



CITY OF STOCKTON NEWS RELEASE

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BANKRUPTCY JUDGE ISSUES RULING ON RETIREE MEDICAL PREMIUMS

(Stockton, CA) - Chief Bankruptcy Judge Christopher M. Klein, who is overseeing the City's chapter 9 case, released his decision this afternoon related to an attempt by an organization representing City of Stockton retirees who receive medical benefits to stop the City's reduction and then elimination of fully-paid medical premiums. The Judge ruled that he lacks jurisdiction to dictate to the City how it should not spend its revenues while in bankruptcy. The Association of Retired Employees of the City of Stockton (ARECOS) had sought a temporary restraining order and preliminary injunction, asking the Court to order the City to continue to pay the full premiums or, in the alternative, to allow the retirees' association to be permitted to bring the suit against the City in another court. Judge Klein refused to grant any of the sought after relief, and dismissed the lawsuit. The decision confirms the City's position that while the bankruptcy court has exclusive jurisdiction over the restructuring of the City's debt, it cannot direct how the City uses its property and resources, including spending its money, while the bankruptcy case is pending.

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The City prepared and submitted a Pendency Plan that acts as the financial operational plan and the budget during the chapter 9 case. Judge Klein's decision confirms that the bankruptcy court does not have the authority to determine what services are essential to the health and safety of the community.

Throughout the 1990's, the City of Stockton approved contracts with labor groups that provided life-long, fully-paid medical premiums for a retiree and one dependent. In addition, the City's health care plan provided generous coverage of services provided. Unfortunately, prior administrations did not fund retiree medical benefits. The City has been paying for retiree medical costs on an annual basis out of the City's General Fund, which is now insolvent.

Last year, the City restructured its health care plan requiring employees to pay a portion of the monthly premium and a percentage of services provided. Employees and retirees began paying approximately 20 percent of services provided and the health plan covers 80 percent of the costs, which is typical of coverage offered to employees by other public entities and private companies. Research conducted by the City of other comparable cities, determined that most cities do not offer retiree medical coverage; some cities offer a very modest stipend toward premiums.

There are 2,400 City of Stockton retirees; approximately 1,100 retirees participate in the City's medical plan. The cost of retiree health care this fiscal year would have been \$9.2 million, increasing every year and doubling within 10 years. In the City's 2012 – 13

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bankruptcy financial plan (Pendency Plan), the City is paying a stipend toward the premium for retirees with over 10 years of service during this transitional year, with retirees paying the full premium beginning in July, 2013. Retirees may continue to participate in the City's plan by paying the monthly premium.

The current monthly medical insurance cost for a retiree and one dependent, is \$1,577. The cost for retirees and one dependent over the age of 65 who are eligible for Medicare is \$772 per month. While the City is offering a partial payment of the monthly premium during the first year of bankruptcy, some retirees have expressed a concern about affordability of the City's health care plan. A lower-cost Kaiser Permanente Plan has been made available to current employees, and the City is working with Kaiser to offer a similar plan for retirees by this fall.

For information and documentation related to the City of Stockton bankruptcy, please visit www.stocktongov.com/chapter9.

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