

City of Piedmont
COUNCIL AGENDA REPORT

DATE: March 19, 2018

TO: Mayor and Council

FROM: Paul Benoit, City Administrator

SUBJECT: Consideration of Fixing the Employer Contribution at an Equal Amount for Employees and Annuitants Under the Public Employees' Medical and Hospital Care Act; AND Electing to Rescind Health Benefit Vesting Under Section 22893 of the Public Employees' Medical and Hospital Care Act

RECOMMENDATION

- (1) Adopt a resolution fixing the employer contribution under the Public Employees' Medical and Hospital Care Act (PEMHCA) for employees and annuitants; and
- (2) Adopt a resolution electing to rescind the postretirement health benefits vesting requirements under Government Code Section 22893 for employees first hired on or after March 1, 2014, as established by Resolution No. 23-14.

EXECUTIVE SUMMARY

The City began offering medical insurance coverage for employees retiring from City service (referred to as "Other Post-Employment Benefits" or OPEB) beginning in 1997, when it joined CalPERS. Since that time the cost of medical insurance premiums has risen exponentially. Considering the fast rising costs associated with OPEB, together with long-term revenue and expense trends for the City as a whole, the City Council set a goal of pursuing options for reducing its OPEB obligations. This goal, established to help insure the long-term security and sustainability of the City's General Fund, was recently attained through negotiations with the City's four labor unions.

With the agreement of City employee groups, individuals who are hired by the City in the future, and who retire from City service, will be entitled to monthly medical premium contributions equal to what is referred to as the "PEMCHA Minimum" (PEMCHA stands for the "Public Employees Medical and Hospital Care Act"). To understand the significance of this change, the PEMCHA Minimum needs to be viewed in contrast to current required monthly medical premium contribution rates.

By way of example, for a current retiree eligible to receive health benefits the City, in 2018, contributes up to \$724 per month for “retiree only” coverage and about twice that rate for employees choosing full family coverage. Under the new “PEMCHA Minimum” program, the City contribution, in 2018, would be set at approximately \$133 per month, regardless of single or family status. For further perspective, the City has 46 retired employees receiving retiree medical coverage. The associated premium in this current fiscal year is approximately \$37,100 per month. If these retirees were under the PEMCHA Minimum Program the City’s contribution for medical premiums would be approximately \$6,118 per month. It should be noted that all of our current employees will be eligible to receive OPEB benefits under the current program and terms. Future hires will be covered under the “PEMCHA Minimum Program” and, over time, as we see turnover in our workforce, the City will realize savings in the millions of dollars. The legal and programmatic mechanics of implementing this important change in OPEB benefits are complex and we have done our best to explain those complexities in the “Background” section that follows.

BACKGROUND

The City currently contracts with the California Public Employees’ Retirement System (CalPERS) for the provision of health benefits for current (active employees) and eligible retired employees (annuitants) under the Public Employees’ Medical and Hospital Care Act (PEMHCA), Government Code Section 22750, et seq. and is subject to PEMCHA laws. Under PEMHCA’s “equal contribution rule” (Government Code Section 22892), the City is required by CalPERS to contribute the same premium amount for both active employees and annuitants, and not less than “the PEMHCA minimum,” which is an amount adjusted annually by CalPERS to reflect any change in the medical care component of the Consumer Price Index. The “PEMHCA” minimum for 2018 is \$133 per month. (Attachment 1)

The City previously negotiated with its represented employees and implemented a medical premium cost-share formula, and employees and annuitants pay the portion of medical insurance premiums that is not covered by the City’s contribution. The medical premium contribution provided by the City remains at the 2013 CalPERS Kaiser Bay Area rate, plus fifty percent of subsequent annual premium increases. Under this premium cost-share formula, for 2018, the City contributes \$724.25 per month for an employee choosing employee-only medical coverage and \$1,883.04 per month for an employee choosing family coverage. Even with the cost-share formula, rising healthcare costs and the growing number of annuitants receiving medical benefits have significantly increased the City’s health benefit costs. The growing magnitude of retiree health benefit liabilities, otherwise referred to as Other Post-Employment Benefits (OPEB), has been a concern that the City has monitored and seeks to contain to maintain the City’s long-term fiscal health.

Current actuarial data indicates the City would reduce its estimated contributions to the OPEB trust fund by approximately \$5.9 million and reduce benefits paid to retirees by \$0.3 million over the next 15 years upon adoption of the PEMCHA minimum.

Under the “equal contribution rule,” reducing the City’s contribution for future hires’ retiree

benefits requires the same contribution reduction for active employees' benefits. To avoid decreasing the City's contribution towards the cost of medical premiums for active employees, the City can continue to pay directly to CalPERS the "PEMHCA minimum" amount for active employees and then make the remainder of the City's premium contribution for active employees under the premium cost-share formula through the City's existing Flexible Benefit Plan. For CalPERS' purposes, the City pays only the "PEMHCA minimum" for active employees. For City's purposes, as noted above, the employees continue to receive the City contribution to medical premiums that is required by the City's cost-share formula. Many public agencies participating in PEMHCA use this type of mechanism to meet the PEMHCA "equal contribution rule" and to provide different additional contributions to active employees and annuitants. The contribution provided by the City remains at the 2013 CalPERS Kaiser Bay Area rate, plus fifty percent of subsequent annual premium increases.

Similarly, to avoid decreasing the City's current contribution toward current annuitants' medical insurance premium costs, the City will pay directly to CalPERS only the "PEMHCA minimum" and will provide the remainder of the City's premium cost-share through establishment of a Health Reimbursement Arrangement (HRA). More precisely, for annuitants, the City would pay into the HRAs the City's premium contribution minus the "PEMHCA minimum" paid directly to CalPERS. An annuitant will be reimbursed from the HRA up to the City's contribution for premium costs associated with their selected CalPERS health plan. An HRA account will only be available to those employees who were hired by the City before May 1, 2018, and subsequently retire from the City.

Additionally, the City currently administers a multi-tiered system of different City premium contribution amounts for retiree medical insurance based upon date of hire and other factors. The first tier is for employees hired before March 1, 2014, who receive City premium contributions under Government Code Section 22892, which requires employers to provide an equal amount for both active employees and annuitants. The second tier is for employees hired on or after March 1, 2014, who at retirement receive City premium contributions under a "vesting schedule" allowed by Government Code Section 22893. For "vesting schedule" employees who retire, the City provides different premium contributions based upon years of service and a statewide average of healthcare costs.

In order for the City to adopt the "PEMHCA minimum" and achieve the projected post-retirement benefit savings, CalPERS requires the City to rescind the "vesting schedule" for retiree benefits eligibility. The Resolution included as Attachment 2 rescinds health benefit vesting under Government Code section 22893 and lifts the vesting requirement of employees who were first hired on or after March 1, 2014 as originally established by City Council Resolution 23-14.

All of the changes described in this memorandum that impact current employees – adopting the "PEMHCA minimum" for active employees and annuitants, contributing the City's supplemental premium contributions above the "PEMHCA minimum" through the City's Flexible Benefit Plan for active employees and through HRAs upon retirement, and rescinding the "vesting schedule" require the agreement of the City's represented employees. The City negotiated and reached agreement on these changes with the City's represented employees. These agreements are

included in the new negotiated Memoranda of Understanding recently approved by the Council for the police officer bargaining unit, firefighter and fire captains bargaining units and the general employees and public works employees bargaining units.

Attachments:

- (1) Resolution: Fixing the Employer Contribution at an Equal Amount for Employees and Annuitants Under the Public Employees' Medical and Hospital Care Act
- (2) Resolution: Electing to Rescind Health Benefit Vesting Under Section 22893 of the Public Employees' Medical and Hospital Care Act

By: Janae Novotny, Partner, Burke Williams Sorenson, and Negotiator for the City
Stacy A. Jennings, Human Resources Administrator

RESOLUTION NO. #

FIXING THE EMPLOYER CONTRIBUTION AT AN EQUAL AMOUNT FOR EMPLOYEES AND ANNUITANTS UNDER THE PUBLIC EMPLOYEES’ MEDICAL AND HOSPITAL CARE ACT

- WHEREAS, (1) The City of Piedmont is a contracting agency under Government Code Section 22920 and subject to the Public Employees’ Medical and Hospital Care Act (the “Act”); and
- WHEREAS, (2) Government Code Section 22892(a) provides that a contracting agency subject to Act shall fix the amount of the employer contribution by resolution; and
- WHEREAS, (3) Government Code Section 22892(b) provides that the employer contribution shall be an equal amount for both employees and annuitants, but may not be less than the amount prescribed by Section 22892(b) of the Act; and
- RESOLVED, (a) That the employer contribution for each employee or annuitant shall be the amount necessary to pay the full cost of his/her enrollment, including the enrollment of family members, in a health benefits plan up to a maximum of PEMHCA Minimum per month, plus administrative fees and Contingency Reserve Fund assessments; and be it further
- RESOLVED, (b) The City of Piedmont has fully complied with any and all applicable provisions of Government Code Section 7507 in electing the benefits set forth above; and be it further
- RESOLVED, (c) That the participation of the employees and annuitants of the City of Piedmont shall be Subject to determination of its status as an “agency or instrumentality of the state or political subdivision of a State” that is eligible to participate in a governmental plan within the meaning of Section 414(d) of the Internal Revenue Code, upon publication of final Regulations pursuant to such Section. If it is determined that the City of Piedmont would not qualify as an agency or instrumentality of the state or political subdivision of a State under such final Regulations, CalPERS may be obligated, and reserves the right to terminate the health coverage of all participants of the employer.
- RESOLVED, (d) That the executive body appoint and direct, and it does hereby appoint and direct, the City Administrator to file with the Board a verified copy of this resolution, and to perform on behalf of The City of Piedmont all functions required of it under the Act.

Adopted at a regular meeting of the City Council at Piedmont, California, this 19th day of March, 2018.

Signed: _____
Robert McBain, Mayor

Attest: _____
John O. Tulloch, City Clerk

INSTRUCTIONS

This resolution form is the approved form designated by the California Public Employees' Retirement System (CalPERS). It should be used by a contracting agency subject to Public Employees' Medical and Hospital Care Act (PEMHCA) when the agency desires to change the monthly employer health contribution for employees and annuitants in accordance with Government Code Section 22892.

The resolution is **effective on the first day of the second month** following the month in which the resolution is filed (date stamped as received by CalPERS; See address below).

WHEREAS, (1) should be completed with full name of the contracting agency.

RESOLVED, (a) should be completed to specify the amount of the employer contribution toward the cost of enrollment for active employees and annuitants. The amount specified must be an amount equal to or greater than that prescribed by Section 22892(b).

Commencing January 1, 2009, the employer contribution shall be adjusted annually by the Board to reflect any change in the medical component of the Consumer Price Index, and shall be rounded to the nearest dollar.

RESOLVED, (b) should be completed with full name of the contracting agency.

RESOLVED, (c) should be completed with full name of the contracting agency.

RESOLVED, (d) requests the position title of the individual who handles the PEMHCA resolution for the contracting agency.

RESOLVED, (d) should be completed with full name of the contracting agency.

Because resolutions serve as a legally binding document, we require the original resolution, certified copy with original signatures, or a copy of the resolution with the agency's raised seal.

For resolution processing, deliver to the following:

Overnight Mail Service

California Public Employees' Retirement System
Health Resolution & Compliance Services, HAMD
400 Q Street
Sacramento, CA 95811

Regular Mail

California Public Employees' Retirement System
Health Resolution & Compliance Services, HAMD
PO BOX 942714
Sacramento, CA 94229-2714

The certification shown following the resolution is to be completed by those individuals authorized to sign for the contracting agency in legal actions and is to include the name of the executive body; i.e. Board of Directors, Board of Trustees, etc., the location and the date of signing.

RESOLUTION NO. #
ELECTING TO RESCIND HEALTH BENEFIT VESTING UNDER SECTION 22893
OF THE PUBLIC EMPLOYEES’ MEDICAL AND HOSPITAL CARE ACT

- WHEREAS, (1) the City of Piedmont is a contracting agency under Government Code Section 22920 and subject to the Public Employees’ Medical and Hospital Care Act (the “Act”); and
- WHEREAS, (2) City of Piedmont is a contracting agency has filed a resolution with the Board of the California Public Employees’ Retirement System to provide a postretirement health benefits vesting requirement to employees who retire for service in accordance with Government Code Section 22893; and
- RESOLVED, (a) City of Piedmont elects to rescind postretirement health benefits vesting requirements; and be it further
- RESOLVED, (b) That employees first hired on or after March 1, 2014 will no longer be subject to vesting as established by Resolution No.23-14; and be it further
- RESOLVED, (c) City of Piedmont has fully complied with any and all applicable provisions of Government Code Section 7507 in electing the benefits set forth above; and be it further
- RESOLVED, (d) That the participation of the employees and annuitants of City of Piedmont shall be subject to determination of its status as an “agency or instrumentality of the state or political subdivision of a State” that is eligible to participate in a governmental plan within the meaning of Section 414(d) of the Internal Revenue Code, upon publication of final Regulations pursuant to such Section. If it is determined that the City of Piedmont would not qualify as an agency or instrumentality of the state or political subdivision of a State under such final Regulations, the California Public Employees’ Retirement System may be obligated, and reserves the right to terminate the health coverage of all participants of the employer; and be it further
- RESOLVED, (e) That the executive body appoint and direct, and it does hereby appoint and direct, the City Administrator to file with the Board a verified copy of this resolution, and to perform on behalf of The City of Piedmont all functions required of it under the Act.

Adopted at a regular meeting of the City Council at Piedmont, California, this 19th day of March, 2018.

Signed: _____
Robert McBain, Mayor

Attest: _____
John O. Tulloch, City Clerk

INSTRUCTIONS

This resolution form is the approved form designated by the California Public Employees' Retirement System (CalPERS). It should be used by a contracting agency subject to Public Employees' Medical and Hospital Care Act (PEMHCA) when the agency desires to rescind postretirement health benefits vesting requirements under Section 22893 of the Government Code.

The resolution is **effective on the first day of the second month** following the month in which the resolution is filed (date stamped as received by CalPERS; See address below).

WHEREAS, (1) should be completed with full name of the contracting agency.

WHEREAS, (2) should be completed with full name of the contracting agency.

RESOLVED, (a) should be completed with full name of the contracting agency.

RESOLVED, (b) should be completed with the original vesting basis date (effective date) of the vesting resolution and original vesting resolution number.

RESOLVED, (c) should be completed with full name of the contracting agency.

RESOLVED, (d) should be completed with full name of the contracting agency.

RESOLVED, (e) requests the position title of the individual who handles the PEMHCA resolution for the contracting agency.

RESOLVED, (e) should be completed with full name of the contracting agency.

Because resolutions serve as a legally binding document, we require the original resolution, certified copy with original signatures, or a copy of the resolution with the agency's raised seal.

For resolution processing, deliver to the following:

Overnight Mail Service

California Public Employees' Retirement System
Health Resolution & Compliance Services, HAMD
400 Q Street
Sacramento, CA 95811

Regular Mail

California Public Employees' Retirement System
Health Resolution & Compliance Services, HAMD
PO BOX 942714
Sacramento, CA 94229-2714

The certification shown following the resolution is to be completed by those individuals authorized to sign for the contracting agency in legal actions and is to include the name of the executive body; i.e. Board of Directors, Board of Trustees, etc., the location and the date of signing.