POSTRETIREMENT HEALTH BENEFIT VESTING 8559

(No.111 June 2014)

With the transition of local government employees to state service under a new Local Government Fire Protection Reimbursement Agreement, the local government previously employing those individuals may elect to purchase postretirement health benefit vesting credit years on the employee's behalf[1], though it is under no obligation to do so. The negotiation and documentation of the purchase of postretirement health benefit vesting should be a component of the Transitional Memorandum of Understanding (TMOU) involving the local government entity and its employees prior to transition. CAL FIRE has no involvement in negotiating this process, or any other components of the TMOU.

Government Code §§22875 and 22893, and Public Resources Code (PRC) §4142(c) provide the criteria for health care benefits for retired state employees. Generally, employees who retire with 10 years of state service are eligible to receive 50% of the employer paid health care contribution and employees with 20 years of state service receive 100% of the employer health care contribution in retirement. These vesting periods may be shorter, based on when the employee began state service.

Notwithstanding the above, local government agencies may purchase postretirement health care vesting credits for their employees who transition into State service through a purchase agreement with the State. If the local government agency elects to purchase postretirement health care vesting credits, as written in Public Resources Code Section 4142 (c), "the payment of postretirement health benefit costs shall be a continuing obligation of a county, city, or district that made the election, regardless of whether or not the cooperative agreement continues or is renewed, and regardless of whether or not the employees continue in State service."

The total cost of vesting years purchased by the local government for each employee will vary dependent upon the employee's age, years to retirement, the initial date of any prior applicable state service and previous Cal PERS postretirement health benefit vesting credited as a non-state government employee prior to transition to state service.

Process:

1. When it is has been determined that the local agency will enter into an agreement for service with CAL FIRE, and based upon the local agency/employee TMOU (wherein the local agency has committed to purchasing postretirement health benefit credits on behalf of its employees),

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[1] Public Resources Code Section 4142(c).

the unit and local government entity shall jointly calculate the number of years to be credited and amount subject to payment by the local government.

2. The local government entity shall supply the following information for the employees affected to the Unit Chief or their designee:

   - Name
   - Date of birth and social security number
   - Previous state service-date and duration if applicable

3. Unit staff shall calculate the cost for postretirement health benefit vesting using the following formula:

VC = (VP – (RA-CA+PC)) x AVC

Where: **VC** = Vesting Cost; per employee. **<u>Note</u>: If VC is less than or equal to 0, there is no vesting cost associated with that employee.**

VP = Vesting Period; total years required for full vesting* under applicable employee MOU. (20 years as of the date of this publication)

RA = Retirement Age; minimum retirement age under which the blanketed employee will enter CalPERS, in years. The local government entity has the ability to negotiate a lesser number of years if consistent with local government retirement practices.

CA = Current Age; employee age at transition to state service.

PC = Previous Credit; any previous CalPERS service credit, in years.

AVC = Annual Vesting Cost; cost to purchase vesting credit per employee, per year.

***** The Local Government entity may, at its option, fund vesting at less than the full 20 year period.

4. <u>Note</u>: Annual Vesting Costs will fluctuate. The most recent rate (FY 2012-13) is $14,292 per year. Prior to initiating vesting cost calculations, the Unit Chief must contact the Local Government Program to verify the current annual rate.

5. Unit Chief shall present costs to local government for payment prior to the execution of the Fire Protection Reimbursement Agreement. (Exhibit 8559a)

6. A preliminary Promissory Note shall be drafted using the approved template (Exhibit 8559b). While a ten (10) year Promissory Note is allowable under statute, all Notes are subject to a case by case evaluation and approval by the Director or his/her designee. The amortization schedule for multi-year payments shall be approved by the Departmental Accounting Office (DAO).

7. Departmental signature authority for the Promissory Note shall lie with the Deputy Director for Fire Protection, or his or her designee.

8. Upon employee transition, the Labor and Human Resources Management Program (LHRM) shall forward a list of employees to Cal HR for verification of service credit. Upon receipt of verification, LHRM shall forward that information to the Local Government Program who shall, if necessary, revise and issue a final Promissory Note. The Local Government Program shall prepare the draft Letter of Certification to Cal PERS addressing impacted employees for review and execution by the Deputy Director of Management Services.

9. The Unit, in concert with DOA, shall be responsible for tracking and issuing invoices until the Promissory Note is paid in full. The methodology for tracking and issuing invoices shall be at the Unit's discretion.

(see Next Section)

(see Table of Contents)

(see Forms or Forms Samples)