



# FACTS ABOUT PEMHCA

## CALPERS RETIREE HEALTH BENEFITS

### Background

Through CECHCR's work providing training and Second Opinion services on health benefits, we discovered some misunderstandings about the Public Employees' Medical & Hospital Care Act (PEMHCA) lifetime retiree medical benefit required by CalPERS. Because this is such an important issue to school districts and unions when evaluating their options for health benefits, CECHCR prepared this document to describe the nature and impact of the PEMHCA requirements. This Fact Sheet was reviewed by CalPERS prior to its publication to be sure that every aspect of PEMHCA was accurately described.

### Introduction

CalPERS offers options to school districts to: 1) reduce the amount that employers must contribute to retiree medical premiums, and 2) limit the number of retirees who will qualify for this employer contribution. These options, when combined with the lower costs that CalPERS charges for early retiree premiums and the lower annual premium increases CalPERS consistently delivers, should mitigate concerns about PEMHCA, and (in many/most cases) generate immediate savings and reduced long term liability to school districts. An overview of each of these four factors follows.

#### **I. Minimum and Unequal Employer Contribution Resolutions reduce the amounts school districts initially contribute to retiree medical premiums under PEMHCA.**

Districts and Bargaining Units can elect to fix employer contributions for active employees and retirees at different, "unequal," minimal amounts. While the minimum employer contribution for active employees is currently \$115 per month (\$125 in 2016), CalPERS permits employers to contribute as little as one dollar (\$1) per month for retirees during the first year the agency begins their contract. This initial unequal minimal amount (\$1) is annually increased by 5% of the minimum employer contribution for active employees, until such time as the contributions are equal, (a period of approximately twenty years) at which time the employer contribution amount for retirees would be equal to the minimum amount contributed to active employees. (Groups where the employer contributed \$1 in 2013, will need to contribute approximately \$5.25 in 2014.) The minimum employer contribution is increased annually based on the health component of the consumer price index. In 2015 the minimum employer contribution was \$122. In 2016 the minimum employer contribution will be \$125. This contribution goes directly to the health carrier, not to CalPERS. CalPERS is not for profit, has no broker fees and only charges .34% of total premiums for their administrative fee (e.g. if total premiums are \$1000.00

CalPERS' administrative fee is \$3.40). This administrative fee is set by the Department of Finance every fiscal year and can't exceed 2% by law. However - the administrative fee has consistently been less than one half of one percent throughout the history of the program.

This ability to initially limit school district contributions to very small amounts along with this very low administrative fee can be coupled with the ability to reduce the number of retirees for whom this contribution is required, as described below.

**II. Memorandum of Understandings (MOUs) are able to define retiree eligibility as it relates to the employer contributions required by PEMHCA and limit the number of future retirees who qualify for the minimum employer contribution.**

Districts and Bargaining Units may establish vesting criteria that limit the number of retirees that will be eligible for post-retirement employer contributions. The District would submit a vesting resolution and the applicable MOUs to CalPERS for each Bargaining Unit that defines future retiree eligibility in a way that limits how many future retirees will qualify for the minimum employer contribution. For example, MOUs can define eligibility to future retirees as, "those who have worked a minimum of 30 (or 40) years at the district." In other words, the standard that is locally bargained is what will determine how many future retirees qualify for the employer contribution.

Please note: These MOUs are only able to define retiree eligibility in terms of those who qualify for the minimum employer contribution, *not* in terms of those who can participate in the CalPERS medical plan offerings. **All current and future retirees would remain eligible to participate in the CalPERS Medical plan of their choice**, but employers would only be required to contribute the minimum amount as defined by PEMHCA for current employees, and for future retirees as defined by the bargained standard.

By implementing vesting provisions through MOUs, the number of retirees who qualify for the employer contribution would decrease each year (through normal attrition), and depending upon the qualifying length of service negotiated at the local level, the number of future retirees could be substantially limited.

In addition to the two methods to reduce the retiree cost and liability mentioned above, CalPERS enrollment presents two significant sources of immediate savings, which are described below.

**III. Early retirees pay the same premiums as active employees.**

All retirees who are not yet eligible for Medicare ("early retirees") are charged the same premiums as active members by CalPERS.

Many health plans and carriers currently charge early retirees significantly higher rates than active employees for similar coverage. Often this difference can be as high as 20 -35% of the total premium. For example, a plan which costs a district \$500 per month for active employees may very well cost \$600-675 for early retirees.

Districts which currently pay for all (or a large percentage) of early retiree medical premiums— would be saving significant amounts by enrolling in CalPERS. In the example above, these districts would be saving between \$100 and \$175 per early retiree per month.

Depending on the number of enrollments, these savings would far outweigh the minimum contribution for all retirees that is required by PEMHCA.

#### **IV. CalPERS lower annual renewals reduce GASB liabilities.**

CalPERS annual renewal increases have historically been lower than the national averages, and are expected to continue to be lower than school district renewals. As rates and trend are major factors in the GASB calculations that determine the amount of funds school districts need to hold in reserve for retirees, the lower rates and trend offered by CalPERS ought to reduce the amount of reserves school districts must hold for retiree medical costs.

Although employer-funded lifetime retiree medical care is not commonly offered by school districts: the ability to initially limit school district contributions through Minimum and Unequal Employer Contribution Resolutions and limit the number of retirees who qualify for these contributions through MOUs provides school districts methods for limiting the costs of the lifetime benefits for retirees as defined by PEMHCA. By taking advantage of the CalPERS pricing structure for early retirees and lower trend rates, most school districts should garner immediate savings and reduced long term liabilities, despite the additional costs of the lifetime benefit.