

**CITY OF TEMPE**  
**POST EMPLOYMENT HEALTHCARE POLICY**  
**(REVISED DECEMBER 4, 2014)**

**A. INTRODUCTION**

The City of Tempe adopted changes to their post-employment (retiree) health plan effective July 1, 2009. Amendments to the type and structure of benefits for pre-Medicare current and future (“Group 1 and Group 2”) retirees were adopted in August 2011 for an October 1, 2011 effective date. Further Amendments and clarifications with reference to eligibility and level of benefits are included in this document. Varying post-employment healthcare benefits are provided to the following:

1. Pre-Medicare current retirees (as of October 1, 2011) and eligible dependents
2. Medicare eligible current retirees (as of October 1, 2011) and eligible dependents
3. All benefits eligible regular employees with at least 10 years of service as of June 30, 2009 will continue to be eligible to receive post-employment healthcare benefits as detailed in this policy upon retirement, so long as the employee begins receiving a retirement benefit from the applicable retirement plan (Arizona State Retirement System, ASRS, or Public Safety Personnel Retirement System, PSPRS) immediately upon terminating employment with the City.
4. Surviving spouses or other eligible dependents of retirees may be able to maintain healthcare benefits as specified in this document upon the death of the retiree as long as they continue to meet eligibility criteria for dependent status.
5. All benefits eligible regular employees with less than 10 years of continuous service as of June 30, 2009 but who subsequently complete 10 years of service and elected officials with less than 8 years of service as of June 30, 2009 but who subsequently complete 2 full consecutive terms in office, as defined by the Tempe City Charter or by operation of law.

Except as stated in Section A.5., for all purposes under this policy, references to years of service means continuous, full-time equivalent service, based on 40 hours per week of work as full-time equivalent. If an employee terminates employment for any reason prior to attaining 10 years of service and then subsequently returns to employment for the City, such employee’s years of service will be determined in accordance with the City of Tempe Personnel Rules effective at the time of the employee’s rehire. Benefits eligible regular employee refers to an employee whose employment is not temporary, seasonal or contractual.

## **B. PROGRAM ELIGIBILITY**

For the purposes of determining the type and level of benefit, all benefits eligible, regular City employees, elected officials and retirees fall under one of three groups as of July 1, 2009.

1. **Group 1** consists of retirees and public safety employees participating in the DROP program as of June 30, 2009. A retiree is a former employee who is receiving retirement benefits from the applicable retirement plan (Arizona State Retirement System or Public Safety Personnel Retirement System), or former elected official receiving City retiree health benefits as of June 30, 2009. DROP participants are eligible for post-employment healthcare benefits only after they terminate employment with the City.
2. **Group 2** consists of all full-time or part-time regular employees eligible for health benefits from the City who have at least 10 years of service with the City as of June 30, 2009, and elected officials who have served at least two full consecutive terms in office as of June 30, 2009.
3. **Group 3** consists of all full-time or part-time regular employees eligible for health benefits from the City who have less than 10 years of service with the City as of June 30, 2009, elected officials with less than two full terms in office as of June 30, 2009 and those who are hired or elected after such date.

## **C. GROUP 1 PROGRAM BENEFITS**

For Group 1 retirees, healthcare benefits are based on the retiree's Medicare eligibility status.

1. Pre-Medicare Benefit - as of October 1, 2011, the City will no longer offer any self-funded or fully insured pre-Medicare retiree health plans. For pre-Medicare retirees, a Health Reimbursement Account (HRA) will be established effective October 1, 2011 and the City will fund those HRA accounts monthly with contributions that may then be used by the retiree for reimbursement of qualified medical expenses including the cost of health insurance premiums. There will be two levels of contribution: retiree only or retiree with dependent(s). Contributions may also vary based on whether the retiree resides in Arizona or out of state. Pre-Medicare retirees with Medicare eligible dependent(s) will be required to select an ASRS Retiree Group Insurance Medicare supplemental plan for the dependent(s) coverage. The City of Tempe HRA Plan Contribution Table details contribution rates for these cases. DROP participants eligible for Group 1 benefits will be considered eligible for HRA contributions on the first day of the first month following the month of their termination from active employment. Monthly contribution rates are detailed on the City of Tempe HRA Plan Contribution Table which will be updated prior to the beginning of each calendar (plan) year.
2. Medicare Eligible Benefit
  - a. Effective January 1, 2010, retirees who are eligible for Medicare may choose to enroll in a City procured and sponsored post-Medicare health plan, such as a fully

insured Medicare supplemental plan or Medicare Advantage plan, and the City will subsidize 100% of the premium cost for retiree coverage and 70% of the premium for dependent coverage under the Medicare supplemental plan.

- b. Retirees whose dependent(s) are not Medicare eligible will be required to elect an ASRS Retiree Group Insurance Medicare supplemental plan if they wish to maintain dependent(s) coverage under the ASRS pre-Medicare Retiree Group Insurance plan. In these cases, the retiree will retain their pre-Medicare HRA. The City of Tempe HRA Plan Contribution Table details HRA contribution rates for these cases.

#### **D. GROUP 2 PROGRAM BENEFITS**

For Group 2 retirees, healthcare benefits are based on the retiree's Medicare eligibility status.

1. Pre-Medicare Benefit - as of October 1, 2011, the City will no longer offer any self-funded or fully insured pre-Medicare retiree health plans. For pre-Medicare retirees, a Health Reimbursement Account (HRA) will be established effective October 1, 2011 and the City will fund those HRA accounts monthly with contributions that may then be used by the retiree for reimbursement of qualified medical expenses including the cost of health insurance premiums. There will be two levels of contribution: retiree only or retiree with dependent(s). Contributions may also vary based on whether the retiree resides in Arizona or out of state, only if that retiree terminated employment with the City, or entered the DROP program (public safety employees only) no later than September 30, 2011. Pre-Medicare retirees with Medicare eligible dependent(s) will be required to select an ASRS Retiree Group Insurance Medicare supplemental plan for the dependent(s) coverage. The City of Tempe HRA Plan Contribution Table details HRA contribution rates for these cases. Current employees eligible for Group 2 benefits will be considered eligible for HRA contributions on the first day of the first month following the month of their termination from active employment. Monthly contribution rates are detailed on the City of Tempe HRA Plan Contribution Table which will be updated prior to the beginning of each calendar (plan) year.
2. Medicare Eligible Benefit
  - a. Effective January 1, 2010, retirees who are eligible for Medicare may choose to enroll in a City procured and sponsored post-Medicare health plan, such as a fully insured Medicare supplemental plan or Medicare Advantage plan, and the City will subsidize up to a maximum of \$350 per month of the total retiree health care premium amount (or the actual premium amount, if less) for the Medicare supplemental plan coverage regardless of whether coverage is for just the retiree or for the retiree and spouse or eligible dependent.
  - b. Retirees whose dependent(s) are not Medicare eligible will be required to elect an ASRS Retiree Group Insurance Medicare supplemental plan if they wish to maintain dependent(s) coverage under the ASRS pre-Medicare Retiree Group Insurance plan. In these cases, the retiree will retain their pre-Medicare HRA.

The City of Tempe HRA Plan Contribution Table details HRA contribution rates for these cases.

#### **E. GROUP 3 PROGRAM BENEFITS**

For Group 3 employees, the City establishes an HRA in the month following the employee's completion of 10 consecutive years of service, or 2 full consecutive terms of office for elected officials. The City will contribute an initial lump sum of \$14,000 and for each month of employment thereafter, the City shall contribute \$175 into the employee's HRA account. The City shall make the last monthly contribution for an employee for the month in which the employee terminates employment. Following termination of employment for any reason including retirement, the employee receives no additional HRA contributions and is entitled to no additional subsidy of any health care premiums or enrollment in any City health care plans.

Employees covered under this group are not eligible to purchase any City sponsored active or retiree health insurance coverage post-employment regardless of whether they are receiving retirement benefits from ASRS/PSPRS. Group 3 employees would be eligible for continuation of coverage as provided under federal COBRA laws effective at the time of their termination of employment.

#### **F. HRA CONTRIBUTIONS**

1. Initial contribution rates for Group 1 and Group 2 retirees established for the period October 1, 2011 until December 31, 2012 will be based on premiums for the Arizona State Retirement System (ASRS) Retiree Group Insurance plan with any increases January 1, 2012 absorbed by the City.
2. For a) all Group 1 retirees, b) Group 2 eligible public safety employees who entered DROP by September 30, 2011 and c) Group 2 retirees who retired by September 30, 2011, if the retiree resides outside the state of Arizona or moves out of the state at any time during their retirement, that retiree will be eligible for the out of state HRA contribution level only if they provide proof of coverage under the ASRS out of state Retiree Group Insurance plan.
3. Annual Increases to the City's monthly HRA contribution rates for Group 1 and Group 2 retirees, beginning January 1, 2013, will be based on the annual percentage increase to the "net premium" (total premium less the ASRS *premium benefit* amount) of the ASRS Retiree Group Insurance plan. The percentage increase to the HRA contribution will agree to the percentage increase to the retiree out-of-pocket cost under the ASRS plan.
4. Retiree or employee contributions are not permitted to be made to an HRA at any time.

#### **G. HRA ADMINISTRATION**

1. All City sponsored HRA's are established in accordance with IRS rules set forth in Notice 2002-45 and subsequent IRS guidance on HRAs.

2. The City shall utilize a third-party provider or providers to furnish administrative, investment and recordkeeping services for the HRA.
3. On-going expenses for HRA administration shall be charged against individual account balances in an equitable manner.
4. Each retiree or Group 3 employee shall direct the investment of their HRA account balance among investment options approved by the City.
5. Investment expenses shall be deducted from each retiree's and employee's HRA account balance.
6. Once established for the retiree or employee, the HRA account becomes the property of the retiree or employee.
7. Group 3 employees may request distribution from their HRA through the HRA administrator at any time following termination of employment, regardless of age or retirement status. Group 1 & 2 retirees may request distributions from their HRA through the HRA administrator at any time after the account is established.
8. Upon the retiree's or former employee's death, his/her surviving dependent(s) may continue to be reimbursed for medical care expenses from the retiree's or employee's HRA account until funds are exhausted. For this purpose, dependents include only tax-qualified dependents, as defined in Internal Revenue Code section 152 for purposes of tax exclusion under Internal Revenue Code section 105(b). As noted in Section I.8 of this document, surviving spouses may also be eligible for an ongoing HRA contribution following the retiree's death.
9. If there is a remaining HRA account balance after the death of the retiree or former employee and there is no surviving dependent(s), the account balance shall be forfeited.

#### **H. FUNDING VEHICLE**

City contributions to HRA accounts will be directly made to and held in an irrevocable trust (or equivalent arrangement) in which such plan assets are dedicated to providing benefits to employees, retirees and eligible dependents in accordance with the HRA and are legally protected from creditors of the employer and plan administrator, in a manner that satisfies requirements for OPEB (other postemployment benefits) contributions under Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45. The specific funding vehicle will be determined by the City.

#### **I. PROGRAM GUIDELINES**

1. Benefits provided under this policy are not guaranteed. The City reserves the right to change or to discontinue benefits at any time.
2. All HRA contribution amounts are based on the status of the retiree and not the status of the dependent.

3. HRA contribution calculations are based on the premiums established for the ASRS/PSPRS retiree health plans.
4. As of October 1, 2011, only Medicare eligible retirees without dependents and Medicare eligible retirees whose dependent(s) is also Medicare eligible can be covered by the City of Tempe sponsored post-Medicare supplemental health plans.
5. Medicare eligible retirees covered by the City of Tempe sponsored post-Medicare supplemental health plans must pay any premium contribution to the City by the due date each month. Failure to pay premium contributions within 30 days of the due date will result in suspension of coverage. If all past due payments are made within 90 days of the due date, coverage will be reinstated. Failure to pay all past due payments within 90 days will result in cancellation of coverage and will result in loss of future benefit eligibility.
6. Retirees who have a spouse or domestic partner still an active employee with the City of Tempe may elect to be covered as a dependent under the active employee plan OR elect to participate in the HRA contribution plan, but may not participate in both.
7. For married couples or domestic partners who are both employed by the City, each individual will be eligible to receive the respective benefit for which they qualify. If one employee is a Group 1 or 2 eligible recipient and the spouse or domestic partner is a Group 3 eligible recipient, the Group 1 or 2 employee is permitted to claim that spouse or domestic partner as a dependent for their pre-Medicare HRA contribution or Medicare supplemental plan subsidy once that employee separates from City employment.
8. Surviving spouses or eligible dependents shall be eligible for a continuing benefit if they meet the definition of an eligible dependent at the time of the retiree's death. Surviving spouses who remarry will no longer be eligible for benefits starting at the beginning of the month following their marriage. Pre-Medicare HRA contribution amounts for surviving spouses or level of subsidy for Medicare supplemental plans will be detailed in the City's HRA Plan Contribution Table
9. Retirees eligible for the higher out of state HRA contribution must enroll in the ASRS out of state plan and provide proof of that enrollment annually no later than December 15 each plan year, to continue receiving that contribution level.
10. Retirees requesting to move from the retiree only contribution level to the retiree and dependent contribution level may only do so with a qualifying event or during November of each year prior to the beginning of the plan year in January when the status change would be effective. Proof must be provided to Human Resources of the dependent(s) eligibility at the time of the request.
11. Human Resources will conduct audits of dependent eligibility and/or out of state status on an annual or more frequent basis. Any retiree found to be violating the dependent or out of state eligibility requirements will have all future benefits eligibility terminated.

12. For purposes of revisions of December 4, 2014, program eligibility and attendant benefits shall be applied retroactively.