

# RETIREE HEALTH BENEFITS

Report to the Mendocino County Board of Supervisors  
From the County Executive Office and Human Resources Department  
September 16, 2008

## Executive Summary of Issue

The County of Mendocino began providing health benefits to retirees through the Retirement System, when it was considered a program within the Treasurer-Tax Collector's Office. These benefits were provided on a voluntary basis and were funded by the Retirement System. The benefits were not negotiated, nor were they subject to inclusion in County agreements with bargaining units. The retiree health plan design was modified over the years, as were the specifics of eligibility.

In 1998, the Board of Supervisors voted to discontinue providing health benefits to employees hired after September 1998. Retiree health benefits would continue to be provided to those already retired as of that date, and to those hired before that date and otherwise eligible, who retired from the County of Mendocino. Another major change came when the Board voted to shift administration of the Retiree Health Plan from the Retirement System to Human Resources. Both actions were intended to reduce and control costs.

Several factors compel the current examination of retiree health benefits:

1. Costs for the Retiree Health Plan are projected to increase by 16.8% in 2009.
2. A weak economy has reduced investment earnings for retirement systems throughout the State. "Excess" earnings from investments have fully funded retiree health benefits in Mendocino County, as well as in many other counties, but increases in excess earnings are not projected to match premium increases in the next few years.
3. The requirement to reflect future unfunded liability for retiree health benefits on the County's fiscal balance sheet effective the 2008-09 fiscal year results in that liability being counted against the County's financial health, which could negatively affect interest on borrowing funds and the County's credit rating.
4. The County's own continuing financial situation prevents it from contributing to Retiree Health Benefits should the need arise this next year, or in the foreseeable future.

The County is faced with determining how retiree health benefits can be preserved for those who receive them now and those who will receive them in the future. The key is in balancing the County's desire to retain these benefits with the financial resources required to do so, by reducing or limiting costs wherever practical.

## Participants in Review of Retiree Health Benefits

Several parties are involved in this review. Staff involvement comes from the Retirement System itself, the Human Resources (HR) Department that administers the Retiree Health Benefits, and the County Executive Office. Mercer Consulting provides technical expertise and resources to the Retiree Health Plan.

The groups addressing Retiree Health Benefit issues include:

- *Retiree Health Benefits Committee* – a joint committee of Retirement Board members and HR staff established to advise the County Executive Office
- *Retirement Board* – the oversight body for the Retirement System
- *Board Ad-Hoc Committee on Retiree Health Benefits* – a temporary committee involving Supervisors Smith and Colfax, staffed by HR and the Executive Office to advise the Board of Supervisors on these issues

## Strategies

The goal is to reduce the overall costs of providing retiree health benefits, as well as the amount of funding that needs to be provided from excess earnings to pay for them, without undue hardship to retirees, current and future. This goal is necessary due to the impact of the weak economy on the anticipated excess earnings from Retirement System investments and the inability of the County to backfill the shortfall due to its very constrained financial situation, as well as constantly rising health care costs.

The strategies to reduce the overall costs of retiree health benefits and therefore reduce the amount of excess earnings needed to fund them include the following:

1. Reducing the costs of the retiree health plan itself through modifications of the offering
2. Reducing future liability by further limiting eligibility for retiree health benefits
3. Increasing revenues to the retiree health plan through contributions from retirees toward the premium costs

Each of these strategies will be examined below.

## Modification of the Retiree Health Plan

The Retiree Health Plan is currently considered to be a better plan than either of the two plans offered to employees. Retirees must pay additional for vision and dental benefits, but the core medical coverage has a lower percentage of co-payment, lower deductible, and lower limit. It has been proposed that the Retiree Health Plan be modified to mirror the Employee Plan II. In Plan Year 2009, this is projected to save the cost-equivalent of the increased premium costs for the Retiree Health Plan.

The impact on recent and future retirees would be somewhat negligible as they would be familiar with Plan II, having been served through that plan prior to retirement. However, for long-time retirees, switching to Plan II could be confusing. In essence, providing Plan II to retirees in 2009 would limit total premium costs to the those paid in 2008 for the current Retiree Health Plan. However, there are additional out-of-pocket costs for retirees in the form of higher deductibles, overall limits and co-pays.

***Retiree Health Benefits Committee Recommendation:*** Maintain current Retiree Health Plan

***Retirement Board Recommendation:*** Maintain current Retiree Health Plan.

***Board Ad-Hoc Committee on Retiree Health Benefits:*** Maintain current Retiree Health Plan

***CEO/HR Recommendation:*** Maintain current Retiree Health Plan. While switching from the Retiree Health Plan to Plan II would save money on the total premium costs, it would result in currently unquantifiable additional expenses to retirees. This is not recommended as a cost-saving strategy for current retirees, but could be considered again in the future, or applied only to future retirees' health coverage.

### Limiting Eligibility for Retiree Health Benefits

As the Board did in 1998, it would be possible to further limit eligibility for Retiree Health Benefits. The active eligible pool is capped at around 459, who were hired before September 1998 and meet the other criteria for retiree health coverage. Limitations could be applied to cover only those who retire by a certain date, to provide lesser coverage to those who retire after a certain date, to require a longer period of work to vest (for example 20 years rather than 10) for those who retire after a certain date. There are numerous ways in which retiree health coverage can be contained. However, they all result in splitting and complicating the plan for a group that is already capped.

***Retiree Health Benefits Committee Recommendation:*** Do not further limit eligibility for retiree health benefits.

***Retirement Board Recommendation:*** Do not further limit eligibility for retiree health benefits.

***Board Ad-Hoc Committee on Retiree Health Benefits:*** Do not further limit eligibility for retiree health benefits.

***CEO/HR Recommendation:*** Do not further limit eligibility for retiree health benefits. Adding complexity to a finite system is not an effective strategy.

### Increasing Retiree Contributions Toward Premium Costs

This strategy can be described both as specifying and limiting the Retirement System's contribution to Retiree Health Benefits, which moves toward a "defined contribution plan" (as opposed to a "defined benefit plan") and described as increasing retiree contributions toward plan premium costs. It is probably one of the simplest ways of increasing financial support for the benefits in a manner that is quantifiable to all parties. The Retiree Health Benefits Committee and the Retirement Board, as well as the Board Ad-Hoc Committee, looked at a variety of options with a range of financial outcomes. Although the permutations are endless, there are several factors to be considered in developing a justifiable and equitable methodology:

- The increased costs projected for the total premium for the Retiree Health Plan in 2009
- The current zero contribution from the retiree toward the premium costs of a health plan that provides fairly comprehensive coverage
- The current 100% contribution from the retiree for dependent coverage and vision or dental coverage
- The current disparity wherein retirees receiving Medicare have to pay approximately \$106 per month to Medicare, while continuing to receive Retiree Health Benefits, and younger retirees, who don't receive Medicare, have no additional costs

Options reviewed by the different committees included the following, both on an individual basis and combined in different ways:

- Passing the total premium increase cost of \$85 per month between 2008 Plan Year and the 2009 Plan Year to the retirees
- Capping the Retirement System's contribution toward premium costs to the present level (same effect as above in 2009, but applied into the future)
- Adding a monthly contribution of \$106 from younger retirees toward premiums for the Retiree Health Plan, to match the \$106 monthly payment of older retirees to Medicare
- Adding monthly premium contributions of varying levels to retirees regardless of Medicare status or taking into account Medicare status
- Changing contribution levels for coverage for dependents

***Retiree Health Benefits Committee Recommendation:*** Raise retiree contributions toward Retiree Health Plan premiums by the amount of \$200 per month for non-Medicare retirees and by the amount of \$100 per month for retirees receiving Medicare. Continue full payment of premiums by retirees for dependent, vision and dental coverage.

This would yield projected revenues of \$894,815, in addition to covering increased 2009 Plan costs of \$306,385, to address flat or reduced excess earnings from the Retirement System.

***Retirement Board Recommendation:*** Raise retiree contributions toward Retiree Health Plan premiums by the amount of \$106 per month for non-Medicare retirees. Continue zero contribution toward Retiree Health Plan premiums for retirees receiving Medicare and continue full payment of premiums by retirees for dependent, vision and dental coverage.

This would yield projected revenues of \$138,815, in addition to covering increased 2009 Plan costs of \$306,385, to address flat or reduced excess earnings from the Retirement System.

***Board Ad-Hoc Committee on Retiree Health Benefits Recommendation:*** Raise retiree contributions toward Retiree Health Plan premiums by the amount of \$85 per month for all retirees. Phase in a \$106 per month contribution for non-Medicare retirees over two years: \$53 per month in 2009 and \$53 per month in 2010. Continue full payment of premiums by retirees for dependent, vision and dental coverage.

This would yield projected revenues of approximately \$700,000 (\*estimated), in addition to covering increased 2009 Plan costs of \$306,385, to address flat or reduced excess earnings from the Retirement System.

***CEO/HR Recommendation:*** Raise retiree contributions toward Retiree Health Plan premiums by the amount of \$85 per month for all retirees. Phase in a \$106 per month contribution for non-Medicare retirees over two years: \$53 per month in 2009 and \$53 per month in 2010. Continue full payment of premiums by retirees for dependent, vision and dental coverage.

This would yield projected revenues of approximately \$700,000 (\*estimated), in addition to covering increased 2009 Plan costs of \$306,385, to address flat or reduced excess earnings from the Retirement System.

It is absolutely necessary to take measures to reduce and offset the impacts of increasing health care premium costs in order to sustain a viable retiree health plan. The Executive Office supports strategies that reasonably and fairly address increasing costs, while lessening the impact on individuals on fixed incomes.

### **Recommended Action/Conclusion**

**The action requested of the Board of Supervisors is to establish a schedule of retiree premium contribution amounts toward the Retiree Health Plan for the 2009 Plan Year.** By taking this action now, information can be provided to retirees prior to the annual open enrollment period in November, and the schedule can be implemented January 1, 2009 at the beginning of the new Plan Year.

This is not an easy decision, but it is a necessary one to ensure that the Retiree Health Plan is there for the retirees who depend on it.