



Request for City Council Committee Action From the Employee Services Department

Date: March 28, 2003

To: Ways and Means/Budget Committee

Subject: Amending Title 2, Chapter 20 of the Code of Ordinances relating to Administration: Article VI, Severance Pay and Accrued Sick Leave Benefit.

Recommendation That after public hearing and comment, the Committee recommend the proposed ordinance amendments be approved and forwarded to the City Council and that the Committee recommend the proposed ordinance amendments be approved and adopted by the City Council.

Prepared by: Susan L. Trammell, Assistant City Attorney (673-3230)

Approved by:

Ann Eilbracht, Director
Human Resources

John Moir
City Coordinator

Presenter in Committee: Ann Eilbracht, Director of Human Resources

Financial Impact (Check those that apply)

No financial impact or Action is within current budget.

Action requires an appropriation increase to the Capital Budget

Action requires an appropriation increase to the Operating Budget

Action provides increased revenue for appropriation increase

Action requires use of contingency or reserves

Other financial impact (Explain):

Request provided to the Budget Office when provided to the Committee

Coordinator

Background/Supporting Information -

The current sick leave accrual benefit was designed to encourage employees to only use their sick leave when necessary, and to accumulate a bank of sick leave for use in case of serious illness. The incentive for accruing sick leave is the payment of cash to employees who retired with a minimum of 60 days (480 hours) of accrued sick leave. Qualified retiring employees receive fifty percent of the value of the unused sick at their last daily rate of pay.

Based upon recent changes in the internal revenue code and the increased cost of health care for retirees, the Human Resources Department proposes amending the ordinance to adopt the Minnesota Post Retirement Health Care Savings Plan ("HCSP") established by Minnesota Statutes, section 352.98. The HCSP permits our current employees to contribute tax-free funds to a self-directed account that can then be used tax-free after termination of employment with the City for eligible health care expenses, such as COBRA payments. The City saves money, because contributions to the Plan are not subject to FICA.

To be a qualified health care savings plan, employee participation in the plan is mandatory if the employee meets the City's eligibility requirements. After discussions with the appointed and non-represented employees, the City has designated three contribution sources for the HCSP. First, the accrued sick leave benefit paid in cash to qualified retiring employees will instead be contributed in an equal sum to their HCSP account. Second, an employee who leaves the City with accrued vacation leave will have the value of that leave contributed to their HCSP account. The third contribution source is a percentage of the employee's annual salary increase, if any.

Represented employees will be eligible to participate in the HCSP if their collective bargaining units choose to participate. Each collective bargaining unit will determine the sources and amounts of contributions that will then apply to all members of the collective bargaining unit.

The City also proposes to provide an incentive to employees who are eligible to retire and to employees with twenty or more years of pension service credit to resign. The Retirement Incentive Plan will grant eligible employees either \$20,000, or the value of their sick leave payout at retirement, whichever is greater. If the employee chooses the \$20,000 incentive, he/she is still entitled to fifty percent of the unused sick leave, providing all other eligibility criteria for that program are met.

The Retirement Incentive Plan would remain in effect until May 30, 2003. Payments for accrued sick leave (either at fifty percent or one hundred percent) may be deposited in the employee's health care savings account dependent on when they separate.

Summary description of proposed amendments:

Chapter 20.420. Chapter 20.420 is amended to add definitions of accrued vacation leave, eligible employee, health care savings plan, and retirement.

Chapter 20.430. Chapter 20.430 is amended to delete the accrued sick leave benefit plan and to establish the health care savings plan for the payment of post employment eligible health care expenses.

Chapter 20.440. Chapter 20.440 is repealed and a new Chapter 20.440 is added to establish the HCSP's three contribution sources – accrued sick leave upon retirement, accrued vacation leave, and percentage of annual salary adjustment.

Chapter 20.450. Chapter 20.450 is repealed as it related to amount and manner of payment for the former Accrued Sick Leave Benefit Plan.

Chapter 20.460. Chapter 20.460 is amended to provide an incentive for employees who are eligible to retire and for employees with twenty or more years of pension service credit to resign.

Chapter 20.470. Chapter 20.470 is repealed. This change is consistent with the amendments being made to the job bank ordinances. The benefit is provided in Chapter 20.900.

Chapter 20.475. Chapter 20.475 is repealed. This change is a housekeeping measure, as Chapter 20.475 became null and void on January 1, 2001.

Chapter 20.476. Chapter 20.476 is repealed. This change is a housekeeping measure as Chapter 20.460 pertained only to employees retiring in January 1996, and continuing health/dental insurance pursuant to Chapter 20.475.