



Council Communication

Office of the City Manager

Date

November 23, 2009

Agenda Item No. 38

Roll Call No. 09-

Communication No. 09-804

Submitted by: Tom Turner, Human Resources Director

AGENDA HEADING:

City Manager Retirement Health Savings Plan (RHS).

SYNOPSIS:

Recommend adoption of ICMA-RC Vantage Care RHS Plan for the purpose of allowing the employee in the City Manager job classification to accumulate tax preferred retention incentive funds for post-employment medical expenses, such as health insurance premiums and uninsured medical expenses.

FISCAL IMPACT: Some payroll savings from RHS deferrals being exempt from FICA tax.

Amount: N/A

Funding Source: N/A

ADDITIONAL INFORMATION:

In November 2004, City Council adopted the ICMA-RC RHS plan for City employees. The RHS plan was intended to help off-set retiree health cost by allowing employees to defer their sick and vacation payout into a trust account tax-free for the purpose of paying post-employment health expenses. RHS was also attractive because it allowed for individual choice rather than employer choice or mandatory participation. This allowed employees to decide on their own if they wanted to participate or not, and if so, how much of their sick and vacation time to defer. In 2007, the IRS determined that this individual choice or "elective feature" made the City's RHS plan ineligible for tax free leave deferrals. This action ended the program for SPM employees in 2007 and 2010 for union employees.

RHS plans, without the elective feature, are compliant and eligible for tax-free deferrals. These plans require everyone within an established group to participate and contribute at the same level. Groups can be defined in many ways including by job classification.

The City Manager has requested that a RHS plan be created for the City Manager job classification and that all retention incentive payments be deferred into an ICMA-RC RHS plan. This will require the current and future City Managers to defer 100% of their retention incentive, if any, into a trust account for post employment health expenses. For Mr. Clark, this means that his \$10,000 per year retention incentive payment be deferred into a RHS account when the payment is due under his contract.

PREVIOUS COUNCIL ACTION(S):

Date: February 6, 2006

Roll Call Number: 06-303

Action: Recommendation from Council Sub-Committee regarding employment contract for City Manager Rick Clark. Moved by Mahaffey to adopt. Motion Carried 7-0.

Date: November 22, 2004

Roll Call Number: 04-2540

Action: Employer VantageCare Retirement Health Savings (RHS) Plan Adoption Agreement for Supervisory, Professional and Management employees. (Council Communication No. 04-589) Moved by Vlassis to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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