Staff Summary Report

Tempe

Council Meeting Date: 1/22/09 **Agenda Item Number:** _____

SUBJECT: Request approval of a resolution authorizing the development of plan documents governing new City of Tempe retiree health benefits to become effective July 1, 2009.

DOCUMENT NAME: 20090122hrrb01 **HEALTH INSURANCE (0303-03-01)** Resolution No. 2009.11

COMMENTS: N/A

PREPARED BY: Jon O'Connor, Deputy Human Resources Manager (350-8423)
Tom Duensing, Deputy Financial Services Manager (350-8866)
Lynna Soller, Benefits Administrator (350-2975)

REVIEWED BY: Charlie Meyer, City Manager (350-8884)

LEGAL REVIEW BY: Dave Park, Assistant City Attorney (350-8907)

DEPT APPROVAL: Renie Broderick, Human Resources Manager (350-8407)

FISCAL NOTE: As determined by the City's independent actuary, the proposed changes to the retiree health plan would result in a $6.6 million annual budgetary impact, instead of an $18.4 million annual budgetary impact if no changes are made. This assumes the retiree health plan is advance funded utilizing an irrevocable trust.

RECOMMENDATION: Recommend adoption of Resolution No. 2009.11

ADDITIONAL INFO: This resolution authorizes the City of Tempe Human Resources Department to draft retiree health plan documents detailing the OPEB (Other Post Employment Benefits) Option 2, Example 1, referred to in the "Retiree Health Plan Proposed Changes Related to OPEB" Memo, dated December 4, 2008, to Mayor and Council from the Ad Hoc OPEB Committee and selected by Council at the December 11, 2008 Issue Review Session. Final Plan Documents will be brought forward for formal Council approval in March, 2009.

RESOLUTION NO. 2009.11

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TEMPE, ARIZONA, AUTHORIZING NEW POST EMPLOYMENT HEALTH PLAN DOCUMENTS DETAILING CHANGES TO BE EFFECTIVE JULY 1, 2009

WHEREAS, the Tempe City Council has the authority to create plan documents governing post employment health benefits provided to City of Tempe retirees and amending the Tempe Health Plan as revised June 23, 2008, and

WHEREAS, it is in the best interest of the City to create new plan documents for post employment health benefits and amend the current City of Tempe Health Plan;

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND CITY COUNCIL OF THE CITY OF TEMPE, ARIZONA, as follows:

The post employment Health Plan documents be written and the current Tempe Health Plan document be amended to reflect changes as indicated in the attached Exhibit A.

PASSED AND ADOPTED BY THE CITY COUNCIL OF THE CITY OF TEMPE, ARIZONA, this _____ day of _____, 2009.

_____
Mayor

ATTEST:

_____
City Clerk

APPROVED AS TO FORM:

_____
City Attorney

EXHIBIT A

Options developed by the Employee Ad Hoc OPEB committee were presented to the City Council at the IRS on December 11th 2008, and based on direction given at that meeting, the following changes to the City's retiree healthcare plan are due to be implemented July 1, 2009.

- Under the current healthcare plans, costs for employees and retirees are combined together to calculate a single premium (blended). On July 1, 2009, separate (unblended) premiums will be calculated for both current employees and current retirees for fiscal year 2009-10.

- It is anticipated retiree premiums will increase as a result of unblending rates. However, the City will subsidize the full dollar cost of that initial increase on July 1, 2009 and this dollar subsidy will remain unchanged and continue through to Medicare eligibility.

- All benefits eligible employees are still able to maintain their coverage under a city healthcare plan upon retirement and with a minimum of ten years of service with the City; however, city healthcare premium subsidies for retired employees will differ based on which of the following groups the employee falls into:

  - **Group 1** – Retirees and public safety Employees Participating in the DROP Program as of 6/30/2009
  - **Group 2** – Benefits eligible Employees with at Least 10 Years of Service with Tempe as of 6/30/2009
  - **Group 3** – Benefits eligible Employees with Less than 10 Years of Service with Tempe as of 6/30/2009

Group 1 and Group 2

Prior to Medicare eligibility, changes to the retiree healthcare plan for these two groups are essentially the same. Once a retiree and/or dependent reaches Medicare eligibility, they will be required to enroll in a City sponsored fully insured Medicare supplemental plan. Upon enrolling in the supplemental plan, the amount paid by the City toward the benefit is different for Group 1 individuals versus Group 2 individuals as noted below:

	Group 1	**Group 2**
Prior to Medicare Eligibility (currently age 65)	City Paid Premium Cap of 4% on Unblended Rates	City Paid Premium Cap of 4% on Unblended Rates
	↓	↓
At Medicare Eligibility (currently age 65)	• *Fully insured Medicare supplemental plan* • 100% subsidy for retiree, 70% subsidy for dependent	• *Fully insured Medicare supplemental plan* • Flat City subsidy of up to $350 per month

- **Premium Cap** – For both Groups 1 and 2, starting with July 1, 2010, the City will pay for the first 4% of any premium increases and the retiree will be responsible for increases above 4%. These increases will be reflected in both individual retiree premium costs and dependent premium costs as the current 100% / 70% subsidy will no longer be in effect.

- **At Medicare** – While individuals in Groups 1 and 2 will be required to enroll in a *fully insured Medicare supplemental plan* upon reaching Medicare eligibility, retirees in Group 1 will be subsidized at 100% for themselves and 70% for dependents. Retirees in Group 2 will be provided with a flat maximum $350 monthly City subsidy (for individual and/or dependent premiums) and responsible for any premium costs or future increases above that amount.

Group 3

Employees in this group will have individual Health Savings Accounts (HSA – similar to a deferred compensation account) established and funded by the City. At 10 years of service, an account will be established for the employee with an initial City contribution of $14,000 and thereafter a contribution of $175 each month will be made throughout employment. At retirement, the retiree can choose to remain on the City's health plan by paying 100% of the premium from monies accumulated in the HSA account. Monies in the HSA account can also be used to pay for any other qualified medical expenses. The HSA is also portable - any monies accumulated in their individual account stay with the employee if he/she chooses to separate employment after 10 years of service, but before retirement.

Additional Information:

- As with the current plan, employees who terminate employment prior to reaching 10 years of continuous service are not eligible for any retiree health benefit including any HSA monies.

- As with the current plan, any and all plan design changes to the health coverage for employees (e.g. co-pays, deductibles, etc.) will result in the same changes to the pre-Medicare retiree health plans.

- As with the current plan, the City of Tempe has the right to change or discontinue the Plan(s) at any time for all or any class of employees and/or retirees.