

PEMHCA Section 115 Trust

City Council
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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 projected fiscal year 2024 balance of the OPEB Internal Service Fund is \$12,281,000
- 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

Investment Policy

- The investment objectives are based on a long-term investment horizon of ten years or longer
- Asset allocations are targeted at 33% Domestic Equity, 17% International Equity and 50% Fixed Income
- The Fund will be managed in a style that seeks to minimize principal fluctuations over the established time horizon
- We expect long-term returns between 5%-6%

Recommendation

It is recommended by the Finance Department that the Council, by resolution: 1) authorize the Chief Financial Officer to execute necessary documents for the adoption of the Investment Policy Statement for City of Santa Rosa Section 115 Trust Public Employees Medical and Hospital Care Act (PEMHCA) Other Post Employment Benefit (OPEB) Fund; 2) authorize an initial one time deposit of \$12,281,000 from the OPEB Fund to an Internal Revenue Service Section 115 Trust (Trust) and increase appropriations in the OPEB Fund for fiscal year 2023/24 accordingly for the purpose of pre-funding PEMHCA OPEB expenses; and approving adoption of Investment Policy Statement as set forth in Exhibit A.

Questions / Comments