

**TO:** Honorable Mayor and City Council

**FROM:** City Administrator Ron Johnson

**SUBJECT:** Amend Personnel Policy; Approve MN State Retirement System/Health Care Savings Plan (MSRS/HCSP) for Dept Heads

**DATE:** September 13, 2016

**BACKGROUND**

The Personnel Committee is recommending approval of an MSRS/HCSP plan for the city's leadership team group. The 49ers bargaining unit received approval of their MSRS/HCSP plan in June, 2015. (See separate memo in packet regarding a recommendation for a MSRS/HCSP plan for non-collective bargaining/non-department head employees for related background information.)

The leadership team agreement requires some additions to the Personnel Policy:

**Add to the Definition section:**

*Leadership Team*

*The leadership team for the City is made up of the City Administrator and Management Employees.*

**Add to the Separation From Service, Severance Pay section:**

*When a full-time leadership team employee provides notice to separate from employment with the City, the employee will have the option to elect to have up to sixty percent (60%) of accrued and unused vacation leave converted to a cash payout at the current wage (applicable taxes will be withheld). The employee has the option of directing those dollars into a 457 deferred compensation plan (subject to IRS maximum deferral regulations and Minnesota law). This request for payment must be made before the next paycheck issued after notice. Such payment will be made before calculating the balance of unused time for any HCSP transfers.*

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**

- 1) Approve a motion to approve the modifications to the Employee Personnel Policy by adding a definition of Leadership Team, and by modifying the Separation from Service, Severance Pay section.
- 2) Approve a motion adopting the Resolution Approving the MN State Retirement System/Health Care Savings Plan for the Leadership Team.

Attachment(s): Resolution

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

**RESOLUTION NUMBER 2218**

**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 Leadership Team employees, who are full-time employees, as defined in the City Personnel Policy, known as Post-Employment Health Care Savings Plan (HCSP) with an implementation date of September 20, 2016 for the duration of September 20, 2016-December 31, 2018.

**FUNDING OF THE HCSP.** All covered employees each pay period; one percent (1%) of the pretax earnings of the employee will be deposited in their HCSP account.

All covered employees who have accrued 310 hours of vacation time, Forty (40) hours will be converted into cash at the employees current pay rate and deposited in the HCSP account, this conversion and transfer shall only occur once per calendar year.

**ADDITIONAL FUNDING:** At the termination of employment, all covered employees will have any unused vacation leave balance as determined by the last day of employment be paid as terminal leave benefit, paid at the employees current pay rate, into the employee's HCSP account.

At the termination of employment, all covered employees will have 50 percent (50%) of unused sick leave balance as determined by the last day of employment will be paid as terminal leave benefit, paid at the employees current pay rate, into the employee's HCSP account.

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 upon passage of this resolution.

**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 20<sup>th</sup> day of September, 2016.

CITY OF CANNON FALLS, MINNESOTA

Attest:

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By: Lyman M. Robinson, Mayor

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Ronald S. Johnson, City Administrator