ITEM NAME: Assembly Bill 1144 (Hall) – Postemployment Health Benefits: City of Carson

As Amended June 19, 2013

Sponsor: City of Carson

PROGRAM: Legislation

ITEM TYPE: Action

RECOMMENDATION
Adopt a Neutral position on Assembly Bill (AB) 1144, because the bill provides the City of Carson with the flexibility to address its post-retirement health benefits, which are the result of collective bargaining, and does not have an impact on the administration of the Public Employees’ Medical and Hospital Care Act (PEMHCA).

EXECUTIVE SUMMARY
AB 1144 provides an employer contribution towards annuitant health benefits for employees that work at least five years with the City of Carson, with the full contribution amount determined in a Memorandum of Understanding (MOU) agreed to by its employees’ exclusive representative. Annuitants would receive 50 percent of the full employer contribution after five years of service with the City, increasing 10 percent annually to 100 percent after 10 years of service with the City.

STRATEGIC PLAN
This item is not a specific product of the Annual or Strategic Plan, but is a part of the regular and ongoing workload of the Office of Governmental Affairs.

BACKGROUND
1. Vesting Options Provided to PEMHCA Contracting Agencies
Vesting is the amount of time in employment needed to be eligible to receive employer contributions towards the cost of retirees’ monthly health premiums. The vesting requirements for employer-paid retiree health benefits are different for the California Public Employees’ Retirement System (CalPERS) State, California State University, judicial, public agency, and school members.

CalPERS provides three vesting alternatives for contracting public agencies under the PEMHCA:
Contracting agencies are required to make equal contributions for both active employees and annuitants, whereby, an employee who retires and meets the definition of an annuitant, becomes 100 percent vested and receives an employer contribution amount equal to what active employees receive.

Agencies joining PEMHCA on or after January 1, 1986, have the option to temporarily pay a lesser employer contribution amount for annuitants than for active employees, provided the agency increases its contribution for annuitants each year, over a 20-year period, until it equals the agency's contributions for active employees.

Contracting agencies also have the option to be subject to a pre-set "vesting schedule" which establishes specific percentages of employer contributions toward retiree health care premiums based on an employee's credited years of service. Under this option, an employee must work at least 10 years to qualify for a 50 percent employer contribution toward retiree healthcare, increasing 5 percent for each year of service, until the employee is 100 percent vested at 20 years of service.

2. Vesting Alternatives Provided to Other PEMHCA Employers
What the City of Carson proposes to do is not without precedent. Other public agencies with contracts with CalPERS for health benefits have also succeeded in getting legislation implemented that allows them to create their own vesting schedules. These legislative changes to the PEMHCA for public agencies have resulted in minimal administrative costs to CalPERS, but provide cost savings to these agencies' future annuitant healthcare.

3. Current City of Carson Post-Employment Health Coverage and Recent MOU Changes
The City of Carson participates in PEMHCA under the equal employer contribution method. As a result, most of its active employees and retirees receive $1,385 from the City to help defray their monthly health benefit costs. However, there are two groups not receiving the equal contribution for health benefits, which are the unclassified and non-represented employees, who receive the minimum employer contribution for health benefits as specified in the PEMHCA.

The City of Carson’s new MOU went into effect June 30, 2013, and was collectively bargained between the City and the American Federation of State, County and Municipal Employees. For post-retirement health coverage, the MOU stipulates this to be predicated upon years of credited service, as shown in the following table:

<table>
<thead>
<tr>
<th>Credited Years of Service</th>
<th>Percentage of Employer Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4.99 Years</td>
<td>0 Percent</td>
</tr>
<tr>
<td>5 Years</td>
<td>50 Percent</td>
</tr>
<tr>
<td>6 Years</td>
<td>60 Percent</td>
</tr>
</tbody>
</table>
As stipulated in the MOU, all of the years of credited service must be with the City of Carson. In order for the provisions of this agreement to go into effect, the City must receive legislative approval of this exception to the PEMHCA.

ANALYSIS
1. **Proposed Changes**
   Specifically, AB 1144:
   - Requires that the employer contribution payable for a City of Carson employee’s post-retirement health benefits be based on an employee’s completed years of credited service with the City. No employer contribution is provided for the first five years of credited service, whereupon the employer will pay half of an amount agreed to in collective bargaining with its employees’ representative, and will increase an additional 10 percent for every additional year of credited service.
   - Requires the employer contribution to be equal to or greater than the adjusted minimum employer contribution required under PEMHCA in Government Code Section 22892(b).
   - Specifies that for employees not represented by a bargaining unit, the employer contribution with respect to each annuitant shall be determined pursuant to a resolution adopted by a majority of the city council.
   - Specifies that its provisions apply only to the City of Carson and only with regard to the employees of the City who are first hired on or after January 1, 2014.
   - Stipulates that an annuitant’s credited service for the purposes of determining the percentage of the employer contributions shall mean credit service performed with the City of Carson.
   - Requires the employer to provide the board any information requested that the board determines is necessary to implement this section.

2. **City of Carson’s Intent**
   According to the City its current unfunded liability for post-retirement health care is projected at $48 million and must be addressed to secure the financial stability of the City. The City of Carson does not have an existing vesting schedule for their post-retirement health benefit program. Any new hire that had previously vested for retirement with CalPERS could retire from the City of Carson with as little as one day of service and still qualify for Carson’s employer paid post-retirement medical benefit. Therefore, the City and their respective bargaining units agreed through collective bargaining on a vesting schedule that provides a 50 percent employer contribution after five years of service with the City, and
gradually increasing to 100 percent after ten years of service with the City. This bill would codify that agreement and protect the City’s bottom line while still ensuring the City can offer retiree health benefits to its employees.

3. **Employers Seek Greater Flexibility to Address Benefit Costs**
   
   AB 1144 is the latest of approximately a dozen bills introduced in recent years to provide exceptions to the vesting and contribution provisions of PEMHCA. The City of Carson indicates the benefit changes it has negotiated are intended as both a cost-saving measure and also a recruitment tool for experienced employees. Its situation is an example of a broader issue for many contracting agencies that have found the existing PEMHCA vesting options to be static and not flexible to negotiation.

   Since the adoption of Government Accounting Standards Board Rule 45 (GASB), which requires public employers to report in their annual financial statements any non-pension liabilities associated with post-employment health and welfare benefits for current and future retirees, many contracting agencies have also been exploring and implementing methods to control and pre-fund such liabilities.

   CalPERS staff recently completed a Health Benefits Purchasing Review to evaluate current health benefit design and purchasing strategies, and to identify areas of improvement in the Health Benefits Program. These efforts led to the Board of Administration’s (Board) approval of 21 strategies and initiatives, including staff exploration of statutory and regulatory actions which may create more flexible vesting schedules. Among the potential solutions is to provide public agencies the same flexibility in crafting health benefit vesting schedules currently afforded school districts, by allowing them to collectively bargain for any vesting schedule that they negotiate. AB 1144 represents a viable approach to achieving that flexibility.

**BUDGET AND FISCAL IMPACTS**

1. **Benefit Costs**
   
   This bill provides the City of Carson the flexibility to reduce its post-retirement health liabilities reported under GASB 45.

2. **Administrative Costs**
   
   Minor and absorbable.

**BENEFITS/RISKS**

1. **Benefits of Bill Becoming Law**
   
   Provide the City of Carson flexibility for managing its future post-retirement health coverage liabilities through collective bargaining.
2. **Risks of Bill Becoming Law**
   Continuing to enact carve-out legislation like AB 1144 may make the PEMHCA increasingly complex by having to administer multiple agency-specific vesting schedules.

**ATTACHMENTS**
Attachment 1 – Legislative History
Attachment 2 – List of Support and Opposition

_________________________________
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