

TO: Honorable Mayor and City Council

FROM: City Administrator Ron Johnson

SUBJECT: Approve MN State Retirement System/Health Care Savings Plan (MSRS/HCSP) for Non-Collective Bargaining Unit/Non-Department Head Employees

DATE: September 13, 2016

BACKGROUND

In June, 2015, City Council approved a MN State Retirement System/Health Care Savings Plan (MSRS/HCSP) for the International Union of Operating Engineers, Local #49 (IUOE- 49ers) bargaining unit. The resolution approving this plan is attached for reference. The HCSP is an individual, tax-free account to be used for reimbursement of eligible post-employment medical expenses.

Three other groups have been considering adoption of a plan- those covered in the Law Enforcement Labor Services (LELS) bargaining unit agreement, non-collective bargaining unit/non-department head employees, and the department head group (approval of this plan is also being recommended as a separate agenda item).

The Personnel Committee is recommending approval of an MSRS/HCSP plan for the non-collective bargaining unit/non-department head employees, and the department head/leadership team group (see separate agenda item). The LELS group has not yet come forward with a proposal.

This memo is providing a recommendation to adopt a resolution approving the MSRS/HCSP for the non-collective bargaining unit/non-department head employees.

The specific details of the MSRS/HCSP plan are stated in the attached Resolution, and, as required, the plan language has been approved by the MN State Retirement System representative.

REQUESTED COUNCIL ACTION

Approve a motion adopting the Resolution Approving the MN State Retirement System/Health Care Savings Plan for the Non-Collective Bargaining Unit/Non-Department Head Employees.

Attachment(s): Resolution approving IUOE MSRS/HCSP (June, 2015)
Proposed Resolution for Adoption

**CITY OF CANNON FALLS
GOODHUE COUNTY, MINNESOTA**

RESOLUTION NUMBER 2133

**A RESOLUTION PROVIDING FOR POST-EMPLOYMENT HEALTH CARE SAVINGS
PLAN (HCSP)**

WHEREAS, the City Council of the City of Cannon Falls finds it desirable and beneficial to the City and to its employees to establish a Post-Employment Health Plan also known as a Health Care Savings Plan;

NOW THEREFORE BE IT RESOLVED BY THE CITY OF CANNON FALLS THAT there is hereby established an employee benefit program for covered members of the International Union of Operating Engineers, Local No. 49, known as Health Care Savings Plan (HCSP) with an implementation date of January 1, 2015 (see below for effective date) for the duration of the January 1, 2015- December 31, 2017 labor agreement.

FUNDING OF THE HCSP. On the next January 2nd, after accumulation of a minimum of 384 hours of sick leave, 24 hours of sick leave less any hours used during the prior year for paid sick and emergency leave will be removed from the employee's sick leave balance, and that number of hours will be multiplied by the employees regular hourly rate to get an amount of cash that will be contributed to the employees HCSP account. Money would be contributed to the HCSP in the same manner after each subsequent year during which the sick-leave balance remains above 384 hours, (Note for hourly employees. Recognizing that hourly workers do not have flexibility to absent themselves from work without using sick leave for minor doctor visits and annual medical checkups, the deduction from HCSP eligible transfers for used sick leave shall be reduced by eight hours per year.)

On the next January 2nd, after accumulation of 720 hours of sick leave, 48 hours of sick leave less any hours used during the prior year for paid sick and emergency leave will be removed from the employee's sick leave balance, and that number of hours will be multiplied by the employees regular hourly rate to get an amount of cash that will be contributed to the employees HCSP account. Money would be contributed to the HCSP in the same manner after each subsequent year during which the sick-leave balance remains above 720 hours. (Note for hourly employees. Recognizing that hourly workers doctor visits and annual medical checkups, the deduction from HCSP eligible transfers for used sick leave shall be reduced by eight hours per year.)

Any unused sick leave balances eligible to be paid as terminal leave benefits at termination to the extent that the amount eligible to be paid equals 30 hours or more, will be paid only to the employee's Health Care Savings Plan not directly to an employee.

The maximum accumulation for sick leave is 960 hours. All employees when they have accrued 960 hours, 60 hours of sick time will be automatically transferred and converted into cash and deposited in their post-employment health care savings account.

All employees who have accrued 320 hours of vacation time, eighty (80) hours will be converted into cash and deposited in the Post Employment Healthcare Savings Account.

ADDITIONAL FUNDING: For all covered employees with a least ten years of work service, one half of unused vacation at the time of termination, eligible to be paid as terminal leave benefit, shall be paid at the employees current pay rate, into the employee's HCSP account. All Employees shall contribute \$25.00 per pay period.

The HCSP account may be used at termination of employment for medical insurance premiums and unreimbursed medical expenses as permitted by IRS regulations. The money would be available to the former employee, a spouse or a qualifying dependent.

Death of Employee

Contributions not allowed after death of employee

MSRS cannot accept an HCSP contribution after an employee's death unless the contribution is the result of payroll deductions. The HCSP contract language should indicate how or if money will be paid upon the death of an employee. If a contribution is remitted after an employee's death, please see Contributions made in error.

Distribution of HCSP assets upon participant's death

Upon the death of an HCSP participant, the remaining account balance is always transferred to an heir to use for reimbursement of eligible health care expenses. The transfer is as follows:

- If spouse, balance is transferred to spouse to use for tax-free reimbursements.
- If no spouse, then balance is transferred to surviving legal dependents to use for tax-free reimbursements.
- If no spouse or legal dependents, the funds are transferred to designated beneficiary. Reimbursements to a designated beneficiary are subject to state and federal income taxes.
- If no spouse, legal dependents or designated beneficiary, a representative of the estate will name a person eligible to receive the remaining account balance in the form of reimbursements. Reimbursements to this person are subject to state and federal income taxes.

ADMINISTRATIVE FEES: Administrative fees imposed upon employee accounts by the plan administrator, Minnesota State Retirement System, shall be deducted from each individual participant's account.

EFFECTIVE DATE: This program shall be effective January 1, 2015. Ongoing payroll deductions will begin when this resolution is signed. The annual sick leave conversion will begin January 1, 2016, or as soon thereafter as possible.

DURATION: The City Council reserves the right to terminate this program at any time, understanding that balances previously transferred to employee accounts shall remain the property of the employee to be used after termination of employment.

AUTHORIZATION TO EXECUTE PLAN DOCUMENTS: The Mayor and City Administrator are hereby authorized to execute and file any and all documents, subject to review by the City Attorney, necessary to implement the HCSP through Minnesota State Retirement System.

Adopted by the Council this 2nd day of June, 2015.

CITY OF CANNON FALLS, MINNESOTA

By: Lyman M. Robinson, Mayor

Attest:

Ronald S. Johnson, City Administrator

**CITY OF CANNON FALLS
GOODHUE COUNTY, MINNESOTA**

RESOLUTION NUMBER 2217

**A RESOLUTION PROVIDING FOR POST – EMPLOYMENT HEALTH CARE
SAVINGS PLAN (HCSP)**

WHEREAS, the City Council of the City of Cannon Falls finds it desirable and beneficial to the City and to its employees to establish a Post-Employment Health Plan also known as a Health Care Savings Plan administered by Minnesota State Retirement System;

NOW THEREFORE BE IT RESOLVED BY THE CITY OF CANNON FALLS THAT there is hereby established an employee benefit program for the non-collective bargaining unit/non-department head employees, benefit eligible part-time and full-time employees known as Post-Employment Health Care Savings Plan (HCSP) with an implementation date of January 1, 2017 (see below for effective date) for the duration of the January 1, 2017-December 31, 2018.

Funding of the HCSP

Employee Contributions - % of Pay

Employees with 0 years to 9 years of service with the City of Cannon Falls will contribute 1% of their gross pay per pay period.

Employees with 10 plus years of service with the City of Cannon Falls will contribute 2% of their gross pay per pay period.

Additional Funding

Sick Time Severance

Employees in good standing, with 0 years to 9 years of service with the City of Cannon Falls, will contribute 25% of their eligible unused sick leave at the time of termination or retirement, at the employee's current pay rate, into the employee's HCSP.

Employees in good standing, with 10 plus years of service with the City of Cannon Falls, will contribute 50% of their eligible unused sick leave at the time of termination or retirement, at the employee's current pay rate, into the employee's HCSP.

Vacation Time Severance

Employees in good standing, with 0 years to 9 years of service with the City of Cannon Falls, will contribute 25% of their eligible unused vacation leave at the time of termination or retirement, at the employee's current rate of pay, into the employee's

HCSP. Employee will receive remaining 75% of their eligible unused vacation leave at the time of termination or retirement, at the employee's current pay rate, in cash.

Employees in good standing, with 10 years to 19 years of service with the City of Cannon Falls, will contribute 50% of their eligible unused vacation leave at the time of termination or retirement, at the employee's current rate of pay, into the employee's HCSP. Employee will receive remaining 50% of their eligible unused vacation leave at the time of termination or retirement, at the employee's current pay rate, in cash.

Employees in good standing, with 20 plus years of service with the City of Cannon Falls, will contribute 75% of their eligible unused vacation leave at the time of termination or retirement, at the employee's current rate of pay, into the employee's HCSP. Employee will receive remaining 25% of their eligible unused vacation leave at the time of termination or retirement, at the employee's current pay rate, in cash.

Wellness Payout

On each January 2nd, employees who maintain between 384 and 719 hours of accrued sick leave will have 24 hours removed from their balance and applied at their current hourly rate to provide an amount of cash that will be contributed to the employee's Health Savings Account.

On each January 2nd, employees with sick leave accrual greater than 720 hours will have 48 hours of pay contributed to their Health Savings Account.

DEATH OF AN EMPLOYEE

Contributions not allowed after death of employee

MSRS cannot accept a PRHCSP (Post Retirement Health Care Savings Plan) contribution after an employee's death unless the contribution is the result of payroll deductions. If a contribution is remitted after an employee's death, the employer will work directly with the record keeper, Empower Retirement, to request a reversal.

Distribution of PRHCSP assets upon participant's death

Upon the death of a PRHCSP participant, the remaining account balance is always transferred to an heir to use for reimbursement of eligible health care expenses. The transfer is as follows:

- If spouse, balance is transferred to spouse to use for tax-free reimbursements.
- If no spouse, then balance is transferred to surviving legal dependents to use for tax-free reimbursements.

- If no spouse or legal dependents, the funds are transferred to designated beneficiary. Reimbursements to a designated beneficiary are subject to state and federal income taxes.
- If no spouse, legal dependents or designated beneficiary, a representative of the estate will name a person eligible to receive the remaining account balance in the form of reimbursements. Reimbursements to this person are subject to state and federal income taxes.

WAIVING PARTICIPATION (EMPLOYEE OPT OUT)

All employees must participate in the HCSP adopted by the City of Cannon Falls Council; however an employee can opt out of the Plan if he/she is:

- Eligible for TRICARE retirement benefits;
- Eligible for V.A. medical benefits due to a service-connected disability;
- Is a foreign national who plans to return to their country of origin;
- Has comprehensive health care coverage through another documented source.

The comprehensive coverage must be provided until death and 70% of the cost covered by the employer. The insurance coverage must be provided by a source other than the current employer who is sponsoring the PRHCSP, such as a former employer or spouse's employer.

All waiver requests must be approved by MSRS

- The employee should contact the MSRS Service Center to obtain a waiver form. MSRS will explain to the employee the impact of waiving participation.
- The employee must return the completed form and supporting documentation to MSRS for review and approval.
- If the waiver is approved by MSRS, a confirmation letter will be sent to the employee.

Communication approved waiver to employer

A copy of the employee's approval to opt out confirmation letter will be sent to the City of Cannon Falls so appropriate action can be taken, if any.

The approved waiver only applies to future contributions

Contributions remitted prior to the waiver approval date will remain in the PRHCSP account to be used for post-employment reimbursement of eligible health care expenses.

An election to waive participation is irrevocable

The employee will not have another opportunity to participate in the PRHCSP, even if they are employed by another Minnesota public employer.

ADMINISTRATIVE FEES

Administrative fees imposed upon employee accounts by the plan administrator, Minnesota State Retirement System, shall be deducted from each individual participant's account.

EFFECTIVE DATE: This program shall be effective January 1, 2017.

DURATION: The City Council reserves the right to terminate this program at any time, after giving effected employees 90 day notice to end the program, understanding that balances previously transferred to employee accounts shall remain the property of the employee to be used after termination of employment.

AUTHORIZATION TO EXECUTE PLAN DOCUMENTS:

The Mayor and City Administrator are hereby authorized to execute and file any and all documents, subject to review by the City Attorney, necessary to implement the HCSP through Minnesota State Retirement System.

Adopted by the Council this 20th day September, 2016.

CITY OF CANNON FALLS,
MINNESOTA

Attest:

By: Lyman M. Robinson, Mayor

Ronald S. Johnson, City Administrator