

To: Board of Directors

Date: June 11, 2013

From: Kathy Casenave, Director of Finance

Reviewed by:

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### **SUBJECT: Establishment of Retirement Health Savings Accounts**

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**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.
- 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

*\*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%.*

**Recommendation:** The Administration and Finance Committee recommends that County Connection establish individual retiree health savings accounts in the amount of \$15,000 for each of the 10 employees, a total of \$150,000. A Hanson Bridgett staff attorney has reviewed the ICMA plan documents and is of the opinion that it would meet our 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

**RESOLUTION NO. 2013-024**

**BOARD OF DIRECTORS, CENTRAL CONTRA COSTA TRANSIT AUTHORITY  
STATE OF CALIFORNIA**

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**ADOPTING A RETIREE HEALTH SAVINGS PLAN TRUST**

**WHEREAS**, the County of Contra Costa and the Cities of Clayton, Concord, the Town of Danville, Lafayette, Martinez, the Town of Moraga, Orinda, Pleasant Hill, San Ramon and Walnut Creek (hereinafter "Member Jurisdictions") have formed the Central Contra Costa Transit Authority ("County Connection"), a joint exercise of powers agency created under California Government Code Section 6500 *et seq.*, for the joint exercise of certain powers to provide coordinated and integrated public transportation services within the area of its Member Jurisdictions;

**WHEREAS**, the County Connection has current employees rendering valuable services who have been in the PERS medical program since March 1, 1990.

**WHEREAS**, the establishment of a retiree health savings plan for such employees serves the interests of County Connection by enabling it to provide reasonable security regarding such employees' health needs during retirement, and by providing increased flexibility in its personnel management system;

**WHEREAS**, County Connection has determined that the establishment of the Central Contra Costa Transit Authority Retiree Welfare Benefits Plan (the "Plan") serves the above objectives;

**NOW, THEREFORE, BE IT RESOLVED**, that the Board of Directors hereby adopts the Plan, effective June 20, 2013, substantially in the form of the ICMA Retirement Corporation's VantageCare Retirement Health Savings Program attached hereto and as approved by Legal Counsel, to provide post-retirement health care benefits for eligible participants and their eligible dependents and survivors.

**BE IT FURTHER RESOLVED** that County Connection hereby adopts the Central Contra Costa Transit Authority Integral Part Trust (the "Trust"), effective June 20, 2013, substantially in the form of the ICMA-RC Integral Part Trust attached hereto and as approved by Legal Counsel;

**BE IT FURTHER RESOLVED** that the General Manager is hereby authorized to serve as the trustee of the Trust, for the exclusive benefit of eligible participants and their eligible dependents and survivors under the Plan. Assets of the Plan shall be held in the Trust and may not be diverted for any other purpose prior to satisfaction of all liabilities of the Plan. The Trust will be tax-exempt to the maximum extent allowed under section 115 of the Internal Revenue Code.

**BE IT FURTHER RESOLVED** that the Authority hereby approves the retention of ICMA-RC to operate and administer the Plan and Trust, pursuant to the terms and conditions of the Administrative Services Agreement between the Authority and ICMA-RC attached hereto (with any modifications deemed appropriate by the General Manager of the Authority).

**BE IT FURTHER RESOLVED** that the General Manager of the Authority is authorized and directed, for and on the Authority's behalf, to take such further action as the General Manager deems necessary or appropriate to carry out the foregoing resolutions.

Regularly passed and adopted this \_\_\_\_ day of \_\_\_\_\_, 2013, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

\_\_\_\_\_  
Erling Horn, Chair, Board of Directors

ATTEST:

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Lathina Hill, Clerk to the Board