


May 14, 2008

M E M O R A N D U M

May 12, 2008

TO: County Council

FROM: Stephen B. Farber, Council Staff Director 

SUBJECT: **Action** – FY09 Compensation and Benefits for All Agencies

This memo outlines the May 9 recommendations from the Management and Fiscal Policy Committee on FY09 compensation and benefits for all agencies. For ease of reference, the packet from the April 21 Committee worksession has been reprinted to accompany this packet.¹

1. FY09 Group Insurance (see pages 12-14 of the April 21 packet)

The Committee received an update on its extensive work on the group insurance issues outlined on pages 12-14. Two cost issues required particular attention: **pre-funding retiree health benefits for all agencies** and **prescription drug costs for County Government retirees**.

Pre-funding Retiree Health Benefits for All Agencies

Last year the Council approved a five-year phase-in schedule to pre-fund retiree health benefits, pursuant to GASB Statement 45 on Other Post Employment Benefits (OPEB). This year the Executive recommended an eight-year schedule instead. For the tax-supported agencies combined, this change would reduce FY09 costs from \$70.7 million to \$55.2 million.

For the most recent data on this issue, see my April 28 memo and attachments on ©A-9. See also the May 6 memo on ©10-15 from the Council's actuarial consultant, Thomas Lowman. Mr. Lowman makes a number of recommendations on this important issue. His methodology on the discount rate used to assess the cost of the eight-year phase-in results in annual contributions that differ from the Executive's. The FY09 contribution, using the discount rate he supports, is \$40.6 million rather than \$55.2 million. See the table on ©15.²

Committee recommendation (3-0): Approve an eight-year phase-in to pre-fund retiree health benefits. Also approve a \$40.6 million contribution in FY09 for the tax-supported agencies combined, as recommended by the Council's actuarial adviser, Thomas Lowman. Follow up after budget on his other recommendations on how the Council should address the OPEB issue for the longer term.

¹ The pay increase tables on page 8 and ©83 of the April 21 packet have corrected numbers for the College.

² For County Government's General Fund, the difference is estimated at \$3.2 million. This reduces the total tax-supported contribution for all agencies to \$40.5 million and the total tax-supported difference from the Executive's amount to \$14.5 million.

MEMORANDUM

April 28, 2008

TO: Councilmembers
Confidential Aides

FROM: Stephen B. Farber, Council Staff Director *SBF*

SUBJECT: Retiree Health Benefits – OPEB (Other Post Employment Benefits)

We have recently received three documents related to retiree health benefits pre-funding (GASB OPEB). These costs are above and beyond the annual pay-as-you-go claims costs that are included every year in agency budgets. The documents are:

- An April 17 memo and draft resolution from the Executive for an eight-year phase-in of pre-funding, to amend last year's resolution calling for a five-year phase-in. See ©1-3.
- A table from the Finance Department showing the Executive's proposed eight-year schedule and comparing it with schedules for five years and ten years. See ©4.
- An April 24 letter from Mr. Bowers to Councilmember Ervin citing a reduction in the Annual Required Contribution (ARC) for MCPS, according to the latest actuarial valuation, and including suggestions from the MCPS actuary about different ways to compute the phase-in. See ©5-8.

On April 21 the MFP Committee started its review of retiree health benefits in FY09. (See the summary description in the Executive's recommended FY09 operating budget on ©9.) On May 9 the Committee will make a recommendation to the Council on the phase-in schedule. With Chair Trachtenberg's concurrence, I have asked the Council's actuarial adviser, Thomas Lowman of Bolton Partners, to review these documents and discuss options with the Committee on May 9. Mr. Lowman has advised the Council on health benefits issues for many years. For the past five years, he has collaborated with members of the Multi-Agency OPEB Work Group and has contributed very effectively to the Group's update meetings with the Committee.




OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850
MEMORANDUM

Isiah Leggett
County Executive

April 17, 2008

TO: Michael J. Knapp, President
Montgomery County Council

FROM: Isiah Leggett, County Executive 

SUBJECT: Resolution for Eight-Year Phase-In of Retiree Health Benefits (OPEB) Funding

The purpose of this memorandum is to provide for your review and approval, an updated County Council Resolution calling for an eight-year phase-in approach to funding the County agencies' Retiree Health Benefits obligations. This revised resolution is consistent with my Recommended FY09 Budget and Public Services Program.

As you are aware, the County Agencies have a sizeable liability related to health benefits it has promised to retirees. Currently, agencies pay for those costs on a pay-as-you-go basis out of each year's operating budget. Last year at my request, the Council approved Resolution No. 16-87 which stated the Council's commitment to the responsible fiscal management of the County agencies' Other Post Employment Benefit (OPEB) obligations and stated the Council's policy intent to fund the difference between the OPEB pay-as-you-go contribution and the Annual Contribution for the tax-supported agencies over a five-year period beginning with Fiscal Year 2008.

I am happy to report that a total of \$31.9 million is being set aside in Retiree Health Benefits (OPEB) funding in FY08. However, as I communicated to you in the context of my recommended budget, I no longer believe that a five-year phase-in schedule is affordable, given our current fiscal situation. I have recommended significant measures to cut back on expenditures and raise additional revenues, but still found that a five-year phase-in could not be afforded. Therefore, I recommended to the Council and included in my Recommended Operating Budget funds consistent with an eight-year phase to the tax-supported agencies' full Annual Contribution in the year 2014. The attached resolution reflects my revised recommendation.

I provided additional information regarding my revised approach to Retiree Health Benefits Funding in my April 7, 2008 memorandum to the Council. If you are in need of additional information regarding the recommended resolution, please feel free to contact me or Executive Branch staff.

IL:jb

Attachment

cc: Timothy L. Firestone, CAO
Jennifer E. Barrett, Director, DOF
Joseph F. Beach, Director, OMB
Joseph Adler, Director, OHR

RECEIVED
MONTGOMERY COUNTY
COUNCIL
2008 APR 21 PM 4:53

Resolution No: _____
Introduced: April XX, 2008
Adopted: April XX, 2008

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: County Council

SUBJECT: Eight-Year Funding Schedule for County Agencies' Annual Contribution for Retiree Health Benefits (Other Post Employment Benefits – OPEB)

Background

1. The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to retiree health benefits, referred to as Other Post Employment Benefits (OPEB).
2. County agencies (the County Government, Montgomery County Public Schools, Montgomery College, the Washington Suburban Sanitary Commission, and the Maryland-National Capital Park and Planning Commission) are required to disclose their OPEB liabilities in their financial statements, starting with the fiscal year beginning July 1, 2007 (FY 2008).
3. Establishment of separate trusts and adoption of a written policy of the County's intent to phase-in full funding of the difference between the pay-as-you-go contributions and the Annual Contribution allows the County agencies to use, in their actuarial valuations, a discount rate higher than their operating investment rate for accounting and budgeting purposes. Absent such a policy, County agencies would be required to record OPEB liabilities in their financial statement of almost twice as much as liabilities required with such a policy.
4. On April 10, 2007, in Resolution No. 16-87, the Montgomery County Council acknowledged that the County agencies intended to establish one or more trusts on or before July 1, 2007, and stated the Council's policy intent to fund the OPEB obligation over a five-year period beginning with FY 2008.
5. On April 1, 2008, the County Council approved Expedited Bill 28-07, Personnel – Other Post Employment Benefits Trust – Establishment. This Bill establishes a Retiree Health Benefits Trust for the County Government, and designates the Board of Investment Trustees to manage the investment of the trust funds. Trusts are now in place for all the tax-supported agencies, except Montgomery College, which is in the final stages of establishing a Trust.
6. For FY 2009, the Annual Contribution for the agencies has been recalculated and is now estimated at \$305.4 million. In the County Executive's FY09 Recommended Budget, a phase-in period of eight years has been recommended instead of the five-year phase-in that was planned in FY 2008, in response to the County's fiscal situation.

Action

The County Council for Montgomery County, Maryland approves the following resolution:

1. The Council is committed to the responsible fiscal management of the County agencies' obligations for Retiree Health Benefits (Other Post Employment Benefits - OPEB) and acknowledges that County agencies have already established or intend to establish one or more trusts for such purposes.
2. It is the Council's policy intent to fund the difference between the OPEB pay-as-you-go contributions and the Annual Contribution, for the tax supported agencies, on an amortized even basis over an eight-year period beginning with FY 2008 and ending with FY 2015.

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council

[illegible]

Notes:
 1. Future years illustrative costs are based on 2.5% assumed net increases each year attributed primarily to an additional year of service and related benefits each year. Projections do not include any assumptions about changes in benefits.



MONTGOMERY COUNTY PUBLIC SCHOOLS
MARYLAND
www.montgomeryschoolsmd.org

April 24, 2008

The Honorable Valerie Ervin, Chair
Education Committee
Montgomery County Council
100 Maryland Avenue
Rockville, Maryland 20850

Dear Ms. Ervin:

This letter is to provide the documentation that we discussed at the Education Committee meeting on April 21, 2008. Mr. Douglas Rowe of Mercer is the actuary who performed the actuarial valuations of the Other Post Employment Benefit liability for the Montgomery County Public Schools (MCPS). Enclosed are his letter and the funding examples.

The most recent valuation reduced the Annual Required Contribution (ARC) for MCPS from \$80 million to \$73 million. This reduction is the result of the savings from the recent bid of medical and prescription plans by MCPS, Montgomery County Government, and other agencies. The trust that was established by the Montgomery County Board of Education for Other Post Employment Benefit contributions was funded with an initial contribution of \$16 million. Because this initial contribution that was based on a five-year phase-in is included in the base budget, the annual increases required for a longer phase-in period to get to the \$73 million ARC are greatly reduced. Mr. Rowe has prepared several options for an 8-year or 10-year phase-in plan.

We share the Council's concerns about protecting the County's bond rating with the resulting impact on debt service costs. We look forward to working with you to find a funding level that protects our educational achievements.

Sincerely,

Larry A. Bowers
Chief Operating Officer

LAB:sz

Enclosures

Copy to:
Members of the Board of Education
Dr. Weast
Dr. Spatz

Office of the Chief Operating Officer

850 Hungerford Drive, Room 149 ♦ Rockville, Maryland 20850 ♦ 301-279-3626

5

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

120 East Baltimore Street, 20th Floor
Baltimore, MD 21202-1674
410 727 3345 Fax 410 727 3347
doug.rowe@mercer.com
www.mercer.com

April 21, 2008

Ms. Susanne DeGraba
Chief Financial Officer
Montgomery County Public Schools
7361 Calhoun Place, Suite 190
Rockville, MD 20855

Via Electronic Mail

Dear Sue:

My understanding is that County budget pressure is causing you to revisit the original plan for a five year phase-in for funding the ARC under GASB45. Both eight and ten year phase-ins are being considered. The first year (FY2008) contribution amount of \$16 million on top of actual claims cost will not be changed. Based on the actuarial valuation that was used to determine the ARC for FY2009, the excess of the ARC over current claims cost is now estimated to be \$73 million.

In this situation, many patterns of annual pre-funding (above claims) contributions are possible. I suggest that you use a phase-in close to one of those shown on the attachment in order to:

- avoid budget swings that would occur if you reduced the pre-funding contribution for next year and then had to increase it substantially in the future, and
- strengthen the story to bond rating agencies that you are moving to full funding of the ARC.

Of course, future actuarial valuations are likely to show that the difference between the ARC and current claims has changed, perhaps significantly, so any of the contribution amounts on the attachment after the second year will need to be adjusted to remain on an eight or ten year phase-in. Even small differences between some assumptions (e.g. the amount of future retiree contributions) and actual experience can lead to large changes in the ARC.

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Page 2
April 21, 2008
Ms. Susanne DeGraba
Montgomery County Public Schools

Please let me know if you have any questions or need further information.

Sincerely,

A handwritten signature in cursive script that reads "Douglas L. Rowe".

Douglas L. Rowe, FSA, MAAA, EA
Principal

g:\wp51\db\mcpst\gasb45revisephasein.doc

Illustrations of GASB45 Pre-funding Contributions only - does not include Contributions toward Actual Claims in Each Year

8 year phase-in

Equal amounts phase-in -
if every year were based on 8
year phase in to \$73 million

FY09 = FY08, then 6 equal steps
to \$73 million

\$5 million increase each of next
2 years, then \$7 million, then equal
increases to \$73 million

Year	Annual Cont.	Cumulative Cont.
1	9.1	9.1
2	18.3	27.4
3	27.4	54.8
4	36.5	91.3
5	45.6	136.9
6	54.8	191.6
7	63.9	255.5
8	73.0	328.5

Note that total contributions are
almost equal to the equal
amounts phase-in schedule

Note that total contributions are
almost equal to the equal
amounts phase-in schedule

10 year phase-in

Equal amounts phase-in -
If every year were based on 10
year phase in to \$73 million

FY09 = FY08, then 8 equal steps
to \$73 million

Increases of \$4 million, then \$5 million,
then \$6 million, then equal increases
(\$7 million/year) to \$73 million

1	7.3	7.3
2	14.6	21.9
3	21.9	43.8
4	29.2	73.0
5	36.5	109.5
6	43.8	153.3
7	51.1	204.4
8	58.4	262.8
9	65.7	328.5
10	73.0	401.5

Note that total contributions exceed
the equal amounts phase-in
schedule

Note that total contributions exceed
the equal amounts phase-in
schedule

Note that total contributions exceed
the equal amounts phase-in
schedule

Retiree Health Benefits Trust

Beginning in FY08, the County implemented a plan to set aside funds for retiree health benefits, similar to what we have been doing for retiree pension benefits for more than 50 years. The reasons for doing this are simple: due to exponential growth in expected retiree health costs, the cost of funding these benefits, which are currently paid out as the bills come due, may soon become unaffordable. Setting aside money now and investing it in a Trust Fund, which will be invested in a similar manner as the pension fund, not only is a prudent and responsible approach, but which will result in significant savings over the long term.

As a first step in addressing the future costs of retiree health benefits, County agencies developed current estimates of the costs of health benefits for current and future retirees. These estimates, made by actuarial consultants, concluded that the County's total future cost of retiree health benefits if paid out today, and in today's dollars, is \$2.6 billion – more than half the total FY09 budget for all agencies.

One approach used to address retiree health benefits funding is to determine an amount which, if set aside on an annual basis and actively invested through a trust vehicle, will build up over time and provide sufficient funds to pay future retiree health benefits. This amount, known as an Annual Required Contribution or "ARC", was calculated for County agencies last year to be \$240 million, or nearly \$190 million more than the previous annual payment for current retirees. Still too large an amount to be set aside all at once in FY08, the County chose a further approach of "ramping up" to the ARC amount over several years, with the amount set aside each year increasing steadily until the full ARC is reached. A total of \$31.9 million for all tax supported agencies was budgeted for this purpose in FY08.

For FY09, the ARC has been recalculated and is now estimated at \$250 million. This amount consists of two pieces – the annual amount the County would usually pay out for health benefits for current retirees (the pay-as-you-go amount), plus the additional amount estimated as needed to fund retirees' future health benefits (the pre-funding portion). The pay-as-you-go amount can be reasonably projected based on known facts about current retirees, and the pre-funding portion is estimated on an actuarial basis. For FY09, a ramp-up period of eight years has been assumed, up from the five year phase-in that was planned in FY08. This lengthening of the phase-in period is being implemented in response to the County's fiscal situation, and results in a contribution for all County tax-supported agencies of \$55.15 million in FY09, down from \$70.73 million called for under the previous plan.

Proposed FY09 Retiree Health Benefits Trust Contributions	
	FY09
Montgomery County Government (MCG)	
<u>General Fund:</u>	
Retiree Health Benefits Trust NDA	\$19,571,930
<u>Proprietary Funds:</u>	
Bethesda Parking District	\$56,650
Wheaton Parking District	8,500
Silver Spring Parking District	45,320
Solid Waste Collection	25,490
Solid Waste Disposal	203,920
Liquor Control	883,670
Permitting Services	606,100
Community Use of Public Facilities	76,470
Motor Pool	472,990
Risk Management	33,990
Central Duplicating	84,970
<u>Participating Agency Contributions:</u>	
Housing Opportunities Commission	\$680,000
Revenue Authority	120,000
Strathmore Hall	70,000
Credit Union	50,000
Washington Suburban Transit Commission	10,000
Total MCG Trust Contributions	\$23,000,000
Montgomery County Public Schools Trust Fund	29,000,000
Montgomery College Trust Fund	900,000
Park and Planning Commission Trust Fund	2,250,000
Total FY09 Contributions	\$55,150,000

MEMORANDUM

DATE: May 6, 2008
TO: Management and Fiscal Policy Committee
FROM: Thomas Lowman, Bolton Partners, Inc. *TL*
SUBJECT: Comments on the OPEB Phase-in Schedule

This memo is an update to our prior memos dated November 20, 2006, March 9, 2007, June 20, 2007 and November 19, 2007. We have focused on the following four key areas:

1. Potential decision to move away from the five-year phase-in plan in FY09
2. Status of review of options for limiting liability
3. Lessons to date from the experience of other jurisdictions
4. Current views of rating agencies

1. Potential decision to move away from the five-year phase-in plan in FY09

Since there is no legal requirement to pre-fund, there is no legal reason not to slow down the pre-funding. This is a policy decision. However, generally I would encourage staying with a plan to get the benefits of the lower accounting expense, protecting the County's credit rating, and showing a commitment to providing benefits.

The following outlines what some other counties are doing to phase into fully funding the cost of these benefits:

- Howard: 8 year phase-in plus additional funds for FY08 and FY09 allocated
- Frederick: 5 year phase-in plus additional funds for FY08
- Prince George's: 10 year phase-in
- Anne Arundel: Money set aside but not in a trust
- Baltimore County: Fully funded FY08 expense.

The Executive's FY09 request for all agencies (totaling about \$55 million) made some policy changes from the FY08 request. The two most significant of these are (1) the extension of the phase-in period from five to eight years and (2) the reduction in the interest discount rate by about 1%. These changes moved liabilities in opposite directions, but the net impact is a reduction in the request compared to what the prior policy would produce. I would not recommend a change in the interest rate used for funding for the reasons described below.

Also, since the budget request was made, MCPS has updated their actuarial results and lowered the expense amount. This is due in part to changes made in benefits.

We have (with Aon's assistance) estimated the change in the budget request for the County and MCPS to reflect simply moving to an eight year phase-in of the "ARC" but not changing the discount rate. For FY09, this would lower the County's amount from \$23.0 million to \$19.7 million and the MCPS amount from \$29.0 million to \$18.3 million. Moving from an eight year to a ten year period would lower the amounts for FY09 to \$15.8 million for the County and \$14.6 million for MCPS (the MCPS amount would be less than the FY08 amount of \$16.0 million).

Since I am not recommending changing the discount rate, I thought that I should provide some more detail on this point.

- a. All of the agencies used their pension funding interest assumption as the basis for their FY08 budget request. My rationale for this is that eventually the plan was to contribute the full "ARC" funding amount and that these higher interest rates would be justified and consistent with the pension plan funding. The rate does vary from plan to plan (the County's pension plan uses an 8% rate and MCPS uses a 7.5% rate).
- b. The rate used for funding and the interest rate used to determine the accounting expense need not be the same. The rate used for accounting is supposed to depend on the level of funding. My expectation was that the rate used to determine the accounting expense would be a lower rate and would not reach the pension plan rate until the full expense was funded. MCPS and the County may try to use the full pension plan rate for accounting purposes in FY08. While I would like this result, I am not sure that it will be possible.
- c. The County recognized that by recommending the extension of the phase-in period from five to eight years, the ability to justify the full pension interest rate for accounting purposes is more difficult. For that reason it proposed lowering the discount rate by 1% (from 8% to 7% for the County and from 7.5% to 6.5% for the Schools). However, this was done not just for accounting purposes but for funding (budget) purposes as well. I agree that this might be an appropriate change for accounting purposes in order to follow the accounting rules. However, the funding decision is a policy decision. The choice seems to be: (1) follow the prior practice of using the pension rate given that by the end of the phase-in period we will be able to use this for accounting purposes as well, or (2) base current budget decisions on what rate is being used for current year accounting purposes.
- d. My recommendation is to use the ultimate interest rate for funding purposes since this reflects the amount we are trying to ramp up to. I never assumed that the funding and accounting assumption would be the same during the phase-in period. This recommendation is consistent with what our other clients are doing for funding. However, from an outcome perspective I would like to see as much funding as possible.

Since I would like to see as much funding as possible, I have also estimated the funding needed to go to a seven year phase-in period. This would lower the County's amount for FY09 from \$23 million to \$22.6 million, the MCPS amount from \$29 million to \$20.7 million, the College amount from \$0.9 million to \$0.8 million and MNCPPC would remain at \$2.25 million.

Three additional points should be made:

- The plan is to eventually fund the full cost (ARC). The \$40.6 million FY09 payment on the attached chart is only a fraction ($2/8^{\text{th}}$) of the \$160+ million annual funding goal.
- In addition to phasing in the extra cost of this benefit, other related cost increases will still occur. This is primarily the annual increase in the pay-as-you-go cost which might increase by more than 10% per year for some time.
- The County will have an unfunded obligation (Net OPEB Obligation/NOO) to put on its books, and lengthening the phase-in period will increase this amount.

What do I recommend? Do as much as you can. If you can not do a five-year phase-in, then move to seven. If not seven, move to eight. If not eight, move to ten. I don't know what the County can afford, but I do know that generally the other counties are under ten years. However, the further out you go, the more you should be thinking about reducing benefits since the signal you are sending is that you cannot afford what you are currently providing. As a Council you should consider what type of message you are willing to send to retirees and employees and balance it with your funding commitments. A ten-year phase-in period implies to me that there is stress and significant benefit cuts are needed in order to achieve sustainability.

Attached is a chart comparing the current FY09 budget request to an eight year phase-in schedule using the pension plan discount rates.

2. Status of review of options for limiting liability

Deciding how to limit liability is not easy. We see that MCPS made a material change which allowed them to reduce their expense. We see that the County reduced their drug plan costs and the retirees reacted very strongly. We understand that the County and its unions will discuss possible benefit changes, affecting new employees only, but will not report until September 2009.

We understand that some changes need to be bargained and that the County and M-NCPPC are limited from sharing details of discussions due to collective bargaining rules. It is not clear how constrained MCPS is, but they seem to try and follow the same collaborative style. The College seems to have fewer such constraints.

In our last memo we suggested the Council might consider the following possibilities:

- Provide guidance on what the County can afford and ask the agencies to design plans around those fiscal constraints.
- Provide a common plan design and suggest that all agencies and unions work toward this design. This "common" design might be different for existing employees vs. new hires. If this approach is taken, the Council might wish to get fiscal impact information from the agencies' actuaries.

We think these should still be considered.

3. *Lessons to date from the experience of other jurisdictions*

As noted above, most Maryland jurisdictions have less than a ten-year phase-in period. In addition, at least two (Howard and Frederick) are making additional contributions when they can.

Some have made benefit changes but many have not decided what changes to make. Frederick and Howard have not made any decisions. St. Mary's and Baltimore have made changes. These can be summarized as follows:

A. St. Mary's County

Percentage of Published Cost Paid by County

<u>Years of Service</u>	<u>Retired Prior to July 1, 2010 Subsidy</u>	<u>Retired After July 1, 2010 Subsidy</u>
5	26.6%	0.00%
6	31.9%	0.00%
7	37.2%	0.00%
8	42.5%	0.00%
9	47.8%	0.00%
10	53.1%	21.25%
11	58.4%	21.25%
12	63.8%	21.25%
13	69.1%	21.25%
14	74.4%	21.25%
15	79.7%	42.50%
16 – 19	85.0%	42.50%
20 – 24	85.0%	63.75%
25+	85.0%	85.00%

B. Baltimore County

- a. For County Retirees, co-payments for in-network office visits are increased \$5.
- b. For County Retirees, co-payments for Emergency Room visits are increased from \$35 to \$50.
- c. For County and School Retirees in the CareFirst and Optimum Choice plans, co-payments for prescription drugs dispensed at retail pharmacies are increased. The new co-payments are: for generic drugs, \$5 for the County and \$8 for the Schools; \$20 for preferred brand drugs; and \$35 for non-preferred brand drugs. The Schools also added a step therapy utilization management program to their prescription plan.
- d. The percent of the published rates for County employees who retired prior to September 1, 2007 was increased over five years. At the end of the five-year period, those Carefirst Retirees with full service will pay 20% of the premium, and Optimum Choice and Kaiser Retirees with full service will pay 10% of the premium.

- e. County Employees who retire after September 1, 2007 will receive a premium subsidy based on a schedule. The subsidy increases with each year of service. The maximum subsidy for general employees is for 30 or more years of service and for Public Safety employees for 25 or more years of service.
- f. Effective January 1, 2008, Medicare Eligible County, School and College Retirees will be part of the County's PDP plan. This plan structure allows the county to reflect anticipated Medicare reimbursements for Part D prescription drug coverage.

4. Current views of rating agencies

As we have heard in the past, looking at pre-funding OPEB is just part of a comprehensive review of the County's credit rating. OPEB is just one incremental piece of the County's financial standing. No agency that we are aware of has issued standards for funding. Many counties are experiencing financial stress and reductions in OPEB funding might be one such indication. We did talk to Amy Laskey at FitchRatings who confirmed this view.

Chart of FY09 OPEB funding in millions

	As in proposed budget	8 year phase in at Pension Return assumption
County Government	\$23.0	\$19.7
MCPS	\$29.0	\$18.3
MNCPPC	\$2.25	\$1.9
College	\$0.9	\$0.7
Total	\$55.15	\$40.6