



Office of the City Manager

CONSENT CALENDAR

September 19, 2006

To: Honorable Mayor and  
Members of the City Council

From: *PK* Phil Kamlarz, City Manager

Submitted by: David W. Hodgkins, Director of Human Resources

Subject: Retiree Health Premium Assistance Plan

RECOMMENDATION

Adopt a Resolution amending Resolution 61,752-N.S.(Sections 2.13 and Section 2.16), the Retiree Health Premium Assistance Plan, to modify the definition of“Eligible Retiree”and“Years of Service”within the plan document to attract and retain regular at-will employees who have significant years of service in CalPERS in another public agency or in a 1937 County Retirement Act pension system, to be retroactive to July 1, 2005.

FISCAL IMPACTS OF RECOMMENDATION

There is no current year fiscal impact of this recommendation. The Retiree Health Premium Assistance Plan was established in 1998 and funding of the benefit was based on an actuarial analysis conducted by Milliman, Inc., for prefunding the benefit using a 40-year level percentage of payroll amortization of the unfunded actuarial liability. This recommendation has been discussed with the actuary at Milliman and he believes that, given the small number of potential employees affected, the overall plan design and the one-year vesting period, the financial impact of the change on the plan is slight.

CURRENT SITUATION AND ITS EFFECTS

The Retiree Health Premium Assistance Plan provides retiree medical benefits for non-sworn miscellaneous employees and elected officials who retired on or after June 28, 1998. The plan design requires the retiree to have at least eight years of service in CalPERS with the City of Berkeley and be at least age 55 in order to receive benefits. The amount the City contributes toward paying the health care premiums on behalf of the retiree is based on a sliding scale of eight to twenty years of CalPERS service with the City. The City’s contribution increases by 4.5% per calendar year regardless of how much the health care premium increases. When the retiree reaches age 65, Medicare becomes the primary provider of health care and the City provides assistance in paying the premiums for a Medicare Supplement plan. Post employment medical coverage is offered through the Kaiser HMO plan, the Health Net HMO plan and the Health Net Point of Service Plan.

An issue came to the attention of staff concerning the applicability of the Retiree Health Premium Assistance Plan to new employees hired into regular at-will positions that are exempt

from the career service. Berkeley Municipal Code Section 4.04.120 names the classifications that are exempt from the career service and persons hired into any of these classifications are regular at-will employees as defined in Section 1.11.12 of the Personnel Rules and Regulations. These classifications include, but are not limited, the following: All department head classifications including the City Manager, Assistant City Manager, Assistant to the City Manager, Budget Manager, Deputy City Manager, Director of Information Technology, Economic Development Manager, Health Officer, Police Review Commission Investigator, and Police Review Commission Officer. When the City conducts open competitive recruitments for these exempt at-will classifications, potential applicants assess the City's benefit package, including the retiree medical benefit, as part of their decision to apply for the position. Frequently, potential applicants for these positions are employed by other public sector jurisdictions that have different retiree medical coverage, most often through the CalPERS Public Employee Medical and Hospital Care Act (PEMHCA) plan. Because these positions typically attract external applicants who are in mid-career, our requirement that eligibility for the Retiree Health Premium Assistance Plan of at least eight years of City of Berkeley CalPERS service and at least 20 years of City CalPERS service to obtain the maximum benefit from the plan acts as a disincentive for potential applicants for critical and in many cases hard to fill positions.

In order to correct this omission in the Retiree Health Premium Assistance Plan, it is necessary to amend the plan document in a manner that provides for a reasonable benefit vesting period and then provide some rational method of measuring CalPERS service credit or service credit in a 1937 County Retirement Act pension system that has reciprocity with CalPERS. I recommend that the Retiree Health Premium Assistance Plan be amended to provide for a one -year vesting period and to provide that either CalPERS or 1937 County Retirement Act service credit with another public agency would be counted toward the City's benefit based on the total number of aggregate years of service as credited by CalPERS for service in another public agency or aggregate years of service credited by a 1937 County Retirement Act public agency. Staff has consulted with tax counsel at Saltzman and Johnson to ensure that the changes would comply with the Internal Revenue Code and related tax regulations. Staff has been advised that this change would be permissible under federal tax law.

#### BACKGROUND

On September 17, 2002, the City Council adopted Resolution No. 61,752-N.S., which authorized the City Manager to execute and implement the Retiree Health Premium Assistance Plan. The Plan was the result of joint negotiations between representatives of the City and representatives of the bargaining organizations that represented non-sworn employees. The design of the plan also involved the use of outside technical consultants from William M. Mercer, Inc., for the writing of a draft plan document and trust agreement, and Milliman, Inc., for the actuarial analysis of plan design alternatives and the funding policy. The City also had the Plan and trust agreement reviewed by outside legal counsel at Saltzman and Johnson to ensure compliance with applicable Internal Revenue Code provisions.

The funding policy of the Plan, based on the actuarial analysis performed by Milliman, Inc., in 1998, is equal to the service cost for active employees in the current year of service plus an amount to amortize the unfunded actuarial liability over 40 years as a level percentage of payroll. Contributions are placed into a trust fund and all benefits are paid from the fund. The plan was designed to recognize current and future liabilities and to establish a funding policy so that assets are available to pay the premium costs as employees retire and not place an undue one-time strain on the budget. The City has had Milliman, Inc., perform three actuarial studies of the plan since its inception in 1998, most recently in May 2004 for the Fiscal Year ending June 30, 2004, and staff believes that funding is generally on target to meet the objectives to fund the Plan.

RATIONALE FOR RECOMMENDATION

The reason for the recommendation is to be able to attract and retain external candidates to regular at-will positions by offering an attainable retiree medical benefit.

ALTERNATIVE ACTIONS CONSIDERED

The alternative is to make no change and risk not being able to attract and retain external candidates to regular at-will positions.

CONTACT PERSON

David W. Hodgkins, Director of Human Resources, 981-6805

Attachments:

1: Resolution and Exhibit A

RESOLUTION NO. ##,###-N.S.

AMENDING RESOLUTION NO. 61,752-N.S., THE RETIREE HEALTH PREMIUM ASSISTANCE PLAN

WHEREAS, on September 17, 2002, the City Council adopted Resolution No. 61,752-N.S. that authorized the City Manager to execute and implement the Retiree Health Premium Assistance Plan for non-sworn employees and elected officials; and

WHEREAS, the Retiree Health Premium Assistance Plan provides post employment medical benefits to former employees or elected officials of the City who terminate service for any reason, including death, and at the time of such termination are at least age 50 and have at least eight years of service credit with CalPERS earned at the City of Berkeley; and

WHEREAS, in an effort to attract and retain applicants and employees from external jurisdictions to fill regular at-will positions including, but not limited to, all department head classifications, the City Manager, Assistant City Manager, Assistant to the City Manager, Budget Manager, Deputy City Manager, Director of Information Technology, Economic Development Manager, Health Officer, Police Review Commission Investigator, and Police Review Commission Officer, it is necessary to offer a fair and competitive benefit package; and

WHEREAS, a retiree medical benefit such as the Retiree Health Premium Assistance Plan is an important component of a fair and competitive package; and

WHEREAS, as it is presently written, the Retiree Health Premium Assistance Plan does not provide any credit for CalPERS or 1937 County Retirement Act pension plan service credit toward the retiree medical benefit.

NOW THEREFORE, BE IT RESOLVED that the Council of the City of Berkeley amends Section 2.13 of Exhibit A to Resolution 61,752-N.S.(Eligible Retiree) of the Retiree Health Premium Assistance Plan as set forth in Exhibit A attached hereto and made a part hereof.

BE IT FURTHER RESOLVED, that the Council of the City of Berkeley amends Section 2.16 of Exhibit A to Resolution 61,752-N.S. (Years of Service) of the Retiree Health Premium Assistance Plan as further set forth in Exhibit A attached hereto and made a part hereof.

BE IT FURTHER RESOLVED, that the aforementioned amendments to the Retiree Health Premium Assistance Plan are to be retroactive to July 1, 2005.

## Exhibit A

- 2.13 **“Eligible Retiree”** means a participant who is a former employee or elected official of the City (described in Appendix I) who terminates service with the City for any reason, including death, on or after the Effective Date applicable to the Retiree (specified on Appendix I) and at the time of such termination is at least age 50 and has at least eight (8) Years of Service, as defined in section 2.16. The Manager may add to, delete from or amend the units listed in Appendix I from time to time, at his or her discretion after consultation with the appropriate Union and consistent with the relevant Memorandum of Understanding or Memorandum Agreement. An individual who retires from City service prior to age 55 pursuant to a CalPERS-approved disability retirement and who maintains continuous coverage in a Health Plan from the date of retirement until the individual's 55th birthday shall be an Eligible Retiree. Any employee or elected official of the City who terminates service with the City before the applicable Effective Date shall not be an Eligible Retiree and shall not be eligible for any benefits under this Plan.

Notwithstanding the foregoing, effective July 1, 2005, an “Eligible Retiree” shall include a regular at-will employee, as defined in Section 1.11.12 of the Personnel Rules and Regulations, who has never obtained career service status, as defined in Section 1.07 of the Personnel Rules and Regulations, with the City prior to appointment as a regular at-will employee, if the regular at-will employee terminates service with the City for any reason, including death, on or after June 28, 1998 and at the time of such termination is at least age 50 and is vested in CalPERS or in a County Retirement System as defined in Section 20023.5 of the California Public Employees’ Retirement Law.

2.16 *“Years of Service”* under this plan shall mean the following:

- 2.16.1. the number of aggregate years of service with the City as credited by CalPERS for determining years of service for the pension benefits.
- 2.16.2. CalPERS service credit purchased by the Participant where purchase of service credit for service with the City that the Participant previously withdrew and is repurchasing.
- 2.16.3. Military service that must be credited by CalPERS under federal law resulting from a leave of absence from the City.
- 2.16.4. Career service with the City that follows a break in service.
- 2.16.5. No other service shall be included in this definition of Years of Service except as modified by 2.16.6, 2.16.7 and 2.16.8.
- 2.16.6. Notwithstanding section 2.16.5, for employees in Representational Unit R-1 (career benefited, part-time Recreational) and the classification of Recreation Coordinator only, all time in a permanent, probationary, provisional, temporary (full-time, part-time, and intermittent), seasonal and exempt employment will be included as Years of Service. See Appendix II for how Years of Service are calculated for R-1 employees under this Plan.
- 2.16.7. Notwithstanding section 2.16.5, for elected officials of the City (described in Appendix I) all time served as an elected official and all time in a permanent, probationary, provisional, temporary (full-time, part-time, and intermittent), seasonal and exempt employment will be included as Years of Service.
- 2.16.8. Notwithstanding section 2.16.5, effective July 1, 2005 a regular at will employee who is an Eligible Retiree as defined in Section 2.13, upon attaining one (1) year of full time equivalent service with the City, will have included as Years of Service the total number of aggregate years of service as credited by CalPERS for service with another public agency or aggregate years of service credited by a County Retirement System as defined in Section 20023.5 of the California Public Employees' Retirement Law.