

# **Alternative Pension Reform Settlement Framework – Retiree Healthcare Options**

# Background – Defined Benefit Plan

- What is the City's current defined benefit plan?
  - 100% of the lowest cost healthcare plan premium available to actives based on your insurance tier (i.e. single, retiree+spouse, etc)
    - Retirees must pay the difference between the premium of lowest cost plan and the premium of a higher cost plan
    - Kaiser 3000 deductible plan single premium = \$409.70
    - Blue Shield PPO single premium = \$1,104.14
  - Fifteen (15) years of service needed to enroll in retiree healthcare plan
  - Retirees are required to enroll in Medicare Parts A and B at age 65

# New Lowest Cost Healthcare Plan

- As of January 1, 2018, the new lowest cost healthcare plan will be the Kaiser \$3,000 single/\$6,000 family deductible plan
- Employees enrolled in this plan qualify to enroll in a health savings account (HSA)
  - HSAs allow employees to save pre-tax money for eligible medical expenses during the year
- Healthcare cost sharing for active employees will not change.

# Background – Alternative Pension Reform Framework

- Close current defined benefit retiree healthcare plan
  - Establish a Voluntary Employees’ Beneficiary Association (VEBA) for new and current Tier 2
  - Allow Tier 1 and Federated Tier 2a employees (including CalPERS “Classic” eligible employees) to opt-in to the VEBA and voluntarily terminate his/her entitlement to the Defined Benefit Retiree Healthcare plan.
    - Defined benefit retiree healthcare includes medical and dental benefits

# Voluntary Employees' Beneficiary Association (VEBA)

## ■ What is a VEBA?

- A tax-qualified healthcare trust fund under Internal Revenue Code Section 501(c)(9)
- The funds in the VEBA may be used to reimburse post-retirement out-of-pocket health care costs incurred by you, your spouse, and qualified dependents
- Funds that are contributed or reimbursed from the VEBA are all pre-tax
- VOYA Financial will be the VEBA administrator
- VEBA members who receive a disability retirement may qualify for the Catastrophic Disability Retiree Healthcare benefit
- Members can purchase City plans after five (5) years of service
  - VEBA will have its own experience pool

# Defined Benefit and VEBA Opt-In Contribution Rates

Employee Unit	Current Retiree Healthcare Defined Benefit Contribution Rate	NEW Retiree Healthcare Defined Benefit Contribution Rate (when VEBA is effective)	New VEBA Contribution Rate
Police	9.51%	8.0%	4.0%
Fire	9.74%	8.0%	4.0%
Federated- Management (CAMP, AEA, AMSP, ALP)	8.76%	7.5%	2.5%
Federated – Non-Management (MEF, CEO, IBEW, OE#3, ABMEI)	8.76%	7.5%	3.5%
Unit 99 & Units 81/82	8.76%	7.5%	No Contribution

- Employees who elect to opt-in to the VEBA will receive an amount estimated to be their previous retiree healthcare contributions, without interest, to their individual VEBA account.
- There is no matching City contribution to the VEBA.

# Tier 2 VEBA Contribution Rates

All sworn Tier 2 and Federated Tier 2B employees will be placed into a VEBA and make mandatory contributions.

Employee Unit	Current Retiree Healthcare Defined Benefit Contribution Rate	New VEBA Contribution Rate
Police	---	4.0%
Fire	---	4.0%
Federated	---	2.0%
Unit 99 & Units 81/82 – Tier 2	---	No Contribution

- Unit 99 and Units 81/82 will not be mandated and will not be eligible to make contributions into a VEBA

# VEBA Opt-in Timeline and Next Steps

Action Item	Timeline
Letters out to City Employees (including contribution total)	September 2017
VEBA Education Period (Workshop Sessions and 1:1 Meetings)	Mid-September through December 1, 2017
VEBA Opt-In Election Period*	October 18-December 1, 2017

\* One-time irrevocable election



# Independent Benefits Consultant

- As part of the Framework, the City agreed to provide an independent benefits consultant to assist employees making the decision to stay in the defined benefit plan or opt-in to the VEBA
- Parallel Advisors will provide group educational sessions, 1:1 sessions, webinar, and phone counseling sessions for employees
  - For 1:1 sessions, you are recommended to bring your letter with the previous retiree healthcare contributions, and any documentation regarding financial assets and liabilities