



Legislation Text

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Proposal to Change the Formula Used to Calculate the City's Contribution to Retiree's Health Insurance Premiums (B)

This Item involves a request for the City Commission to hear a presentation regarding changes to the Retiree Health Insurance Program

The City's current retiree health insurance program allows retirees to participate in the City's health insurance plan and pays a portion of the monthly premium cost for eligible retirees. The formula used to calculate the amount the City contributes was last changed in the 1990's when an actuarial valuation was performed on the retiree health insurance program to determine the true scope of the liability. This initial valuation determined the liability was approximately \$92 million. Subsequent changes in the Retiree Health Insurance Program reduced the liability to \$29 million. However, rapidly escalating health care costs and an increasing number of retirees over the last decade have resulted in the liability increasing to \$49 million and made it necessary for the City to re-visit this program in order to increase the probability that some portion of the retiree health premium cost will be able to be funded by the City on a long-term basis. As always, the cost of this program must be balanced against other City priorities.

The proposed changes would align the structure of our retiree health insurance program with the plans being provided by Alachua County and UF through the Florida Retirement System (FRS). The FRS plan provides a retiree health insurance contribution benefit of \$5 per month for each year of service up to a maximum of thirty years. Utilizing the FRS formula to determine the City's contribution would lower the liability to \$11 million, but would have a dramatic impact on the City's current retirees, lowering the monthly City contribution for nearly all retirees. In an effort to lower the impact and utilize some of the actuarial savings associated with the program, staff is proposing the following formula:

This proposed change to the City's program will include the following benefits for current and future retirees:

- The Retiree would receive \$10 per month for each year of credited service with no limit on the number of years of service. For example, if the retiree had 20 years of service he or she would receive \$200 per month to apply against the health insurance premium.
- If the Retiree is under age 65 when they first access the retiree health program, the City's contribution will be reduced by \$5 per month for every year of age under 65.
- If the Retiree is over 65 years old at the time they access the retiree health program the City's contribution would be increased by \$5 per month for every year over age 65.
- The benefit (the amount the City will pay towards the health insurance premium for a retiree) may be changed at any time in the future.
- Retirees will continue to be able to opt-out of the City's Health Insurance program upon retirement and retain the ability to re-enter at a future date. In this case, the City Contribution will be calculated based on the retiree's age at this future date.

For individuals currently receiving a disability benefit pursuant to either the Consolidated Police Officers and Firefighters Retirement Plan or the Disability Pension Plan the benefit will be equal to 100% of the 2009 individual premium if the retiree is receiving individual coverage and 155% of the individual premium which can be applied to dependent coverage. Once determined the calculated amount will be fixed and applied to all future premiums, unless the program is changed in the future.

For individuals applying for a disability retirement after April 18, 2008, they will receive the following contribution depending on whether the disability is related to an in the line of duty disability or non work related disability:

- In the line of duty disability will receive 100% of the individual premium charge for the plan year in which the disability benefit is granted. In addition, if the disability retiree elects dependent coverage, the City's contribution will be 150% of the

individual premium charged for the plan year in which the disability benefit is granted.

- Not in line of duty disability retirees will receive 50% of the benefit described immediately above.

In an effort to minimize the impact on current retirees, the transition to this new calculation will use the retiree's age as of January 1, 2009 for the purpose of providing age based reduction or enhancement of the basic benefit. The new program will also include a grandfathering clause that will ensure that all retirees over 65 will get the greater of the City's current contribution (adjusted to 2009 contribution) or the contribution attributed to the proposed formula change.

The net result of the changes will reduce the City's liability associated with the retiree health insurance program to approximately \$22 million or approximately \$11 million greater than the FRS formula.

To ensure that those impacted by the proposed changes are adequately informed of the impact, staff sent letters to each retiree specifically detailing the impact of these changes and held informational meetings. The letter to retirees included their specific calculation under the current program and the proposed program and the impact on their payment for health insurance.

In addition, an informational letter was sent to each current employee and staff conducted meetings for active employees to discuss the proposed changes. Copies of the letters are included in the back up.

An additional benefit of making this change is that it will help to minimize future budget cuts and service reductions. This change will also help GRU address concerns regarding future customer rate increases caused by growing costs. Staff believes that addressing this problem now will benefit the City and its employees and retirees in the long run and will prevent the City from having to take more dramatic actions in the future.

Finally, the language in the proposed ordinance will ensure compliance with the Governmental Accounting Standards Board's most recent pronouncements on post employment benefits (GASB 43 & 45).

The above changes will reduce the City's liability associated with the Retiree Health Insurance Program by approximately \$27 million based on the last actuarial valuation.

The City Commission: 1) hear a presentation from staff regarding the proposed Retiree Health Insurance Program and Trust 2) approve the proposed Retiree Health Insurance Program and Trust with new formula 3) authorize the City Attorney to draft and the City Clerk to advertise the Ordinance necessary to terminate the existing Retiree Health Insurance Program and Trust, and create a new Retiree Health Insurance Program and Trust using the assets, or a portion thereof, of the existing Trust to fully fund the New Program and Trust.