

The Funded HRA/VEBA Opportunity



:: What is a VEBA Trust?

VEBA is the acronym for a “voluntary employee beneficiary association”, which is a type of trust established in accordance with the requirements of Section 501(c)(9) of the Internal Revenue Code (“Code”).

A VEBA must meet the following requirements:

- It must be a voluntary association of employees;
- The VEBA must provide for payment of life, sick, accident, or other benefits to members or their dependents or designated beneficiaries and substantially all of its operations must be for this purpose; and
- VEBA assets and earnings may not inure to the benefit of any private individual or shareholder other than through the payment of benefits described in (2) above.

VEBA beneficiaries must consist of individuals who are employees (which may also include retirees) who have an employment-related common bond. This common bond may be a common employer (or affiliated employers), or coverage under one or more collective bargaining agreements, membership in a labor union, or membership in one or more locals of a national or international labor union. Except for certain collectively bargained plans, a VEBA will not be tax-exempt unless the related benefit plan meets certain nondiscrimination requirements (generally, this means that the VEBA cannot discriminate in favor of certain types of high-ranking, highly compensated individuals). Finally, a VEBA will not be treated as tax exempt unless it gives timely notice to the IRS that it is applying for recognition of such status (*i.e.*, by filing a Form 1024 application for tax exempt status) and receives IRS approval.

:: Why the Sudden Surge in VEBAs?

Recent changes in financial accounting reporting obligations have caused many employers, both public and private, to re-examine the overall economics of pre-funding retiree medical benefits. These changes, mandated by Financial Accounting Standards Board (“FASB”) Statement No. 106 for the private sector and Government Accounting Standards Board (“GASB”) Statement No. 45 for the public sector, require employers to report the unfunded cost of future retiree medical obligations on their balance sheets. In an effort to counter this potential adverse balance sheet impact, many employers, both public and private, are re-examining their health plan design – often considering a tax-favored trust for benefit funding.

Another significant catalyst is the recent trend to create stand-alone VEBAs as the sole source of funding for certain collectively bargained benefits. One recent study indicates that at least four such VEBAs exist with assets in excess of \$500 million each, and at least two of these have over 100,000 participants. ^[1] These developments, combined with the rise of defined contribution health care arrangements (*e.g.*, health reimbursement arrangements or “HRAs”) and access to benefits through health care debit cards have given rise to a resurgence in VEBA (and Section 115 for governmental employer) trust adoption.

[1] See Segal study “Retiree Health VEBAs”, Winter 2008 at <http://www.segalco.com/publications/surveysandstudies/2008VEBAs.pdf>.

:: Funded HRA/VEBA Opportunities

1-1 50-STATE RETIREE BILL: \$2.73 TRILLION

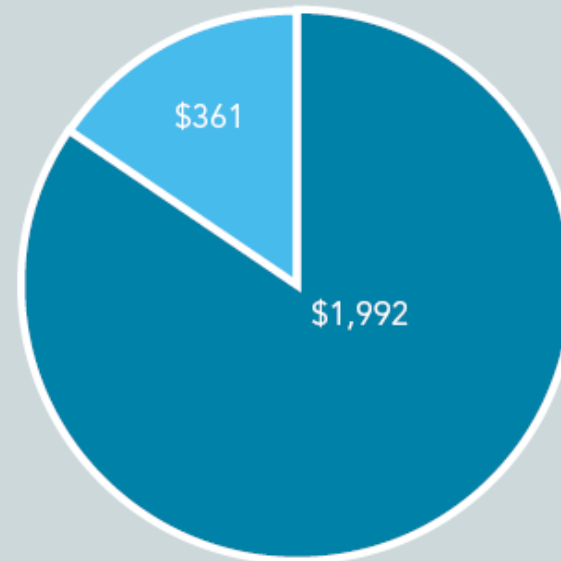
The pension bill is much larger than that of other benefits, but it is 85 percent funded; the bill for other benefits is only 3 percent funded (in billions).



Other Benefits \$381 billion



Pensions \$2.35 trillion



¹ This number is an estimate of assets for state employees only. According to actuarial valuations, which include cost-sharing plans, the assets total \$18 billion.

NOTES: Numbers are the totals of the states' 30-year obligations as calculated in 2006. Other benefit costs only include state employees. The "Other Benefits" number is based on actuarial valuations from the states, which include some cost-sharing plans (i.e., Arizona, North Carolina and Ohio).

SOURCE: Pew Center on the States; Based on States' Comprehensive Annual Financial Report and Actuarial Valuation Data

GASB 45 – The Governmental Accounting Standards Board

- Requires state and local governmental employers account for and report the annual cost of OPEB (other post employment benefits) and outstanding obligations and commitments related to OPEB in same manner as they currently do for pensions
- Establishes disclosure requirements regarding plans information in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time.
- Implementation effective in three phases based on an entities total annual revenues:
 - Largest employers would be required to implement after December 15, 2006.
 - Medium-sized employers have one additional year to implement
 - Smallest employers have two additional years.

:: Defined Benefit vs. Defined Contribution

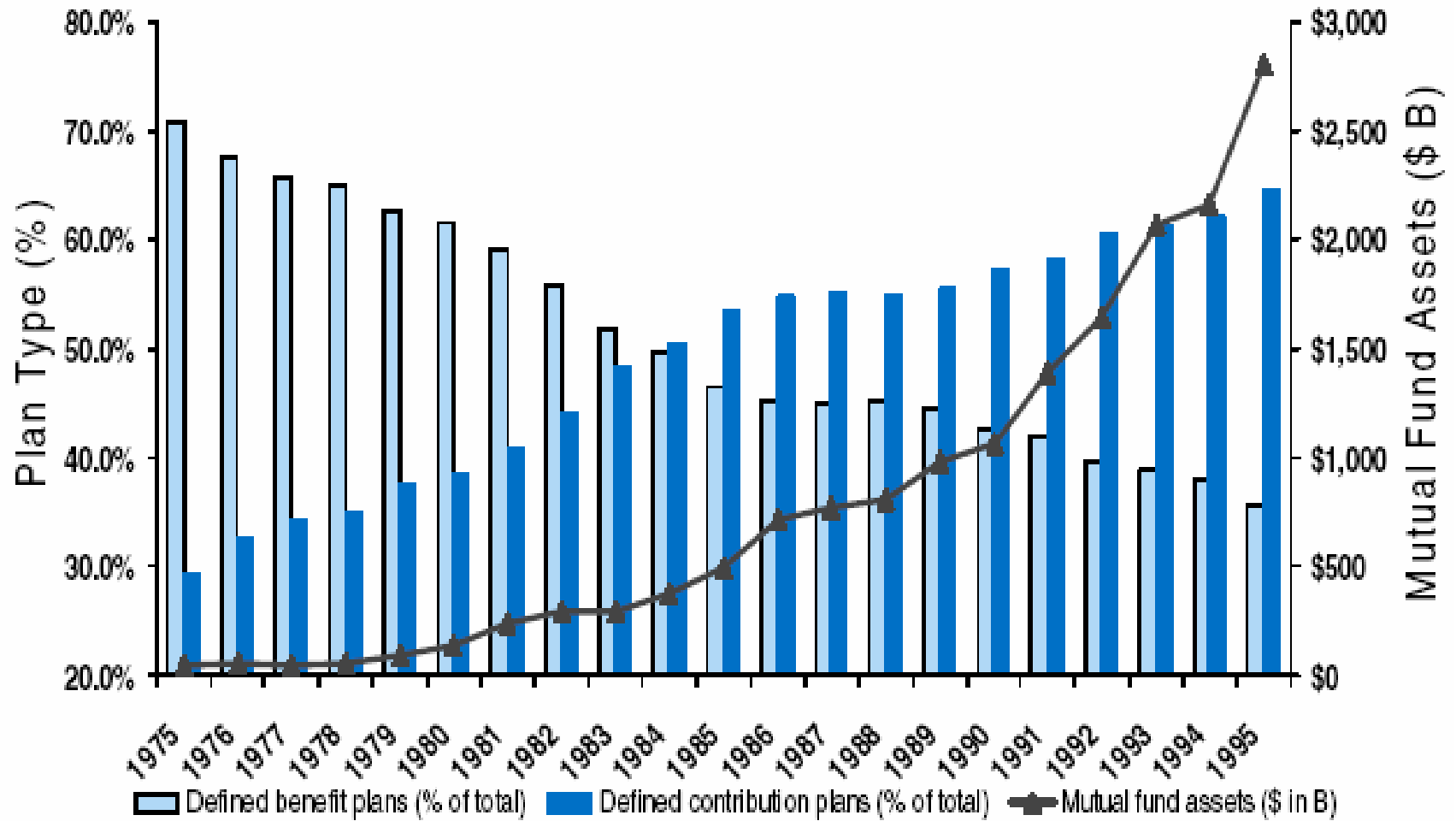
Defined Benefit

- Guaranteed benefit for participant and spouse
- Risk of under funding
- No participant participation
- Employer makes investment decisions

Defined Contribution

- Employer and employee contributions
- Participants choice on how much to save
- Tax deferred savings
- Participant makes investment decisions

:: Could the Funded HRA/VEBA Market Grow By Comparison?



Source: Investment Company Institute.

:: VEBA IRC 501(c)(9) and IRC 115 Trust Comparison

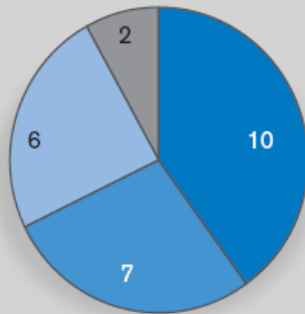
| | VEBA | 115 |
|--|---|---|
| A health reimbursement arrangement (HRA) can be offered by governmental employers within a VEBA or other tax-exempt trust. | Formed pursuant to provisions of Section 501(c)(9) of the IRS Code setting forth the requirements and limitations | A trust that is exempt from taxation under Section 115 of the IRS Code. Legally guided under IRS, Treasury and IRS private letter rulings |
| IRS Approval required or recommended | Yes. An IRS 501(c)(9) determination letter is required and must be obtained within 15 months after trust executed | IRS approval is not required. However, an IRS private letter ruling is recommended. |
| Is the trust expensive to create? | VEBA trusts can be fairly expensive to create as the plan sponsor must prepare and submit IRS Form 1024, budget and trust documents | Generally setting up a 115 trusts are less expensive than a VEBA trust because the effort to seek and receive the IRS letter is not necessary |

Source: VEBA Services Group.

The above information is a brief comparison of the trusts, but should not be construed as complete comparison. Please consult your legal council or accounting professional for more information.

:: What do the Segal Study Numbers Tell Us?

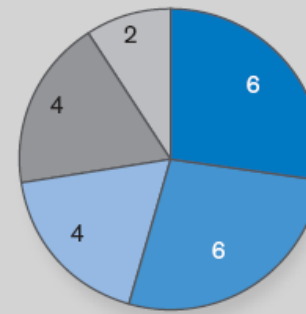
Graph 1: Number of Retiree Health VEBAs by Reason for Formation



Key:

- Bankruptcy Only
- Collective Bargaining in Bankruptcy
- Collective Bargaining Only
- Litigation

Graph 4: Number of *Ongoing* Retiree Health VEBAs* by Number of Participants

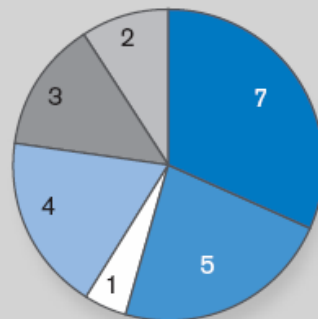


Key:

- Fewer than 1,000 Participants
- 1,000-4,999 Participants
- 5,000-9,999 Participants
- 10,000-99,999 Participants
- 100,000+ Participants

* There are 22 ongoing retiree health VEBAs in the study.

Graph 3: Number of *Ongoing* Retiree Health VEBAs* by Years in Existence**



Key:

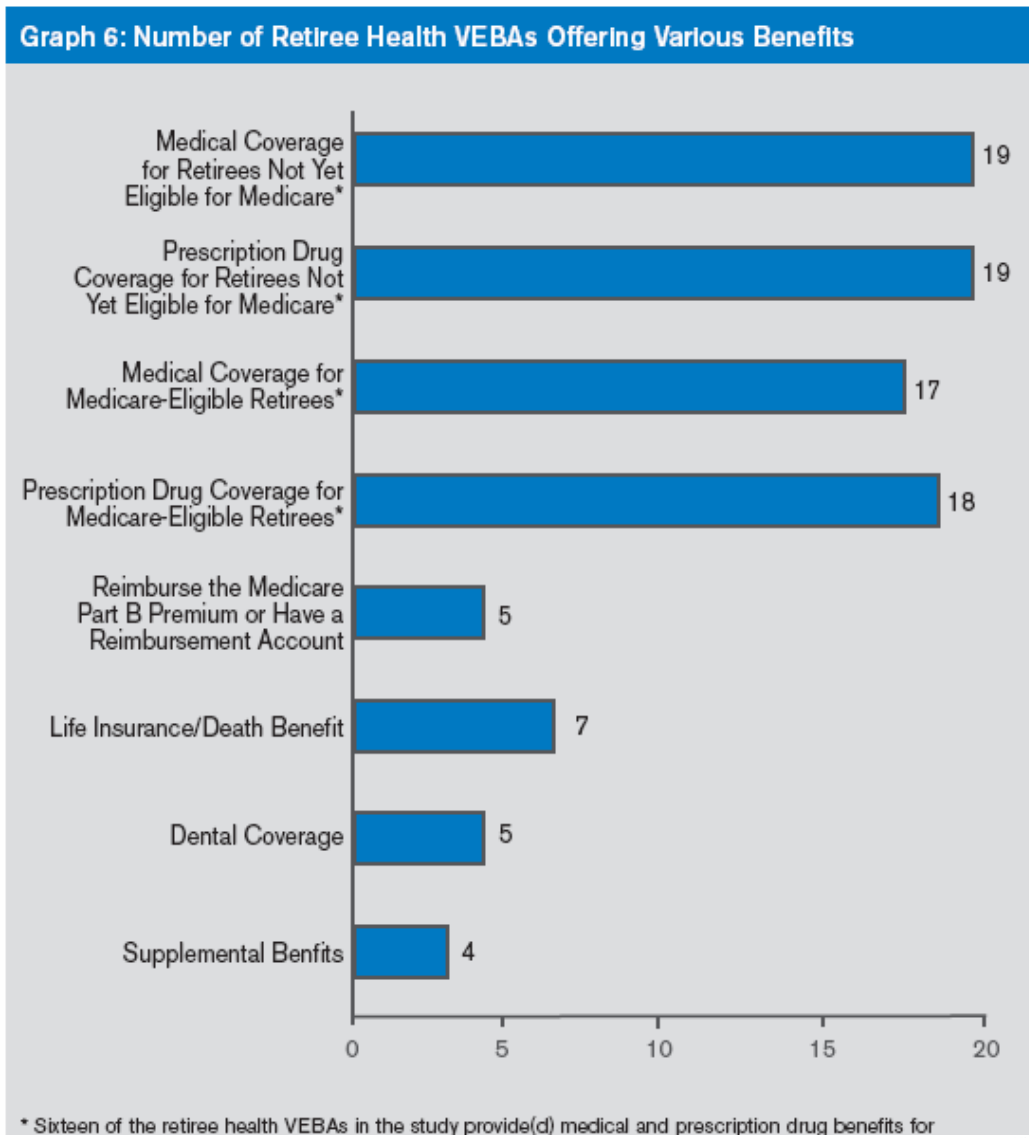
- 1 Year or Less
- 2-4 Years
- 5-9 Years
- 10-14 Years
- 15-19 Years
- 20+ Years

* There are 22 ongoing retiree health VEBAs in the study.

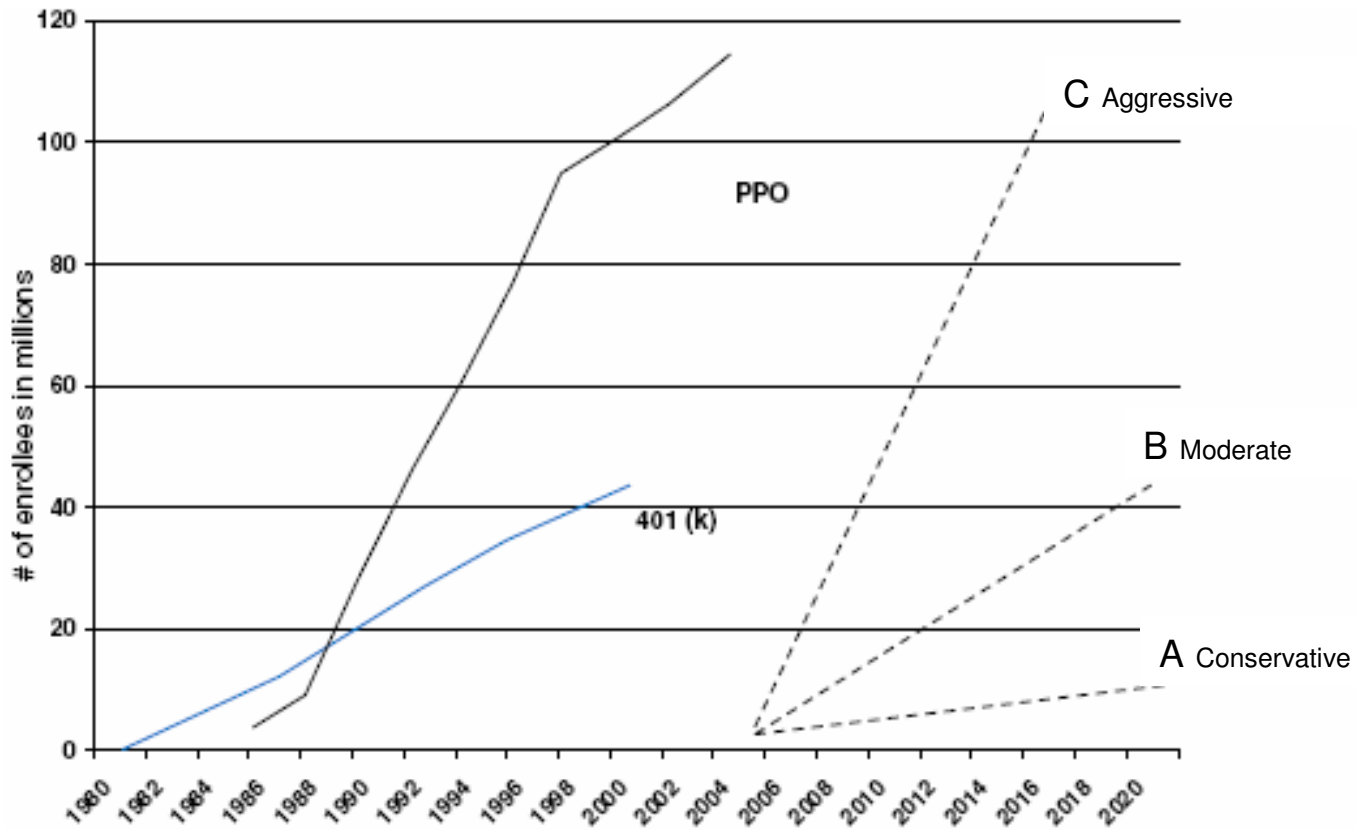
** All three of the terminated retiree health VEBAs in the study had been in existence between five and nine years.

[1] See Segal study "Retiree Health VEBAs", Winter 2008 at <http://www.segalco.com/publications/surveysandstudies/2008VEBAs.pdf>.

:: What Benefits are the VEBAs Covering?



:: Could the CDH Market Grow By Comparison?



| | Scenario A | Scenario B | Scenario C |
|---|------------|------------|------------|
| Potential CDHP enrollment by 2010 | 7m | 21m | 73m |
| % of total commercial managed care enrollment | 3.4% | 10.3% | 36.0% |

Source: CMS, Goldman Sachs Research, PricewaterhouseCoopers.

:: Current VEBA Client: Case Study

- Voluntary cooperative purchasing organization: Public employees in Minnesota
- 7 separate entities with 649 separate employers representing 104,000 enrollees
- Individual group decision to offer VEBA
- Functions as a funded HRA with a notional balance for each participant
 - Active VEBA
 - Retirement VEBA
- Employer contributions only
 - No limits
 - Ongoing contributions
 - Special contributions at retirement – sick leave & vacation conversion
- Designed to pay all 213(d) expenses
 - Medical, Vision, Dental, Health Premiums
- Full spend-down allowed for medical expenses
 - Participant, spouse, dependents
 - No cash out
 - Residual, if any, reverts back to the Trust

:: Online Participant Planning Links

SelectAccount
FAMILY OF PRODUCTS

home | con

home : minnesota service cooperatives veba plan

Eligible Eligible Medical Expenses

The Minnesota Service Cooperatives VEBA Plan is a health reimbursement arrangement that allows your employer to contribute money to a trust on your behalf. You can use the money in the trust to pay for eligible medical expenses. A VEBA Plan may be established using one of the following arrangements:

Active Employees

As an active employee, your employer can establish a VEBA Plan to work with your high-deductible health plan. You can use the money in your VEBA account to pay for deductibles, co-pays and coinsurance under the high-deductible health plan including prescription drugs. If you do not spend the money by year-end, your balances will be rolled over — allowing you to accumulate funds over time and save for health expenses in retirement. (Note: The individual accounts is managed by the employee, and investment options are offered through Wells Fargo.)

Post Retirement

With a post-retirement VEBA account, your employer can contribute funds to help you, your spouse and dependents pay for medical expenses after you retire. Your employer can make contributions throughout your working life or convert accumulated severance pay, sick pay and similar longevity-based benefits into contributions to your VEBA account.

You will be able to use the VEBA Plan for medical expenses, including the

Your Tools

Minnesota Service Cooperatives

Home Logout | Print Screen

Participant Home

VEBA BASIC INVESTMENT ACCOUNT

Welcome Chris Participant

You may use this system to view or change the status of your VEBA Basic Investment Account investments. Please note that amounts shown here do not include your "Base Balance" invested with Select Account Investments. Dollars moved from your "Base Balance" automatically default to the money market fund. To invest the dollars in any of the mutual funds available in the program, proceed to the "Current Asset Alignments" link to realign your portfolio.

Stock Market Summary

Account Information

Participant Name: Chris Participant

Plan Name (ID): VEBA BASIC INVESTMENT ACCOUNT (019)

Total Balance (10/01/2007): \$5,079.38

Personal Performance

Rate of Return: 14.02% 14.02% -0.4%

Net Investment by Market: 2,786.19 -4.0% -0.2%

Cumulative Returns: 1,541.85 -5.1% -0.3%

SelectAccount VEBA Investment Account

Mutual Fund Options

| Resource Links | Symbol | P | M | YTD | 1yr | 3yr | 5yr | 10yr | Since Inception | Expense Ratio |
|---|--------|---|---|-------|-------|-------|-------|-------|-----------------|---------------|
| Holbrook & Wiley Low Watered: None Load 1.2% | HRLAX | P | M | -2.2% | 8.3% | 10.6% | 15.0% | 9.2% | 14% | 1.22 |
| Am Funds Income Fid of America No Load | IFAFX | P | M | 3.7% | 12.9% | 12.2% | 12.8% | 6.1% | 10% | 0.58 |
| Calamus Growth and Income Low Watered: None Load 1.7% | CVTRX | P | M | 6.0% | 13.1% | 12.1% | 12.2% | 12.7% | 14% | 1.05 |
| Mexico Growth No Load | MGRX | P | M | 6.5% | 18.0% | 12.2% | 11.7% | na | 0% | 1.27 |
| Am Funds Growth Fid of America No Load | GFAFX | P | M | 8.8% | 16.7% | 15.7% | 15.4% | 11.7% | 8% | 0.61 |
| Calamus Growth Fund Low Watered: None Load 1.7% | CVGRV | P | M | 13.2% | 21.3% | 14.5% | 14.7% | 16.3% | 17% | 1.19 |
| Federated Kaufmann Small Cap Low Watered: None Load 1.6% | FKASX | P | M | 6.2% | 17.1% | 18.0% | na | na | 28% | 1.95 |
| Thornburg International Value Low Watered: None Load 1.6% | TOWAX | P | M | 18.4% | 31.6% | 27.1% | 22.8% | na | 14% | 1.33 |
| Dreyfus S&P 500 Index No Load | PIOPX | P | M | 4.9% | 14.0% | 11.0% | 11.0% | 6.2% | 10% | 0.00 |
| Fidelity Low Duration Fund No Load | FLDXX | P | M | 3.1% | 4.4% | 2.7% | 3.0% | 4.7% | 4% | 0.75 |
| Fidelity Total Return Fund No Load | FTTDX | P | M | 2.7% | 4.4% | 3.8% | 4.5% | 6.3% | 8% | 0.75 |
| John Hancock Money Market No Load | JHAMM | P | M | 3.2% | 4.5% | 3.3% | 2.1% | 3.1% | na | na |
| Children's Sachs Growth Strategy Low Watered: None Load 1.6% | CSGAN | P | M | 3.0% | 11.7% | 15.2% | 14.7% | na | 7% | 1.36 |
| Children's Sachs Growth & Income Strategy Low Watered: None Load 1.6% | CSGAN | P | M | 3.4% | 10.1% | 12.8% | 12.5% | na | 7% | 1.31 |
| Children's Sachs Balanced Strategy Low Watered: None Load 1.52% | CSBAX | P | M | 2.9% | 7.8% | 9.1% | 8.8% | na | 6% | 1.24 |

ASSET CLASS MATRIX

| Value | Blend | Growth |
|---------------|---|---|
| Large Cap | Holbrook & Wiley | Children's Sachs Growth Strategy |
| Mid Cap | Calamus Growth Fund | Dreyfus S&P 500 |
| Small Cap | Federated Kaufmann Small Cap | Fidelity Low Duration Fund |
| International | Thornburg International Value | Children's Sachs Growth & Income Strategy |
| Lifestyle | Children's Sachs Growth & Income Strategy | Children's Sachs Balanced Strategy |
| Fixed Income | Fidelity Total Return Fund | John Hancock Money Market |
| Money Market | John Hancock Money Market | |

DEVENIR

Prospectus & Fund Snapshots

MORNINGSTAR

Friday, Feb. 17, 2006

Planning to live forever?

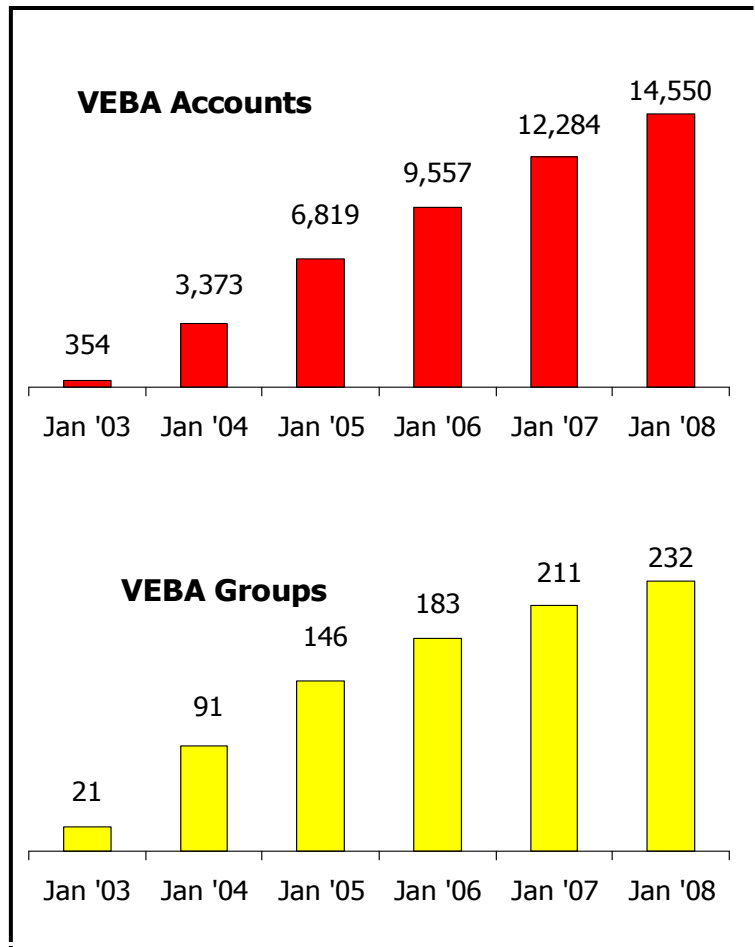
American Funds Grth Fund of Amer C GFACX

Performance: Growth of \$10,000

Key Stats: Morningstar Category: Large Growth, Morningstar Rating: 4 stars

Managers: James E. Drasdo, R. Michael Shanahan, James F. Rothenberg, Gordon Crawford

MN Service Co-ops



Minnesota Service Cooperatives

- Voluntary cooperative purchasing organization
- Public employees in Minnesota
 - ISDs, County and City governments
- 7 separate entities, 649 separate employers
- 104,000 employees
- 23% CDH market share in dual choice offering
- \$2,315 average balance per account
- +\$34 million in medical savings

:: Representative HSA, HRA and VEBA Investments Client List

Devenir has partnered with some of the largest Insurance Providers, Banks and Administrators to provide a first class, convenient and cost effective investment solution for their customers.

Representative HSA, HRA and VEBA Investments Client List

- BlueCross BlueShield of Minnesota and Kansas
- OptumHealth Bank (formerly Exante Bank), a division of United Health Group
- HSA Bank, a division of Webster Bank
- Bank of America HSA for Life™
- Citibank
- First American Bank
- American Chartered Bank
- Liberty Bank
- Mercantile Bank of Michigan
- Other nationally recognized banks (currently implementing)

:: Devenir Consumer Driven Investment Platform In the News

Devenir and it's Investment Team are often quoted in the press for our nationally leading HSA Investment Solutions. Below, are a few select articles in which our solution has been highlighted or we have been quoted.

- [Eric Remjeske: discussing the HSA Growth Story and The Funded HRA/VEBA Opportunity](#)
- [Star Tribune 3/08 "Devenir finding it's niche in Health Savings Accounts"](#)
- PLANADVISOR 1/08 "Devenir Listed as Top Defined Contribution Advisor for 2007 by Planadvisor"
- CNN / Money 12/07 "HSA Bank Announces New Investment Options Through Devenir"
- Investment News 11/2007 "Small businesses, advisers embrace health savings accounts"
- [II News 9/07 "Eric Remjeske Named to Institutional Investor "20 Rising Stars of Retirement Plan Advisors"](#)
- Defined Contribution & Savings Alert 5/07 "Exante Eyes Fund Additions"
- IGNITES Mutual Fund News 3/07 "Fund Firms Treading Carefully in HSA Business"
- Defined Contribution & Savings Alert 12/06 "Brighter Future Seen for HSAs"
- Wall Street Journal 11/06 "Banks Pile Into Health Savings Accounts"
- Investment News 8/06 "Premium Cuts Stifled on HSA-Linked Plans "
- FRC HSA TrendWatch 7/06 "HSA Bank Partners with Devenir for Mutual Fund Investments"
- Investment News 4/06 "HSAs are creating new bedfellows "
- Investment News 1/06 "Banks to Pursue HSA Business"
- FRC White Paper 10/05 "Mutual Funds Options for HSA's"
- Registered Rep Magazine 9/05 "Save on Taxes"
- Investment News 7/05 "Banks Domination of HSA's Seen Likely..."
- Investment News 5/05 "Investing Platform Specifically for HSA's..."
- FRC White Paper 3/05 "Outlook for Health Savings Accounts"
- Star Tribune 12/04 "Health Savings Options Widened"

:: Devenir Team



Eric Remjeske, President

Eric specializes in creating investment solutions for individuals and institutions. Having leveraged his more than 12 years of experience in retirement plan design, Eric has developed and integrated a number of innovative investment platforms for the Health Savings Account (HSA) market. Eric has established relations and created partnerships with the largest HSA administrators in the country to establish their HSA strategy including the integration of the investment platforms. Eric was named among the 2007 Institutional Investor 20 rising stars of retirement plan advisors for his works in the HSA market. Prior to co-founding Devenir, Eric served as an Associate Vice President and Investment Officer with RBC Dain Rauscher. During his 10 years with RBC Dain Rauscher, Eric developed and managed investments for individuals and institutions. Eric is a founding member and the Vice Chair of the Industry Advisory Council of the HSA Coalition. Eric is also one of the founding members of Consumers For Healthcare Choices, a non profit organization focused on consumer driven health awareness. A graduate of the University of Minnesota he holds a Bachelor of Arts degree in Economics.



Lori Gluth, Senior Vice President Corporate Services

With 25 years industry experience, Lori specializes in serving the investment needs of corporations, their executive management teams and third party administrators by creating innovative and customized investment solutions. Lori has been instrumental in the unique design, development and marketing for each of the HSA platforms. She has frequently been asked to speak on HSA plan design to corporations, banks and credit unions. Prior to joining Devenir, Lori was Product Manager for the RBC Capital Markets Corporate Services Group, where she developed liquidation and asset management strategies for corporate executives and individuals and implemented U.S. marketing and asset management programs for Tamir Fishman, an Israeli investment bank strategically affiliated with RBC Dain Rauscher. Prior to working at RBC Capital Markets, Lori spent a number of years with RBC Dain Rauscher in retail sales and marketing. Lori joined RBC Dain Rauscher from Piper Jaffray where she was involved in retail administration and operational management, sales and marketing. Lori holds a degree certificate in marketing, merchandising and management from Red Wing Technical Institute.

:: Contact Information

Devenir

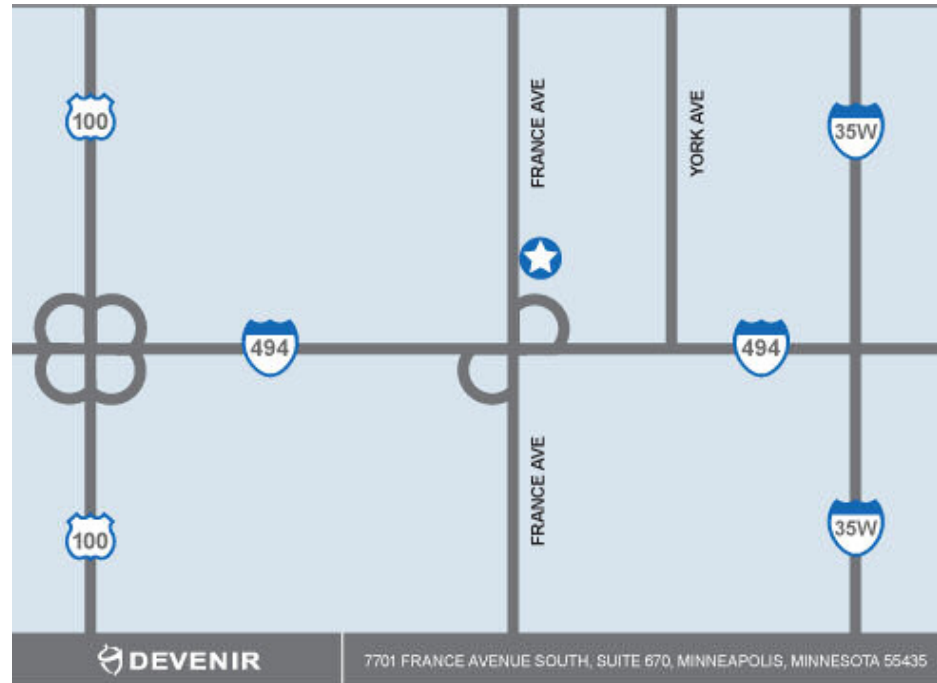
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Member MSRB

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