

**City of Culver City, California
Agenda Item Report**

Meeting Date: 07/02/2012		Item Number: <u>C-8</u>	
CITY COUNCIL AGENDA ITEM: Adopt a Resolution Establishing a Retiree Health Reimbursement Arrangement Plan			
Contact Person/Dept.: Jeff Muir/Finance Department		Phone Number: (310) 253- 5865	
Fiscal Impact: Yes ☒ No ☐		General Fund: Yes ☒ No ☐	
Public Hearing: ☐		Action Item: ☒	Attachments: ☒
Commission Action Required: Yes ☐ No ☐		Date: _____	
Public Notification: (Email) Meetings and Agendas – City Council (06/28/12)			
Department Approval: Jeff Muir (06/19/12)		City Attorney Approval: Carol Schwab (by H. Baker) (06/25/12)	
Chief Financial Officer Approval: Jeff Muir (06/19/12)		City Manager Approval: John M. Nachbar (06/27/12)	

RECOMMENDATION:

Staff recommends the City Council take the following actions relative to the establishment of a Retiree Health Reimbursement Arrangement Plan:

1. Adopt the attached proposed resolution approving and adopting the attached City of Culver City Retiree Health Reimbursement Arrangement Plan; and,
2. Authorize the City Manager, City Attorney and Chief Financial Officer to finalize and execute all documents and take all necessary actions to implement the Plan.

BACKGROUND:

On March 12, 2012, the City Council approved the establishment of a Post-Employment Welfare Benefits Program Trust. The purpose of the Trust was to provide a mechanism whereby the City may begin to adequately fund its future liabilities for retiree medical benefits pursuant to Government Accounting Standards Board Statements 43ⁱ (GASB 43) and 45ⁱⁱ (GASB 45), which required government entities to begin treating Other Post Employment Benefits (OPEB) in a similar fashion to pensions. This Trust is a long-term investment program to pay for future liabilities. It will take many years of funding and annual returns before costs are paid out of this Trust.

On a monthly basis, the City makes payments to existing retirees for medical coverage they are entitled to based on their date of retirement. This is referred to as the “pay-as-you-go” portion of the OPEB liability. Prior to the recently approved changes to the agreements with the City’s six bargaining units, the City made the monthly premium payments for retirees directly to CalPERS each month. With the

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implementation of the new agreements, the City must now make the reimbursements directly to the retirees, as the premium payments are withheld from their monthly pension checks.

DISCUSSION:

With the understanding that premium reimbursements would be made from the City directly to retirees, staff sought legal assistance to establish a Health Reimbursement Arrangement (HRA) for eligible retirees. An HRA provides a mechanism to provide these reimbursements directly to retirees and ensure they are not treated as taxable income. The attached City of Culver City Retiree Health Reimbursement Arrangement Plan provides the necessary legal framework to permit retirees or their eligible beneficiaries to receive reimbursements on a nontaxable basis.

FISCAL ANALYSIS:

There is no direct fiscal impact to the City by approving the HRA. The amount of monthly reimbursements is not affected. Only the logistics for providing them will change slightly moving forward. This action will ensure these benefits are not construed as taxable income.

ATTACHMENTS:

1. Proposed Resolution

MOTION:

That the City Council:

1. Adopt the proposed resolution approving and adopting the City of Culver City Retiree Health Reimbursement Arrangement Plan; and,
2. Authorize the City Manager, City Attorney and Chief Financial Officer to finalize and execute all documents and take all necessary actions to implement the Plan.

ⁱ The official title of GASB 43 is *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* and was issued in April 2004.

ⁱⁱ The official title of GASB 45 is *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* and was issued in June 2004.