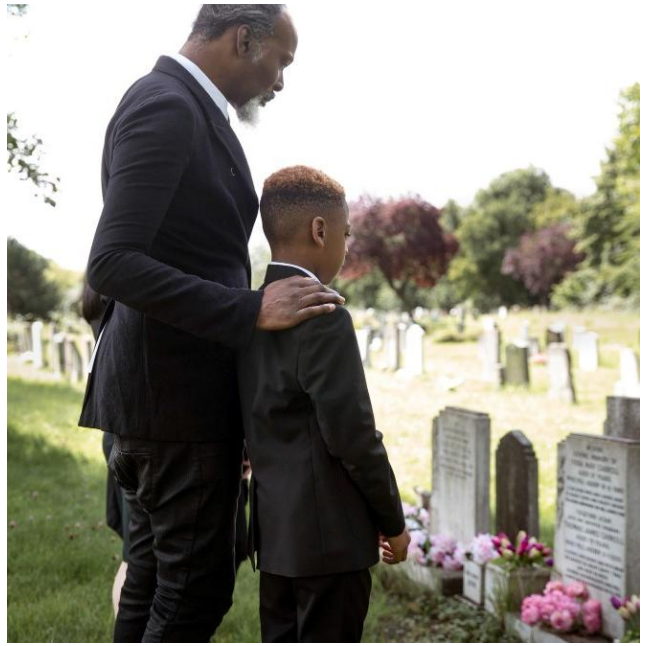
Death Benefit is Vendor Specific – Some vendor's Trust require the Employer to keep death proceeds

*NPPFA Specific

DEATH **AND 501C9 TRUST (VEBA)**

- If you die with a tax-dependent, the account is retitled in the dependent's name and they have immediate access to the funds for qualified medical expenses as if the member separated service

- If you die without a tax-dependent, the account is liquidated after any final claims are paid and the funds are either distributed to the remaining participants within your group or retained by the vendor

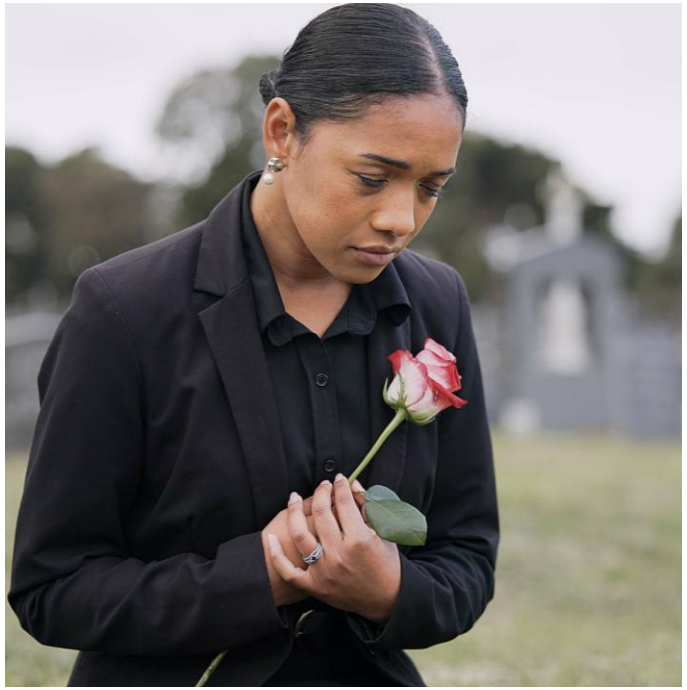


DEATH **AND 115 TRUST**

- If you die with a tax-dependent, the account is retitled in the dependent's name and they have immediate access to the funds for qualified medical expenses as if the member separated service

- If you die without a tax-dependent, the account is liquidated after any final claims are paid and the funds are remitted to a beneficiary of your choice (vendor specific)

    - Funds are received tax-free by the recipient
    - Funds are available for use for anything



HEALTH **SAVINGS ACCOUNTS (HSA)**

Can I use my HSA to pay for health insurance premiums?

No, with the following three exceptions:

- if the HDHP premium is part of a COBRA continuation coverage,
- if you (the HSA owner) are currently receiving unemployment under a state or federal program, and
- if the HSA owner is over age 65 and using the HSA to pay for Medicare or an employer sponsored health plan.

HOW ARE **THESE PLAN FUNDED?**

- Employee Contributions
  - Flat Dollar
  - Percent of Pay
- Sick Time
- Comp Time
- Bonus
- Longevity Pay
- Employer Contributions
- Any Form of Compensation

SICK DAY **BANKS**

Why are employees accumulating large sick day banks?

- You would never lend money to a friend for 3% taxable interest over 30 years
- Why are you willing to make that deal with your employer?

What is going to increase faster?

- Wages?
- Investment Account?

SICK BANK **VS. UTILIZING THE TAX CODE (RHFP)**

46-Year-Old retiring in 9 years

GENERAL ASSUMPTIONS	
3%	Wage Inflation
2880	Hours Worked Annually
144	Annual Deposit into bank
2497	Current Sick Bank
$41.17	Current Hourly Wage Rate
8%	RoR on Investment Account
9	Years Until Retirement
100%	% of Healthcare Paid By Retiree

HOW IT WORKED **WITH THE RHFP**

The employer deposited money into the participant's account:

- Received $92,070 into his account tax-free upon the settlement of the contract (≈2,200 hours)
- Each year, the employer deposits all sick time accrued above 300 hours at the end of the year (144 hours per year if unused)
- In 9 years, the deposits and earnings grew to $292,100 at retirement

SICK TIME **PAYOUT**

- The employer never deposited into a tax-free account
- Worked **9 more years** and never used a sick day
- At the end of 9 years, his **sick day** balance was **3940 hours**
- Received a gross check of **$193,559**
- Paid taxes $**58,842 in taxes**
- **Net check of $134,717**

WHICH ONE **IS BETTER?**

Cashing out Sick Time Bank Results	
Months of Covered Health Insurance	Years of Covered Health Insurance
45	3.75
Total Lifetime Benefit	$149,672

Utilizing the Retirement Healthcare Funding Plan	
Months of Covered Health Insurance	Years of Covered Health Insurance
110	9.17
Total Lifetime Benefit	$420,092

RHFP Advantage : $270,419

PLAN EXAMPLES – SCHOOL DISTRICT

Contribution By YOS - %

- 0-2 Years of Service – 2%
- 3-7 Years of Service – 3.5%
- 8-15 Years of Service – 5%
- 15+ Years of Service – 7%

Contributions By YOS - $

- 0-2 Years of Service – $100
- 3-7 Years of Service – $150
- 8-15 Years of Service – $200
- 15+ Years of Service – $250

Contributions by Tier -%

- Tier 1 – 10%
- Tier 2 – 5%

Contributions By Job Title

- Superintendent – 10%
  - Employer Contribution in RHFP instead of 403(b)
- Chief Administrator Officer/CSBO – 7%
- Principal – 5%
- Director of Special Education – 5%

Contributions by Tier -$

- Tier 1 – $300
- Tier 2 – $150

Additional Funding Methods

- Comp Time
- Sick Time
- Vacation Time
- Accrued Sick Leave at Retirement
- Longevity Pay
- End of Career Pay
- Waiver For Not Participating in the Employer health insurance
- Retention Bonus
- Post employment payouts
- 403(b) match
- Employer contribution over Tier II pension cap

EXAMPLE 1

- **Pre-fund** retiree health insurance during final 4 years of teaching
- **Reduces OPEB**
- **Retiree choice** – allows money to be used for health expenses outside of TRIP
- **Doesn't count** against 6% cap for TRS pension

EXAMPLE 2

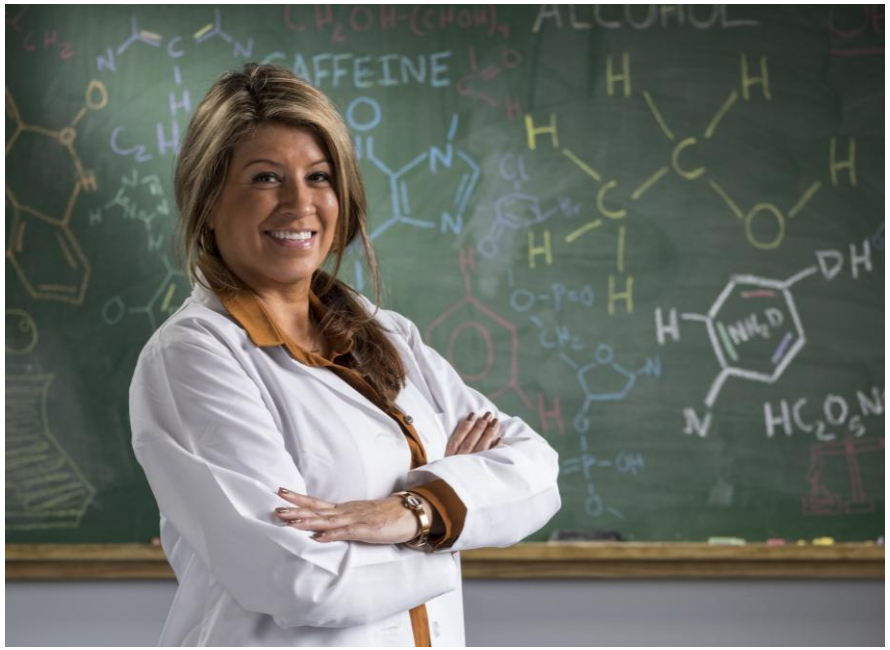
- District matches Tier II employee's contributions into 403(b)
  - Put match into RHFP so all the money is tax free in retirement
- Tier II Results Using RHFP vs. 403(b)
  - Start 25 yrs old and qualify for district match every year for 35 years
  - Effective tax rate 18% (0% State Income Tax)
  - $399,725 More Lifetime Income
    - RFHP - 272 Months and $1,253,995
    - 403(b) – 213 Months and $854,231

$399,725 buys 59 months (almost 6 years) of health insurance through TRIP and Medicare

EXAMPLE 3

- The school board contributes into the Superintendent's RHFP
  - All money goes in before taxes. District saves Medicare and Social Security (if applicable)
  - All money comes out tax-free for qualified medical expenses
  - Contributions not included in TRS credible earnings
- Superintendent makes an additional contribution as stipulated in contract

EXAMPLE 4



- **100%** of annual sick leave buy-back
- **100%** of end of career payout
- **100%** of Principal goal pay
- **100%** of Leadership incentive
- **3%** of salary

You don't have to do it all at once!

EXAMPLE 5

- Every Police Officer is receiving an employer contribution of $1,500
- 5-year vesting schedule for anyone less than 5 years
- Recruiting and retention tool

EXAMPLE 6

- 0-2 Years of Service – **1%**
- 3-7 Years of Service – **2%**
- 7-15 Years of Service – **2.5%**
- 16-20 Years of Service – **3%**
- 21-25 Years of Service – **3.5%**
- 26-28 Years of Service – **4%**
- 28+ Years of Service – **15%**

EXAMPLE **6 - Continued**

- **50%** of all health insurance opt-out program payments
- **100%** of all time due as of 12/31 will be deposited into the RHFP
- **100%** of Sick Leave Usage Incentive and any other accrued and remaining vacation/compensation hours are deposited into the members RHFP (end of career)

EXAMPLE 7 – ALL NON-UNION

Group 1 – All certified employees

- 0-5 Years of Service – **1%**
- 6-10 Years of Service – **2%**
- 11-15 Years of Service – **3%**
- 16-20 Years of Service – **4%**
- 21-25 Years of Service – **5%**
- **100%** of End of Career Payout into RHFP

Group 2

- All Department heads 4% of salary + End of career sick day payout at 100% above 240 days

- Use RHFP for the 403(b) match instead of 403(b) since withdrawals are tax free
- Use RHFP for payout of sick leave (when applicable). Any post employment payout
- Use RHFP for employer contributions to TRS/IMRF over Tier II pension cap (2025/26 $127,283.01)
- Use RHFP to allow teachers who have turned in their retirement letter to do extra duties without risk of TRS pension penalty

TIER 2 **PENSION CAP**

?

- The employee contribution that would normally be committed to the pension is deposited into the participants RHFP for Tier 2 whose salary is above the pensionable cap
- Bolingbrook Police Sgts 9.91%
- Orland Fire Fighters 9.455%
- The employer is matching at **50%**

CONTRACT **LANGUAGE**

?

Post-retirement health care provision: The Board of Education shall make an employer contribution of $690 per month during each of the last four years of employment ($33,120 total) into an IRC Section 115 Trust. The Trust shall be used by the retiree for post-employment health care expenses.

?

Use RHFP to allow teachers who have turned in their retirement letter to do extra duties without risk of TRS pension penalty

?

Class 1: Superintendent

1. **Salary Reduction Contribution**
   The District shall deposit, on a biweekly basis, an amount equal to **ten percent (10%) of the Superintendent's contracted salary** into the Retirement Healthcare Funding Plan. Such deposits shall be made as a **reduction of compensation** and credited to the Superintendent's account.

2. **Performance Incentive Contribution**
   The District shall contribute **one hundred percent (100%) of any performance incentive payment earned** by the Superintendent into the Retirement Healthcare Funding Plan.

3. **Annual Vacation Days**
   The District shall contribute **(100%) of annual vacation days (20)** by the Superintendent into the Retirement Healthcare Funding Plan.

CONTRACT **LANGUAGE – PLACE HOLDER**

?

The union shall be offered the option to participate in a Retirement Healthcare Funding Plan. The District shall establish and administer the Post-Employment Health Plan in accordance with applicable law and shall honor the funding provisions set forth in the collective bargaining agreement.

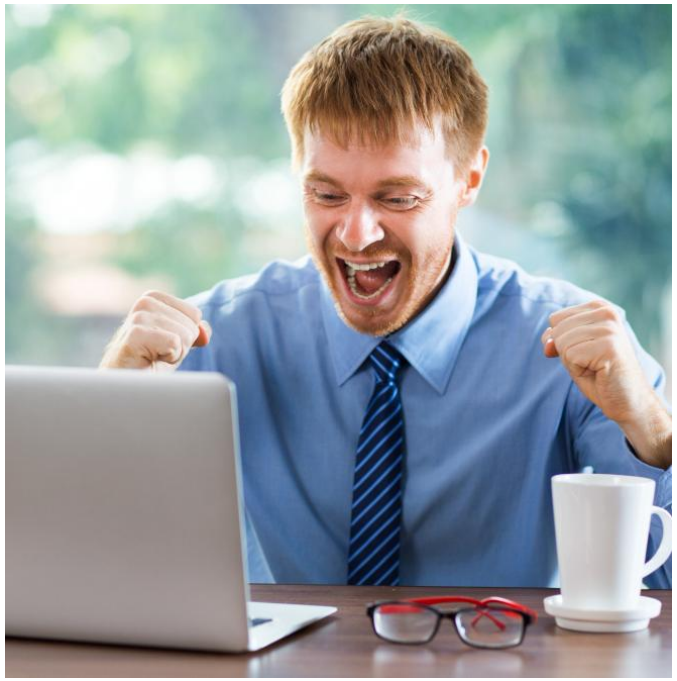
WHERE DOES **THE MONEY GO FROM YOUR PAYCHECK?**

Deposit into a self-directed investment account not unlike what you are currently doing with your 457(b) or 403(b) plans

- Portfolio of mutual funds
- Managed Account Availability
- Fixed/Stable Value Fund

WIN - **WIN**

- Win-Win
- Triple Tax Free
- Employer saves payroll taxes
  - “Above The Line Deduction”
- Works like an FSA for retirement without the use it or lose it feature



WIN - **WIN**

- Reduces Payroll Taxes
- Reduces OPEB
- Doesn’t count against the 6% cap for TRS
- Employer contributions are not pensionable for TRS

THANK YOU!

Joel J. Babbitt & Debby Karton,

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Debby Karton debbyk@nppfabenefits.org 847-441-5911

Questions and Answers

We thank you for your time!