

RETIREE HEALTH BENEFITS COMMITTEE MEETING OF 9 AUGUST 2007

Today, I attended my first Retiree Health Benefits Committee meeting. This is an *ad hoc* committee and, as Linda Clouser (HR Director) explained, was created by the County Executive Officer and answers to him. That is to say, it makes recommendations to the CEO, for further recommendation to the Board of Supervisors. While the committee will, of course, also report to the Retirement Board, to keep it informed, it *does not* answer to that board. Sounds weird, I will grant you

Attending: Present at the meeting were the three voting committee members, namely chair Dennis Huey, Steve Duman, and Bob Mirata. Non-voting member Irene Lange of AMCRE fame was of course present. Also at the table were Acting Retirement Administrator Tim Knudsen, Retirement Coordinator (or whatever is her proper title) Sue Thornhill, Supervisor Kendall Smith, Health Benefits Coordinator Lisa Sarkela (of HR), and Human Resources Director Linda Clouser, as well as Mercer actuarial consultants Borda Darm and Kim Brown. Gordon Campbell and I (Granville Pool) were present as observers for AMCRE.

Minutes: We received copies of the minutes from the committee's 13 June 2007 meeting. Oddly, while Dennis Huey was absent from that meeting, at that meeting he was made the new chair for the committee! At that meeting, Mercer reps presented several scenarios of changes in the health plan for retirees, that I will not detail here (for reasons that should be evident below).

Financials: Next, the "Financials" spreadsheet was presented, reviewed, and discussed. Some of that discussion washed over me; I'm no bean counter. However, the essence of it was eventually fairly clear. From the standpoint strictly of cash flow (premiums in and claim expenses out), the fiscal year 2006-07 ended with roughly a \$1 million deficit. Once the budgeted \$510 per enrollee is added in, along with reimbursements from pharmacies and from Medicare Part D, this changes to a surplus of about \$600,000, give or take. Sounds pretty good, right? I thought so.

By-Laws: Lisa handed out copies of the committee's by-laws. Linda Clouser wants to add a provision to the by-laws that makes a commitment to communicate with the retirees. By this, she means those retirees and dependents enrolled in the health insurance plan, not just AMCRE members.

Communication: To that end, HR will post the by-laws, agendas, minutes, etc. on HR's website. A newsletter is also planned. Discussion included using AMCRE's *The Connection* as the vehicle for this communication, with Retirement (or County, not clear which) paying the extra costs. However, the final decision was a separate newsletter from HR, to be produced quarterly. Just prior to open enrollment in the plan, each fall, an issue would be sent to all eligible retirees; otherwise, it would be sent only to those currently enrolled in the health plan.

GASB45: Requests for Proposals were sent out to several firms for the needed study to plan for compliance with GASB45, the new set of accounting rules from the Governmental Accounting Standards Board (GASB). These new Federal rules address how state and local governments must account for and report their costs and obligations related to post-employment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as *other post-employment benefits*, or *OPEB*, and constitute *unfunded liabilities*. Mercer (our current actuarial firm) and one other responded (didn't catch the name of that firm). I was out of the room when most of that discussion took place.

Open enrollment and its relevance to potential plan changes: The opportunity for open enrollment in the plan is coming up. Notices will be sent out in September and the enrollment period will be 1-26 October 2007. The calendar of this matter was very significant because it meant that any changes in the health benefits plan must be decided by the committee at *this* meeting! That is because open enrollment will be for the next calendar year and any change in the retiree health plan that would be effective at the beginning of 2008 must be acted upon by the last Board of Supervisors meeting in August. That, in turn, is because any change in the plan that the BOS makes must carry with it a 90-day notice to all retirees.

Presentation and consideration of potential plan changes: Mercer rep Darm presented several scenarios for plan changes that were under consideration. These included the one you've probably heard about that would put the pre-Medicare bunch of us in with the active employees (in Plan 2) and pay what they pay. The figures seemed pretty clear in providing no great savings to the system. Supervisor Smith

pointed that out and those present seemed to agree that any cost savings would not be worth the extra hassle and confusion. Other schemes would have retirees paying more and dependents paying less, etc. No one scenario got any serious discussion, except for the one I just mentioned, which was shot down.

Irene Lange speaks out: Irene had worked hard, before this meeting, to prepare some very relevant comments. While her reading may well have exceeded the stipulated three-minute limit for guests to speak, no one complained and all listened with interest. Irene's complete comments will be available elsewhere so I'll just summarize. She gave a brief history of how we got where we are with retiree health benefits, including a portion of a 1998 BOS resolution. She pointed out that retiree health benefits are not funded by tax revenues but by employee and County contributions to the plan and earnings from investing these funds. She pointed out that there is currently \$8 Million in the Health Insurance Reserve Fund. Our retirement fund is over 90% funded; we are in sound financial condition. There is no urgency to make any changes in our health plan or its financing. In summary:

The health plan for retirees was a commitment to us by the Board of Supervisors (not something negotiated)

Periodically, the BOS offered incentives for early retirement ("golden handshake"); the health coverage is also an incentive to early retirement and that has often been of benefit to the County

While it's true that those on Medicare do have to pay the Part B premium (nearly \$100), those retirees also have the additional income from Social Security

There is no shortfall; funds are available to keep our current plan without charging retirees

There is no current need for changes in the plan

Motion to make no change: Apparently Irene's speech had some effect. Bob Mirata made the motion to make no changes in the plan at this time. In discussion, Tim Knudsen said that if we have another stock market crash, we would have to have commitment from the BOS to cover premiums or insurance would go away! On the other hand, many new retirees will not be eligible for the health plan (those hired after 1998). Sue Thornhill said that those employees are already starting to come through her office, looking at retirement. As time goes by, not only will there be more non-eligible retirees, but those of us not yet on Medicare will gradually migrate into the Medicare group. Both of these factors will be reducing the number of covered pre-Medicare retirees (currently slightly more than half the retirees) in the pool. Indeed (sadly) the number of retirees altogether in the plan will gradually decrease.

At the same time (as Irene pointed out), as employee salaries increase, so will contributions to the retirement system. I heard recently that employees have started paying higher contributions for health insurance (I'm not sure if that's relevant but perhaps it is). After much discussion, the motion passed unanimously. For the time being, *there will be no change in our plan and no new charges for retirees*. How long will that last? I think Irene and I both went away with the impression that no further change would be considered until about this time next year (i.e. in time for the next open enrollment). However, Irene called Dennis Huey later and he told her that it might be considered again at any time. We think it's unlikely to come up sooner than six months. In any case, *we'll keep ourselves informed and keep you informed, too!*

Insurance reserve: Dennis wants to discuss at a future meeting the idea of an insurance reserve. Tim said that we already have a three-year reserve (for the retirement plan as a whole, I think), with a plan for insurance coverage in this (okay, I'm winging it here; I didn't exactly follow all of this). If we ever have more than a three-year reserve (hasn't happened yet), we would increase contingency from 1% to 1½%. Beyond that, we would help the County pay down unfunded liabilities. Health insurance is paid by the County (the County, including the Retirement Fund, is self-insured—Delta is just the plan administrator). Retiree coverage is paid by the County and reimbursed by the Retirement Fund (necessary mechanism to avoid IRS issues). The committee will need to re-evaluate insurance funding issues after completion of the GASB45 study report.

Foundation for Medical Care crisis: As you may have heard (on front page of UDJ a day or two before this meeting), the Foundation for Medical Care (association of local providers) appeared to have a

communications breakdown with the County and is now in negotiations regarding allowable fees. The item in the UDJ made it sound as if County employees (and, by association, retirees) had no health insurance and would be turned away at local providers. Linda Clouser assured us that that was incorrect. The County and the Foundation are (at the time of this writing) scheduled to meet for negotiations on 28 August 2007. While Dr. Hartley (not present at this meeting) raised this issue at the last regular Retirement Board meeting and predicted a crisis because the County was not up-to-date on its fees, someone at this meeting pointed out that the County already pays more for plan services that CalPERS does.

I found all of this pretty interesting, except of course for the bits I couldn't quite understand!

NOTE: I sent a draught of the above notes to others who were present at the meeting, hoping to get some of the fuzzy bits clarified. Since I have not yet received any such comments, I'm going ahead and posting this. If I get additional information or corrections, I'll amend the notes and repost.