

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

**AGENDA TITLE:** Resolution 214 Authorizing Retirement Health Savings Plan Benefit to the Employee Deferred Compensation Program  
**DEPARTMENT:** Human Resources and Finance  
**PRESENTED BY:** Marci Wright and Ian Sievers

**PROBLEM/ISSUE STATEMENT:**

City employees face rising health care costs upon retirement. Along with the City's flexible spending plan, which allows employee pre-tax dollars to go toward medical/dental/dependent care expenses while employed at the City, the City needs a plan to allow employees to save for retirement health care costs on a pre-tax basis, with distributions tax-free.

**ALTERNATIVE ANALYZED:**

ICMA has recently developed a Retirement Health Savings Plan which allows City employees to contribute to their retiree healthcare expenses on a pre-tax basis, and to withdraw the money tax-free. ICMA is known to us as a reliable company since they administer one of our 457 retirement plans. Other jurisdictions such as Bothell, Everett, Mercer Island, Issaquah and Whatcom County currently have a RHS Plan with ICMA.

**FINANCIAL IMPACT:**

This action has no monetary financial and/or budget implications to the City. Participants incur an annual fee depending on balance.

**RECOMMENDATION**

Staff recommends that Council pass Resolution No. 214 adopting the VantageCare Retirement Health Savings Program to be effective June 1, 2004.

Approved By:

City Manager 

City Attorney 

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## INTRODUCTION

Double-digit inflation in health care and health insurance premiums have made pre-tax saving plans for these expenses an increasingly important employment benefit to attract and retain employees. Employees may be job-locked and unable to retire because of the immediate necessity of covering the expenses of health care or health insurance until Medicare coverage starts at age 65. Even with employer sponsored retirement health plans, retirees face increases in premiums, co-payments, deductibles and Medicare supplemental insurance after 65. A Retirement Health Savings Plan (RHS ) allows employees to defer earnings tax-free to a variety of investment options similar to the City's 457 and 401 plans, accumulate earnings without tax, and withdraw funds to pay for qualified medical benefits tax-free at retirement or separation from employment.

## DISCUSSION

ICMA, one of the City's 457 plan administrators, offers its VantageCare RHS plan for public employers utilizing 18 investment options for investment of RHS savings, including eight managed funds, five model portfolio funds and five index funds. The ICMA VantageCare RHS plan has been approved under Private Letter Rulings from the Internal Revenue Service to provide a number of flexible features and options. Those recommended for approval in the plan adoption agreement are as follows:

- Participation is voluntary, each employee is given an irrevocable election to participate with no minimum period of service or age, and the account is 100% vested at all times.
- The employee may elect to contribute from 1% to 20% of earnings and to make a pre-tax contribution of leave payable upon retirement or termination according to the Shoreline Employee Handbook. Once made, elections are irrevocable.
- Contributions are removed from gross income subject to income tax. Accumulation earnings are not taxed. Reimbursements for qualified medical expenses of a participant, spouse or dependent are not reportable as income on the recipient's tax return.
- Qualifying medical expenses are defined in Internal Revenue Code Section 213 and IRS Pub. 502 (these are the same as those health care costs eligible under the existing flexible spending plan). Included are COBRA premiums, Medicare supplemental insurance premiums, dental expenses and dental insurance premiums, health insurance, co-pays, prescription and over-the-counter medication, long-term care insurance, etc.
- A participating employee is eligible to receive medical cost reimbursement not only at retirement but also at separation from service. This will allow employees who change jobs to be reimbursed medical costs during a lapse in employer coverage or to supplement a new employer's plan.
- Unlike the flexible spending account for medical costs which is forfeited if not used during the calendar year, after the employee becomes benefit-eligible, the account is vested and available until exhausted. In addition, funds in the account may continue to be used by surviving spouse/dependents upon the

employee's death for tax-free medical expenses, or distributed to the employee's beneficiaries.

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**FINANCIAL IMPACT:**

This action has no monetary financial and/or budget implications to the City. There is no benefit contribution by the City of Shoreline, and no employer administrative fees since the City has an ICMA administered 457 plan of sufficient size. Participants incur an annual fee of .9 % of plan assets under \$7,000 and .55% from \$7000 to \$23,000 (maximum annual fee \$150 for \$23,000+)

**RECOMMENDATION-** Staff recommends that Council pass Resolution No. 214 adopting the VantageCare Retirement Health Savings Program for city employees to be effective June 1, 2004.

**Attachments**

Proposed Resolution No. 214

**RESOLUTION NO. 214**

**A RESOLUTION OF THE CITY OF SHORELINE,  
WASHINGTON, ADOPTING THE VANTAGECARE  
RETIREMENT HEALTH SAVINGS PROGRAM FOR CITY  
EMPLOYEES**

**WHEREAS**, the City of Shoreline has employees rendering valuable services;  
and

**WHEREAS**, the establishment of health savings plan for such employees serves the interests of the City by enabling it to provide reasonable security regarding such employees' health needs during retirement, and by assisting in the attraction and retention of competent personnel; and

**WHEREAS**, the City of Shoreline has determined that the establishment of the retiree health savings plan (the "Plan") serves the above objectives;

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF  
THE CITY OF SHORELINE, WASHINGTON AS FOLLOWS:**

**Section 1.** The City of Shoreline hereby adopts the Plan in the form of the ICMA Retirement Corporations VantageCare Retirement Health Savings program to take effect June 1, 2004.

**Section 2.** The assets of the Plan shall be held in trust, with the City of Shoreline serving as 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 Manager is authorized to execute, on behalf of the City of Shoreline, the Declaration of Trust of the City of Shoreline Integral Part Trust in the form provided by ICMA Retirement Corporation, a copy of which has been filed with the City Clerk under Clerk's Receiving Number 2702.

**Section 3.** The City Manager or designee shall be the coordinator and contact for

the Plan and shall receive all necessary reports, notices, etc.

**ADOPTED BY THE CITY COUNCIL ON APRIL 12, 2004.**

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Mayor Ronald B.Hansen

**ATTEST:**

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Sharon Mattioli, City Clerk