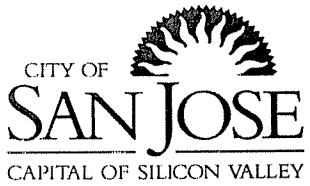
COUNCIL AGENDA: 11-14-06
ITEM: 3.8



Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Mark Danaj

SUBJECT: **POST-EMPLOYMENT HEALTH COVERAGE FOR MAYORS AND CITY COUNCIL MEMBERS**

DATE: 11-09-06

Approved Kay Winer Date 11/9/06

COUNCIL DISTRICT: N/A
SNI AREA: N/A

RECOMMENDATION

Acceptance of staff report on post-employment health coverage for Mayors and City Council members.

OUTCOME

Discussion and possible direction by Council.

BACKGROUND:

On November 1, 2006 the Rules Committee considered an item presented by Councilmember LeZotte which made the following recommendation:

1. Staff to provide Council with requirements and costs for providing lifetime medical to the Mayor and Council members, who have served two full terms through PERS medical coverage to be effective prior to January 1, 2007.
2. Staff to provide Council with option/requirements for switching from City medical coverage to PERS medical coverage with sufficient time for the Mayor or Councilmember to decline city coverage during the Open Enrollment period – November 1-17th and opt in to the PERS medical coverage.

The Committee directed staff to provide as much information as possible to the Council to assist in its consideration of post-employment health coverage. Staff did note at that time that to

determine the actual long term cost, the City Council would need to provide staff with some parameters from which an actuary could make appropriate assumptions to determine the projected costs. Additionally, the City Council would be unable to adopt the resolutions required to enable CalPERS medical coverage by November 17, 2006. The information presented in this memo has been derived from telephone conversations with multiple PERS staff members and from the CalPERS website.

The Public Employees' Medical & Hospital Care Act (PEMHCA) governs the CalPERS Health Program. The program covers State employees by law and local public agencies and school employers can contract to have CalPERS provide these benefits to their employees (whether or not they contract for the PERS retirement program). Under PEMHCA, health coverage for the employee continues into retirement. The sections of the Government Code pertaining to CalPERS can be found at Title 2, Division 5, Parts 3 through 8, Sections 20000 through 22970.89.

CalPERS is the third largest purchaser of health care in the nation, providing benefits to more than 1.2 million public employees, retirees, and their families. The program covers State employees by law and local public agencies and school employers can contract to have CalPERS provide these benefits to their employees (whether or not they contract for the PERS retirement program). Local public agencies can elect to contract with CalPERS to provide health care coverage for its elected officials only.

CalPERS offers three types of health plans:

- Preferred Provider Organizations (PPOs)
- Health Maintenance Organizations (HMOs)
- Exclusive Provider Organizations (EPOs) (limited to members in certain California counties).

Health plans offered, covered benefits, monthly rates, and copayments are determined by the CalPERS Board, which reviews health plan contracts annually. CalPERS has "regional pricing" for public agency members enrolled in Basic plans. Regional pricing does not impact public agency or school members enrolled in Medicare plans. Since health care costs vary throughout California, regional pricing adjusts premiums to reflect the actual cost of health care in a specific region. Regional pricing ensures that CalPERS premiums are competitive throughout California, stabilizes costs, and provides contracting employers an increased incentive to remain in the CalPERS Health Program. Rates for participants vary based on plan selected, number of individuals covered, and zip code.

ANALYSIS

The following question and answer format addresses system constraints and eligibility rules associated with the CalPERS program:

A. Can the Mayor and City Council secure active and retiree health coverage through the CalPERS Health Benefits Program?

Yes. Under the Public Employees Medical and Hospital Care Act (PEMHCA), the CalPERS Health Benefits Program is available to members of governing bodies; governing bodies may contract for the CalPERS Health Benefits Program as a stand alone group. If the City grants participation in Health Benefit Programs through CalPERS to the current Mayor and City Council, it is also required to grant the participation in the program to former Mayors and Council members who qualify for coverage (meet the retirement requirements of the retirement plan they are participating in).

B. Does CalPERS require that the Mayor and all City Council members participate in the PERS retirement system in order to secure health coverage?

No. The City may choose to extend the CalPERS Health Benefits Program to both CalPERS and non-CalPERS (457 Plan) retirement plan participants. The City Council, if it chooses to move forward with the CalPERS Health Program, will need to determine if it will offer the program to only PERS retirement participants, or if it will offer the program to both PERS retirement participants and 457 Plan participants. The Council has the choice in determining if one or both of these plan participants is eligible for coverage. After this determination is made staff would be able to determine how many former elected officials would be eligible for coverage.

C. What must the City do to secure CalPERS health coverage for PERS and/or non-PERS (457 Plan) retirement plan participants?

For either group, the City Council is required to adopt a resolution that will bind the City to the terms and conditions outlined in the Public Employees Medical and Hospital Care Act (PEMHCA). PERS has standard resolutions that the Council would be required to adopt dependent upon the individuals it wishes to cover.

D. Under what circumstances would former Mayors or City Council members be eligible for post-employment benefits through the CalPERS Health Benefits Program?

Generally, only employees who meet retirement criteria, and elect post-employment benefits within 120 days of vacating their seat, would be eligible to enroll in a CalPERS health plan after

leaving the City. There would be two ways for an individual to meet the eligibility requirements:

1) PERS Retirement Plan Participants – PERS retirement plan participants are eligible to retire at age 50 with 5 years of service. A Mayor or Councilmember must either retire from the PERS system within 120 days of leaving their seat or become an active member of a PERS reciprocal agency within 6 months of leaving their seat in order to maintain eligibility for retiree health coverage through PERS.

2) Non-PERS Retirement Plan Participants – Non-PERS (PTC-457 Plan) retirement plan participants must designate a 457 distribution date within 120 days of vacating their seat to be eligible for retiree health coverage.

Staff is exploring with CalPERS the possibility of waiving the 120-day rule.

E. Would past Mayors and City Council members be eligible to participate in the CalPERS Health Benefits Program once the City entered into an agreement with CalPERS?

If the City adopts two resolutions to extend coverage to both PERS and non-PERS (PTC-457) retirement plan members, then all former Mayors and City Council members will have the opportunity to enroll in the CalPERS health plans.

If the City Council adopts a resolution to extend CalPERS health to only PERS members, then only current PERS retirees will be eligible to enroll (since the City only started allowing Mayors and City Council members to participate in the PERS retirement plan in 1999, the number of eligible participants in this scenario would be minimal).

F. What is the minimum contribution the City must pay to secure CalPERS health benefits for active and retired Mayors and City Council members?

CalPERS requires that all participating agencies make at least the following per participant per month contributions toward employee and retiree health premiums:

In 2006 = $64.60/Month
In 2007 = $80.80/Month
In 2008 = $97.00/Month
Projected costs beyond 2008 are not yet available

For the Santa Clara region CalPERS Health plan rates currently vary from $431.17 per month for individual Kaiser coverage up to $2,000.70 per month for full-family coverage in PERSCare. Total premiums and projected costs for active elected officials and retirees will be dependent upon the group or groups that the Council would like to make eligible and the level of contribution the Council adopts.

G. Can the City provide different contributions for active and retired members?

No. However, as a newly participating agency, the City has the option of implementing the CalPERS health benefit where initial contributions are lower for retirees than for active elected officials. However, the retiree contribution is required to increase annually until the contribution is equal to the active member.

H. What administrative fees would the City have to pay to participate in the CalPERS Health Benefits Program?

For fiscal year 2006-07, public agencies are required to pay an administrative fee of 0.44% of the total gross premium paid by the employer. This fee supports all administrative costs incurred by the program. By law, the fee cannot exceed two percent of the total gross premium.

I. What would be the City's overall costs if this benefit were implemented for just those participants enrolled in the PERS retirement plan?

To make a valid projection of future health costs related to this benefit the City Council would need define the pool of eligible participants and determine a cost range relative to the City's future premium contribution rates. These assumptions would then be provided to an actuary to determine future costs.

J. How soon could the City conduct an initial enrollment if it chose to offer this benefit?

If the Council approves retiree health care benefits and the City files its resolution(s) with CalPERS no later than the 10th of any given month, then CalPERS could establish participant coverage beginning with the first of the following month.

K. Would the Mayor or City Council members continue to be eligible for the City's health plans if the CalPERS health plans were made available?

No. CalPERS prohibits contracting agencies from offering an alternate health plan alongside the CalPERS health plans due to adverse selection concerns. Active elected officials would only be eligible to participate in PERS Health plans.

L. Who qualifies as an eligible dependent under the CalPERS Health Benefits Program?

Spouses and domestic partners of eligible subscribers are considered eligible for coverage (Domestic Partners must be registered with the Secretary of State and provide a copy of the Declaration of Domestic Partnership). In addition, unmarried natural, adopted, or step children are eligible as dependents up to the age of 23 (they do not have to be living at home or be attending college).

M. What type of retiree health benefits are other agencies providing to their Mayors, Council Members or Boards?

Staff is currently surveying several large California jurisdictions and a variety of local jurisdictions to determine what type of retiree health benefits are provided to other elected officials.

N. What decisions or actions must the City Council make in order to implement the CalPERS Health Benefits Program for Mayors and City Council members?

1. Determine which group(s) of Mayors/Council members will be eligible for the CalPERS health benefit:
    a. PERS retirement plan participants only?
    b. Non-PERS (PTC-457) retirement plan participants only?
    c. PERS and non-PERS (PTC-457) retirement plan participants?
2. Determine the City's contribution towards active and retiree premiums; the minimum amount required by CalPERS or a greater amount?
3. Determine if the benefit would initially be funded equally for actives and retirees.
4. Identify the initial coverage implementation date for eligible participants.
5. Determine cost through an actuarial study.
6. Adopting resolution(s) that are consistent with the provisions of the Public Employees' Medical and Hospital Care Act (PEMHCA) to enable the City to contract with CalPERS for this benefit.

PUBLIC OUTREACH

- ☐ **Criteria 1**: Requires Council action on the use of public funds equal to $1 million or greater; **(Required: Website Posting)**
- ☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- ☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Time constraints and limited information has prevented us from engaging in public outreach.

COORDINATION

This memo has been coordinated with the City Attorney's Office, Retirement, and the Office of Employee Relations.

COST IMPLICATIONS

Cost implications are subject to direction from Council.

CEQA

Not a project.

Mark Danaj

MARK DANAJ
Director, Human Resources

For questions, please contact Arlene Gibbs at 975-1439.