

Retiree Health Insurance Update

Board of Supervisors Meeting
9/11/2018





Retiree HI

- December 8, 1987 – Board approved Retiree Health Insurance Benefit
 - Two (2) Retirees – annual cost \$3,927
- Minutes: “Medical Insurance benefits shall be the same as those offered to full-time county employees for individuals under the age of sixty-five (65). Individuals over sixty-five (65) will be encouraged to transfer to an insurance program that covers those expenses not covered by Medicare.”



Retiree HI

- Current County Policy:

Coverage offered will be for the plan supported by the County for general employees and will be for the retiree only. Once the retiree becomes eligible for Medicare, coverage will then transfer to the County's Medicare supplemental plan.

- The County does not have a Medicare Supplemental Plan

Retiree HI



- On multiple occasions HR and County Administration provided opportunities to add a Medicare Supplement Plan for retirees age 65 and older
 - No action taken by Board to implement those plans.
- 2017 Evergreen Total Compensation and Benefit Study
 - 90.9% of our peers offer health insurance to retirees
 - Of those, 88.9% offer the same plans available to active EE's
 - Of those, 44.4% of employers pay nothing towards the plan cost, 33.3% pay same as active employees, 22.2% pay based on years of service
 - When retirees become Medicare-Eligible, 64% (7 of 11) of peers convert retirees to a Medicare Supplement Plan. The remaining four (4) provide no coverage at age 65.

Other Post Employee Benefits (OPEB)



- County's who provide retiree health insurance plans have an Other Post Employee Benefit (OPEB) obligation
- Similar to the VRS pension, it's a form of deferred compensation for work performed today and paid out in the future after employees retire.
- Represents a future obligation (liability) required to be estimated and recorded in our annual financial report.

OPEB Costs Determination



- Actuarial analysis is performed to estimate the County's OPEB obligation
 - Determines what benefits employees have earned to date and what the County will need to contribute annually to ensure funds are available to cover the cost of the retiree health insurance benefit for current and future retirees.

OPEB Costs Determination



- Actuarially Determined Contribution (ADC)
 - The annual amount, if contributed consistently and combined with investment earnings, would be sufficient to pay in full over the long-term the cost of both:
 - Health Insurance for Current Retirees
 - Funding to provide the Health Insurance benefit to future retirees
 - County's current ADC = \$9.3 Million



County Policy for funding OPEB

- Spotsylvania Fiscal Policy requirements:
 - Attempt to fund annual OPEB ADC for smaller funds ASAP (Initiated in FY 2015)
 - Reach 100% of the ADC no more than eight years from the beginning of the General Fund phase-in period.
 - Phase-in period began FY 2016 (w/ allocation of \$1.9M to OPEB Reserve)
 - Full funding of ADC by FY 2023
 - FY 2019 included \$1.2 Million annual funding



Funding Actuarially Determined Contribution (ADC)

- Current recommended ADC (all funds) = \$9.3M
- From FY 2020 - FY 2023, the County's funding of our ADC will need to increase annually by an additional ~\$1.3M until we reach \$9.3M ADC

\$1.5M = annual cost of active retirees

\$7.8M = additional annual funding for future costs

\$9.3M



Factors/Decisions that impact an Organization's OPEB Liability

Factors:

- Staff Size
- Age of current staff
 - When will employees be eligible to retire?
- Number of current retirees
- Competitive Employment Practices
 - What benefits attract and retain today's employees?

Factors/Decisions that impact OPEB Liability



Decisions:

- Type of Retiree Health Insurance Coverage
- Qualifications to receive benefit
- Cost Share - What cost will retirees pay?
- How long will Retiree Health Insurance benefits continue after retirement?

County and School Plan details – How do employees qualify for Retiree HI?



Spotsylvania County

Employees eligible for Full Retirement **hired prior to November 1, 2007** must complete ten (10) consecutive years of regular full-time employment immediately prior to retirement to qualify for retiree health insurance.

Employees eligible for Full Retirement who were **hired on or after November 1, 2007** must complete twenty (20) consecutive years of regular full-time employment with the County immediately prior to retirement to qualify for retiree health insurance.

Spotsylvania Schools (SS)

Employees **hired prior to July 1, 2007** must be eligible for VRS retirement and receive immediate retirement annuity; be at least 55 years of age, with at least five (5) consecutive years of service with SS; or be at least 50 years of age, have at least ten (10) consecutive years of service with SS and be eligible to receive an immediate retirement annuity.

Employees **hired on or after July 1, 2007** must have at least fifteen (15) consecutive years of service with SS, and be of retirement age and eligible for retirement benefits under the VRS and receive an immediate retirement annuity. Employee must be eligible to enroll in the School Board's health insurance program for a period of one year prior to seeking retiree healthcare benefits.

County and School Plan details – How do employees qualify for Retiree HI?



| Spotsylvania County | Spotsylvania Schools (SS) |
|--|---------------------------|
| Employees eligible for <u>Reduced VRS Retirement</u> must complete twenty (20) consecutive years of regular full-time employment immediately prior to retirement to be eligible for 50% subsidy towards the cost of employee only health insurance coverage. For every additional consecutive year of service, the employee earns an additional 5% subsidy up to 30 years where they qualify for 100%. | |

County and School Plan details – What type of health insurance coverage is provided to retirees and what is their cost?



| Spotsylvania County | Spotsylvania Schools (SS) |
|---|---|
| <p>Retiree Health Insurance coverage is the same basic plan coverage provided to active employees for <u>both Pre-Medicare and Medicare retirees</u>.</p> <p>There is no cost to retirees.</p> <p>Retirees may choose to enroll their spouses or family members in one of the County's health insurance plans, with the retiree paying 100% of the cost.</p> | <p><u>Prior to Medicare eligibility</u>, retirees may choose from the same health insurance options as an active employee. Once retirees are Medicare eligible, they are no longer eligible for the Options offered to active employees.</p> <p>Retirees who were hired prior to July 1, 2009 who are not yet Medicare eligible pay the same premiums as active employees while they are pre-Medicare eligible.</p> <p>For retirees who were hired on or after July 1, 2009, who are not yet Medicare eligible, the Schools will contribute a set monthly dollar amount of \$214 towards the total active employee premium with the retiree responsible for the balance.</p> |

County and School Plan details – What type of health insurance coverage is provided to retirees and what is the cost to the retiree?



| Spotsylvania County | Spotsylvania Schools (SS) |
|---|--|
| <p>Retiree Health Insurance coverage is the same basic plan coverage provided to active employees for <u>both Pre-Medicare and Medicare retirees</u>.</p> <p>When a retiree becomes Medicare Eligible, Medicare pays first and the County’s coverage is a secondary payer, paying what they would have paid if Medicare were not involved.</p> <p>There is no cost to retirees</p> <p>Retirees may choose to enroll their spouses or family members in one of the County’s health insurance plans, with the retiree paying 100% of the cost. Current monthly cost of spousal coverage is \$624.</p> | <p>Since January 1, 2006, retirees who are Medicare eligible must enroll and participate in a Medicare Complementary plan (Part A & B). Prescription Drug Part D plan is also offered to Medicare eligible retirees. The Complementary plan is available to the retiree and spouse (spouse pays to the total premium).</p> <p>Medicare eligible retirees hired prior to July 1, 2009 pay \$36.30 monthly and the Schools pay \$80.70 monthly. The retiree is also eligible to enroll in the Part D Prescription Plan. The Schools contribute the maximum of \$158.40 monthly for the Part D plan for the retiree (retiree cost is zero).</p> <p>Total Part A, B and D costs for the School per Medicare eligible retiree is \$239.10.</p> <p>The Spouse of the retiree pays the full premium of \$117 monthly for the Medicare A and B if they desire to enroll, but does not have the option to enroll in the Part D Plan.</p> |

County and School Plan details – What type of health insurance coverage is provided to retirees and what is their cost?



| Spotsylvania County | Spotsylvania Schools (SS) |
|---------------------|--|
| | <p>For Medicare eligible retirees who were hired on or after July 1, 2009 the Schools contribute a set monthly dollar amount of \$60.50 towards the Medicare Complementary Plan (Medicare Part A and B) and \$38.75 towards the Medicare Part D Prescription Drug Plan with the retiree being responsible for the balance.</p> <p>The maximum flat fee paid for the Total Part A, B and D plans by the Schools is \$99.25 per month per Medicare eligible retiree.</p> |



What are the plan details for health insurance coverage is provided to County and School retirees?

| Spotsylvania County | Spotsylvania Schools (SS) |
|--|--|
| <p>The current basic coverage plan (Key Care 30) has a \$500 deductible and provides prescription, vision and dental benefits.</p> <p>Retirees can pay the cost of upgrading to the premium Key Care 20 plan (no deductible), but the retiree must pay the full cost of the upgrade.</p> | <p>The School's Medicare Complementary plan (Part B) provides medical, vision and dental coverage and has a \$1,000 deductible.</p> <p>The Schools' offer a separate Prescription Part D plan.</p> |



County and School Plan details – What is the health insurance credit and who is eligible to receive it?

- Health Insurance Credits are monthly dollar amounts set by the General Assembly for each year of creditable service, not to exceed the individual premium amount.
- The Health Insurance Credit is applied to the retirees' retirement benefit payment. The Credit ends upon death.
- Rates for this coverage are adopted by the State annually.



County and School Plan details – What is the health insurance credit and who is eligible to receive it?

- The health insurance credit is a mandatory cost for Schools and is available to Teachers and Administrative employees who retire with at least 15 years of service credit.
 - Qualified employees earn \$4 per year of service
- The health insurance credit option is a mandatory cost for General Registrars and their employees; Constitutional Officers and their employees; and local social service employees who retire with at least 15 years of service credit.
 - Qualified employees earn \$1.50 per year of service with a monthly cap of \$45.



County and School Plan details – What is the health insurance credit and who is eligible to receive it?

- Examples
 - If a School retiree had 30 years of service, they would get \$4 each month for each year of service or \$120 that would be added into their monthly retirement benefit to cover the cost of the individual's health insurance premium, if they had premiums that totaled at least \$120 per month.
 - If a County employee qualified for the benefit, they could get earn up to \$45 a month that would be added to their monthly retirement benefit, to cover the cost of their individual health insurance premiums, if they had premiums that totaled at least \$45 a month.

County and School Plan details – What is the total OPEB Liability?



Because the County and Schools both provide retiree health insurance cover, they both have an OPEB Liabilities.

| | Spotsylvania County | Spotsylvania Schools |
|---|---------------------|----------------------|
| Covered Employee Payroll | \$47,488,000 | \$134,931,000 |
| Total OPEB Liability | \$95,680,000 | \$223,313,000 |
| Total Plan Assets | \$4,689,000 | \$3,132,000 |
| Plan Assets as a % of Total OPEB Liability | 5.15% | 1.42% |
| Total OPEB Liability as a % of covered employee payroll | 201.48% | 165.50% |

Covered Payroll Source – Spotsylvania CAFR for Fiscal Year Ended June 30, 2017

Total OPEB Liability Source – County- Spotsylvania CAFR for Fiscal Year Ended June 30, 2017; School – Actuarial report dated August 25, 2017

Total Plan Assets-as of June 30, 2017; Spotsylvania County assets are reserved and held by the County; School Assets are held in an irrevocable trust.

County and School Plan details – Where are we on funding the OPEB Liability?



| | Spotsylvania County | Spotsylvania Schools |
|--|---------------------|----------------------|
| Annual - Actuarially Determined Contribution (ADC) | \$9,343,000 | \$19,891,000 |
| Current Level of Annual Funding (active retirees - PayGo) Fiscal Year ended 6/30/2017 | \$1,454,000 | \$4,496,000 |
| Annual Contribution deficiency for Fiscal Year ended 6/30/2017 | \$7,889,000 | \$15,395,000 |
| Less Annual Funding for smaller funds (Not General Fund) | (\$1,497,604) | |
| Net <u>Annual</u> Contribution deficiency for Fiscal Year ended 6/30/2017 | \$6,391,652 | \$15,395,000 |
| | | |
| Budgeted ADC FY2019 | \$2,650,934 | |

ADC - Represents an annual amount that, if contributed consistently and combined with investment earnings, would be sufficient to pay promised benefits in full over the long-term.

OPEB Liabilities are solely funded with local funding, there are no Federal or State funding sources available for these expenditures.



Evaluation of Various Scenarios

| | Current Retiree HI Plan | \$625 HRA | \$625 HRA | \$625 HRA | \$625 HRA | \$625 HRA | \$625 HRA | \$675 HRA |
|---|-------------------------------|-----------------|---------------------------|--------------|---|---|--|----------------------|
| | | GF Everybody | GF Current Retirees | GF Nobody | GF retirees over age 65; others can choose; Employees hired after 1/1/19 go to HRA | GF current retirees over 65 as of 12/31/18 | GF current retirees and any employee hired prior to November 1, 2007 | GF nobody |
| Net Annual Contribution Deficiency | \$6.4 M | \$6.3M | \$3.6M | \$3.2M | \$4.1M | \$3.5M | \$5.7M | \$3.4M |
| Real Estate Tax rate Equivalent pennies | 4.6 | 4.5 | 2.6 | 2.3 | 2.95 | 2.47 | 4.06 | 2.41 |

HI – Health Insurance

HRA = Health Reimbursement Account

GF = Grandfather

Impact of \$625 HRA for Retirees Who Met with Lee



- 110 – Medicare Eligible retirees
- 51 – Met with Lee to determine impact of HRA proposal
 - Two (2) – Worse (Average \$500 more per year)
 - Four (4) – Neutral (Equal up to \$500 year better)
 - Forty-five (45) – Better (Average \$3,448 per year)

When do retirees have to Medically Qualify?



If we offer an option for Medicare retirees to choose between current plan or HRA:

- Retirees who are already sixty-five (65) or older will have to medically qualify for Medicare Supplement plans they would purchase with HRA funding.
- Retirees who are not yet sixty-five (65) would have 90 day open enrollment period when they reach 65 where they could choose a plan without having to medically qualify.



**ANY
QUESTIONS?**