GO Committee #3
April 25, 2011
Discussion

MEMORANDUM

April 21, 2011

TO: General Operations and Fiscal Policy Committee

FROM: Office of Legislative Oversight, Budget Project Team
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SUBJECT: **County Executive's FY12 Recommended Budget: Analysis of Proposed Changes to County Government Employees' Retirement, Health, and Life Insurance Benefits**

This memorandum provides the Office of Legislative Oversight's analysis of the proposed changes in the County Executive's FY12 Recommended Operating Budget to retirement, health insurance (including medical, prescription drug, dental, and vision coverage), and life insurance benefits for County Government employees. It includes review of the fiscal impact and policy issues raised by the County Executive's proposed changes, and offers some alternatives for Committee discussion and consideration. The memorandum is organized into six parts as follows:

This memo focuses on the County Executive's proposed FY12 changes to County Government employee benefits and potential alternatives for the Committee to consider. As background and reference, the memo also includes information on: MCGEO's last best final offer regarding retirement and health benefits, as included in the arbitration award; pension and retiree health benefit changes recently adopted by the State of Maryland; and employee benefit changes either under discussion (or already adopted) by the governing boards of the other tax supported County agencies: Montgomery County Public Schools, Montgomery College, and M-NCPPC.

Changes to the structure of the County Government's retirement plans would require changes to County law. Retirement and group insurance benefits for active employees are mandatory subjects of collective bargaining between the Executive and employee unions. For a discussion of legal issues surrounding collective bargaining and modifications to employee benefits, see Mr. Drummer/Mr. Faden's packet (GO Committee #4, 4/25/11).

As the Committee takes up the employee compensation issues raised by the proposals contained in the County Executive's Recommended FY12 Budget, the Committee is reminded that similar discussions are occurring in other state and local governments across the country. For examples of the changes being considered and implemented in other jurisdictions, see the Appendix to OLO's Part II Report on *Achieving a Structurally Balanced Budget in Montgomery County*, pages ©119-147.

A. OVERVIEW OF COUNTY EXECUTIVE'S PROPOSALS

The County Executive's Recommended FY12 Operating Budget includes proposals for making a number of structural changes to the benefits of County Government employees. In his budget transmittal memo to the Council, the Executive writes:

> *My recommended changes to the County's benefits structure is the beginning of a continued effort to better structure our benefits to provide savings for both the County and its employees. I believe that over time, working together, we can develop additional cost efficient ways to further reduce benefit costs, while still maintaining a highly competitive benefits package for our workers.*

The County Executive's Recommended FY12 Budget includes proposed changes to:

- Pension (defined benefit) plan <u>employee</u> contributions;
- Retirement account (defined contribution[1]) <u>employer</u> contributions;
- The employee cost share for group insurance premiums (medical, prescription drug, dental, vision, life insurance, and long-term disability insurance); and
- The design of the prescription drug benefit and the amount of mandatory life insurance coverage.

The County Executive's Recommended FY12 Budget <u>does not include</u> proposed changes to:

- Pension benefits for new hires or for years not yet served by current members;
- Retiree health benefit cost share or eligibility, either for current or future retirees; or
- Medical insurance plan design, e.g., copays, deductibles.

The Executive's FY12 budget assumed a July 1, 2011 effective date for all of his recommended changes to employee benefits. On April 15, 2011, the Council President notified the County Executive that the Council intends to set a date that is later than July 1st for implementing whatever changes to group insurance are approved by the Council. For more on the implementation date issue, see Mr. Farber's packet (GO Committee #1, 4/25/11).

The Executive's specific recommendations are limited to the benefits for County Government employees. **With regard to employee benefits in other tax-supported agencies, the Executive's FY12 budget transmittal memo states that:**

> *To promote equity among locally funded public employees and produce sustainable savings across the entire government, I recommend that the governing boards of the other County funded agencies support a similar approach to compensation in FY12.*

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[1] In this memo, the term "defined contribution" plan includes both the Retirement Savings Plan (RSP) and the Guaranteed Retirement Income Plan (GRIP).

The table below summarizes the Executive's proposed changes to County Government employee benefits and shows his estimated FY12 savings that would result from implementation of the changes.

Summary of Executive's Proposed Changes to County Government Employees' Benefits

Benefit Type	County Executive's Proposal	CE Estimated FY12 Savings
Retirement	**Pension (Defined Benefit) Plans.** Employees would contribute an additional 2% of salary towards their pensions.	$6,044,180
	Retirement Account (Defined Contribution) Plan. The employer's contribution to employee retirement accounts would be reduced by 2%.	$4,860,290
Health (Medical/ Prescription/ Dental/Vision)	**Minimum 30% Cost Share.** Employees' cost share of medical, prescription drug, dental and vision insurance premiums would increase from a minimum of 20% to a minimum of 30%.	$8,229,530
	Additional Salary-Based Charge. Employees with an annual salary between $50,000 and $89,999 who enroll in a medical and/or prescription drug plan would pay an additional $910 per year. Employees with an annual salary of $90,000 and above would pay an additional $1,560 per year.	$7,418,000
Prescription Drug	**Generics.** Employees who buy a brand name drug when a generic equivalent is available would always pay the generic drug copay <u>plus</u> the difference between the cost of the brand name drug and its generic equivalent. Currently, this requirement is waived if a physician prescribes a brand drug and writes "dispense as written" on the prescription.	$1,200,000
	Lifestyle Drugs. The County would eliminate coverage for medications used to treat erectile dysfunction.	$400,000
	Mail-Order Copays. The copay for mail order prescriptions (up to a 90-day supply) would increase from one time to two times the copay for a 30-day supply purchased through a retail pharmacy.	$200,000
Life Insurance	**30% Cost Share and Benefit Level.** The life insurance benefit provided to all employees would be reduced from two times to one time annual salary. Employees' cost share would increase from 20% to 30% of premium.	$1,200,000
Long-Term Disability	**30% Cost Share.** Employees' cost share for long-term disability insurance would increase from 20% to 30% of premium.	$48,000

Six-Year Fiscal Impact. The Executive's proposal changes the structure of employee compensation and, if implemented, would produce recurring savings in future years. As shown in the table below, the Office of Management and Budget (OMB) estimated the savings for each of the next six years that would result from implementing the proposed benefit changes. <u>OMB's estimates of FY12 savings reflect the assumption of a July 1, 2011 implementation date for all proposed changes.</u>

OMB Estimate of Savings from Executive's Proposed Changes in Employee Benefits
($ in millions)

Executive's Proposed Change	FY12	FY13	FY14	FY15	FY16	FY17
Defined Benefit Retirement: Additional employee contribution (2% of salary)	$6.04	$6.21	$6.39	$6.60	$6.82	$7.07
Defined Contribution Retirement: Reduced employer contribution (2% of salary)	$4.86	$4.99	$5.14	$5.31	$5.49	$5.68
Health Insurance Cost Share: Increase to minimum of 30%	$8.23	$9.05	$9.96	$10.95	$12.04	$13.25
Health Insurance Cost Share: Additional salary-based charge	$7.42	$8.16	$8.98	$9.87	$10.86	$11.95
Prescription Drug Coverage: Mandatory generics	$1.20	$1.32	$1.45	$1.60	$1.76	$1.93
Prescription Drug Coverage: Elimination of ED drug coverage	$0.40	$0.44	$0.48	$0.53	$0.59	$0.64
Prescription Drug Coverage: Doubling mail-order copay	$0.20	$0.22	$0.24	$0.27	$0.29	$0.32
Life Insurance: Reduced coverage / increased cost share	$1.20	$1.32	$1.45	$1.60	$1.76	$1.93
Long-Term Disability Cost Share: Increase to minimum of 30%	$0.05	$0.05	$0.06	$0.06	$0.07	$0.08
Totals	$29.60	$31.76	$34.16	$36.79	$39.68	$42.86

OMB's estimates represent combined savings from both tax supported and non-tax supported funds. To calculate the future year fiscal impact, OMB assumed that:

- County Government employee salaries will increase in future years at the projected consumer price index growth rate. (Future year retirement savings are a function of assumed growth in salaries).
- Health, life, and long-term disability insurance costs will increase about 10% annually through FY17 (based on projections provided by the County's actuary).

Note that OMB applied the health care inflation rate to the additional salary-based health benefit charge. In other words, OMB assumed that the salary-based charge increases annually by the same rate (about 10%) of overall health benefits.

Combined Cost to Employees in FY12. The Executive's proposed benefit changes represent a structural change in the form of a cost shift of retirement and health benefit costs from the County to County employees. The combined effect of the proposed cost shifts would vary based on an employee's income, bargaining group, and health insurance plan selections.

The table below shows four examples of the annual cost to employees[2] – measured in dollars and percent of salary – of the Executive's proposed retirement and health benefit changes. Additional details on these changes are provided later in this memorandum (Parts B, D, and E). As shown in the table below, implementation of the proposed changes would cost employees an amount equal to between 2.8% and 7.6% of annual salary.

Examples of FY12 Additional Cost to Employees[2]
Executive's Proposed Retirement and Health Benefit Changes

	Employee Salary			
	$45,000	**$55,000**	**$85,000**	**$95,000**
Retirement				
$ Amount	$900	$1,100	$1,700	$1,900
% of Salary	2.0%	2.0%	2.0%	2.0%
Health Insurance				
$ Amount	$371 to $2,163	$1,281 to $3,073	$1,281 to $3,073	$1,931 to $3,723
% of Salary	0.8% to 4.8%	2.3% to 5.6%	1.5% to 3.6%	2.0% to 3.9%
Combined				
$ Amount	$1,271 to $3,063	$2,381 to $4,173	$2,981 to $4,773	$3,831 to $5,623
% of Salary	2.8% to 6.8%	4.3% to 7.6%	3.5% to 5.6%	4.0% to 5.9%

[2] Cost to employees calculated in pre-tax dollars. The reduction in take home pay would vary depending on the employee's income tax rate. For employees in a defined benefit retirement plan, retirement cost represents a reduction in earnings. For employees in a defined contribution retirement plan, retirement cost represents a reduction in retirement account contributions.

B. Retirement Benefits

In FY11, the County Government will pay $124 million (from tax-supported and non-tax supported funds) for County Government employee retirement benefits: $105 million for the defined benefit plans and $19 million for the defined contribution plans.[1] Currently, the defined benefit and the defined contribution plans have approximately the same number of enrollees.

This part of the memorandum analyzes the County Executive's proposed FY12 changes to County Government retirement plans and outlines some alternatives that the Committee may want to consider. It is organized as follows:

1. Summary of Executive's Proposed Changes

The County Executive proposed structural changes for employees in both the County Government's defined benefit plans and defined contribution plans. The Executive proposed that beginning July 1, 2011:

- Employees in the Employee Retirement System (ERS) defined benefit plans would contribute 2% more of their salary toward their retirement benefit; and
- The County Government would contribute 2% less to retirement accounts for employees in the Retirement Savings Plan (RSP) defined contribution plan or the Guaranteed Retirement Income (GRIP) hybrid plan.

The table below summarizes the Office of Management and Budget's estimate of tax supported and non-tax supported costs and savings from the Executive's proposals.

OMB Estimate of Costs and Savings from Executive's Proposed Retirement Plan Changes
FY12-FY17 Tax Supported and Non-Tax Supported Funds
($ in millions)

Plan	Estimated FY12 County Cost		Estimated Savings – CE Proposal					
	No Plan Changes	CE Proposal	FY12	FY13	FY14	FY15	FY16	FY17
ERS	$110.2	$104.1	$6.0	$6.2	$6.4	$6.6	$6.8	$7.1
RSP/GRIP	$18.7	$13.8	$4.9	$5.0	$5.1	$5.3	$5.5	$5.7
Total	**$128.8**	**$117.9**	**$10.9**	**$11.2**	**$11.5**	**$11.9**	**$12.3**	**$12.8**

Source: 3-29-11 OMB Fiscal Impact Statement – FY12 Labor Agreements; OMB data

[1] In this memo, the term "defined contribution" plan includes both the RSP defined contribution plan and the GRIP hybrid plan.

The Executive's proposed retirement changes would impact employees differently based on the retirement plan they belong to.

Impact on Employees in Defined Benefit Plans. Under the Executive's proposal, employees in the County Government's defined benefit plans would contribute an additional 2% of salary toward their pensions, employees would see a reduction of their take-home pay by less than 2%.[2] **The Executive's proposal would not change the benefit that employees in the defined benefit system receive when they retire.**

The table below summarizes employees' current contribution rates in the defined benefit plans and the rates under the Executive's proposal; all contributions are a percent of the employee's salary.

Executive's Proposed Increase in Annual Employee Defined Benefit Contributions

Employee Group	Employee Contribution (% of salary)		% Increase
	Current[3]	CE Proposed	
Non-Public Safety (hired before 10/1/94)	4%	6%	+50%
Police and Deputy Sheriff/Corrections	4.75%	6.75%	+42%
Fire & Rescue	5.5%	7.5%	+36%

Impact on Employees in Defined Contribution Plans. Under the Executive's proposal, the County Government would contribute 6% of salary to an employee's retirement accounts for most employees in the defined contribution plans, down from the County's current 8% contribution.[4]

The Executive's proposal would lower the benefit that employees in the defined contribution plans receive when they retire by reducing the County Government's retirement account contributions by 25% annually and by eliminating the opportunity to earn investment income from the contributions. The Executive has advised that employees could make up for the decreased employer contribution by contributing an additional 2% of their salary to a deferred compensation account.[5]

The table below summarizes the County Government's current contribution rates and the rates under the Executive's proposal, as a percent of employees' salary.

Executive's Proposed Reduction in Annual Employer Retirement Account Contributions

Employee Group	Employer Contribution (% of salary)		% Reduction
	Current	CE Proposed	
Non-Public Safety (hired on or after 10/1/94)	8%	6%	-25%
Non-Represented Public Safety (hired on or after 10/1/94)	10%	8%	-20%

[2] Employee contributions to retirement plans are paid in pre-tax dollars. A payment of 2% in pre-tax dollars would result in less than a 2% reduction to an employee's take-home pay.
[3] Employees in the ERS who earn more than the Social Security Wage Base (SSWB) ($106,800 in 2011) contribute a higher percent of salary toward their pensions for salary earned above the SSWB (non -public safety – 6%, Deputy Sheriff/Corrections and Police – 8.5%, Fire and Rescue – 9.25%). These contribution rates would also increase 2% under the Executive's proposal. The SSWB is the salary amount above which the federal government no longer withholds Social Security taxes.
[4] The County Government contributes 10% of salary for non-represented public safety employees in the defined contribution plans. Under the Executive's proposal, the County's contribution for these employees would fall to 8% of salary.
[5] Employees can take advantage of this option only if an additional 2% contribution to their deferred compensation account would not put their annual contribution over the maximum amount allowed under federal law ($16,500 in 2011).

2. Description of MCGEO Retirement Benefit Changes from Arbitration Award

UFCW Local 1994 MCGEO, (Municipal & County Government Employees Organization) is the certified collective bargaining representative for certain groups of County Government employees in the defined benefit and defined contribution retirement plans.[6] **During collective bargaining, MCGEO proposed one change to the County Government's defined benefit plans and a different change to the defined contribution plans. Both changes proposed by MCGEO would provide primarily one-time savings in FY12.**[7] Specifically, MCGEO proposed that:

- **Defined benefit**: The County Government would withhold its annual contribution to the defined benefit plans in FY12 for certain groups of employees, and those employees would not receive service credit for work in FY12. Employees would still make their required contributions; and
- **Defined contribution**: The County Government would contribute 6% of salary to employees' retirement account in FY12, rather than 8%.

An arbitrator chose MCGEO's last best final offer as the more reasonable offer (including its proposed retirement plan changes). The Executive, however, did not include MCGEO's retirement proposals in his recommended budget.

According to the County's retirement plan actuaries, MCGEO's proposed changes to the defined benefit plans would yield $28 million in savings. It is important to note that $11 million (or almost 40%) of the total savings would come from non-represented employees.

For a complete description of MCGEO's proposal and the associated savings, see GO Committee #4, 4/25/11, on the collective bargaining agreements, prepared by Council Attorneys Mike Faden and Bob Drummer.

3. Description of Retirement Changes in Other County-Funded Agencies

Montgomery County Public Schools. Approximately 75 percent of Montgomery County Public Schools' (MCPS) 21,000 employees belong to a State-run and currently State-funded pension system. The remaining MCPS employees belong to an MCPS-run and locally-funded pension system. Currently, employees in the State-run and locally-run systems receive the same pension benefits. This month, the Maryland General Assembly altered the structure of pension benefits for current and future employees in most State-run pension plans, including the Teachers' Retirement System.

For current MCPS employees, the State changes require a higher annual employee contribution and alter the formula used to calculate annual cost-of-living adjustments to retiree pensions for all service on or after July 1, 2011. For employees hired on or after July 1, 2011, the State also altered the retirement benefit received, the required years of service for full retirement, the minimum vesting period, and several other pension provisions. The table on page 10 summarizes the changes for current and future MCPS employees in the State system (and to other State pension systems).

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[6] MCGEO represents non-public safety employees hired before October 1, 1994 and represents employees in the Department of Corrections and Rehabilitation and in the Sheriff's Office in the defined benefit plans and all union employees in the defined contribution and hybrid plans.

[7] OMB estimates that MCGEO's defined benefit proposal would save $17.3 million in FY12 and potential recurring savings of $0.4 to $1.2 million annually thereafter. All of the direct savings from MCGEO's defined contribution proposal would occur in FY12.

In FY11, MCPS contributed $41.2 million to fund retirement benefits for employees in the locally-funded defined benefit plan, contributing 20.49% of employees' salary. **If the Board of Education made corresponding changes to MCPS' locally-funded defined benefit plan, based on FY11 data, MCPS employees would contribute approximately $4.0 million more toward retirement in FY12, resulting in reduced costs for MCPS.**

Montgomery College. All Montgomery College employees participate in State of Maryland-administered retirement plans. The State funds the retirement of faculty, administrators, and professional staff, who may choose between a defined benefit plan and a defined contribution plan. Montgomery College fully funds the cost for support, paraprofessional, and technical staff to participate in a State defined benefit plan.

The changes summarized in the table on page 10 also apply to Montgomery College employees in State pension plans.

Maryland-National Capital Park and Planning Commission. M-NCPPC currently is in the process of bargaining with its employee unions.

Summary of FY12 State Pension Changes in House Bill 72 – the Budget Reconciliation and Financing Act:

- **Employees' Pension System**
- **Teachers' Pension System**
- **State Police Retirement System**
- **Correctional Officers Retirement System**
- **Law Enforcement Officers Pension System**

Area	Current Provision	New Provision	Employees Affected	
			Current	Hired After July 1, 2011
All Systems				
Cost-of-Living Adjustments (for all service credit earned after July 1, 2011)	Linked to CPI; capped at 3% per year or unlimited*	Linked to Consumer Price Index (CPI) with the following caps: 2.5% if the State Retirement and Pension System achieves 7.75% rate of return in prior year; 1% if 7.75% rate of return not met	✓	✓
Average Final Compensation	Highest three consecutive years	Highest five consecutive years+		✓
Vesting Period	5 years	10 years		✓
Employees' Pension System and Teachers' Pension System				
Employee Contributions	5% of salary	7% of salary	✓	✓
Multiplier	1.8%	1.5%		✓
Early Retirement	Age 55/15 years svc.	60 years old and 15 years of service		✓
Full Service Retirement	30 years service; or from 62 y.o./5 years svc. to 65 y.o./2 years svc.	65 years old (y.o.) and 10 years of service; or Rule of 90 – age plus years of service must equal 90		✓
State Police Retirement System				
Full Service Retirement	At least 50 y.o.; or 22 years svc.	At least 50 years old; or 25 years of service at any age		✓
Deferred Retirement Option Program (DROP) (for all accounts opened after July 1, 2011)	6% interest compounded monthly Eligib. up to 28 years svc	4% interest compounded annually Eligibility up to 29 years of service		✓
Law Enforcement Officers Pension System				
Employee Contributions	4% of salary	6% of salary in FY12 7% of salary in FY13 and after	✓	✓
Deferred Retirement Option Program (DROP) (for all accounts opened after July 1, 2011)	6% interest compounded monthly Eligib. up to 28 years svc	4% interest compounded annually Eligibility up to 29 years of service		✓

* COLAs for retirees in the State Police Retirement System and the Correctional Officers Retirement System are based on the CPI and are not capped.
+ Pension calculations for the State Police Retirement System and the Correctional Officers Retirement System based on the highest five years (not consecutive).
Source: *Retirement Reform*, MD Department of Management and Budget

4. Summary of Retirement Benefit Policy Issues

The Executive's proposed retirement plan changes raise two primary policy questions.

Policy Question #1: Should the Council seek equivalent savings from employees in the defined contribution plans, which currently costs the County substantially less than defined benefit pension plans?

The Executive proposed that all County Government employees – regardless of their retirement plan – forego a similar amount in FY12 (2% of salary). However, the County incurs substantially higher costs for employees in the defined benefit retirement plans than for those in the defined contribution plans.

The table below summarizes the percent of salary that the County Government would contribute to fund each group's retirement in FY12 without the Executive's proposed changes.[8]

FY12 Retirement Plan Employer Contributions Excluding Executive's Proposed Savings

Retirement Plan	FY12 Employer Contribution (% of salary)
Defined Benefit	
Public Safety	36.88%
Non-Public Safety	25.17%
Defined Contribution[9]	8%
Hybrid – GRIP	7.27%

Source: 2010 Actuarial Valuation Report; Montgomery County Code

Taking into account the Executive's proposed retirement changes, the Office of Management and Budget estimates that the defined benefit plans would cost the County Government $104 million in FY12, or about 88% of the total cost for employee retirement benefits. OMB estimates that the defined contribution plans would cost the County Government $14 million (or 12% of the total) in FY12. At the same time, the Executive has proposed that 55% of the projected FY12 savings from retirement changes ($10.9 million) come from employees in the defined benefit plans and 45 percent from employees in the defined contribution plans.

Policy Question #2: Should a portion of the County's structural budget problem be addressed by changing the defined benefit package offered to employees?

The Executive did not propose any changes to the benefit provided by the defined benefit plans for current employees or for new hires. Even if the Council approves the Executive's proposal, County Government defined benefit pensions will continue to require large annual contributions. As of December 2010, while the County Government's pension liability for current employees and retirees is $3.6 billion, the ERS pension system is underfunded by $854 million.

As detailed above, to address the underfunding of its defined benefit plans, the State of Maryland made two changes to the defined benefit package for current employees in State-run pension plans and numerous changes to the defined benefit package that will be offered to new employees beginning July 1, 2011 (including most new employees hired by MCPS and Montgomery College beginning in FY12). The County Government could make similar changes to its defined benefit plans.

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[8] For employees hired after July 1, 1978. The County Government contributes substantially more to the defined benefit plans for employees hired before July 1, 1978 – between 46% and 425% of salary.

[9] The County contributes 10% of salary to retirement accounts for non-rep. public safety employees in the RSP or GRIP.

5. Committee Discussion of Retirement Benefit Alternatives

a. Defined Contribution Plan Alternatives

The Executive's proposed retirement plan changes raise a question of fairness because the changes achieve disproportionate savings from the County Government's less expensive retirement plans. As mentioned above, under the Executive's proposed changes, the cost of contributions for members of the defined contribution plans account for about 12% of the County Government's annual retirement costs, while these employees contribute almost half of the Executive's estimated savings from retirement plan changes.

Defined contribution plans are less expensive than the defined benefit plans because they provide a less generous retirement benefit. As detailed in OLO's memorandum of March 17, the pension benefit for an employee who retires after 30 years of service is worth about 2 ½ more (in present value terms) than the defined contribution benefit provided an employee who worked the same number of years.[10]

To address the question of fairness raised by the Executive's proposed changes to the defined contribution retirement plans, below are three alternatives that the Committee may want to consider:

ALTERNATIVE **#1: Retain current contribution.** The Council rejects the Executive's proposal and retains the current 8% contribution to employees' defined contribution retirement accounts.

ALTERNATIVE **#2: Reduce contribution by 2% in FY12 only.** The Council approves a 2% reduction in the contribution to employees' defined contribution accounts for one year only, FY12.

ALTERNATIVE **#3: Reduce in proportion to employee cost.** The Council approves a decrease in the County Government's contribution to employees' defined contribution retirement accounts by 0.5%, which is an amount more proportional to the members' FY12 costs to the County.

The table below summarizes the projected savings between FY12 and FY17 from these alternatives.

Projected Savings from Defined Contribution/Alternatives, FY12-FY17
($ in millions)

Alternative	Description	FY12	FY13	FY14	FY15	FY16	FY17
#1	Retain current 8% contribution	$0	$0	$0	$0	$0	$0
#2	Reduce contribution by 2% in FY12 only	$4.9	$0	$0	$0	$0	$0
#3	Reduce contribution in proportion to cost	$1.2	$1.2	$1.3	$1.3	$1.4	$1.4
Executive's	Reduce contribution by 2% permanently	$4.9	$5.0	$5.1	$5.3	$5.5	$5.7

Note: Savings calculated by comparing cost of each alternative to what the cost would be each year if the current policy continued unchanged.
Source: OMB 3-29-11 Fiscal Impact Statement – FY12 Labor Agreements, OLO calculations

[10] http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/3-17-11AdditionalInformationaboutCurrentRetirementBenefits.pdf

b. Changes to the Structure of the Defined Benefit Plans

The Executive's proposed retirement benefit changes shift some of the cost of defined benefit plans to employees but do not lower costs by altering the structure of the benefit that employees receive when they retire. Many jurisdictions around the country, including the State of Maryland, have changed the structure of the defined benefit offered to new hires and, in some cases, to current employees for years not yet served. The State's changes will apply to employees in MCPS and Montgomery College.

Each of the four alternatives described in more detail below would change the structure of the County Government's defined benefit plans. The first three apply only to new hires. The fourth would change the benefit both for new hires and current employees for future years of service. The table at the end of the options compares the relative savings from alternatives 1, 2, and 4.

ALTERNATIVE #1: **Change defined benefit components for new public safety hires.**

This alternative would change three components of the defined benefit plans, the:

- Defined benefit vesting period,
- Calculation of employees' average final earnings, and
- Structure of retirees' annual cost-of-living adjustment.

These changes would be similar to the changes recently made to State-run pension plans and would apply to pensions for all represented public safety employees hired on or after July 1, 2011. The table below compares the current provisions and the changes in this alternative.

Provision	Current[11]	Alternative #1
Vesting – Years Required	5 years	10 years
Average Final Earnings – Calculation	Highest 3 consecutive years of salary	Highest 5 consecutive years of salary
Cost-of-Living – Calculation	• 100% of the Consumer Price Index (CPI) up to 3%; plus 60% of CPI over 3% with a maximum annual increase of 7.5%.	100% of CPI up to a maximum increase of 2.5%

[11] For employees hired on or after July 1, 1978.

ALTERNATIVE #2: Adjust pension formula for new public safety hires. This alternative would make the required years of service and the minimum pension the same for new public safety hires.

Under this alternative, to receive full retirement, all represented public safety employees hired on or after July 1, 2011 would be required to work 25 years and would receive a minimum pension of 55% of their average final salary.

Currently, deputy sheriff/corrections and police employees must work at least 25 years to earn full retirement and receive a minimum of 60% of their average final salary. Fire and Rescue employees must work 20 years to earn full retirement and receive a minimum of 50% of their average final salary.[12] The table summarizes the changes in this alternative.

	Current Provisions		Alternative #2
	Police, Deputy Sheriff, Corrections,	**Fire and Rescue**	**Represented Public Safety Employees Hired on or after July 1, 2011**
Minimum Years of Service	25 Years	20 Years	25 Years
Minimum Benefit at Full Retirement	60% of Salary (2.4 multiplier[13])	50% of Salary (2.5 multiplier)	55% of Salary (2.2 multiplier)

This alternative shows one example of modified pension provisions for new hires. The Council could consider other combinations of minimum years of service and salary multipliers for new hires.

ALTERNATIVE #3: Create a hybrid retirement plan. This alternative would establish a retirement plan for new public safety employees with defined benefit and defined contribution components.

Under this alternative, all new represented public safety employees hired on or after July 1, 2011 would be in a new hybrid defined benefit/defined contribution retirement plan. A hybrid plan could be structured in a number of ways, such as a "stacked" hybrid plan or a "parallel" hybrid plan.

"Stacked" hybrid plans provide a defined benefit for employees up to a certain salary level – say $50,000. Salary above the set level would be covered by a defined contribution plan. A "parallel" hybrid plan would provide employees a less generous defined benefit plan based on the full amount of their salary plus a supplemental defined contribution plan.[14]

Savings under this option would come from establishing a less generous pension than employees currently receive. The defined contribution portion could also be structured in a number of ways. A defined contribution option could be structured like the RSP (mandatory, set employer and employee contributions) or it could be made optional, with the employee choosing a contribution level within a range (e.g., 0-5% of salary) with the County Government matching a portion of that contribution.

The savings under this option would depend on the structure of the plan.

[12] Employees receive a higher percent of salary as a retirement benefit for each year worked beyond the minimum number of years required for full retirement.

[13] The "multiplier" is one of three main components used to calculate an employee's annual pension when s/he retires (Annual Pension = Average Final Salary x Years of Service x Multiplier).

[14] For a good description of retirement plan structure, see *Issue Brief: A Role for Defined Contribution Plans in the Public Sector*, Center for State & Local Government Excellence (April 2011).
http://www.slge.org/index.asp?Type=B_BASIC&SEC=%7B6B5D32FD-C99D-41F7-9691-4F1B1D11452B%7D&DE=%7B6EE4FB32-1CE3-49C6-9CA9-6FC3E8B51D12%7D

ALTERNATIVE #4: Lower cost-of-living adjustments. This alternative would set a lower cap on annual cost-of-living adjustments for retiree pensions for current and future employees.

This alternative shows two ways to alter the structure of the cost-of-living adjustment that retirees receive. Alternative 4b mirrors the COLA provision recently adopted by the State of Maryland for most employees in State-run pension plans. This alternative would apply to all service on or after July 1, 2011, both for current County Government employees and for new hires.

Alternative	Provision	Current[15]	Alternative
4a	Cost-of-Living - Calculation	• 100% of the Consumer Price Index (CPI) up to 3%; plus 60% of CPI over 3% with a maximum annual increase of 7.5%. • Does not apply over age 65 or for disabled.	100% of CPI up to a maximum annual increase of 2.5%
4b			100% of CPI: • Up to a maximum of 2.5% if the County Government meets its annual investment return assumption (7.5%); or • Up to a maximum of 1% if the County Government does not meet its annual investment return assumption.

The table below summarizes estimates of savings calculated by the County Government's retirement plan actuaries. Given the time constraints under which the actuary was developing estimates, these numbers demonstrate the general magnitude of savings from these alternatives. The actuaries were not asked to estimate savings from Alternative #3 because savings would depend on the structure of the retirement benefit offered under the alternative.

Estimated Savings from Defined Benefit Alternatives
($ in millions)

Alternative	Employees Affected	Description	Estimated Savings	
			FY12	Ultimate
1	Future Hires	Change defined benefit components	$32,000	$5,500,000
2	Future Hires	Adjust pension formula	$21,000	$4,500,000
4a	Current Employees and Future Hires	Lower cost-of-living adjustments	$3,150,000	$3,700,000
4b			$6,080,000	$7,200,000

Source: Magnitude of savings estimate, Mercer

[15] This calculation applies to COLAs for employees hired on or after July 1, 1978.

C. Retiree Health Benefits

1. Summary of Executive's Proposed Changes

The Executive's Recommended FY12 Budget impacts retiree health benefits only insofar as the proposed changes to the prescription drug plan design will apply to both active and retired employees enrolled in the Caremark Prescription Drug plan. The design changes include:

- A mandatory generic provision;
- Eliminating coverage for medications used to treat erectile dysfunction; and
- A doubling of the copays for mail order prescriptions.

For more information on these proposed changes and some alternatives for the Committee's consideration, see page 18 of this memo.

The Executive's Recommended FY12 Budget did not propose any changes to the eligibility requirements for retiree health benefits or the premium cost share paid by retirees.

2. Recently Enacted Changes to Retiree Health Benefits by the State and Montgomery College

Recent changes made by the State of Maryland and Montgomery College to the structure of retiree health benefits are summarized below.

Note: On April 12, 2011, the Board of Education's Fiscal Management Committee's agenda included a discussion on retiree health benefits. OLO has requested that MCPS forward information on the specifics of any proposed changes as soon as it is available.

a. State of Maryland

The changes made by the State of Maryland are summarized in the table on the next page and further described below.

Eligibility. Employees hired after July 1, 2011 will have to work for 10 years (up from 5 years) to qualify for any retiree health benefits, and 25 years (up from 16 years) to receive the maximum health premium subsidy. The maximum subsidy will range from 80%-85% of medical plan premiums, depending on the type of plan; 75% of the prescription drug premium; and 50% of the dental plan premium. Employees who work between 10 and 25 years will receive proportionally smaller subsidies from the State.

Prescription Drug Plan Design and Premium Cost Share. Currently, the State's active employees and retirees are in the same prescription drug program. For FY12, the State will create a separate prescription drug program for current and future retirees. The retiree plan will have increased copays (mirroring the copay increase for active employees, see page 17) and the out-of-pocket maximums will increase to $1,500 for an individual and $2,000 for a family.

In addition, the State changed the cost share percent for retiree prescription drug premiums from 80/20 to 75/25, which reduces the State's cost share by five points.

Elimination of Prescription Drug Coverage for Medicare-Eligible Retirees in 2020. Beginning on July 1, 2020, Medicare-eligible retirees will no longer receive prescription coverage from the State. Instead, they will have to enroll in Medicare Part D coverage. Spouses and dependents under age 65 will continue to receive coverage through the State.

Summary of the State of Maryland's Changes to Retiree Health Benefits (Effective July 1, 2011)

Area	Current Provision	New Provision
Retiree Health Benefits		
Eligibility for new hires	• 5 years of service to qualify for minimum subsidy • 16 years of service for maximum subsidy	• 10 years of service to qualify for minimum subsidy • 25 years of service for maximum subsidy
Prescription Drug Benefit		
Copays	• Range of $5 to $50 for retail • Range of $5 to $20 for mail order	• Range of $10 to $80 for retail • Range of $10 to $80 for mail order
Annual out-of-pocket cap	$700 per family unit	• $1,500 for individual coverage • $2,000 for family coverage
Premium Cost Share	20% of premium	25% of premium

b. Montgomery College

The table below summarizes Montgomery College's recently adopted changes to retiree health benefits for employees hired on or after July 1, 2011. **In sum, similar to the State of Maryland, the College increased the number of years an employee has to work before being eligible for retiree health benefits and before they can receive the maximum subsidy.** The College also added a provision that retirees cannot add new dependents after they retire. This would apply only to new dependents who were not previously eligible when the retiree was employed by the College. (MCPS already has a similar restriction; Montgomery County does not).

Montgomery College Changes to Retiree Health Benefits for FY12

Area	Future retiree health benefit for...	
	Current Employees	**Employees Hired on or after 7/1/11**
Eligibility	• When eligible to retire under state system	• When eligible to retire under state system plus minimum age of 55 and minimum 15 years of service
Premium Cost Share	• If fewer than 10 years of service, 40% of premium paid by College • If 10+ years of service, 60% of premium paid by College	• If fewer than 20 years of service, 40% of premium paid by College • If 20+ years of service, 60% of premium paid by College
Coverage of Dependents	• Able to add new dependents after retirement	• No adding new dependents after retirement

3. Committee Discussion of Retiree Health Benefit Alternatives

Below are two alternatives to achieve savings in the area of retiree health benefits for County Government employees. If the Committee is interested, there are other ways to make changes to retiree health benefits that staff could further develop and bring back for Committee consideration. For additional options, see OLO's Part II Report on *Achieving a Structurally Balanced Budget in Montgomery County*, Chapter D, Health Benefits for Retired Employees and items 19-23 listed in the Appendix titled "Additional Options."

Both of the alternatives below would apply only to newly hired employees. Although making structural changes to the benefits of new hires does not generally yield large savings in the short run, it does leads to substantial savings in the long run. For both of the alternatives, OLO has requested that the County's actuary provide an estimated amount of FY12 and future year savings of implementation for all County Government employees hired on or after July 1, 2011. OLO will forward this information to the Committee as soon as it is received.

ALTERNATIVE #1: Changing Eligibility Requirements and Cost Share for New Hires

This alternative parallels the changes recently adopted by the State of Maryland to change eligibility requirements for retiree health benefits for employees hired on or after July 1, 2011.

While some employees currently qualify for retiree health benefits after a minimum of 5 years of service, this alternative would raise that minimum to 10 years. Also, a retiree's health benefit cost share is based on the number of years they were eligible for benefits as active employees. Under this alternative, the cost share would remain the same, but the years of service would change.

Retirees who qualify for retiree health benefits with the new minimum of 10 years (up from 5 years) of credited service would receive the minimum County subsidy of 50% of the premium cost (i.e., a 50/50 cost share). Employees would need 25 years or more of credited service (up from the 15 years) to qualify for the maximum County subsidy of 70% of the cost (i.e., 70/30 cost share). For each year between 10 and 25 years, the County's share would increase by 1.33 percentage points.

Retiree Health Benefit Alternative 1: Changes to Eligibility Requirements/Cost Share

Area	Current	Alternative
Eligibility	• ERS Participants: employees eligible for retirement, with minimum 5 years of service • RSP Participants: varies based on years of service and age, with minimum of 5 years of service	• ERS Participants: employees eligible for retirement and minimum 10 years of service • RSP Participants: varies based on years of service and age, with minimum of 10 years of service
Cost Share	• 5 years of service: 50/50 cost share • 15+ years of service: 70/30 cost share • For each year between 5 and 15 years of service, the County's share increases 2%	• 10 years of service: 50/50 cost share • 25+ years of service 70/30 cost share • For each year between 10 and 25 years of service, the County's share increases 1.33%

ALTERNATIVE #2: Eliminate Retiree Health Benefits for New Hires

This alternative would eliminate retiree health benefits for new employees hired after July 1, 2011 or some other specified date in the future. It would maintain existing eligibility and benefit levels for current employees and retirees.

While not included in the County Executive's FY12 Recommended Budget, the Last Best Final Offer (LBFO) that the County submitted for its arbitration hearings with both MCGEO and IAFF proposed eliminating retiree health insurance for employees hired after July 1, 2011.

Since this alternative would only apply to employees hired after a specified future date, the County Government would continue to pay health care costs for current retirees and for the cohort of already hired employees once they retire. Over the course of many years, the County Government's cost for group insurance for retirees would be vastly reduced and eliminated. To date, the County Government has funded a relatively small portion of its long-term liability related to group insurance for retirees. If retiree health benefits were eliminated for new hires, the OPEB liability for current employees and retirees would still have to be paid. However, the County would not accrue any <u>new</u> OPEB liability related to newly hired employees.

D. HEALTH BENEFITS FOR ACTIVE EMPLOYEES

In FY11, the County Government will pay about $90 million (from tax supported and non-tax supported funds) for health insurance premiums for active employees. This includes coverage for medical, prescription drug, dental, and vision insurance. **The cost of health benefits, both for the County and its employees, is projected to increase by 9-10% annually over the next six years.**

This part of the memorandum is organized into six sections as follows:

On April 12, 2011, the Council introduced a resolution to establish a Task Force on Employee Wellness and Consolidation of Agency Group Insurance Programs. Additional discussion about the role of this Task Force is in the final section on alternatives, beginning on page 27.

1. Summary of Executive's Proposed Changes

The table below summarizes the Executive's proposed changes to health insurance for active employees and the estimated FY12 savings associated with each change. All of the Executive's estimated savings for health benefit changes assume a July 1, 2011 implementation date. More detail on each change follows the table.

Benefit Type	County Executive's Proposal	CE Estimated FY12 Savings
Health (Medical, Prescription, Dental, and Vision)	Minimum 30% Cost Share	$8,229,530
	Additional Salary-Based Charge	$7,418,000
Prescription Drug	Mandatory Generics	$1,200,000
	Eliminate ED Lifestyle Drugs	$400,000
	Increase Mail-Order Copays	$200,000

a. Executive's Proposed Changes to Active Employee Premium Cost Share

Currently, County Government employees pay at least 20% of health benefit premiums.[1] The Executive proposed a new two-part health care pricing approach.

(1) All employees would pay at least 30% of medical, prescription drug (standard), dental, and vision insurance premiums; AND

(2) Most employees who enroll in a medical and/or prescription plan would pay an additional salary-based charge.

Executive Recommended Changes to MCG Employee Health Benefit Cost Share

Salary Level	Percent of Workforce*	Current Minimum Employee Health Premium Contribution [1]	CE's Proposed Minimum Annual Employee Health Premium Contribution
Under $50,000	22%	20% of premium	30% of premium
$50,000 - $89,999	58%		30% of premium + $910
$90,000+	20%		30% of premium + $1,560

*Source: Montgomery County Office of Management and Budget, April 2011.

Actual Cost Share. If the Executive's proposals are implemented, employees will pay an actual cost share ranging from **30% to 58%** of the total combined premium for medical, prescription drug, dental, and vision coverage. Because the salary-based charge proposed by the Executive does not vary based on plan choice (e.g., HMO vs. POS) or level of coverage (e.g., single vs. family), employees subject to the added charge will pay a higher percent of the total premium if enrolled in a less expensive plan (e.g., single coverage, HMO plans).

Employee Cost Share for Combined Health Insurance Premium: Current vs. Executive's Proposal

Salary Level	% of Annual Premium* Paid by Employee [2]	
	Current Range	Range Under CE's Proposal
Under $50,000	20% to 32%	30% to 37%
$50,000-$89,999		34% to 49%
$90,000+		37% to 58%

*Includes costs for medical, prescription, dental, and vision coverage using calendar year 2011 premium rates.

Cost Share Increases Translated into Dollars. The Executive's proposal would require County Government employees to pay more to retain their current health care coverage. Employees in a higher cost plan (e.g., Carefirst High Option POS) could mitigate their additional cost of health insurance by switching to a lower cost plan (e.g., Kaiser HMO).

[1] Non-represented employees hired since 10/1/94 ("Select" plan members) pay 24% of premiums. Also, an employee who chooses the "high option" prescription plan pays an additional 7-8% of total health insurance premium costs.

[2] The highest employee cost share under current pricing and as proposed by the Executive reflects the cost of high option prescription coverage.

The following table shows the dollar amount of employee health benefit costs under current practice and as proposed by the Executive. The table shows the range of increase in employee health costs if employees stay in their current choice of health and prescription drug plans.

Annual Employee Health Insurance Premium Costs: Current vs. Executive's Proposal

Salary Level	Annual Employee Health Insurance Premium Costs*		
	Current Range	**Range Under CE's Proposal**	**Increase**
Under $50,000	$1,237 to $7,290	$1,855 to $8,587	$371 to $2,163
$50,000-$89,999		$2,765 to $9,497	$1,281 to $3,073
$90,000+		$3,415 to $10,147	$1,931 to $3,723

*Includes costs for medical, prescription, dental, and vision coverage using calendar year 2011 premium rates.

b. Executive's Proposed Changes to Prescription Drug Plan Design

The Executive proposes three changes to the design of the County's prescription drug plan. These changes would affect both active and retired employees enrolled in the County's Caremark prescription plans (both the Standard and High Option plans) but would not apply to those enrolled in the Kaiser prescription plan.

Mandatory Generic Drugs. Currently, employees who buy a brand name drug when a generic equivalent is available pay the generic drug copay plus the difference between the cost of the brand name drug and its generic equivalent. However, this requirement is waived if a physician prescribes a brand drug and writes "dispense as written" on the prescription. For FY12, the Executive proposes eliminating this exception process. Therefore, regardless of what the prescribing physician recommends, the County would not cover the cost of a brand drug when a generic is available and employees would have to pay the difference.

Lifestyle Drugs. The County's Caremark Prescription Plans would no longer cover medications that treat erectile dysfunction. Currently, the County's Kaiser Prescription Drug Plan does not cover these medications, but the Caremark Plan does.

Mail-Order Copays. The copays for mail order prescriptions (up to a 90-day supply) in the County's Caremark Prescription Plans would increase from one time to two times the copays for a 30-day supply purchased through a retail pharmacy as detailed in the table below.

Caremark Rx Drug Plan	Current Copay	Copay Under CE's Proposal
Standard Option	$10 Generic $20 Preferred Brand $35 Non-Preferred Brand	$20 Generic $40 Preferred Brand $70 Non-Preferred Brand
High Option 4/8	$4 Generic $8 Brand	$8 Generic $16 Brand
High Option 5/10	$5 Generic $10 Brand	$10 Generic $20 Brand

2. Description of MCGEO Proposed Health Benefit Changes for Arbitration Award

The last best final offer from MCGEO, Local 1994 included two provisions related to health insurance benefit changes. An arbitrator chose MCGEO's last best final offer as the more reasonable offer (including its proposed health benefit changes). The Executive, however, did not include MCGEO's health benefit proposals in his recommended budget.

Transfer of Employee Medical Coverage. The MCGEO proposal would require that all bargaining unit members currently enrolled in the Carefirst High POS or Carefirst Standard POS medical plans be moved to the United Healthcare HMO medical plan.

The Office of Management and Budget's Fiscal Impact Statement (FIS) for the FY12 Labor Agreements between Montgomery County and MCGEO estimated that this change would achieve up to **$2,096,348 million in FY12 savings.**[3] The FIS projected that the savings from this proposal would increase to $3,376,724 million in FY16.

Health Care Cost Management. The MCGEO proposal would require the County and the union to work with United Healthcare to develop a health care cost management strategy. The cost management strategy would be designed to impact the medical cost drivers to lower medical trend and plan costs by:

- Reducing health risk factors prevalent in the Montgomery County employee population;
- Improving treatment compliance of employees with chronic conditions;
- Improving medication adherence of employees with chronic conditions;
- Decreasing the prevalence of obesity in the population;
- Increasing the number of people exercising and eating nutritious meals;
- Exploring more cost efficient prescription, dental, and vision programs.

Neither the MCGEO proposal nor the Office of Management and Budget's Fiscal Impact Statement included a specific dollar savings associated with health care cost management for FY12 or future years.

3. Recent Changes to Prescription Drug Plan Benefits for State Employees

The State of Maryland recently made two changes to the prescription drug plan design (copays and out-of-pocket maximums) for State employees, beginning in FY12.

Increased copays. The State increased the prescription drug copays for both active and retired employees beginning in FY12 as detailed in the table below.

Type of Drug	Current Copay Range (varies by amount purchased)		New Copay Range for Retail and Mail Order (varies by amount purchased)
	Retail	Mail Order	
Generic	$5-$10	$5-$10	$10-$20
Preferred Brand	$15-$30	$15-$20	$25-$50
Non-Preferred Brand	$25-$50	$20	$40-$80

[3] Assumes that all MCGEO members enrolled in Carefirst at the end of 2010 will move to UHC. The estimated savings is the difference between the cost of the two plans in calendar year 2011 (County portion) multiplied by the enrollment at each coverage level (individual, individual plus one, and family).

4. Update on FY12 Health Benefit Changes in other County Agencies

Under current practice, County Government, MCPS, and Montgomery College separately structure and administer the group insurance benefits offered to each agency's respective employees and retirees.

Montgomery College staff report that the College is considering the introduction of a high-deductible medical plan that would be offered to employees beginning in FY12. The College currently has a 75/25 cost share split for health benefit premiums.

M-NCPPC currently has an 85/15 cost share split for health benefit premiums. The Commission (which provides the same package of benefits to all employees of this bi-County agency) is currently reviewing its structure of group insurance benefits.

5. Summary of Health Benefit Policy Questions

The Executive's proposed changes to active employee health benefits raise two primary policy questions.

Policy Question #1: Should employees in all County agencies be offered a comparable package of health benefits? If not, then what factors should determine how the benefits differ?

Currently, each agency structures employee health benefits differently in terms of the plan design, plan administration, and employee eligibility. Additionally, the current premium cost share arrangements for health benefits vary among County agencies. Using medical plans as an example, MCPS employees pay either 5% or 10% of the annual premium; M-NCPPC employees pay 15%; County Government employees pay either 20% or 24%; and Montgomery College employees pay 25%. Further information on premium cost comparison among agencies, including both total premiums and cost to the agency, is included in the February 1, 2011 memorandum attached at ©5.

The Executive's proposed changes would increase the portion of the premium paid by County Government employees to a minimum of 30% and add a salary-based charge for most employees.

On April 12, 2011, the Council introduced a resolution that would create a Task Force to examine consolidation of agency group insurance programs and employee wellness. If the resolution is approved as introduced, one of the options for the Task Force to consider is to consolidate the agencies' health benefit offerings under a uniform plan design.

Policy Question #2: Should changes implemented in FY12 be part of a multi-year plan designed to achieve some explicitly-stated policy decisions regarding the health benefits offered to employees?

To answer this broad policy question, there are at least four key "sub-questions" that should be addressed: the share of total group insurance costs paid for by the County; the factors that determine the pricing structure of group insurance; the cost paid by retirees compared to active employees; and whether to implement structural changes for future hires.

What is the share of total group insurance costs that the County should pay for its active employees?

Currently, the County pays approximately 80% of total group insurance costs for its active employees while employees pay the remaining 20%. The cumulative impact of the County Executive's proposed changes, including the additional salary-based change, would change the overall cost share between the County and employees from 80/20 to 60/40. For comparison, the overall split in group insurance costs for MCPS is approximately 92/8, meaning MCPS pays 92% of the overall costs while employees pay the remaining 8%.

What factors should determine the pricing structure of group insurance, i.e., type of plan, level of coverage, employee's salary?

Currently the County pays 80% of the premium cost for Choice Plan enrollees (represented employees and non-represented employees hired prior to 10/1/94) and 76% of the premium cost for Select Plan enrollees (non-represented employees hired after 10/1/94). There are several other factors that the County could consider when determining the premium cost share arrangement with employees:

- Type of coverage (medical, prescription, dental, and vision)
- Type of plan (HMO, POS, PPO)
- Level of coverage (single, single + 1, and family)
- Employment status (Part-time vs. full-time)

There are many examples of other places that consider one or more of these factors to determine cost share. For example, the State of Maryland and MCPS vary cost share based on coverage and plan type. The State of Maryland pays a medical plan cost share ranging from 80%-85% depending on whether an employee is enrolled in a PPO, POS, or EPO medical plan, and pays a 50% cost share for dental coverage. MCPS pays a medical plan cost share ranging from 90%-95% depending on whether an employee is in a POS or HMO plan and a prescription plan cost share of 90%.

Fairfax County and Fairfax County Public Schools vary cost share based on level of coverage. For full-time employees, Fairfax County pays 85% for individual medical coverage, 75% for two-party and family medical coverage, and 50% for dental coverage. Fairfax County Public Schools has the same cost share arrangements for medical coverage and pays 70% of the premium for dental coverage.

Currently the County does not price any health plan based on an employee's salary; the Executive's proposal to charge an additional salary-based premium would be a notable policy shift for the County. According to a 2010 survey of public and private sector employer-sponsored health benefits by the Kaiser Family Foundation and the Health Research & Educational Trust, 13% of covered workers are in firms that vary worker premium contributions by wage level. OLO was able to identify only one public sector example of this practice, the State of West Virginia, which has had a salary-based premium structure for its employee health benefits since 1991.

Should retirees pay more, less, or the same for health benefits as active employees?

Retirees who are not yet eligible for Medicare pay the same health benefit premiums as active employees because retirees are included in the same "pool" for calculating premiums. As a result, active employees in County Government pay a higher premium than they would if they were in a separate pool. However, retirees currently pay a higher share of their premium than actives; retirees have a cost share ranging from 50/50 to 70/30 (depending on years of service) while most active employees have an 80/20.[4] The Executive has not proposed any change to retirees' cost share. If the Executive's FY12 proposed changes to cost share are adopted, some active employees could have a less favorable cost share than some retired employees.

[4] Employees hired before 1/1/87 have the option to receive an 80/20 cost share for the number of years they were eligible for insurance as an active employee or a lifetime cost share of 70/30.

Should a portion of the County's structural budget problem be addressed by changing the health benefits offered to new hires?

The Executive's proposal does not offer any changes in either active employee or retiree health benefits that would affect new hires. As described above, the State of Maryland and Montgomery College are implementing changes to future retiree health benefits for new employees.

6. Committee Discussion of Health Benefit Alternatives

Below are alternatives to the County Executive's proposals in the area of active health benefits for County Government employees. If the Committee is interested, there are other ways to make changes to active health benefits that staff could further develop and bring back for Committee consideration. (For additional options, see OLO's Part II Report on *Achieving a Structurally Balanced Budget in Montgomery County*, Chapter C, Health Benefits for Active Employees and items 12-18 listed in the Appendix titled Additional Options.)

a. Discussion of Alternatives to the Executive's Proposals for Prescription Drug Plan Changes

This section presents alternatives that would modify two of the Executive's proposed prescription drug plan design changes.

ALTERNATIVE #1. Add Strict Waiver Provision to Executive's Mandatory Generic Requirement

As described earlier, the Executive has proposed that employees who buy a brand name drug when a generic equivalent is available would pay the generic drug copay plus the difference between the cost of the brand name drug and its generic equivalent with no exceptions.

As an alternative option, the County could adopt this requirement but include a waiver provision that is stricter than the current process (where the physician only has to check "dispense as written" on the prescription) but that still allows for some coverage of brand medications with a generic equivalent under special circumstances. **One possible model is MCPS' Caremark Plan, which requires that a doctor provide a letter of medical necessity for coverage of a brand drug when a generic is available.**

Adding a waiver provision would likely lower the savings estimates associated with the Executive's proposed change.

ALTERNATIVE #2. Limit Coverage for Lifestyle Drugs

The County could choose to limit coverage of ED drugs, rather than eliminating coverage altogether, as the Executive has proposed. The coverage limits could mirror how these drugs are handled in other County agencies. For example:

- MCPS' Caremark Prescription Plan limits ED drugs to 6 doses per month.
- M-NCPPC charges a 50% copay for ED drugs and limits coverage to 6 pills per month.
- Montgomery College limits ED drugs to 6 doses per 25 day period (retail) or 18 doses per 75 day period (mail order).

Limiting instead of eliminating coverage for lifestyle drugs would likely lower the savings estimates associated with the Executive's proposed change.

b. Discussion of Alternatives to the Executive's Proposals for Pricing Group Insurance Benefits

This section presents a number of alternatives to the Executive's proposals for FY12 changes to pricing group insurance benefits. Additional alternatives can be developed upon Committee request.

The Committee may want to evaluate any alternatives to the Executive's proposals within the context of the Council Resolution (introduced 4/12/11) to establish a Task Force on Employee Wellness and Consolidation of Agency Group Insurance Programs. A copy of the resolution is attached at ©1. As introduced, in addition to researching and making recommendations on employee wellness programs, the Task Force is being asked to:

- Compare the major provisions/benefits of the health plans currently offered to employees and retirees across the County agencies, and analyze why costs may vary; and

- Make recommendations on how to streamline and reduce the current cost of health benefit administration, including how to: consolidate benefit plan offerings under fewer vendors; consolidate the offerings under one administrative unit; and consolidate the offerings under a uniform plan design.

The Resolution calls upon the Task Force to report back to the Council by December 15, 2011. If the Resolution is approved by the Council, **the scope and timing of the Task Force's work suggest that the Committee may want to look at changes implemented in FY12 as an interim step towards a more comprehensive restructuring of overall plan design and administration of group insurance benefits across the agencies.**

THREE GROUP INSURANCE PRICING ALTERNATIVES FOR FY12

To begin the Committee's discussion of potential alternatives to the County Executive's proposed changes to health benefit pricing, OLO has developed three alternatives that are outlined on the next page. For each, OLO provides estimates of FY12, FY13, and FY12-FY17 cumulative savings; and scenarios that show the impact on individual employees.

The policy issues related to pricing health benefits were discussed earlier in this memo. (see page 24). **All three alternatives developed by OLO adhere to the following guidelines**:

- Assume an implementation date of January 1, 2012;
- Provide a pricing incentive for the lower cost HMO medical plans;
- Do not include differential pricing based on an employee's salary;
- Eliminate the cost share distinction between Choice vs. Select employee groups; and
- Maintain the current structure of differential premiums but uniform cost share by level of coverage, i.e., single, single+1, family.

In addition to the three alternatives listed below, the Council may want to request more information on the feasibility of adding a high deductible health plan to the plans offered to County Government employees. A high deductible health plan usually includes the following features: catastrophic coverage with a higher deductible that a typical plan; an employer-funded account that employees can use to pay out-of-pocket medical costs on a pre-tax basis; and full coverage for in-network preventive care.

- ALTERNATIVE #1: **Maximum 5 point cost shift**

This alternative maintains the HMO cost share at 80/20 and changes the cost share to 75/25 (a 5 point shift) for all other plans. The Kaiser HMO (including the bundled Kaiser prescription plan) and United Healthcare HMO medical plans would have an 80/20 cost share for all employees. The cost share for the Carefirst POS medical plans, Caremark Standard Option prescription drug plan, and all dental and vision plans would change to 75/25 for all employees. The current practice of allowing employees to "buy-up" and purchase the Caremark High Option prescription plan would be maintained.

- ALTERNATIVE #2: **Maximum 10 point cost shift**

This alternative changes the HMO cost share to 75/25 (a 5 point shift) and changes the cost share to 70/30 (a 10 point shift) for all other plans. The Kaiser HMO (including the bundled Kaiser prescription plan) and United Healthcare HMO medical plans would have a 75/25 cost share for all employees. The cost share for the Carefirst POS medical plans, Caremark Standard Option prescription drug plan, and all dental and vision plans would change to 70/30 for all employees. The current practice of allowing employees to "buy-up" and purchase the Caremark High Option prescription plan would be maintained.

- ALTERNATIVE #3: **Fixed Employer Contribution**

Under this alternative, the County's contribution for medical and prescription coverage would be fixed at 80% of the lowest cost plan. The cost share for dental and vision benefits would change to 75/25 (a five point shift). The County would pay a fixed contribution for each employee's health and prescription coverage that is fixed at 80% of the lowest cost plan (currently Kaiser). Employees would have the option to "buy-up" and purchase any coverage that exceeds the fixed employer contribution by paying the additional amount. In effect, this alternative would establish an 80/20 cost share for the lowest cost medical and prescription plans and progressively higher cost shares for other plans. The cost share for dental and vision benefits would change to 75/25 for all employees.

Projected savings under health benefit alternatives. For each alternative, the table on the next page shows the projected cost savings to County Government in FY12 (half-year savings), FY13 (full-year savings), and the cumulative six-year projected savings from FY12-FY17. The savings for FY12 are half-year savings based on a January 1, 2012 implementation date. All projections under each alternative include tax supported and non-tax supported savings.

Projected Savings to County Government under Alternative Options for Changes to the Structure of Health Benefits

Alternative	New Structure as of January 1, 2012	Projected Savings*		
		FY12 (half-year)	FY13 (full-year)	Cumulative FY12-FY17
5 Point (max.) Cost Shift Reduce current agency cost share by a maximum of 5 points	• 80/20 HMO • 75/25 All Other	$2.1 million	$4.3 million	$27.5 million
10 Point (max.) Cost Shift Reduce current agency cost share by a maximum of 10 points	• 75/25 HMO • 70/30 All Other	$5.2 million	$10.9 million	$69.4 million
Fixed Employer Contribution Fixed contribution for medical and prescription coverage set at 80% of lowest cost plan, reduce agency cost share for dental and vision by a maximum of 5 points	• 80% of Kaiser plan cost for Medical and Rx • 75/25 Dental and Vision	$6.0 million	$12.6 million	$81.1 million

*The calculation for projected savings under each alternative assume current plan designs, no enrollment changes, and annual increases in health care costs averaging approximately 9% per year (actual increases vary by benefit type and plan).

Impact on employees. In general, under all three alternatives, the preferential pricing for HMOs means that employees who select HMO coverage (Kaiser or United Healthcare) would experience the smallest cost increases while employees who select a Point-of-Service plan (Carefirst Standard or High Option POS) would experience the largest cost increases.

The tables beginning on page 30 illustrate how each alternative would impact an individual employee's cost of family coverage (the most commonly selected level of coverage) in the following three different medical plans, assuming an employee chooses to stay with his/her current plan choice:

- Kaiser HMO – the lowest cost plan that includes a bundled prescription drug benefit;
- United Healthcare HMO – County Government's highest enrolled HMO plan; and
- Carefirst High Option POS plan – the County Government's highest enrolled POS plan.

Except for the Kaiser example, where the prescription drug plan is bundled with the medical plan, the examples use the Caremark Standard Option prescription plan.[5] All examples use the same dental (United Concordia PPO) and vision (National Vision Administrators) coverage for each employee. The projected employee costs, both under the "no cost share change" and alternative scenarios, are based on projected premium rates as of January 1, 2012.

[5] If a County Government employee chooses to "buy-up" and purchase Caremark High Option prescription coverage, the employee's "actual" cost share shown in the examples (under both the "no change" and the alternative) would be approximately 6-8% higher. The total increase in projected costs to the employee in 2012 would not change.

Pricing Alternative #1: Maximum 5 Point Cost Shift

Illustrative Examples of Impact on Employees (premium rates projected as of 1/1/12)

Kaiser HMO Example – Family Coverage

- Maintains Kaiser HMO medical and prescription plan cost share at 80/20
- Shifts cost share for dental and vision plans from 80/20 to 75/25

Health Benefit Type and Plan	Projected Cost to Employee in 2012		
	No Change in Cost Share	5 Point (max.) Cost Shift	Increase
Medical: Kaiser HMO **Prescription:** Kaiser HMO	$3,662	$3,662	$0
Dental: United Concordia PPO	$276	$345	$69
Vision: National Vision Administrators	$22	$27	$5
Health Benefit Total	**$3,960**	**$4,035**	**$74**
Employee "Actual" Cost Share	**20%**	**20%**	**0%**

United Healthcare HMO Example – Family Coverage

- Maintains HMO medical plan cost share at 80/20
- Shifts cost share for prescription, dental, and vision plans from 80/20 to 75/25

Health Benefit Type and Plan	Projected Cost to Employee in 2012		
	No Change in Cost Share	5 Point (max.) Cost Shift	Increase
Medical: United Healthcare HMO	$3,140	$3,140	$0
Prescription: Caremark Standard	$913	$1,141	$228
Dental: United Concordia PPO	$276	$345	$69
Vision: National Vision Administrators	$22	$27	$5
Health Benefit Total	**$4,351**	**$4,653**	**$303**
Employee "Actual" Cost Share	**20%**	**21%**	**1%**

Carefirst POS Example – Family Coverage

- Shifts cost share for POS medical, prescription, dental, and vision plans from 80/20 to 75/25

Health Benefit Type and Plan	Projected Cost to Employee in 2012		
	No Change in Cost Share	5 Point (max.) Cost Shift	Increase
Medical: Carefirst High POS	$3,508	$4,385	$877
Prescription: Caremark Standard	$913	$1,141	$228
Dental: United Concordia PPO	$276	$345	$69
Vision: National Vision Administrators	$22	$27	$5
Health Benefit Total	**$4,719**	**$5,899**	**$1,180**
Employee "Actual" Cost Share	**20%**	**25%**	**5%**

Pricing Alternative #2: Maximum 10 Point Cost Shift

Illustrative Examples of Impact on Employees (premium rates projected as of 1/1/12)

Kaiser HMO Example – Family Coverage

- Shifts Kaiser HMO medical and prescription plan cost share from 80/20 to 75/25
- Shifts cost share for dental and vision plans from 80/20 to 70/30

Health Benefit Type and Plan	Projected Cost to Employee in 2012		
	No Change in Cost Share	10 Point (max.) Cost Shift	Increase
Medical: Kaiser HMO **Prescription:** Kaiser HMO	$3,662	$4,578	$916
Dental: United Concordia PPO	$276	$414	$138
Vision: National Vision Administrators	$22	$33	$11
Health Benefit Total	**$3,960**	**$5,025**	**$1,065**
Employee "Actual" Cost Share	**20%**	**25%**	**5%**

United Healthcare HMO Example – Family Coverage

- Shifts HMO medical plan cost share from 80/20 to 75/25
- Shifts cost share for prescription, dental, and vision plans from 80/20 to 70/30

Health Benefit Type and Plan	Projected Cost to Employee in 2012		
	No Change in Cost Share	10 Point (max.) Cost Shift	Increase
Medical: United Healthcare HMO	$3,140	$3,925	$785
Prescription: Caremark Standard	$913	$1,369	$456
Dental: United Concordia PPO	$276	$414	$138
Vision: National Vision Administrators	$22	$33	$11
Health Benefit Total	**$4,351**	**$5,741**	**$1,390**
Employee "Actual" Cost Share	**20%**	**26%**	**6%**

Carefirst POS Example – Family Coverage

- Shifts cost share for POS medical, prescription, dental, and vision plans from 80/20 to 70/30

Health Benefit Type and Plan	Projected Cost to Employee in 2012		
	No Change in Cost Share	10 Point (max.) Cost Shift	Increase
Medical: Carefirst High POS	$3,508	$5,262	$1,754
Prescription: Caremark Standard	$913	$1,369	$456
Dental: United Concordia PPO	$276	$414	$138
Vision: National Vision Administrators	$22	$33	$11
Health Benefit Total	**$4,719**	**$7,078**	**$2,359**
Employee "Actual" Cost Share	**20%**	**30%**	**10%**

Pricing Alternative #3: Fixed Employer Contribution (80% of Kaiser)
Illustrative Examples of Impact on Employees (premium rates projected as of 1/1/12)

Kaiser HMO Example – Family Coverage

- Fixed contribution for medical and prescription plan set at 80% of lowest cost plan (Kaiser)
- Shifts cost share for dental and vision plans from 80/20 to 75/25

Health Benefit Type and Plan	Projected Cost to Employee in 2012		
	No Change in Cost Share	Fixed Employer Contribution	Increase
Medical: Kaiser HMO **Prescription:** Kaiser HMO	$3,662	$3,662	$0
Dental: United Concordia PPO	$276	$345	$69
Vision: National Vision Administrators	$22	$27	$5
Health Benefit Total	**$3,960**	**$4,035**	**$74**
Employee "Actual" Cost Share	**20%**	**20%**	**0%**

United Healthcare HMO Example – Family Coverage

- Fixed contribution for medical and prescription plan set at 80% of lowest cost plan (Kaiser)
- Shifts cost share for dental and vision plans from 80/20 to 75/25

Health Benefit Type and Plan	Projected Cost to Employee in 2012		
	No Change in Cost Share	Fixed Employer Contribution	Increase
Medical: United Healthcare HMO	$3,140	$3,981	$841
Prescription: Caremark Standard	$913	$1,634	$722
Dental: United Concordia PPO	$276	$345	$69
Vision: National Vision Administrators	$22	$27	$5
Health Benefit Total	**$4,351**	**$5,988**	**$1,637**
Employee "Actual" Cost Share	**20%**	**28%**	**8%**

Carefirst POS Example – Family Coverage

- Fixed contribution for medical and prescription plan set at 80% of lowest cost plan (Kaiser)
- Shifts cost share for dental and vision plans from 80/20 to 75/25

Health Benefit Type and Plan	Projected Cost to Employee in 2012		
	No Change in Cost Share	Fixed Employer Contribution	Increase
Medical: Carefirst High POS	$3,508	$5,821	$2,313
Prescription: Caremark Standard	$913	$1,634	$722
Dental: United Concordia PPO	$276	$345	$69
Vision: National Vision Administrators	$22	$27	$5
Health Benefit Total	**$4,719**	**$7,828**	**$3,109**
Employee "Actual" Cost Share	**20%**	**33%**	**13%**

MONTGOMERY COUNTY PUBLIC SCHOOLS
POTENTIAL SAVINGS AND IMPACT ON EMPLOYEES FROM TWO ALTERNATIVE CHANGES IN COST SHARE

The County Executive's group insurance proposals (as well as the alternatives beginning on page 28) show changes for County Government employees only. The County Council appropriates funds to MCPS in broad categories established under State law. One of the categories includes funding for employee group insurance benefits. **The issue of equity among agency employees is addressed in Mr. Farber's packet (GO Committee #1, 4/25/11).**

MCPS already uses incentive pricing for HMO medical plans. **The current employer/employee premium cost share is 95/5 for HMOs and 90/10 for all other plans.**

The table below shows the estimated FY12 (half-year savings), FY13 (full-year savings), and cumulative FY12-FY17 cumulative agency savings that would accrue from two alternatives. The first alternative is a 5 point shift in cost share and the second is a 10 point shift in cost share for MCPS employees. The estimates of savings assume a continuation of MCPS' current practice of incentive pricing for HMO medical plans.

Projected Savings to MCPS from Changes to the Structure of Health Benefits

Alternative	New Structure	Projected Savings*		
		FY12 (half-year)	FY13 (full-year)	Cumulative FY12-FY17
5 Point Cost Shift Reduce current agency cost share by 5 points for all benefit plans	• 90/10 HMO • 85/15 All Other	$7.0 million	$14.5 million	$91.0 million
10 Point Cost Shift Reduce current agency cost share by 10 points for all benefit plans	• 85/15 HMO • 80/20 All Other	$13.9 million	$28.9 million	$182.0 million

*The calculation for projected savings under each alternative assume current plan designs, no enrollment changes, and annual increases in health care costs averaging approximately 8% per year (actual increases vary by benefit type).

Impact on MCPS employees. The tables beginning on page 34 illustrate how each of the alternatives summarized above (a 5 point cost share shift and a 10 point cost share shift) would impact an MCPS employee's cost of group insurance (family coverage) in two different medical plans:

- United Healthcare HMO – MCPS' highest enrolled HMO plan; and
- United Healthcare Open POS plan – MCPS' highest enrolled POS plan.

All examples use the same prescription (Caremark), dental (Aetna PPO), and vision (National Vision Administrators) coverage for each employee example. The projected employee costs, both under the "no cost share change" and alternative scenarios, are based on projected premium rates as of January 1, 2012.

MCPS Example #1: 5 Point Cost Shift

Illustrative Examples of Impact on Employees (premium rates projected as of 1/1/12)

United Healthcare HMO Example – Family Coverage

- Shifts cost share for the HMO medical plan from 95/5 to 90/10
- Shifts cost share for the prescription, dental, and vision plans from 90/10 to 85/15

Health Benefit Type and Plan	Projected Cost to Employee in 2012		
	No Change in Cost Share	5 Point Cost Shift	Increase
Medical: United Healthcare HMO	$768	$1,537	$768
Prescription: Caremark	$451	$676	$225
Dental: Aetna PPO	$120	$180	$60
Vision: National Vision Administrators	$3	$4	$1
Health Benefit Total	**$1,342**	**$2,397**	**$1,055**
Employee "Actual" Cost Share	**6%**	**11%**	**5%**

United Healthcare Open POS Example – Family Coverage

- Shifts cost share for the medical, prescription, dental, and vision plans from 90/10 to 85/15

Health Benefit Type and Plan	Projected Cost to Employee in 2012		
	No Change in Cost Share	5 Point Cost Shift	Increase
Medical: United Healthcare Open POS	$1,552	$2,328	$776
Prescription: Caremark	$451	$676	$225
Dental: Aetna PPO	$120	$180	$60
Vision: National Vision Administrators	$3	$4	$1
Health Benefit Total	**$2,126**	**$3,189**	**$1,063**
Employee "Actual" Cost Share	**10%**	**15%**	**5%**

MCPS Example #2: 10 Point Cost Shift

Illustrative Examples of Impact on Employees (premium rates projected as of 1/1/12)

United Healthcare HMO Example – Family Coverage

- Shifts cost share for the HMO medical plan from 95/5 to 85/15
- Shifts cost share for the prescription, dental, and vision plans from 90/10 to 80/20

Health Benefit Type and Plan	Projected Cost to Employee in 2012		
	No Change in Cost Share	10 Point Cost Shift	Increase
Medical: United Healthcare HMO	$768	$2,308	$1,537
Prescription: Caremark	$451	$902	$451
Dental: Aetna PPO	$120	$240	$120
Vision: National Vision Administrators	$3	$6	$3
Health Benefit Total	**$1,342**	**$3,452**	**$2,110**
Employee "Actual" Cost Share	**6%**	**16%**	**10%**

United Healthcare Open POS Example – Family Coverage

- Shifts cost share for the medical, prescription, dental, and vision plans from 90/10 to 80/20

Health Benefit Type and Plan	Projected Cost to Employee in 2012		
	No Change in Cost Share	10 Point Cost Shift	Increase
Medical: United Healthcare Open POS	$1,552	$3,105	$1,552
Prescription: Caremark	$451	$902	$451
Dental: Aetna PPO	$120	$240	$120
Vision: National Vision Administrators	$3	$6	$3
Health Benefit Total	**$2,126**	**$4,252**	**$2,126**
Employee "Actual" Cost Share	**10%**	**20%**	**10%**

E. Life Insurance, Long-Term Disability, Accidental Death and Dismemberment Insurance

1. Summary of Executive's Proposed Life Insurance Benefit Changes

The County Executive proposed changes to life insurance benefits that would reduce the benefit level for most County Government employees and would change the cost share for all employees, as detailed in the table below.

County Government Employee Group	Current Basic Life Insurance Benefit	CE's Proposed Basic Life Insurance Benefit
Non-Represented Employees hired prior to 10/1/94 and Represented Employees	• Benefit level = 2x annualized salary • Employee pays 20% of premium	• Benefit level = 1x annualized salary • Employee pays 30% of premium
Non-Represented Employees hired on or after 10/1/94	• Benefit level = 1x annualized salary • Employee pays 24% of premium	

The Executive estimates that the proposed changes to life insurance benefits would achieve $1.2 million in FY12 savings, assuming implementation on July 1, 2011. Employees would still have the ability to buy up to higher levels of coverage by paying the full cost of optional life insurance. The Committee may want to consider the following alternative to the Executive's proposed changes to life insurance.

ALTERNATIVE: Keep Benefit at Two Times Annualized Salary

Rather than reducing the benefit to one times annualized salary, this alternative would maintain the benefit at two times annualized salary for most employees and increase the benefit to two times annual salary for non-represented employees hired on or after 10/1/94. The cost share arrangement for this benefit would track any changes made to the health benefit cost share arrangements.

Note: OLO has requested data from the Executive that would allow for calculating the savings associated with this alternative.

2. Summary of Executive's Proposed Long-Term Disability Insurance Changes

The County Executive proposed changing the cost share for long-term disability insurance so that all County employees would pay 30% of premiums. Currently, represented employees and non-represented employee hired prior to 10/1/94 pay 20% of premiums, and non-represented employees hired on or after 10/1/94 pay 24% of premiums. **The Executive estimates that this proposed change would achieve $48,000 in FY12 savings, assuming implementation on July 1, 2011.**

3. Summary of Executive's Proposed Accidental Death and Dismemberment (AD&D) Insurance Changes

Under the County Executive's proposed FY12 budget, the AD&D benefit for represented employees and non-represented employees hired prior to 10/1/94 (i.e., current Choice plan participants) would not change. The AD&D benefits for non-represented employees hired on or after 10/1/94 (i.e., current Select plan participants) would be increased to the same level as the current Choice plan participants, so all employees would receive the same AD&D benefit. This change is consistent with the Executive's package of group insurance proposals that would eliminate the distinction between Choice and Select employee groups. **OMB staff note that this change will have a negligible fiscal impact.**

F. Future Increases to Salary

1. Overview of Spending on Salaries

In FY11, County agencies collectively will spend about $2.1 billion on tax supported employee salaries. **The amount spent on salaries (excluding benefits) represents about 62% of all tax supported spending for the four agencies combined.**

While the FY11 budget did not fund any pay increases for employees, agency salary costs have grown substantially over the past decade. Salary increases have a recurring fiscal impact because they shift the base of spending upwards and increase the cost of benefits that are a function of an employee's salary, i.e., retirement, social security/FICA, life insurance, and LTD insurance.

The table below shows salary expenditures by agency for FY02 and FY11. During this 10-year period, the rate of inflation was 29% and tax supported agency spending on employee salaries (in aggregate) increased by 50%. This percent change in agency salary expenditures reflects multiple factors such as salary increases, change in workforce size, turnover, promotions, position reclassifications, special pay, and overtime.

Tax Supported Salary Expenditures by Agency

Agency	FY02	FY11	FY02-FY11 Increase	
			$	%
Montgomery County Government	$364 million	$518 million	$154 million	42%
MCPS	$878 million	$1.3 billion	$422 million	53%
Montgomery College	$79 million	$141 million	$62 million	79%
M-NCPPC	$40 million	$53 million	$13 million	33%
Total	**$1.4 billion**	**$2.1 billion**	**$651 million**	**50%**

The table on the following page shows annual salary increases received by the three County Government bargaining units and non-represented employees between FY02 and FY11.

In most years during this time period, employees received two types of salary increases: steps (also referred to as service increments) and general wage adjustments.

- A **step increase (or service increment)** is an increase to base salary granted to employees who are below the maximum for their pay grade and who meet minimum job performance requirements. An employee typically receives a step increase on the anniversary of his/her original hire date.

- A **general wage adjustment (GWA)** is an increase in pay granted to all employees on a specific date, usually the beginning of a new fiscal year. Historically, the practice of County agencies has been to grant general wage adjustments as increases to base salary. The general wage adjustment is often referred to as a cost-of-living adjustment (COLA).

Employee salary levels and adjustments fall under the authority of the governing body for each agency. In addition, GWAs and step increases are included in agency personnel regulations and/or in collectively bargained agreements between agencies and their respective employee unions.

FY02-FY11 Annual County Government Step Increases and General Wage Adjustments By Bargaining Unit

		FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
MCGEO	Step	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	0.0%
	GWA	3.25%	3.5%	3.75%	2.0%	2.75%	4.0%	4.0%	4.5%	0.0%	0.0%
	Total	**6.75%**	**7.0%**	**7.25%**	**5.5%**	**6.25%**	**7.5%**	**7.5%**	**8.0%**	**3.5%**	**0.0%**
IAFF	Step	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	0.0%
	GWA	3.0%	5.0%	3.5%	3.5%	4.0%	5.0%	5.0%	4.0%	0.0%	0.0%
	Total	**6.5%**	**8.5%**	**7.0%**	**7.0%**	**7.5%**	**8.5%**	**8.5%**	**7.5%**	**3.5%**	**0.0%**
FOP	Step	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	0.0%
	GWA	*	4.0%	2.0%	2.0%	2.75%	4.0%	**	4.0%	0.0%	0.0%
	Total	*****	**7.5%**	**5.5%**	**5.5%**	**6.25%**	**7.5%**	******	**7.5%**	**3.5%**	**0.0%**
Non-Represented	Step	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	0.0%
	GWA	3.25%	3.5%	2.0%	2.0%	2.75%	4.0%	4.0%	4.5%	0.0%	0.0%
	Total	**6.75%**	**7.0%**	**5.5%**	**5.5%**	**6.25%**	**7.5%**	**7.5%**	**8.0%**	**3.5%**	**0.0%**

Source: Memorandum from Council Staff Director to Management and Fiscal Policy Committee, April 20, 2010.

* The FY02 general wage adjustment for FOP members was a flat dollar amount of $3,400.

* * The FY08 agreement with the FOP included a salary schedule adjustment and a general wage adjustment that resulted in a $3,151 increase to the starting pay for police officers.

2. Alternatives to Moderate the Rate of Future Salary Growth

As part of an overall strategy for addressing the structural budget deficit, the Council may want to consider establishing a policy for moderating the rate of future salary growth. Because salary increases are recurring costs that have a compounding effect on future year budgets, a structural change that addresses the rate of salary growth going forward could make a significant contribution to the sustainability of annual compensation decisions.

While the Executive's Recommended FY12 budget freezes County Government employee salaries (meaning no General Wage Adjustment and no steps/increments), it is generally accepted that increases to employee salaries will be recommended and funded at some point in the future. Towards that end, the Council may wish to consider establishing policies that would moderate the salary increases that result from either General Wage Adjustments and/or steps/increments.

Three alternative policies to consider are listed below.

1. <u>Set a maximum percent increase</u>: The Council could establish a policy that sets a maximum annual rate of employee salary increases that is sustainable over time. Such a policy could place a ceiling on pay increases (for GWAs and/or steps) that employees would be able to receive in any one year.

2. <u>Award salary adjustments on a biennial basis:</u> When revenues allow for the return of employee pay increases, the Council could establish a policy that encourages agencies to award GWAs and/or step increases every other year rather than annually.

3. <u>Award lump sum payments in lieu of increases into base:</u> This alternative would be to set a policy to encourage County agencies to consider lump sum "bonus" payments to employees in lieu of GWA or step increases. Lump sum payments provide employees additional compensation during the year of the award but do not add to base salary costs in future years.

If the Committee is interested in pursuing any of the above (or other) alternatives, staff recommends the Committee seek advice from the Council's Senior Legislative Attorneys about the different ways the Council could establish these types of parameters on salary growth.

List of Attachments

Resolution No.: ____________
Introduced: ____________
Adopted: ____________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Councilmember Leventhal, Councilmember Elrich, Council President Ervin, and Councilmember Navarro

SUBJECT: Task Force on Employee Wellness and Consolidation of Agency Group Insurance Programs

Background

1. The Council has historically provided strong support for the employee group insurance programs of the five County and bi-County agencies: Montgomery County Government, Montgomery County Public Schools, Montgomery College, the Maryland-National Capital Park and Planning Commission, and the Washington Suburban Sanitary Commission. The Council has also encouraged multiple measures to reduce costs. The Council recognizes that for the two bi-County agencies, M-NCPPC and WSSC, coordination with Prince George's County is required.

2. On December 9, 2003 the Council adopted Resolution No. 15-454, Policy Guidance for Agency Group Insurance Programs. The resolution endorsed a series of cost-reduction proposals made by the Council's 2003 Task Force on Health Benefit Improvements and by the Council's actuarial consultant, Bolton Partners. The agencies have followed through in several areas. For example, to achieve economies of scale, the agencies have jointly bid components of their group insurance programs. For new contracts that took effect on January 1, 2011, all five agencies jointly bid their medical, dental, vision, and life insurance programs.

3. Efforts to further contain increases in group insurance costs must remain a high priority The combined FY11 group insurance budgets for all agencies (excluding WSSC) total $393.6 million, $314.6 million for active employees and $79.0 million for retired employees. (Funding for retired employees is the annual pay-as-you-go amount only and does not include the much larger cost of pre-funding these benefits.) These costs are projected to continue to rise significantly in future years. The County Executive's FY12 Recommended Operating Budget projects that costs could increase an average of 10 percent annually through FY17.

4. The Cross-Agency Resource-Sharing (CARS) Committee, established in 2010, included employee benefits in its review of potential cost savings. Three components under review by a CARS subcommittee address consolidation and streamlining of agency group insurance programs:

   - Consolidate agency employee benefit plan offerings under fewer vendors;
   - Consolidate the offerings under one administrative unit; and
   - Consolidate the offerings under a uniform plan design.

5. The CARS subcommittee estimates that the potential annual savings from the first component is $2-4 million, depending on the degree of consolidation. The second and third components have the potential for additional savings, also depending on how they are constructed and implemented. One example of current agency consolidation is the Montgomery County Self-Insurance Program, which is administered by the Finance Department. The program provides comprehensive property and casualty insurance for the County and participating agencies and is funded through actuarially determined contributions they provide.

6. The Council strives to improve the health of all residents of Montgomery County and believes that health care plans should not just focus on how an employee's health care costs are paid for but how our health plans and programs can be used to improve the health and well-being of our employees. In addition, experts have told the Council that the cost of providing health care can also be reduced by increasing employee wellness, which will decrease the dollars needed for treatment and medications.

Action

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

Access to affordable health care for all employees and all residents of Montgomery County is a primary goal of the Council.

The Council will begin to work immediately to identify as much cost containment in employee health coverage as possible.

A Task Force on Employee Wellness and Consolidation of Agency Group Insurance Programs is established by the Council.

1. Members of the Task Force will include, but are not limited to, representatives from County Government's Office of Human Resources and Department of Health and Human Services, Montgomery County Public Schools, Montgomery College, M-NCPPC, WSSC, and bargaining unit representatives from the County and bi-County agencies. The Council will also seek members who are public health experts and representatives from County businesses with employee wellness programs. The Council will appoint a Chair and Vice Chair.

2. The Task Force will submit its report to the Council not later than December 15, 2011. The report should include:

    a. A review of employee wellness programs currently in place in County and bi-County agencies.

    b. Information on models of employee wellness programs in both the public and private sector, including the success and outcomes of programs and whether there is evidence that health care costs have been reduced over time.

    c. Recommendations for establishment of or improvements to employee wellness programs in the County and bi-County agencies. These recommendations should be developed in a framework that minimizes administration and the number of vendors that might be required.

d. A comparison of the major provisions/benefits of the health plans currently offered to employees and retirees and an analysis of why costs may vary.

e. Recommendations on how to streamline and reduce the current cost of administration, including how to:
- Consolidate agency employee benefit plan offerings under fewer vendors;
- Consolidate the offerings under one administrative unit; and
- Consolidate the offerings under a uniform plan design.

In order to best use the time and expertise of Task Force members, the Task Force may be organized into committees to focus separately on the issues of: (1) employee wellness and disease prevention programs, and, (2) consolidation of plan design and administration.

The Council acknowledges that employee benefits are subject to bargaining for each bargaining unit.

This is a correct copy of Council action.

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Linda M. Lauer, Clerk of the Council

County Government Health Plan Enrollment Data
Active Employees (Select + Choice Groups) as of January 4, 2011

Medical Plan Enrollment

	#	%
Choice Group	7,014	89%
Select Group	868	11%
Total Active Employees	7,882	100%

Distribution of Enrollees By Plan

	Total
Medical	
Carefirst High POS	63%
Carefirst Std POS	4%
Kaiser HMO	13%
UHC HMO	20%
All Medical	100%
Prescription	
Caremark High 4/8	40%
Caremark High 5/10	19%
Caremark Standard	41%
All Prescription	100%
Dental	
UCCI PPO	97%
UCCI DMO	3%
All Dental	100%
Vision	
NVA	100%

Distribution of Enrollees by Level of Coverage – Single, Single +1, or Family

	Single	Single + 1	Family	Total
Medical				
Carefirst High POS	31%	23%	46%	100%
Carefirst Std POS	39%	27%	34%	100%
Kaiser HMO	38%	23%	39%	100%
UHC HMO	28%	24%	48%	100%
All Medical	32%	24%	45%	100%
Prescription				
Caremark High 4/8	35%	26%	39%	100%
Caremark High 5/10	31%	24%	46%	100%
Caremark Standard	27%	21%	52%	100%
All Prescription	31%	24%	46%	100%
Dental				
UCCI PPO	30%	24%	45%	100%
UCCI DMO	39%	21%	40%	100%
All Dental	31%	24%	45%	100%
Vision				
NVA	30%	25%	45%	100%

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Source: Office of Human Resources

Note: Due to rounding, numbers in the tables may not add to exactly 100%.

MEMORANDUM

February 1, 2011

TO: Councilmembers

FROM: Karen Orlansky, Director KO
Office of Legislative Oversight

SUBJECT: **Follow-up to OLO Report on Achieving a Structurally Balanced Budget: Answers to Questions about the Cost of Health Benefits for Active Employees**

This memo responds to Councilmembers' requests for additional information on the current costs of agency health benefits, including a comparison of health premium costs in County Government and Montgomery County Public Schools. It addresses the following questions:

- What is each agency's average annual premium cost per health plan enrollee[1]?
- What are each agency's annual total health premiums by plan and level of coverage?
- What are the major factors that affect an agency's health benefit costs?
- What is the impact of the County Government's practice of including retirees in the employee "pool" for calculating health plan premiums?

Summary of Findings on Premium Comparisons Among Agencies

An updated analysis of agency premiums and enrollment using FY11 data shows that:

- County Government and MCPS both have higher average health plan premiums and higher per enrollee costs compared to M-NCPPC and Montgomery College.
- In 2011, MCPS pays $557 (or 5%) more per health plan enrollee compared to County Government. Specifically, given current employer/employee cost share arrangements, MCPS pays an average annual health plan premium of $11,701 per enrollee while the County Government pays $11,144.
- In 2011, the annual total health premium per enrollee in County Government (agency plus employee share) is $2,203 (or 17%) higher compared to MCPS. Specifically, the total average health premium per enrollee in County Government is $14,866 compared to $12,663 in MCPS.
- A factor that complicates a comparison of premium rates between MCPS and County Government is that the County Government includes retirees in its calculation of premiums, while MCPS does not. Data from the County's actuaries show that if retirees were excluded from the County Government's active employee pool, the difference between the County Government's and MCPS' total average annual health premium for active employees would be lowered to $595 (or 5%). In other words, the inclusion of retirees "explains" about 73% of the County Government's higher total premium.

[1] Throughout this memo, "enrollee" refers to each active employee enrolled in an agency's health plan, not including dependents who are also covered by the plan.

Note on Health Benefit Cost Data. OLO's Part II appendix includes a document (beginning on page 99), prepared by CountyStat in March 2010, that lists average monthly employer-paid premiums for health benefits across nine local government organizations, including County Government and MCPS. These data showed that the employer portion of the average monthly premium for plans offered by County Government was higher than the average premium for plans offered by MCPS.

In response to questions generated by these data, OLO researched their source and learned that the information (which had been initially compiled for the County Government's Office of Human Resources by a consultant) relied upon 2010 rate data from the County Government and 2009 rate data from MCPS. Due to the steady annual increases in health care costs experienced in recent years, a comparison that uses cost data from two different years is problematic.

OLO apologizes for any confusion that including the CountyStat report in the appendix may have caused. Please note that OLO did not use these data for any of our issue paper calculations of projected costs or savings. Further, because we were able to access 2011 data for both County Government and MCPS, this follow-up memorandum serves as a more up-to-date and reliable comparison of the average health premium costs for each agency. As summarized above, the more current data indicate that the County Government's total average premium is higher than MCPS', but that the dollar amount paid per enrollee by the County Government is actually lower than that paid per enrollee by MCPS.

A. Multiple Variables Influence an Agency's Annual Health Premiums

When looking at health plan premiums, there are three components to examine: the total premium; the share of the premium paid by the agency; and the share of the premium paid by the employee. As reviewed in OLO's Part II report (page C-1), there are differences among how each agency currently structures their employee health benefits. Variables that influence the total health care costs paid by the agency and employee include:

- **Plan Design and Administration.** Each agency offers multiple health plans and contracts out plan administration to multiple insurance carriers who have a network of doctors an employee can use for care. Each plan structures features such as co-pays, deductibles, and out-of-pocket maximums differently. As a result of plan design, two health plans with similar names in different agencies are not the same plans.

- **Employee Eligibility and "Pool" of Enrollees.** Each agency establishes eligibility criteria for access to health benefits based on factors such as the number of hours worked, e.g., full-time vs. part-time. Based on the eligibility criteria and workforce demographics, each agency has a different "pool" of employees who choose to enroll in health benefit plans. Additionally, Montgomery County Government and M-NCPPC include retirees and active employees in the same "pool" for calculating the premiums, while MCPS and the College do not.

- **Levels of Coverage.** Each agency generally allows employees to choose among three different levels of insurance coverage: self (covers only the employee); self+1 (covers the employee and one eligible dependent); and family (covers the employee and all eligible dependents). Montgomery College does not offer the self+1 coverage option.

- **Premium Cost Share Arrangements.** On an annual basis, agencies determine the health care costs for their particular "pool" of employees in each plan and calculate per person charges, or premiums, that cover these costs. The annual premiums calculated for each agency vary by plan and level of coverage. The employer/employee cost share arrangements also vary by agency, and in some cases, by employee group or health plan within the agency.

B. Average Annual Premium per Health Plan Enrollee

For each of the four tax supported agencies, Table 1 (on the next page) shows the average annual premiums for medical and prescription plans per enrollee. This table uses 2011 premium rates and January 2011 enrollment figures.[2] In sum, the data indicate the following:

- County Government and MCPS both have higher average health plan premiums and higher per enrollee costs compared to M-NCPPC and Montgomery College.
- In 2011, MCPS pays $557 (or 5%) more per health plan enrollee compared to County Government. Specifically, given current employer/employee cost share arrangements, MCPS pays an average health plan premium of $11,701 per enrollee while the County Government pays an average health plan premium of $11,144 per enrollee.
- In 2011, the annual total health premium per enrollee in County Government (agency plus employee share) is $2,203 (or 17%) higher compared to MCPS. Specifically, the total average health plan premium per enrollee in County Government is $14,866 compared to $12,663 per enrollee in MCPS.

Inclusion of retirees in active employee "pool" for health premiums. A factor that complicates any comparison of premium rates between MCPS and County Government is that the County Government includes retirees in its calculation of premiums, while MCPS does not. As a result, active employees in County Government pay a higher premium than they would if they were in a separate pool.

In order to provide a more "apples-to-apples" comparison of Montgomery County Government and MCPS average premiums, the County's actuaries were asked to estimate what the premiums for each County Government plan would be if they were calculated for active employees only, without including the County's retirees. The data show the following:

- If retirees were excluded from the County Government's active employee pool, the average annual total premium for active employees would be reduced from $14,866 to $13,258, a reduction of $1,608.
- An average total premium of $13,258 is still higher than MCPS' average total premium of $12,663, but the difference would be $595 (5%) instead of $2,203 (17%).

In other words, these data from the actuaries suggest that the County Government's practice of including retirees in with the active employees' pool for calculating premiums "explains" about 73% of the difference in average annual premiums between MCPS and County Government. More analysis by the agencies' health experts would be required to discern what other factors (for example, details of plan design or use experience), explain the rest of the cost difference.

[2] To calculate the average premium for medical and prescription plans, OLO calculated a total premium cost for all enrollees based on actual enrollment in different health plans and levels of coverage (i.e., self, self+1, family), and then divided by the total number of enrollees.

Table 1. 2011 Average Annual Premium per Enrollee

	Premium Cost	Agency Share	Employee Share
County Government – Choice and Select			
Medical Plan*	$10,871	$8,641	$2,230
Prescription Drug Plan	$3,995	$2,503	$1,492
Medical and Prescription Combined	**$14,866**	**$11,144**	**$3,722**
MCPS**			
Medical Plan	$9,748	$9,077	$671
Prescription Drug Plan	$2,915	$2,624	$291
Medical and Prescription Combined	**$12,663**	**$11,701**	**$962**
Montgomery College			
Medical and Prescription Combined	**$10,730**	**$7,999**	**$2,731**
M-NCPPC			
Medical Plan	$7,295	$6,201	$1,094
Prescription Drug Plan	$2,284	$1,941	$343
Medical and Prescription Combined	**$9,579**	**$8,142**	**$1,437**

*Although the Kaiser medical and prescription drug plan is combined for County Government, OLO's calculation uses a separate premium so it is comparable to the averages in other agencies.

**MCPS average does not include Closed POS Plan.

Source: OLO calculations using Calendar Year 2011 premium rates and January 2011 enrollment data provided by each agency.

C. 2011 Annual Premium Costs by Plan and Level of Coverage

Table 2, beginning on the next page, lists each agency's calendar year 2011 medical and prescription plans, current cost share arrangements, and enrollment and total premium data for each level of coverage, showing both the cost paid by the agency and the employee. These are the data used to calculate an estimate of the average annual premium shown in Table 1 (above).

The data show that the cost of medical and prescription plans vary both across and within the agencies by plan type and level of coverage.

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Table 2. 2011 Annual Premiums by Plan and Level of Coverage (per enrollee)

Agency and Plan	Current Cost Share	2011 Enrollment		Premium	Agency Cost	Employee Cost
County Government (Choice)*						
Carefirst High POS Medical	80% Agency 20% Employee	Individual	1,349	**$5,500**	$4,400	$1,100
		Self + 1	1,036	**$9,513**	$7,611	$1,903
		Family	2,008	**$16,019**	$12,815	$3,204
Carefirst Standard POS Medical	80% Agency 20% Employee	Individual	117	**$5,114**	$4,092	$1,023
		Self + 1	78	**$8,847**	$7,078	$1,770
		Family	89	**$14,897**	$11,918	$2,980
Kaiser HMO Medical & Prescription	80% Agency 20% Employee	Individual	361	**$5,728**	$4,583	$1,146
		Self + 1	209	**$10,769**	$8,615	$2,154
		Family	372	**$16,955**	$13,564	$3,391
UHC Select HMO Medical	80% Agency 20% Employee	Individual	387	**$4,691**	$3,753	$938
		Self + 1	324	**$9,019**	$7,215	$1,804
		Family	684	**$14,338**	$11,470	$2,868
Caremark Standard Prescription	80% Agency 20% Employee	Individual	633	**$1,461**	$1,168	$292
		Self + 1	506	**$2,702**	$2,162	$541
		Family	1,252	**$4,187**	$3,350	$837
Caremark High 4/8 Prescription	53% Agency** 47% Employee	Individual	934	**$2,193**	$1,168	$1,024
		Self + 1	698	**$4,056**	$2,162	$1,895
		Family	1,063	**$6,286**	$3,350	$2,936
Caremark High 5/10 Prescription	54% Agency** 46% Employee	Individual	277	**$2,164**	$1,168	$996
		Self + 1	224	**$4,004**	$2,162	$1,842
		Family	452	**$6,205**	$3,350	$2,855
MCPS						
Carefirst POS Medical	90% Agency 10% Employee	Individual	547	**$5,021**	$4,519	$502
		Self + 1	369	**$10,044**	$9,039	$1,004
		Family	664	**$13,666**	$12,299	$1,367
UHC Open POS Medical	90% Agency 10% Employee	Individual	1,511	**$5,281**	$4,753	$528
		Self + 1	1,194	**$10,564**	$9,507	$1,056
		Family	2,315	**$14,373**	$12,936	$1,437
Carefirst HMO Medical	95% Agency 5% Employee	Individual	1,017	**$3,520**	$3,344	$176
		Self + 1	662	**$6,614**	$6,284	$331
		Family	1,320	**$10,837**	$10,295	$542
Kaiser HMO Medical	95% Agency 5% Employee	Individual	1,051	**$4,722**	$4,486	$236
		Self + 1	896	**$9,417**	$8,946	$471
		Family	1,418	**$13,645**	$12,963	$682
UHC HMO Medical	95% Agency 5% Employee	Individual	1,605	**$4,623**	$4,392	$231
		Self + 1	1,696	**$8,684**	$8,250	$434
		Family	2,679	**$14,227**	$13,516	$711
Caremark Prescription	90% Agency 10% Employee	Individual	4,933	**$1,685**	$1,516	$168
		Self + 1	4,203	**$3,367**	$3,030	$337
		Family	7,144	**$4,155**	$3,739	$415
Kaiser Prescription	90% Agency 10% Employee	Individual	1,043	**$736**	$662	$74
		Self + 1	894	**$1,469**	$1,322	$147
		Family	1,413	**$2,127**	$1,914	$213

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Table 2, continued. 2011 Annual Premiums by Plan and Level of Coverage (per enrollee)

Agency and Plan	Current Cost Share	2011 Enrollment		Premium Cost	Agency Share	Employee Share
Montgomery College						
CIGNA PPO – Medical & Prescription	75% Agency 25% Employee	Individual	163	**$5,862**	$4,397	$1,466
		Family	137	**$15,831**	$11,873	$3,958
CIGNA POS – Medical & Prescription	75% Agency 25% Employee	Individual	263	**$6,157**	$4,618	$1,539
		Family	413	**$16,568**	$12,426	$4,142
Kaiser HMO – Medical & Prescription	75% Agency 25% Employee	Individual	214	**$4,367**	$3,275	$1,092
		Family	233	**$11,790**	$8,843	$2,948
M-NCPPC						
UHC POS Medical	85% Agency 15% Employee	Individual	112	**$3,516**	$2,989	$527
		Self + 1	81	**$7,032**	$5,977	$1,055
		Family	141	**$10,548**	$8,966	$1,582
CIGNA EPO Medical	85% Agency 15% Employee	Individual	30	**$3,804**	$3,233	$571
		Self + 1	23	**$7,608**	$6,467	$1,141
		Family	43	**$11,412**	$9,700	$1,712
UHC EPO Medical	85% Agency 15% Employee	Individual	90	**$3,444**	$2,927	$517
		Self + 1	57	**$6,888**	$5,855	$1,033
		Family	91	**$10,332**	$8,782	$1,550
Caremark Prescription	85% Agency 15% Employee	Individual	228	**$1,104**	$938	$166
		Self + 1	158	**$2,208**	$1,877	$331
		Family	273	**$3,312**	$2,815	$497

*The table shows enrollment and premium rates for the County Government Choice Group members, which represent approximately 90% of active employees enrolled in the County Government's health plan. For Select Group members, the available plans and total premium cost remain the same, but the agency share is 4% lower and the employee share is 4% higher due to a 76/24 cost share arrangement.

**For the Caremark High Option plans, the County pays the same amount as for the standard plan and the employee pays the rest of the premium.

c: Steve Farber

List of OLO Reports and Follow-Up Memorandums on
Achieving a Structurally Balanced Budget in Montgomery County

OLO web site: www.montgomerycountymd.gov/olo

11/23/10	OLO Report 2011-2, Achieving a Structurally Balanced Budget, Part I: Expenditure and Revenue Trends; http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/2011-2.pdf
12/7/10	OLO Report 2011-2, Achieving a Structurally Balanced Budget, Part II: Options for Long-Term Fiscal Balance; http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/2011-2Part-II.pdf
12/17/10	Follow-up to OLO Report on Achieving a Structurally Balanced Budget: Potential Savings for Part II Options, Sorted by Year; http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/12-17-10PotentialSavingsforPartIIOptionssortedbyYear.pdf
1/19/11	Questions related to the County Government's retirement plans; http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/1-19-11QuestionsrelatedtotheCountyGovernmentsRetirementPlans.pdf
2/1/11	Answers to Questions about the Cost of Health Benefits for Active Employees; http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/2-1-11AnswerstoQuestionsaboutthecostofHealthBenefitsforActiveEmployees.pdf
2/9/11	Comparison of the Governor's Proposed Pension Changes and Options Identified by OLO; http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/2-9-11ComparisonofGovernorsProposedPensionChanges.pdf
2/11/11	Recap of Recent Studies on Private vs. Public Sector Pay and Benefits; http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/2-11-11RecapofRecentStudiesonPrivatevsPublicSect.pdf
3/2/11	Estimated Savings from Alternative Health Insurance Cost Share Scenarios and Summary of Prescription Drug Copay Structures; http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/3-2-11EstimatedSavingsfromAlternativeHealthInsuranceCostShareScenariosSummaryofPrescriptionDrugCopayStructures.pdf
3/14/11	County Government and MCPS Data on Employee Recruitment, Hiring, and Turnover; http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/3-14-11MCGandMCPSRecruitmentandRetentionv.5.pdf
3/17/11	Additional Information about current Retirement Benefits; http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/3-17-11AdditionalInformationaboutCurrentRetirementBenefits.pdf
3/22/11	Consolidation of Agency Group Insurance Programs; http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/3-22-11ConsolidationofAgencyGroupInsurancePrograms.pdf
4/8/11	Memo from K. Orlansky to Steve Farber, Council Staff Director, Overview of Proposed Changes to County Government Employees' Retirement, Health, and Life Insurance Benefits (Memo included in S. Farber's 4/12/11 Council Packet, Agenda Item #8); http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/4-8-11-OverviewofProposedChangestoCountyGovernmentEmployeesRetirementHealthandLifeInsuranceBenefits.pdf