Attachment IV

COUNTY OF SACRAMENTO
CALIFORNIA

For the Agenda of:
June 9, 2009

To: Board of Supervisors

From: Terry Schutten, County Executive

Subject: Retiree Medical and Dental Insurance Program for Calendar Year 2010

Contact: Mark Norris, Administrator, Internal Services Agency (874-7097)
David Devine, Director of Department of Personnel Services (874-6398)

Overview

A retiree medical and dental insurance program is considered each calendar year by the Board of Supervisors. This item requests approval of recommended 2010 program eligibility guidelines and program administration for calendar year 2010.

Recommendations

A. Approve the attached resolution to:

1) Approve: (a) access to medical insurance for retirees; (b) retiree medical insurance offset payments for County retirees that retired prior to June 1, 2007 and retirees from dependent Special Districts, and (c) the 2010 Retiree Medical and Dental Insurance Program Policy.
2) Direct staff to obtain an actuarial analysis of the expected cost of the Retiree Health Insurance Program for calendar year 2010, and to return and present it to the Board for approval prior to open enrollment in October.

B. Direct staff to notify all participating Special Districts of the Board's action and encourage the independent districts to adopt a similar policy regarding access to medical insurance, eligibility and amount of medical offset and premium payment guidelines for their eligible retirees.

Fiscal Impact

There is no fiscal impact associated with this recommendation for the remainder of Fiscal Year 2008-09. The recommendations will impact the 2nd half of FY 2009-10, and therefore approval of these recommendations will have an impact on the upcoming fiscal year budget. Based upon this recommendation, the County cost of the Retiree Medical and Dental Insurance Program is estimated by staff to be $12.2 million for calendar year 2009; $6.1 million for the 2010 calendar year; and an estimated cost for fiscal year 2009-10 of $9.2 million. The gross General Fund portion of the $9.2 million for fiscal year 2009-10 is approximately 75% ($6.9 million) and 25% non-General Fund ($2.3 million). The net cost to the General Fund for 2009-10 is approximately $1.14 million due to the

County receiving partial reimbursements from a number of sources for these costs.

Retirees are not guaranteed medical or dental insurance cost subsidization at a particular level or at all. The Board may elect not to provide future subsidies at any time.

BACKGROUND

The County has never vested retirees with a medical or dental insurance benefit. However, since 1980, based upon annual determinations of the Board, County retirees have been provided a medical insurance and dental insurance offset to assist them with the purchase of medical and dental insurance. On June 8 and June 10, 1993, the Board of Supervisors and the Sacramento County Employees' Retirement System (SCERS) Board adopted Resolution No. 93-0778, which made California Government Code Section §31592.4 operative in Sacramento County. That Resolution provided that, by action of the SCERS Board and the Board of Supervisors, "excess earnings" from the SCERS system could be used as a funding source for retiree medical and dental insurance benefits. Subsequently, annually, the Board has adopted similar resolutions establishing retiree medical and dental care benefit programs for SCERS retirees. This program provided benefits to both County and participating Special District retirees who were drawing a pension check from SCERS.

The program was designed at the outset to provide a subsidy amount that was indexed to the participant's SCERS service credits with the maximum subsidy amount equaling the highest County sponsored HMO health plan premium for a non-Medicare retiree. In FY 2002-2003 the subsidy was tied to the highest County sponsored HMO health plan premium for a non-Medicare retiree that had greater than 10% of County enrollment. In FY 2003-2004, faced with the economic potential that "excess earnings" from the SCERS system may not be available to fund the program, the subsidy amounts were frozen and the maximum benefit was fixed at $244 for a participant with 25 or more years of SCERS service. Beginning with Fiscal Year 2004-05, SCERS funding ceased to be available and the County began to fund the program via allocated charges to all County departments. Similarly, SCERS-participating Special Districts made independent determinations regarding funding medical and dental offset payments for their retirees. On June 5, 2007 the Board eliminated the medical and dental insurance offset to anyone who retired after May 31, 2007. In June 2008 the Board approved the 2009 program and funding of that program at the existing subsidy amounts.

Since September 2003, the Board has formally adopted a Retiree Medical and Dental Insurance Policy to govern eligibility for, and access to the medical and dental insurance plans and subsidies (if any) for the subsequent year. The policy currently in place for participation in the County's 2009 Retiree Medical and Dental Insurance Program is attached as **Exhibit A**.

This year, unprecedented revenue shortfalls in the County's anticipated fiscal year 2009-2010 budget have resulted in an urgent need to review the County's retiree medical insurance and dental insurance subsidies. Representatives from the Sacramento County Retired Employee Association (SCREA) have met numerous times with staff and members of the Executive team to explore options for the medical insurance and dental insurance offset program in light of the magnitude of the fiscal shortfalls.

DISCUSSION

The Retiree Medical and Dental Insurance Program currently provides access to group medical and dental insurance and medical and dental offset payments to those eligible County retirees who retired before June 1, 2007. These benefits are not vested benefits and are subject to determination and appropriation each year by the Board of Supervisors. The Board can end this program at any time.

For calendar year 2008, the County paid approximately $12.7 million toward medical and dental coverage for County retirees who retired prior to June 1, 2007. The following table presents costs for the past several calendar years and displays the projected cost for 2009 program:

Year	Medical	Dental	Total
2004	$ 10,867,414.52	$ 1,766,351.63	$ 12,633,766.15
2005	$ 11,238,075.66	$ 1,877,329.65	$ 13,115,405.31
2006	$ 11,399,840.30	$ 1,982,797.57	$ 13,382,637.87
2007	$ 11,336,824.22	$ 1,998,709.33	$ 13,335,533.55
2008	$ 10,758,883.36	$ 1,945,025.29	$ 12,703,908.65
2009 (Projected)	$ 10,372,348.47	$ 1,907,625.00	$ 12,279,973.47
2010 (Proposed est.)	$ 6, 139,936.74	0	$ 6, 139,936.74

The current maximum offset payment of $244 was established effective July 1, 2002 which corresponded to the full cost of the retiree only premium for a retiree not participating in Medicare (generally this includes retirees under the age of 65) for the Health Net HMO plan. This level was determined under the practice in effect at that time which tied the offset payment to the highest cost HMO medical plan with at least 10% of retirees enrolled in that program. Beginning in 2003 and in subsequent years, the practice was changed and the Board has adopted a fixed subsidy amount each year. The following table provides a history of the subsidy levels that have been provided since 1994 (this table does not include the dental subsidy which is $25):

Years of Service	<10	10-15	15-20	20-25	25+
Fiscal Year					
1994-95	$93	$116	$139	$162	$186
1995-97	$86	$108	$129	$151	$172
1997-98	$84	$105	$126	$147	$168
1998-99	$78	$98	$117	$137	$156
1999-00	$84	$105	$126	$147	$167
2000-01	$93	$116	$139	$162	$186
2001-02	$101	$126	$151	$176	$202
7/1/02-12/31/09	$122	$152	$182	$212	$244

As a point of reference, since the subsidy was frozen in 2003, the premium for the highest cost HMO with 10% enrollment has increased 118%.

The following table shows the increase in retiree contributions since 2004:

Year	Medical	Dental	Total	Medical Participants	Dental Participants
2004	$ 9,613,460.45	$ 527,421.78	$ 10,140,882.23	4475	6109
2005	$ 9,912,346.12	$ 605,148.14	$ 10,517,494.26	4707	6501
2006	$ 11,479,844.61	$ 650,813.26	$ 12,130,657.87	4818	6711
2007	$ 13,462,703.14	$ 700,752.09	$ 14,163,455.23	4712	6802
2008	$ 13,976,231.34	$ 937,014.82	$ 14,913,246.16	4575	6821
2009 (Projected)	$ 15,000,090.18	$ 813,137.73	$ 15,813,227.91	4447	6821

Retirees who pay for their portion of medical and/or dental do not have the same tax advantages as an active employee. An active employee is allowed to pay for their portion of required contributions on a pretax basis under Internal Revenue Service Code Section 125. Retiree contributions are made on a post tax basis. The subsidy/offset provided by the County is received by the retiree on a dollar for dollar basis (taxes are not withheld on this benefit). Each dollar in premium cost that is passed on to the retiree requires the retiree to earn more than a dollar for payment because their payments are made with after tax dollars. The post tax cost is a significant financial disadvantage for retirees. (NOTE: Safety retirees are allowed to pay the first $3,000 of premiums on a pre-tax basis.)

Starting in 2008, discussions between SCREA and staff analyzed various alternatives in subsidy design including across the board reductions, reductions based on SCERS pension benefit payments, reductions based upon pre vs. post enhanced pension benefit formula, reductions or eliminations in subsidies based on Medicare eligibility, and multiple combinations of the above referenced criteria. The SCREA Board has formally adopted the position that any reduction to the subsidy should be allocated first to the dental subsidy before a reduction is applied to the medical subsidy to preserve as much affordability as possible for a retiree's critical medical needs. SCREA requested that the reduction in the medical subsidy be spread equally.

Under the proposed 2010 Retiree Medical and Dental Insurance Policy, retirees not receiving a subsidy will still have access to the County's group insurance programs on a retiree-pay-all basis. The "self-pay" premiums for 2009 are:

Carrier	Current Non-Medicare Premium
Kaiser HMO – Retiree Only	$ 459.44
Health Net HMO – Retiree Only	$ 533.08
Blue Shield HMO – Retiree Only	$ 686.96

For many retirees the County-sponsored plans are their only avenue to purchase quality, affordable medical insurance coverage without concern for health or pre-existing condition limitations. While access to coverage will still be available in the 2010 calendar year, there can be no guarantees for the future, especially for the individuals who retire without being eligible for Medicare (generally those between the ages of 50 and 65).

The group insurance providers have previously indicated concerns regarding adverse selection due to the potential loss of the employer subsidy payments. Retirees not eligible for Medicare (generally those between the ages of 50 and 65) have a difficult time obtaining individual coverage, especially if they have any evidence of a pre-existing condition. Retirees eligible for Medicare have a wide variety of plans available to them outside of the County sponsored plans that are designed to work in conjunction with their Medicare benefits. Staff will continue to work with Keenan and Associates (our broker) and the carriers to maintain our long standing practice of blending health premium rates for active employees and retirees not eligible for Medicare.

It has been common practice by public entities until very recently to blend non-Medicare retiree rates. The Government Accounting Standards Board (GASB) refers to this as the implicit subsidy. The blending reinforces both access and affordability of health coverage to the non-Medicare retiree regardless of health condition.

The current group dental insurance contract does preclude the reduction or elimination of the offset. Discussions with Delta Dental of California have confirmed that Delta is prepared to offer a retiree dental program without a subsidy, but with a resulting increase in the premium to reflect the changes in participation due to adverse selection. Last year, to encourage premium stabilization, a two year lock was implemented on the retiree "buy-up" or premium dental plan, and a significant increase in enrollment occurred. Should the subsidy for the dental program be eliminated, the premium increase for the basic plan will be larger than if it was subsidized, a cost fully born by the participating retiree on a post tax basis. The premium plan will not be an option available to retirees. In order to minimize the cost of the voluntary program, the proposed 2010 policy contains a two-year lock in for dental coverage. This is similar to the two year lock in that was implemented with the premium plan.

As a result of an unprecedented budgetary shortfall facing the County, this report recommends providing retiree medical insurance offset payment benefits for the 2010 calendar year at a 40.8% reduction in the 2009 level of subsidies and an elimination of the dental subsidy for all individuals. This approach in allocating the reductions is consistent with the position of the SCREA Board. Staff has estimated the cost savings to be approximately $1.9 million for dental and $4.2 million for medical offsets, for a total combined savings of approximately $6.1 million in calendar year 2010 or approximately 50% of the current expense.

The following table indicates the existing and proposed subsidy amounts:

Years of Service	Existing	Proposed
<10	$ 122	$ 72
10-15	$ 152	$ 90
15-20	$ 182	$ 108
20-25	$ 212	$ 126
25+	$ 244	$ 144

Retirees not eligible for the offset payment will continue to be provided the option to enroll in a County-sponsored retiree medical plan on a self-pay basis. The policy proposed for your approval is found in **Exhibit B** in a "redline" version and in **Exhibit C** in a final draft version.

The second recommendation (A2), Government Code §7507, provides that an actuary's determination of the expected cost be obtained and published two weeks prior to increasing any public retirement plan benefits. Because the County's program is not a vested benefit and requires an annual determination of what program, if any, is provided, any payment beyond December 31, 2009 constitutes an increase in benefits to the recipients. Following the Board's action on policy changes recommended in this report, the services of an enrolled actuary will be engaged to prepare the necessary report. It is anticipated that the actuary's report will be presented for approval prior to August 1, 2009. New this year is the requirement under Government Code §7507 that the actuary be present during the Board hearing to answer questions regarding the report.

This recommendation has been reviewed by County Counsel and has received the concurrence of that Office.

The final recommendation is to direct staff to work with the independent districts currently participating in the program to encourage them to adopt a similar program. The purpose of this recommendation is to continue to provide access to all retirees, provide offset payments to those that retired prior to a date specific and to maintain some level of administrative consistency.

FINANCIAL ANALYSIS

There is no fiscal impact associated with this action for the remainder of the fiscal year. The cost of the Retiree Medical and Dental Insurance Program for medical and dental payments is estimated by staff to be $12.2 million in calendar year 2009; $6.1 million for the 2010 calendar year; and an estimated cost for fiscal year 2009-10 of $9.2 million). The gross General Fund portion of the $9.2 million for fiscal year 2009-10 is approximately 75% ($6.9 million) and 25% non-General Fund ($2.3 million). The net cost to the General Fund is approximately $1.14 million due to the County receiving partial reimbursements from a number of sources for these costs.

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Respectfully submitted,

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TERRY SCHUTTEN
County Executive

Attachment

Cc: County Counsel, Retirement Administrator, Internal Services Agency Administrator, Director of Finance; County Benefits Manager; Recognized Employee Organizations; Sacramento County Retired Employees Association