

**CITY OF COOS BAY CITY COUNCIL**  
**Agenda Staff Report**

MEETING DATE	AGENDA ITEM NUMBER
November 20, 2012	

TO: Mayor Shoji and City Councilors

FROM: Susanne Baker, Finance Director  
Through: Rodger Craddock, City Manager *RC*

ISSUE Adoption of Resolution 12-25

BACKGROUND

The compensation benefit package offered to City employees includes a City contribution into a Health Savings Account (HSA) for eligible employees. A HSA account is one venue in which the IRS allows for payment of eligible medical expenses pre-tax to avoid the tax burden of social security, Medicare, federal, or state taxes.

There is a small group of employees that are not eligible for the HSA for various reasons (other health insurance coverage through a spouse, military insurance, or eligibility for Medicare) and receive their benefit in the form of cash, which is not pre-tax. This option is fully taxable to the employee; and additionally, the negotiated arrangement provides that the employee will also pay the employers portion of the social security/Medicare taxes and the employer Public Employee Retirement System (PERS) contribution.

In an effort to effectively manage the City's compensation benefit program, information was obtained that allows eligible employees to participate in an Internal Revenue Code Section 501(c)(9) voluntary employees' beneficiary association health reimbursement account (HRA VEBA) trust. Using this venue, employees would receive contributions pre-tax and be able to more effectively manage their benefit resources. In order for the City to participate in the HRA VEBA trust, each employee group will be required to vote to participate; a Council resolution is required to be adopted to allow participation by the City; and additional plan documents will need to be signed by the City Manager.

ADVANTAGES

If the City chooses to participate in this program, there is the potential for further mutual tax savings for the employer and the employee upon retirement. It is anticipated that the tax savings will benefit both the employee and the employer through a savings in social security and Medicare taxes on eligible final check benefit payouts.

DISADVANTAGES

None, any plan administrative costs associated with the HRA VEBA would be borne by the employee.

BUDGET

There is the potential to decrease payroll tax expenditures through the use of the IRS approved HRA VEBA tax health and welfare trust program.

RECOMMENDATION

It is staff's recommendation the City Council to adopt Resolution 12-25.

**City of Coos Bay**

**Resolution 12 – 25**

**A RESOLUTION OF THE CITY OF COOS BAY, COOS COUNTY, OREGON ESTABLISHING A HEALTH REIMBURSEMENT ARRANGEMENT/VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION ("HRA VEBA") PLAN**

WHEREAS, the Internal Revenue Code Section 501(c)(9) allows for the creation of a voluntary employees' beneficiary association which is a tax-exempt health and welfare trust. IRS regulations and guidelines allow an employer to offer health reimbursement arrangement (HRA) plans; and

WHEREAS, such HRA plans are available to governmental employers in the Northwest. Voluntary Employees' Beneficiary Association for Public Employees in the Northwest Trust ("Trust") offers and will administer an HRA entitled "Voluntary Employees' Beneficiary Association Medical Expense Plan for Public Employees in the Northwest" ("Plan") as amended and restated; and

WHEREAS, City of Coos Bay ("Employer") has determined that establishing an HRA plan which provides a tax-free defined contribution account for employees to pay for medical, dental, vision and tax qualified long-term care premiums and non-covered healthcare expenses is in the best interest of the Employer and its employees; and

WHEREAS, the Employer desires to establish an HRA plan for its employees and use the services of the Trust to administer such Plan; and

WHEREAS, such HRA established by the Employer will be administered in accordance with the Plan documents provided by the Trust on file in the Employer's main office.

NOW, THEREFORE, the City Council hereby resolves as follows:

Section 1. Effective, January 1, 2013 the Employer hereby elects to participate in the Plan and Trust as presently constituted or hereafter amended using the Trust as its plan administrator for the benefit of eligible employees as defined by Employer policies or collective bargaining agreements.

Section 2. The Plan will be funded with Employer contributions in amounts determined from time to time pursuant to Employer policies and collective bargaining agreements.

Section 3. The City Manager is authorized to execute documents and establish procedures consistent with Plan and Trust provisions and applicable Employer policies and collective bargaining agreements necessary to effect the adoption and administration of the Plan.

The foregoing resolution was duly adopted by the City of Coos Bay, Coos County, Oregon this 20<sup>th</sup> day of November 2012.

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Crystal Shoji, Mayor

ATTEST:

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Susanne Baker, City Recorder