TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: HUMAN RESOURCES
DATE: OCTOBER 18, 2004 CMR:448:04
SUBJECT: APPROVAL OF RESOLUTION ELECTING TO ESTABLISH A HEALTH BENEFIT VESTING REQUIREMENT FOR FUTURE RETIREES UNDER THE PUBLIC EMPLOYEES’ MEDICAL AND HOSPITAL CARE ACT (PEMHCA) FOR SERVICE EMPLOYEES’ INTERNATIONAL UNION (SEIU), LOCAL 715

RECOMMENDATION

Staff recommends Council approve the attached resolution to amend the City’s contract with the California Public Employee’s Retirement System (CalPERS) to establish a 10/20-year vesting requirement for eligibility for retiree health insurance for Local 715, Service Employees’ International Union. This change will apply to future employees in SEIU hired after January 1, 2005.

BACKGROUND

In May 2003, a citywide Healthcare Committee was formed. Representatives from each of the City’s bargaining groups and Human Resources Department staff met to explore ways to address the escalating costs of employee benefits. The issue of the City’s unfunded retiree health liability was one of the major items of discussion. Currently new SEIU employees hired at the City of Palo Alto who become vested in PERS after five years of service are eligible to receive 100% City-paid retiree medical benefits for themselves and 55% City-paid medical for their dependents when they become eligible for retirement. Numerous options to reduce this liability were considered and it was determined that the best option is the 20-year vesting requirement program through PEMCHA. This option was discussed with all of the bargaining groups. The International Association of Firefighters (IAFF), the Fire Chiefs Association and Management and Professional groups all adopted the 20-year vesting requirement program effective January 1, 2004. SEIU recently agreed to this vesting requirement during their recent negotiations with the City which Council approved on August 9, 2004. This vesting option will be discussed with PAPOA in June 2007 when negotiation...
of their new contract reopens.

**DISCUSSION**

A vesting requirement will reduce the number of employees who are eligible for retiree health coverage and will result in significant cost avoidance to the City. The PERS law vesting schedule as set forth in Government Code section 22825.5 will apply to the recommended change. Under this law, an employee is eligible for 50% of the specified employer health premium contribution after ten years of service credit, provided at least five of those years were while employed at the City of Palo Alto. After ten years of service credit, each additional service credit increases the employer contribution percentage by 5% until, at 20 years’ service credit, the employee will be eligible upon retirement for 100% of the specified employer contribution and 90% of the dependent coverage. The City of Palo Alto’s health premium contribution for eligible future retirees shall be the minimum contribution set by PERS based on a weighted average of available health plan premiums. This program will affect SEIU employees hired on or after January 1, 2005.

**RESOURCE IMPACT**

The City will realize a cost avoidance as a result of the 20-year vesting program. At this time there is no way to know how many employees will be hired in future years or how many employees will leave the City of Palo Alto before being fully vested. In addition, it is difficult to determine the amount of this avoidance due to the uncertainty of future health costs.

**POLICY IMPLICATIONS**

This request does not represent any change to existing City policy.

**ENVIRONMENTAL REVIEW**

This is not a project under the California Environmental Quality Act (CEQA).

**ATTACHMENTS**

Attachment 1 – Resolution of the Council of the City of Palo Alto electing to establish a health benefit vesting requirement for future retirees in Local 715, Service Employees’ International Union

PREPARED BY Sandra T.R. Blanch, Risk and Benefits Manager

DEPARTMENT HEAD: ________________________________

LESLIE LOOMIS

Director of Human Resources