AGENDA ITEM #3
March 5, 2002
Action

MEMORANDUM

March 1, 2002

TO: County Council

FROM: Essie McGuire, Legislative Analyst
Linda McMillan, Senior Legislative Analyst

SUBJECT: **Action – Resolution to Approve Retiree Re-election Opportunity for Cost Sharing for Group Health Insurance Benefits**

Today the County Council will consider a resolution to approve a one time re-election opportunity for cost sharing for group health insurance benefits for retirees. The Chief Administrative Officer transmitted this proposal to the Council on May 2, 2001, and the Council introduced the resolution on June 26, 2001. The May 2 transmittal and the original resolution are attached on circles 3-10.

The Management and Fiscal Policy Committee held three worksessions (on July 9 and 23 and October 15, 2001) to review this issue, and heard public comment at the July 23 worksession. Following the last Committee meeting in October 2001, Committee members asked Council staff to work with the Office of Human Resources (OHR) and the Montgomery County Retired Employees Association (MCREA) to develop a proposal that met the Committee's concerns as discussed in the worksessions.

Councilmember Denis and Councilmember Praisner recommend approval of the re-election opportunity as outlined below. (Councilmember Andrews recused himself from this issue.) The amended resolution attached on circles 1-2 reflects the Committee members' recommendations.

1. **Offer a one-time-only opportunity for retirees to re-elect their cost sharing arrangement with the County for group health insurance benefits. Any retiree or surviving spouse would be eligible who had ever participated in group health insurance benefits as a retiree.**

2. **The County contribution would be determined by a sliding scale based on the retiree's years of eligible service and years since retirement. This scale is outlined in the table on circle 2 and the County contribution ranges from 68% to 50%.**

3. **This re-election opportunity is only for cost sharing for health insurance benefits. It is not for life insurance or other benefits, or to change health plans.**

4. **For retirees who are not enrolled in group insurance benefits at the time of re-election, all policies enacted after 12/31/00 regarding leaving and re-entering County group health insurance apply as do policies regarding coverage for eligible dependents.**

5. **The recommendation does have a fiscal impact on the liability of the group insurance fund over time.** The fiscal impact is described more fully below.

6. **OHR's implementation plan, as outlined on circle 6, will ensure that all retirees are informed of their option to re-elect, and document their election choices.**

BACKGROUND

At retirement, employees hired before January 1, 1987 are given two premium cost-sharing options for health insurance benefits: one option is effective for the retiree's lifetime (at a 70% County contribution rate) and one option is effective for the length of plan participation prior to retirement (at an 80% County contribution rate).

In 1986, the Council adopted resolution 10-2233, *Insurance Benefits for Retirees*, that mandated the lifetime option for employees hired after December 31, 1986. When this resolution was adopted, the County gave retirees who had already retired the opportunity to change to the lifetime option. Not all retirees did so, and some are now reaching the end of their cost-sharing period and some have already reached the end. Retirees whose cost-sharing has expired can still participate in group insurance, but are responsible for 100% of premium costs.

Problem: The Council has heard over the past several years from individuals and MCREA requesting a remedy for retirees who are losing the County contribution. The Council has also heard concerns that not all retirees may have been aware of the 1986 opportunity to change options or were not properly informed at the time. Many retirees who have contacted the Council are on disability retirement and had a relatively short number of years of service.

Solution: Offer a one-time window to allow eligible retirees to re-consider their cost share option and switch to a lifetime cost share if they choose. As outlined above, this offer pro-rates the County contribution according to years of eligible service and years since retirement. At this point, all retirees that began employment before 1987 are now given written information about their options and sign a statement at the time of retirement stating they understand their selection and the contribution cut-off date if they choose the 80%/20% option.

ELIGIBILITY

The Committee recommendation would allow any retiree or surviving spouse who had ever participated as a retiree in group health insurance benefits to participate in the re-election opportunity.

The CAO's original proposal allowed only retirees who were enrolled in group insurance benefits as of 12/31/00 to participate in the re-election. Retirees who dropped coverage prior to that date, perhaps because they could not afford the full premium cost, would not be allowed to re-elect cost sharing.

Council staff strongly supports the Committee recommendation that retirees who have dropped coverage should be allowed to participate in the re-election opportunity. If this group is ineligible, the very retirees who brought the situation to the Council's attention will be excluded from the solution.

FISCAL IMPACT

The recommendation does have a fiscal impact of increasing the Group Insurance Fund liability over time. This impact will be spread out over time and can only be estimated at this juncture. In addition, in the first few years the fund could realize a cost savings as the County contribution drops for some current retirees. At some point, however, the fiscal impact will "cross over" and require an additional annual contribution to the Fund.

The chart below summarizes the fiscal impact estimates from the County's actuary, William Mercer, Inc. The chart shows the current estimated Fund liability, the total estimated liability of allowing retirees currently receiving benefits to re-elect, and the additional liability of allowing retirees who have dropped coverage to re-elect. The chart also shows the estimated "cross over point" (from short term savings to additional contribution) for the two recommended scenarios.

	Estimated Fund Liability (over life of Fund)	**"Cross over" point Year after implementation**
Current program	$ 86,500,000 (total)	n/a
Recommended contribution scale (68% to 50%)	$109,900,000 (total)	Year 5
Retirees not currently enrolled in group health benefits	$ 27,100,000 (additional, under worst case scenario)	Year 4 (1/4 re-elect) Year 2 (1/2 re-elect)

Total additional fund liability: As seen in the chart, Mercer estimates that the recommended re-election opportunity will increase the Group Insurance Fund liability by approximately $24 million (from $86 million to $110 million) *over the life of the fund.*

Although the estimate for the additional liability of retirees who are not currently enrolled seems very high, Council staff feels strongly that this amount would be significantly less when implemented. The estimate includes all retirees not currently receiving benefits, when only a portion of these retirees would be eligible. While no estimate is available, a portion of this group was never eligible and a portion chose at retirement to forego health insurance. From that smaller group of eligible retirees, then, only a portion would actually re-elect cost sharing.

Supposing that only half of the group were eligible and all of those eligible re-elected, the amount of additional liability for this group would drop to $13.5 million, and Mercer estimates that the cross over point would be in year 2. If only half of those eligible actually took the re-election opportunity, the liability would drop to $7 million and the cross over point would be year 4. **In Council staff's view, it is more likely that only a fraction of retirees not currently enrolled in benefits would end up being eligible and participating.**

IMPLEMENTATION PLAN

On circle 6 OHR outlines the proposed process to contact all eligible retirees about the re-election opportunity. The approach appears to be a concerted and comprehensive effort to reach affected retirees. This will be a critical component of the re-election opportunity in order to avoid future misunderstandings. OHR and MCREA have indicated a willingness to work together to finalize appropriate and informative re-election materials.

In its discussions, the Committee suggested that the proposed 90 day election period would be the minimum amount of time necessary, and could be extended to allow for sufficient notice and opportunity. The Committee also suggested that OHR make use of changed address notification and certified mail in its follow-up process to clearly document whether an individual received notice of the opportunity.

OHR has indicated that it will need to schedule a timeframe for implementing the re-election window that does not coincide with other transfer and election seasons. In addition, OHR will need some time to prepare for the re-election, to develop materials and to compile eligibility information on retirees who are no longer enrolled in group health benefits.

This packet contains the following:	Circle #
Amended resolution to approve re-election opportunity	1-2
May 2, 2001 transmittal from CAO	3-10

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Resolution No.: _____
Introduced: June 26, 2001
Adopted: _____

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council at the Request of the County Executive

SUBJECT: Retiree Re-election Opportunity for Group Insurance Cost Sharing

Background

1. At retirement, employees hired prior to January 1, 1987, are offered two cost sharing options for group insurance:

   - A 50% County contribution for employees with at least 5 years of service increasing to 70% for those who have at least 15 years of service. This County contribution rate is for the duration of the retiree's lifetime *(this option was a result of Council Resolution No. 10-2233, which was adopted on October 16, 1986 and is mandatory for employees hired after 12/31/86.)*

   - An 80% County contribution for employees with at least 5 years of service. This County contribution rate is effective for the period of time following retirement equal to the number of years of eligibility under the group insurance plan prior to retirement. After this time period expires, the retiree is responsible for 100% of the group insurance costs.

2. Council Resolution No. 10-2233 also provided employees who had already retried with a one time opportunity to convert to the lifetime option via a special election period.

3. Many retirees who chose to continue the 80% County contribution option have come to the end of their continuation period and are paying 100% of their group insurance. Many other retirees are nearing the end of their continuation period.

4. The County would have provided the lifetime cost sharing option to all retirees had they elected so during the special election period held in 1986. The same is true for those who have retired since then and were provided the lifetime cost sharing option at the time of their retirement.

Action

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

The Council supports offering eligible retirees a one-time opportunity to change to a lifetime cost sharing option. Eligible retirees are those retirees and surviving spouses who have ever participated as a retiree in group health insurance, and who either have the 80% County contribution option or whose continuation period for the County contribution has expired and are paying 100% of the cost.

The County contribution rate for those electing to convert to the lifetime cost sharing option will be based on the table below.

	Years Since Retirement			
	1-4	**5-9**	**10-14**	**15+**
Years of Eligible Service				
15+	68%	65%	60%	55%
14	68%	65%	60%	55%
13	66%	65%	60%	55%
12	64%	64%	60%	55%
11	62%	62%	60%	55%
10	60%	60%	60%	55%
9	58%	58%	58%	55%
8	56%	56%	56%	55%
7	54%	54%	54%	54%
6	52%	52%	52%	52%
5	50%	50%	50%	50%
1-4	0%	0%	0%	0%

Retirees participating in group insurance at the time of re-election will not be required to change plans or coverage.

Retirees who are not enrolled in group insurance at the time of re-election may choose from any open County plan. For retirees who are not enrolled in group insurance benefits at the time of re-election, all policies enacted after 12/31/00 regarding leaving and re-entering County group health insurance apply as do policies regarding coverage for eligible dependents.

This is a correct copy of Council action.

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Mary A. Edgar, CMC
Clerk of the Council

Personnel

RECEIVED COUNCIL

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OFFICES OF THE COUNTY EXECUTIVE

Douglas M. Duncan
County Executive

Bruce Romer
Chief Administrative Officer

038279

May 2, 2001

TO: Blair G. Ewing, Council President
Marilyn J. Praisner, Chair, Management & Fiscal Policy Committee

FROM: Bruce Romer, Chief Administrative Officer

SUBJECT: Retiree Group Insurance – Cost Sharing

Recently, both the Executive and the Council have received requests from individual retirees, as well as the Montgomery County Retired Employees' Association, to reexamine the County's policy regarding retiree group insurance cost sharing. In response to these requests, the Office of Human Resources has worked in conjunction with the Office of Management and Budget and the County's actuaries in developing a recommendation to address the concerns of the County's retirees.

As a result of the study performed by this working group, I have endorsed the concept of offering a last chance opportunity for eligible retirees to change to a lifetime cost-sharing option. This recommendation is based on the rationale that the County would have allowed all retirees to elect the lifetime option either during the 1986 election window or, since then, at retirement. While there is a long-term cost to this program, analysis shows a potential savings for the first six years.

Below is the pertinent background information and a full description of the recommendation. Attached is a draft Council Resolution for your consideration. Please feel free to contact Eric Wallmark (7-5020) in the Office of Human Resources regarding any needed clarifications.

Background

- At retirement, employees hired prior to January 1, 1987, are offered two cost-sharing options for group insurance:

  1) A 50% County contribution for employees with at least 5 years of service, increasing to 70% for those who have at least 15 years of service. This County contribution rate is for the duration of the retiree's lifetime *(this option was a result of Council Resolution No.*

3

10-2233, which was adopted on October 16, 1986, and is mandatory for employees hired after 12/31/86).

2) An 80% County contribution for employees with at least 5 years of service. This County contribution rate is effective for the period of time following retirement equal to the number of years of eligibility under the group insurance plan prior to retirement. After this time period expires, the retiree is responsible for 100% of the group insurance costs.

- Council Resolution No. 10-2233 also provided employees who had already retired with a one-time opportunity to convert to the lifetime option via a special election period.

- Most elected to remain with their current 80% County contribution, mainly because by choosing the lifetime option, they also elected a reduced benefit from the indemnity plan upon Medicare eligibility *(failure to return an election form resulted in maintaining the 80% level)*.

- Many retirees who chose to continue the 80% County contribution option have come to the end of their continuation period and are paying 100% of their group insurance costs (approximately 325 out of the total of 2,500 who are under the 80% option with an expiration period).

- The County would have provided the lifetime cost sharing option to all retirees had they elected so during the special election period held in 1986. The same is true for those who retired since and were eligible to make a choice at retirement.

Recommendation Objectives

- Provide a "one-more time" opportunity for retirees to elect to either stay with the 80% County contribution with the expiration date or switch to the lifetime arrangement with a reduced County contribution.

- Present a simple, understandable choice to retirees which focuses on the County's cost-sharing arrangement only.

- Implement a communication and election process designed to result in a response from every retiree.

- Actively involve the Montgomery County Retired Employees' Association in the communication and election process.

- Minimize fiscal impact.

Recommendation Outline

- Retirees enrolled in group insurance as of 12/31/2000, who either have the 80% County contribution option or whose continuation period for the County contribution has expired and are paying 100% of the cost, would be eligible to elect the lifetime cost-sharing option *(there are approximately 900 retirees and survivors entitled to pension benefits, but who are not enrolled in group insurance; they consist of those who dropped coverage because they could not afford 100% of the cost and former vested employees receiving a pension who are not eligible for group insurance)*.

- The County contribution rate for those electing to convert to the lifetime cost-sharing option would be based on the table below *(if a retiree had less than 15 years eligible service with the County at retirement, these rates may be adjusted so as not to exceed the maximum rate applicable had they elected the lifetime option at retirement or when given the one-time opportunity under County Resolution No. 10-2233)*:

YEARS SINCE RETIREMENT	COUNTY LIFETIME CONTRIBUTION RATE
0 – 1	68%
2 – 3	66%
4 – 5	64%
6 – 7	62%
8 – 9	60%
10	58%
11	56%
12	54%
13	52%
14	50%
15	48%
16	46%
17	44%
18	42%
19	40%
20+	38%

- There would be no coverage change upon Medicare eligibility for retirees in the Indemnity Plan who elect the lifetime option.

Election Process

- Approximately 30 days prior to the mailing of election material, the Office of Human Resources will mail a prenotification postcard to all eligible retirees informing them what to expect, when they should expect it and what to do if they do not receive it.

- The mailing of the personalized election material will be followed by a 90-day response period, with an interim reminder mailing to nonrespondents (the Office of Human Resources maintains an accurate address database of all retirees eligible to make an election).

- All elections mailed will be logged into a tracking database and the personalized cover letters imaged into the retiree's file.

- Returned elections will be logged as received into the tracking database and imaged into the retiree's file.

- After the expiration of the 90-day election period, the Office of Human Resources will make concentrated attempts to contact anyone who has not responded; such attempts will take place for a period of 30 days, after which a memo will be imaged into the retiree's file indicating the attempts made to contact the retiree and that their current cost-sharing arrangement will continue.

Recommendation Cost

- While there is certainly an increase in long-term *cost* due to this proposal, there will be a decrease in the current budget forecast. This is because budget forecasts assume an 80% County contribution for life. They do not take into account that retirees receiving an 80% County contribution will receive *no* County contribution when their continuation period ends. In addition, there will be a reduction in the level of County contribution under this proposal for a retiree who is currently receiving an 80% County contribution and elects the lower lifetime rate. This will, of course, reverse itself after the 80% County contribution period would have expired and the retiree would have been required to pay the entire cost.

- The attached table compares the costs associated with our current program to those under this recommendation.

- From a *cost* perspective, the recommendation increases the County's liability by $14.3 million dollars over the lifetime of all current retirees *(the difference between the current program's cost, taking the expiration of County cost sharing into account, and the recommendation's cost, worst case scenario)*.

- From a *budgetary* perspective, the recommendation decreases the County's projected benefit payments by $8.5 million over the next six years *(the difference between the current*

program's projected benefit payments using the current budget forecast method, and the recommendation's projected benefit payments, worst case scenario). On an actual basis, the County's benefit payments would decrease by $4.0 million over the next 6 years. Clearly, part of this savings comes from lowering the County's contribution rate from 80% to the applicable rate from the table above for those retirees who elect lifetime coverage under this recommendation.

BR:ew

Attachments

Montgomery County Government
Retiree Cost Sharing Conversion Models
Liability and Six Year CashFlow

Scenario	Description	Liability	Projected Cashflow					
			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Current Program recognizing the cost sharing expiration[1]	Retirees electing an 80% County contribution payable for the number of years of service prior to retirement	$91,800,000	$8,800,000	$9,200,000	$9,500,000	$9,700,000	$9,700,000	$9,700,000
Current Program assuming lifetime subsidy	Current method for budget forecast	$132,200,000	$9,000,000	$9,500,000	$10,000,000	$10,500,000	$10,800,000	$11,100,000
Recommendation[2]	Subsidy schedule from 38% - 68% based on years since retirement and payable for life	$102,300,000	$6,900,000	$7,300,000	$7,700,000	$8,100,000	$8,400,000	$8,600,000
Recommendation (Worst Case)[3]	Greatest cost scenario given only a portion of the population switches from the current program to the recommended schedule	$106,100,000	$7,700,000	$8,200,000	$8,600,000	$9,000,000	$9,300,000	$9,600,000

Notes:

1. Includes retirees (1,746) and disableds (503) who elected the 80% years of service benefit and are still receiving a subsidy
2. Assumes all retirees and disableds that originally elected 80% coverage switch to the proposed plan
   Includes all retirees (2024) and disableds (551) that are still receiving benefits under the plan even though their 80% subsidy period may have expired
   Excludes those retirees and disableds who waived coverage following the expiration of their 80% subsidy period
3. Retirees (756) and disableds (121) with more than 15 years of 80% coverage remaining stay in current program (all others select lifetime plan)

Resolution No. _____
Introduced: _____
Adopted: _____

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council at the Request of the County Executive

Subject: **Retiree Re-election Opportunity for Group Insurance Cost Sharing**

Background

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2) Council Resolution No. 10-2233, also provided employees who had already retired with a one time opportunity to convert to the lifetime option via a special election period.

3) Most elected to remain with their current 80% County contribution, mainly because by choosing the lifetime option, they also elected a reduced benefit from the indemnity plan upon Medicare eligibility *(failure to return an election form resulted in maintaining the 80% level).*

4) Many retirees who chose to continue the 80% County contribution option have come to the end of their continuation period and are paying 100% of their group insurance costs.

5) The County would have provided the lifetime cost sharing option to all retirees had they elected so during the special election period held in 1986. The same is true for those who have retired since then and were provided the lifetime cost sharing option at the time of their retirement.

Action

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

The Council supports offering eligible retirees an opportunity to change to a lifetime cost sharing option. Eligible retirees are those enrolled in group insurance as of 12/31/2000, who either have the 80% County contribution option or whose continuation period for the County contribution has expired and are paying 100% of the cost.

The County contribution rate for those electing to convert to the lifetime cost sharing option will be based on the table below *(if a retiree had less than 15 years eligible service with the County at retirement, these rates may be adjusted so as not to exceed the maximum rate applicable had they elected the lifetime option at retirement or when given the one-time opportunity under County Resolution No. 10-2233)*:

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Mary A. Edgar, CMC
Secretary of the Council