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| COUNTY OF SONOMA AGENDA ITEM SUMMARY REPORT | | | Clerk of the Board Use Only Meeting Date Held Until ____/____/____ ____/____/____ | |
| | | | Agenda Item No: Agenda Item No: _____ _____ | |
| Department: Human Resources | | | () 4/5 Vote Required | |
| Contact: Marcia Chadbourne | Phone: (707) 565-2473 | Board Date: 10/20/09 | Deadline for Board Action: 10/20/09 | |
| Agenda Short Title: Resolutions Amending the County of Sonoma Health Reimbursement Arrangement (HRA) Plan Document | | | | |
| Requested Board Action: 1. Adopt the concurrent Resolution of the County of Sonoma, the Sonoma County Water Agency, the Community Development Commission, and the Northern Sonoma County Air Pollution Control District, amending the Health Reimbursement Arrangement (HRA) Plan Document to provide employer contribution options for current employees of these entities, effective October 20, 2009. 2. Adopt the Resolution of the Sonoma County Agricultural Preservation and Open Space District, amending the Health Reimbursement Arrangement (HRA) Plan Document to provide employer contribution options for current employees of the District, effective October 20, 2009. | | | | |
| CURRENT FISCAL YEAR FINANCIAL IMPACT | | | | |
| <u>Expenditures</u> | | | <u>Add'l Funds Requiring Board Approval</u> | |
| Estimated Cost | \$ | N/A* | Contingencies (Fund Name:) | \$ |
| Amount Budgeted | \$ | | Unanticipated Revenue (Source:) | \$ |
| Other Avail Approp (Explain below) | \$ | _____ | Other Transfer(s) (Source:) | \$ |
| Additional Requested: | \$ | | Add'l Funds Requested: | \$ |
| Explanation (if required): *There are no costs associated with amendment of the HRA Plan Document. Costs associated with implementation of an option occur upon agreement with each employee organization and incorporation into an MOU and outlined in the board report at that time. | | | | |
| Prior Board Action(s): 2/05/08 - Final OPEB Report; 2/24/09 -Resolution Approving the County of Sonoma Health Reimbursement Arrangement (HRA) Plan Document | | | | |
| Alternatives – Results of Non-Approval: The County's HRA plan would not allow the County and employee organizations to agree to additional HRA provisions allowed by the IRS that would benefit employees. | | | | |

Background:

The County's current Health Reimbursement Arrangement (HRA) Plan Document, which was approved by your Board on February 22, 2009, contains the legally required administrative procedures and requirements under the applicable Internal Revenue Service (IRS) code sections. The Plan Document defines who are participants, who own the funds deposited into the trust account, COBRA and HIPAA regulations, record and report administration, etc. It also contains the specific provisions negotiated with each of the employee organizations regarding participant eligibility criteria for the HRA benefit for new employees hired on or after January 1, 2009. (The current Plan Document provides employer contributions into the HRA only for those employees hired on or after January 1, 2009 and only covers contributions made following completion of an initial two-year (52 pay periods) eligibility. The County's initial contribution for a full-time employee is \$2,400 and is pro-rated based upon the employees' allocated full-time equivalency (FTE). Following the initial eligibility period, the County contributes into the HRA an hourly rate of \$.58 per pay status hours up to 80 hours per pay period.

The purpose of creating an HRA was to address budgetary issues relating to the County's Other Post Employment Benefits (OPEB), which included various recommendations to address the OPEB unfunded liability. In addition to the establishment of a new tier of retiree medical for new employees, another recommendation accepted by the Board as part of the final OPEB report on February 5, 2008, was to have Human Resources conduct an evaluation and return with recommendations for options for current employees to save money on a pre-tax basis, for post employment and retiree medical costs to supplement the County's retiree medical contribution.

The proposed amendments to the HRA Plan Document expands the program to allow all employees working at least 0.5 FTE to participate in the HRA based on negotiated collective bargaining agreements pursuant to their Memorandum of Understanding or in the case of the unrepresented employees, an amendment to the Salary Resolution.

This HRA Plan amendment does not grant any benefit to any employee or employee organization. The Plan amendment only provides the IRS required Plan provisions which allow the County and each employee organization to agree through their MOU or side letter, to provide one or more of the allowed provisions to members in a bargaining unit.

Discussion:

Human Resources staff has worked with our benefits consultant, the Segal Company, to explore various other options allowed by the IRS that might benefit either the County or its employees through the HRA plan. The recommendation before your Board is to amend the Plan document to include other IRS allowed contribution options that can be exercised by employees hired before and after January 1, 2009, upon direction of the Board and subject to specific collective bargaining

Attachments:

- 1) Concurrent Resolution of the Board of Supervisors/Directors/Commissioners adopting amendments to the HRA Plan Document for the County of Sonoma HRA
- 2) Resolution of the Board of Directors of the Agricultural Preservation and Open Space District adopting amendments to the Plan Document for the County of Sonoma HRA

On File With Clerk: None

CLERK OF THE BOARD USE ONLY

Board Action (If other than "Requested")

Vote:

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Background (continued):

agreements with each individual union and for unrepresented employees with amendments to the salary resolution. The County would need to meet and confer with each individual employee organization and adopt specific provisions in each MOU that would implement one or more of the provisions allowed and the specific terms of implementation for that particular bargaining unit. If an employee organization is not interested in having these options included in their MOU, then the provisions would not be available to employees in those bargaining units. If the Board approves these amendments, at the Board's direction, Human Resources will contact each employee organization to determine their interest in these options. Any agreement would come back to your Board for ratification at that time.

The options included in the proposed amendments to the plan document include

1. A lump sum payment as part of one or more types of separation programs. One type of separation program is the Early Retirement Option (ERO) program, whereby upon agreement between an employee organization and the County, the Board may decide to offer an amount of money as part of an ERO incentive to be paid into the HRA for an employee who agrees to retire during a designated window period. Different types of ERO incentives have been used in the past by the County to mitigate the impact of required lay-offs by encouraging employees to voluntarily retire to avoid a lay-off of another employee. A HRA payment of non taxable monies for persons taking an ERO for their use after employment to cover medical costs, including premiums, could be an option as part of an early retirement incentive. Individual MOU provisions would need to be negotiated and agreed to in order to implement such a benefit and to designate an ERO window period. Additionally some bargaining units have MOU provisions that provide for post separation payments of health premiums for employees who are laid off. There may be a benefit to the laid off employee of converting this same dollar amount into an HRA payment for the employee to use in the future. This option is also available with this plan amendment. This option allows for inclusion by the Board of Supervisors of a lump sum payment into an HRA for an individual employee through a severance or separation agreement between the County and an individual employee.
2. An option to allow payment of leave balances upon separation of employment on a pre-tax basis into an HRA. Currently, each MOU and the Salary Resolution provides for the payoff of certain accumulated leave upon termination of employment or retirement. As these payoffs are considered salary, they are taxable. This HRA option allows for individual employee organizations and the County to agree, through an amendment or side letter to their MOU, that some or all these leave balance payoffs be directed, on a pre-tax basis, into an HRA account in the employee's name. Each individual MOU would include the specific terms, inclusions and exclusions the employee organization is interested in, so options and benefits may vary by bargaining unit. However, the IRS requires mandatory participation by all employees within the bargaining unit. (The County has already agreed to a version of this benefit in one MOU, except the payment is being paid to a trust established by the employee organization, not the County).
3. An option that allow for employee organizations and the County to agree, through provisions in a collective bargaining agreement in the individual organization's MOU, or in the case of unrepresented employees in the salary resolution, for a pre-tax lump-sum payment and/or ongoing pre-tax payments per pay period into individual employee HRA

Background (continued):

accounts during the term of the MOU for the individual employees' use upon separation or retirement.

The Resolutions Amending the HRA Plan document are included as Attachment A.

The Plan Document and amendments, apply to all employees of the County of Sonoma, the Sonoma County Water Agency, the Community Development Commission, the Northern Sonoma County Air Pollution Control District, and the Agricultural Preservation and Open Space District. However, as previously stated, this plan amendment does not implement any benefit. A collective bargaining agreement with a specific union, or a resolution in the case of unrepresented employees, would need to occur to implement one or more of the options listed.

In order to provide for these additional contribution options, the HRA Plan Document must be amended. Upon adoption of the attached resolutions, the County will contact all employee organizations and if they are interested, proceed with negotiating these options at this time or as the employee organization is interested in the future. The options that relate to ERO would only be negotiated as the Board determines that the budgetary need exists to provide such options now and into the future.

The HRA is a defined contribution plan. Individual accounts are created for each employee and like a deferred compensation plan, is invested by choices made by the employee themselves over the life time of their account. Employees who leave County employment may withdraw funds upon reaching age 50 or the date of retirement from the SCERA, whichever date is earlier. If an employee leaves County employment before retirement or age 50, they continue to be a participant in the plan, their account balance continues to earn interest, and will be available for withdraw at age 50 or later, as determined by the participant. All contributions made into this plan for each individual participant is owned by the employee and may be used for any qualified medical expense such as medical premiums for the participant or their eligible IRS-qualified dependents. Under current IRS rules, contributions to this plan are fully tax exempt, and funds used for qualified medical expenses are also exempt from taxes. Funds may be used to purchase participant health coverage from County-sponsored health plans or any other source, such as an individually purchased health plan, or eligible, self-procured medical expenses. Upon the death of the participant, unused balances may be spent for the medical expenses of a surviving IRS-eligible spouse or dependent(s).

Costs:

There are no costs associated with the action of approving the amendments to the HRA Plan Document. If and when the County enters into MOU's or adopts a revision to the salary resolution that implements one or more of these options, the costs associated with such implementation, if any, would be included in the Board of Supervisor agenda item for that individual employee organization. There may be minor savings to the County from the adoption of the payment of leave balances into the HRA since it reduces the County's FICA payments on the leave balances being paid off. Again the specific savings, if any, would be identified in the specific implementation for the individual employee organization and included in the Agenda Report to the Board of Supervisors at that time. Additional costs associated with providing an ERO or severance agreements will be presented to your Board as such options are developed and negotiated, as directed by your Board.

Background (continued):

RECOMMENDATIONS:

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