



MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER

TO: Honorable Board of Supervisors
FROM: Thomas M. Miller, County Executive Officer
Nancy Nittler, Personnel Director
DATE: November 15, 2011
SUBJECT: ICMA -- VantageCare Retirement Health Savings Plan

ACTION REQUESTED

It is recommended that your Board adopt an ordinance adjusting the compensation and benefits of classified and unclassified management, elected officials, and confidential employees related to the ICMA-RC VantageCare Retirement Health Savings Plan.

BACKGROUND

On May 24, 2011 your Board amended the sick leave at retirement benefit for management, (classified and unclassified), elected officials, and confidential employees as part of a two phase implementation approach. Phase 1 addressed the potential tax consequences related to the benefit at retirement and Phase 2 approved implementation of a Retirement Health Savings Plan. On November 8, 2011 your Board approved an agreement with ICMA-RC to provide the VantageCare Retirement Health Savings Plan to management and confidential employees (excluding safety management).

VANTAGECARE RETIREMENT HEALTH SAVINGS (RHS) PLAN

The cost of medical care continues to go up every year, which means that retirees are increasingly responsible for growing medical costs. The RHS Program enables employers and their employees to save for these retirement costs. VantageCare Retirement Health Savings (RHS) Plan is the ICMA Retirement Corporation's employer-sponsored health benefit savings vehicle that allows employees to accumulate assets to pay for medical expenses (e.g. health insurance, co-pays, prescription expenses, etc) at retirement on a tax-free basis.

Key Features of Retirement Health Savings Plans:

- The plan allows for flexibility in design to meet the employer and employee needs.
- Mandatory, pre-tax employee contributions may be from accrued sick leave and are FICA exempt to both the employer and employee.

- Full range of investment options available to participants; earnings grow tax-deferred, and withdrawals used to pay for qualified medical benefits for participants are tax-free.
- Plan assets remaining at the time of the retiree's death can continue to be used for medical expenses by the employee's surviving spouse.
- Low cost plan that is easy to administer and doesn't create a county unfunded liability.
- Rewards the responsible use of sick leave by an employee and discourages its abuse.
- Provides the employee responsibility and control over their health needs in retirement.

The assets in the RHS integral part trust are for the exclusive benefit of the participants and their spouses, similar to a 401k or 457 deferred compensation plan assets.

The County's RHS Plan is subject to the nondiscrimination requirements found under Internal Revenue Code Section 105(b) because the Plan covers medical reimbursements as allowable under IRS Section 213 (not just health insurance premium reimbursement) in conjunction with varying level of contributions made by the County that are based upon the employees pay as described previously. Nondiscrimination rules require annual testing of out-of-pocket medical expense reimbursements with the effect that out-of-pocket medical expenses paid to a highly compensated participant may be taxable to those individuals. Premium reimbursements are not subject to the nondiscrimination test and are not taxed.

FISCAL IMPACT

On May 24, 2011 your Board approved changes to business practices in order to eliminate the possible tax consequences of the management and confidential employee's sick leave benefit at retirement. On November 8, 2011 the Board approved adoption of the VantageCare Retirement Health Savings Plan with ICMA-RC.

As is the current practice with the sick leave set aside account, RHS Accounts will be established for individual employees at retirement. Plan costs will be paid by the participant; ICMA charges an annual account fee of \$25 and an annual asset fee of .40% (40 basis points); both of which are assessed on a quarterly basis.

Classified and unclassified management, elected officials, and confidential employees that retired on or after July 2, 2011 will also be included in the Plan and have RHS accounts established prospectively. These employees' choices related to the sick leave hours at retirement were limited by the Board action of May 24th however the RHS had not yet been established. As a result, all available "set-aside" dollars for these retirees will be moved in to the Plan when administratively feasible.

Attachment: Ordinance

Before the Board of Supervisors County of Placer, State of California

In the matter of: AN ORDINANCE AMENDING
SECTION OF CHAPTER 3 OF THE PLACER
COUNTY CODE 3.04.420

Ordinance No: _____
First Reading: November 8, 2011

The following Ordinance was duly passed by the Board of Supervisors of the County of Placer at a regular meeting held _____, by the following vote on roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

Robert Weygandt
Chairman, Board of Supervisors

Attest:
Clerk of said Board

Ann Holman

THE BOARD OF SUPERVISORS OF THE COUNTY OF PLACER, STATE OF CALIFORNIA,
DOES HEREBY ORDAIN AS FOLLOWS:

Section 1: That Section 3.04.420 of Chapter 3 of the Placer County Code is hereby amended and shall read as follows:

3.04.420 Termination of employment.

J. ~~Effective July 2, 2011 for m~~Management (**Classified and Unclassified**) employees, ~~excluding safety management, or~~ **and** confidential employees, **excluding safety management employees**, retiring from county service and eligible to ~~receive~~ **receiving** CalPERS miscellaneous plan benefits at the time of retirement, **will receive an amount placed in the retirement health savings plan trust for the employee equal to the value of the employees unused sick leave accrual at retirement for purposes of reimbursement of premiums and expenses incurred for health care expenditures as allowable under Internal Revenue Code section 213.** ~~he or she shall receive reimbursement for the CalPERS retiree group~~

~~health insurance premium based upon the value of the unused sick leave at retirement. The value of the sick leave accrual will be determined by the number of unused sick leave hours available paid at the employee's base hourly rate on the salary schedule at the time of retirement, plus confidential pay and/or longevity pay if applicable. This benefit does not apply to any other county sponsored plans, such as, but not limited to, the life, vision, or dental programs.~~

1. Employees who retired on or after July 2, 2011, prior to the effective date of the retirement health savings plan trust, and who are eligible to receive reimbursement under the retirees paid health program will have the remaining account balance transferred to the retiree health savings plan trust.

2. Employees who retired on or before July 1, 2011, will receive reimbursement for the CalPERS retiree group health insurance premium based upon the value of the unused sick leave hours available paid at the employee's base hourly rate on the salary schedule at the time of retirement, plus confidential pay and/or longevity pay if applicable. This benefit does not apply to any other county sponsored plans such as, but not limited to, the life, vision, or dental programs.

K. Effective July 2, 2011, for elected officials, excluding elected safety, retiring from county service and eligible to receive California Employees' Retirement System (CalPERS) benefits at the time of retirement shall receive:

1. One month of paid CalPERS group health insurance for each two months of elected service. This benefit does not apply to any other county sponsored plans, such as, but not limited to, the life, vision, or dental programs; and if applicable

2. Any employee elected or appointed to an elective office, who has a current sick leave balance in excess of one hundred ninety-two (192) hours at the date he or she assumes elective office, shall not lose his or her accrued sick leave hours. At the date he or she assumes elective office such hours shall be placed in inactive status, without further accrual, until such time as the employee leaves elective office and is eligible to receive retirement benefits under subsections I or J of this section **based upon the last classification held prior to assuming elective office.** If the employee leaves elective office prior to becoming eligible to receive retirement benefits under subsections I or J of this section, the eligible sick leave shall be paid in accordance with subsection C of this section, and the sick leave hours shall be compensated at the current rate of the last classification held prior to assuming elective office. If said classification no longer exists, then compensation will be paid at the last established salary rate for that classification.

Section 2: This ordinance shall take effect and be in full force and effect immediately upon final adoption. The Clerk is directed to publish this ordinance, or a summary thereof, within fifteen (15) days in accordance with Government Code Section 25124.