
Bill Number: AB 554 (Hernandez) CalPERS Retiree Health Benefits Pre-funding (As Amended 6/18/07)

SUMMARY

AB 554 allows the California Public Employees' Retirement System (CalPERS) Board of Administration (Board) to authorize a public agency to participate in a CalPERS program to pre-fund the health benefits an employer provides to its retirees.

PURPOSE OF THE BILL

AB 554 provides a means for public employers to pre-fund their retiree health care obligations. Employers are seeking to pre-fund these obligations due to new federal accounting requirements that require disclosure of unfunded actuarial obligations for post employment benefits; this disclosure may reflect unfavorably on an employer's financial status.

BOARD POSITION

Support.

LEGISLATIVE HISTORY

SB 1729 (Soto) 2006—Vetoed would have permitted the CalPERS Board to authorize an employer to participate in the pre-funding of health care coverage and other postemployment benefits for annuitants by contracting with the CalPERS Board. This bill was vetoed by the governor, whose veto message indicated the bill was drafted in a manner that could create new healthcare benefit obligations.

Chapter 1032, Statutes of 2000 (SB 1435—Johnston) requires the California State Teachers' Retirement System (CalSTRS) to pay the premium of Medicare Part A for retired members of the DB Program not otherwise eligible for coverage without payment of premium.

PROGRAM BACKGROUND

In 2004, the Government Accounting Standards Board (GASB) issued Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions." The statement does not carry the force of law. However, if a public employer ignores this reporting requirement, the decision will be noted by auditors and may reflect unfavorably on financial statements. Following the reporting requirement will expose to public view a more complete picture of an institution's unfunded actuarial obligation which itself may reflect unfavorably on the institution's financial status. As a result, employers are seeking ways to fund these obligations so as to improve their financial standing.

The California Employers' Retiree Benefit Trust Fund (Trust Fund) was established for public employers who contract with CalPERS to provide employee health benefits. The purpose of the Trust Fund is to pre-fund the future cost of the employers' retiree health insurance benefits and other post-employment benefits. The pre-funding plan allows participating employers to make contributions into the Trust Fund, which are then invested by CalPERS. Participating employers

will be able to use investment earnings to pay for retiree health benefits. Current law limits participation in the Trust Fund to those employers who contract with CalPERS to provide benefits to their employees under the Public Employees' Medical and Hospital Care Act (PEMHCA).

Currently, approximately 120 school districts contract with CalPERS to obtain health care coverage for their employees under PEMHCA. Many other districts purchase their own health insurance coverage individually. Most districts either join together with their employees to form benefit trusts administered by third parties, or form joint-powers agencies with other employers. The Southern California Voluntary Employees Benefit Association and the Central Valley Schools Health and Welfare Trust are two examples of trusts that provide health benefits. Trusts allow smaller districts to band together to secure lower health insurance rates than they might otherwise garner through the power of their collective size. According to the California Teachers Association, there are currently 11 trusts with 265 participating districts that provide health coverage for approximately 365,000 individuals.

CalSTRS formed the Public Education Health Benefits Task Force (Task Force), with representatives of CalPERS, certificated and classified employees, school districts, county offices of education, community college districts and administrators of school health care plans to identify ways CalSTRS could assist school districts with addressing the health care issues facing employers and their employees. One of the issues raised by the Task Force is assistance that could be provided to school employers seeking to pre-fund their retiree health benefit obligations. Enactment of AB 554 could assist in meeting that objective.

ANALYSIS

AB 554 eliminates the current restriction that an employer contract with CalPERS for health benefits to participate in the Trust Fund.

While AB 554 does not require any action by CalSTRS, it would help address the funding problems some school districts are currently facing and that are being discussed by the Public Education Health Benefits Task Force.

FISCAL IMPACT

Benefit Program Cost – None.

Administrative Costs/Savings – None.

SUPPORT

CalPERS (sponsor)
Los Angeles Community College District (Co-sponsor)
Los Angeles Faculty Guild (Co-sponsor)
American Federations of State, County and Municipal Employees
California Association of Professional Scientists
California Association of Sanitation Agencies
California Federation of Teachers

California School Employees Association
California State Association of Counties
California State Employees Association
California Teachers Association
CDF Firefighters
Central School District
Del Puerto Water District
Delta Diablo Sanitation District
Faculty Association of California Community Colleges
Helix Water District
Independent Employees of Merced County
Las Virgenes Municipal Water District
League of California Cities
Orange County Employees Association
Organization of SMUD Employees
Otay Water District
Peace Officers Research Association of California
Professional Engineers in California Government
Retired Public Employees Association
Sacramento Municipal Utility District
San Bernardino Public Employees Association
San Diego County Court Employees Association
San-Jose Evergreen Community College District
San Luis Obispo County Employees Association
Santa Clara Valley Water District
Santa Rosa City Employees Association

OPPOSITION

None known.

LEGISLATIVE STAFF CONTACT

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