Washington State
Military Department

Department Policy No. HR-238-05

Title:	Voluntary Employee's Benefit Association – Medical Expense Plan
Former Number:	03-305-05
Authorizing Source:	RCW 41.04.340 WAC 357-31-375 IRS Code section 501(c)(9) Collective Bargaining Master Agreements, WFSE and WPEA
Information Contact:	Human Resources Director Building # 33 (253) 512-7940
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Revised:	August 1, 2016
Mandatory Review Date:	August 1, 2020
Approved By:	Bret D. Daugherty, Major General The Adjutant General Washington Military Department Director

Purpose

The purpose of this policy is to provide eligible employees the opportunity of converting sick leave buy-out at retirement to a medical expense reimbursement plan.

Scope

This policy applies to all state employees of the Washington Military Department (WMD). It does not apply to guardsmen on state active duty or federal government personnel, to include Active Guard Reserve (AGR) members, traditional guardsmen in a federal military status, or military technicians.

Definitions

1. Eligible Employees: WMD employees who are members of a designated employee group and eligible to retire during the plan year as determined by the provisions of their particular retirement plan.

2. Eligible Retiring Employee: Eligible employees who retire from employment with WMD and receive a benefit from the Department of Retirement Systems.

3. Employee Group: A group of employees determined by this policy and permitted by RCW and WAC.

4. Plan Administrator: Provides reimbursements to eligible retiring employees for qualified medical/dental/vision expenses and insurance premiums under the Plan.

5. Plan Year: Calendar year (the period from January 1 through December 31).

6. Retirees' Medical Expense Plan A post-retirement medical expense reimbursement plan available to eligible employees. Eligible employees who retire can use the Plan to receive reimbursement for qualified medical/dental/vision and insurance premiums. WMD will deposit the sick leave buy-out funds of eligible retiring employees into a tax-free expense plan held by a Trust on behalf of the retiring employee. The State participates in the Voluntary Employees' Benefits Association Medical Expense Plan (VEBA-MEP):

7. Sick Leave Buy-out at Retirement: Monetary compensation employees who are eligible to receive at retirement paid at the rate of 25 percent (i.e., one hour for each four hours of accrued sick leave) based upon the employee's salary at retirement.

8. Trust: A tax-exempt organization that is authorized by Internal Revenue Code section 501(c)(9) to hold eligible retiring employees' medical expense plan funds in trust.

9. Voluntary Employees' Benefits Association Medical Expense Plan (VEBA-MEP): The post-retirement medical expense plan. This is also referred to as the Retirees' Medical Expense Plan and/or the Plan.

10. VEBA-MEP Membership Enrollment Form: The document eligible retiring employees must sign to participate in the Plan. This form contains a statutorily required provision that eligible employees agree to hold WMD harmless should it be determined that WMD or the employee is in debt to the United States as a result of the employee not paying income taxes due on funds placed into the Plan.

Policy

The WMD is authorized, but not required, to offer a retirees' medical expense plan. Funding for such a plan is limited to the sick leave buy-out available to eligible employees at retirement and does not apply to any sick leave credit compensation received before retirement.

1. There are three designated employee groups for the purpose of VEBA-MEP participation:

    a. Employees included in the WMD's Washington Federation of State Employee (WFSE) bargaining unit.

    b. Employees included in the WMD's Washington Public Employee Association (WPEA) bargaining unit.

    c. WMD employees who are not represented by a collective bargaining agreement, including classified, Washington Management Service, and exempt employees.

2. Initial Vote on Implementation of VEBA-MEP.

    a. Bargaining unit employees. The appropriate exclusive bargaining representative will oversee the voting process and notify the WMD if their employee groups elect to participate in (adopt) the Plan.

    b. Non-Represented employee. Upon approval of the policy, a vote will be held among all non-represented employees who are eligible to retire during the plan year in which the VEBA-MEP Policy is adopted. The Plan will be implemented for the remainder of the year only if a majority of the employees who vote approve the Plan.

3. Implementation of Plan for Subsequent Plan Years.

    a. Bargaining unit employees. The appropriate exclusive bargaining representative will oversee the voting process and notify the WMD if their employee group elects to participate in (adopt) the Plan for subsequent plan years.

    b. Non-Represented employees. After the initial vote, the decision regarding the plan status will remain in effect for subsequent plan years unless an employee who is eligible to retire during the subsequent year requests a vote on implementation/continuation of the Plan. If there is a vote, the voting will normally be held on or about October 31st. Only employees eligible to retire in the subsequent plan year are permitted to vote. A simple majority of those employees who vote will prevail. If the vote ends in a tie, a coin toss will determine the outcome. The voting process will be concluded and a final decision made by November 30th of each year, to become effective for the subsequent year.

4. When any of the established employee groups elect to adopt the Plan, the Internal Revenue Code requires that contributions to a medical expense plan are mandatory for all eligible members of the participating group(s). The code details that the decision whether or not to participate in the plan cannot be an individual employee's decision. An established medical expense plan shall be applicable to all eligible employees who retire within a particular plan year. A medical expense plan may be discontinued in any future year, but once discontinued it may not be reinstated for the same group of eligible employees within the same plan year that it was discontinued.

5. All eligible retiring employees must contribute sick leave buy-out to the Plan. Unless designated employee group(s) vote out the Plan for a particular plan year, all eligible employees within the group(s) that retire during the plan year **MUST** contribute <u>all</u> of their sick leave buy-out to the Retirees' Medical Expense Plan. The Plan will be in effect for the entire plan year.

6. All eligible retiring employees must sign hold harmless agreements or forfeit rights to sick leave buy-out. RCW 41.04.340(9) requires that as a condition of participating in a medical expense plan, all eligible retiring employees MUST sign a hold harmless agreement relating to the Plan. That agreement is included in the VEBA-MEP Membership Enrollment Form, and provides that the eligible retiring employee will hold WMD harmless should the United States government determine that WMD or the employee is in debt to the United States as a result of the employee not paying income tax due on the equivalent funds placed in the Plan, or as the result of WMD not withholding or deducting a tax, assessment, or other payment on the funds as required by federal law. All eligible retiring employees who refuse to sign this agreement forfeit all rights to their sick leave buy-out at retirement.

7. The WMD Payroll Office will maintain VEBA-MEP Membership Enrollment Forms for eligible employees who elect to retire. Eligible retiring employees should notify the WMD Payroll Office of their intent to retire at least 30 days prior to the last day of employment with the WMD. The WMD Payroll Office will provide a VEBA-MEP Membership Enrollment Form to the retiring employee. The employee is required to return the fully executed Membership Enrollment form to the WMD Payroll Office within 14 calendar days of receipt. All eligible retiring employees who refuse to sign this agreement forfeit all rights to their sick leave buy-out at retirement.

8. Plan Administrator and Trust for the Plan. The WMD Finance Office is responsible for ensuring that agreements are in place with organizations or individuals for a Plan Administrator and Trust for the Plan. The Washington Healthcare Authority is authorized to enter into statewide contracts with companies that provide administration and trust services needed to implement the Plan. WMD will either participate in such contracts or will contract for these services on its own.

9. Remittance of Sick Leave Buy-out to Plan Administrator. The WMD Finance Office is responsible for the remittance of funds from the sick leave buy-out for eligible employees who retire to the Plan Administrator. The Plan Administrator will process

claims and provide reimbursements for qualified medical/dental/vision expenses and insurance premiums from funds held by the Trust. The WMD Finance Office will maintain current Plan information including application forms (e.g., VEBA-MEP Membership Enrollment Form), question and answer sheets, a copy of the Plan document, and any other relevant documentation.

Procedures

1. Collective Bargaining Unit Employees – Notification regarding VEBA-MEP status.
   a. The WMD Human Resources Office will notify the appropriate exclusive bargaining representatives of the designated employee groups as they pertain to VEBA-MEP.
   b. The WMD Human Resources Office will coordinate changes in VEBA-MEP plan participation/no-participation of the bargaining unit employee groups as determined by voting and/or other VEBA-MEP process maintained through the Exclusive Bargaining Representative's processes.
   c. The WMD Human Resources Office must be notified in writing no later than August 31st of the year prior to the associated Plan Year, if a collective bargaining unit's employee group elects to change their VEBA-MEP plan status in an upcoming plan year.
2. Non-Represented Employee – Notification regarding VEBA-MEP status.
   a. The WMD Human Resources Office will send an e-mail to non-represented employees notifying them of the current VEBA-MEP status by August 31st of each year. This notification will inform employees that the VEBA-MEP status of the current year will automatically be in effect for the subsequent plan year unless a request for a vote to reevaluate the status is requested by an employee eligible to retire in the upcoming plan year.
   b. Eligible employees may request a reevaluation vote by notifying the WMD Human Resources Office, in writing, no later than October 15th.
   c. If a vote is requested, employees identified by the WMD Human Resources Office as eligible to retire (based on age, time in service, and plan affiliation) during the upcoming plan year will be provided a ballot via e-mail. The vote will be held on or about October 31st. The voting process will be completed and a final decision made by November 30th. The results will be published throughout the WMD.
   d. The WMD Human Resources Office will maintain the records and results associated with the voting process.
3. Employees retiring in designated employee group(s) that are not participating in VEBA-MEP will have their sick leave credits cashed out (at the 25 percent rate) on their last paycheck or as otherwise arranged with the WMD Payroll Office.

4. Eligible retiring employees that are a member of an employee group participating in VEBA-MEP should complete the following prior to their retirement:
   a. Notify the WMD Payroll Office of their intent to retire from employment at least 30 days prior to the last day of employment with the WMD.
      i. The WMD Payroll Office shall provide eligible retiring employees with a VEBA-MEP Membership Enrollment Form. The employees shall be notified that this form must be completed (fully executed) and returned, within 14 calendar days of receipt, to the WMD Payroll Office.
   b. Execute a VEBA-MEP Membership Enrollment Form.
      i. The fully executed VEBA-MEP Membership Enrollment Form must be returned within 14 calendar days of receipt to the WMD Payroll Office.
      ii. Failure to execute the Membership Enrollment Form, which is required for enrollment, will result in the forfeiture of remuneration for sick leave credit and preclude participation in VEBA-MEP.
      iii. The WMD Finance Office will arrange payment of the eligible employee's sick leave credit (at the 25 percent rate) to the Plan Administrator upon receipt in a timely fashion.