

# Memorandum

## City of Tempe

Date: December 4, 2008

To: Mayor and Council

From: Ad Hoc OPEB Committee

Through: Charlie Meyer, City Manager

Subject: Retiree Health Plan Proposed Changes Related to OPEB

As a result of a new accounting standard, government entities across the United States are required to report the liabilities associated with their other postemployment benefits (OPEB). Because of this standard, governments, including the City of Tempe, are now forced to examine their retiree health plan to determine affordability.

Over the past three years, staff has coordinated two actuarial studies and examined the financial impact of offering the retiree health plan. These studies indicated that the current retiree health plan was not financially viable into the future and changes are necessary in order to preserve a retiree health benefit for eligible beneficiaries. Additionally, in light of the current financial situation, we feel it is important to address the issue immediately in order to secure this benefit for current and future retirees.

At the direction of the Mayor and Council, an Ad Hoc OPEB Committee was convened consisting of members from TOA, SEIU, TSA, and the Firefighters Union to address potential plan changes. Staff from Human Resources, Financial Services and the City Attorney's Office also participated in the process.

Faced with an unfunded retiree health program totaling \$18.4 million per year, the mission of the committee is to "*design a retiree healthcare plan which maintains a benefit that is fair and sustainable.*" The committee has outlined two options summarized below with additional detail provided in Tables 1 and 2. These proposed options reduce the \$18.4 million annual cost to a program costing between \$6.6 million and \$9.2 million (Table 3) depending on Council direction. We believe acceptance of either option achieves our mission.

The options require the City to categorize beneficiaries of the retiree health plan as follows:

- Group 1 – Retirees and Employees Participating in the DROP Program as of 6/30/2009
- Group 2 – Permanent Employees with at Least 10 Years of Service with Tempe as of 6/30/2009
- Group 3 – Permanent Employees with Less than 10 Years of Service with Tempe as of 6/30/2009

Under either scenario, employees categorized in Group 3 (less than 10 years of service with Tempe) would have individual Health Savings Accounts (HSA) established and funded by the City. The account can be used for qualified medical expenses during retirement.

### Health Plan Option 1

- Group 1 – No Change to Current Structure
- Group 2 – Beneficiaries would share in the rising costs of future medical premium increases. The City would pay for the first 2.5% ("2.5% Cap") of each annual premium increase and the beneficiary would pay for the remaining premium increase. At Medicare eligibility, Group 2 would receive a flat \$350/month stipend toward health care premiums.
- Estimated Annual Budgetary Impact = \$9.2 Million

### Health Plan Option 2 – Utilizing a Fully Insured Medicare Supplemental Plan at Medicare Eligibility

- Group 1 and Group 2 – Beneficiaries would share in the rising costs of future medical premium increases. The City would pay for the first 4.0% ("4% Cap") of each annual premium increase and the beneficiary would pay for the remaining premium increase. The cap percentage could be adjusted to as high as 10% resulting in a higher annual City cost (see Table 3). At Medicare eligibility, retirees would be required to enroll in a Fully Insured Medicare Supplemental Plan.
- Estimated Annual Budgetary Impact = \$6.6 Million (Assuming a 4% Cap) to \$8.0 Million (Assuming a 10% Cap)

Samples of estimated monthly premiums are outlined on Table 4. Staff is seeking Council direction on which option to pursue. Upon selection by Mayor and Council of one of the options, staff will then proceed to draft a new Retiree Health Plan Document for formal approval, contract with an HSA administrator and roll out the program changes to employees and retirees.

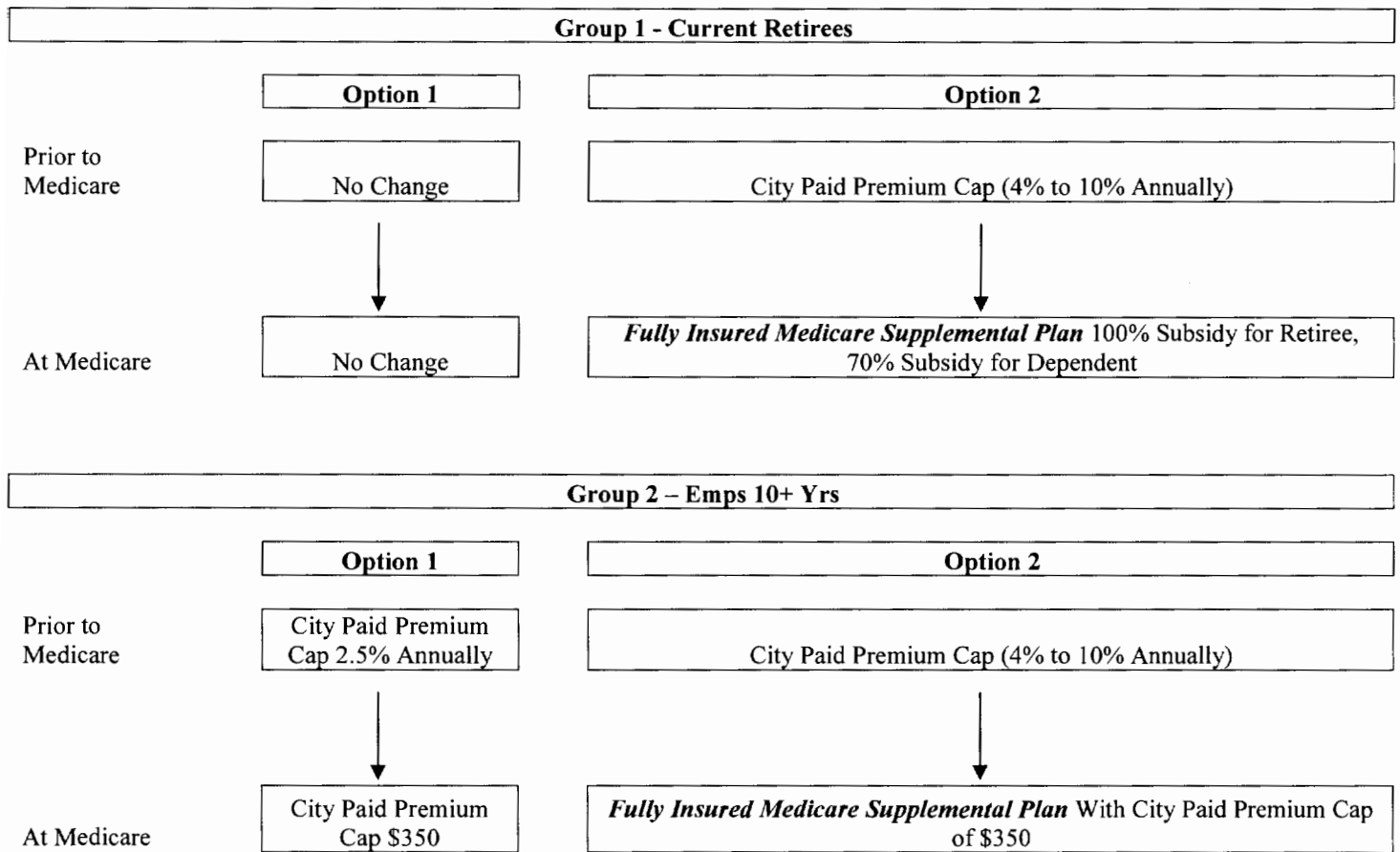
**Table 1 – Comparison of Option 1 & Option 2 Detailed Plan Changes**

Category	Option 1	Option 2
<b>Group 1</b> – Retirees as of 6/30/2009	<ul style="list-style-type: none"> <li>No change to current benefit</li> </ul>	<ul style="list-style-type: none"> <li>Beginning 7/1/09 establish a baseline monthly premium based on the current unblended PPO Low Rate premium</li> <li>Based on the 100% subsidy for retirees and 70% subsidy for dependents, City will contribute an additional annual flat dollar subsidy toward the unblended PPO Low Rate premium to offset the affect of unblending</li> <li>For any future premium increases, City will pay the first 4% (range could be 4% to 10%) of the increase, the retiree will pay the remainder of any increases</li> <li>At <b>Medicare eligibility</b>, retirees are required to enroll in a <b>Fully Insured Medicare Supplemental Plan</b> with the City contributing 100% of the premium toward the retiree and 70% of the premium toward any dependents</li> </ul>
<b>Group 2</b> – Permanent Employees with at Least 10 Years of Service with Tempe as of 6/30/2009	<ul style="list-style-type: none"> <li>Beginning 7/1/09 establish a baseline monthly premium based on the current unblended PPO Low Rate premium</li> <li>Based on the 100% subsidy for retirees and 70% subsidy for dependents, City will contribute an additional annual flat dollar subsidy toward the unblended PPO Low Rate premium to offset the affect of unblending</li> <li>For any future premium increases, City will pay the first 2.5% of the increase, the retiree will pay the remainder of any increases</li> <li>At <b>Medicare Eligibility</b>, City would contribute up to \$350 toward any premiums</li> </ul>	<ul style="list-style-type: none"> <li>Beginning 7/1/09 establish a baseline monthly premium based on the current unblended PPO Low Rate premium</li> <li>Based on the 100% subsidy for retirees and 70% subsidy for dependents, City will contribute an additional annual flat dollar subsidy toward the unblended PPO Low Rate premium to offset the affect of unblending</li> <li>For any future premium increases, City will pay the first 4% (range could be 4% to 10%) of the increase, the retiree will pay the remainder of any increases</li> <li>At <b>Medicare eligibility</b>, retirees are required to enroll in a <b>Fully Insured Medicare Supplemental Plan</b> with the City contributing \$350 toward premiums or other health plan outside the City</li> </ul>
<b>Group 3</b> – Permanent Employees with Less than 10 Years of Service with Tempe as of 6/30/2009	<ul style="list-style-type: none"> <li>A Health Savings Account (HSA) would be established upon employees reaching 10 years of service with Tempe</li> <li>A one-time contribution of \$14,000 would be made to the HSA when an employee reaches 10 years of service with Tempe</li> <li>Subsequently, monthly contributions of \$175 would be made on behalf of each employee until retirement</li> <li>At retirement, a beneficiary can remain on one of the City's health plans but is responsible for 100% of the unblended premiums</li> <li>For employees leaving service with Tempe, the account is portable which means it follows an employee</li> </ul>	

- In order to be eligible to participate in a City sponsored retiree health plan, an employee must retire in good standing with the City and have a minimum of ten years service with the City.

\* Unblending Rates – This refers to calculating separate healthcare premiums for current/active employees versus healthcare premiums for retired employees.

**Table 2 – Comparison of Option 1 & Option 2 Basic Plan Changes (Group 1 and Group 2 Only)**



**Table 3 – Cost Comparison of Option 1 & Option 2**

(Costs are in millions)

	Option 1		Option 2 - Example 1		Option 2 - Example 2		Option 2 - Example 3	
	Cost	City Paid Premium Cap	Cost	City Paid Premium Cap	Cost	City Paid Premium Cap	Cost	City Paid Premium Cap
Group 1 - Retirees	\$ 8.9	N/A	\$ 5.7	4.0%	\$ 6.2	10.0%	\$ 6.2	10.0%
Group 2 - Emps 10+ Yrs	\$ 3.4	2.50%	\$ 4.1	4.0%	\$ 5.0	10.0%	\$ 4.1	4.0%
Group 3 - Emps < 10 Yrs	\$ 1.9	N/A (HSA)	\$ 1.9	N/A (HSA)	\$ 1.9	N/A (HSA)	\$ 1.9	N/A (HSA)
	<u>\$ 14.2</u>		<u>\$ 11.7</u>		<u>\$ 13.1</u>		<u>\$ 12.2</u>	
Already Funded	\$ (5.1)		\$ (5.1)		\$ (5.1)		\$ (5.1)	
Annual Budgetary Impact	<u>\$ 9.1</u>		<u>\$ 6.6</u>		<u>\$ 8.0</u>		<u>\$ 7.1</u>	

**Table 4 – Example Retiree Premiums – Comparisons Between Option 1 & Option 2**

**Retiree Premiums for PPO Low Rates** – The following retiree premiums are based on estimated PPO Low health insurance premiums. The comparisons assume medical cost increases as follows. This is consistent with the March 2008 actuarial valuation report.

FY 2008-09 - 10%	FY 2011-12 - 7%
FY 2009-10 - 9%	FY 2012-13 - 6%
FY 2010-11 - 8%	FY 2013-14 - 5%

**Retiree Premiums for Fully Insured Medicare Supplemental Plan** – Retiree premiums for the Medicare Supplemental Plan are based on the current Cigna monthly premiums. The comparisons assume medical cost increases as follows. This is per discussions with the City's actuary.

FY 2008-09 - 8%	FY 2011-12 - 5%
FY 2009-10 - 7%	FY 2012-13 - 5%
FY 2010-11 - 6%	FY 2013-14 - 5%

Monthly Out of Pocket Premiums Assuming Retiree & Spouse Both Under 65				
Group 1 - Current Retirees				
	Option 1 - PPO Low	Option 2 - PPO Low		
		4% Cap	7% Cap	10% Cap
FY 2008-09 (actual)	151.18	151.18	151.18	151.18
FY 2009-10	164.79	164.79	164.79	164.79
FY 2010-11	177.97	217.96	178.08	164.79
FY 2011-12	190.43	261.04	178.08	164.79
FY 2012-13	201.86	291.76	178.08	164.79
FY 2013-14	211.95	308.05	178.08	164.79

Group 2 - Emps 10+ Yrs				
	Option 1 - PPO Low	Option 2 - PPO Low		
		4% Cap	7% Cap	10% Cap
FY 2008-09 (actual)	n/a	n/a	n/a	n/a
FY 2009-10	164.79	164.79	164.79	164.79
FY 2010-11	237.91	217.96	178.08	164.79
FY 2011-12	302.51	261.04	178.08	164.79
FY 2012-13	356.28	291.76	178.08	164.79
FY 2013-14	397.00	308.05	178.08	164.79

**Table 4 – Example Retiree Premiums – Comparisons Between Option 1 & Option 2 (Con't)**

Monthly Out of Pocket Premiums Assuming Retiree & Spouse Both Over 65		
Group 1 - Current Retirees		
	Option 1 - PPO Low	Option 2 - Medicare Plan
	No Change	
FY 2008-09 (actual)	101.30	65.10
FY 2009-10	110.42	69.66
FY 2010-11	119.25	73.84
FY 2011-12	127.60	77.53
FY 2012-13	135.26	81.41
FY 2013-14	142.02	85.48

Group 2 - Emps 10+ Yrs		
	Option 1 - \$350 City Cap	Option 2 - Medicare Plan & \$350 City Cap
FY 2008-09 (actual)	n/a	n/a
FY 2009-10	448.08	114.38
FY 2010-11	495.96	142.24
FY 2011-12	538.26	166.85
FY 2012-13	582.67	192.70
FY 2013-14	629.31	219.83

**Table 4 – Example Retiree Premiums – Comparisons Between Option 1 & Option 2 (Con't)**

Monthly Out of Pocket Premiums Assuming Retiree Only Under 65				
Group 1 - Current Retirees	Option 1 - PPO Low	Option 2 - PPO Low		
	No Change	4% Cap	7% Cap	10% Cap
FY 2008-09 (actual)	-	-	-	-
FY 2009-10	-	-	-	-
FY 2010-11	-	26.59	6.65	-
FY 2011-12	-	48.13	6.65	-
FY 2012-13	-	63.49	6.65	-
FY 2013-14	-	71.65	6.65	-

Group 2 - Emps 10+ Yrs	Option 1 - PPO Low	Option 2 - PPO Low		
	2.5% Cap	4% Cap	7% Cap	10% Cap
FY 2008-09 (actual)	n/a	n/a	n/a	n/a
FY 2009-10	-	-	-	-
FY 2010-11	36.56	26.59	6.65	-
FY 2011-12	68.87	48.13	6.65	-
FY 2012-13	95.75	63.49	6.65	-
FY 2013-14	116.12	71.65	6.65	-

**Table 4 – Example Retiree Premiums – Comparisons Between Option 1 & Option 2 (Con't)**

Monthly Out of Pocket Premiums Assuming Retiree Only Over 65		
Group 1 - Current Retirees		
	Option 1 - PPO Low	Option 2 - Medicare Plan
	No Change	
FY 2008-09 (actual)	-	-
FY 2009-10	-	-
FY 2010-11	-	-
FY 2011-12	-	-
FY 2012-13	-	-
FY 2013-14	-	-
Group 2 - Emps 10+ Yrs		
	Option 1 - \$350 City Cap	Option 2 - Medicare Plan & \$350 City Cap
FY 2008-09 (actual)	n/a	n/a
FY 2009-10	49.04	-
FY 2010-11	72.99	-
FY 2011-12	94.14	-
FY 2012-13	116.35	-
FY 2013-14	139.67	-

**Table 5 – Ad Hoc OPEB Committee Members**

Renie Broderick, Human Resources	Jeff McHenry, Police
Tom Duensing, Financial Services	Charlie Meyer, City Manager
Jerry Hart, Financial Services	Jon O'Connor, Human Resources
Julie Hietter, Public Works	David Park, City Attorney
Karen Huffman, Financial Services	Nathan Porter, City Attorney
Don Jongewaard, Fire	Dave Rogers, Retiree
Sarah Kwong, Human Resources	Lynna Soller, Human Resources
Barb Lear, Internal Audit	Rich Woerth, Fire
Carol Martsch, Public Works	