TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: HUMAN RESOURCES
DATE: NOVEMBER 21, 2005 CMR: 421:05

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 PALO ALTO POLICE OFFICERS ASSOCIATION (PAPOA)

RECOMMENDATION
Staff recommends Council approve the attached resolution to amend the City’s contract with the California Public Employee’s Retirement System (PERS) to establish a 10/20-year vesting requirement for eligibility for retiree health insurance for the Palo Alto Police Officer Association (PAPOA). This change will apply to future employees in PAPOA hired after January 1, 2006.

BACKGROUND
Currently new PAPOA 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. To address the escalating costs of employee benefits, 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 reduce the increasing cost. The issue of the City’s unfunded retiree health liability was one of the major items of discussion. Numerous options to reduce this liability were considered and it was determined that the best option is the 20-year vesting requirement program through Public Employees’ Medical and Hospital Care Act (PEMHCA). 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. Service Employees’ International Union (SEIU) Local 715 adopted the 20-year vesting requirement effective January 1, 2005. In recent discussions, PAPOA has acknowledged and agreed to implement the vesting requirement, effective January 1, 2006. This resolution will change its retiree medical coverage benefit so that the coverage increases incrementally after 10 years of PERS service credit and full City-paid retiree medical coverage can be obtained after 20 years of PERS service credit.
DISCUSSION

The 10/20-year vesting requirement will reduce the number of employees who are eligible for retiree health coverage and, thus, in the future will result in significant cost avoidance for the City. The PERS law vesting schedule as set forth in Government Code section 22893 (see Attachment A) will apply to this recommended change. Under this law, an employee is eligible for 50% of the specified employer health benefit contribution after ten years of service credit, provided at least five of those years were performed 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 is 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 employees in PAPOA hired after January 1, 2006.

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. Accordingly, it is difficult to determine the amount of this avoidance due to the uncertainty of future health costs and the number of future retirees.

POLICY IMPLICATIONS

This request does not represent any change to existing City policy. This change supports the Finance Committee’s recommendation for staff to bring alternatives forward on how to slow the increase of employee benefits and lessen the impact on infrastructure and other City priorities.

ENVIRONMENTAL REVIEW

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

ATTACHMENTS

Attachment A – Government Code Section 22893

Attachment B- Resolution of the Council of the City of Palo Alto electing to establish a health benefit vesting requirement for future retirees in PAPOA