Summary Title: Employer’s Contribution under PEMHCA

Title: 9a. -Adoption of a Resolution Fixing the Employer’s Contribution Under the Public Employees Medical and Hospital Care Act (PEMHCA) with Respect to Members of Local 521, Service Employees International Union (SEIU) and Management and Professional Employees Group

From: City Manager

Lead Department: Human Resources

Recommendation
Staff recommends that Council approve the attached resolution fixing the City of Palo Alto’s healthcare premium costs under the Public Employees’ Medical and Hospital Care Act (PEMHCA) for Local 521, Service Employees International Union (SEIU) and Management and Professional personnel. The purpose of this recommendation is to complete the CalPERS contract amendment process required to implement the Memorandum of Agreement (MOA) and Compensation Plan health care premium provisions for these employee groups.

Background
In an effort to continue to contain escalating healthcare costs, the City has negotiated several measures in recent years to cap healthcare premiums with all employee groups. Over the last ten years, the City reached agreement to reduce its maximum payment for medical premiums from the highest health plan (PERSCare) to the second highest plan for all active employees as well as future retirees and also, the City implemented 20-year vesting for new hires. In 2010, following imposed terms with Local 521, Service Employees International Union, the City reached agreement with the Union (CMR:339:10) which included a cap on City contributions towards medical premiums for current employees and future retirees. The same provision was extended to Management and Professional current, active employees and future retirees. At present, public safety units are not subject to this provision. The City is in negotiations with Fire and the Police Management Association and will begin negotiations with PAPOA this spring.

Discussion
On August 2, 2010, City Council authorized the implementation of the 90/10 cost share plan for SEIU employees. The City currently pays the full premium cost of an employee-selected health care plan, up to the cost of the second most expensive PEMHCA plan offered for the Bay Area. The attached table titled, “Monthly Employee Contribution Rates for 2011,” describes the new
contribution model. Under the new plan, the City and employees will split the cost of the annual increase in medical premium costs, with a cap for the employee share of 5% premium increase per year. Once the employee contribution reaches 10% of total premium cost, the employee contribution will continue for future years at 10% of total premium cost with the City picking up the remaining 90% of total premium cost.

Prior to the adoption of the 2009-2010 Management and Professional Compensation Plan, those employees proposed that that the City consider proposals to develop an alternate health care contribution plan. In the event that the proposed alternative contribution plan was not adopted by City Council, then the City's 90/10 cost share plan implemented for SEIU employees would also apply to the Management/Professional employees, CAOs and Council Members.

The City formed a healthcare committee involving all employee groups to discuss alternatives over the last five months. Implementation of the 90/10 cost share plan was delayed to allow the group more time to explore various options in-depth. While these discussions were fruitful and some options had significant cost savings, they did not yield alternatives that met Council goals of generational equity and shared risk between the City and employees. It is important to the City that costs are shared among all users of the benefits and that future hires not have a greater share of the burden while employees closer to retirement have little or no responsibility for healthcare costs. Additionally, employees (active and retired) have more of a stake in containing health care costs when they share in those costs.

While the City acknowledges that the challenge of rising healthcare costs will require other changes in the future and remains open to exploring alternative cost sharing options with all employee groups that meet Council goals, the alternatives identified to-date do not meet the goals. The City expects that future negotiations will provide additional time to review and develop additional alternatives and solutions.

Contributions by active SEIU and Management and Professional employees will begin effective April 1, 2011. In order to implement provisions for the aforementioned employee groups, the CalPERS contract amendment process requires Council to approve the attached resolutions. Staff has reviewed the resolutions with CalPERS and due to the inability of CalPERS to directly administer the 90/10 contribution model, the resolutions reflect that the health plan rates will be fixed at a lowered specified amount for SEIU and Management and Professional employees. The City will work with CalPERS to implement an internal process for appropriate contributions under the 90/10 cost share plan.

**Resource Impact**

The implementation of the 90/10 cost share plan for miscellaneous employees (excludes sworn safety employees in police and fire departments) results in 3 months of medical premium savings this fiscal year, which is estimated to be $95,730. The employee contributions toward medical premiums are expected to save the City $370,000 on an annual basis according to the 2011 healthcare rates.
The implementation of employee and future retiree medical premium contributions by miscellaneous employees (excludes sworn safety employees in police and fire departments) results in 3 months of medical premium savings this fiscal year, which is estimated to be $95,730. This amount is a reduction for FY 2011 due to the delay of the 90/10 implementation to allow the employee healthcare committee to develop alternatives. The employee contributions toward medical premiums are expected to save the City $370,000 on an annual basis according to the 2011 healthcare rates.

The City will contribute to its retiree insurance trust an amount not less than the amount of premiums paid by active employees in the miscellaneous employee groups.

**Policy Implications**
This resolution implements provisions previously approved in the 2010-11 SEIU MOA and the 2009-10 Compensation Plan for Management and Professional Personnel. It also 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. Staff also plans to continue pursuing health care benefit changes in negotiations with other employee units.

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

**ATTACHMENTS:**
- Monthly Employee Contribution Rates 2011 (PDF)
- 8261529 RESO PEMAHCA (2) (DOC)

Prepared By: Elizabeth Egli, Administrative Assistant
Department Head: Sandra Blanch,
City Manager Approval: James Keene, City Manager
## Monthly Employee Contribution Rates for 2011

### Bay Area Regional Plans (Basic)

<table>
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<td>PERSCare</td>
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<td>4.47%</td>
<td>$51.50</td>
<td>$23.77</td>
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% EE Responsibility = 1/2 % Increase not to exceed 5%
$ EE Responsibility = 2010 Monthly Premium x % EE Responsibility
PERSCare Contribution = (PERSCare premium - Blue Shield premium) + [(2011 Monthly Premium - 2010 Monthly Premium)/2010 Monthly Premium]

Revised 08/30/10
Resolution No. ______
Resolution of the Council of the City of Palo Alto Fixing the Employer’s Contribution under the Public Employees’ Medical and Hospital Care Act for Local 521, Service Employees International Union (SEIU) and Management and Professional Personnel

WHEREAS, Government Code Section 22892(a) provides that a local agency contracting under the Public Employees' Medical and Hospital Care Act shall fix the amount of the employer's contribution at an amount not less than the amount required under Section 22892(b)(1) of the Act; and

WHEREAS, Government Code Section 22892(c) provides that a contracting agency may fix the amount of the employer's contribution for employees and the employer's contribution for annuitants at different amounts, provided that the monthly contribution for annuitants is annually increased to equal an amount not less than the number of years the contracting agency has been subject to this subdivision multiplied by 5 percent of the current monthly contribution for employees, until such time as the amounts are equal; and

WHEREAS, City of Palo Alto, hereinafter referred to as Public Agency is local agency contracting under the Act for participation by members of the City of Palo Alto.

NOW, THEREFORE, the Council of the City of Palo Alto does RESOLVE as follows:

SECTION 1. That effective April 1, 2011 the employer's contribution for each employee shall be the amount necessary to pay the full cost of his/her enrollment, including the enrollment of his/her family members in a health benefits plan up to a maximum of the minimum employer contributions per month as prescribed in Section 22892(b)(1) of the Government Code ($108.00) per month.

SECTION 2. That effective April 1, 2011 the employer's contribution for each annuitant shall be the amount necessary to pay the full cost of his/her enrollment, including the enrollment of his/her family members in a health benefits plan up to a maximum of 90% of the minimum employer contributions per month as prescribed in Section 22892(b)(1) of the Government Code per month.

SECTION 3. That the employer's contribution for each annuitant shall be increased annually by 5 percent of the monthly contribution for employees, until such time as the contributions are equal, plus administrative fees and Contingency Reserve Fund Assessments.

SECTION 4. That the City of Palo Alto has fully complied with any and all applicable provisions of Government Code Section 7507 in electing the benefits set forth above.
SECTION 5. The County of Santa Clara as lead agency has determined that this project is exempt from the provisions of the California Environmental Quality Act ("CEQA") under CEQA Guidelines Section 15308 as an action by regulatory agencies authorized by state or local ordinance to assure the maintenance, restoration, enhancement, or protection of the environment.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

__________________________________________
City Clerk

__________________________________________
Mayor

APPROVED AS TO FORM:

__________________________________________
Sr. Deputy City Attorney

__________________________________________
City Manager

__________________________________________
Director of Human Resources

__________________________________________
Director of Administrative Services

APPROVED:

__________________________ _____________________________
Sr. Deputy City Attorney City Manager