



MEMO TO: Finance, Administration, and Communications Committee of the Whole

FROM: Malisa Files, Finance Director
Nicole Bruce, Benefits Manager

DATE: February 26, 2019

SUBJECT: Health Reimbursement Arrangement (HRA) Voluntary Employees' Beneficiary Association (VEBA)

I. PURPOSE ☐ For Info Only ☒ Potential Agenda Item

II. RECOMMENDATION

Discuss establishing HRA VEBA accounts for employees and the potential timeline for adoption by the City Council.

III. DEPARTMENT CONTACTS

Malisa Files, Finance Director	425-556-2166
Nicole Bruce, Benefits Manager	425-556-2124

IV. DESCRIPTION/BACKGROUND

A health reimbursement arrangement (HRA) voluntary employees' beneficiary association (VEBA) is a tax-exempt trust instrument that provides employee benefits and is authorized under Internal Revenue Code section 501(c)(9). A HRA VEBA is a benefit plan that reimburses out-of-pocket medical care and premium expenses.

As reported for several years, the City's Medical Self-Insurance Fund is carrying excess reserves of approximately \$5 million. The Employee Benefits Advisory Committee (EBAC) is proposing to use the funds to establish VEBA accounts for eligible employees (see one-pager in Exhibit A). Eligible employees are those employees that were covered under the City's medical plans for the past five years (January 1, 2014 through December 31, 2018). Employees will receive a one-time pro-rated share determined by the number of months the employee was covered by the City.

A. Analysis

The Medical Self-Insurance Fund has been accumulating excess reserves due to conservative actuarial analysis as well as underutilization of the plan. The Fund currently holds approximately \$10 million in fund balance. An estimated \$5 million is needed for reserves of which \$2 million is reserved for incurred but not reported (IBNR) claims and \$3 million to guard against fluctuations in medical premiums.

Redmond has been working to buy down the reserves through keeping rate increases small or at zero. The minimal rate increases have served to curtail the growth in the reserves, but it has not worked to decrease the excess reserves.

For several months, EBAC had discussed potential one-time benefits to employees to buy down the excess reserves. Several ideas were researched and it was agreed that HRA VEBA accounts were the most viable option. HRA VEBA is considered one of the best ways to cover out-of-pocket medical care costs for several reasons:

- HRA VEBA contributions, earnings and withdrawals are tax free
- HRA VEBA accounts can be used to cover medical premiums before and after age 65
- The balance of the accounts carryover from year to year
- Participants have diverse investment options
- HRA VEBA contributions can be used for co-pays, deductibles, prescription drugs and other medical expenses

On the employer side, Redmond would make a one-time contribution to the HRA VEBA accounts, but would not bear the ongoing cost of a benefit enhancement while at the same time giving employees a mechanism to save for medical expenses. Employee groups could choose to fund additional contributions through other mechanisms (e.g. salary deduction, sick leave bonus, etc.).

V. TIME CONSTRAINTS

Staff recommends scheduling Council action for the second meeting in March with the goal to establish the employee HRA VEBA accounts by April 2019.

VI. LIST OF ATTACHMENTS

Attachment A: HRA VEBA One-Pager