

**CITY OF FERNDAL  
REQUEST FOR COUNCIL ACTION**

**FROM:** Sheryl Stubblefield

**SUBJECT:** Internal Revenue Code: §420 Transfer of Excess Pension Assets to Retiree Health Accounts and establishment of §401 (H) Retiree Medical Benefits Account Report

**INTRODUCTION**

A §420 transfer of assets would allow the pension plan to transfer funds to a §401(H) account to pay for retiree health care benefit costs. Definition of §401(H): a qualified pension plan may make provisions for the payment of medical expenses for retired employees, their spouses, and dependents.

By law, the §420 transfer is limited to one transfer per year, and there are limitations on the amount to be transferred. Additionally, the funds transferred can only be transferred to a health benefits account §401(H) and shall be used only to pay "...qualified current retiree liabilities..."

**SUMMARY & BACKGROUND**

General Employee Retirement System (GERS) was closed to new hires effective July 1, 1996. As of the June 30, 2019 Actuarial Report, GERS was currently funded at 290.8%. What does that mean? It means that for \$7.1 million dollars in expected future benefits to be paid, the pension system has \$20.6 in assets to be paid. The ratio of assets to future benefits to be paid is 290.8% (page A-6, of Actuarial Valuation Report as of June 3, 2019) The current assets in the fund could cover future costs almost three times over.

Currently there are 45 retirees and beneficiaries in the system. This is the lowest number of members, down from a high of 92 members in 1995. Since this plan is closed, there are no anticipated additions to the number of participants. The last time the city made any contributions to GERS was 22 years ago, in 1998. The City spends between \$1.8 and \$2 million a year on retiree healthcare benefits, approximately half of these dollars are funding GERS retirees. This presents an ongoing financial burden to the city's general, sanitation, and water & sewer funds.

Finance Department will be moving forward to establish a process for setting up a §401(H) Retiree Medical Benefit account and to create an annual process for transferring funds from GERS to the §401(H) to fund future medical benefit payments to the retirees, commonly known as a §420 transfer. The process would require an annual review and approval of the transfer. The process would also establish a minimum threshold for pension funding not to go below, for example not to go below 175% funded.

**BUDGETARY CONTEXT**

N/A

**CIP#**



May 13, 2020

Finance Department

**ATTACHMENTS**

**STRATEGIC PLANNING CONTEXT**

Organizational and Financial Excellence

**RECOMMENDED ACTION**

Receive and file