



Request for City Council Committee Action From the Department of Human Resources

Date: March 4, 2004

To: Ways & Means/Budget Committee

Referral to: City Council

Subject: City of Minneapolis Voluntary Employees' Beneficiary Association Health Benefit Plan and City of Minneapolis Voluntary Employees' Beneficiary Association Health Benefit Plan Trust Agreement

Recommendation:

- 1) That the City Council approve adoption of the City of Minneapolis Voluntary Employees' Beneficiary Association Health Benefit Plan ("City VEBA Plan");
- 2) That the City Council authorize the proper City officials to enter into the City of Minneapolis Voluntary Employees' Beneficiary Association Health Benefit Trust Agreement with Wells-Fargo, N.A., for the period of January 1, 2004 through December 31, 2004; and
- 3) That the City Council authorize the proper City officials to amend the contract with Administrative Resources Corporation ("ARC") to add provisions related to the claims administration of the VEBA Plan at a rate of \$3.65 per month per City VEBA member.
- 4) Authorization to seek an IRS Exempt Organization Determination Letter (IRS Form 1024) for the VEBA Plan and approve the payment of the \$500 required IRS fee.

Previous Directives: Approval on September 26, 2003, of the employee benefits package for the calendar year 2004, and said employee benefits package included health plans coupled with a voluntary employee benefit association plan. Establishment of a VEBA Plan in December 2003, including approval of the adoption of the Retirement Enhancement and Benefit Alternatives VEBA Plan and authorization to enter a Trust Agreement for the period of January 1, 2004 through December 31, 2006 with Manufacturers and Traders Trust Company.

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Approved by:

Pam French
Director, Human Resources

John Moir
City Coordinator

Presenter in Committee: Susan Trammell, Assistant City Attorney

Financial Impact (Check those that apply)

No financial impact - or - Action is within current department budget.

(If checked, go directly to Background/Supporting Information)

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:

As a result of the responses to the RFP sent out for Voluntary Employee Benefits Association (VEBA) Administration on June 11, 2003, the Healthcare Sub-Committee of the Citywide LMC examined the benefits of the utilizing a VEBA as a vehicle for employees to pay for medical, dental, vision and tax qualified long-term care expenses that are not paid by any other insurance plans. Any material change to the employees' benefits requires the City to negotiate with the representative collective bargaining units. Negotiations with the representative collective bargaining units resulted in a determination that a healthcare plan with a VEBA component would be the best course of action.

The Healthcare Sub-Committee then proceeded with a redesign of the Healthcare Insurance plans for the City. The resulting redesign of the City's Healthcare Insurance plans included 'high deductible and coinsurance' plans. Three of the four health insurance plans also included an employer paid VEBA Plan. The VEBA Plan would provide health care benefits for use during periods of employment, layoff or retirement and is financed through a VEBA Trust, which holds the employer contributions that are the assets of the Plan.

On September 26, 2003, the City Council approved the employee benefits package, including the establishment of VEBA Plan, for the calendar year 2004. On December 15, 2003, the City Council approved the adoption of the Retirement Enhancement and Benefit Alternatives VEBA Plan ("REBA VEBA") and authorized the entry into a Trust Agreement under the REBA VEBA Plan.

In the negotiation process with the REBA VEBA administrators, staff from the Department of Human Resources and the City Attorney's Office discovered facts that led to the reconsideration of Human Resources' recommendation that the City adopt the REBA VEBA Plan as the City's VEBA plan. Because of the reconsideration of the REBA VEBA, the City Attorney's Office has drafted the City's own VEBA plan, the City VEBA Plan. With the assistance of the Finance Department a limited RFP was issued for City VEBA Trust services. Wells Fargo, Inc. has been selected as the Trustee. The City Attorney's Office is currently drafting the Trust Agreement. The first funds will be deposited to the Trust on April 1, 2004.

Administrative Resources Corporation ("ARC") is the City's administrative agent for the health care reimbursement account, commonly called the flexible spending account, and the dependent care reimbursement account. Funds in an employee's health care reimbursement account must be utilized prior to use of the City VEBA account. ARC was anticipated to be the administrative agent for the REBA VEBA account and had responded to the original VEBA administration RFP as part of the REBA VEBA team. The REBA VEBA design contemplated the Trustee entering into a claims administration contract with ARC but did not allow for the City to choose a claims administrator. All ARC claims procedures for City VEBA reimbursement are coordinated with an employee's flexible spending account. ARC's proposal for VEBA administration waives the monthly per employee fee for the flexible spending account if the employee participates in the City VEBA.

The essential tax feature of a VEBA is that it can accumulate tax-free income – producing reserves for the payment of medical, dental, vision and tax qualified long-term care expenses. Section 501(a) of the Internal Revenue Code generally provides that an organization described in § 501(c)(9) is exempt from income taxation. In order to be treated as tax-exempt under § 501(c)(9), a VEBA must give notice to the IRS that it is applying for exempt status. Notice to the IRS is given when the City submits the VEBA Plan document and the Exempt Organization Determination Letter (IRS Form 1024) along with the required \$500 fee within the prescribed time period after creation of the City VEBA.