

RESOLUTION NO. 2027

CITY OF WARRENTON ADOPTING A
PREMIUM CONVERSION BENEFIT PLAN
FOR ITS EMPLOYEES

Where as, the governing body of the City of Warrenton finds and determines that it is in the interest of the public, the City of Warrenton and the City of Warrenton employees that the City of Warrenton offer an Internal Revenue Code Section 125 Premium Conversion benefit plan to it employees; and

Where as, the Premium Conversion Plan provides sufficient flexibility to permit employees of the City of Warrenton to select benefits that most suit their needs by providing a choice between cash wages and the option to convert wages to premiums in order to cover their insurance contributions; and

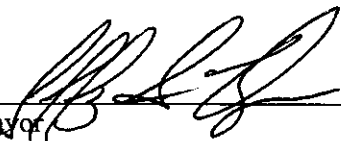
Where as, the Plan as set forth will allow the employees and the City of Warrenton to establish a partnership to educate employees and their families about appropriate health care utilization, to share responsibility for health care costs and to pursue future means of moderating insurance premium increases.

Now, therefore, be it resolved by the governing body of the City of Warrenton that the City of Warrenton should, and does hereby, ratify the officer's adoption of an employee premium conversion benefit plan effective August 1, 2002.


This resolution is effective on September 4, 2002.

Passed and ratified by the City of Warrenton this 4th day of September in the year of 2002.

Approved by the Mayor of the City of Warrenton this 4th day of September in the year of 2002.

Mayor 

ATTEST:

City Manager 

CITY OF WARRENTON PRE-TAX PREMIUM PLAN SUMMARY

August 1, 2002

This summary is intended to describe briefly the City of Warrenton Pre-Tax Premium Plan (the Plan), which the City of Warrenton (the City) adopted effective August 1, 2002. We have prepared this summary as a convenience to you, and tried to describe the Plan clearly and accurately. This summary should give you an overview of how the Plan works and your rights and obligations under the Plan. Because this is only a summary, however, it leaves out much of the detail in the Plan document itself. If there are any differences between the Plan and this summary, the Plan, not this summary, is the controlling document. You may review or request a copy of the Plan document from the City's Finance Department (the Department) during regular business hours.

This summary is an important document. You should keep it in a safe place so you may review it in the future. If the City changes the Plan any way that affects your eligibility or benefits, the Department will give you an explanation of the changes.

1. Overview – This Plan permits eligible employees to pay their share of the cost of coverage under certain of the City's employee benefit plans with pre-tax dollars. That means employees generally aren't subject to income or employment taxes on amounts that are taken out of their pay to cover their contributions for coverage under certain plans, such as medical and dental insurance plans.

2. Eligibility – You are eligible to participate in this Plan if you meet *both* of the following requirements:

- You are an employee of the City and either you are not covered by a collective bargaining agreement or the collective bargaining agreement that covers you provides for participation in this Plan. Employees do *not* include workers who are classified by the City as independent contractors, even if those workers are later reclassified as employees.

- You are eligible to participate in one of the City's employee benefit plans to which you may contribute through this Plan. As of August 1, 2002, those plans were the City's medical and dental insurance plans and certain voluntary plans made available to City employees, though other plans may in the future provide for employee contributions through this Plan. The City's plans to which you may contribute through this Plan are referred to in this summary as "the Benefit Plans."

You will become eligible to participate in this Plan at the same time that you become eligible to participate in the Benefit Plans, subject to the following sentence. Employees covered by a collective bargaining agreement will become eligible to participate in this Plan not earlier than the date specified in their collective bargaining agreement.

3. Making an Election – You elect your contribution under this Plan automatically when you enroll for coverage in the Benefit Plans. For example, if you were to enroll for coverage for yourself and your spouse in the City's medical insurance plan, and if the required contribution from employees for that coverage were \$100 per month, you would also be electing to have your compensation reduced, before taxes, by the \$100 per month required to cover your share of the cost of the coverage you elected. Additional reductions would apply to other coverages you elected under the Benefit Plans. **You must timely enroll for coverage in the Benefit Plans in order to participate in both the Benefit Plans and this Plan.**

4. Changing Your Election – Your election generally must remain in effect for the remainder of the Plan Year (August 1 – July 31). You may change your election during the annual open enrollment period for the following Plan Year.

There are limited situations in which you may change your election during a Plan Year. If one of the following events occurs, and you want to make an election change that is on account of and corresponds with the event that has occurred, you must notify the Department within 30 days of the date the event occurred and request to change your election:

- A change in your legal marital status, such as marriage, legal separation, annulment, divorce or death of your spouse.
- A change in the number of your dependents for tax purposes, such as by birth, adoption, placement for adoption or death.

- A change in employment status for you or your spouse or dependent that affects benefit eligibility under the Benefit Plans or under a benefit plan of your spouse or dependent. Such a change might include commencement or termination of employment or other change in work status that makes you or your spouse or dependent eligible or ineligible for a benefit plan.
- A change in dependent status, such as an event that causes your dependent to satisfy or cease to satisfy the requirements for coverage under a Benefit Plan.
- A change in residence *if* it affects your eligibility to participate in a Benefit Plan.
- A judgment or order that requires you to cover your child as a dependent under a Benefit Plan, or that requires someone else to cover your child.
- A change in the cost of a Benefit Plan. The City will automatically adjust your contribution to reflect the new cost, unless you timely elect coverage under another similar plan.
- A significant change in the coverage of a Benefit Plan. You may elect coverage under another similar plan if this occurs.
- A change that allows you to elect special enrollment, such as you or your spouse or dependent losing other coverage and timely electing to enroll in a Benefit Plan.
- Becoming covered by Medicare or Medicaid.

If you want to change your election during a Plan Year, you will have to show the Plan administrator that the requested change is on account of and corresponds with the change in status that has occurred. In general, that means you must show that the change affects your coverage, or your spouse's or dependent's coverage, under a Benefit Plan or under another employer's benefit plans.

5. Leaves of Absence - If you go on a paid leave of absence, your contributions through this Plan won't change, unless your pay is insufficient to cover your contribution, or you make a change permitted by section 4 above.

If you go on an unpaid leave of absence, you may lose your right to participate in the Benefit Plans, unless you have the right to continue coverage under the COBRA or some other provision of the Benefit Plans, *and you timely pay your contribution, on an after-tax basis, to the Plan administrator.* When you return from an unpaid leave, your pre-tax contributions under this Plan will be restarted based on your coverage elections under the Benefit Plans.

If you go on a Family and Medical Leave Act (FMLA) leave of absence, you may either prepay your contributions, on a pre-tax basis, before your leave starts, if you timely give notice to the Plan administrator, or you may pay your contributions, on an after-tax basis, as they become due. When you return from a FMLA leave, your pre-tax contributions under this Plan will be restarted based on your coverage elections under the Benefit Plans.

6. This Plan's Effect on Taxes and Benefits – As noted above, the contributions you make through this Plan are not subject to federal or Oregon income taxes, nor are they subject to federal employment taxes, such as Social Security tax. That means that you will usually pay less tax by contributing through this Plan than you would if you were contributing on an after-tax basis. It also means, however, that your compensation that is counted for purposes of determining your Social Security benefits is reduced, which will reduce your Social Security benefits when you retire. You may want to discuss this with your own financial advisor.

Making contributions through this Plan should not affect your compensation counted for purposes of most of the City's other employee benefit plans, though it will affect the amount you may defer under the City's deferred compensation plan. If you have specific questions about how making contributions through this Plan might affect benefits under another plan, please seek the Department.

7. Domestic Partner Coverage – You may enroll certain eligible same-sex domestic partners for coverage under the Benefit Plans. Payments you make for coverage of such domestic partners generally will not be subject to Oregon income and employment taxes, but they will be subject to federal income and employment taxes, unless your domestic partner qualifies as your dependent for federal income tax purposes. You may need to consult your own tax advisor if you have enrolled a domestic partner under the Benefit Plans.

8. Plan Administration – This Plan is administered, on a day-to-day basis, by an outside administrator, Associated Administrators, Inc. (AAI), though City's Finance Director is formally the Plan administrator and makes final decisions about your rights and obligations under the Plan. If you want to make or change an election or if you have a question or concern about the Plan, please contact AAI. If you disagree with a decision made under the Plan that affects you or your spouse, domestic partner or dependent, put your disagreement in writing and give it to the Finance Director, who will review your claim and respond in writing.

CAFETERIA PLAN
MODEL PLAN DOCUMENT

ARTICLE 1

Introduction

The Employer has adopted this Plan in order to allow its Eligible Employees to choose among different types of benefits and cash based on their own particular goals, desires and needs.

It is the intention of the Employer that the Plan qualify as a "cafeteria plan" within the meaning of section 125 of the Internal Revenue Code of 1986, as amended.

The provisions of this Plan shall be effective August 1, 2002 through July 31, 2003 and will renew each August 1 of each subsequent plan year until such time as terminated by City of Warrenton.

ARTICLE 2

Definitions

Each word and phrase defined in this Article 2 shall have the following meaning whenever such word or phrase is capitalized and used herein unless a different meaning is clearly required by the context of the Plan.

Section 2.01 Account The individual account established on the books of the Employers under Section 11.01 in the name of each Member for the purpose of accounting for contributions allocated to and benefits paid for a Member.

Section 2.02 Claimant A Member or the Member's eligible Dependent who has submitted a claim under the plan.

Section 2.03 Committee The Employee Benefits Committee as described in Section 12.01.

Section 2.04 Code The Internal Revenue Code of 1986, as amended from time to time. Reference to any section or subsection of the Code includes reference to any comparable or succeeding provisions of any legislation which amends, supplements or replaces such section or subsection.

Section 2.05 Contract Administrator The third-party administrator with which the Trust and Employer has contracted to administer the benefits.

Section 2.06 Compensation A Member's basic pay, including bonuses, overtime and commissions, as determined by the Committee, for personal services rendered in the course of employment with any Affiliated Employer and contributions under Sections 4.01, 4.02 and 4.03 on a Member's behalf.

Section 2.07 Dependent A Member's dependent as defined in Code Section 152.

Section 2.08 Elective Contributions An elected amount of dollars the Member has requested to be withheld from his or her compensation to be contributed to the insurance as described in Article 4.

Section 2.09 Eligible Employee Any person employed by the Employer who is eligible for benefits under a Medical Plan for which employee contributions may be made pursuant to this Plan but excluding any person covered by a collective bargaining agreement between the Employer and a bargaining unit of employees, unless coverage under this Plan is provided for under the collective bargaining agreement. Eligible Employees shall not include an employee who is a "leased employee" as defined in Code Section 414(n), nor a worker classified by the Employer as an independent contractor, even if the worker is later reclassified as an employee.

Section 2.10 Employer City of Warrenton.

Section 2.11 Highly Compensated Member An employee defined by Code Section 105(h)(5) or Code Section 414(q) as is appropriate.

Section 2.12 Governing Board The elected or appointed board that governs the Employer.

Section 2.13 Medical Plan Any plan of the Employer other than this Plan which provides medical care benefits (including dental care benefits) for employees generally.

Section 2.14 Member Any Eligible Employee who has elected to participate in the Plan in accordance with Sections 3.01 and 3.02 and who has not ceased to be an Employee.

Section 2.15 Non-elective Contributions The contributions made pursuant to Section 4.05.

Section 2.16 Period of Coverage The Plan Year, except that it may be a fraction of a Plan Year as provided in Section 5.05.

Section 2.17 Plan The Employer's cafeteria plan, set forth herein.

Section 2.18 Plan Year Each successive 12-month period beginning with the effective date of the Plan, or such Short Plan Period as designated by the Employer.

Section 2.19 Premium Conversion Account The subaccount of a Member's account established under Section 8.01 for reimbursement of group insurance premiums.

Section 2.20 Salary Reduction Agreement The Salary Reduction Agreement means an agreement between a Member and the Employer under which the Member agrees to reduce his or her Compensation and to have such amounts contributed by the Employer to the Plan on the Member's behalf. The agreement shall apply only to Compensation that has not been actually or constructively received by the member as of the date of the agreement (after taking this Plan and Code Section 125 into account) and, subsequently does not become currently available to the Member.

Section 2.21 Trust The Trust shall be the Employee Benefits Services Trust (EBS).

ARTICLE 3

Eligibility Requirements

Section 3.01 Eligibility An Employee shall become eligible to participate in this plan as of the later of:

- a. The waiting period for the plan shall be the first of the month following thirty (30) days of employment;
- b. The date the Employee becomes eligible for coverage under a Medical Plan for which employees may contribute for coverage pursuant to this Plan; or
- c. The date of the Employee's coverage under this Plan through the adoption of this Plan by the Employee's employing entity.

Section 3.02 Notice and Enrollment Prior to the date an Employee first becomes eligible to participate in this Plan, the Committee shall notify in writing each Employee who becomes eligible and shall explain the rights, privileges and duties of a Member of the Plan. Each Member may elect to participate as of the date on which he or she becomes eligible in accordance with Section 3.01 by completing and delivering to the Committee a salary reduction agreement and an election of benefits form on the forms provided by the Committee.

Section 3.03 Termination of Eligibility A member becomes ineligible to participate in the plan if the Member no longer meets the plan's eligibility requirements or terminates employment with the employer. Upon the termination of eligibility, the Member's right to participate in the Plan terminates as of the date of such transfer or employment termination, except as specifically stated in the Plan or pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), as amended.

Section 3.04 Leave of Absence

- a. Paid Leave In the event a Member takes a paid leave of absence, including paid leave pursuant to the FMLA, but does not terminate employment, participation in the Group Insurance Premium Conversion Account program, including without limitation, Member contributions pursuant to Article 4, shall continue during such leave of absence.
- b. Unpaid Leave
 1. Other than FMLA In the event a Member takes an approved, unpaid leave of absence which is not FMLA leave, participation shall be suspended in the same manner as participation is suspended in circumstances described in Section 3.04.
 2. FMLA Leave In the event a Member takes an unpaid FMLA leave of absence, each elected health benefit shall continue during the unpaid leave but not longer than twelve (12) weeks, provided the Elective Contribution (if

any) for such benefits is timely paid by the Member. The Member may elect to pay the Elective Contribution (if any) in the following manner:

- a. On an after-tax basis as due. This is considered a "pay as you go" option; or
- b. On a pre-tax basis prior to commencing the leave of absence. If the Member chooses to pay pre-tax in advance, he or she must elect in writing to temporarily accelerate his or her Salary Reduction Agreement in an amount equal to the Member's anticipated or actual Elective Contribution during the leave of absence. Notwithstanding the foregoing, premium expenses may be accelerated only during the Plan Year which contains the portion of the leave to which the payment relates; or
- c. Return From Leave Upon return from an unpaid leave of absence before the end of the Plan Year in which the leave commenced, active participation in the plan shall be reinstated and Elected Contributions and benefits shall resume according to the Member's most recent annual Enrollment Form, including any changes pursuant to Section 5.07

Upon return from an unpaid leave of absence after the end of the Plan Year, the member shall be treated as a newly eligible employee and Section 5.02 shall apply.

If the Member does not immediately resume active employment at the conclusion of a paid or unpaid leave of absence, the Member shall no longer be considered an Eligible Employee and Section 3.03 shall apply

ARTICLE 4

Contributions

Section 4.01 Insurance Premium Conversion For any Plan Year, each Member may elect to have contributed to his or her Account a specified amount of his or her Compensation for such Plan Year to pay for insurance premiums for plans sponsored by the Member's employer. The amount of such contributions shall be determined in accordance with such employer-sponsored plans.

Section 4.02 Pay reduction and Payroll Withholding A Member's compensation for a Plan Year shall be reduced by the amount of the contributions which he or she elects for such Plan Year under Sections 4.01, 4.02 and 4.03. Contributions shall be made only by way of Salary Reduction Agreement which shall be made during a Member's applicable Period of Coverage.

Section 4.03 Non-elective Contributions For any Plan Year, the Employer may make further contributions to the Plan on behalf of Members. In the case of a Member who becomes eligible to participate in the middle of a Period of Coverage, as provided for in Section 5.05, the Employers' Non-elective Contribution will be a pro-rata amount based on the number of months left in the applicable Period of Coverage. Any such contributions shall be made only on a nondiscriminatory basis.

ARTICLE 5

Elections

Section 5.01 In General Elections of contributions and benefits shall be made at the time, in the manner and subject to the conditions specified by the Committee which shall prescribe uniform and nondiscriminatory rules for such elections.

Section 5.02 Election to Participate An Eligible Employee commences participation by filing an executed election form with the Plan Administrator. The election form shall be signed by the Employee, shall designate the benefits in which the Employee elects to participate and shall designate the Plan Year (or the remaining portion of the Plan Year), as the time period for which participation will be effective. The election form shall also specify the amounts, if any, by which the Employee's compensation shall be reduced.

Section 5.03 Contributions and Benefits Members must elect the amount of contributions to a Premium Conversion Plan, and how much of such contributions as well as Non-elective Contributions allocated to their Accounts shall be allocated to each benefit for an elected Period of Coverage.

Section 5.04 Period of Coverage Except as provided in Sections 5.05 and 5.06, any Member electing contributions and benefits must make an irrevocable election for a Period of Coverage of an entire Plan Year.

Section 5.05 Fractional Periods Members who become eligible to participate in the middle of a Plan Year may elect to participate for a period lasting until the end of the current Plan Year. In such cases, the interval commencing the day after their elections are made and ending at the end of the current Period of Coverage shall be deemed to be their Period of Coverage. Such Members must elect to participate no later than thirty (30) days after becoming eligible to do so or within such other time limit as the Committee may prescribe.

Section 5.06 Timing of Elections Elections of contributions and benefits for a Period of Coverage shall be made prior to such Period of Coverage, provided that where a Member commences or recommences participation in the middle of a Period of Coverage, he or she shall make elections prior to commencement of participation.

Section 5.07 Changes of Elections Elections of contributions and/or benefits may not be changed in the middle of a Period of Coverage unless:

- a. Change in legal marital status such as marriage, legal separation, annulment, divorce or death of spouse.
- b. Change in number of tax dependents such as birth, death, adoption and placement for adoption.
- c. Change in employment status for Member, spouse or dependent and affects benefit eligibility under the Plan or other benefit plan of the spouse or dependent. These events include termination or commencement of employment, a strike or lockout; the commencement or return from an unpaid leave of absence; a change

in worksite; switching from salaried to hourly-paid; union to non-union, or part-time to full-time; or any other similar change which makes the individual become or cease to be eligible for an employee benefit.

- d. Change in dependent status such as an event that causes the dependent to satisfy or cease to satisfy the requirements for certain coverages such as age, student status, or similar circumstances.
- e. Change in Member's, Member's spouse or dependent's place of residence.
- f. Certain judgments and orders. If a judgment, decree or order from a divorce, separation, annulment or custody change requires the Member's dependent child to be covered under this plan the Member may change their election to provide coverage for the dependent child. If the order requires that another individual cover the dependent child, the Member may change their election to revoke coverage for the child.
- g. Change in cost. If the cost of coverage under the plan increases or decreases during the plan year, the Employer will automatically adjust the contributions to reflect the change in cost. If the cost of coverage significantly increases or decreases during the plan year, the Member may choose to either increase the elective contribution or revoke their election and elect another benefit option providing similar coverage.
- h. Change in Coverage. If a plan benefit is significantly reduced or increased the member may revoke their election and make a new election for coverage under another option providing similar coverage (i.e., HMO plan to a PPO plan). Also if a new benefit is added or an existing benefit is eliminated, a Member may make a prospective change. Under some circumstances an election change may be permitted to correspond to a change in benefit coverage under a spouse's or dependent's employer provided coverage.
- i. Other Requirements. If the Member wishes to change their election based on a change in status, the Member must establish that the change is on account of and corresponds with the change in status. The Employer shall determine whether a requested change is on account of and corresponds with a change in status. As a general rule an election change will be found to be consistent with a change in status if it affects coverage eligibility. The Member must also satisfy the following specific requirements in order to change their based on that change of status.
 - 1. Loss of dependent eligibility. For health benefits (health, dental and vision coverage) special rules govern what type of changes are consistent with the change in status. For those events including divorce, annulment or legal separation from a spouse, the death of a spouse or dependent or the dependent ceasing to satisfy the eligibility requirements for coverage, the Member may only elect to cancel health benefits for the affected spouse or dependent.
 - 2. Gain eligibility under another employer's plan. For a change in status in which the Member, the Member's spouse or the Member's dependent gain eligibility for coverage under another employer's cafeteria plan or qualified

benefit plan as a result of a change in the Member's marital status, or a change in their, their spouse's or their dependent's employment status, the election to cease or decrease coverage for that individual under the plan would correspond with that change in status only if coverage for that individual becomes effective or is increased under the other employer's plan.

- j. **HIPAA Special Enrollment Rights.** If a Member, Member's Spouse or a Member's Dependent is entitled to a special enrollment right under a group health plan, then the Member may revoke a prior election for health or accident coverage and make a new election, provided that the election corresponds with such special enrollment right. A special enrollment right may result if medical coverage was declined for the employee, spouse or dependent under the group health plan and eligibility for such coverage is subsequently lost due to legal separation, divorce, death, termination of employment, reduction in hours, or exhaustion of the maximum COBRA period, or if a new dependent is acquired as a result of marriage, birth, adoption, or placement for adoption.
- k. **Medicare or Medicaid.** If a Member, a Member's Spouse or a Member's Dependent who is enrolled in a health or accident benefit under this Plan becomes entitled to Medicare or Medicaid, the Member may prospectively reduce or cancel the health or accident coverage of the person becoming entitled to Medicare or Medicaid. Further, if a Member, Member's spouse or Member's dependent who has been entitled to Medicare or Medicaid loses eligibility for such coverage, then the Member may prospectively elect to commence or increase the health or accident coverage.
- l. If applicable, such change is permitted by the Medical Plan covering the Member.

For purposes of this Section, a failure to elect shall be considered an election and a change from or to a zero amount of contributions. Changes in elections shall only be effective as to contributions and benefits following the effective date of such changes.

Section 5.08 Medical Plans Elections of contributions under Section 4.01 shall be subject to the rules governing elections of benefits under a Member's Medical Plan.

ARTICLE 6

Benefits

Section 6.01 Benefits Available Subject to Article 10, Members may elect one or more of the following benefits:

- a. Group Insurance Premium Conversion
- b. Cash

Section 6.02 Group Insurance Premiums Contributions under Section 4.01 may be used to purchase benefits under an Employer-sponsored group insurance Plan for the Member and his or her spouse and Dependents (as defined in Code section 105(b)), subject to the limitations on coverage and benefits provided by the terms of such Plan.

Section 6.03 Cash Benefits Members may also receive cash benefits in lieu of salary reduction to fund the benefits described in Sections 6.01 a. through 6.01 c. Cash benefits in any Plan Year shall be equal to the maximum permissible salary reduction which the Member could elect under Sections 4.01, 4.02 and 4.03 for such Plan Year less salary reduction contributions actually elected by the Member under such sections.

ARTICLE 7

Limitations on Benefits

Section 7.01 Coverage Amounts for a particular Benefit may only be paid for expenses incurred during the Period of Coverage elected for such benefit and only from contributions made for such benefit during such Period of Coverage. In the case of insured benefits, expenses shall be considered incurred during the period of insurance coverage, and not when the Member is formally billed, charged for or pays the expenses.

Section 7.02 Amount of Benefits The maximum amount of Benefits payable for a Plan Year shall be the amount of the Member's contributions plus the amount of Non-elective Contributions allocated to each benefit elected by the Member.

Section 7.03 Medical Plan Coverage and limitations for a Member's Medical Plan benefits shall be as set forth in the Member's Medical Plan.

ARTICLE 8

Premium Conversion Program

Section 8.01 In General Members covered by this Program will have their Employer-sponsored group health and accident plan premium paid from contributions allocated to the Member's subaccount for Premium Conversion benefits.

Section 8.02 Separate Plan This Article is intended to qualify as a separate written health plan within the meaning of Code Section 106. It is intended that reimbursements under this program be eligible for exclusion from gross income of Members under Code Section 105(b). Accordingly, this program shall be interpreted and construed in accordance with Code Sections 105(e) and 106 and any regulations or other interpretations thereunder.

Section 8.03 Definitions For purposes of this Article, the following special definitions shall apply:

- a. **"Benefits"** means premiums paid for employer-sponsored group health and accident plans purchased to pay Medical Expenses of a Member, a Member's spouse or a Member's Dependents.
- b. **"Dependent"** means a dependent as defined in ~~IRS~~ Code Section 152.
- c. **"Highly Compensated Member"** means a Member who is defined as a Highly Compensated Employee by Code Section 105(h)(5) or Code Section 414(q) as is appropriate.
- d. **"Medical Expenses"** are incurred for the following:
 1. The diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body; or
 2. For transportation primarily for and essential to medical care referred to in 1 above.

Section 8.04 Eligibility, Enrollment and Termination Employees eligible for the group insurance coverage who have met the eligibility requirements specified in Article 3 are eligible to participate. Enrollment and termination of members under the Plan shall constitute enrollment and termination of participation under this program.

Section 8.05 Covered Expenses The Program shall only cover Employer-sponsored group health premiums incurred during the Period of Coverage the Member has elected for Benefits.

Section 8.06 Reduction of Benefits The Committee may reduce the amount of Benefits payable to a Member to the extent the Committee deems necessary to assure that the Program does not discriminate in favor of Highly Compensated Members in violation of Code Section 125 or any other applicable provision of law. Any such reduction of Benefits shall be made by the Committee on a reasonable and nondiscriminatory basis. Contributions which may not be paid out because of benefit reductions imposed by this Section 8.06 shall be forfeited.

Section 8.07 Other Provisions Other matters concerning contributions, elections, benefits, claims, and the like shall be governed by the general provisions of the Plan.

ARTICLE 9

Continuation Coverage

Section 9.01 Health Plans

- a. If an event which would otherwise cause a member to lose eligibility to participate in a group health plan is a qualifying event, the member may be entitled to elect to pay premiums and continue participation as required by federal law.
- b. Upon the occurrence of an event which terminates a member's eligibility to participate in a group health plan, the Committee shall inform the member of continuation rights and the procedure for electing continued coverage.
- c. The participation of a member who is not eligible for continued coverage or who does not elect to continue will terminate on the last day of the month in which the event of ineligibility occurs. In this case, the member may submit and be reimbursed only for claims incurred during the plan year prior to the date of termination.
- d. A member who is eligible and elects to continue participation in a health plan may pay the premiums from pre-tax compensation, including severance pay, or from other after-tax funds.

ARTICLE 10

Nondiscrimination

Section 10.01 Reduction of Contributions and Benefits The Committee may reject any election and reduce the amount of contributions or nontaxable benefits to the extent the Committee deems necessary to assure that the Plan does not discriminate in favor of Highly Compensated Members in violation of Code section 125 or any other applicable provision of law. Any rejection of elections or any reduction of contributions or benefits shall be made by the Committee on a reasonable and nondiscriminatory basis. Contributions which may not be paid out because of benefit reductions imposed by this Section 14.01 shall be forfeited.

Section 10.02 Prohibition of Discrimination Any discretionary acts to be taken under the terms and provisions of this Plan by the Committee or by the Employer shall be uniform in their nature and application to all those similarly situated, and no discretionary acts shall be taken that would be discriminatory under the provisions of the Code relating to cafeteria plans, as such provisions now exist or may from time to time be amended.

ARTICLE 11

Accounts

Section 11.01 Accounts A separate Account shall be maintained for each Member to reflect the amount of contributions on his or her behalf under Article 4 and the cost of all benefits paid to the Member or on the Member's behalf under the Plan with subaccounts for each of the possible Reimbursement Benefits.

Section 11.02 Contributions Made Contributions on behalf of a Member shall be credited to the Account and appropriate subaccount of such Member.

Section 11.03 Benefits Provided The cost of benefits provided to a Member shall be charged to the Account and appropriate subaccount of such Member.

Section 11.04 Assignment of Benefits Any interest in a Member's Account may not be assigned, transferred or alienated in any manner whatsoever and shall not be subject to claims, liens, garnishment or levies from any third parties.

ARTICLE 12

Administration of the Plan

Section 12.01 Appointment of the Committee The administration of the Plan, as provided herein, including the payment of all benefits to Members or their beneficiaries, shall be the responsibility of the Employee Benefits Committee, which shall be the administrator of the Plan. In addition, the Committee and each member thereof shall be named fiduciaries of the Plan. The Committee shall consist of one or more persons appointed from time to time by the Employer who shall serve at the pleasure of the Governing Board, without compensation, unless otherwise determined by the Governing Board.

Section 12.02 Conduct of Committee Business The Committee shall elect its Chairperson who shall be a member of the Committee and a Secretary who may or may not be a member of the Committee. It shall appoint such subcommittees as it shall deem necessary and appropriate. The Committee shall conduct its business according to the provisions of this Article 12 and shall hold regular meetings in any convenient location. A majority of all of the members of the Committee shall have power to act, and the concurrence or dissent of any member may be by telephone, wire cablegram or letter.

Section 12.03 Records and Reports of the Committee The Committee shall keep such written records as it shall deem necessary or proper, which records shall be open to inspection by the Employer. The Committee shall prepare and submit to the Employer an annual report which shall include such information as the Committee deems necessary or advisable.

Section 12.04 Administrative Powers and Duties The Committee shall have the power to take all actions required to carry out the provisions of the Plan and shall further have the following powers and duties, which shall be exercised in a manner consistent with the provisions of the Plan:

- a. To decide all questions as to eligibility to become a Member in the Plan and as to the rights of Members under the Plan;
- b. To file or cause to be filed all such annual reports, returns, schedules, descriptions, financial statements and other statements as may be required by any federal or state statute, agency, or authority;
- c. To determine the amount, manner, and time of payment of benefits hereunder;
- e. To communicate to the Trust and Contract Administrator under this Plan in writing all information required to carry out the provisions of the Plan;
- f. To notify the Members of the Plan in writing of any amendment or termination of the Plan, or of a change in any benefits available under the Plan;
- g. To prescribe such forms as may be required for Employees to make elections under this Plan; and
- h. To do such other acts as it deems reasonably required to administer the Plan in accordance with its provisions, or as may be provided for or required by law.

Section 12.05 Fiduciary Duties The Committee and any other fiduciary shall discharge their duties solely in the interest of Members and their beneficiaries.

Section 12.06 Allocation or Delegation of Duties and Responsibilities In furtherance of their duties and responsibilities under this Plan, the Committee and the Governing Board may, subject always to the requirements of Section 12.05:

- a. Contract with Administrative Contractors to carry out nonfiduciary responsibilities;
- b. Employ agents to carry out fiduciary responsibilities;
- c. Consult with counsel, who may be of counsel to the Employer.

Section 12.07 Procedure for the Allocation or Delegation of Fiduciary Duties Any action described in subsections b or c of Section 12.06 may be taken by the Committee or the Governing Board only in accordance with the following procedure:

- a. Such action shall be taken by a majority of the Committee or the Governing Board, as the case may be, in a resolution approved by a majority of such Committee or Governing Board;
- b. The vote cast by each member of the Committee or the Governing Board for or against the adoption of such resolution shall be recorded and made a part of the written record of the Committee's or Governing Board's proceedings; and
- c. Any delegation of fiduciary responsibilities among members of the Committee or the Governing Board may be modified or rescinded by the Committee or the Governing Board according to the procedure set forth in subsections a and b of this Section 12.07.

Section 12.08 Contract Administrator The Contract Administrator allowed by this Article shall perform only administrative services in executing the terms of this Plan and shall have no other responsibility. The determination and maintenance of legal and tax issues and status of the Plan shall be exclusive duties of the Trust, Employer and the Committee.

Section 12.09 Claims Procedure Medical Plans shall be administered by the administrators of such plans and all claims for benefits under such plans shall be governed by the terms of such plans. The Committee shall establish a reasonable claims procedure.

ARTICLE 13

Amendment and Termination

Section 13.01 Amendment of Plan The Governing Board or the Committee may amend any or all provisions of this Plan at any time by written instrument identified as an amendment of the Plan effective as of a specified date.

Section 13.02 Termination of Plan This Plan may be terminated in whole or in part at any time by the Governing Board.

Section 13.03 Preservation of Rights Termination or amendment of the Plan shall not affect the rights of any Member in his or her Account or the right to claim reimbursement for expenses incurred prior to such termination or amendment as the case may be, to the extent such amount is payable under the terms of the Plan prior to the effective date of such termination or amendment.

ARTICLE 14

Adoption of Plan

Section 14.01 In General The Plan may be adopted by an officer of the employer, subject to ratification by the governing body passing a resolution which shall confirm the effective date of the Plan's adoption.

ARTICLE 15

Miscellaneous

Section 15.01 Titles and Headings The titles and headings of the Articles and Sections of this instrument are placed herein for convenience of reference only, and in the case of any conflicts, the text of this instrument, rather than the titles or headings, shall control.

Section 15.02 Number Wherever used herein, the singular shall include the plural and the plural shall include the singular, except where the context requires otherwise.

Section 15.03 Applicable Law The provisions of this Plan shall be construed according to the laws of the State of Oregon, except as superseded by federal law, and in accordance with the Code. The Plan is intended to be a cafeteria plan under section 125(d) of the Code, and shall be construed accordingly.

Section 15.04 Right to Discharge Employees No provision of this Plan, whether express or implied, gives an Employee the right to remain in the employ of the Employer. All Employees shall remain subject to discharge from employment as if this Plan had never been adopted. Nothing in the establishment or modification of this Plan or payment of any benefit shall be construed as giving any Member or any other person any legal or equitable rights against the Employer except as specifically provided by this Plan.

Section 15.05 Legally Enforceable The Employer intends that the Plan terms, including those relating to coverage and benefits, are legally enforceable. The Plan is maintained for the exclusive benefit of Employees.

IN WITNESS WHEREOF, City of Warrenton, has caused this instrument to be executed by its officer thereunto duly authorized, this 22nd day of August, 2002.

City of Warrenton

BY Laurie A. Jandref
TITLE Finance Director

WITNESS Linda Engleton
TITLE City Recorder

Ratified by Governing Body, City of Warrenton, by [Signature]
Mayor