

M E M O R A N D U M

TO: Chief Administrative Officer

FROM: City Comptroller and Personnel Manager

RE: Proposed Health Savings Plan Amendments

DATE: March 14, 2005

In April of 2000, the City Council of the City of Urbana established a post-employment health savings plan for employees not covered by an employee bargaining agreement who have reached a sick leave accrual balance of at least 300 hours (Resolution 2000-04-012R). This plan calls for the City to make an annual contribution of 1% (minimum of \$350) of a participant's annual salary, plus a contribution of 10% of an employee's accrued unused sick leave balance upon leaving employment after ten years. The contributions are deposited into an account owned by the employee. The employee does not pay any taxes on these contributions or interest earnings as long as the monies are used to pay for health care costs (insurance, prescriptions, co-pays, etc.) after the employee leaves employment with the City. The sick leave accrual rate for each participant is reduced in order to pay for this benefit.

We believe this program helps the City to recruit and retain employees and helps the employees to prepare to pay for the rising cost of health care. In addition, it provides a benefit to employees that do not use much of their sick leave and allows employees to recognize \$1.40 of benefits for \$1.00 otherwise received because of tax savings.

We believe that following proposed amendments will enhance benefits for the lowest paid employees, provide employees more flexibility, and improve employees' perceptions about this program.

- 1. Increase the minimum annual employee deposit to be made on July 1, 2005 from \$350 to \$425 and increase the subsequent annual amount 4% per year for the next 10 years.**

The annual 1% contribution rises as wages and the savings from reduced sick leave accrual rise. However, the minimum deposit that provides a contribution in excess of 1% for our lowest paid participants has not risen in five years. An increase to \$425 reflects an annual adjustment of 4% for five years.

- 2. Provide newly eligible employees the option of participating in the plan and receiving the lower annual sick leave accrual or not participating and receiving the same annual sick leave accrual as other City employees.**

When our plan was adopted, all eligible participants were required to participate since the law did not allow us to give individual participants a choice. Although the vast majority of eligible employees want to participate in this program, a few employees are upset because they would prefer to accrue the same sick leave as bargaining unit employees. Employees will now be permitted to elect to participate when they become eligible or during a subsequent election period. Once the employee elects to participate, the election is irrevocable.

3. Provide current plan participants a one-time option to withdraw from the plan.

Since current employees have never had the chance to elect participation, all currently employed participants will be provided a 60-day window during which they may elect to withdraw from the plan. Employees who withdraw from the plan will receive a one-time adjustment to their accrued sick leave balance. They will be credited with the additional sick leave that they would have earned if they had never participated in the plan. This decision will be irrevocable. Such employees will forfeit any deposits and any earning in their accounts and shall not be eligible for any future mandatory or voluntary contributions. The forfeited monies, if any, will be redistributed among the balance of participating employees in proportion to the outstanding balance.

4. Provide participants the option to deposit all or some of their sick leave buyout into the account.

Upon leaving employment, some employees receive a portion of their accrued and unused sick leave balance in a cash payment. Some participants want to deposit all or a portion of this cash payment into their account in order to save taxes and to assist them in paying the high cost of retiree health care. When our plan was adopted, voluntary employee contributions of this nature were not allowed. Employees will now have this option.

5. Remove the requirement that an employee must have ten years of service to receive a contribution of 10% of his/her accrued unused sick leave balance upon separation.

Participants who use little sick leave may become eligible for the post employment health savings plan in as few as four or five years, but they are not eligible for this portion of the plan until they have worked for at least ten years. Our sick leave buyout program rewards employees for long service, but employees who separate with less than ten years of service do not currently receive any partial payments for their sick leave balances. As demographics and employment patterns change, we anticipate recruiting more employees who are concerned about post retirement health care costs. This change will provide a small benefit for these employees.

We believe that these enhancements will require minimal, if any, additional costs. Increasing the minimum deposit simply maintains the same general level of benefits that were approved for lower income participants in 2000. Providing employees more options requires more administration, but the existing staff will absorb the increased workload. If current participants withdraw from the plan, we will incur a small expense if additional credited sick leave is used or partially reimbursed upon separation. However, we do not expect many, if any, employees to withdraw from the plan. Removing the requirement for ten years of service will require a small cost in exchange for providing a valued benefit. The City will save money from reduced employer taxes resulting from any voluntary amounts deposited into the health savings accounts. These savings will offset some or all of the minimal costs of these enhancements.

We recommend approval of the attached plan amendments.

RESOLUTION NO. **2005-03-006R**

A RESOLUTION AMENDING A POST EMPLOYMENT HEALTH SAVINGS PLAN FOR CERTAIN EMPLOYEES OF THE CITY OF URBANA

Plan Numbers 800006 and 800021, City of Urbana, Illinois

WHEREAS, the City of Urbana has established a retiree health savings plan in the form of the Vantage Care Retirement Health Savings Plan ("Plan") for certain employees of the City of Urbana that are not subject to previously approved collective bargaining agreements; and,

WHEREAS, said "Plan" provides reasonable security regarding employee's health needs during retirement, provides increased flexibility in the personnel management system of the City of Urbana, and assists in the attraction and retention of competent personnel; and ,

WHEREAS, the City of Urbana has determined that the continuance of the "Plan" serves the above objectives;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF URBANA, ILLINOIS, THAT THE CITY OF URBANA HEREBY:

1. Amends and restates the "Plan" as outlined in the attached DECLARATION OF AMENDMENT TO THE VANTAGECARE RETIREMENT HEALTH SAVING PLAN".
2. Resolves that the assets of the "Plan" shall be held in trust, with the City of Urbana serving as trustee ("Trustee") for the exclusive benefit of Plan participants and their beneficiaries, and the assets of the Plan shall not be diverted to any other purpose prior to the satisfaction of all liabilities of the "Plan". The City of Urbana executes the Declaration of Trust of the City of Urbana Integral Part Trust in the form of The Model Integral Part Trust Agreement made available by the ICMA Retirement Corporation.

PASSED by the City Council this _____th day of _____, 2005.

AYES:

NAYS:

ABSTAINS:

Phyllis D. Clark, City Clerk

APPROVED by the Mayor this _____th day of _____, 2005.

Tod Satterthwaite, Mayor

SUPPLEMENTAL ATTACHMENT TO THE CITY OF URBANA VANTAGECARE
HEALTH SAVING PLAN ADOPTION AMENDMENT, ATTACHMENT C

Section A1. Mandatory Contributions.

The employer will make an annual contribution on approximately July 1 of each year. The contribution for July 1, 2005 will be \$425 to every participating full-time employee to the employee's universal reimbursement account. The contribution to the universal reimbursement account shall increase each year such that the contribution for July 1, 2006 will be \$442; \$460 in 2007; \$478 in 2008; \$497 in 2009; \$517 in 2010; \$538 in 2011; \$559 in 2012; \$582 in 2013; \$605 in 2014; \$629 in 2015; and \$654 in 2016. The contribution to the universal reimbursement account shall remain at \$654 unless subsequently amended by the employer.

In addition, the employer shall contribute an amount on approximately July 1 of each year to the employee's insurance premium reimbursement account. The amount contributed shall be 1% of each participating full-time employee's annual salary less the amount contributed by the employer to the employee's universal reimbursement account for that year. (For example, if a participating employee's annual salary for July 1, 2005 is \$50,000, the employer will contribute \$75 to the insurance premium reimbursement account: \$500 less \$425 contributed to the universal reimbursement account).

Eligible part-time employees shall receive a pro-rated contribution on the same date. Contributions will be pro-rated by the same percentage as health insurance contributions.

Section A2. Mandatory Leave Contributions:

The employer will also contribute into the employee's universal reimbursement account, the value of 10% of an eligible employees accumulated and unused sick leave at the time an eligible employee leaves employment if the employee separates in good standing. For purposes of this 10% mandatory contribution, an employee shall be considered eligible if at any time during their employment the City made an annual contribution under Section A1 above (except for an employee that elected to revoke their participation under Part 1:Section 5 "Irrevocable Election to Participate" in the Declaration of Amendment.

Section B1b. Irrevocable Election for Pre-Tax Contributions of Accrued Leave.

During an election window provided by the City, an eligible employee may make a one-time irrevocable election to contribute into his or her universal reimbursement account all or a portion of the value of the accumulated and unused sick leave that she or he would otherwise be eligible to receive as cash upon separation. Such contribution shall be made in lieu of an equivalent cash payment to the employee. These employee elected contributions amounts are in addition to the mandatory leave contributions made by the employer outlined in Section A2 above. The election period and the earliest date such contribution may be made are specified in Attachment C. Once made, the election is irrevocable. However, in the event that the employee elects to contribute under this provision, but separates prior to the earliest date in which such contribution may begin, the voluntary contribution will not be accepted by the Plan unless it is legally permissible to begin the payment by the date in which the City requires such contributions to be made following an employee's separation.