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Board Agenda Item

TO: Air Pollution Control District Board

FROM: Terry Dressler, Air Pollution Control Officer

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SUBJECT: Adoption of a 401(h) Plan for the Purpose of Funding a Retiree Medical Program for Eligible Retired District Participants

RECOMMENDATION:

Authorize the Chair of the Air Pollution Control District Board to execute an Agreement with the Santa Barbara Employee's Retirement System setting forth the terms for implementation of the 401(h) Retiree Medical Program. (Attachment A)

Adopt a resolution providing for funding of a 401(h) Account in accordance with Internal Revenue Code. (Attachment B)

Accept and file Regulations Governing Payment of Retiree Health Benefits From a 401(h) Account as Adopted by the Santa Barbara County Board of Supervisors. (Attachment C)

DISCUSSION:

For many years, SBCERS provided a Retiree Medical Program comprised of two options. One was a fifteen dollar (\$15) per-month-per-year-of-service pre-tax payment to offset the purchase of medical benefits from one of the County's health plans. The second was a four dollar (\$4) per-month-per-year-of-service taxable cash supplement for retirees who opted out of the County health plan for retirees.

Approximately three years ago SBCERS became aware these subsidies were non-compliant with Internal Revenue Code (IRC) Requirements. On September 16, 2008 SBCERS and the County of Santa Barbara executed an Agreement to implement a 401(h) plan to continue providing health subsidies for retirees of the Santa Barbara County Employee's Retirement System. Additionally all participating employers in the SBCERS need to execute an Agreement with the Santa Barbara County Employee's Retirement System.

As a participating employer of the Santa Barbara Employee's Retirement System, the District is requesting the APCD Board to approve the attached Agreement (Attachment A) to fund a 401(h) plan for the District's retirees effective October 1, 2008.

This Plan will have a two tiered implementation. Effective October 1, 2008 the District will provide SBCERS the \$15 per month per year of service health insurance offset to the 401(h) plan. Beginning January 1, 2009 the \$4 benefit will be funded by the District and paid through the 401(h) plan.

FISCAL IMPACT:

The preliminary retirement rate utilized in constructing the fiscal year 2008-09 budget was 26.79% of pensionable earnings. With the implementation of the 401 (h), a revised retirement rate of 24.39% was adopted by the County Board of Supervisors in September. The reduced percentage will save the District approximately \$100,000 this fiscal year. This reduction in pension contributions are offset by a minimum retiree health contribution of \$3,070 per month for the \$15 benefit, and \$567 per month for the \$4 benefit, or a total of \$3,637 per month. The implementation of the 401(h) results in a positive net financial impact, annualized at approximately \$69,000. Consequently, the 401(h) plan can be implemented by your Board without increasing budgeted appropriations.

Agencies are encouraged to pre-fund retiree health benefits, and the IRC allows them to pre-fund retiree health benefits up to a maximum of 25% of the employer's retirement contribution, or \$255,036 in the case of the District this fiscal year. Pre-funding was not included in the proposed 2008-09 budget; however, it can be contemplated in future budgets. Further, any salary savings this fiscal year could be allocated towards pre-funding, while remaining within budgeted appropriations limits.

Attachment A

Attachment B

Attachment C