

**A RESOLUTION OF THE CITY OF LANGLEY, WASHINGTON AUTHORIZING THE
ESTABLISHMENT
OF A HEALTH REIMBURSEMENT ARRANGEMENT/VOLUNTARY EMPLOYEES'
BENEFICIARY ASSOCIATION ("HRA VEBA") PLAN**

WHEREAS, the Internal Revenue Code Section 501(c)(9) allows for the creation of a voluntary employees' beneficiary association which is a tax-exempt health and welfare trust; and

WHEREAS, IRS regulations and guidelines allow an employer to offer health reimbursement arrangement (HRA) plans; and

WHEREAS, such HRA plans are available to governmental employers in the Northwest; and

WHEREAS, the Voluntary Employees' Beneficiary Association for Public Employees in the Northwest Trust ("Trust") offers and will administer an HRA entitled "Voluntary Employees' Beneficiary Association Medical Expense Plan for Public Employees in the Northwest" ("Plan") as amended and restated ; and

WHEREAS, The City of Langley ("Employer") has determined that establishing an HRA plan which provides a tax-free defined contribution account for employees to pay for medical, dental, vision and tax qualified long-term care premiums and non-covered healthcare expenses is in the best interest of the Employer and its employees; and

WHEREAS, the Employer desires to establish an HRA plan for its employees; and

WHEREAS, the Employer desires to use the services of the Trust to administer such Plan; and

WHEREAS, such HRA established by the Employer will be administered in accordance with the Plan documents provided by the Trust on file in the Employer's main office.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Langley as follows:

Section 1. Effective, February 1, 2011 the Employer hereby elects to participate in the Plan and Trust as presently constituted or hereafter amended using the Trust as its plan administrator for the benefit of eligible employees as defined by Employer policies or collective bargaining agreements.

Section 2. The Plan will be funded with Employer contributions in amounts determined from time to time pursuant to Employer policies and collective bargaining agreements.

Section 3. The Mayor is authorized to execute documents and establish procedures consistent with Plan and Trust provisions and applicable Employer policies and collective bargaining agreements necessary to effect the adoption and administration of the Plan.

PASSED BY THE CITY COUNCIL OF THE CITY OF LANGLEY this ___ day of January, 2011.

PAUL O. SAMUELSON, Mayor

ATTEST

DEBBIE L. MAHLER, Director of Finance/Clerk



Introductory Overview

What is the VEBA Plan?

A health reimbursement arrangement
for public employees in Washington

What is a health reimbursement arrangement?

A health reimbursement arrangement (HRA) is a type of health plan that reimburses out-of-pocket health care costs incurred by you, your spouse, and qualified dependents. All contributions, investment earnings, and withdrawals (claims) are tax-free!

The VEBA Plan is offered by a non-profit trust¹ and has been adopted by nearly every school district, educational service district, and community and technical college in Washington.

Why should I have an HRA?

Public employees everywhere are struggling to cope with the soaring cost of health care, while working and after retiring. Active employees can choose to use the VEBA Plan to offset increased medical plan costs, receiving more value from their benefits package.

Don't become job-locked. Employees eligible to retire are often forced to keep working because they can't afford to pay their retiree medical premiums. You work hard and deserve to enjoy a stress-free retirement. The VEBA Plan can help you to save a portion of what you earn today for when you need it most.

Plan Benefits

You . . .

...pay no tax on contributions, earnings, and withdrawals (claims)

...can use your account anytime—after becoming claims eligible

...choose your investments

Your . . .

...spouse and dependents are covered—even if you die

...unused account balance carries over from year to year—no annual “use-it-or-lose-it” requirement

¹ VEBA Trust was formed in 1984 and is a voluntary employees' beneficiary association (VEBA) authorized under Internal Revenue Code § 501(c)(9). VEBA Trust is managed by a board of trustees appointed by the plan sponsors: Association of Washington School Principals (AWSP), Washington Association of School Administrators (WASA), and Washington Association of School Business Officials (WASBO).

How do I benefit from the VEBA Plan?

The VEBA Plan saves you money. You pay zero tax on contributions, earnings, and withdrawals (claims). In other words, the money goes in tax-free, is invested tax-free, and comes out tax-free. You may save up to \$300 or more in taxes for every \$1,000 contributed by your employer (tax savings are approximate and vary by individual).

Tax-free Contributions

You and your employer pay zero tax on VEBA Plan contributions. Contributions to tax-deferred programs, such as your IRA, 457, 401(k), or 403(b) plans, are subject to FICA tax, and federal income tax is merely postponed until you make withdrawals.

Below are several of the most common VEBA Plan contribution sources². In most cases, your employer contributes funds which would otherwise be paid to you as taxable income (e.g. salary, wages, sick leave, etc.). When your employee group elects to exchange taxable income for tax-free VEBA Plan contributions, you get to enjoy significant tax savings — even better than your tax-deferred investments!

School districts; community & technical colleges

1. Mandatory employee contributions (no individual elections)
2. Retirement sick leave cash out³
3. Vacation, personal, and other leave cash outs
4. Part or all of a future pay raise or COLA

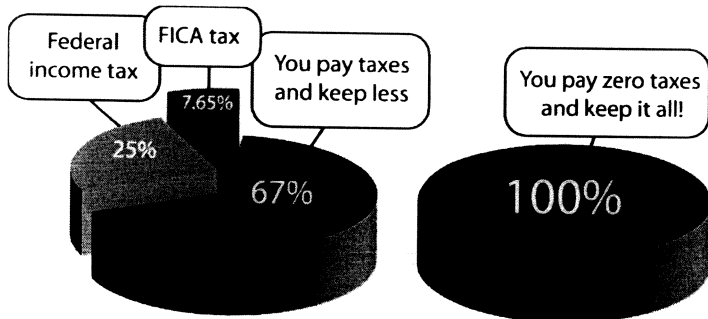
School districts only

1. Annual sick leave cash out³
2. Separation from service sick leave cash out³
3. Unused monthly benefit dollars (after pooling)

Keep more of your money

Amount you keep without the VEBA Plan:

Amount you keep with the VEBA Plan:



VEBA Plan estimated tax savings examples⁴

Monthly

\$33 on each \$100 contribution.

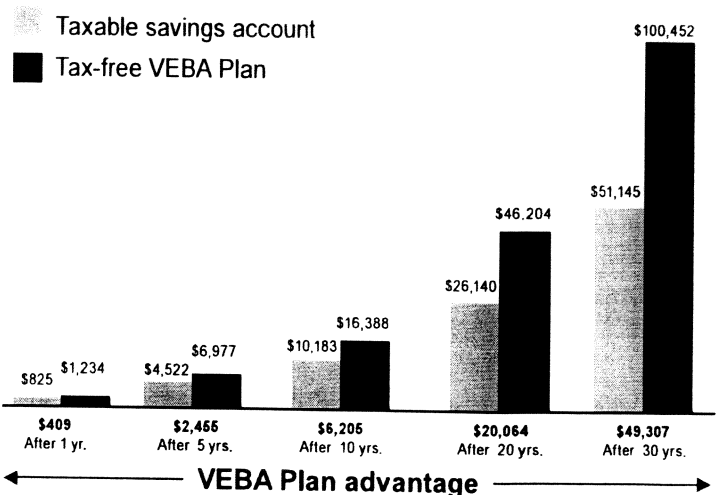
You keep \$100 vs. \$67!

Leave cash out

\$3,300 on \$10,000 contribution

You keep \$10,000 vs. \$6,700!

Growth of \$100 per month @ 5.00% net of fees:



Enrollment

After your employee group adopts the VEBA Plan and you become eligible to participate, you must submit a completed and signed Enrollment Form. All employee group members defined as eligible must participate per IRS rules.

¹ You need to confirm how mandatory employee contributions (or other contributions) to VEBA may affect your pension benefit, contact your employer or Washington State Department of Retirement Systems.

³ When becoming eligible for sick leave cash out contributions, failure to complete the required Enrollment Form will result in a forfeiture of some or all of your accumulated sick leave days. Please check with your employer or VEBA Service Group, LLC for details.

⁴ Tax savings examples (1) are for illustrative purposes only and vary based on your personal tax situation; and (2) assume 25% federal income tax savings on contributions and earnings, and 7.65% FICA tax savings on contributions. You should consult a professional advisor regarding your personal tax situation.

Amount today's average Washington public retiree and spouse will spend on health care during retirement:

\$300,000 +

Tax-free Investments

Invest your account by choosing either one of two options. You can change your investment selection anytime up to once per calendar month. Fund management fees vary by fund(s) selected.

Option A: Do-it-yourself

Build your own portfolio using funds from among six individual asset classes.

- Stable Value
- Total Return Bond
- Large Cap Equity
- Mid Cap Equity
- Small Cap Equity
- International Equity

Option B: Choose a pre-mix

Select any one of four professionally designed pre-mixed asset allocation portfolios. Each pre-mixed portfolio's risk level gives strong consideration to your projected time horizon (i.e. the length of time until you expect to begin filing claims).

- Immediate Use (0-1 years)
- Short-term Use (2-3 years)
- Medium-term Use (4-5 years)
- Long-term Use (6+ years)

Tax-free Withdrawals (claims)

It's easy to file a claim

After becoming eligible to file claims, simply submit a properly completed and signed Claim Form along with proof of expense. Claims are processed daily.

Use a Systematic Premium Reimbursement Form to request automatic reimbursement of recurring qualified insurance premiums.

Direct deposit is fast and secure

Sign up for direct deposit (recommended). It's a faster and more secure way to receive your reimbursements.

Online Services

myVEBA Plan online

After logging in to your account, you will be able to quickly and easily:

- View your account balance and transaction history
- Track claims in progress
- View claims history
- Update your investment selection(s)
- Update your covered spouse and dependent information
- And more!

e-Communication

Get important information quickly and securely by signing up for e-communication (recommended). Instead of waiting to receive private information in the mail, e-communication provides e-mail notification to you as soon as your participant activity statements and explanations of benefits (EOBs) are available for online viewing.

Survivor Benefit

If you pass away, remaining funds in your account may continue to be used by your surviving spouse and qualified dependent(s) to reimburse eligible healthcare expenses and premiums. Surviving spouses and qualified dependents enjoy the same tax advantages as participants.

If you have no eligible survivors, remaining funds will be forfeited and redistributed pro rata among the remaining participants from the employer that made your contribution(s). IRS Revenue Ruling 2006-36 does not permit the payment of benefits to non-dependent heirs.

To learn more, or to schedule a group presentation, contact:

VEBA Service Group, LLC

Western Washington

1-800-422-4023

Eastern Washington

1-800-888-VEBA (8322)

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How much will you spend on health care during retirement?

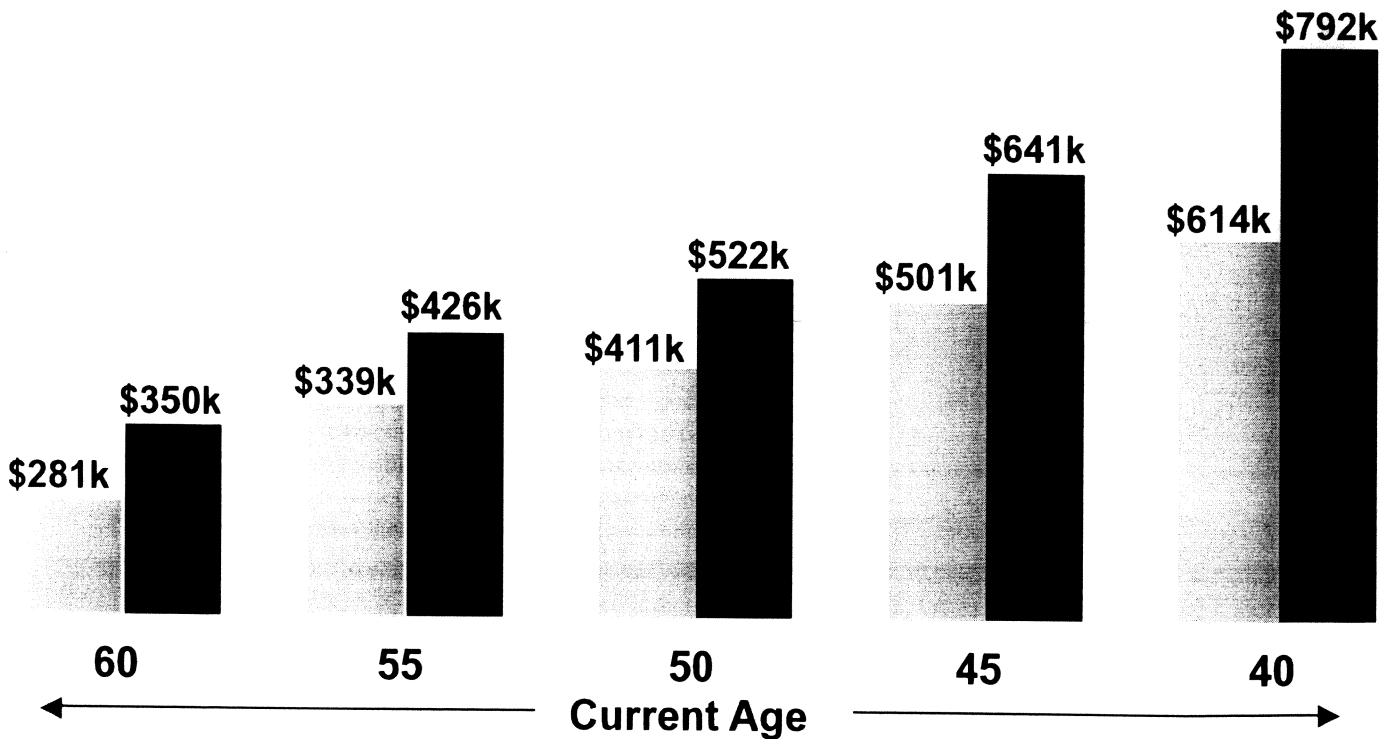
Find your current age on the chart below.

The average 60-year-old public employee and spouse retiring today may spend well over \$300,000 of their own money on healthcare expenses and insurance premiums during retirement! Fortunately, the VEBA Plan can help. Contact a VEBA Service Group, LLC office near you. In Western Washington, call 1-800-422-4023; in Eastern Washington, call 1-800-888-VEBA (8322).



PEBB retiree and spouse health insurance premiums average over \$900 per month. After enrolling in Parts A and B of Medicare, this amount may decrease to about \$300 per month.

Retire at age 65 Retire at age 60



The above 2009 projections are based on current average PEBB-sponsored retiree medical and dental premium amounts for public retirees in Washington, current standard Medicare Part B premiums, and current average Medicare Part D premiums for subscribers in Washington. Following are the basic assumptions: (1) employee and spouse retire at age 60 or 65 and live to age 84; (2) both parties enroll in PEBB-sponsored retiree medical (\$923/month for both parties) and dental (\$77/month for both parties); (3) at age 65, both parties enroll in Part A (no cost), Part B (\$96.40/month per person), and Part D (\$47.40/month per person); (4) reduced PEBB retiree medical premium at age 65 for both parties (\$315/month current average); (5) \$500 per year miscellaneous out-of-pocket costs (deductibles, co-pays, etc.); (6) Five percent annual increase in retiree medical and dental premiums; and (7) Two percent annual increase in Medicare Part B and Part D premiums.

(31)

Fees

Plan expenses include claims processing, printing, postage, legal fees, consulting, local servicing, auditing, etc. These costs are paid by an annualized fee of approximately 1.75%.

The annualized fee is paid by a reduction to investment earnings or, if there are no earnings, charged as a deduction to participant accounts. Small, inactive accounts less than \$250 will be charged \$2.00 per month if not credited with any contributions during the preceding 12 months.

Third-party Administrator (TPA)

The third-party administrator, Meritain Health, provides customer service, claims processing, and participant account administration. Meritain Health has more than 30 years of experience and employs a specially-trained service team to assist you.

VEBA Plan Third-party Administrator
 Meritain Health | PO Box 27810 | Minneapolis, MN 55427
 Phone: 1-888-828-4953 | Fax: (763) 582-3470
 E-mail: myVEBAPlan@meritain.com

Qualified Expenses & Premiums

Below is a partial list of basic qualified expenses and premiums. Visit veba.org to view a more extensive list.

COMMON EXPENSES

Co-pays
 Coinsurance
 Deductibles

INSURANCE

PREMIUMS

Medical/Dental/Vision
 Long-term care (tax-qualified, subject to IRS limits)
 Medicare Parts B and D
 Medicare supplement plans

MILITARY COSTS

TRICARE
 EXTRA
 PRIME (HMO)
 PRIME supplement
 Retiree dental

Standard

MEDICARE COSTS

Deductibles
 Co-pays
 Coinsurance
 Clinical laboratory services
 Home health care
 Hospice care
 Hospital stay
 Mental health services
 Outpatient hospital services

SERVICES & FEES

Acupuncture
 Chiropractor
 Christian Science
 Dentist
 Gynecologist

Hospital

Laboratory
 Naturopath
 Obstetrician
 Oral surgeon
 Optometrist
 Orthodontist
 Osteopath
 Physicals
 Physician
 Physiotherapist
 Psychiatrist
 Psychologist
 Specialists

OTHER EXPENSES

Alcoholism and drug treatment center
 Contact lenses, solutions
 Eye glasses

Fertility treatments

Hearing aids & batteries
 Immunizations
 Laser eye surgery
 Medical supplies and equipment
 Obstetrical expenses
 Operations
 Organ transplants
 Physical therapy
 Prescription medicines
 Stop smoking programs
 Telephone for deaf (TTY)
 Transportation (subject to IRS limits)
 Wheelchair
 X-rays

OTC MEDICINES & DRUGS

Allergy medicines

Antacids

Bug bite medication
 Calamine lotion
 Cold medicines
 Cough drops
 Eye care products
 First aid creams/liquids

Internal Revenue Code § 213(d) defines qualified expenses and premiums, in part, as "medical care" amounts paid for insurance or "for the diagnosis, cure, mitigation, treatment, or prevention of disease..." Expenses solely for cosmetic reasons generally are not eligible (e.g. face lifts, hair transplants, hair removal, etc.).

Please note the following:

1. Insurance premiums paid by an employer, or premiums that are or could be deducted pre-tax through your or your spouse's section 125 cafeteria plan, are not eligible for reimbursement.
2. If you or your spouse have a section 125 healthcare flexible spending account (FSA), you must exhaust the FSA benefits before submitting claims.
3. Claims for over-the-counter (OTC) medicines and drugs should be for reasonable quantities expected to be consumed within a reasonable period of time. Sales tax can be included.

Questions? Contact the third-party administrator, Meritain Health, at myVEBAPlan@meritain.com or 1-888-828-4953.