



# Post Employment (Retiree) Health Benefit Education

**For Employees Hired Before 7/1/2005**

*The information contained in this presentation is intended to provide employees with accurate information on the Post Employment (Retiree) Health benefits set forth in the Post Employment (Retiree) Health 15 Year MOUs between the City and its employee organizations. It is not a legal document or a substitute for the Post Employment (Retiree) Health 15 Year MOUs. The language used in this presentation is not intended to create an express or implied contract between the City of San Diego and any employee or employee organization. Accordingly, if any information in this presentation conflicts with the Post Employment (Retiree) Health 15 Year MOUs, the City Charter or the Municipal Code, those documents must prevail.*

# INTRODUCTION

- Purpose
- Definitions of Defined Benefit and Defined Contribution Plans
- Election Period
- Option Summaries
- Option Comparison Chart



# PURPOSE

- Changes to the Retiree Health benefit go into effect on April 1, 2012 for employees hired before July 1, 2005 (Eligible Employees)
- The purpose of this presentation is to educate Eligible Employees about the three Post Employment (Retiree) Health benefit options
- Eligible Employees must select one of the three options (subject to eligibility)



# PURPOSE

- Employees who are considering retirement prior to April 1, 2012
  - Visit the HR website for a summary of the existing retiree health benefits
  - Visit the SDCERS webpage for retirement eligibility details
- These changes do not impact employees who retire before April 1, 2012



# DEFINED BENEFIT PLAN

- Both options A and B (which will be described later in this presentation) are a Defined Benefit
- A Defined Benefit is an employer-sponsored plan in which a specified monthly/annual benefit amount is guaranteed by the employer
- The employer assumes the market risk for investment gains and losses
- This is a lifetime benefit upon retirement



# DEFINED CONTRIBUTION PLAN

- Option C (which will be described later in this presentation) is a Defined Contribution
- A Defined Contribution allows an employer to contribute a fixed dollar amount to an employee's account
- The employee's account assumes the market risk on investment gains and losses



# DEFINED CONTRIBUTION PLAN

- The money available to the retiree depends upon:
  - How much money is contributed to the account
  - How the account is affected by investment gains/losses
  - How much and how fast the retiree withdraws funds from the account
- The defined contribution benefit is not guaranteed for life compared to a defined benefit. Benefits end when the retiree's account balance is exhausted.



# ELECTION OF OPTION

- The Election Period for Eligible Employees will begin January 3, 2012, and ends at 5PM on February 1, 2012
- Post Employment (Retiree) Health Option election forms will be distributed and returned via Department Payroll Specialists
- All Eligible Employees, including those in DROP, that will be on payroll as of April 1, 2012 must make an irrevocable election during this period
- Upon return, Eligible Employees on any type of leave status during this election period have a maximum of 14 calendar days to make an election



# ELECTION OF OPTION

- If an Eligible Employee who qualifies for Option A fails to make a timely election, they will be placed in Option A
- If an Eligible Employee does not qualify for Option A and fails to make a timely election, they will be placed in Option C
- Eligible Employees who enter DROP (or are already in DROP) do not continue to accrue Service Credit for purposes of calculating the benefit under Options A, B, or C



# OPTION A SUMMARY

## Limited Eligibility:

- On City payroll on April 1, 2012
- Remain employed by the City until retirement from City service
- 25 years of Service Credit **OR** Service Credit **and** age eligible to retire by April 1, 2012
  - Service Credit includes years of service purchased during City employment but does not include years of service with a reciprocal agency
- If qualified for Option A, an employee may select A, B, or C



# OPTION A SUMMARY

## Benefit:

- Defined Benefit of up to \$8,883.24 per year for retiree only health insurance premiums
- 2% annual escalator beginning July 1, 2013
- This benefit is prorated for employees with at least 10 but less than 20 years of Service Credit at retirement

## Required Contribution:

- Bi-weekly payroll deductions on a pre-tax basis until retirement
  - Safety Member pays \$47.54 per pay period
    - POA represented employees must make contributions at least equal to 26 pay periods to receive 2% escalator
  - General Member pays \$45.23 per pay period
    - Local 127 represented employees must make contributions at least equal to 26 pay periods to receive 2% escalator



# OPTION A SUMMARY

## Employee Contributions:

- Begin pay period ending April 27, 2012
- Non-refundable
- Contributions end when an employee retires
- If there are insufficient funds in an employee's paycheck, including during paid or unpaid leaves of absence, employee must make-up the required contributions
- If employee fails to make required contributions or separates from City service prior to retirement, employee will automatically be placed in Option C



# OPTION A SUMMARY

## Purchase of Premiums:

- Upon retirement, the retiree may enroll in any available City sponsored health insurance plan or other plan of retiree's choice, including Medicare, up to the annual allowance
- This a lifetime benefit for the retiree's health insurance premiums only
- This option does not have a death benefit



# OPTION B SUMMARY

## Eligibility:

- On City payroll on April 1, 2012
- Remain employed by the City until retirement from City service

## Benefit:

- Defined Benefit of \$5,500 per year for retiree only health insurance premiums
- No annual escalator
- This benefit is prorated for employees with at least 10 but less than 20 years of Service Credit at retirement



# OPTION B SUMMARY

## Required Contribution:

- Bi-weekly payroll deductions on a pre-tax basis until retirement
  - Safety Members pays \$24.00 per pay period
  - General Members pay \$22.61 per pay period



# OPTION B SUMMARY

## Employee Contributions:

- Begin pay period ending April 27, 2012
- Non-refundable
- Contributions end when an employee retires
- If there are insufficient funds in an employee's paycheck, including during paid or unpaid leaves of absence, employee must make-up the required contributions
- If employee fails to make required contributions or separates from City service prior to retirement, employee will automatically be placed in Option C



# OPTION B SUMMARY

## Purchase of Premiums:

- Upon retirement, the retiree may enroll in any available City sponsored health insurance plan or other plan of retiree's choice, including Medicare, up to the annual allowance
- This a lifetime benefit for the retiree's health insurance premiums only
- This option does not have a death benefit



# OPTION C SUMMARY

## Eligibility:

- On City payroll on April 1, 2012, or a
- Deferred Member with at least 10 years of Service Credit

## Benefit:

- Defined Contribution
- The amount deposited by the City is projected to yield an annual benefit of \$8,500 based on average life expectancy, expected retirement age and 6% annual assumed rate of return
- This benefit is prorated for employees with at least 10 but less than 20 years of Service Credit at retirement

## Contribution:

- No required employee contribution



# OPTION C SUMMARY

## Employee Trust Accounts:

- City deposits money into employee's Trust account with the San Diego City Employees Retiree Medical Trust\* for All Employee Organizations (and unrepresented employees)
  - Local 145 deposits will be sent to employee's account with the Southern California Firefighters Benefit Trust\*
- City deposits will occur within 60 days of employee's retirement eligibility and within 30 days when administratively feasible
- Trusts are governed by Federal Law and Rules established by Board of Trustees

\*This Trust is not administered by SDCERS or the City



# OPTION C SUMMARY

## Employee Trust Accounts:

- May be used to reimburse post retirement federal tax qualified health insurance benefits, including purchase of medical premiums for:
  - Employee
  - Employee Spouse
  - Federal Tax Dependent
- Death Benefit
  - Upon retiree's death, any remaining funds are available for spouse and federal tax dependents to request reimbursement for eligible medical expenses



# OPTION C SUMMARY

## City Deposits To Trust:

- Money deposited into account when employee is eligible to retire even if employee continues working for the City after eligibility
- Once funded, employee's account assumes market risk on investment gains and losses
- City's funding obligation ends after the money is deposited into employee's Trust account
- Charts reflecting the exact funds to be deposited into the employee's account are available on HR's website



# OPTION C EXAMPLE 1

September 2012

- Male General Member
- 20 years Service Credit
- 56 years old
- Deposit of \$97,415

## General Employees

<u>Age</u>	<u>20 YOS at Age</u>	
	<u>Female</u>	<u>Male</u>
55	\$101,504	\$98,987
56	\$100,068	\$97,415
57	\$98,567	\$95,777



# OPTION C EXAMPLE 2

July 2012

Female Safety Member

- 20 years Service Credit
- 50 years old
- Deposit of \$105,765

## Safety Employees

<u>Age</u>	<u>20 YOS at Age</u>	
	<u>Female</u>	<u>Male</u>
50	\$105,765	\$103,606
51	\$104,559	\$102,289



# OPTION C EXAMPLE 3

April 2012

- Male Safety Member
- January 2010 entered DROP at age 55 with 15 years of Service Credit
- Deposit of \$72,212

<u>Age</u>	<b>Years of Service - Males</b>					
	<u>10</u>	<u>11</u>	<u>12</u>	<u>13</u>	<u>14</u>	<u>15</u>
55	\$48,141	\$52,956	\$57,770	\$62,584	\$67,398	\$72,212
56	\$47,302	\$52,032	\$56,763	\$61,493	\$66,223	\$70,953



# OPTION C EXAMPLE 4

April 2012

- Female General Member
- November 2011 had 16 years Service Credit and turned 62 years old
- Initial deposit of \$71,969

<u>Age</u>	<b>Years of Service - Females</b>						
	<u>10</u>	<u>11</u>	<u>12</u>	<u>13</u>	<u>14</u>	<u>15</u>	<u>16</u>
62	\$44,981	\$49,479	\$53,977	\$58,475	\$62,973	\$67,471	\$71,969
63	\$44,012	\$48,413	\$52,814	\$57,215	\$61,616	\$66,018	\$70,419



# OPTION C EXAMPLE 4, Continued

If she works an additional 4 years (to have 20 years of Service Credit and the full benefit) she would receive the following:

- \$4,401 in Nov. 2012
- \$4,300 in Nov. 2013
- \$4,196 in Nov. 2014
- \$4,114 in Nov. 2015

Age at Initial Funding	Annual Funding for A			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
62	\$4,401	\$4,300	\$4,196	\$4,114
63	\$4,300	\$4,196	\$4,114	\$4,030
64	\$4,196	\$4,114	\$4,030	\$3,943



# SUMMARY OF POST EMPLOYMENT (RETIREE) HEALTH OPTIONS

## (For Employees Hired before July 1, 2005)

Option	Eligibility	Benefit	Employee Cost Via Payroll Deduction		Benefit Can Be Used By and For	Death Benefit	Employment Separation Prior to Retirement
			Safety	General			
A	Active employee with 25 Years of Service Credit <u>or</u> eligible to retire by 04/01/12	Defined Benefit: Up to \$8,883.24/Yr +2% Annual Escalator	\$47.54 Per Pay Period	\$45.23 Per Pay Period	Employee upon retirement for health insurance premiums for retiree only	None	Defaults to Option C (No deduction refunds)
B	Active employee as of 04/01/12	Defined Benefit: Up to \$5,500/Yr No Annual Escalator	\$24.00 Per Pay Period	\$22.61 Per Pay Period	Employee upon retirement for health insurance premiums for retiree only	None	Defaults to Option C (No deduction refunds)
C	Active or deferred retirement employee	Defined Contribution: \$8,500 Projected Annual Benefit	None	None	Employee & Qualified Federal Tax Dependents upon retirement for health insurance premiums, contributions, and/or any other qualified medical expenses	Account Transfers to Surviving Spouse / Tax Dependents	No Change



# QUESTIONS

- Email your questions to:  
[humanresources@sandiego.gov](mailto:humanresources@sandiego.gov)
- For more details on the Post Employment (Retiree) Health benefit, please visit the Human Resources Page on the City's Intranet at:  
<http://citynet.sandiego.gov/hr>

