

8a | Commission
Discussion

April 12, 2023

TO: Local Agency Formation Commission
of Orange County

FROM: Executive Officer

SUBJECT: Changes to Retiree Medical Program

BACKGROUND

On February 15, 2023, OC LAFCO staff was informed by the County of significant changes to the Retiree Medical Program which were approved by the Board of Supervisors on December 20, 2022. These changes will take effect on June 16, 2023, but OC LAFCO staff in employment prior to June 16, 2023 will have until a future date to be determined by the County, but likely in early August, to choose between a modified version of the Retiree Medical Grant and an alternative option comprised of a health reimbursement arrangement. These options will be described in greater detail below. OC LAFCO staff that retire prior to June 16, 2023, will be grandfathered under the current Retiree Medical Program and Grant.

Current Retiree Medical Grant

OC LAFCO Employees are eligible for the Retiree Medical Grant on the same terms as that provided to members of the Orange County Managers Association (“OCMA”). The Retiree Medical Grant is a monthly allowance that is only available to eligible employees that retire under the Orange County Employees Retirement System (OCERS) and can only be applied towards the cost of a County-sponsored health insurance or Medicare premiums. The monthly allowance is based on a specified dollar amount or each full year of credited service up to a maximum of twenty-five (25) years. This monthly allowance is adjusted if an employee retires before or after age 60, and then reduced by 50% at eligibility for cost-free Medicare. There are other elements of the benefit but the preceding are the main components.

The Retiree Medical Grant is not a vested benefit and is not guaranteed to current or future OC LAFCO employees.

New Retiree Medical Program

The Retiree Medical Grant will be frozen effective June 16, 2023. Accordingly, all new OC LAFCO employees hired on or after June 16, 2023, and existing employees with less than 1 year of credited service as of June

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1, 2023, will only be eligible for a County-sponsored health reimbursement arrangement (“HRA”) which consists of an initial contribution of \$60 per pay period for full-time employees and \$30 per pay period for part-time employees. This contribution will be increased by 2.5% annually for each first full pay period beginning July 2024. The funds in the HRA will only be available upon separation from employment and can only be used to reimburse substantiated eligible medical expenses.

Current OC LAFCO employees who do not retire prior to June 16, 2023, will be given a choice between the two options described below. The election period will start sometime after the 4th of July holiday and conclude 30 days thereafter. The effective date of the election will occur after the conclusion of the election period but a definite date has yet to be determined by the County. Once made, the election is irrevocable.

Option 1: Rollover Value of Retiree Medical Grant to HRA

Under this option, an employee will receive a one-time deposit into the HRA of \$855 for each full year of credited services as of June 15, 2023. There is no cap on the years of credited service so long as they were accrued prior to June 16, 2023. The funds in the HRA will only be available upon separation from employment, retirement or otherwise, and can only be used to reimburse substantiated eligible medical expenses of the employee and his or her dependents.

Option 2: Retain Frozen Grant

Under this option, an employee will be eligible for a modified version of the Retiree Medical Grant only upon retirement from OC LAFCO and through OCERS. No further years of credited service will accrue after June 15 2023. The monthly allowance can only be applied towards the cost of a County-sponsored health plan and be equal to a specified amount times the years of credited service through June 15, 2023 but no more than 25 years. No age adjustment will be made for those retiring before or after age 60, but the allowance will be reduced by 50% at Medicare eligibility without cost. Cost of living adjustments will no longer apply on or after June 16, 2023. The value of any years of credited service in excess of 25 years as of June 15, 2023, will be converted into a one-time contribution to the HRA equal to \$855 per year.

Both Option 1 and Option 2 include the employer contribution to the HRA beginning in July 2023 which is described in the first paragraph of this section. If an employee fails to choose an option by the election deadline, Option 2 will be the default.

OC LAFCO Specific Considerations

After OC LAFCO staff was informed of the changes to the County retiree medical program as described above, we engaged in a series of discussions with County staff to gain further clarity on the options available to OC LAFCO, if any.

In the course of these discussions the following was confirmed:

- OC LAFCO does not have to mirror the \$60/\$30 per pay period contribution to the HRA that the County will be making on behalf of its employees as of July 2023. OC LAFCO can determine its own contribution amount. However, staff recommends that OC LAFCO mirror the County's contribution amount for the time being.
- OC LAFCO does not have the option to continue to offer the unmodified Retiree Medical Grant to its employees. Pursuant to Section 6 of the Participation Agreement between OC LAFCO and the County, a condition to accessing the County Services (defined broadly to include payroll and human resources, participation in health plans, health and dependent care reimbursement programs, 457(b) deferred compensation plan, etc.) is that OC LAFCO employees participate in said Services, including the retiree medical program, on the same terms and conditions as County employees.
- It is highly unlikely that the County will permit OC LAFCO to maintain employees retiring prior to June 16, 2023 in the grandfathered Retiree Medical Grant while OC LAFCO provides health benefits, including retiree health benefits, to active employees through another platform. While it is legally possible, it would require an amendment to the Participation Agreement and, more importantly, consent by the County to administer the retiree health program for retired OC LAFCO employees only.
- However, the County has indicated that any funds contributed to the County-sponsored HRA, including the conversion of retiree medical grant into a lump sum contribution to the HRA, will remain available to OC LAFCO employees even if the OC LAFCO discontinues its participation in the County retiree medical program.

SUMMARY

Staff recommends the Commission mirror the \$60/\$30 per pay period contribution to the HRA that the County will be making on behalf of its employees as of July 2023. If the Commission approves this recommendation, staff will proceed with notifying the County in order to meet their deadline for this matter. Additionally, staff will work with the Commission's accountant to appropriately account for any associated costs within the final FY 2023-24 budget to be considered by the Commission in May.

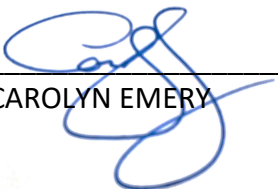
Finally, while it is definitive that the retiree medical benefit is not a vested benefit for employees, it should be noted that the elimination of the Retiree Medical Grant on a go forward basis and the high cost of the County's retiree health insurance plan may pose significant challenges to OC LAFCO's ability to both retain staff and attract new talent. As such, the Commission may want to consider exploring the availability of other platforms that can provide at least a comparable benefit to the existing County Retiree Medical Grant to both existing retirees and employees. Should the Commission direct staff to explore this option, staff will seek to present this information to the Commission ahead of the conclusion of the election period for OC LAFCO employees established by the County.

RECOMMENDED ACTIONS

Staff recommends that the Commission:

1. Confirm that OC LAFCO will mirror the HRA contribution amounts established by the County and provide appropriate notification to the County.
2. Discuss exploring the availability of other platforms that can provide health insurance benefits to OC LAFCO employees that are at least comparable to the County health benefits.
3. Provide additional direction to staff, if warranted.

Respectfully submitted,



CAROLYN EMERY