Tax-Free Funding for Retiring Employees' Healthcare Costs

Tax-deferred is **good.**

Many retirees needlessly withdraw funds from their tax-deferred retirement accounts and pay income taxes on those funds for expenses that otherwise could be withdrawn income tax-free.

Oftentimes, these retirement accounts are funded by the employer upon separation of service as compensation for unused sick/vacation days, early retirement incentive plans, or other forms of special pay.

Employers often direct these payouts to a tax-deferred account, such as a 403(b) or 401(a). When retirees withdraw these funds to pay for healthcare-related expenses, they are mandated to add those withdrawals as ordinary income when filing their income tax returns. Hence, taxes due.

Tax-free is **better.**

Funded Health Reimbursement Arrangements (HRAs), like the YourWay HRA, remove the tax burden from both the employer and employee.

These same "separation of service" payouts, funded by the employer, are directed to a Funded HRA account in the retiree's name. These funds can then be used by the retiree to pay for any unreimbursed qualified medical expense including health insurance premiums, Medicare and Medicare Supplemental plans, qualified long-term care insurance and expenses, vision, dental, deductibles, co-pays, and more.

Unlike a 403(b) or 401(a), withdrawals from a YourWay HRA are income tax-free—for the retiree as well as the retiree's spouse and all qualified dependents.

More employers agree that tax-free is better than tax-deferred.

Thousands of public sector employers now include a funded HRA as a part of their benefits package, meaning over 230,000 employees are benefitting from our one-of-a-kind platform and services.

Tax Savings for **Employers**

- All wage-based payroll taxes (FICA).

Tax Savings for **Employees**

- All wage-based payroll taxes (FICA).
- Federal and state (if applicable) income taxes.

See the Benefits of YourWay HRA in Action

Let's look at a real-life example of how two retired teachers, Evelyn and John, pay for the same medical expense differently.

Both Evelyn and John spend $450 per month on Medicare, other health premiums, and other out-of-pocket expenses such as co-pays, deductibles, dental coverage, and prescriptions.

John's school district directs all separation pay (PTO) to his 403(b) retirement account, which he uses to pay the $450 monthly bills. Evelyn's school district directs a portion of her separation pay (PTO) to a YourWay Funded HRA, which she uses to pay the $450 monthly bills. For the sake of this example, we will assume that both John and Evelyn have the same combined federal and state* income tax rates, totaling 25%.

Over a five-year period, the amount Evelyn saves is significant:

	John	Evelyn
Five-Year Health-Related Expenses ($450 per Month)	$27,000	$27,000
Withdrawal Needed	$36,000	$27,000
Five-Year Tax Savings	$0	**$9,000**

**State income tax rates vary and may not apply altogether in some states.*

Key Differences

- To cover the tax liability, John would need to deplete his 403(b) retirement account by **$36,000**
- Evelyn would only need to deplete her YourWay HRA by only **$27,000**
- The extra **$9,000** benefit to Evelyn comes from federal and state income tax savings

About OneBridge

- Largest funded HRA administrator in the country.
- Over $2B in health benefits accounts.
- Over 1,300 public sector employers with 230,000 participants.
- Single, robust online portal and mobile app for all users.
- Stacked debit card offering for all accounts.
- Seamless, white-glove onboarding and post-enrollment support via friendly call center.

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