# Memorandum

## City of Tempe

Date: January 27, 2009

To: Mayor and Council

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Through: Charlie Meyer, City Manager (ext. 8884)

Subject: Retiree Health Plan Proposed Changes - Additional Information

At the January 22, 2009 City Council meeting, staff was directed to provide additional information to Council regarding the proposed changes to the retiree health plan.

For background information, meetings were held by the Ad Hoc OPEB Committee over a period of approximately eight months and decisions regarding the proposed changes were not made lightly. The Committee understood the retiree health care issue was not only about reducing costs but about reducing costs to ensure the program even continues. This issue is further compounded by the economic challenges facing Tempe. The current retiree healthcare plan is funded from the City's operating budget and increases or decreases in the costs of the plan have a direct impact on the amount of funding available to provide services to residents.

Although not presented to Council as a viable option, the Committee also understood that the retiree health program can be significantly changed or eliminated at any time. Therefore, the proposed changes attempt to achieve long-term sustainability through cost reduction measures to avoid program elimination.

The proposed changes place a greater burden on all plan participants, both current and future retirees. However, the one fact that cannot be ignored is that the proposal reduces the benefit disproportionately for current employees, especially those employees with less tenure, to minimize the impact on current retirees.

Overall, the highlights of the proposed plan are as follows:

- The City will still have retiree health coverage available for qualified retirees and their dependents throughout their lifetime as explained in this memo.
- Retirees and employees with greater than 10 years of service at 6/30/2009 will continue to have premiums subsidized by the City.
- At Medicare eligibility, all retirees will be required to enroll in a City-sponsored *Fully Insured Medicare Supplemental Plan*.
- Premiums will be "unblended" and calculated separately for active and retiree rates. For those employees with greater than 10 years of service at 6/30/2009, a flat monthly subsidy will be provided to mitigate the impact of unblending.
- For those employees with less than 10 years of service at 6/30/2009, a Health Savings Account (HSA) will be established and funded by the City over the employees working life with the City. At retirement, funds accumulated in the account can be used to pay the full retiree health premiums.

The attached tables and exhibits attempt to summarize the changes of the program and provide some perspective as to the magnitude of the changes. Staff will be available at the February 5, 2009 Issue Review Session to answer any questions.

**Table 1 – Basic Premise of Proposed Plan**

| | Group 1 | Group 2 |
|---|---|---|
| **Prior to Medicare Eligibility (currently age 65)** | • City Paid Premium Cap of 4% on unblended rates<br>• Flat monthly subsidy provided to mitigate the impact of unblended rates | |
| **At Medicare Eligibility (currently age 65)** | Participants enrolled in *Fully Insured Medicare Supplemental Plan* | |
| | ↓ | ↓ |
| | 100% subsidy for retiree, 70% subsidy for dependent | Flat City subsidy of up to $350 per month |

| Group 3 |
|---|
| • Health Savings Account (HSA) established and funded by the City throughout employees working life<br>• Retirees pay full unblended premiums |

Group 1 – Retirees and public safety employees participating in DROP as of 6/30/2009
Group 2 – Benefits eligible employees with at least 10 years of service with Tempe as of 6/30/2009
Group 3 – Benefits eligible employees with less than 10 years of service with Tempe as of 6/30/2009

**Comparison of Group 1 & 2 Retirees with Group 3 Retirees**

While a retiree healthcare plan is available for all current employees, those employees in Group 3 see the biggest benefit reduction as the City will only set aside funding for these employees while employed. After retirement of these employees, they are solely responsible for their entire healthcare premium whether paid from the HSA or not.

Those in Groups 1 & 2 will have their monthly retiree health care premiums subsidized by the City with the only difference in subsidy realized at Medicare eligibility (see the table above).

Group 3 retirees will be responsible for full premiums that can be paid from funds accumulated in their individual HSA's. It is estimated that after 25 years of service with Tempe, an HSA could have approximately $76,000 accumulated in the account assuming a 5% rate of return. If premiums were approximately $1,500/month, the HSA would support full premiums for approximately 5 years. After that, the Group 3 retiree can still participate in the City's health plan at their own expense.

Assuming a Group 3 employee retires after only 10 years of service, the HSA would have $14,000 accumulated in the account, but the participant is still eligible to participate in the City's health plan.

## Table 2 – Example of Retiree Impact for a Group 1 Retiree

Joe, a current retiree and his wife Diana are both 60 and participate in the City's **PPO High** plan. Currently, their FY 2008-09 monthly out-of-pocket contribution is $220 toward a $1,200 blended premium (the unblended premium is estimated at $1,450). Based on changes in the retiree health plan, Joe and Diana will pay an additional $45 out-of-pocket starting July 1, 2010. The out-of-pocket amounts would increase each year until Medicare eligibility. At Medicare eligibility, it is anticipated that the total out-of-pocket contributions would be the same or less than the current retiree health plan. The estimated monthly premiums for the next ten years are as follows.

| | Total Premium | % Increase/ (decrease) * | Out of Pocket Old Plan | Out of Pocket New Plan | Increase/ (Decrease) to Retiree |
|---|---|---|---|---|---|
| FY 2008-09 current | $1,200 | | $220 | n/a | n/a |
| | | | | | |
| FY 2009-10 | $1,580 | | $240 | $240 | -$0- |
| FY 2010-11 | $1,710 | 8% | $260 | $305 | $45 |
| FY 2011-12 | $1,830 | 7% | $275 | $355 | $80 |
| FY 2012-13 | $1,940 | 6% | $295 | $390 | $95 |
| FY 2013-14 | $2,035 | 5% | $310 | $410 | $100 |
| FY 2014-15 (Medicare) | $598 | (71%) | $235 | $90 | ($145) |
| FY 2015-16 | $628 | 5% | $250 | $95 | ($155) |
| FY 2016-17 | $660 | 5% | $260 | $100 | ($160) |
| FY 2017-18 | $690 | 5% | $275 | $105 | ($170) |
| FY 2018-19 | $727 | 5% | $285 | $110 | ($175) |
| FY 2019-20 | $765 | 5% | $300 | $115 | ($185) |

Ann, a 56 year old **unmarried** retiree, participates in the City's **PPO High** plan. Currently, her FY 2008-09 monthly out-of-pocket contribution is $40 toward a $600 blended premium (the unblended premium is estimated at $725). Based on changes in the retiree health plan, Ann will pay an additional $28 out-of-pocket starting July 1, 2010. The out-of-pocket amounts would increase each year until Medicare eligibility. At Medicare eligibility, it is anticipated that the total out-of-pocket contributions would be $0. Ann's estimated monthly premiums for the next ten years are as follows.

| | Total Premium | % Increase/ (decrease) * | Out of Pocket Old Plan | Out of Pocket New Plan | Increase/ (Decrease) to Retiree |
|---|---|---|---|---|---|
| FY 2008-09 current | $600 | | $40 | n/a | n/a |
| | | | | | |
| FY 2009-10 | $790 | 9% | $44 | $44 | -$0- |
| FY 2010-11 | $855 | 8% | $47 | $75 | $28 |
| FY 2011-12 | $915 | 7% | $50 | $101 | $51 |
| FY 2012-13 | $970 | 6% | $53 | $119 | $66 |
| FY 2013-14 | $1,015 | 5% | $56 | $129 | $73 |
| FY 2014-15 | $1,070 | 5% | $59 | $139 | $80 |
| FY 2015-16 | $1,120 | 5% | $62 | $150 | $88 |
| FY 2016-17 | $1,180 | 5% | $65 | $161 | $96 |
| FY 2017-18 (Medicare) | $346 | (71%) | $68 | $0 | ($68) |
| FY 2018-19 | $364 | 5% | $72 | $0 | ($72) |
| FY 2019-20 | $382 | 5% | $75 | $0 | ($75) |

* The percentage increases are based on the March 12, 2008 actuarial study.

**Table 3 – Comparison of Proposed Tempe Plan to City of Phoenix Plan**

| | Phoenix | Tempe Current | Tempe Proposed |
|---|---|---|---|
| Basic Plan | • Group 1 – Those with less than 15 years until eligible retirement at 8/1/2007 remain on basic plan with out-of pocket amounts outlined below<br>• Group 2 – Those with greater than 15 years until eligible retirement at 8/1/2007 placed in PEHP with $150/month contributions made by City | • City subsidy toward premium = 100% retiree, 70% dependents. | • Group 1 – Prior to Medicare, those retired as of 6/30/2009, subject to 4% cap on premium increases. At Medicare, City subsidy toward premium = 100% retiree, 70% dependent.<br>• Group 2 – Prior to Medicare, those retired as of 6/30/2009, subject to 4% cap on premium increases. At Medicare, City subsidized up to $350/month on full premiums.<br>• Group 3 – At ten years of service, City contributes $14,000 in an HSA account and $175/month thereafter. |
| At Medicare | Remain on same basic plan | Remain on same basic plan | Retiree will enroll in *Fully Insured Medicare Supplemental Plan* |
| Rate Methodology | Unblended | Blended | Unblended<br><br>To mitigate the impact of unblending rates, an additional monthly flat dollar subsidy will be provided |
| <u>Monthly Out-of-Pocket</u> for FY 2008-09 for PPO Plans<br><br>Prior to Medicare<br>• PPO – Retiree & Spouse<br>• PPO – Retiree Only<br><br>At Medicare Eligibility<br>• PPO – Retiree & Spouse<br>• PPO – Retiree Only | <br><br><br><br>$924<br>$267<br><br><br>$493<br>$199 | <br><br><br><br>$220<br>$40<br><br><br>$161<br>$40 | <br><br><br><br><See Table 2 for estimated monthly out-of-pocket amounts> |

The following cities also maintain retiree health plans. The cities of **Scottsdale** and **Chandler** allow accumulated leave time to be used to offset the premium costs of retiree health care and subsidize little or none of the retiree premiums. The cities of **Gilbert** and **Glendale** do not subsidize retiree premiums. The City of **Mesa** subsidizes the retiree premiums based on years of service but yet to implement changes that fully addressed this issue.

The City of **Peoria** does not offer a retiree health plan.

## Exhibit A – Detail of Proposed Plan

Options developed by the Employee Ad Hoc OPEB committee were presented to the City Council at the IRS on December 11th 2008, and based on direction given at that meeting, the following changes to the City's retiree healthcare plan are due to be implemented July 1, 2009.

- Under the current healthcare plans, costs for employees and retirees are combined together to calculate a single premium (blended). On July 1, 2009, separate (unblended) premiums will be calculated for both current employees and current retirees for fiscal year 2009-10.

- It is anticipated retiree premiums will increase as a result of unblending rates. However, the City will subsidize the full dollar cost of that initial increase on July 1, 2009 and this dollar subsidy will remain unchanged and continue through to Medicare eligibility.

- All benefits eligible employees are still able to maintain their coverage under a city healthcare plan upon retirement and with a minimum of ten years of service with the City; however, city healthcare premium subsidies for retired employees will differ based on which of the following groups the employee falls into:

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

**Group 1 and Group 2**

Prior to Medicare eligibility, changes to the retiree healthcare plan for these two groups are essentially the same. Once a retiree and/or dependent reaches Medicare eligibility, they will be required to enroll in a City sponsored fully insured Medicare supplemental plan. Upon enrolling in the supplemental plan, the amount paid by the City toward the benefit is different for Group 1 individuals versus Group 2 individuals as noted below:

| | **Group 1** | **Group 2** |
|---|---|---|
| Prior to Medicare Eligibility (currently age 65) | City Paid Premium Cap of 4% on Unblended Rates | City Paid Premium Cap of 4% on Unblended Rates |
| At Medicare Eligibility (currently age 65) | • *Fully insured Medicare supplemental plan*<br>• 100% subsidy for retiree, 70% subsidy for dependent | • *Fully insured Medicare supplemental plan*<br>• Flat City subsidy of up to $350 per month |

- **Premium Cap** – For both Groups 1 and 2, starting with July 1, 2010, the City will pay for the first 4% of any premium increases and the retiree will be responsible for increases above 4%. These increases will be reflected in both individual retiree premium costs and dependent premium costs as the current 100% / 70% subsidy will no longer be in effect.

- **At Medicare** – While individuals in Groups 1 and 2 will be required to enroll in a *fully insured Medicare supplemental plan* upon reaching Medicare eligibility, retirees in Group 1 will be subsidized at 100% for

themselves and 70% for dependents. Retirees in Group 2 will be provided with a flat maximum $350 monthly City subsidy (for individual and/or dependent premiums) and responsible for any premium costs or future increases above that amount.

**Group 3**

Employees in this group will have individual Health Savings Accounts (HSA – similar to a deferred compensation account) established and funded by the City. At 10 years of service, an account will be established for the employee with an initial City contribution of $14,000 and thereafter a contribution of $175 each month will be made throughout employment. At retirement, the retiree can choose to remain on the City's health plan by paying 100% of the premium from monies accumulated in the HSA account. Monies in the HSA account can also be used to pay for any other qualified medical expenses. The HSA is also portable - any monies accumulated in their individual account stay with the employee if he/she chooses to separate employment after 10 years of service, but before retirement.

**Additional Information:**

- As with the current plan, employees who terminate employment prior to reaching 10 years of continuous service are not eligible for any retiree health benefit including any HSA monies.

- As with the current plan, any and all plan design changes to the health coverage for employees (e.g. co-pays, deductibles, etc.) may result in the same changes to the pre-Medicare retiree health plans.

- As with the current plan, the City of Tempe has the right to change or discontinue the Plan(s) at any time for all or any class of employees and/or retirees.

**Exhibit B – Frequently Asked Questions**

## Frequently asked questions regarding proposed changes to current retirees' healthcare coverage for July 1, 2009:

**I was given a promise of benefits when I was hired – what happened to that promise?**

We understand that retirement health benefits may have been discussed at various times over the past years with new hires, but while the City is seeking to do everything possible to maintain its commitment to providing retiree health benefits, these benefits have never been guaranteed. All benefits are subject to change or elimination and that has always been the case.

**I understood when I retired that benefits would not change – why have they changed so much over the past years and are changing so drastically now?**

As noted above, all benefits are subject to change. With the last economic downturn in 2002/2003, changes were made to plan design and structure that added the $40/month assessment fee to the High Option PPO plan (retirees were phased into paying this assessment over 4 years – employees were responsible for paying the full assessment immediately), and created the Low Option PPO plan with no additional assessment, as well as other changes. Annually, the City reviews the health plans and has made incremental changes to plan design (co-pays and deductibles) to help address significant overall increases in health care costs. While these changes have increased costs for healthcare for both employees and retirees, the City continues to pay the most significant portion of the costs. Also, the City's retiree population has grown from 369 in 2003/2004 to more than 600 currently, significantly increasing costs.

**Why are we being asked to give up something that we had counted on?**

The intent of the City and of the Ad Hoc OPEB Committee has always been to maintain a level of benefit for both current employees and retirees. While there are significant impacts for newer employees with less than 10 years of service as of 6/30/09, none of the groups are being denied access to City sponsored health plans and retirees are not being asked to give up their coverage.

**How are these changes fair to retirees?**

While retirees are being impacted, the impact is <u>significantly less</u> for them than current employees who still have time to plan for their retirement health care needs. Recognizing the fact that retirees are on a fixed income and don't have as much time for planning, the ad-hoc committee sought to make the changes as fair as possible and with no impact from the proposed program being felt over the next 18 months also to address fairness.

**What do you mean that the current program is not affordable into the future?**

The costs for maintaining the current program without changes over the next 30 years are approximately $400 million. This is, quite simply, not affordable and was not affordable two years ago under better economic conditions when the City first found out the costs through an actuarial study. Not making

changes such as those proposed would almost certainly mean the program would be unaffordable at some point in the future and may have to be more severely cut than currently proposed or eliminated.

**What do you mean by sustainability for the retiree health benefits?**

While the City may be able to continue to pay for retiree health care costs under the current plan structure for a few years, as the retiree group continues to grow and as costs continue to increase, this plan cannot be sustained in the long term. Making these changes now means that the City is better positioned financially to maintain this benefit with the changes for current and future retirees and begin to fund a trust that will be dedicated to paying for this program into the future.

**Why were retirees left out of the decision making process?**

When the ad-hoc OPEB committee was formed, the retiree who had previously participated in the Employee Health Care Committee was asked to participate and he did. Initially, the committee was seeking to not make changes for current retirees, but it became clear later in the process, and along with the increasing financial crisis, that maintaining a program sustainable into the future was difficult without all groups contributing. The committee felt it had a responsibility to present Council with an alternative that also included minimal changes for current retirees. Apart from the retiree representative on the committee, information was also posted regularly on the retiree web-site ( http://www1.tempe.gov/retired/ ) which has seen a considerable increase in hits (visits) over the past few months. Once Council gave further direction in December, 2008 that included changes for retirees, information was mailed out to all retirees. The final decision by Council is still pending.

A retiree listserv is also available delivering weekly emails from the City Managers Office with information on OPEB and other issues and this is being utilized by many retirees and retirees can sign up for these updates by emailing Melanie_stoddard@tempe.gov .

Additionally, information sessions are scheduled in February specifically for retirees and the City will continue to provide updates on the Retiree website and through direct mail. Retirees can also contact Human Resources (480-350-8272) with any questions.

**Is an affordable drug plan still being offered to both pre-Medicare and post-Medicare retirees?**

Yes – there will still be a prescription drug benefit. For pre-Medicare retirees this will continue to be part of the PPO or HMO coverage. For post-Medicare retirees, a prescription drug benefit will be part of the fully insured Medicare supplemental plan.

**What innovative alternatives have been considered to decrease overall costs?**

The ad-hoc committee discussed multiple options including pooling our employee/retiree population with other organizations to lower costs. That and other ideas did not result in savings or would have significantly impacted our level of benefit. One idea that did allow for significant savings while maintaining an appropriate level of benefit was to move retirees at Medicare eligibility out of our PPO plan to a self insured program and that was why that option was recommended.

**Insuring larger groups of people is less expensive overall. So why is the City of Tempe attempting to go the other direction as it applies to the retirees?**

As the City is self-funded for the pre-Medicare PPO plans, this does not apply. For the CIGNA HMO plan and the proposed Medicare Supplemental plans, the rates are based on much larger pooled groups and so this concept is already in place there.

**What is the difference between unblended vs. blended premiums?**

The beneficiaries of the City's health care program fall into two main categories – 1) current employees and dependents and 2) retirees and dependants. If premiums are calculated for employees and retirees together, that is referred to as "blended" premiums. While this is the City's current practice, this is not the norm in most organizations, including the City of Phoenix, that subsidize retiree health care plans. Overall, the committee felt it was unfair to current employees to maintain this method and so the decision was made to "un-blend" rates – that means that one premium rate will be calculated for employees based on their experience and a different premium calculated for retirees based on that groups experience. Also, as the pool of retirees has grown and continues to grow, un-blending rates is more appropriate as it provides a more accurate financial picture in terms of costs for each group – active employees and retirees.

**What is the real impact to retirees if you go with unblended premiums?**

Because retirees tend to utilize the health care benefit more than current employees, there will almost certainly be an increase in the calculated premium for retirees when rates are unblended. To be fair and address this additional cost, the City will fully subsidize that initial increase.

As an example: The current premium for an **under 65 retiree only** on the **PPO High** plan is $599.96/month. The retiree pays $40/month (the assessment fee). On July 1st, 2009 there will be two increases to the premium – one from inflation and one from un-blending. If the inflationary increase is 9% ($54.00) and if the un-blending of the rates results in an additional 23% increase (or $137.33), the new un-blended premium will be $791.29 ($610.36 City premium + $180.93 retiree premium). As the City covers the affect from un-blending the premiums, for the plan year starting July 1, 2009, the retiree will pay $43.60 (9% inflationary x $40 or calculated another way $180.93 retiree premium - $137.33 flat subsidy provided because of un-blending). Thus, the retiree is held harmless in the initial year.

In July 2010, if there is an 8% inflationary increase on the unblended rate of $791.29 (or $63.30) for a total premium of $854.59, the City would pay the first 4% of the increase (or $31.65) and the retiree would pay the next 4% (or $31.65). This brings the total retiree contribution to $75.25 ($43.60 + 31.65).

In July 2011, if there is a 7% inflationary increase on the unblended rate of $854.59 (or $59.82) for a total premium of $914.41, the City would pay for the first 4% of the increase (or $34.18) and the retiree would pay for the next 3% (or $25.64). This brings the total retiree contribution to $100.89 ($75.25 + $25.64).

**NOTE: the percentage increases noted above are only estimates for the purpose of this example.**

**A 50% increase in retiree premiums was mentioned in the OPEB meetings during the consideration of this issue. A direct excerpt from the report:**
***Right now, a very loose guess is the retiree rates will increase 50-60% for the Medicare eligible retiree group, while premiums would go down for active employees*.** **What does this mean?**

When rates are unblended on July 1, the increase to the premium for the retiree plans may be a high as 50% - the exact increase amount will not be known until March/April. However, the full dollar amount of this July, 2009 increase, as noted above, will be subsidized by the City.

**How is it fair to un-blend the calculation rates when many long time employees have paid into that system as it was established?**

No payments have been made by either retirees or the City into any system to maintain this benefit. This is one of the fundamental issues of retiree health plans around the country. The City has been covering retiree health care costs on a "pay as you go" basis. This is why there is such a large liability existing. Any premiums paid by retirees or by current employees are simply contributions towards the current plan year costs and the City pays the most significant portion of those costs. Un-blending rates is one option chosen by the committee towards creating fairness in rate calculations and simply means that the City will now have the ability to understand actual costs of the active employee participants and the retiree participants.

**How can it be fair to un-blend the rates of those who have been here 20 or 30 years yet provide health care benefits to those who have only been here 10 years.**

The requirement of 10 years of service for eligibility for retiree health care has been in place for some time. Our current retirees had anything from 10 to 40 years of service with the City. Employees who do not have 10 years of service as of June 30th, 2009, even though they may continue working and retire with 20 or 30 or more years of service, are in the group most impacted and if they elect to continue on the City's plan, their benefits will cost significantly more. Employees who already have 20 or 30 years or service but decide not to retire by 6/30/2009 will also have a lower benefit level than current retirees.

**I understand there are going to be high rate increases after these changes – why can't you advise exactly what those increases will be?**

As noted above, there will not be increases passed on to retirees in July 2009 based on un-blending of rates – the City will fully subsidize those increases. Retirees will see increases in premiums in July, 2010 based on unblended rates, but the City will be covering the first 4% of those increases for that year and every year thereafter under these proposed plans. While we can only predict increases in healthcare costs, the City does believe the rate increases for retirees under the new plans are reasonable, particularly when compared with the benefits offered by other cities such as Phoenix.

**There is no ability for retirees to prepare for these increases.**

The Committee recognized that retirees are on a fixed income and do not necessarily have the same flexibility to plan for health care costs that current employees still do. That is why the percentage increase for un-blending the rates on July 1, 2009 will be fully covered by the City as a one time, flat dollar subsidy. Increases after that will be on an annual basis as they are now and are not projected to be significant. Additionally, it is anticipated that at Medicare eligibility (typically at age 65), when retirees are transitioned to the Medicare supplemental plan, those premium rates will actually be the same or lower than they would be under the current plan.

**What have been the percentage increases for the past few years for the City's healthcare premiums and will there be similar increases over the next few years?**

Inflation of health care costs has been in the 10-15% range for at least 10 years, which is one of the reasons why the City's very generous benefits are so costly. Our actuaries had predicted that costs may increase 8-10% over the next couple of years and then begin to drop to level out around 5%/year in about

4-5 years. These are predictions based on national trends and are the best information we can offer, but of course we cannot guarantee these predictions. Our annual increases are also reflective of administrative fees, advances in medical technologies and demographic changes.

**Are we having to pay another assessment fee for the High Option PPO plan?**

No. The $40/month assessment fee paid by retirees for participation in the High Option PPO plan will remain in effect, and the OPEB related changes being considered at this time do not include any adjustments to that assessment fee. Starting in July, 2010, inflationary increases will be passed on to all retirees regardless of coverage level, but the City will cover the first 4% of those increases.

**Aren't there other cuts the City can make to address the current economic crisis rather than impacting retirees?**

These changes to the City's retiree health plans are not in response to the current economic crisis. In fact, despite the magnitude of the crisis, the City is still making every effort to at least begin funding the long term retiree health benefits program to ensure its sustainability. This issue has been reviewed for more than two years and even during better economic times, the program in place was not sustainable into the future.

**How is it fair that some Fire department employees who made the decision not to pay into the social security system will have their portion of Medicare paid for when they made the decision to withdraw from the program? What deal was made with the Firefighters?**

Some Firefighters hired prior to 1986 have not paid into Medicare and so are not eligible to participate in that federal program. The City's practice has been to continue to provide benefits under the PPO or HMO plan as primary insurance when those individuals reach age 65. This would continue when the Medicare supplemental plan is initiated as these individuals would not be eligible for that plan. This is a continuation of current practice and not a new option that was adopted by the committee.