OPTIONS FOR REDUCING CALIFORNIA'S OTHER POST-EMPLOYMENT BENEFITS OBLIGATION

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September 30, 2008

EXECUTIVE SUMMARY **1**

INTRODUCTION 1
RECOMMENDED OPTIONS 1
CONCLUSION 2

OPTIONS FOR REDUCING OTHER POST-EMPLOYMENT BENEFITS OBLIGATIONS **3**

INTRODUCTION 3
RECOMMENDED OPTIONS 4
Promote Longer Careers *4*
Health Plan Design *5*
Reserve the Lifetime State Health Contribution for Career Employees *6*
Prefund OPEB during State Employees' Careers *7*
Conclusion *8*

APPENDIX A—CURRENT OTHER POST EMPLOYMENT BENEFITS STRUCTURE **11**

RETIREE HEALTH BENEFITS 11
RETIREE DENTAL BENEFITS 11
LEGAL FRAMEWORK 11
FINANCIAL REPORTING OF RETIREE BENEFIT COSTS 12
THE STATE'S OPEB LIABILITY 12

APPENDIX B—SUMMARY OF ASSUMPTIONS AND CONSIDERATIONS **13**

APPENDIX C—WORK AND RETIREMENT PATTERNS IN STATE GOVERNMENT **15**

APPENDIX D—CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM HEALTH PLANS **17**

APPENDIX E—VESTING FOR RETIREE HEALTH BENEFITS **18**

NOTES **19**

Executive Summary

Introduction

In 2004, the Governmental Accounting Standards Board issued Statement Nos. 43 and 45, requiring governmental entities to begin reporting unfunded liability for Other Post Employment Benefits (OPEB) on their financial statements. In response, Governor Schwarzenegger established the bipartisan Public Employee Post-Employment Benefits Commission (PEBC) to propose ways for addressing pension and retiree health care obligations. In January 2008, the PEBC released their final report, making 34 recommendations for addressing OPEB costs, administration, and funding. In May 2008, the Governor endorsed the PEBC's recommendations and indicated that he would work with the legislature to begin pre-funding newly-created liabilities beginning in fiscal year 2009-10. The Governor also directed the Department of Finance (Finance) and Department of Personnel Administration (DPA) to develop options to reduce the state's $48 billion OPEB obligation without raising taxes or increasing General Fund expenditures.

Finance and DPA have identified two options that present opportunities for reducing the state's current and future actuarial liabilities. In addition, two options have been identified that can significantly reduce future actuarial liabilities. Implementing the recommended options concurrently could potentially reduce the state's 2008-09 Actuarial Accrued Liability (AAL)[*] of $47.9 billion[†] to $41.9 billion (13 percent). Looking forward, the options could reduce the AAL from an estimated $128 billion to $69.4 billion (46 percent) over 30 years.

Recommended Options

- **Promote longer careers**—Develop incentives to encourage employees to work beyond the current average retirement age of 60 (Miscellaneous Tier 1). An average increase of three years of service for state employees could potentially reduce the current AAL by 9 percent and as much as 16 percent over the next 30 years.
- **Health Plan Design**—Provide lower-cost plan options for state employees and retirees. Deliver benefits in the most efficient and advanced manner and eliminate duplicative benefits. The lower-cost health plan alternatives modeled for this report could potentially reduce the current and future AAL by

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[*] The Actuarial Accrued Liability or AAL is the present value of future retiree benefits attributed to employee service earned in previous fiscal years.
[†] Updated trend and plan design changes for calendar year 2008 reduced the AAL for 2007-08 from $47.88 billion to $46.21 billion. The 2008-09 AAL of $47.9 billion, used in this report, reflects this reduction plus the one year growth.

as much as 10 percent. Health care cost savings may be a potential source for OPEB pre-funding monies.

- **Reserve the lifetime state health contribution for career employees**— Increase vesting for lifetime health benefits to 25 years for new hires. Change the vesting for California State University (CSU) employees to the same health vesting requirements as other state employees. Changing the vesting requirement for new employees would result in a reduction of less than one percent to the current AAL, but could potentially reduce the future AAL by as much as 38 percent over the next 30 years.

- **Prefund OPEB during state employees' careers**— Direct a percentage of active employee salary to an OPEB Trust Fund as part of the OPEB pre-funding strategy. While this option does not impact the AAL, it would further reduce the unfunded actuarial liability (UAL)[‡] going forward. For example, one percent of current payroll ($191.4 million) contribution would reduce the UAL by 16 percent over the next 30 years.

Conclusion

Taken cumulatively, relatively modest adjustments to current policies can go a long way toward reducing the state's OPEB liability. The following table illustrates the potential cumulative effect on the AAL by implementing the recommended options.

Fiscal Impact of Recommended Options on Actuarial Accrued Liability (in billions)

FY	Baseline	Working 3 Years Longer	Health Plan Design	25-Year Vesting	Additional 1% of Payroll	All Options Combined
2008-09	$47.9	$43.8	$44.1	$47.9	$47.9	$41.9
		-9%	-8%	<-1%	0%	-13%
2038-39	$128.2	$107.9	$117.8	$79.1	$128.2	$69.4
		-16%	-8%	-38%	0%	-46%

Should these options be accepted Finance and DPA can begin moving toward implementation as part of the 2009-10 budget process.

Finance and DPA will continue to look for additional ways to reduce the OPEB liability, including monitoring the progress of other state and local government as they look for ways to reduce their own liabilities.

[‡] The Unfunded Actuarial Liability (UAL) is the portion of accrued actuarial liability that exceeds assets available to pay benefits.

Options for Reducing Other Post-Employment Benefits Obligations

Introduction

In 2004, the Governmental Accounting Standards Board (GASB) issued Statement Nos. 43 and 45, requiring governmental entities to begin reporting unfunded liability for Other Post-Employment Benefits (OPEB) on their financial statements. Appendix A provides an OPEB overview.

In response to the new GASB requirements, Governor Schwarzenegger established the bipartisan Public Employee Post-Employment Benefits Commission (PEBC) to propose ways for addressing growing pension and retiree health care obligations. The PEBC's task was to identify the extent of unfunded liabilities, review and analyze options for addressing them, and provide a report to the Legislature and Governor by January 1, 2008:

- Identifying the full amount of post-employment health care and dental benefits for which California governments are liable and which remain unfunded.

- Evaluating and comparing various approaches for addressing governments' unfunded retirement health care and pension obligations.

- Proposing a plan to address governments' unfunded retirement health care and pension obligations.

In January 2008, the PEBC released their final report, making 34 recommendations for addressing OPEB costs, administration, and funding. The Commission's recommendations for reducing and managing the state's OPEB obligation included:

- Adopt pre-funding both as a policy and as a Budget priority.

- Employer contributions to retiree health care should reward longer careers.

In May 2008, the Governor endorsed the PEBC recommendations and indicated that he will work with the Legislature to begin pre-funding newly-created liabilities beginning in fiscal year 2009-10. The Governor also directed the Department of Finance (Finance) and the Department of Personnel Administration (DPA) to develop options to reduce the state's $48 billion retiree health benefits obligation without raising taxes or increasing General Fund expenditures.

While analyzing ways to reduce the current Accrued Actuarial Liability (AAL), it became apparent that reducing the future actuarial liabilities was also important.

In this regard, Finance and DPA have identified two options that present opportunities for reducing the state's current and future actuarial liabilities. In addition, two options have been identified that can significantly reduce future actuarial liabilities.

The recommended options are presented in terms of their impact on actuarial accrued liability, unfunded liability, and the annual required OPEB contribution. These are defined as follows:

- The AAL is the present value of future retiree benefits attributed to employee service earned in previous fiscal years.

- The Unfunded Actuarial Liability (UAL) is the portion of accrued actuarial liability that exceeds assets available to pay benefits.

- The Annual Required Contribution (ARC) represents the present value of current-year benefits plus an amortization of the unfunded liability.

Reductions in actuarial liability are generally achieved by taking actions that reduce the cost of future benefits. Depending on the nature of a benefit or program change, the impact may be immediate or may not be realized until it has been in place for a period of time.

The estimated projected savings shown in this report, assume benefits will be financed using the bifurcated partial pre-funding model defined in Appendix A.

The actuarial services of Gabriel, Roeder, Smith & Company were used to compute the benefits and estimated projected savings of each of the recommended options. Appendix B provides a summary of the assumptions and considerations.

The 2008-09 AAL of $47.9 billion, is used in this report. The $47.9 billion reflects the updated trend and plan design changes for calendar year 2008 that reduced the AAL for 2007-08 from $47.88 billion to $46.21 billion plus the one year growth.

Recommended Options

Promote Longer Careers

Both private-sector employers and the Federal Social Security Administration have taken measures to encourage employees to delay retirement. This not only helps reduce the OPEB liability but keeps experienced staff in the workforce longer. Appendix C provides a history of work and retirement patterns in state government.

An average increase of three years of service for state employees is estimated to potentially reduce the current AAL by 9 percent and as much as 16 percent over 30 years. Potential reduction in the UAL is estimated to be 10 percent over the

same 30-year period. The ARC is estimated to be reduced by 13 percent over 30 years.

Impact of Working Longer									
	Working One Year Longer			Working Two Years Longer			Working Three Years Longer		
	Percent Reduction			Percent Reduction			Percent Reduction		
FY	AAL	UAL	ARC	AAL	UAL	ARC	AAL	UAL	ARC
2008-09	3%	3%	4%	6%	6%	8%	9%	8%	11%
2038-39	6%	3%	5%	11%	7%	9%	16%	10%	13%

The state would need to develop an incentive program to encourage employees to work longer than the current average retirement age of 60 (Miscellaneous Tier 1). This would likely involve collaboration between California Public Employees' Retirement System, Finance, and DPA. Depending on how such a program may be structured, legislation, or collective bargaining may be necessary in order to implement.

Health Plan Design

It has become common for public employers to offer low/high premium plan options to employees and retirees. In addition, several new health plan models have come into the marketplace in recent years. These include consumer-directed health plans and tax-qualified, high-deductible/health savings account plans.

By providing a broader range of plan options to state employees and retirees, CalPERS could provide incentives for employees and retirees to make cost-effective health plan choices. CalPERS health plan designs do not include the most efficient and advanced delivery of benefits and also include benefits for which the state is paying through other means. Many of these could be addressed with minimal impact to enrollees. Appendix D provides an overview of the current health plan design.

For this report, we looked at several lower-premium Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) plan designs that offer 8 to 20 percent savings over the current CalPERS plan designs. While these plans provide for greater cost-sharing on the part of enrollees, most employees would see minimal impact and all would benefit from the lower premium cost.[§]

An alternative Medicare-coordinated HMO plan would result in minimally lower premium cost. However, alternatives to the existing PERSCare, PERS Choice, and PERS Select Medicare-coordinated plans would potentially result in approximately

[§] Typically, 20 percent of plan members will use no services whatsoever in any given year.

7 to10 percent lower premium cost.

Alternative prescription drug plan designs, when combined with the alternative basic and Medicare-coordinated plans, would potentially result in the following estimated premium reductions:

HMO Basic Plan	8–12 Percent
PPO Basic Plan	8–20 Percent
Medicare-coordinated HMO Plan	10 Percent
Medicare-coordinated PPO Plan	12–18 Percent

Appendix B provides additional detail on alternative health plan design features.

As illustrated in the table below, the reduction in actuarial liability from alternative plan designs is approximately 8 percent. This reduction would be proportionate to the percentage of employees and retirees that enroll in these plans. Employee and retiree adoption of lower premium health plans has an immediate impact on OPEB liability, which remains relatively steady over time. In addition, reducing health care costs for active and retirees by an estimated 8 to 10 percent could provide an additional funding source to pre-fund OPEB.

Impact of 10 Percent Lower-Cost Health Plan Design			
	Percent Reduction		
FY	AAL	UAL	ARC
2008-09	8%	8%	8%
2038-39	8%	8%	8%

It should also be noted that recent plan changes and lower than expected heath trends are expected to provide additional reductions in the current AAL. If health trends continue at lower than expected levels, this could continue to reduce actuarial liability in the future.

A change in the health care design would require CalPERS Board of Administration action. A joint proposal by Labor and DPA may be the most effective way to advance this type of major health program change.

Reserve the Lifetime State Health Contribution for Career Employees

Vesting for lifetime health benefits should be reserved for employees who make working for the state a career. The existing vesting policies allow employees to receive retiree health benefits after as few as five years of employment. Consequently, current state employees will likely receive pension and retiree health benefits for as long as or longer than the time they worked in state service. Appendix E provides an overview of current policies for vesting retiree health benefits.

Vesting for lifetime health benefits should be increased from a 10 to 20 year range to 25 years for new employees. California State University employees, whose current vesting is only five years, should be subject to the same health vesting requirements as other state employees.

Adjusting the vesting schedule would significantly reduce actuarial liability, due to the much smaller number of employees who would qualify for the lifetime state health contribution. The potential reduction in AAL from changing the vesting requirement for new employees is estimated to be as much as 38 percent over the next 30 years. Potential reduction in the UAL is estimated to be 17 percent over the same period. The ARC is estimated to be reduced by 22 percent.

The following table illustrates the estimated potential impact of 25-year health vesting on actuarial liability.

Impact of 25-Year Health Vesting			
	Percent Reduction		
FY	**AAL**	**UAL**	**ARC**
2008-09	0%	0%	0%
2038-39	38%	17%	22%

Implementation would require legislation to amend the Public Employees' Medical and Hospital Care Act. If legislation was approved the change could be implemented as early as July 1, 2009.

Prefund OPEB during State Employees' Careers

As stated previously, the Governor has indicated that he will work with the Legislature to begin pre-funding newly-created liabilities beginning in 2009-10. While pre-funding would not reduce the AAL, it does significantly impact the UAL and ARC. For example, a one percent of current payroll ($191.4 million) contribution, along with the bifurcated partial pre-funding model described in Appendix A, could result in a reduction in the UAL by an estimated 16 percent over 30 years. The ARC is estimated to be reduced by 10 percent over the same period.

Impact of a One Percent of Payroll Contribution			
	Percent Reduction		
FY	**AAL**	**UAL**	**ARC**
2008-09	0%	0%	0%
2038-39	0%	16%	10%

This could be implemented in a form of an OPEB Trust Fund as an employer or employee contribution; or a hybrid of both. Legislation and/or collective bargaining may be necessary, depending on how the contribution is structured, but some form of pre-funding will need to be included in the 2009-10 Budget as indicated by the Governor.

Conclusion

Implementing the recommended options concurrently could potentially reduce the state's fiscal year 2008-09 AAL of $47.9 billion to $41.9 billion (13 percent). Looking forward, the options could reduce the AAL from an estimated $128 billion to $69.4 billion (46 percent) over 30 years and could reduce the UAL by $27.7 billion (36 percent) over the same period. The following tables summarize the benefits of each of the recommended options as well as the collective benefit to the AAL, UAL and ARC.

Fiscal Impact of Recommended Options on Actuarial Accrued Liability (in billions)

FY	Baseline	Working 3 Years Longer	Health Plan Design	25-Year Vesting	Additional 1% of Payroll	All Options Combined
2008-09	$47.9	$43.8	$44.1	$47.9	$47.9	$41.9
		-9%	-8%	<-1%	0%	-13%
2038-39	$128.2	$107.9	$117.8	$79.1	$128.2	$69.4
		-16%	-8%	-38%	0%	-46%

Fiscal Impact of Recommended Options on Unfunded Actuarial Liability (in billions)

FY	Baseline	Working 3 Years Longer	Health Plan Design	25-Year Vesting	Additional 1% of Payroll	All Options Combined
2008-09	$47.3	$43.3	$43.5	$47.3	$47.3	$41.4
		-8%	-8%	<-1%	0%	-13%
2038-39	$76.7	$69.1	$70.4	$63.3	$64.4	$49.0
		-10%	-8%	-17%	-16%	-36%

Fiscal Impact of Recommended Options on Annual Required Contribution (in billions)

FY	Baseline	Working 3 Years Longer	Health Plan Design	25-Year Vesting	Additional 1% of Payroll	All Options Combined
2008-09	$2.79	$2.48	$2.56	$2.76	$2.79	$2.35
		-11%	-8%	-1%	0%	-16%
2038-39	$6.86	$5.97	$6.30	$5.34	$6.15	$3.89
		-13%	-8%	-22%	-10%	-43%

Should these options be accepted, Finance and DPA can begin moving toward implementation as part of the 2009-10 budget process.

Finance and DPA will continue to look for additional ways to reduce the OPEB liability, including monitoring the progress of other state and local governments as they look for ways to reduce their own OPEB liabilities.

APPENDIX

Appendix A—Current Other Post Employment Benefits Structure

Other Post-Employment Benefits (OPEB) are benefits, other than pensions, promised to retirees from public employment. In addition to pensions, vested state government retirees receive lifetime health (medical & prescription drug) and dental benefits. The state is obligated to provide health and dental benefits to retirees meeting eligibility qualifications set forth in the Public Employees' Medical and Hospital Care Act (PEMHCA)[1] and the State Employees' Dental Care Act.[2] Unlike pensions, which are pre-funded over an employee's career, health and dental benefits have been funded on a year-by-year basis through an appropriation from the state's General Fund.

Retiree Health Benefits

The state's share of retiree health benefit costs is determined by a statutory premium-sharing formula, known as the "100/90 formula."[3] The current formula has been in place since 1978. The state's share of retiree health benefit costs is an amount equal to 100 percent of the weighted average health plan premium for the retiree only and 90 percent of the weighted average health plan premium for the retiree's dependents. The formula averages the premiums of the four largest basic health plans, weighting them by each plan's enrollment from the prior year.

Retiree Dental Benefits

The state's share of retiree dental benefit costs is determined by a statutory premium-sharing formula, providing that retirees' share of the dental premium will not exceed the share of premium paid by active employees, for the state-sponsored indemnity dental plan.[4]

The State Employees' Dental Care Act (DCA) grants the Department of Personnel Administration authority to collectively-bargain and administer dental benefits for state employees and retirees. The Trustees of the California State University and Regents of the University of California each have independent authority to collectively-bargain and administer dental benefits on behalf of employees under their respective jurisdictions.

Legal Framework

State employee and retiree benefits are primarily set forth in statute. Because pension and health benefits, largely, are set forth in statute, once vested, it becomes very difficult to modify these benefits for current employees or retirees. Legal analysis around the PEMHCA indicates that state employees and retirees likely have a vested right to receive health benefits and to an employer contribution derived from the statutory (100/90) premium-sharing formula, but not to a specific set of plan benefits.

It is within California Public Employees' Retirement System's (CalPERS) discretion to change health plans and plan benefits.**

Financial Reporting of Retiree Benefit Costs

Under the PEMHCA, active employees and early retirees are charged the same premium for enrolling in a basic health plan. However, the actual cost of covering retirees is much higher than coverage of active employees. Using a blended premium for active employees and early retirees imbeds a substantial portion of retiree health costs in the health benefit expenditures attributed to active employees.

The Governmental Accounting Standards Board (GASB) designates the portion of retiree health benefit costs represented by the 100/90 formula as the state's *explicit subsidy* of retiree health benefits. For programs, like the state's, that use a blended premium, GASB also requires reporting of the retiree health cost imbedded in active employee expenditures as an *implicit subsidy* of retiree health benefits. Until the recent GASB reporting changes took effect in 2007, only the explicit subsidy was recognized as a health benefit expense attributed to state retirees.

The State's OPEB Liability

As of July 1, 2007, the state's 2008 unfunded OPEB liability was estimated to be $47.88 billion.[5] This estimate was based on a "closed group," as required by the GASB. A closed group valuation is based on the current employee and retiree population, without accounting for the impact of future hires.

In December 2007, Gabriel, Roeder, Smith & Company performed an "open group" valuation, reflecting the impact of future hires. This open group valuation also incorporated 2008 CalPERS health plan changes; 2008 health plan premiums; and updated trend assumptions based on additional claims experience. The updated interim valuation reduced the actuarial liability as of July 1, 2007, from $47.88 billion to $46.21 billion.

The open group valuation proposed a bifurcated funding model for partially pre-funding the state's OPEB liability. Under bifurcated partial pre-funding, the future explicit subsidy would be fully funded and both the existing (legacy) accrued actuarial liability and the future implicit subsidy, would be funded on a pay-as-you-go basis.[6]

** In 2000, the California State Employees' Association, Retired Division, unsuccessfully challenged the CalPERS Board's authority to increase prescription drug copayments on the basis that there was a vested right to the existing copayment levels, because increasing copayments reduced premium, reducing what the retirees would receive under the 100/90 formula.

Appendix B—Summary of Assumptions and Considerations

- The open group projections are based on the actuarial valuation as of July 1, 2007, with plan design changes and updated premiums for calendar year 2008. The projections reflect the bifurcated partial pre-funding model as described in the Gabriel, Roeder, Smith & Co's December 17, 2007, report to the Department of Finance. Under the bifurcated funding model, future explicit subsidies earned after July 1, 2007, are fully funded, while both existing (legacy) actuarial accrued liabilities as of July 1, 2007, and implicit subsidies earned after July 1, 2007, are funded on a pay-as-you-go basis.

- The three-year retirement delay scenario reduces the pre-Medicare costs of the Other Post-Employment Benefits (OPEB) programs, but could potentially increase other costs such as compensation or pension costs.

- The alternative basic health plan designs include higher member cost-sharing components (co-pays, coinsurance, deductibles, and stop-loss thresholds). These plan designs also eliminate duplicative vision benefits and place a $300 annual limit on preventive care benefits.

- The alternative Medicare-coordinated Health Maintenance Organization plan design includes higher member copayments and eliminates duplicative vision benefits. The alternative Medicare-coordinated Preferred Provider Organization plan design includes member payment of a portion of the annual Medicare deductibles and eliminates duplicative vision benefits.

- The alternative prescription drug plan designs include higher member copayments and eliminate the medical necessity/partial copayment waiver.

- The 25-year vesting requirement could affect the retirement pattern for members hired after 2008. Projections are based on the same retirement rates used for the baseline plan for all plan members.

- One percent of payroll contributions are in addition to the Annual Required Contribution. The one percent of pay figure of $191.4 million for the fiscal year ending June 30, 2009, used in the projections, was estimated based on monthly gross wages in August of 2008 as disclosed in the State Controller's Office website.

- The relative value of the recommended options may vary if no pre-funding is done, if pre-funding commences after the start of the projection period, or if a different funding model is used.

- The projections are particularly sensitive to changes in healthcare trend, and the projection results could be materially different if trend rates deviate from the assumptions.

- The explicit subsidy provided by the state is based on the "100/90" formula that depends on pre-Medicare plan enrollment and blended premium of both active and retired members.

- It is recommended that a "true-up" projection be performed of the concurrent scenario using the valuation as of July 1, 2008, to evaluate the impact of demographic and claims experience and changes in assumptions and methods during the year.

Appendix C—Work and Retirement Patterns in State Government

Career duration and age at retirement have remained relatively stable over the past decade and probably longer.[††] While some may perceive state employees as retiring a great deal earlier in recent years, this is not borne out by the data.

	New Retirees FY 1996-1997			New Retirees FY 2006-2007		
Category	Entry Age	Years of Service	Age at Retirement	Entry Age	Years of Service	Age at Retirement
State Misc. (Tier I)	33.1	23.3	61	34.2	22.9	60
State Industrial (Tier I)	36.8	19.0	61	36.9	20.6	60
State Safety	40.8	22.2	57	41.0	22.6	59
State Peace Officer / Fire Fighter[‡‡]	31.5	22.1	58	30.2	21.7	56
California Highway Patrol	26.7	28.9	55	26.3	27.3	54

Data Source: CalPERS Annual Summary Retired Statistics 1996-97 and 2006-07 (with corrections).

Over a similar period, private-sector employees reversed a decades-long trend toward earlier retirement. The average age at retirement for private-sector employees has increased from 60 in 1996 to 62 in 2006. This change is believed due, primarily, to the erosion of defined benefit pensions, increasing scarcity of employer-sponsored retiree health benefits, and lowering confidence in the long-term viability of Social Security.[7]

Although there is not a trend toward early retirement, longstanding retirement patterns show state employees retiring substantially earlier than the Medicare eligibility age of 65. These "early retirees" must remain in the basic health plans until they age into Medicare, driving up active employee premiums.

Longevity continues to increase steadily. The Centers for Disease Control (CDC) recently indicated that life expectancy at birth reached an all-time high of 78.1 years in 2006, a 0.3 percent increase over the previous year.[8]

Because of increased longevity, most state employees retiring today will receive pension and retiree health benefits for as long as or longer than the number of years they worked for the state.

[††] Changes in data collection make it difficult to display an accurate comparison going back 20 years or more. Prior to 1985, State Miscellaneous members were broken out by those retiring with and without Social Security; State Industrial members were included in the State Miscellaneous category; and Peace Officer/Firefighter (POFF) members were included in the State Safety category.
[‡‡] In CalPERS' retirement parlance, "peace officer" identifies employees who serve as State Correctional Officers.

The following table combines California Public Employees' Retirement System retirement and CDC longevity statistics to illustrate this point.

Average Years of Service and Expected Years in Retirement				
Category	**Age at Retirement**	**Years of Service**	**Expected Age at Death**	**Years in Retirement**
State Misc. (Tier I)	60	22.9	82.80	22.8
State Industrial (Tier I)	60	20.6	82.80	22.8
State Safety	56	22.6	82.08	26.1
State Peace Officer / Fire Fighter	59	21.7	82.62	23.6
California Highway Patrol	54	27.3	81.76	27.8

Data Sources: CalPERS Annual Summary Retired Statistics 2006-07. Centers for Disease Control, Deaths: Preliminary Data for 2006

13.5 percent of the current CalPERS retired population is comprised of survivors and beneficiaries. In these cases, health and pension benefits may continue for many years beyond the life of the retired employee.[9]

Appendix D—California Public Employees' Retirement System Health Plans

The California Public Employees' Retirement System (CalPERS) health plans have undergone only incremental change over the past 20 years. As a result, the benefits provided to state employees and retirees have become increasingly rich and costly in comparison to the marketplace. CalPERS health plan designs do not include the most efficient and advanced delivery of benefits and also include benefits for which the state is paying through other means.

CalPERS offers preferred provider organization (PPO) health plans and health maintenance organization (HMO) plans. Basic health plans provide primary coverage for active state employees and early retirees who are not yet eligible for Medicare benefits. Retirees eligible for Medicare benefits are provided a Medicare-coordinated health plan:

- PPO basic plans are descendants of the traditional fee-for-service insurance plans, where enrollees are responsible for an annual deductible and a percentage of the cost of each service.

- HMO basic plans provide comprehensive health coverage, with no annual deductible and minimal out-of-pocket cost to members. Typically, a small copayment is required for certain services, with many services requiring no member cost share.

- Medicare-coordinated plans cover the member share cost of 20 percent for Medicare-eligible retirees.

- Prescription drug plans are reasonably uniform across the CalPERS program, except for the Kaiser HMO. The Kaiser HMO prescription benefit structure differs significantly because of the much tighter formulary controls inherent in the Kaiser staff model.

Appendix E—Vesting for Retiree Health Benefits

The number of years required to vest for the state-paid retiree health contribution has been modified several times in recent years:

- Until 1985, state employees were entitled to the state-paid retiree health contribution after completing five years of state service.[10]

- Effective January 1, 1985, new state employees were required to complete 10 years of service to qualify for the full state-paid retiree health contribution. Employees retiring with less than 10 years of service received a prorated amount, based on their years of service. Employees of the California State University (CSU) and employees who retired for disability were exempted from this change.[11]

- Effective January 1, 1989, new rank-and-file state employees were required to complete 20 years of service to qualify for the full state-paid retiree health contribution. Employees retiring with at least 10 years of service were entitled to receive 50 percent of the state-paid retiree health contribution, with an additional 5 percent for each year of service above 10 years. Employees retiring with less than 10 years of service were not entitled to a state-paid retiree health contribution. Employees of the CSU and Legislature were exempted from this change, as were employees who retired for disability.[12]

- Effective January 1, 1990, the January 1, 1989 vesting provisions were extended to new state employees excluded from collective bargaining. However, excluded employees of the CSU, Legislature, and Judicial Branch were exempted from this change.[13]

Notes

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[1] Commencing with Government Code Section 22750.
[2] Commencing with Government Code Section 22950.
[3] Government Code Section 22871.
[4] Government Code Section 22957.
[5] "State of California OPEB Valuation as of July 1, 2007," Report to Hon. John Chiang, California State Controller, Gabriel, Roeder, Smith & Company, May 7, 2007.
[6] "State of California Retiree Healthcare Benefits—GASB 45 Open Group Projections," Report to Michael C. Genest, Director, Department of Finance, Gabriel, Roeder, Smith & Company, December 17, 2007.
[7] Issue Brief, "The Recent Trend Towards Later Retirement," by Leora Friedberg, Center for Retirement Research, Boston College, March 2007.
http://crr.bc.edu/briefs/the_recent_trend_towards_later_retirement.html
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