



**DATE:** November 27, 2018

**TO:** Mayor and City Council

**FROM:** Director of Human Resources

**SUBJECT:** Adoption of a Resolution Approving an Amended Side Letter Agreement between the City of Hayward and the Unrepresented Executives, Management, City Manager, Human Resources and City Attorney Employees to Revise Current Contributions to the Voluntary Employee Beneficiary Association (VEBA) Plan

## **RECOMMENDATION**

That the City Council adopts a Resolution authorizing an amended side letter agreement between the City of Hayward ("City") and the Unrepresented Executives, Management, City Manager, Human Resources and City Attorney Employees ("Unrepresented Employees") for an increase in current contributions and a decrease in contributions upon retirement, to the Voluntary Employee Beneficiary Association (VEBA) Plan.

## **SUMMARY**

The City makes available to members of the Unrepresented Employees group the Voluntary Employee Beneficiary Association (VEBA) Plan, which enables eligible employees to accumulate funds in a tax-exempt trust for reimbursement of qualified medical expenses.

Pursuant to the terms of the Unrepresented Employees' VEBA agreement, changes to the plan are made with the consensus of the majority of participants. A survey was conducted by the Human Resources Department, which determined that the majority of participants wanted an increase in current contributions per pay period, and a decrease in contributions upon retirement.

## **BACKGROUND**

VEBA is an entity established as a tax-exempt trust under Section 501(c)(9) of the Internal Revenue Service (IRS) Code to provide employees with the ability to save money for health care expenses. Participants, their spouses, and eligible dependents are able to receive reimbursement for qualified medical expenses while actively employed, following separation from employment, and during retirement.

The City contracts with California Government Voluntary Employee Beneficiary Association (CALGOVEBA) to provide a healthcare funding vehicle for employees to make tax-free contributions to a trust for accumulating funds for the reimbursement of health care costs. Employees who participate in the VEBA program realize a tax benefit because both eligible contributions and the reimbursed expenses are tax-exempt.

In 2011, the City restructured its Plan to comply with a change in the IRS Code that required all employees within a bargaining unit or employee group to make the same contribution amount. The contribution amount is negotiated within the employee group. While participation in the Plan is up to the employee group, should the group opt to participate, the employee group must work together to determine what the contribution levels will be.

Following restructuring of the Plan, the Unrepresented Unit opted to participate in the Plan. Beginning May 1, 2012, Unrepresented Employees were given fifteen (15) days to opt in or out of the VEBA program upon hire, or if promoting into the bargaining unit. The decision to opt in or opt out of the program is irrevocable.

The agreement in May 2012 set biweekly contributions at various amounts based on years of service. The table below shows the amounts previously selected:

Employee Category	Per Pay Period Contributions
<b>0 - 4 Years of Service</b>	<b>\$25</b>
<b>5 - 9 Years of Service</b>	<b>\$40</b>
<b>10 - 14 Years of Service</b>	<b>\$55</b>
<b>15 - 19 Years of Service</b>	<b>\$75</b>
<b>20+ Years of Service</b>	<b>\$100</b>

Contributions upon retirement are 100% of eligible sick leave, and 50% of the cash value of accumulated leave balances (vacation and compensatory time) AFTER deducting 200 hours of leave payout that can be paid out in cash or contributed to the employee's deferred compensation account (subject to IRS limitations). There is no contribution of leave balance payouts for non-retirement separations.

## **DISCUSSION**

On February 28, 2018, the Human Resources Department sent to Unrepresented Employees currently participating in the Plan, a survey with questions regarding the Plan's existing structure and contribution schedule.

On July 16, 2018, the Human Resources Department completed an analysis of the survey's findings; based on majority input, the existing VEBA Plan contributions are being increased and the contributions upon retirement are being decreased.

Effective December 10, 2018, the agreement will set biweekly contributions at an amount ranging from \$65-\$140 based on years of service. Contributions upon retirement are being reduced to 50% of eligible sick leave, and 25% of vacation and compensatory leave payouts after deducting 300 hours of leave payout that can be paid out in cash or contributed to the employee's deferred compensation account (subject to IRS limitations). There is still no contribution for non-retirement separations, such as resignations or probationary releases.

## **FISCAL IMPACT**

There is no fiscal impact associated with the agreement authorizing Unrepresented Employees to increase contributions to the VEBA Plan. All VEBA contributions are funded through employee contributions to the Plan. The City does not contribute to the Plan. Costs associated with administering payroll deductions for participating employees are minimal and are not expected to change as a result of this agreement.

## **STRATEGIC INITIATIVES**

This agenda item is a routine operational item and does not relate to one of the Council's Strategic Initiatives.

## **NEXT STEPS**

Staff will finalize the side letter agreement and obtain necessary review by the City Attorney and approval by the City Manager to execute them. The Human Resources and Finance Departments will work together to implement these changes.

*Prepared by:* Vanessa Lopez, Senior Human Resources Analyst

*Recommended by:* Nina S. Collins, Director of Human Resources

*Approved by:*

A handwritten signature in dark ink, appearing to read 'K. McAdoo', is written over a horizontal line.

Kelly McAdoo, City Manager