



Retirement Plans

PEHP Summary

Plan for future healthcare expenses with PEHP



Public employers and employees need a comprehensive solution to overcome today's challenges including:

- Rising Health Care Costs¹
- Budget Deficits²
- Reduced Employee Retention³

Nationwide's PEHP® program can help:

- Provide retiree health care benefits
- Reduce the FICA tax burden
- Address GASB 45 concerns
- Retain employees

What is PEHP?

Post Employment Health Plan (PEHP) is a tax-free, defined-contribution health reimbursement arrangement. It allows for money to be set aside to pay for future medical expenses. All contributions, accumulations, and reimbursements are tax exempt.

PEHP can allow for reimbursement of medical insurance premiums and out-of-pocket medical costs, including prescription drugs, co-pays, and eyeglasses.

PEHP is a tax-exempt Voluntary Employees' Beneficiary Association (VEBA) Trust, which provides employee benefits authorized by Internal Revenue Code Section 501(c)(9). Both PEHP and the VEBA Trust have a Tax Determination Letter providing for a favorable tax exempt status. The VEBA Trust owns and protects the assets for the exclusive benefit of plan participants and their qualified dependents.

Separate VEBA Trusts may be established for collectively bargained and non-collectively bargained employee groups.

PEHP account contributions and value are subject to market risks which may result in declining value.

What PEHP can do for you

Meet the challenge of rising health care costs

The increasing number of retiring baby boomers will likely strain capacity for health care services, driving costs even higher. Through PEHP, you help retirees prepare for these costs by pre-funding them.

Reduce FICA costs

Since PEHP contributions are not subject to FICA taxation, your long-term payroll tax liability is reduced. When you fund a PEHP program, you lower your payroll tax burden and provide employees with a post employment health care benefit. Unlike 457 deferred compensation plans, or 401(a) defined contribution plans, PEHP has no annual limit on contributions.

Address GASB 45 concerns

Government Accounting Standards Board (GASB) Statement 45 directs governmental employers to:

- Account for all Other Post Employment Benefits on an accrual basis rather than pay-as-you-go
- Report unfunded amounts as liabilities
- Help ensure that current and future employees have a retirement health care benefit without adding unfunded liabilities.

Retain employees

Experts across the nation proclaim a workforce shortage by 2020. PEHP provides a retirement benefit that could:⁴

- Attract and retain top quality workers
- Position employers to work with employee groups to find mutually beneficial solutions to the health care cost dilemma

¹ For 2015, Price Waterhouse Coopers Health Research Institute projects a medical cost trend of 6.8%, up from 6.5% projected for 2014. Source: "Slight uptick in expected growth rate ends five-year contraction," Price Waterhouse Coopers news article, pwc.com

² Total other postemployment benefit (OPEB) liability is largely unfunded across states. Liability totaled \$529.8 billion—unchanged from 2013 survey. Source: "Diverging Trends Underlie Stable Overall U.S. OPEB Liability," Standard & Poor's Financial Services LLC, a part of McGraw-Hill Financial.

³ There were 4.9 million total separations (includes quits, layoffs, and other separations) in December 2014—the highest level since since October 2008. "Job Openings And Labor Turnover—December 2014," Source: Bureau Of Labor Statistics, U.S. Department Of Labor news release (02/10/2015).

⁴ "Projections of Jobs and Education Requirements through 2018," Anthony P. Carnevale, Nicole Smith, and Jeff Strohl, Georgetown University (2010).



Covered expenses

PEHP dollars cover qualified medical expenses. Internal Revenue Code Section 213(d) defines qualified medical expenses for a PEHP program. Examples include, but are not limited to:

- Health insurance and qualified long-term care premiums
- Medicare Part B and supplemental insurance premiums
- Out-of-pocket expenses for prescription drugs, co-pays, and eyeglasses

Employee-centered features

PEHP fosters employee goodwill through:

- Participant control and management of their individual account
- Upon separation from service or retirement, reimbursements from PEHP accounts are free from federal income and FICA taxes.
- Quarterly statements with education-focused messages
- Online PEHP investment management tools
- Access to licensed and non-commissioned retirement specialists who answer questions and explain options
- Free healthcare cost in retirement assessment that incorporates employees' tax-exempt PEHP contributions that they've set aside for future medical expenses

PEHP funding options

PEHP may be funded in a variety of ways. Nationwide can help you identify an approach that best fits both employer and employee needs.

Funding examples include:

- A portion of each employee's accumulated leave is applied to the program
- Employer contributes a one-time lump sum to each employee's PEHP account at separation from service or retirement
- Ongoing employer or mandatory employee contributions based on a percentage of each employee's annual salary or as an equal dollar contribution per employee
- Employer contributes on behalf of retired employees

The two funding buckets of PEHP



1. Universal Account or 105

These accounts are funded by equal dollar contributions for each employee. A 105(h) Universal Reimbursement Account pays for prescriptions, eyeglasses, co-pays, and can also be used for insurance premium expenses.



2. Premium Reimbursement Account or 106

These accounts are funded by either:

- Contributions based on a percentage of annual salary
- Diverted money from employee-accumulated leave

A 106 Insurance Premium Reimbursement Account can only be used for insurance premium expenses such as health, vision, dental, long term care, Medicare Part B and COBRA continuation.

Fund either bucket or both buckets to offer a comprehensive employee benefit.

Note: Different program funding models may limit the expenses that can be reimbursed from PEHP accounts.

Why are there two separate accounts or funding buckets?

Two accounts are in place to satisfy the Internal Revenue Code Section 105(h) nondiscrimination rule. This rule prohibits plans from providing highly compensated individuals more favorable plan eligibility and benefits than lower-paid employees. Because the accounts are structured in this manner, the employer is not liable for the discrimination testing.

A close-up, profile view of a firefighter. The firefighter is wearing a yellow and black helmet with a clear visor and a blue rope. They are wearing a black jacket with yellow reflective stripes. They are holding a black radio with a coiled cord in their hands. The background is blurred, showing a fence and some foliage.

Why Nationwide?

Nationwide has focused on the needs of public sector employees for 40 years. We began administering PEHP as a much-needed retirement solution in 1996 and have been a recognized leader in providing these services ever since. PEHP is an excellent addition to an employee benefit package and also works well when accompanied by a 457(b) deferred compensation plan through Nationwide.

Nationwide:

- Keeps it simple and makes it easy
- Provides award-winning education and support
- Addresses future retiree benefit-liability concerns
- Is *On Your Side™*

PEHP is your solution for:



Rising medical costs that make it difficult to maintain existing post-employment benefits for your employees



Easing employee concerns about the high cost of post-employment health care expenses



Converting unused sick, vacation, and other paid leave options into tax-exempt investments

Nationwide Retirement Solutions
PEHP Service Center
PO Box 182797
Columbus, OH 43218-2797



1-877-677-3678



nrsforu.com



Nationwide®

Investing involves market risk, including possible loss of principal. Actual investment results will vary depending on your investment and market experience, and there is no guarantee that fund objectives will be met.

Nationwide representatives are Registered Representatives of Nationwide Investment Services Corporation, member FINRA. Nationwide Retirement Specialists cannot offer investment, tax or legal advice. You should consult your own counsel before making retirement plan decisions.

Nationwide has endorsement relationships with the National Association of Counties, the International Association of Fire Fighters and the National Association of Police Officers. More information about the endorsement partnerships is available at www.nrsforu.com.

Nationwide, the Nationwide N and Eagle, and Nationwide is on your side are service marks of Nationwide Mutual Insurance Company. ©2015 Nationwide

NRM-3086AO.6 (06/15)