



CITY OF
HAYWARD
HEART OF THE BAY

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DATE: January 27, 2009
TO: Mayor and City Council
FROM: Interim Human Resources Director
SUBJECT: Adoption of a Resolution Authorizing Participation of the Unrepresented Management Employees in the California Government Volunteer Employees' Beneficiary Association (VEBA) Program

RECOMMENDATION

It is recommended that the City Council approve the attached resolution authorizing participation of Unrepresented Management Employees in the California Government VEBA (CALGOVEBA) program.

SUMMARY

The City of Hayward has contracted with the CALGOVEBA since 2006 to provide a healthcare funding vehicle where employees could make tax-free contributions to a trust for accumulating funds for the reimbursement of health care costs. In the past, participation in the program was voluntary on a city-wide basis. However, the IRS now requires that participation must be by all employees in a bargaining group or by employee group basis. A recent poll of the Unrepresented Management Employees indicated the majority of the employees want to participate in the VEBA. Approval of the attached Resolution will enable Unrepresented Management Employees to participate in the VEBA program.

BACKGROUND

A VEBA is an entity established as a tax-exempt Trust under Section 501(c) (9) of the Internal Revenue Service (IRS) Code. The purpose of the VEBA is to provide employees with the ability to plan for future health care expenses. Expenses such as long term care, unreimbursed medical premiums, co-pays, and pharmacy charges are all eligible expenses under a VEBA Trust. CALGOVEBA participants, their spouses and qualified dependents are able to receive reimbursement for qualified medical expenses while actively employed and while retired. Funds in the VEBA plan are not subject to the "use it or lose it" policy. Account balances accumulate year to year into retirement without the risk of year end forfeiture. Employees in the VEBA program realize a significant tax benefit because eligible contributions to a VEBA Trust are tax exempt and the reimbursed expenses from the VEBA Trust are also tax exempt.

In 2006, the City joined the CALGOVEBA Trust. The CALGOVEBA Trust was established in 2002 by the City of Foster City to provide a public sector solution that allowed other cities to join the trust. Prior to January 1, 2009, any individual employee could voluntarily participate in the City's VEBA program. Approximately 40 employees elected to participate. However, the Internal Revenue Service has recently imposed more stringent regulations on the plan requirements. In order to be in compliance with the IRS requirements, CALGOVEBA is requiring that as of January 1, 2009 all members of a Bargaining or Employee Group participate in the plan. In the past several months, SEIU Local 1021, HAME, and HPOA have all voted to participate in VEBA program, and Side Letter Agreements have been executed for each of the bargaining units to provide for their participation in the program.

A poll of the Unrepresented Management Employees indicated that the majority of the employees also want to participate in the VEBA program. In order to provide for such participation, the attached Resolution needs to be adopted.

DISCUSSION

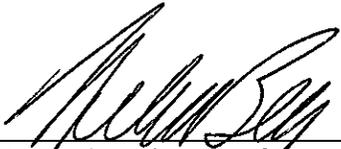
The Resolution will require that all Unrepresented Management Employees participate in the program. The minimum contribution to the VEBA will be \$5.00 per pay period. An employee can elect to contribute any amount up to \$500.00 on a pay period basis. Each employee must annually designate a payroll deduction amount from the established range during the City's open enrollment period for benefit election. Elections are irrevocable for the designated calendar year. Additionally, prior to separating from the City, each employee must designate a leave payout deduction (vacation, sick, compensatory time) at termination to be rolled into the VEBA. The minimum leave payout percentage is 1% and can be increased by the employee up to 100%. A separate account will be maintained for each participant.

If the Resolution is adopted, the effective date of implementation will be the payroll beginning February 16, 2009.

FISCAL AND ECONOMIC IMPACT

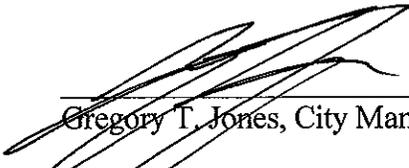
There will be no fiscal impact to the City. VEBA contributions are funded through employee contributions to the Plan.

Prepared by:



Helen Bell, Interim Director of Human Resources

Approved by:



Gregory T. Jones, City Manager

Attachments:
Resolution

DRAFT

1-17-09

CITY OF HAYWARD

RESOLUTION NO. _____

Introduced by Council Member _____

**RESOLUTION ADOPTING A VOLUNTARY EMPLOYEE
BENEFICIARY ASSOCIATION (VEBA) PLAN FOR
UNREPRESENTED MANAGEMENT EMPLOYEES**

WHEREAS, the City will make available for the Unrepresented Management Employees a Voluntary Employee Beneficiary Association (VEBA) Plan (collectively, "Plan"); and

WHEREAS, this Plan will enable eligible employees to accumulate funds in a tax-exempt trust from which qualified medical expenses can be paid, including certain post-retirement medical expenses; and

WHEREAS, during the period of inception through December 31, 2008, Unrepresented Management Employees could individually elect to participate in the Plan while effective January 1, 2009, Plan participation is only available if all the Unrepresented Management Employees participate in the Plan; and

WHEREAS, the majority of the Unrepresented Management Employees have indicated that they want to participate in the Plan, and consistent with that interest, the City will implement such a Plan for the Unrepresented Management Employees, but will not contribute to individual employee VEBA accounts; and

WHEREAS, the City Council hereby approves and adopts the Plan requirements as follows:

Plan Requirements

Eligibility Defined

Effective February 16th, 2009, all eligible Unrepresented Management Employees will participate in the Plan. An eligible employee is an employee who works (20) or more hours per week and receives benefits.

Employee Contributions

Payroll Deduction

Participation in the Plan by an eligible unrepresented management employee requires a payroll deduction each pay period to fund the employee's VEBA account. The eligible employee can

elect an amount within an established range. Effective the pay period beginning February 16th, 2009, the minimum payroll deduction shall be Five Dollars (\$5.00) per pay period. The maximum payroll deduction shall be Five Hundred Dollars (\$500.00) per pay period. Payroll deductions for each pay period can include any amount between the Five Dollar (\$5.00) minimum and the Five Hundred Dollar (\$500.00) maximum in One Dollar (\$1.00) increments. Contributions made by an eligible unrepresented management employee must be made through payroll. Eligible unrepresented management employees cannot make direct contributions to the Plan. Once separated from the City, the (former) employee can no longer make contributions to the Plan.

Annual Election

Each eligible unrepresented management employee must annually designate a payroll deduction amount from the established range during the City's open enrollment period for benefit election. Elections are irrevocable for the designated calendar year. Unless an eligible unrepresented management employee returns to a bargaining units, there are no exceptions. If an eligible unrepresented management employee fails to make an election during the City's open enrollment period, it will be deemed that he/she has elected the default payroll deduction of Five Dollars (\$5.00) each pay period for the designated calendar year.

Leave Payout

Each eligible unrepresented management employee must designate a leave payout deduction to be rolled over to his/her VEBA Plan account based on the established range upon separation from City employment. The minimum deduction must be one percent (1%) of the leave payout for vacation, sick (established sick leave formula specified in the Unrepresented Management Employees' Salary and Benefit Resolution) and/or compensatory leave. Additional deductions can be made in one percent (1%) increments. The maximum payout is one hundred percent (100%) of each leave payout. Elections of leave payout deductions can be made no earlier than sixty (60) calendar days prior to an eligible unrepresented management employee's separation. If an employee fails to make an election by the date of his/her separation, it will be deemed that he/she has elected the default leave payout deduction of one percent (1%) for each leave category.

New Employees or Newly Eligible Employees

An Employee, whether new to the City as an unrepresented management employee or whether as a current employee who has been newly appointed as a Unrepresented Management Employee, who becomes eligible to participate in the Plan after February 16th, 2009, will have 30 calendar days from the date of eligibility to designate a payroll deduction. A payroll deduction must be elected in accordance with Section 2(A) of this Resolution. If an eligible unrepresented management employee fails to make an election within 30 (thirty) calendar days from the date of plan eligibility, it will be deemed that he/she has elected the default payroll deduction amount of Five Dollars (\$5.00) each pay period for the designated calendar year.

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward