

Retiree Health Benefits Liability Committee

Town Meeting

May 17, 2010

Retiree Health Benefits Liability Committee

Mission

- Investigate reduction of liability
- Investigate management of liability
- Communication to community

Committee Members

Robert Boilard

John Broderick

Daniel Fitzgerald

Allan Johnson

Joseph Lawler

Charles Muse

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Retiree Health Benefits Liability Defined

Current value of future health care benefits
already earned by:

1. Current Retirees
2. Future Retirees

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How to Fund this Liability:

Pay-As-You-Go

Or

Fund Benefits as Earned

- Wilbraham (as most others) Pay-As-You-Go

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Problems with Pay-As-You-Go

1. Generational Equity
2. Potential Burden on Future Budgets
3. Potential Credit Rating Implications
4. Fairness to Retirees

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Government Accounting Standards Board (GASB) Guideline 45

1. Estimate and Report the Unfunded Liability

2. 12/31/07 UL Estimate: \$25.4 million

1. New Estimate available May 2010
2. Could move materially down or up
3. Sensitivity to Medicare election

3. Defines $ARC = \text{Normal Cost} + \text{UL Amortization}$

1. No Current Requirements to Fund

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Steps to Address the Unfunded Liability

1. Raise retiree premium contributions (done)
2. Implement Section 18A of MGL Ch 32B
3. Consider premium increases and plan changes
4. Establish a Trust to hold monies
5. Fund Trust from health plan related sources

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Raise Retiree Premium Contributions

1. Effective 1/1/2010
2. Town Portion: 60% Retiree: 40%
3. Previously, Town 73%, Retiree 27%
4. Estimated reduction to U.L.: \$3-4 million
5. Estimated annual savings to Town: \$70,000

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Implement Section 18A of MGL

1. Take advantage of Medicare

1. \$6-7 million reduction to UL
2. Or much more: no Medicare elections in past 10 years

2. 18A requires **future** retirees to elect Medicare

3. Town provides Medicare Supplement Plan

4. Retiree's premium impact varies by plan chosen

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Section 18 rather than 18A?

1. Also requires **current** retirees to elect Medicare
2. 19 current retirees under age 65
3. 21 current retirees over age 65, not in Medicare
 - Penalties reduce financial attractiveness

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Consider Premium Increases and Plan Changes

1. Further increases to retiree premium %
2. Changes to benefit plans
3. New lower benefit/lower cost plans
4. Revised benefits for new employees

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Monies to Set Aside Towards Unfunded Liability

1. Enterprise Funds portion
2. 1/1/2010 increase in Retiree premiums
3. Decline in pre-HWRSD Retiree costs
4. SVRHT premium holidays / surplus returns
5. Reductions in corresponding pension funding
6. Other opportunistic monies

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Next Steps

1. Implement approved recommendations
2. Address items identified for future study
3. Develop communications plan
4. Future of the committee?

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Example 1:

- **A NEW** Retiree Enrolled in Network Blue NE EPO would pay ($\$208.40 \times 12 \text{ Months} =$) $\$2,500.80$ / Year

Option 1: IF Same Retiree Enrolls in HNE Medicare Freedom POS @ $\$1,129.44$ / Yr., + Medicare B @ $\$1,326$ /Year = $\$2,455.44$, saving $\$45.36$

Option 2: IF Same Retiree Enrolls in Medicare HMO Blue for Seniors, @ $\$2,049.60$ / Year, + Medicare B @ $\$1,326$ = $\$3,375.60$, an additional $\$874.80$ / Year

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Example 2:

- **A NEW Retiree** Enrolls w/ Spouse in Network Blue NE EPO would pay ($\$544.80 \times 12 \text{ Months} =$) $\$6,537.60 / \text{Yr}$

Option 1: IF Same Retiree Enrolls in HNE Medicare Freedom POS @ $\$94.12 \times 2 \times 12 = \$2,258.88 / \text{Yr.}$, + Medicare B @ $\$1,326 / \text{Year} \times 2 = \$2,652$ totals $\$4,910.88$, saving $\$1,626.72$

Option 2: IF Same Retiree Enrolls in Medex III Standard, @ $\$1,939.20 / \text{Year} \times 2 = \$3,878.40$ + Medicare B @ $\$2,652 / \text{Year} = \$6,530.40$, saving $\$7.20 / \text{Year}$