

M E M O R A N D U M

TO: Chief Administrative Officer

FROM: City Comptroller/Personnel Director

Re: Resolution Concerning Section 125 Expenses and IMRF

DATE: November 8, 2004

Brief Description of Item. The attached resolution will change the manner in which employee Section 125 expenses are reported to IMRF such that employees will save more money in taxes paid and better preserve their retirement.

Background Information. Currently 176 employees of the City participate in deducting certain medical costs through the City's Section 125 plan. These deductions annually save these employees approximately \$115,820. By law, employees contribute 4.5% of their salary into IMRF for their retirement. Currently, Section 125 expenses are deducted from the employees salary before the IMRF contribution is calculated. However, since IMRF retirement is based on the employee's contribution over the last 4 years of employment, employees must eliminate any section 125 deductions, thus preserving their pension at the higher amount. While the current arrangement saves the employee 4.5% of their Section 125 deduction amount, these savings are eliminated when the employee must stop taking any Section 125 deductions the last 4 years of employment (27%). In addition, if the employee doesn't make this election properly or retires unexpectedly, their retirement could be reduced in an amount that would be significantly greater than any savings. I did contact all of the Section 125 enrolled employees explaining why I am recommending this change. No employees expressed any concerns.

Recommendation. Therefore, I am recommending approval of the attached resolution which will correct this possible problem.

RESOLUTION NO. 2004-11-029R

{A RESOLUTION TO INCLUDE COMPENSATION PAID UNDER
I.R.C. SECTION 125 AS I.M.R.F. EARNINGS}

WHEREAS, The City of Urbana, Illinois, is enrolled in the Illinois Municipal Retirement Fund (I.M.R.F.), a pension plan which provides retirement, disability, and death benefits to it's employees, as required by State Law; and,

WHEREAS, The City of Urbana, Illinois, desires to include in IMRF reportable earnings, compensation paid to it's employees under Internal Revenue Code (I.R.C.) Section 125, effective January 1, 2005;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF URBANA, ILLINOIS, as follows:

That the City of Urbana does hereby elect to include compensation paid to it's employees under I.R.C. Section 125 as earnings reportable to I.M.R.F.; and,

That the City Clerk is hereby authorized and directed to certify this election on the attached IMRF Form 6.72 and that the Personnel Director is hereby authorized and directed to file this certified copy of this resolution with the Illinois Municipal Retirement Fund.

PASSED by the City Council this _____ day of _____,
_____.

AYES:

NAYS:

ABSTAINS:

Phyllis D. Clark, City Clerk

APPROVED by the Mayor this _____ day of _____,
_____.

Tod Satterthwaite, Mayor