

To: Administration and Finance Committee

Date: April 24, 2103

From: Kathy Casenave, Director of Finance

Reviewed by:

SUBJECT: Establishment of Retirement Health Savings Accounts

Summary of Issues: In March 2010 the Board approved establishing an OPEB trust for retiree medical benefits. The funds in this trust will help offset the cost of providing the Authority's PERS medical premiums for retired Administration, Teamsters and ATU employees.

In addition to prefunding retiree benefits, County Connection also took steps to minimize the cost of retiree medical benefits by freezing the portion that is paid by County Connection and establishing a cafeteria plan for active employees.

There was also discussion at the time of setting up a separate trust or retirement medical account for the benefit of employees who have been in the PERS medical program since the inception in September 1989. There are 10 active employees who meet that criterion. (The ATU joined the program in 2001).

Staff has been in contact with ICMA regarding its retirement health savings plan and what is being proposed for the 10 active employees would meet the rules and regulations of the plan.

Some highlights of this plan:

- A third party administrator hired by ICMA will be responsible for reimbursing the participants for medical expenses- there will be no employer involvement.
- The employer can make tax-free contributions to employee accounts.
- All earnings grow tax-deferred.
- Employees are familiar with ICMA's investment options and can meet with ICMA representative at work to review those options.
- Withdrawals for medical premiums for participants, spouses, and dependents are tax-free.
- Other medical expense reimbursements will be taxable for participants who are deemed highly compensated under IRS rules.
- Plan assets remaining at the time of employee's death can continue to be used by employee's surviving spouse or dependents.
- There is no prohibition on use prior to age 65, providing the employee has separated from County Connection.

- The administrative charges are borne by the participants. There is an annual account fee of \$25 and an asset fee of 30-40 basis points. The estimated cost fee for a \$10,000 account is \$65 annually.

How much is County Connection saving by freezing retiree health benefits for Administration staff?

There have been numerous actuarial reports and different assumptions have been made in preparing the reports. Below are the annual required contributions (ARC) from the April 2008 report, the last report that assumed annual premium increases, compared with the October 2009 report, the first report in which the retiree premiums are frozen.

April 2008	\$262,196 *
October 2009	\$115,245
Savings	\$146,951

Both of these reports assumed a 7.75% discount rate.

The latest report, January 2012, assumes a 5.5% discount rate. The ARC for Admin staff in this report is \$142,989. Compare with April 2008, the savings would be \$119,207.

**The April 2008 report combined Admin and the Teamsters. The October 2009 separated the two groups- the April 2008 figure above was based on the ratio of the October 2009 report- 88%/11%.*

Financial Implications: The FY 2013 operating budget is expected to be \$1.3 million under budget. The establishment of a retiree health savings plan could be accomplished and still be substantially under budget.

Recommendation: Staff recommends that County Connection establish individual retiree health savings accounts for the 10 employees. A Hanson Bridgett staff attorney has reviewed the plan documents and is of the opinion that it would meet the objectives.

Options:

- 1) Approve setting up retiree health savings plans for the 10 employees at an amount to be determine by the committee.
- 2) Decline recommendation
- 3) Other