

PEMHCA Section 115 Trust

Long Term Financial Policy Audit Subcommittee
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Presentation Overview

- PEMHCA Summary
- Unfunded Liability
- City Actions
- Section 115 Trust
- Next Steps
- Discussion/ Q&A

PEMHCA Summary

- CalPERS is the contracted health care provider for Santa Rosa sworn public safety employees
- The Public Employees Medical and Hospital Care Act (PEMHCA) governs health care provided to employees and retirees under health care plans administered by CalPERS.
- All public agencies providing health care to their active employees through CalPERS PEMHCA plans are also required to offer health care under those plans to their retirees.
- The rules regarding retiree health care are found in sections §22892 and §22893 of the Government Code.

Unfunded Liability

- PEMHCA is a pay-as-you-go benefit with CalPERS
- Pay-as-you-go means CalPERS does not provide a way to pre-fund this benefit while employees are active like we do for pensions
- The inability to pre-fund creates a large unfunded liability
- Santa Rosa's fiscal year 2023 unfunded liability for PEMHCA is \$24,964,472

City Actions

- Beginning in fiscal year 2011 the City began to allocate funding via the annual budget process to address this growing unfunded liability to the OPEB Internal Service Fund
- The fiscal year 2023 balance of the OPEB Internal Service Fund was \$10,896,000
- This funding strategy has not been able to keep pace with a growing PEMHCA liability
- Current strategy provides low interest earnings, cannot be included in actuary reports and doesn't provide clear guidance for use

Section 115 Trust

- Creating a section 115 trust for PEMHCA addresses many problems with our current strategy and is considered a best practice by Government Finance Officers Association
- Gain greater investment returns over time
- Funds can be used in actuary reports to better plan out contributions and pay for premium expenses directly from the trust
- Reduce the City's unfunded liability and create more funding for operations
- Increased expected returns do come with investment risk

Next Steps

- Prior Council action with the Pension 115 trust has already appointed a trustee and trust administrator that the PEMHCA trust can fall under.
- With the support of the committee, Finance would bring an item to Council approving the deposit of the OPEB Internal Service Fund balance to the trust and the adoption of an Investment Policy Statement

Questions / Comments