RETIREE HEALTH BENEFITS

Report on Recommendations from the County Executive Officer, Human Resources Department and the Retiree Health Benefits Committee Regarding Retiree Health Benefits
April 6, 2010

EXECUTIVE SUMMARY

Background/Issue

Pursuant to Resolution 09-218, entitled "Resolution of the Mendocino County Board of Supervisors Superseding Resolution 98-147 Regarding Funding Retiree Health Insurance Benefits", adopted by the Board of Supervisors on September 22, 2009, the funding of the Retiree Health Benefits Plan will be made with the use of excess earnings of the Mendocino County Employees Retirement Association and contributions by the retired employees who participate in the plan.

The continued absence of sufficient "excess" earnings from the retirement system's investments to fund the Retiree Health Insurance Reserve, and on-going draws on the reserve for claims payments, has resulted in a declining balance in the Retiree Health Insurance Reserve and a shortened period of time that the reserve will be able to fully fund retiree health benefits in Mendocino County. The Retiree Health Insurance Reserves are expected to be depleted by the end of 2010.

On September 22, 2009 the Board of Supervisors approved an adjustment to the premium contribution levels of the Retiree Health Plan understanding that the approved increase would only provide for a little less than two months extension to the anticipated depletion date of the retiree health trust fund. The Board also directed staff to begin the process of evaluating plan modification options, research alternative Supplementary Group Plans for Medicare eligible retirees and evaluate changes in market conditions.

Retirement Health Benefits Committee (RHBC)

Working in conjunction with the County's consultant, Bordan Darm of MERCER, the CEO's Office, the Human Resources Department, and representatives from the Retirement Office, the Retiree Health Benefits Committee has met on four occasions for the purpose of evaluating options for maintaining access to health care for qualified Mendocino County Retirees. The Retirement Health Benefits Committee consists of three Board of Retirement members and one non-voting Association of Mendocino County Retired Employees (AMCRE) member.

Retirees fall into two categories with respect to healthcare – those that are eligible for Medicare (Medicare eligible) and those that are not (early retirees or non-Medicare eligible). The RHBC has evaluated options for continuing to provide access to healthcare for both groups. This report is a summary of the RHBC findings and recommendations to date.

Staff is requesting the Board of Supervisors receive this report, and consider possible action with respect to the Medicare eligible retirees as described below. Staff and the RHBC have committed to conducting an informational meeting with retirees before the Board took final action, and this item will be back before you on April 20th for further action. This will allow time for the informational meeting to occur with retirees and those pre-1998 active employees who are eligible for retiree health benefits.

Medicare Eligible Retirees

Staff and the RHBC received the marketing results from Mr. Darm for both Medicare eligible and early retiree groups. Mr. Darm reported the County could significantly reduce health plan costs by moving Medicare eligible retirees to a Medicare supplemental insured plan. He also reported there were no group insured plan alternatives available to the non-Medicare eligible or "early" retirees.

Human Resources staff and Mercer interviewed four carriers offering supplemental plans. One firm, Extend Health, was identified as the best possible option for supplemental plans. Extend Health operates similarly to a broker whereby after interviewing the retiree, a supplemental plan is chosen which best suits the retirees needs and income. The Medicare-eligible retiree has a wide variety of supplemental insurance plans to choose from with costs ranging to $0 - $279. At the RHBC's recommendation, Mr. Darm conducted a site visit with Extend Health and reported to the Committee that the service center more than met his expectations. Extend Health is a leader in the Medicare Coordinator market. They serve over 60 employers and 500,000 retirees nationwide and provide personalized service to every client retiree.

Extend Health offers access to over 1,900 unique health insurance plans and 60 individual plan providers. Retirees have access to Medicare supplement plans nationwide through Extend Health, regardless of where they reside. Some of the plans available include:

- AARP
- Anthem BlueCross
- SecureHorizons
- Cigna
- Sterling Health
- Humana
- Mutual of Omaha

The benefit of using a Medicare Coordinator is the improved service level to retirees. Retirees are provided with personalized service as they select from among the plans available the particular plan which most suits their needs and budget. They have the ability to change between Medicare Supplement plans at any time should their requirements change. Extend Health is there to answer all their questions about plan benefits and to help the retiree assess which plan is best for them. There is no cost to the County or the retiree for coordinating Medicare supplement plans through Extend Health. Extend Health is reimbursed through the Medicare Program.

Mr. Darm is present today and can answer any additional questions the Board may have regarding Extend Health.

RHBC Recommendations

At their meeting of March 8, 2010 the RHBC voted unanimously to recommend to the CEO that Medicare eligible retirees on the County self-funded plan be transitioned to individual Medicare supplemental plans; and to use Extend Health as the Medicare Coordinator service provider. The RHBC further recommended that, subject to the availability of funds in the Retiree Health Insurance Trust Fund, a County contribution of $200.00 per Medicare eligible retiree per month be provided to retirees to offset the retiree costs for a supplemental insurance plan. Mr. Darm estimated that this action would save approximately $127,388 per month over the current costs based on approximately 386 Medicare eligible retirees on the County's Retiree Health Plan. A 90-day notification period is required, informing retirees of any plan changes. These recommendations were forwarded to the CEO on March 9 via memo from the Human Resources Director, a copy of which is attached to this report.

Extend Health will waive the one time setup fee for each retiree if the County makes the transition effective date on or before August 1, 2010. Implementation after August 1, 2010 impacts the annual open enrollment period conducted by Extend Health for all Medicare retirees they are servicing, and the setup fees would be approximately $4,000 to $5,000.

Early "Non-Medicare Eligible" Retirees

As mentioned above, when Mercer marketed our early retirees for quotes on fully insured plan options, not a single provider elected to provide a quote. The RHBC and staff continued to look at other possible options for the early retiree population. At their March 8th meeting, the RHBC reviewed high deductible options. The Committee again met on March 25, 2010 to continue its review of these and other options for the early retirees. At this meeting, the RHBC and staff reviewed several possible self-funded plan designs and various County contribution rates in an attempt to identify a solution that continued to provide access to healthcare at a reasonable cost to the retiree while transitioning to a low to zero contribution rate by the County. With no fully insured plan options available and the prospect of future excess earnings from the pension plan dim, the choices are limited to ending the retiree health program upon exhaustion of existing funds, or crafting a self-insured option which continues to provide access to healthcare at a reasonable cost to the retirees.

The following are the highlights of the options considered and issues discussed pertaining to early retiree healthcare:

- Plan design, which ranged from the current Active II Plan to various high deducible plans
- Level of County contribution (until current reserves are exhausted)
- Combining early retirees with active employee pool for healthcare
- Status of post-1998 employees
- Future excess earnings
- Establishing a stabilization reserve for the retiree health plan
- Status of the Incurred But Not Reported (IBNR) reserve
- Implementation date
- The impact of the Healthcare Reform Act on early retiree benefits

RHBC Recommendations

After evaluating all options presented at the meeting, the RHBC voted unanimously to make the following recommendations regarding the early retiree health plan to the CEO:

1. Modify the retiree health plan to mirror the Active Plan II in terms of level of benefits (medical plan only), this is referred to as putting the early retirees on the Active Plan II. There are two ways to implement this, in a "blended" manner or a "separate" manner. The recommendation of the RHBC and staff is to use the "separate" approach.
    a. Blending of the programs includes the underwriting, reserve sharing, and cross subsidies of cost from the active employees to retirees. This is not desirable as it would have a negative impact on the current active employee population and the County in the form of higher premiums resulting from the subsidization of the early retirees. This implicit subsidy would also increase the actuarial unfunded OPEB liability for the County.
    b. The separate approach would mean the two plans would mirror each other in terms of benefits for the medical plan only (dental and vision not included, however still available through the current retiree dental and vision plans). However, this

approach would provide stand-alone rates for both active employees and early retirees. Rates would reflect each group's own plan experience and own associated costs. However, economies of scale would be realized based on the two groups being bundled together for purchasing power for fixed costs such as claims administration, reinsurance, and network discounting. This approach has no negative impact to the active plan, nor does it increase costs to the County in terms of higher premiums or increased OPEB liability.

2. Contribute $200 per month towards the early retiree health plan premiums (the same contribution level recommended for Medicare-eligible retirees) from the Retiree Health Trust Fund until the funds are depleted, after which time 100% of the costs will be borne by the retirees. The RHBC placed high importance on the equitable distribution of the remaining trust fund reserves across all retirees in the health plan, whether Medicare-eligible or early retiree.
3. Open up retiree health plan benefits to post-1998 employees/retirees in order to keep the pool large enough to be sustainable as a group health plan and hopefully prevent the "death spiral" effect of adverse selection. Mr. Darm from Mercer will be providing revised cost estimates to the RHBC at their April 8th meeting as the estimates available during the March 25th meeting assumed only pre-1998 eligible actives and retirees. This would not incur costs for the County as the plan costs would be borne 100% by the retirees.
4. Place the following restrictions on post-1998 retiree participation in the early retiree health plan:
    a. If a retiree opts out of the plan they are not able to opt back in. This is intended to mitigate the effects of adverse selection within the plan. However, upon reaching Medicare eligibility age, the retiree could use Extend Health for enrollment into a Medicare supplement plan.
    b. These retirees not be eligible for County contributions from the existing reserve funds, however, should excess earnings become available at some point in the future, all retirees on the plan would benefit from any contributions made from future excess earnings.
5. Fund the stabilization reserve for the early retiree plan over five years to minimize negative impact on premiums. Over the last few years the active plan has maintained a premium rate higher than the minimum required to cover costs in order to fund a stabilization reserve. The retiree plan has not. The recommendation is that a stabilization reserve for the retiree plan be funded over five years.
6. Leave the IBNR "tail" reserves in the trust fund. The recommendation is made at the suggestion of Retirement Administrator Jim Andersen, who is present today to answer questions the Board may have as to why this is the preferable method. The RHBC and staff support this recommendation.
7. Consider any future impacts the Healthcare Reform Act may have when designing and administering the new retiree health plan in order to take full advantage of any permanent or temporary short-term reimbursements which may be used to lower costs to the retirees participating in the plan.
8. Implementation date of both Medicare eligible and early retiree plan changes to be August 1, 2010.

The RHBC also made the recommendation to take all recommendations for both Medicare-eligible and early retirees to the Board for action on April 20, 2010. The purpose of this was to allow staff

to organize and hold an informational meeting for retirees. Communication and outreach has occurred through the participation of active members of AMCRE and written notifications, but staff and the RHBC believe it important to have an open forum meeting where the recommendations of the RHBC are presented to interested retirees and active employees before the Board takes final action.

These recommendations were forwarded to the CEO on March 29 via memo from the Human Resources Director, a copy of which is attached to this report.

Summary

CEO Angelo and staff desired to inform the Board of the efforts of the RHBC and provide a status report. This enables the Board to review the information and provide any additional direction to staff as we move towards finalizing the recommendations, specifically with respect to early retirees. Staff is requesting the Board provide direction to begin the process of transitioning the Medicare eligible retirees to Medicare Supplement plans through Extend Health. Attached to this report is an implementation plan for the transition. Providing clear direction today will allow staff more time to complete the transition and ensure an August 1, 2010 implementation date.

The effect of reducing the County contribution to $200 per month for all retirees currently on the plan will be to extend the Retiree Health Insurance Trust Fund and allow County contributions to continue for approximately 12 to 18 additional months beyond the current estimated fund exhaustion date of December 2010. The actual number of additional months of funding will depend upon the effective date of plan changes. Staff and the RHBC expect that any benefits from the Healthcare Reform Act will be in place and will allow for continued reduction in costs to retirees by the time the Retiree Health Insurance Trust Fund reserves are depleted.

The Board may wish to take the next two weeks to consider the information provided today, and provide further direction and take additional action on April 20th with respect to any County contribution levels for both Medicare-eligible and early retirees, the early retiree plan design, and the other recommendations set forth above.

The RHBC's next meeting is scheduled for April 8th to finalize recommendations for early retiree options.

Notifications

On March 8, 2010, staff attended an AMCRE Board of Director's meeting where RHBC member, Dennis Huey, provided an overview of the recent activities of the RHBC. He reported that due to higher claims activity, the depletion of the Retirement Health Insurance Reserve is now expected to be by the end of 2010 not early 2011 as previously reported.

Staff sent out notification to all retirees and active employees who will qualify for retiree health benefits on March 16, 2010 on the recent activities of County staff and the RHBC. The notification also alerted retirees that in lieu of the development of an alternative funding source for the retiree health plan, all plan costs will be required to be borne by the retirees in order to maintain the group health plan. Retirees were told that this would occur in approximately January 2011, based on current County contribution and plan experience rates.

RECOMMENDED ACTION:

Receive report and provide direction to staff to begin the transition of Medicare eligible retirees to individual Medicare supplemental plans through Extend Health.