County of Mendocino

Proposal for Preserving Non-Medicare Eligible Retiree Health Plan Through December 31, 2013

March 8, 2012 – Board Presentation

Human Resources – Staff Report

INTRODUCTION

Mendocino County has been in a fiscal crisis over the past few years. Competing priorities, increasing community needs and the rising cost of doing business have created a tough reality, full of difficult decision-making by this Board of Supervisors.

The Board has made multiple decisions regarding retiree health care. Today this Board is faced with making another difficult decision. With consideration of all of the competing priorities, staff had previously recommended a premium of $922.56 per month, thereby eliminating the need for General Fund subsidy. The Board has made it clear that they want to help the retirees. A subsidy to the retirees was approved by this Board on January 24, 2012, along with blending the retiree plan with the active employee plan. Blending is not possible (see pg. 4), but the Board may still authorize a subsidy (see below) if they choose to allocate General Fund to this cause.

Background information to support staff's recommendation follows. In addition, supplemental materials associated with this policy issue are included in the Board resource binders.

STAFF RECOMMENDATION

Based on the Board's unanimous decision on January 24, 2012 to preserve the Retiree Health Plan and lower premium costs to the retirees, staff's current recommendation is:

1. Provide subsidy of $259.23 to reduce the current $922.56 retiree premium rate to $663.33 (which is the rate proposed in the blending option on January 24, 2012) for Plan Year 2012 resulting in an approximate 28% decrease in premium costs to retirees.
2. Allow for the approximate 60 non-Medicare eligible retirees who were participants in the retiree health plan in September 2011 (prior to the notification of the rate increase and elimination of the County subsidy) to have the opportunity to re-enroll with an effective date of April 1, 2012 at the $922.56 premium rate and receive the $259.23 monthly subsidy;
3. Allow for any qualifying active employees who retire between now and the effective date of the plan termination on December 31, 2013 to receive the same subsidy as other qualifying non-Medicare eligible retirees.

RETIREE REPRESENTATIVES PROPOSAL

Staff comments relating to the Retiree Representatives proposal presented to the Board on January 24, 2012, by Richard Shoemaker are included in the resource binder along with the Retiree Proposal. Staff comments are based on Human Resources review and discussion of the retiree proposal with the Bargaining Unit Representatives at the Informational Meeting held February 13, 2012.

FACTORS TO CONSIDER

Factor No. 1: Subsidy Funding Impacts

- Current 2012 Retiree Health Plan Premium Rate: $922.56
- Proposed Blending Plan Retiree Premium Rate: $663.33

Recommended Subsidy: $259.23

Enrollment	45 Retirees Current March 2012	109 Retirees Sept 2011	175 Retirees +AON Future 63 Est.
Est. Cost Per Cal. Year	$139,984	$339,073	$544,383

Note: Dependent premium rates are not subsidized

Subsidy rates are estimates; the number of enrollees in the program fluctuates. Enrollment may decrease as current retirees turn 65 and transition to Medicare (22 current retirees will turn 65 in 2012 and 2013) and/or current employees (future retirees) turn 65, and are therefore are not eligible for Retiree Health Plan. Current and future retirees may also find alternative health plan coverage and opt out of the County Plan. In addition, current employees may elect COBRA coverage at retirement. It's also important to remember that the analysis prepared by AON Consulting, attached, regarding the numbers for future retiree Health Plan enrollment are estimates; actual number of retirements could be higher or lower.

Previously Proposed Blending Subsidy Premium Utilized for Today's Recommendation	Premium	Estimated Subsidy		
Proposed 4/1/12 – 12/31/13 Blended/Different Rates: Reflects combined cost and claims experience for each group (Active & Retiree) - Retirees Pay 25% of & County Pays 75% of Subsidy	Current: $922.56 Blended: **$663.33**	**2012** County $219,907	Active Ø	**2012** Retiree $73,302
2012 Estimated Total Subsidy = $293,209				

Note: On January 24, 2012, the Board agreed to subsidize retiree health for approximately $219,907. This figure was used to formulate today's recommendation.

Factor No. 2: Current Enrollment

Month/Year	Retirees	Dependents	Total
Sept 2011	109	13	122
Oct 2011	107	13	120
Nov 2011	105	13	118
Dec 2011	94	13	107
Jan 2012	59	9	68
Feb 2012	51	9	60
Mar 2012	45	9	54

Keenan & Associates, the County's Health Plan Consultants, re-evaluated the retiree health plan costs based on the reduction in participants determined by the most recent open enrollment in October of 2011 as part of the Retiree Health Plan Workgroup evaluation process. Since both sized groups (October 2011 as compared to January 2012) are not credible, it was determined that although the number of participants dropped significantly, the current established rates of $922.56 would most likely continue to provide full program funding for Plan Year 2012.

Factor No. 3: Future Enrollment

Future Enrollment	Eligible for Retiree Health Benefits
2012	187
2013	8
Total	**195**

Future enrollment numbers are based on the total number of active county employees hired before September 1, 1998. According to the actuarial analysis conducted by AON Consulting, attached, as part of the Retiree Health Plan Workgroup OPEB (Other Post Employee Benefits) evaluation process, 63 active employees can be expected to retire and enroll in the Retiree Health Plan in 2012 & 2013. AON analysis is attached.

COBRA Coverage & Impact on Retiree Health Plan Enrollments: Employees separating from County service, including retirement, who are enrolled in the Employee Health Plan, are eligible for continued health plan coverage through COBRA for 18 months. The employee pays the full cost (no County share) of their active employee status premium rate plus a 3% COBRA administration fee. COBRA premium rates for Plan II active employees, $556, are currently lower than the retiree premium rates, current $922.56 or at the recommended subsidy rate of $663. A number of employees leaving County service are choosing COBRA coverage instead of enrolling in the Retiree Health Plan given that the Retiree Health Plan is scheduled to terminate on 12/31/13.

Factor No. 4: Current Budget Status

Non-Medicare Eligible Retiree Health Trust Fund		
Ending Balance Jan 31, 2012	**$**	**(510,396)**
ERRP Revenues	**$**	**259,129**
Cash (Deficit) Surplus	**$**	**(251,267)**

As identified by the Auditor's Office, as of January 30, 2012, the Retiree Health Plan Trust Fund showed a deficit of $510,396. However, this deficit does not reflect a credit for the Early Retiree Reinsurance Program (ERRP) funding currently being held in a separate fund. Based on the transfer of the balance of ERRP funds of $259,129, the Retiree Health Fund presently has **a cash deficit balance ending January 2012 of approximately $251,267. It is important to note recent budget information indicates the deficit trend is continuing and the deficit is increasing.**

Early Retiree Reimbursement Program (ERRP) Funds Status: Receipt of additional ERRP funding is highly unlikely. Although Keenan has submitted a final ERRP claims reimbursement payment request in the amount of $151,595, we have been notified that reimbursement requests now exceed the $5 billion appropriated to this temporary program. **We are presently 2,530th in the cue of requests for payment.** The total dollar amounts of the 2,529 requests "ahead of us" is unknown; each could range from a few hundred dollars to millions of dollars with any single employer having multiple requests.

Impact to Stop Loss Coverage: Stop loss coverage protects the self-funded retiree and active health plans from catastrophic losses by individuals. The Retiree Health Plan stop loss coverage provides for individual coverage on medical and prescription claims in excess of $125,000 to $1,000,000. The retiree stop loss coverage would need to be re-marketed in the event the retirees who terminated from the plan and have not obtained other coverage are allowed to re-enroll. The cost impact of this is unknown and might also need to be subsidized.

Factor No. 5: Fiscal Impact/County General Fund (Based on enrollment projections)
Financial projections vary based upon the number of enrollees, amount of subsidy, projected plan deficit, potential increase in Stop Loss coverage, and other factors. Based on the information available at this time, the following chart represents the minimum - maximum cost projections for: Fiscal Year 2011/2012, Fiscal Year 2012/2013, and Fiscal Year 2013/2014 (up to December 31, 2013) when the plan will expire:

FISCAL IMPACT - FISCAL YEAR 2011/2012		
Deficit	**Subsidy**	***Total General Fund Impact***
$250,000 (as of 1/31/12) $TBD (Feb-June 2012)	$34,996 - $136,096 (April-June 2012) (3 months)	$284,996 - $386,096 *(Not including Feb-June 2012)*

FISCAL IMPACT - FISCAL YEAR 2012/2013		
Deficit	**Subsidy**	***Total General Fund Impact***
Unknown	$153,982 - $598,821 (12 months)	$153,982 - $598,821

FISCAL IMPACT - FISCAL YEAR 2013/2014		
Deficit	**Subsidy**	***Total General Fund Impact***
Unknown	$84,690 - $329,352 (6 months)	$84,690 - $329,352

TOTAL *ESTIMATED* GENERAL FUND IMPACT *(FOR THE DURATION OF THE PLAN)*		
		Total General Fund Costs: FY 2011/2012-December 2013: Up to $1,314,269 (FY 11/12, 12/13, 13/14: (Plan Deficit + Plan Subsidy)

Factor No. 6: Barriers To Blending Retiree Health Plan With The Active Employee Health Plan Proposal

Barrier No. 1: Active Employees must agree to blending proposal: Health Benefits are a component of each Bargaining Unit MOU and are considered under wages, hours and working conditions, all required topics for meet and confer. Since the blending proposal represents a health plan change, and there is the potential for the active employee health plan costs to increase as a result of blending, thereby increasing premiums, the County is obligated to present the proposal to the Bargaining Units.

In order to implement the proposal to blend the Retire Health Plan with the Active Employee Health Plan the County needed the support of all Bargaining Units. Human Resources held an informational meeting with representatives of the various Bargaining Units on February 13, 2012, regarding the blending proposal and requested that the Bargaining Units respond in two weeks with their position. Of the eight Bargaining Units, five responded to Human Resources with their position; one supported the proposal, two requested to meet and confer on the topic and two did not support the blending proposal, nor wished to engage in meet and confer. This resulted in the County concluding the blending proposal discussion with all Bargaining Units and agendizing the Retiree Health Plan for further Board discussion. The informational handouts provided to the Bargaining Units are attached.

Barrier No. 2: Stabilization Reserve depletion results in increased cost to active employee premiums: A stabilization reserve is established to protect the solvency of a self-insured health plan and ability to pay expenses in the event of extreme fluctuations in plan costs. Stabilization Reserves are usually equivalent to 3 months of plan expenditures. A stabilization reserve has never been established for the Retiree Health Plan, hence the current deficit and impact to the County General Fund. Keenan has estimated that a three month stabilization reserve for retirees, based on 64 enrollees, would equate to $158,153. If the Retiree Health Plan had a stabilization reserve it would be used to offset the plan deficit, however, given the excessive premiums paid by retirees, increasing the premiums to fund a Stabilization Reserve was not feasible.

If the Retiree Health Plan were blended with the Active Employee Plan, then the Active Employee Plan Stabilization Reserve would cover the retiree deficit for 2012 and 2013. This action could result in depletion of the reserve funds and higher premiums for the Active Health Plan in order to restore the Reserve to proper levels. Furthermore, since the Retiree Health Plan is terminating December 31, 2013, any costs associated with blending in 2013 would be recouped in 2014 and on and would be borne by the active employees. Based on the current deficit, premiums could increase approximately 6% above the already anticipated increase of 8-10%.

Barrier No. 3: Subsidy creates OPEB Liability which has a negative impact to bond ratings: The Government Accounting Standards Board (GASB) requires costs that pertain to other post-employment benefits (OPEB), other than pension, are reported. GASB requires that employers report liabilities that are accrued in OPEB plans over the service time of employees, rather than as the current year's cash outlay. Since the Board directed the termination of the Retiree Health Plan effective 12/31/13, the OPEB liability analysis is for a finite period of time, 2 years, so it becomes more like a cash flow analysis. This factor changes the potential liability significantly since OPEB liability is calculated over a 30 year time frame. The OPEB liability below was calculated by AON Consulting as part of the OPEB actuarial analysis prepared for the Retiree Health Plan Workgroup. Per consultation with County Financial Advisors any OPEB liability over $500,000 has the potential to negatively impact bond ratings for the County.

Retiree Health Plan	OPEB Liability thru 12/31/13	
	74 Enrolled	**120 Enrolled**
Blended - County Pays Subsidy	**$608,000**	**$681,000**

NEXT STEPS

Based on Board of Supervisors action today, staff will implement Board direction and continue to monitor Retiree Health Plan developments and report back to the Board periodically. Depending on Board action, Human Resources will return to the Board in August/September for direction regarding for 2013 plan rates and subsidy amount.

RESOURCE BINDER/ATTACHMENTS

- Board background/summary of actions (attached)
- Bargaining Unit Information:
  - Letter to Bargaining Units to Invite to Information Meeting
  - Retiree Health Plan Blending with Active Employee Plan – Information Provided to Bargaining Units
  - Retiree Health Plan Background Information Provided to Bargaining Units
  - Non-Medicare Eligible Retiree Health Workgroup Report Submitted to Board of Supervisors on January 24, 2012
  - Human Resources Responses to Retiree Health Workgroup Recommendation
  - OPEB Analysis Prepared by AON Consulting
  - Health Plan Rates for Active and Retiree Health Plans for 2011 & 2012
- BOS: 1/24/12; 11/15/11; 9/27/11

BACKGROUND – NON MEDICARE ELIGIBLE RETIREE HEALTH PLAN

September 21, 2011: The Board received formal notification from the Board of Retirement of its intent to not release the balance of excess earnings ($658,654) that had been set aside to pay for retiree health benefits.

September 27, 2011: The Board of Supervisors authorized the increase in premium levels for the Non-Medicare Eligible Retiree Health Plan to fully fund plan costs in the amount of $922.56 per retiree per month effective January 1, 2012. This increase was the result of the potential loss (or delay) in the receipt of the balance of excess earnings in the amount of $658,654 held by the Board of Retirement, the information provided in the 2012 Non-Medicare Eligible Retiree Premium Renewal Report prepared by Keenan & Associates, and the unanticipated significant increases in recent Non-Medicare eligible retiree claims costs.

In addition staff was directed to send 90-day notification letters of the Retiree Health Fund depletion to non-Medicare Eligible retirees. The notice to Non-Medicare Eligible Retirees identified the increase in their premium rates for 2012 and the County's intent to discontinue its $288 per month contribution towards health plan premiums effective January 1, 2012.

November 1, 2011: Staff was informed of a letter received by the Board of Supervisors from the Association of Mendocino County Retired Employees (AMCRE) dated October 24, 2011. The letter requested the Board consider establishing a short-term work group to review the alternatives for Non-Medicare Eligible Retirees health care coverage as prepared by Mercer Consulting on April 8, 2011 and presented to the Board on May 23, 2011. On November 1, 2011, the Board directed staff to prepare an agenda report to discuss this request.

November 15, 2011: Staff provided the Board with an update on the status of the Retiree Health Plan. Staff received direction from the Board to terminate the retiree health plan upon giving participants a 90-day termination notice (February 29, 2012) based on the following factors:

- An approximate 45% decrease in plan participants for Plan Year 2012 resulting from the Special Open Enrollment process conducted from October 1, 2011 to October 22, 2011.
- Assumption based on the cycle of diminishing number of non-Medicare eligible retiree health plan participants, revaluation of premium rates would result in increased rates, which then requires 90 day notice and conducting another open enrollment with possible further reduction in enrollees
- Reduction in anticipated collected premiums
- Anticipated funding levels necessary to pay the full cost of the retiree health plan based on significant increases in claims experience
- Current Retiree Health Plan Trust fund deficit
- Lack of a Retiree Health Plan Stabilization Reserve
- Potential Impacts to County's General Fund
- Unknown status/ability to collect ERRP funds
- Potential Impact of Other Post Employment Benefits (OPEB) Liability on bond ratings if retirees were blended with active employees health plan
- Improbabilities of timely and successful meet and confer process on proposal to blend retirees with active employees' health.
- Cost to Non-Medicare Eligible Retiree Health Plan to perform OPEB liability study to evaluate blending option.

Staff also received Board direction to proceed with the formulation of the AMCRE requested working group, reporting back to them on the results of this review/analysis in 60 days.

January 24, 2012: After hearing recommendations from Staff and the Retiree Health Plan Workgroup on alternatives to the termination of the non-Medicare eligible retiree health plan effective February 29, 2012, the Board confirmed their intent to terminate the retiree health plan effect no later than December 31, 2013; extended the current retiree health plan through March 31, 2012 pending a meet & confer process for proposed blending of non-Medicare eligible retirees onto active health plan with the County subsidizing 75% of the increased cost and retirees paying 25% of active employee portion of increased costs which would enable a reduction in premium costs to retirees from $922.56 per month to $663.33 per month. Board Minutes relating to this direction are attached.

February 13, 2012: Human Resources held an informational meeting with representatives of the various Bargaining Units regarding the proposal to blend currently qualifying non-Medicare eligible retirees into the active employee Health Plan. Human Resources requested that the Bargaining Units respond in two weeks with their position on the blending proposal. The documents provided to the Bargaining Unit representatives for the discussion are attached.

February 28, 2012: County Counsel reported from Closed Session that, regarding labor, based on discussion regarding the meet and confer process relative to the retiree health issue, the Board has directed staff to agendize the retiree health issue for March 13, 2012. Of the eight Bargaining Units, five responded - one Bargaining Unit agreed to the proposal, two requested meet and confer, and two did not support the blending proposal, nor wish to engage in meet and confer regarding the topic. The two non-supportive responses resulted in the conclusion of the blending proposal discussion with all Bargaining Units and Board decision to not implement the proposal at this time. Based on this outcome, the Board directed staff to agendize the retiree health issue for the March 13, 2012 Board meeting.