



## Agenda Item 6

October 15, 2013

**ITEM NAME:** Termination of Participation in PEMHCA: Southern Inyo Healthcare District

**PROGRAM:** Customer Services and Support

**ITEM TYPE:** Action

### **RECOMMENDATION**

Staff recommends the Pension and Health Benefits Committee (PHBC) terminate the Southern Inyo Healthcare District (Southern Inyo) contract for Public Employees Medical and Hospital Care Act (PEMHCA) benefits effective October 31, 2013, pursuant to Government Code (GC) section 22939.

### **EXECUTIVE SUMMARY**

Southern Inyo is a PEMHCA-only participating agency that has a history of delinquent monthly health premiums. The current outstanding amount is \$104,882.25. Southern Inyo's governing body has adopted a resolution to terminate PEMHCA coverage and is requesting that the California Public Employees' Retirement System (CalPERS) approve the termination effective October 31, 2013.

### **STRATEGIC PLAN**

This agenda item supports Goal A: Improve long-term pension and health benefit sustainability by ensuring high quality, accessible and affordable health benefits.

### **BACKGROUND**

Southern Inyo Healthcare District has a history of delinquent payments and as of October 4, 2013, has an outstanding balance of \$104,882.25. CalPERS staff have exhausted all good-faith efforts to collect delinquent health premiums. Southern Inyo has requested that their PEMHCA coverage be terminated effective October 31, 2013.

### **ANALYSIS**

Commencing in October 2012, Southern Inyo started to fall behind in its health premium payments to CalPERS. In the following months of November/December 2012 and January/February 2013, the CalPERS Health Account Services Section issued Delinquency notices that escalated from a Level 1 delinquency to Level 4 in accordance with Circular Letter 600-057-11. The Level 4 delinquency notice included a demand for deposit that required the agency to pay all outstanding receivables, including any assessed interest, and deposit an additional one month of premiums as a condition to continue participation in the program.

In April 2013, Southern Inyo was able to reconcile their outstanding balance and pay the deposit pursuant to the Level 4 delinquency demand. Unfortunately, within two months, Southern Inyo again fell behind in their premium payments. Although some partial payments have been submitted to CalPERS since that time, the arrears have grown to a total of \$104,882.25 as of October 4, 2013.

On September 18, 2013, the Southern Inyo Board of Directors held a special meeting in which a resolution was passed to cancel CalPERS health benefits coverage. Then, on September 19, 2013, Lee Barron, Chief Executive Officer/Chief Financial Officer of Southern Inyo, sent a letter to CalPERS indicating that their Directors moved to cancel CalPERS health insurance effective October 1, 2013. Additionally, on October 7, 2013, Southern Inyo sent another letter requesting CalPERS terminate the health coverage effective October 31, 2013 (Attachment 1).

There is no legal authority for Southern Inyo to unilaterally terminate their contract outside of GC section 22938, which requires their Board to pass a resolution to terminate with an effective date at the end of the current contract year. In order to lawfully terminate the contract prior to the end of the contract year, GC section 22939 must be followed (which requires our Board of Administration action).

According to PEMHCA statutes (GC sections 22922, 22892, 22899, 22939, and California Code of Regulations 599.515), Southern Inyo is obligated to make timely and full payment to CalPERS for health premiums as billed. The GC section 22899(a) states, in relevant part, that "contributions required of a contracting agency, along with contributions withheld from salaries of its employees, shall be forwarded monthly, no later than the 10<sup>th</sup> day of the month for which the contribution is due." Section 22899(c) states that "if the agency fails to remit contributions when due, the agency may be assessed interest at an annual rate of 10%, in addition to other costs of collection. In the case of repeated delinquencies,...the contracting agency may be required to deposit one-month's premium as a condition of continued participation in the program." In addition, section 22939 states that "the board may terminate the participation of a contracting agency if it fails for three months after a demand to perform any act required by this part or by board rules or regulations."

Since Southern Inyo has failed for three months after a demand to perform acts as required by PEMHCA and the CalPERS Board's regulations, the Board is authorized to terminate Southern Inyo's participation in PEMHCA. Given that the termination of health coverage cannot be effective until the CalPERS Board approves, we are requesting that the PHBC approve the termination effective October 31, 2013.

**BENEFITS/RISKS**

Southern Inyo Healthcare District is requesting the termination of healthcare coverage. Allowing Southern Inyo to continue participation in PEHMCA will result in an increase of health premium arrear balances which are already owed to CalPERS.

**ATTACHMENTS**

Attachment 1 – Southern Inyo Healthcare District Letter

---

DONNA RAMEL LUM  
Deputy Executive Officer  
Customer Services and Support

---

ANN BOYNTON  
Deputy Executive Officer  
Benefit Programs Policy and Planning