



## REPORT TO CITY COUNCIL

**To:** Honorable Mayor and Members of the City Council

**From:** Jason Simpson, City Manager

**Prepared by:** Shannon Buckley, Assistant City Manager

**Date:** October 24, 2023

**Subject:** Resolutions Fixing of the Employer Contribution Under the Public Employees Medical and Hospital Care Act (PEMHCA) at an Equal Amount for Employees and Retirees

### **Recommendation**

1. Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, FIXING THE EMPLOYER CONTRIBUTION UNDER THE PUBLIC EMPLOYEES' MEDICAL AND HOSPITAL CARE ACT AT AN EQUAL AMOUNT FOR EMPLOYEES AND ANNUITANTS (CalPERS); and
2. Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, FIXING THE EMPLOYER CONTRIBUTION UNDER THE PUBLIC EMPLOYEES' MEDICAL AND HOSPITAL CARE ACT AT AN EQUAL AMOUNT FOR EMPLOYEES AND ANNUITANTS (NON CalPERS).

### **Background**

The City of Lake Elsinore has an existing agreement with the California Public Employees' Retirement System (CalPERS) to provide its health program to active Lake Elsinore employees and retirees. The CalPERS health program is governed by the Public Employees Medical and Hospital Care Act (PEMHCA) and the California Code of Regulations (CCR) of the California Public Employees Retirement Law (PERL). PEMHCA contains all the rules and regulations a contracting agency must adhere to, and the resolution is the mechanism by which an agency elects to become subject to PEMHCA.

One of the requirements of the PEMHCA is the "equal contribution rule." The equal contribution rule generally requires a PEMHCA employer to pay the same amount toward health insurance premiums for its retirees as for its active employees. The PEMHCA provides that the employer's equal contribution rate be at least as much as the "PEMHCA minimum," which is currently \$151 per month for 2023 and is subject to an annual adjustment.

One way for a PEMHCA employer to potentially save money is to lower its equal contribution commitment for both actives and retirees to the PEMHCA minimum and then separately subsidize actives' and retirees' health care premiums through the use of cafeteria plans or health

reimbursement arrangements (HRAs). In this way, an employer can differentiate between the treatment of active employees and retirees. It can also differentiate within its active employee and retiree groups by providing differing subsidies through cafeteria plans or HRAs. Per the Side Letter to the 2021-2026 LIUNA Memorandum of Understanding (Attachment 1) and Section 11.2.6 of the 2021-2026 LIUNA Memorandum of Understanding (Attachment 2), eligible active employees receive a cafeteria plan contribution of \$1,900 monthly minus the PEMHCA minimum. Per Section 11.3.1 of the 2021-2026 LIUNA Memorandum of Understanding (Attachment 3), retirees hired before January 1, 2015, receive an additional contribution equal to the difference between their medical insurance premium total minus the PEMHCA minimum. Employees hired after January 1, 2015, only receive the PEMHCA minimum contribution. No one hired after January 1, 2015, has retired from the City of Lake Elsinore.

The City has first established equal contributions to all active and retired employees through acknowledgment in the MOU. The next step is to formalize this change through resolution with CalPERS. This will not only place the City in compliance with the equal contribution rule but also allow for a reduction in the ongoing cost of medical health benefits, especially for future retirees. The City has two employee groups assigned within CalPERS: CalPERS and NON-CalPERS. City Council members fall under the NON-CalPERS group, while all other employees fall under the CalPERS group. This requires the City to have two resolutions (Attachment 4 and Attachment 5).

### **Discussion**

The City is currently preparing for the administrative change that will take place once these resolutions are in effect. The active employees will not experience any change, but the retirees will. CalPERS invoices the City monthly for the entire premium for each active and retired employee. The resolution will remove the total retiree premium from the City's invoice and replace it with the PEMHCA minimum amount. For 2024, that new minimum will be \$157. The remaining portion of the retiree's monthly premium will be deducted from their monthly CalPERS pension check. If their premium is more than their pension check, they will be billed by CalPERS. If the retiree was hired before January 1, 2015, the City will send the retiree a reimbursement payment to cover the amount deducted (or billed) by CalPERS. This reimbursement is not taxable. If the retiree was hired after January 1, 2015, the City will not send a reimbursement payment and will only pay the PEMHCA minimum. The City will directly deposit the reimbursement payments on or around the 1st of each month to coordinate with the timing of the monthly pension check.

The City has contacted all 59 retirees to discuss this change and securely collect bank account information in preparation for the reimbursement payments. The direct deposits will be handled in-house by Human Resources each month.

The effective date for this change is February 1, 2024. Selecting February rather than January will allow Human Resources an entire month to calculate the reimbursement payments after the new 2024 medical rates go into effect. CalPERS regulations state that the contribution change will be effective the first day of the second month following receipt of a newly adopted resolution. A resolution adopted by the City Council and provided to CalPERS before December 31, 2023, will allow for the effective date of February 1, 2024.

**Fiscal Impact**

The adoption of the proposed resolutions will not have an impact on the adopted budget.

**Attachments**

Attachment 1 - 2021-2026 LIUNA MOU Side Letter  
Attachment 2 - 2021-2026 LIUNA MOU Section 11.2.6  
Attachment 3 - 2021-2026 LIUNA MOU Section 11.3.1  
Attachment 4 - CalPERS Resolution  
Attachment 5 - NON CalPERS Resolution