M E M O R A N D U M

December 17, 2010

TO: Councilmembers

FROM: Karen Orlansky, Director
Office of Legislative Oversight

SUBJECT: **Follow-up to OLO Report on Achieving a Structurally Balanced Budget: Potential Savings for Part II Options, Sorted by Year**

This memorandum responds to Councilmember Floreen's request for a summary of when and how much savings is possible to achieve for the various options included in OLO's Part II report.

The attached tables summarize the potential savings or additional revenue by fiscal year through FY16, associated with the options included in OLO's Part II report. For quick reference, a column is included (on Tables 1, 2, and 3) to indicate whether there is potential for FY12 savings associated with the option. The tables are organized as follows:

> **Table 1, Summary of Options Related to Pay and Benefits (all agencies)**, shows the potential savings by fiscal year for the options related to pay and benefits. The summary in Table 1 assumes implementation of each option in FY12 across the four tax supported agencies (County Government, MCPS, Montgomery College, and M-NCPPC). Table 1 is attached at ©1.
>
> Tables 1(a), 1(b), and 1(c), provide agency specific details about the potential savings from implementing the options related to pay and benefits. Table 1(a) shows the number of workyears that represent increments of $10 million in personnel costs by agency; Table 1(b) shows estimated FY12 savings from a salary rollback by agency; and Table 1(c) shows the projected savings from the health benefits options for active employees by agency. These agency specific tables are attached at ©2-3.
>
> **Table 2, Summary of Operating Expenses and Debt Service Options**, explains the potential savings by fiscal year for the operating expenses and debt service options. Table 2 is attached at ©4.
>
> **Table 3, Summary of Revenue Options**, lists the estimated additional revenue by fiscal year associated with each of the revenue options. Table 3 is attached at ©4.

As you review these tables, keep in mind that there are many variations of the options presented that would yield a different amount and pattern of savings. Also remember that, as OLO explained in the report, options related to retirement benefits and retiree health benefits require the hiring of actuarial services to determine the exact amount and timeframe for potential savings.

Additional information on the options summarized can be found in the issues papers contained in OLO's Part II report. The order of issue papers is as follows:

- Issue Paper A: Employee Salaries
- Issue Paper B: Retirement/Pension Benefits
- Issue Paper C: Health Benefits for Active Employees
- Issue Paper D: Health Benefits for Retired Employees
- Issue Paper E: Workforce Size
- Issue Paper F: Operating Expenses
- Issue Paper G: Debt Service
- Issue Paper H: Revenue

As outlined in the Council President's December 13th memo on next steps, please send me your questions about either Part I or Part II of OLO's report so that we can get to work on preparing answers.

Copy: Steve Farber, Council Staff Director

Table 1. Summary of Options Related to Pay and Benefits (all agencies)

Option	Potential FY12 Savings	Estimated Savings Amount ($ in millions)				
		FY12	FY13	FY14	FY15	FY16
Workforce size						
Reduce the size of the current workforce in one or more agency	✓	Depends on number and type of positions abolished; would need to abolish between 89-153 workyears for each $10M in savings.				
Employee Salaries (assumes implementation across all four agencies in FY12)						
#1A: 1% Salary Rollback in FY12	✓	$22.9	$22.9	$22.9	$22.9	$22.9
#1B: 3% Salary Rollback in FY12	✓	$68.7	$68.7	$68.7	$68.7	$68.7
#1C: 5% Salary Rollback in FY12	✓	$114.6	$114.6	$114.6	$114.6	$114.6
#2: Changes to GWA		Could lower rate of increase going forward				
#3: Changes to Step Increases						
Health Benefits for Active Employees (assumes implementation across all four agencies and includes non-tax supported savings)						
#1A: Change premium cost share to a 70/30 split, All-at-once	✓	$35.2	$73.4	$79.8	$86.8	$94.4
#1B: Change premium cost share to a 70/30 split, 5% phase-in	✓	$9.7	$30.4	$51.2	$71.7	$90.4
#2: Change to fixed employer contribution at 75% of lowest cost plan	✓	$46.0	$96.0	$104.2	$113.2	$122.9
#3: Higher cost share for self+1 (by 2.5%) and family (by 5%) coverage	✓	$7.2	$14.9	$16.3	$17.7	$19.2
#4: Higher premium cost share (60/40) for part-time employees	✓	$12.2	$25.5	$27.7	$30.1	$32.7
Retirement/Pension Benefits (all options require actuarial analysis)						
MCG #3: Increase employee contributions to defined benefit plans	✓	FY12 savings if applied to <u>current employees</u>				
MCG #5: Lower the pension COLA cap	✓	FY12 savings if applied to <u>current retirees</u>				
MCG #1: Enroll all new MCG employees in defined contribution plan		Could provide significant long-term savings				
MCG #2: New hybrid plan for new public safety employees						
MCG #4: Increase retirement eligibility criteria for new public safety employees						
MCPS #3: Increase MCPS employee contributions to pension supplement	✓	FY12 savings if applied to <u>current employees</u>				
MCPS #1: Create a defined contribution plan for local-funded retirement benefits		Could provide significant long-term savings				
MCPS # 2: Eliminate MCPS' local pension supplement						
MCPS #4: Integrate local-funded MCPS pensions with Social Security						
Health Benefits for Retired Employees (all options require actuarial analysis)						
#2: Change premium cost sharing arrangements	✓	FY12 savings if applied to <u>current retirees</u>				
#1: Eliminate retiree health benefits for new hires		Could provide significant long-term savings				
#3: Change eligibility criteria and/or benefit levels						

Table 1(a). Number of FY11 Workyears that Represent Increments of $10 Million in Personnel Costs by Agency

Agency	Average Cost per Workyear	Number of Workyears Equal to $10 Million in Personnel Costs
County Government		
Public Safety Workyear	$112,900	89 workyears
Non-Public Safety Workyear	$91,700	109 workyears
MCPS*		
Agency Average Workyear	$87,800	114 workyears
Teacher "New Hire" Workyear **	$65,200	153 workyears
M-NCPPC		
Agency Average Workyear	$84,000	119 workyears
Montgomery College*		
Agency Average Workyear	$79,000	127 workyears

* The average cost per workyear for MCPS and Montgomery College only include locally-paid benefits.
** The teacher "new hire" category reflects the cost of reducing workyears by not hiring new teachers as opposed to laying off currently employed workyears.

Table 1(b). Estimated FY12 Savings by Agency from a Salary Rollback

% Salary Rollback	Estimated FY12 Tax Supported Personnel Cost Savings				
	County Government	MCPS	M-NCPPC	Montgomery College	Total
1%	$6.2 million	$14.7 million	$0.7 million	$1.3 million	**$22.9 million**
3%	$18.7 million	$44.0 million	$2.0 million	$4.0 million	**$68.7 million**
5%	$31.2 million	$73.4 million	$3.3 million	$6.7 million	**$114.6 million**

* These calculations are based on the approved FY11 budget personnel cost data. The estimates include savings to salaries, social security, and locally paid pension/retirement costs

Table 1(c). Summary of Projected Savings from Options Related to Health Benefits for Active Employees (by Agency)

Cost Share Model	Estimated Savings Amount by Agency ($ in millions)				
	FY12	**FY13**	**FY14**	**FY15**	**FY16**
Option # 1A: 70/ 30 Cost Share, “all at once”					
MCPS	$28.7	$59.9	$65.0	$70.6	$76.5
County Government	$5.5	$11.6	$12.8	$14.1	$15.5
M-NCPPC	$0.5	$1.1	$1.2	$1.3	$1.4
Montgomery College	$0.4	$0.8	$0.8	$0.8	$0.9
Total	**$35.2**	**$73.4**	**$79.8**	**$86.8**	**$94.4**
Option # 1B: 70/ 30 Cost Share, “5% phase-in”					
MCPS	$6.4	$20.3	$36.6	$55.4	$72.6
County Government	$2.7	$8.8	$12.8	$14.1	$15.5
M-NCPPC	$0.2	$0.6	$1.0	$1.3	$1.4
Montgomery College	$0.4	$0.8	$0.8	$0.8	$0.9
Total	**$9.7**	**$30.4**	**$51.2**	**$71.7**	**$90.4**
Option #2: Fixed Employer Contribution at 75% of Lowest Cost Plan					
MCPS	$38.9	$81.1	$88.0	$95.5	$103.6
County Government	$5.5	$11.5	$12.7	$14.0	$15.4
M-NCPPC	$0.4	$0.8	$0.9	$1.0	$1.1
Montgomery College	$1.2	$2.5	$2.6	$2.7	$2.8
Total	**$46.0**	**$96.0**	**$104.2**	**$113.2**	**$122.9**
Option #3: Higher Cost Share for Self+1 (by 2.5%) and Family (by 5%) Coverage					
MCPS	$4.6	$9.7	$10.5	$11.4	$12.3
County Government	$2.1	$4.4	$4.9	$5.4	$5.9
M-NCPPC	$0.1	$0.3	$0.3	$0.3	$0.3
Montgomery College	$0.3	$0.6	$0.6	$0.6	$0.7
Total	**$7.2**	**$14.9**	**$16.3**	**$17.7**	**$19.2**
Option #3: 60/40 Cost Share for Part-Time Employees					
MCPS	$11.3	$23.6	$25.6	$27.8	$30.2
County Government	$0.9	$1.9	$2.1	$2.3	$2.5
M-NCPPC	<$0.1	<$0.1	<$0.1	<$0.1	<$0.1
Montgomery College	$0	$0	$0	$0	$0
Total	**$12.2**	**$25.5**	**$27.7**	**$30.1**	**$32.7**

Table 2. Summary of Operating Expenses and Debt Service Options

Option	Potential FY12 Savings	Estimated Savings Amount ($ in millions)				
		FY12	FY13	FY14	FY15	FY16
Operating Expenses						
Reduce operating expenses through an "across-the-board" reduction or a targeted reduction using priority-based criteria	✓	• Depends on amount and type of reduction. • In County Government, a 2.7% reduction in total operating expenses would be required for each $10 million in savings. • In MCPS, a 5.6% reduction in total operating expenses would be required for each $10 million in savings.				
Debt Service						
#1A: 25% reduction to bond issuance limit	✓	$2	$11	$19	$27	$35
#1B: 50% reduction to bond issuance limit	✓	$4	$22	$38	$54	$70

Table 3. Summary of Revenue Options

Option	Potential FY12 Revenue	Estimated Revenue Amount ($ in millions)				
		FY12	FY13	FY14	FY15	FY16
Revenue						
#1: Override Charter limit by 1 cent	✓	$17.9	$18.8	$19.7	$21.1	$22.7
#2A: Reduce municipal income tax distributions by 50% over 5 years	✓	$3	$6	$9	$12	$15
#2B: Reduce municipal income tax distributions by 100% over 5 years	✓	$6	$12	$18	$24	$30
#3A: Continue FY11 Energy Tax rates		--	$108	$108	$108	$108
#3B: Continue allocation of recordation taxes to the General Fund	✓	$13	$13	$13	$13	$13
#4: Enact Transportation utility charge	✓	Depends on structure of charge				

M E M O R A N D U M

January 19, 2011

TO: Councilmembers

FROM: Karen Orlansky, Director
Office of Legislative Oversight

SUBJECT: **Follow-up to OLO Report on Achieving a Structurally Balanced Budget: Questions related to the County Government s retirement plans**

This memorandum addresses questions and requests for additional information from Councilmembers about the County Government s pension/retirement benefit plans. The table below lists the four questions addressed in this memo, with respective page references:

	Question	Page
A	What have been the historical rates of investment returns in the County Government s defined benefit retirement plan (the Employees Retirement System)?	2
B	What is the funded ratio of the Employees Retirement System?	3
C	What would be the cost savings of rolling back the County Government s contribution to the defined contribution plan (Retirement Savings Plan) and hybrid retirement plan (Guaranteed Retirement Income Plan) from 8% to 6% of plan members salaries?	4
D	What would be the cost savings from disallowing employees who are initially hired into defined benefit plan positions to remain in the defined benefit plan even when they move to County jobs classified as defined contribution or hybrid plan positions?	5

If you have any questions about information in this memo, please contact Leslie Rubin in OLO at x77998 or leslie.rubin@montgomerycountymd.gov.

c: Steve Farber

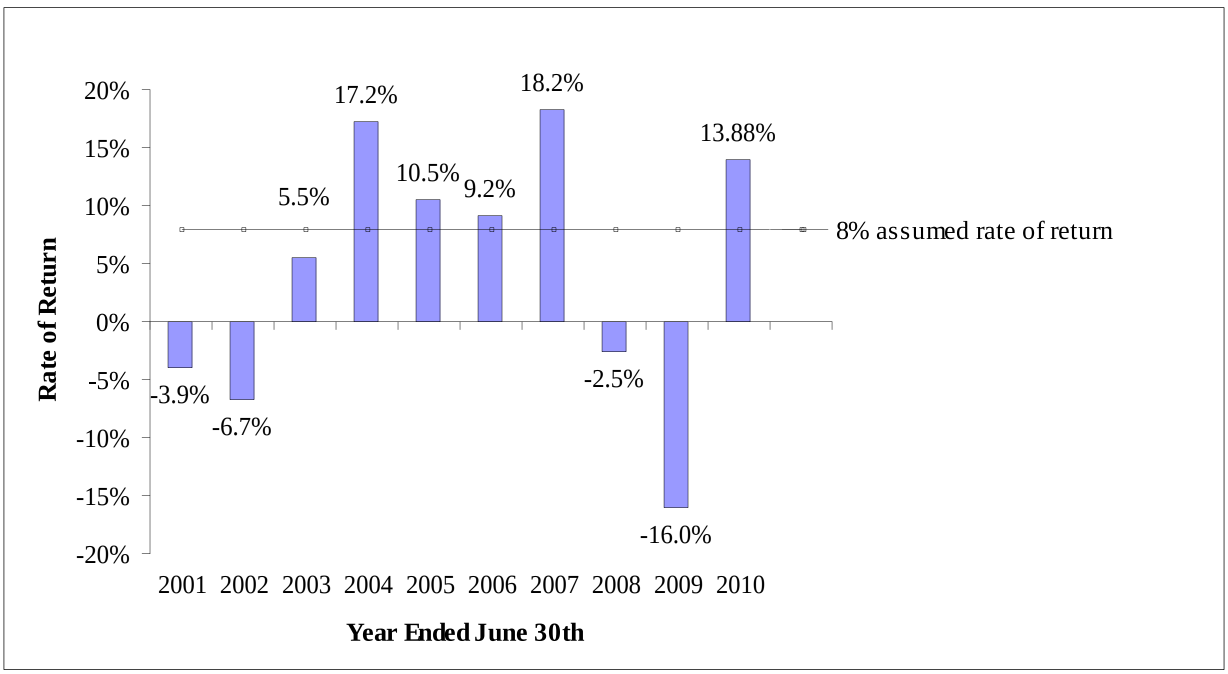
A. What have been the historical rates of investment returns in the County Government s defined benefit retirement plan (the Employees Retirement System)?

Between 2001 and 2010, the County Government and the County s actuaries assumed that the Employee Retirement System (ERS) investments would earn 8% annually. This rate of return is one of the key assumptions that directly affects the actuaries annual calculation of the recommended County Government contribution to the ERS.

The exhibit below summarizes the ERS <u>actual rates of investment returns</u> from 2001 through 2010. As the data show, the ERS met its projected rate of return in half of the years during the decade. In four of the years, the ERS had negative returns, i.e., the investments lost money during the year. According to Mercer (the firm that provides actuarial services to the County), from 2001 to 2010, the average annual rate of return was approximately 3.6%.

In December 2010, the County Government adjusted the assumed rate of investment return in the ERS downward from 8% to 7.5% annually. Lowering this assumption will increase the County Government s annual contributions to the ERS.

Employees Retirement System Rates of Return, 2001-2010



Source: Montgomery County Employee Retirement Plan CAFRs, 2001-2010

B. What is the funded ratio of the Employees Retirement System?

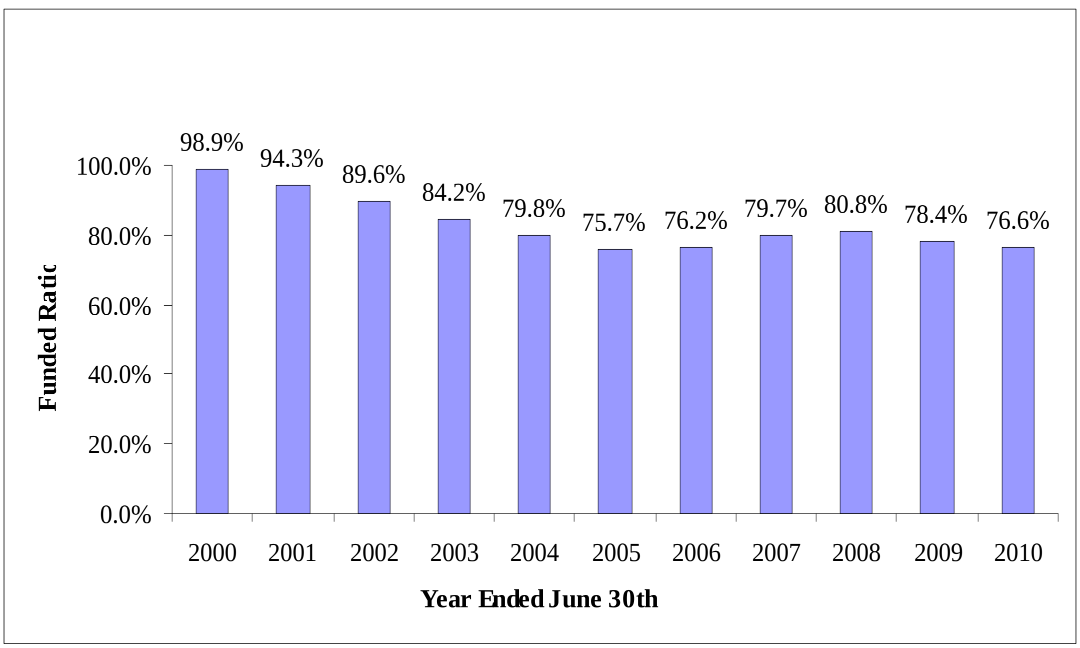
The amount of money that a pension plan has to pay for its long-term liabilities is generally expressed as a percentage, which is referred to as a pension system s funded ratio. A ratio of 100 percent means a pension fund has 100 percent of the assets needed to pay for its projected liabilities (the cost of pensions) for current members.

A pension fund with pension liabilities that exceed its current assets has what is known as an unfunded liability; a pension fund with an unfunded liability has a funded ratio below 100 percent. Experts generally assert that a pension fund is healthy if it has a funded ratio of at least 80%.[1]

During the past decade, the ERS funded ratio has declined. In FY00 the ERS had sufficient funds to pay for 98.9% of its future pension liabilities; by FY10 that percent declined to 76.6% due to investment losses, changes in plan assumptions[2] by the County s actuaries, and increased liabilities due to salary and pension benefit enhancements. Between the end of FY09 and the end of FY10, the ERS unfunded liability increased approximately $100 million, from $751 million to $854 million, primarily due to changes in plan assumptions.

The exhibit below shows the ERS funded ratio at the end of each fiscal year, from FY00 to FY10.

Employees Retirement System Funded Ratio, 2000-2010



Source: ERS Actuarial Valuation Reports, 2000-2010

[1] See, e.g., Munnell et al., *The Funding of State and Local Pensions: 2009-2013,* Center for Retirement Research at Boston College at p.4 (April 2010); *The Trillion Dollar Gap: Underfunded State Retirement Systems and the Road to Reform*, The Pew Center on the States at p.3 (February 2010).

[2] Plan assumptions include many types of data, including employee retirement rates, life expectancy, projected rate of investment return, and inflation.

C. What would be the cost savings of rolling back the County Government s contribution to the defined contribution plan (Retirement Savings Plan) and hybrid retirement plan (Guaranteed Retirement Income Plan) from 8% to 6% of plan members salaries?

Currently, the County Government contributes 8% of salary towards retirement for most members of the County s RSP (defined contribution plan) and GRIP (hybrid retirement plan). In FY11, the County Government will contribute approximately $13.8 million to employee retirement accounts in the RSP and GRIP for approximately 4,200 employees. If the County Government contributed 6% of employees salary, the contribution would have been $10.3 million, a savings of $3.0 million.

	FY11 RSP/GRIP Contribution		**Difference**
	Actual (8% of Salary)*	**6% of Salary**	
Employees' Retirement Savings Plan (RSP)	$11.2 million	$8.4 million	$2.8 million
Guaranteed Retirement Income Plan (GRIP)	$2.6 million	$2.4 million	$0.2 million
Total	**$13.8 million**	**$10.8 million**	**$3.0 million**

*Note: based on actuarial calculations, in FY11 the County Government contributed 6.53% of salary toward retirement for members of the GRIP.
Source: Executive s FY11 Proposed Operating Budget and OLO calculations

OLO was also asked to estimate the savings if the County Government switched from an 8%-4% employer-employee contribution split to a 6%-6% split. In such a scenario, the savings to the County would be the same $3.0 million identified above. However, a 6%-6% split would require RSP/GRIP employees to contribute an additional 2% of their salaries towards retirement. This would result in an employee contribution that is higher than employee contributions in the integrated pension plan (all ERS members hired after 1978), who are required to contribute between 4% and 5.5% of salary towards their retirement.

D. What would be the cost savings from disallowing employees who are initially hired into defined benefit plan positions to remain in the defined benefit plan even when they move to County jobs classified as defined contribution or hybrid plan positions?

Currently, the County Government allows public safety employees (hired on or after October 1, 1994) to remain in the Employees Retirement System if they move to a position that is only eligible for the RSP or GRIP retirement plans. With the exception of these public safety employees who transfer into other County Government positions, non-public safety employees hired after October 1, 1994 are not eligible to participate in ERS. This practice is allowed based on current interpretation of County law.

If the Council amended the law and ended this practice and, going forward, required ERS members to move to the RSP or GRIP if they transfer to non-ERS-eligible positions, the County Government would save the difference between what it contributes to the RSP or GRIP and what it would have contributed to the ERS. In FY12, the County will contribute 25.17% of salary for each ERS member compared to 8% of salary for the vast majority of RSP or GRIP members a difference of 17.17%.

At the end of FY10, there were 125 members of the ERS who were in positions eligible for the RSP or GRIP. In FY12, the County Government will contribute $2.1 million to the ERS for these members. If these employees were RSP/GRIP members, the County Government would contribute approximately $230,000 toward their retirement in FY12, a difference of $1.4 million.

Note: based on advice from the County Attorney, there is a question of whether the County Government could retroactively require these 125 employees to switch retirement plans. The County Government may only be able to change this policy for employees who switch positions in the future.

M E M O R A N D U M

February 1, 2011

TO: Councilmembers

FROM: Karen Orlansky, Director
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.

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

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

M E M O R A N D U M

February 9, 2011

TO: Councilmembers

FROM: Karen Orlansky, Director
Office of Legislative Oversight

SUBJECT: **Follow-up to OLO Report on Achieving a Structurally Balanced Budget: Comparison of the Governor s Proposed Pension Changes and Options Identified by OLO**

This memorandum responds to Councilmember Floreen s question about how the Governor s recently proposed changes to the State s pension plans compare to the options identified in OLO s report on *Achieving a Structurally Balanced Budget in Montgomery County* (OLO Report 2011-2, Part II).

While not identical, many of the changes proposed by Governor O Malley on January 21, 2011 parallel the pension options identified in OLO s report. The proposed changes to benefits of current and future employees participating in Maryland s State-run pension plans are described below and cross-referenced to OLO s options in the table attached at ©1.

In sum, the pension changes proposed by Governor O Malley that OLO s Part II report also included as options are to:

- Increase employees pension contributions;
- Decrease pension multipliers;
- Increase the minimum retirement age and/or minimum years of service required for full retirement; and
- Change the cap on retiree pension cost-of-living adjustments (COLAs).

The Governor s proposal would require newly hired employees to pay higher employee contribution rates (7%) and receive the lower pension multiplier (1.5%). However, current employees would be offered the choice to either: pay a higher contribution rate (7%) and keep the current pension multiplier (1.8%); or pay the current contribution rate (5%) and use a lower pension multiplier (1.5%).

Other changes to employee pension benefits proposed by Governor O Malley and not explicitly identified by OLO are to:

- Increase the period for an employee to become fully vested in the system;
- Close the Deferred Retirement Option Program (DROP) for public safety employees; and
- Change the calculation of an employee s average final compensation, a component in calculating an employee s pension.

These three additional changes proposed by Governor O Malley are viable options to consider as potential changes to the County agencies pension plans. For example, the vesting period for both the County Government s and State s pension plans is currently five years. The Governor proposes to increase the vesting period from five to ten years, which actually is similar to what the County Government s pension plan (prior to FY90) used to require.

It should be noted that OLO s Part II report also identified several options that Governor O Malley did not include in his proposal, some of which are specific to Montgomery County. These include options to:

- Close locally-funded defined benefit plans and enroll new employees in defined contribution and/or hybrid plans;
- Close locally-funded defined benefit plans and enroll new represented public safety employees in a new hybrid plan with defined benefit and defined contribution components;
- Reduce or eliminate the locally-funded MCPS pension supplement; and
- Integrate MCPS locally-funded pension plan with Social Security (MCPS locally-funded plan is identical to the State Teachers Pension System, which is not integrated with Social Security for service after 1998).

If you have any questions about the information in this memo, please contact Leslie Rubin at x77998 or leslie.rubin@montgomerycountymd.gov.

Attachments:
Chart comparing Governor s proposed pension changes to options identified by OLO
Excerpts from OLO Report 2011-2, Part II

Summary of Governor O Malley s Proposed Pension Changes with Cross-References to Options in OLO Report 2011-2, Part II

Category		Governor O'Malley's Proposed Change	OLO Options	O'Malley's Proposed Change Affects…	
				Active Employees	New Hires
Employees' Pension System and Teachers' Pension System					
1	Employee Contributions and Multiplier	Employees' Choice – higher employee contribution (7% instead of 5%) **or** lower multiplier (1.5% instead of 1.8%)	MCG #2, #3 MCPS #2, #3	✓	
2	Average Final Compensation	Change calculation from highest consecutive 3 years to highest consecutive 5 years	N/A	Non-vested only	✓
3	Employee Contributions	Increase from 5% to 7% of salary	MCG #2, #3 MCPS #3		✓
4	Multiplier	Lower from 1.8% to 1.5%	MCG #2 MCPS #2		✓
5	Retirement Age/Years of Service for Full Retirement	Increase from age 60 with 5 years of service, to age 65 with 10 years of service	MCG #2, #4		✓
6	Vesting Period	Increase from 5-year to 10-year vesting period	N/A		✓
7	Pension COLAs	Cap on retiree COLA – 3% if system achieves investment returns, 1% if not	MCG #5		✓
State Police and Law Enforcement Officers' Pension System					
8	Deferred Retirement Option Program (DROP)	Close the Deferred Retirement Option Program (DROP)	N/A	Non-vested only	✓
Judges' System					
9	Employee Contribution	Increase – 8% of salary (currently 6%)	MCG #3 MCPS #3		✓

COUNTY GOVERNMENT OPTION #2: New Hybrid Plan for New Public Safety Employees

Current Structure

All new County Government public safety employees represented by an employee bargaining unit join the County s defined benefit plan, the Employees Retirement System (ERS). All other new County Government employees join either the County s: defined contribution plan, the Employees Retirement Savings Plan (RSP); or hybrid plan, the Guaranteed Retirement Income Plan (GRIP).

In FY11, the County Government s retirement benefit cost for a public safety employee enrolled in the ERS (32%-38% of an employee s salary) is over three times higher than the cost for a new employee enrolled in the RSP (8%-10% of an employee s salary). The employer s cost for defined benefit plans is impacted by many variables in a pension formula. The table below summarizes the key variables that determine pensions for the public safety employees in the ERS.

Table 6. Summary of Pension Formula Variables for ERS Public Safety Members*

Employee Contribution	Avg. Final Earnings	Minimum		Multiplier	Max. # of Years Credited in Pension Calculation
		Service	Age		
4.75 - 5.5%**	Highest 36 months	20-25 years	Any age	2.4 – 2.5%	31 - 36
		15 years	55		

*Employees hired on or after July 1, 1978.
**Employee contributions increase for any portion of salary than that is greater than the Social Security wage base ($106,800 in 2010).

Alternative Structure

Close the ERS defined benefit plans to new hires and create a new hybrid retirement plan (different from the GRIP) for represented public safety employees hired after a certain date.[1] The new hybrid plan would include both a defined benefit and a defined contribution portion.

Defined benefit component. The new defined benefit portion of the plan would change the pension formula variables to create a significantly smaller annual pension. Changes could include:

- Raising employee contribution rates;
- Increasing the minimum number of years required for full benefits;
- Increasing the minimum age for retirement with full benefits; and/or
- Decreasing the multiplier.

Defined contribution component. The defined contribution portion of this hybrid plan option would supplement the defined benefit portion and could be structured in a number of ways. A defined contribution option could be structured like the RSP (mandatory, set employer and employee contributions) or the employee could choose a contribution level within a range (e.g., 1-5% of salary) with the County Government matching a portion of that contribution.

[1] This option is similar to the Federal Employees Retirement System, which has both a defined benefit and a defined contribution component.

Projected Savings

While this option offers the opportunity for long-term savings compared to the current plans, the actual amount would depend upon how the hybrid plan was structured. As indicated earlier, estimates of the specific amount and timeframe for cost savings would require actuarial analysis.

Effect on Employees

Current employees would see no change to their retirement plans or future retirement benefit levels. New public safety employees would join a hybrid plan with both defined contribution and defined benefit components.

This type of plan would marry the benefits and drawbacks of defined benefit and defined contribution plans and more evenly distribute future financial risk between the County Government and employees. For example, employees would be able to rely upon a stream of income from a pension, but could not take the benefit with them to another employer. Similarly, employees would have a portable retirement plan with the defined contribution component, but the total value would depend upon the rate of investment returns.

COUNTY GOVERNMENT OPTION #3: Increase Employee Contributions in Defined Benefit Plans

Current Structure

All County Government employees in the defined benefit plan (Employees Retirement System) contribute a portion of their salaries to help fund their pensions. In a defined benefit plan, employee contributions affect the annual contribution required from employers. Specifically, increased employee contributions result in decreased contributions for the County Government. The table below summarizes the current employee contribution rates set forth in County law.

Table 7. Current ERS Employee Contribution Rates as Percent of Salary (hired on or after July 1, 1978)

Group	Current Rate*
Non-Public Safety Employees hired before Oct. 1, 1994	4.0%
Deputy Sheriff and Corrections	4.75%
Police	4.75%
Fire	5.5%

*Employees contribute a higher percent of salary, ranging from 6% to 9.25%, for any portion of salary than that is greater than the Social Security wage base ($106,800 in 2010).

Alternative Structure

Increase the required employee contribution for all current and future employees in all ERS groups. For example, the County could increase the current rate for all groups by a set percent (e.g., a 50% increase) or establish a uniform but higher contribution rate for all groups (e.g., 7% for all members).

Projected Savings

Estimates of the specific amount and timeframe for cost savings would require actuarial analysis; however, a general description of how this option achieves savings follows.

If employees contribute a higher percent of salary to the ERS, the County s required contribution would decrease. While the decrease would not be dollar-for-dollar, the County s savings would reflect the magnitude of increased employee contributions. Table 8 shows that if employee contribution rates had been increased by 50% for all groups, employees would have contributed an additional $8.6 million to the ERS in FY11.

Table 8. Example of Potential County Government Savings from Increased Employee ERS Contributions

Employee Contribution		Difference
Current Structure	50% Increase	
$17.4 million	$26.0 million	+$8.6 million

Effect on Employees

Increasing employee ERS contributions would decrease the amount of money that employees take home in paychecks. For example, raising the employee contribution by 50% for an ERS public safety employee earning $50,000 annually and contributing 4.75% of salary would increase the employee s contribution by $1,188 annually.

COUNTY GOVERNMENT OPTION #4: Increase Minimum Retirement Age and Years of Service for New Public Safety Employees in the Defined Benefit Plan

Current Structure

Since 2001, pension benefit enhancements (such as lowering retirement age or increasing multipliers) have added to the ERS existing liabilities in amounts ranging from $27.5 million to $121.9 million. See Appendix (©93). County law establishes the minimum age and/or years of service requirements for an ERS member to retire with full benefits. Increasing or decreasing these requirements impacts defined benefit plan costs because it affects how long the plan will pay employee pensions.

Public safety members in the ERS retire at a much younger age than non-public safety members. The County s actuaries estimate that by age 54, 30% of public safety members of the ERS will retire compared to 5% of non-public safety members.[2] Earlier retirement for public safety employees is one factor that contributes to the higher cost of public safety members in the ERS compared to non-public safety members. The table below summarizes minimum age and years of service requirements for public safety members in the ERS.

Table 9. Current Minimum Age and Service Requirements for Public Safety Members of the ERS

Group	Deputy Sheriff and Corrections	Police	Fire
Minimum Age/ Years of Service	55/15	55/15	55/15
	Any/25	Any/25	Any/20

Alternative Structure

Increase the minimum age for retirement and minimum required years of services to qualify for full retirement benefits for public safety employees hired after a certain date. Possibilities include:

- Establish a minimum retirement age regardless of years of service;
- Raise the minimum retirement age by five years for members with 15 years of service; and/or
- Require at least 25 years of service for members retiring before age 55.

Projected Savings

While this option would offer the opportunity for long-term savings compared to the current plans, estimates of the specific amount and timeframe for cost savings would require actuarial analysis.

Effect on Employees

Current employees would see no change to their retirement plans. Higher minimum age and/or years of service requirements would result in new hires working longer than current active members in order to receive full retirement benefits.

[2] 2009 Actuarial Valuation for ERS Contribution in FY11.

COUNTY GOVERNMENT OPTION #5: Lower the Pension COLA Cap

Current System

Under current County law, retirees in the ERS receive an annual cost-of-living adjustment (COLA) to their pensions based on the rate of the Consumer Price Index (CPI). Retirees can receive a negative COLA if the CPI is negative for a given year. ERS members hired by the County Government before October 1, 1978 receive an annual COLA equal to 100% of the CPI. All members hired on or after October 1, 1978 receive a COLA based on the following formula:

- 100% of the CPI up to 3%;
- 60% of the CPI greater than 3%, not to exceed 7.5%; and
- 100% of the CPI for retirees age 65 or over.

ERS retirees hired after June 30, 1978 have received a COLA of, on average, 2.5% annually between FY01 and FY10.

Alternative Structure

Lower the annual COLA applied to retiree pensions for all current and future ERS retirees through structural changes to the retiree COLA formula. There are many different ways to accomplish this. For example, the County could provide all retirees with a set annual COLA of 1%, regardless of the CPI. Another example would be for the County to provide an annual COLA based on the CPI, but with a maximum of 2%. For a discussion of the legal issues related to implementing a change to pension cost of living adjustments for current and future retirees, see the County Attorney s memos in the Appendix (©8 and ©22).

Projected Savings

Estimates of the specific amount and timeframe for cost savings would require actuarial analysis; however, a general description of how this option achieves savings follows.

As noted above, the average COLA for retirees between FY01 and FY10 was 2.5%. If a structure had been in place that capped COLA s at a maximum of 2%, retiree s would have had smaller pension increases in eight of the past ten years. As a result, the overall County required contributions to the Employees Retirement System would have been lower.

Effect on Retirees

Under this option, retirees would likely receive smaller annual pension increases, at least in some years. The magnitude of the difference depends upon the specific structure adopted.

MCPS OPTION # 2:
Eliminate MCPS' Local Pension Supplement

Current Structure

All MCPS employees participate in a locally-funded Pension Supplement, regardless of whether they participate in the State retirement plan or the Local retirement plan. A portion of the local Pension Supplement provided to employees in the State-funded plan is mandated by State law.[3]

In FY11, the Pension Supplement accounted for $25.9 million (41%) of MCPS $63.3 million in retirement plan contributions.

Table 10. FY11 Cost of MCPS Pension Supplement

Group	FY11 MCPS Contribution	FY11 Contribution Rate (% of salary)
Employees in State Plan	$22.1 million	1.92%
Employees in Local Plan	$3.8 million	1.90%
Total	**$25.9 million**	**--**

Alternative Structure

Eliminate the Pension Supplement for all MCPS employees hired after a certain date. This option would require a change to State law.

Alternatively, MCPS could eliminate the portion of the Pension Supplement ***not required*** by State law. MCPS could implement this change with no amendment to State law.

Projected Savings

Although this option would not yield significant agency savings in the short run, it would lead to substantial savings in the long run. Estimates of the specific amount and timeframe for cost savings would require actuarial analysis.

Because this option would only apply to employees hired after a specified future date, MCPS would continue to pay the pension supplement for current employees. Over the course of many years, MCPS costs for the Supplement ($26 million in FY11) would be vastly reduced and eventually eliminated.

Effect on Employees' Retirement

Current employees would see no change to their retirement plans or future retirement benefit levels. Employees hired on the effective date of the change would still receive a defined benefit pension; however, the pension would be based on a multiplier of 1.8% instead of 2%.

MCPS employees currently contribute 0.5% of salary annually toward their Pension Supplement. Employees hired after the effective date of the change would no longer be required to contribute that portion of their salary toward retirement.

[3] MCPS is required by State law to provide a 0.08% supplement to the pension multiplier; however, MCPS provides a 0.2% supplement. Montgomery County is the only Maryland County required to supplement State teacher pensions.

MCPS OPTION # 3:
Increase MCPS Employee Contributions to Pension Supplement

Current Structure

All MCPS employees participate in a locally-funded Pension Supplement, regardless of whether their Core retirement plan is funded by the State or by MCPS. A portion of the local Pension Supplement given to employees in the State-funded plan is established in State law.[4]

MCPS employees contribute 0.5% of their salary for the Pension Supplement (on top of the 5% they contribute toward their Core Pension). In a defined benefit plan, employee contributions affect the annual contribution required from employers. Specifically, increased employee contributions result in decreased contributions for MCPS. MCPS total required contribution in FY11 to fund the Pension Supplement is $25.9 million.

Alternative Structure

Increase required employee contributions for the local Pension Supplement. For example, MCPS could increase the required employee contribution from 0.5% to 0.75% of salary (a 50% increase).

Projected Savings

Estimates of the specific amount and timeframe for cost savings would require actuarial analysis; however, a general estimate of savings follows.

If employees contributed a higher percent of salary toward the Pension Supplement, MCPS required contribution would decrease. While the decrease would not be dollar-for-dollar, the MCPS savings would reflect the magnitude of increased employee contributions. Table 11 shows that if employee contribution rates to the Pension Supplement had been increased by 50%, employees would have contributed an additional $3.4 million in FY11.

Table 11. Example of Potential County Government Savings from Increased Employee ERS Contributions

Pension Supplement Employee Contribution[5]		Difference
Current Structure	50% Increase	
$6.7 million	$10.1 million	+ $3.4 million

Effect on Employees' Retirement

Changing employee contributions in a defined benefit plan does not change an employee s retirement plan or the future retirement benefit levels. An employee would have to contribute a higher portion of their salary toward their Pension Supplement benefit. In the example used above, an increase in the employee s contribution from 0.5% to 0.75% would mean that an employee earning $50,000 per year would contribute an additional $125 annually.

[4] Montgomery County is the only Maryland County required to supplement State teacher pensions.
[5] Calculated based on the MCPS approved FY11 tax supported salary costs of approximately $1.34 billion.

M E M O R A N D U M

February 11, 2011

TO: Councilmembers

FROM: Karen Orlansky, Director
Office of Legislative Oversight

SUBJECT: **Follow-up to OLO Report on Achieving a Structurally Balanced Budget: Recap of Recent Studies on Private vs. Public Sector Pay and Benefits**

This memorandum responds to requests from several Councilmembers for additional comparative information on the pay and benefits of public sector vs. private sector employees.

Challenges to Comparing Public vs. Private Sector Pay and Benefits. There are differences between the public and private sector workforces that pose challenges to conducting "apples to apples" comparisons of pay and benefits. The differences most commonly cited in the compensation research literature are:

- Public and private sector work activities are not identical, a fact which makes it hard to find parallel jobs to compare across the two sectors. For example, positions such as police officer and firefighter largely do not exist in the private sector; and many factory and retail jobs in the private sector have few equivalents in the public sector.
- A larger portion of public sector jobs require higher levels of education and training compared to private sector jobs; public sector employees tend to be older and more experienced than their private sector counterparts.
- Some frequently identified advantages of public sector employment, such as greater job security and more flexible working arrangements, are difficult to quantify and therefore excluded from most comparisons of pay and benefits.

While these factors do not invalidate all comparisons of pay and benefits across the public vs. private sectors, they should be kept in mind when reviewing the various studies, particularly when the data used in the research represent averages for large classes of employees from either the public and/or private sector.

Despite the vigorous debate over whether the data show employees in the private or public sector as more highly compensated, there are several findings which the research consistently supports. Specifically, there is general agreement that public sector benefits tend to be more generous than private sector benefits; and that while lower-skilled positions tend to receive higher wages in the public sector, higher skilled positions tend to be better compensated in the private sector.

Organization of Memo. The rest of this memo is organized into two parts. **Section A** summarizes information contained in reports compiled by federal agencies on private vs. public sector employee pay and benefits. **Section B** summarizes the findings from studies conducted by four other (non-governmental) organizations on public vs. private sector employee pay and benefits.

In addition, attached (beginning at ©1) are six examples of the many articles published in the past year or so that draw varying conclusions about public vs. private sector pay and benefits.

A. Public vs. Private Pay Data Compiled by the Federal Government

Highlights of data contained in three reports compiled by the federal government on public vs. private sectors pay and benefits are summarized below.

1. "Employer Costs for Employee Compensation," September 2010

"Employer Costs for Employee Compensation" (ECEC) is a quarterly report prepared by the federal Bureau of Labor Statistics. The ECEC includes data on average employer costs paid for employee compensation (pay and benefits) by state and local governments, and by private industry employers.

The table below summarizes the data on average employer costs per hour worked, as contained in the ECEC, published in September 2010. The data show higher total pay and benefits paid per hour by state and local governments, compared to private industry.

Average Employer Costs (Paid Per Hour) for Employee Pay and Benefits
Data from Bureau of Labor Statistics, ECEC Report, September 2010

Component of Compensation	Private Industry	State and Local Government
Wages/Salaries	$19.68	$26.25
Total Benefits (see list of benefits below)	$8.20	$13.85
Total Compensation	**$27.88**	**$40.10**

Calculation of total benefits includes:		
Paid Leave	$1.88	$3.03
Supplemental Pay (e.g., overtime)	$0.78	$0.33
Insurance (Health, Life, Disability)	$2.24	$4.80
Retirement and Savings	$0.99	$3.26
Defined Benefit	*$0.44*	*$2.94*
Defined Contribution	*$0.55*	*$0.32*
Legally Required Benefits (e.g., Social Security, Medicare)	$2.31	$2.42
Total Benefits	**$8.20**	**$13.85**

Consistent with the challenges cited above to using data across large classes of workers when comparing public vs. private sector compensation, the Bureau of Labor Statistics includes the following caveat/warning to using the information provided in the ECEC report:

> Compensation cost levels in state and local government should not be directly compared with levels in private industry. Differences between these sectors stem from factors such as variation in work activities and occupational structures. Manufacturing and sales, for example, make up a large part of private industry work activities but are rare in state and local government. Management, professional and administrative support occupations (including teachers) account for two-thirds of the state and local government workforce, compared with two-fifths of private industry. (ECEC, September 2010)

2. "Employee Benefits in the United States", March 2010

"Employee Benefits in the United States" is a report prepared quarterly by the federal Bureau of Labor Statistics. It contains information on the types of benefits offered to employees by private industry employers as well as state and local government.

The data summarized in the table below show the percent of employees (by sector) that have access to retirement and medical benefits, and the percent who have access to a plan that go ahead and enroll. (This second percent is known as the "take up rate.") The table also shows the average cost share of medical care premiums paid by employers for single and family medical coverage.

Retirement and Medical Benefits by Sector, March 2010	Private Industry	State and Local Government
Retirement Benefits		
Percent of employees with access to a plan	65%	90%
Percent of employees who have access to a plan that enroll	76%	95%
Medical Benefits		
Percent of employees with access to a plan	71%	88%
Percent of employees who have access to a plan that enroll	73%	83%
Average share of medical plan premium paid by employer:		
Single Coverage	80%	89%
Family Coverage	70%	73%

3. "National Income and Products Account Tables", 2009

The federal Bureau of Economic Analysis prepares the National Income and Products Account Tables (NIPA), which report the distribution of incomes earned across different sectors of the economy. The table below summarizes the most recently published NIPA data (2009) for the private sector, the federal government (civilian), and state and local government sectors. The NIPA data only track data on wages/salaries and do not include the cost of employee benefits.

2009 Bureau of Economic Analysis Data on:	Private Industry	Federal Gov't (civilian)	State/Local Government
Wages/Salaries ($ in millions)	$5,113,359	$158,616	$862,579
Full-Time Equivalent Employees (FTE)	101,331,000	1,952,000	16,258,000
Average Wage and Salary/FTE	$50,462	$81,258	$53,056

The data show that, in 2009, the average wage and salary per full-time employee for private industry workers and state/local government workers were $50,462 and $53,056, respectively. On average, federal government (civilian) employees received approximately $30,000 more than either state/local government or private sector employees.

B. Other Studies of Private vs. Public Pay and Benefits

During the past year, a number of private and non-profit organizations have weighed in on the issue of employee pay and/or benefits across the public vs. private sectors. For the most part, the various studies use the same data sets compiled by the federal government (reviewed in the first part of this memo), but do not reach the same conclusions. The major findings of four studies, all released during 2010, are summarized below. They are presented in chronological order, based on the date the studies were issued: January, April, May, and July 2010.

Following the summaries is a list of websites for the studies themselves. The home site for each organization contains additional information about the priorities and stated mission of the different groups conducting these various studies.

The Cato Institute[1] **"Public Sector Unions and the Rising Costs of Employee Compensation."** **January 2010**
• State and local workers receive more generous pension, health insurance, and paid leave benefits than private sector workers. • Government workers experience higher job security than private sector workers. • Public sector unionization increases the cost of the workforce by an average of 8%. • Public sector pension systems often include benefits not offered in private sector systems, including early and disability retirement.
Source of Data: Bureau of Labor Statistics, "Employer Costs for Employee Compensation"

Center for State and Local Government Excellence/National Center for Retirement Security[2] **"Out of Balance: Comparing Public Sector and Private Sector Compensation over 20 Years."** **April 2010**
• The public and private workforces vary in significant ways, including levels of education, training, experience, and types of employment. • The wages and salaries of state and local employees are 11-12% lower than those for private sector workers with comparable education and experience. • Benefits account for a greater share of compensation in the public sector. • On average, total compensation is 6.8% lower for state and 7.4% lower for local government workers compared to equivalent private sector workers. • Earnings for state and local employees have generally declined compared to equivalent private sector employees over the past two decades.
Source of Data: Federal Bureau of Labor Statistics, "Employer Costs for Employee Compensation"

Center for Economic and Policy Research[3] **“The Wage Penalty for State and Local Government Workers.”** **May 2010**
• State and local workers tend to be older and better educated than private sector workers. • Low-wage public sector workers received about 6% more than their private sector counterparts. • Middle-wage public sector worker earned about 4% less than their private sector counterparts. • High-wage workers earned about 11% less than their private sector counterparts.
Source of Data: Census Bureau/BLS, Current Population Survey & Bureau of Labor Statistics, “Employer Costs for Employee Compensation”

Heritage Foundation[4] **“Inflated Federal Pay: How Americans Are Overtaxed to Overpay the Civil Service.”** **July 2010**
• Federal employees have increased job security irregardless of an economic downtown. Federal employment has increased 12% since the recession began. • Federal employees earn approximately 30-40% more in total compensation (wages and benefits) than comparable private-sector workers. • Making federal compensation equitable to private-sector compensation would save approximately $47 billion in 2011. • Averages distort compensation across occupations and skill levels. Federal employees in highly skilled occupations receive market wages while semi-skilled federal workers earn significantly more than their private sector counterparts.
Source of Data: Census Bureau/BLS, Current Population Survey

1. The Cato Institute; http://www.cato.org/pubs/journal/cj30n1/cj30n1-5.pdf

2. Center for State and Local Government Excellence/National Center for Retirement Security; http://www.slge.org/vertical/Sites/%7bA260E1DF-5AEE-459D-84C4-876EFE1E4032%7d/uploads/%7b03E820E8-F0F9-472F-98E2-F0AE1166D116%7d.PDF

3. Center for Economic and Policy Research; http://www.cepr.net/index.php/publications/reports/benefits-of-state-local-gov-employees http://www.cepr.net/index.php/publications/reports/wage-penalty-state-local-gov-employees

4. Heritage Foundation; http://www.heritage.org/research/reports/2010/07/inflated-federal-pay-how-americans-areovertaxed-to-overpay-the-civil-servic

Attachments:

Examples of Articles on Public vs. Private Sector Compensation	**Circle**
O'Leary, John. "Fair Pay for Public Employees: A Question of Efficiency". *Governing*. February 2, 2011	1
Reich, Robert. "The Shameful Attack on Public Employees". *Huffington Post*. January 5, 2011	3
Tumulty, Karen and Ed O'Keefe. "Public Servants Feel Sting of Budget Rancor." *Washington Post*. December 21, 2010.	5
Thompson, Derek. "Pampered Public Employees: Why Government Sees Higher Wages and Benefits." *The Atlantic*. September 13, 2010.	10
Cauchon, Dennis. "Federal Pay Ahead of Private Industry." *USA Today*. March 8, 2010.	12
Folbre, Nancy. "Are Federal Workers Overpaid?" *The New York Times* Economix. October 13, 2009	15

Fair Pay for Public Employees: A Question of Efficiency

John O'Leary | February 2, 2011

Finally, something everyone can agree on: Public employees should be compensated fairly. While excessive pay for public employees is unfair to taxpayers, inadequate pay is not only unfair to public workers, it's inefficient. Agreed? Good.

So, what's fair? Ahh. Let the arguments commence.

Right now, a debate is raging over whether public employees are overcompensated.

A *USA Today* article notes that in 2009, federal employees earned $123,000 per year on average in pay plus benefits, compared to just $61,000 in the private sector. Even state and local employees averaged $70,000. At first blush, it sounds like public pay is way out of whack.

Not so, argues former Secretary of Labor Robert Reich. In his article, *The Shameful Attack on Public Employees*, Reich disputes the idea that public employees are overcompensated. According to Reich, "Even if you include health and retirement benefits, government employees still earn less than their private sector counterparts with similar educations." That last phrase covers a lot of territory. Reich contends that 48 percent of federal workers hold college degrees, compared to just 23 percent of their private-sector counterparts, and that on average the degree of difficulty of public work more than justifies any salary differential.

Indeed, the debate over public pay usually centers on averages. But here is the Goldilocks truth: Among any group of public employees, some are underpaid, others overpaid and still others are just paid about right.

Even among cohorts earning off the same pay scale, such as union teachers, janitors or firefighters, inequity prevails. The best employees are paid the same as the worst. How is that fair? Often, union contracts prohibit basing pay on performance. Seniority -- and the byzantine steps and lanes that go with it -- means that governments reward endurance rather than productivity. Does that make sense?

Fair pay is often in the eye of the beholder. Anti-government types will loudly complain about the New Jersey turnpike worker who made $321,985 or the Boston police lieutenant who made $271,882. On the other hand, public-sector managers know how hard it is to attract capable lawyers, accountants and IT professionals who are being offered more money in the private sector. Does government overpay or underpay? Yes, it overpays *and* underpays.

Then there is the whole question of pensions. While most of the world has moved to defined-contribution plans, or 401(k)s, the public sector is mostly still immersed in the defined-benefits world, a world where the public-sector employer -- and hence the taxpayer -- bears all the risk. During the recent stock market downturn, the typical taxpayer saw the value of their own retirement account decline. At the same time, they discovered they were on the hook to make up public pension shortfalls -- a double whammy that doesn't seem fair.

The structure of retirement benefits can have a huge impact on organizational effectiveness. Today, most public pensions are based on years of service and age at retirement. As a rule, these systems follow a "hockey stick" curve, meaning the value of retirement benefits increase dramatically over the last few years of service.

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This creates a circumstance where employees in their late 40s and 50s can become financially trapped in their jobs. It often becomes economically prohibitive for these public employees to look elsewhere. The result is disgruntled yet immovable workers, frustrated managers and underserved taxpayers.

Some communities have taken steps to alter the playing field. Back in 1998, the city of Orlando, Fla., mandated that all new hires (except public safety employees) would be covered by a defined-contribution plan. Orlando's plan enhances the portability of retirement benefits, which is important in an era when individuals often change jobs multiple times during their career. The Orlando plan isn't ungenerous -- the city contributes between 7 and 10 percent of pay -- but it gives Orlando predictability and insulates it from the shocks of market downturns. Orlando wisely chose to "grandfather" in all existing employees, which avoided some messy politics.

Similarly, Utah closed entrance to its legacy defined-benefit pension system in 2010, offering new hires either a 401(k)-type defined-contribution plan or a hybrid plan. Though unions resisted the change, polls found that Utah voters supported the reform. The state contribution is capped at 10 percent, except for public safety.

Unlike defined-benefit plans, capped contribution systems are harder to game. The political temptation to sweeten retirement benefits for current workers has contributed to the massive underfunding of post-employment pension and health-care benefits -- hence the "trillion dollar gap" currently facing state governments.

Overpaid? Underpaid? Go ahead and knock yourself out with that screaming match.

But while you're at it, tackle this question: With the exact same pot of money we are spending today, couldn't we design a better compensation system? Some questions to consider: How can our compensation approach promote more efficient operations? Should seniority always bring higher pay? How can we attract and retain good employees yet make sure underperformers aren't rewarded?

Designing a compensation system that is both fair and promotes efficiency is a real challenge. Too many people, however, obsess over the size of the compensation package while ignoring the detrimental impact that the structure of both the pay and pension systems can have on operating efficiency.

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Submit Query

February 5, 2011

Robert Reich

Fmr. Secretary of Labor; Professor at Berkeley; Author, Aftershock: 'The Next Economy and America's Future'

Posted: January 5, 2011 09:14 PM

The Shameful Attack on Public Employees

In 1968, 1,300 sanitation workers in Memphis went on strike. The Rev. Martin Luther King, Jr. came to support them. That was where he lost his life. Eventually Memphis heard the grievances of its sanitation workers. And in subsequent years millions of public employees across the nation have benefited from the job protections they've earned.

But now the right is going after public employees.

Public servants are convenient scapegoats. Republicans would rather deflect attention from corporate executive pay that continues to rise as corporate profits soar, even as corporations refuse to hire more workers. They don't want stories about Wall Street bonuses, now higher than before taxpayers bailed out the Street. And they'd like to avoid a spotlight on the billions raked in by hedge-fund and private-equity managers whose income is treated as capital gains and subject to only a 15 percent tax, due to a loophole in the tax laws designed specifically for them.

It's far more convenient to go after people who are doing the public's work -- sanitation workers, police officers, fire fighters, teachers, social workers, federal employees -- to call them "faceless bureaucrats" and portray them as hooligans who are making off with your money and crippling federal and state budgets. The story fits better with the Republican's Big Lie that our problems are due to a government that's too big.

Above all, Republicans don't want to have to justify continued tax cuts for the rich. As quietly as possible, they want to make them permanent.

But the right's argument is shot-through with bad data, twisted evidence, and unsupported assertions.

They say public employees earn far more than private-sector workers. That's untrue when you take account of level of education. Matched by education, public sector workers actually earn less than their private-sector counterparts.

The Republican trick is to compare apples with oranges -- the average wage of public employees with the average wage of all private-sector employees. But only 23 percent of private-sector employees have college degrees; 48 percent of government workers do. Teachers, social workers, public lawyers who bring companies to justice, government accountants who try to make sure money is spent as it should be -- all need at least four years of college.

Compare apples to apples and and you'd see that over the last fifteen years the pay of public sector workers has dropped relative to private-sector employees with the same level of education. Public sector workers now earn 11 percent less than comparable workers in the private sector, and local workers 12 percent less. (Even if you include health and retirement benefits, government employees still earn less than their private-sector counterparts with similar educations.)

Here's another whopper. Republicans say public-sector pensions are crippling the nation. They say politicians have given in to the demands of public unions who want only to fatten their members' retirement benefits without the public noticing. They charge that public-employee pensions obligations are out of control.

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Some reforms do need to be made. Loopholes that allow public sector workers to "spike" their final salaries in order to get higher annuities must be closed. And no retired public employee should be allowed to "double dip," collecting more than one public pension.

But these are the exceptions. Most public employees don't have generous pensions. After a career with annual pay averaging less than $45,000, the typical newly-retired public employee receives a pension of $19,000 a year. Few would call that overly generous.

And most of that $19,000 isn't even on taxpayers' shoulders. While they're working, most public employees contribute a portion of their salaries into their pension plans. Taxpayers are directly responsible for only about 14 percent of public retirement benefits. Remember also that many public workers aren't covered by Social Security, so the government isn't contributing 6.25 of their pay into the Social Security fund as private employers would.

Yes, there's cause for concern about unfunded pension liabilities in future years. They're way too big. But it's much the same in the private sector. The main reason for underfunded pensions in both public and private sectors is investment losses that occurred during the Great Recession. Before then, public pension funds had an average of 86 percent of all the assets they needed to pay future benefits – better than many private pension plans.

The solution is no less to slash public pensions than it is to slash private ones. It's for all employers to fully fund their pension plans.

The final Republican canard is that bargaining rights for public employees have caused state deficits to explode. In fact there's no relationship between states whose employees have bargaining rights and states with big deficits. Some states that deny their employees bargaining rights -- Nevada, North Carolina, and Arizona, for example, are running giant deficits of over 30 percent of spending. Many that give employees bargaining rights -- Massachusetts, New Mexico, and Montana -- have small deficits of less than 10 percent.

Public employees should have the right to bargain for better wages and working conditions, just like all employees do. They shouldn't have the right to strike if striking would imperil the public, but they should at least have a voice. They often know more about whether public programs are working, or how to make them work better, than political appointees who hold their offices for only a few years.

Don't get me wrong. When times are tough, public employees should have to make the same sacrifices as everyone else. And they are right now. Pay has been frozen for federal workers, and for many state workers across the country as well.

But isn't it curious that when it comes to sacrifice, Republicans don't include the richest people in America? To the contrary, they insist the rich should sacrifice even less, enjoying even larger tax cuts that expand public-sector deficits. That means fewer public services, and even more pressure on the wages and benefits of public employees.

It's only average workers – both in the public and the private sectors -- who are being called upon to sacrifice.

This is what the current Republican attack on public-sector workers is really all about. Their version of class warfare is to pit private-sector workers against public servants. They'd rather set average working people against one another -- comparing one group's modest incomes and benefits with another group's modest incomes and benefits – than have Americans see that the top 1 percent is now raking in a bigger share of national income than at any time since 1928, and paying at a lower tax rate. And Republicans would rather you didn't know they want to cut taxes on the rich even more.

Robert Reich is the author of Aftershock: The Next Economy and America's Future, *now in bookstores. This post originally appeared at* RobertReich.org.

Public Service Employees

AFSCME's Tribute to Public Service Employees
YouTube

Public Service Recognition Week 2009
YouTube

Public Service proposes retirement amendments

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The Washington Post

Public servants feel sting of budget rancor

By Karen Tumulty and Ed O'Keefe
Washington Post Staff Writers
Tuesday, December 21, 2010; 12:43 AM

Here are two words you don't hear much lately: public servant.

More and more, when politicians talk about government employees - whether they are federal, state or local - it is with the kind of umbrage ordinarily aimed at Wall Street financiers and convenience store bandits.

"We can no longer live in a society where the public employees are the haves and the taxpayers who foot the bill are the have-nots," Wisconsin's incoming Republican Gov. Scott Walker declared this month, as he raised the idea of stripping state workers there of collective bargaining rights.

Outgoing Minnesota Gov. Tim Pawlenty, who is mulling a GOP presidential bid, also sounded a class-war note last week on the op-ed page of the Wall Street Journal: "Unionized public employees are making more money, receiving more generous benefits and enjoying greater job security than the working families forced to pay for it with ever-higher taxes, deficits and debt."

That might sound like standard rhetoric from small-government Republicans. But at a time of staggering fiscal problems, Democrats, who have counted public-employee unions among their most stalwart allies, also are taking a noticeably tougher line.

New York Governor-elect Andrew Cuomo is girding for battle there, warning that state employee salaries and benefits are unsustainable at a time when the state has a $9 billion deficit.

Relative job security with generous benefits that extend into retirement has long been part of the appeal of working for the government. But an eight-hour day in a drab Independence Avenue office building can look like a supremely privileged lifestyle when Americans in the private sector are panicked and furious over what has happened to their own salaries, health coverage and 401 (k)s.

Add to that the growing view that the

http://www.washingtonpost.com/wp-dyn/content/article/2010/12/20/AR2010122005225_pf.html

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The Washington Post

Public servants feel sting of budget rancor

government has gotten too big and that deficits are going to swallow the economy, and you have all the makings of a backlash.

Three-quarters of those who were surveyed in an October Washington Post poll said they believe federal workers get better pay and benefits than people doing similar jobs outside the government, and 52 percent said government employees are overpaid.

When the NBC/Wall Street Journal poll this month sampled public opinion on the major proposals that were put forward by the president's deficit and debt reduction commission, the most popular by far - and the only one deemed "totally acceptable" by a majority of respondents - was freezing the salaries of federal employees and members of Congress for three years.

Officials of public employee unions say they have felt political wrath before, but that this time, it feels different.

"The extent and the depth of it is new. This is a concerted, deep attack on public employees and public workers," said Gerald W. McEntee, president of the 1.6-million-member American Federation of State, County and Municipal Employees. "The problem in the economy has not been created by public workers. It was created by Wall Street, and this political sleight of hand will do nothing to solve the problem."

Nor do he and others in labor see it as a coincidence that all of this is happening at a m oment when, for the first time in history, a majority of union members work for the government rather than the private sector, where labor membership has plummeted.

"The balancing of the budget gives them an opportunity that they have seized upon to weaken the public-sector unions, because the public-sector unions are the heart and pulse of the American labor movement," McEntee said.

But there remains the question: Are government workers in fact getting a cushier deal than everyone else?

As with so many other things, the answer to that depends on how you dice the numbers - and on who is doing the dicing.

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The Washington Post

Public servants feel sting of budget rancor

Much repeated by Republicans is an August review of Bureau of Economic Analysis data by USA Today. It showed that the average salary and benefits of federal employees had grown faster than that of private employees for nine years running, to the point where federal compensation had reached $123,049 in 2009 - more than twice the level of the average private-sector worker.

Other research suggests that once you adjust the numbers for the fact that government workers tend to be older, more educated and m ore experienced, they show that public employees don't do all that well in comparison.

Also complicating the equation is the fact that while government salaries are often lower than those in the private sector, benefits are often better.

The nonpartisan National Institute on Retirement Security found that, on average, t otal compensation is 6.8 percent less for state employees and 7.4 percent less for local employees than for comparable non-government workers.

Still others, including Andrew Biggs of the conservative American Enterprise Institute, have countered that the real bonanza for public-sector workers comes after they leave government, because of generous and secure retiree health and pension benefits.

This, too, could be changing. In Virginia, one of only four states where government workers make no annual contribution to their retirement fund, Republican Gov. Robert F. McDonnell proposed on Thursday that 87,000 state employees begin chipping in 5 percent. When combined with a 3 percent pay raise that McDonnell will request from the legislature, it would mean their take-home pay would drop by 2 percent.

A resistance movement may be stirring even in liberal Montgomery County, where spending on health and retirement benefits more than doubled over the past decade.

The new council chair, Valerie Ervin, a labor movement veteran, kicked off an epic battle when she put forward a relatively modest proposal that would have reduced the leverage of the unions in contract disputes. Over the next several months, worker salaries

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The Washington Post

Public servants feel sting of budget rancor

and benefits, which account for 80 percent of all county spending, will come under greater pressure as Montgomery County grapples with closing a $350 million deficit.

Meanwhile, many federal workers felt betrayed when President Obama put a two-year freeze on their salaries as one of his first peace offerings after the Democrats' midterm election losses. The move, which will save $5 billion over the next two years, barely dents a federal deficit that has been running more than $1 trillion annually.

"I was really disappointed in the Obama administration for doing it," said John Gage, president of the American Federation of Government Employees. "It was simply a public relations piece."

Chris Christie, the Republican governor of deeply Democratic New Jersey, has become a folk hero to conservatives - and a YouTube sensation - in part because of his confrontations with that state's educators, whose salaries and benefits he has tried to scale back.

When a teacher complained during a town hall last May that she wasn't being fairly compensated for her education and her experience, the governor retorted: "You know what? Then you don't have to do it."

Even the most revered of government workers are feeling the sting. This month, the Senate blocked a House-passed bill that would have provided $7.4 billion in benefits for the first responders and emergency workers made ill by their work after the Sept. 11 attack. Too expensive, the filibustering Republicans complained.

Resentment of government workers is not entirely new, of course. As far back as the Great Depression, Americans fumed that the Works Progress Administration - the largest employer in the country - was paying people to lean on their shovels.

When Republicans took over Congress in a tide of anti-government sentiment in 1994, strategist Frank Luntz advised in a memo: "Individual programs have friends. Bureaucracies and bureaucrats don't. Therefore, focus the general rhetorical attack on the 'Washington bureaucracy.' "

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The Washington Post

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The political currency of bashing bureaucrats ended abruptly, however, when terrorist Timothy McVeigh in 1995 detonated a truck bomb in front of the Alfred P. Murrah Federal Building in Oklahoma City. After eulogizing the 168 people who died there, then-President Clinton vowed never to use the pejorative "bureaucrat" again.

As the country engages in yet another argument that pits government workers against the taxpayers they serve, some worry about the message it is sending to future generations of public employees, even as a significant share of the current generation nears retirement.

"Lost in the discussions are the ones we ought to be having, which are about the quality of the workforce," said Rep. Gerald E. Connolly (D-Va.), who counts 56,000 federal employees and at least as many government retirees among his consituents. "Where are we going to get the sophisticated skill set we need for the future, if we're demeaning that service in the first place?"

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Derek Thompson is an associate editor at *The Atlantic*, where he writes about economics, business, and technology. Derek has also written for *BusinessWeek*, *Slate*, and *The Daily Beast*.

Pampered Public Employees: Why Government Sees Higher Wages and Benefits

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Pampered Public Employees: Why Government Sees Higher Wages and Benefits

By Derek Thompson
With the economy stalled, wages stagnate, and government debt setting new records every month, it must make people furious to hear that the government coddles its workers with higher pay and richer benefit promises at the federal, state and local level. Federal employees' average compensation has grown to more than double what private sector workers earn, USA Today reported this week.

But was the story accurate? Does the private sector get a raw deal, or is the gap between public and private employees a myth? To find out I spoke with two experts on public and private compensation, one from the right and one from the left.

Here is an edited transcript of my interview with Andrew Biggs, a scholar with the American Enterprise Institute, who has written about the public/private wage gap for the Wall Street Journal. My interview with Christian Weller, a senior fellow at the Center for American Progress, is here.

Does the public sector get pampered?

When you control for the differences in characteristics like education and age, the federal government has salaries that are 12 percent higher than similar private sector workers.

You're aware that some studies have come the opposite conclusion: that federal workers are underpaid. Why are they wrong?

The government has produced numbers where they claim that federal workers are underpaid by 22 percent. We say they're overpaid by 12 percent. The difference is in the methodology. We looked at the same person -- based on age, education, all those things -- and put him in the federal government or the private sector. The government looked at the same job in the federal government vs. private sector.

They looked at jobs. You looked at people. Why does the distinction matter?

Because government promotes faster, and at a younger age, than the private sector. The federal government is saying "our senior accounts earn less than a senior accountant in the private sector." But somebody who might be a junior accountant in the private would be senior in federal government. For many people, getting more responsibility at a younger age is a reason to go to the government.

The issue of public sector compensation has become increasingly salient, especially the question of whether state pensions are too generous. What's your take?

It's true that many state pensions are disproportionately high. But it's not as simple as it seems. If you look at what employers pay toward employee benefits -- including health and pensions and vacations -- it looks the same. But the benefits are not the same. In the private sector, you get defined contributions. In the public sector, you get defined benefits.

Let me explain that. So let's say a public and private sector employer puts $5,000 toward pensions for each employee. In the private sector that goes into 401(k) and an individual can either get a low risk/low benefits return by investing in government bonds, or higher expected return with a larger risk. In the public sector, the government promises high return and takes all risk. So a public sector worker with same amount of money going into pensions, and higher benefits, but less risk. That's how a public sector employee can get benefits twice as high for each dollar of contribution as a private sector worker.

Some government employees don't participate in Social Security. How does that change the benefits picture?

Right, I've heard some folks on the left say, "OK but these public employees don't get Social Security." But see, that's irrelevant because they're neither paying nor receiving benefits. If you follow Social Security, you know it pays a low rate of return. A typical person pays more in taxes than they get back in benefits. For them not to participate in Social Security is actually a benefit, because they're keeping more.

Let's assume that there is a public/private pay gap. So what? Money attracts talent and we want a talented federal work force. For example, we can't expect the SEC to have good bank regulators if they offer pittance.

You're raising an important point. The pay gap difference between federal and private jobs is not uniform. In general, the pay premium is very large for low skilled workers, and small or negative for highly skilled workers, like your SEC regulators. But most people don't have MDs or PhDs. Up through a Masters, you'll find on average that people make more in the federal government, especially at the low end with folks like paper clerks.

But you'd acknowledge that sometimes it makes sense for the government to pay super-competitively?

I don't have any issue with paying people what they're worth. You want to get qualified people. You gotta pay competitively, but we're paying more than competitively.

What would you say is the total cost of overpaying federal workers? What would competitive paying save us?

I'd say $40 billion in overpayment a year. Four hundred billion over ten years. That's a lot of money. It won't fix Social Security with that, but it's a lot of money.

My big point is that you can't have a protected sector of people who are getting better pay and benefits, who are unfireable. Private sector workers are five times more likely to get laid off. Is that good? Does that level of job security breed the best performance for the tax payer dollar? I haven't seen compelling reasons why you need such different sets of rules in the private vs. public sector.

This article available online at:

http://www.theatlantic.com/business/archive/2010/08/pampered-public-employees-why-government-sees-higher-wages-and-benefits/61443/

USA TODAY

Federal pay ahead of private industry

"Federal pay ahead of private industry"; Federal employees earn higher average salaries than private-sector workers in more than eight out of 10 occupations, a USA TODAY analysis of federal data finds. Accountants, nurses, chemists, surveyors, cooks, clerks and janitors are among the wide range of jobs that get paid more on average in the federal government than in the private sector.

By Dennis Cauchon, USA TODAY

Federal employees earn higher average salaries than private-sector workers in more than eight out of 10 occupations, a USA TODAY analysis of federal data finds.

Accountants, nurses, chemists, surveyors, cooks, clerks and janitors are among the wide range of jobs that get paid more on average in the federal government than in the private sector.

Overall, federal workers earned an average salary of $67,691 in 2008 for occupations that exist both in government and the private sector, according to Bureau of Labor Statistics data. The average pay for the same mix of jobs in the private sector was $60,046 in 2008, the most recent data available.

These salary figures do not include the value of health, pension and other benefits, which averaged $40,785 per federal employee in 2008 vs. $9,882 per private worker, according to the Bureau of Economic Analysis.

Federal pay has become a hot political issue in recent months because of concerns over the federal budget deficit and recession-battered wages in the private sector.

Sen. Scott Brown, R-Mass., made federal pay an issue in his successful campaign to fill Edward Kennedy's seat and is fighting for a pay freeze.

The federal government spent about $224 billion in 2008 on compensation for about 2 million civilian employees.

"The data flip the conventional wisdom on its head," says Cato Institute budget analyst Chris Edwards, a critic of federal pay policy. "Federal workers make substantially more than private workers, not less, in addition to having a large advantage in benefits."

But National Treasury Employees Union President Colleen Kelley says the comparison is faulty because it "compares apples and oranges." Federal accountants, for example, perform work that has more complexity and requires more skill than accounting work in the private sector, she says.

"When you look at the actual duties, you see that very few federal jobs align with those in the private sector," she says. She says federal employees are paid an average of 26% less than non-federal workers doing comparable work.

Office of Personnel Management spokeswoman Sedelta Verble, says higher pay also reflects the longevity and older age of federal workers.

USA TODAY used Bureau of Labor Statistics data to compare salaries in every federal job that had a private-sector equivalent. For example, the federal government's 57,000 registered nurses — working for the Veterans Administration and elsewhere — were paid an average of $74,460 a year, $10,680 more than the average for private-sector nurses.

The BLS reports that 216 occupations covering 1.1 million federal workers exist in both the federal government and the private sector. An additional 124 federal occupations covering 750,000 employees — air-traffic controllers, tax collectors and others — did not have direct equivalents, according to the BLS.

Federal jobs have more limited salary ranges than private-sector jobs, some of which have million-dollar payouts.

Key findings:

• Federal. The federal pay premium cut across all job categories — white-collar, blue-collar, management, professional, technical and low-skill. In all, 180 jobs paid better average salaries in the federal government; 36 paid better in the private sector.

• Private. The private sector paid more on average in a select group of high-skill occupations, including lawyers, veterinarians and airline pilots. The government's 5,200 computer research scientists made an average of $95,190, about $10,000 less than the average in the corporate world.

• State and local. State government employees had an average salary of $47,231 in 2008, about 5% less than comparable jobs in the private sector. City and county workers earned an average of $43,589, about 2% more than private workers in similar jobs. State and local workers have higher total compensation than private workers when the value of benefits is included.

Job comparison

Average federal salaries exceed average private-sector pay in 83% of comparable occupations. A sampling of average annual salaries in 2008, the most recent data:

Job Federal Private Difference

Job	Federal	Private	Difference
Airline pilot, copilot, flight engineer	$93,690	$120,012	-$26,322
Broadcast technician	$90,310	$49,265	$41,045
Budget analyst	$73,140	$65,532	$7,608
Chemist	$98,060	$72,120	$25,940
Civil engineer	$85,970	$76,184	$9,786
Clergy	$70,460	$39,247	$31,213
Computer, information systems manager	$122,020	$115,705	$6,315
Computer support specialist	$45,830	$54,875	-$9,045
Cook	$38,400	$23,279	$15,121
Crane, tower operator	$54,900	$44,044	$10,856
Dental assistant	$36,170	$32,069	$4,101

Job	Federal	Private	Difference
Economist	$101,020	$91,065	$9,955
Editors	$42,210	54,803	-$12,593
Electrical engineer	$86,400	$84,653	$1,747
Financial analysts	$87,400	$81,232	$6,168
Graphic designer	$70,820	$46,565	$24,255
Highway maintenance worker	$42,720	$31,376	$11,344
Janitor	$30,110	$24,188	$5,922
Landscape architects	$80,830	$58,380	$22,450
Laundry, dry-cleaning worker	$33,100	$19,945	$13,155
Lawyer	$123,660	$126,763	-$3,103
Librarian	$76,110	$63,284	$12,826
Locomotive engineer	$48,440	$63,125	-$14,685
Machinist	$51,530	$44,315	$7,215
Mechanical engineer	$88,690	$77,554	$11,136
Office clerk	$34,260	$29,863	$4,397
Optometrist	$61,530	$106,665	-$45,135
Paralegals	$60,340	$48,890	$11,450
Pest control worker	$48,670	$33,675	$14,995
Physicians, surgeons	$176,050	$177,102	-$1,052
Physician assistant	$77,770	$87,783	-$10,013
Procurement clerk	$40,640	$34,082	$6,558
Public relations manager	$132,410	$88,241	$44,169
Recreation worker	$43,630	$21,671	$21,959
Registered nurse	$74,460	$63,780	$10,680
Respiratory therapist	$46,740	$50,443	-$3,703
Secretary	$44,500	$33,829	$10,671
Sheet metal worker	$49,700	$43,725	$5,975
Statistician	$88,520	$78,065	$10,455
Surveyor	$78,710	$67,336	$11,374

Source: Bureau of Labor Statistics, USA TODAY analysis
Find this article at:
http://www.usatoday.com/news/nation/2010-03-04-federal-pay_N.htm

The New York Times
Economix
Explaining the Science of Everyday Life

OCTOBER 13, 2009, 7:11 AM

Are Federal Workers Overpaid?

By NANCY FOLBRE

Author's calculations from the 2009 March Current Population Survey.

Nancy Folbre is an economics professor at the University of Massachusetts, Amherst.

It's bad enough that the average federal worker is paid more than the average private-sector worker, especially taking into account the value of benefits like health insurance and pensions. But what's really shocking is that the gulf between the total compensation (wages plus benefits) enjoyed by federal workers and private-sector workers has increased since 1990.

So argues Chris Edwards, the tax director at the Cato Institute, a libertarian research organization.

Similar arguments were featured in a full-page ad sponsored by The Free Enterprise Nation in The Wall Street Journal on Sept. 22.

They were dramatized by Ilana Mercer in World Net Daily in a feature entitled "Life in the Oink Sector" and echoed by the conservative columnist Jeff Jacoby in The Boston Globe.

None of the sources provided any details about the characteristics of federal workers or their jobs. But such details (easily extracted from the regular Current Population Survey) explain why federal workers are paid more and why their average compensation has risen higher. They also show that federal employment creates proportionately far more middle-class jobs than the private sector.

In 2008, only 14 percent of federal workers were on part-time schedules, compared to 26 percent in the private sector. Federal workers were far older on average: 55 percent were between the ages of 45 and 64, compared to 36 percent of private-sector workers. Furthermore, 45 percent of federal workers held a college degree or higher educational credential, compared to 29 percent of private-sector workers.

Federal workers are more likely to receive employer-paid health benefits than private sector workers — 77 percent compared to 56 percent. This is one reason our highest-paid federal employee, the president of the United States, is fighting for universal health insurance coverage.

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Federal workers are also more likely than private sector workers to garner pension benefits (81 percent compared to 53 percent). Keep in mind, however, that for some federal employees, pension benefits come in lieu of Social Security payments.

Both health insurance and pension benefits are more expensive for older than for younger workers, and health insurance costs, in particular, have escalated rapidly since 1990. Also, age and educational attainment differences have widened considerably since 1991, when 20 percent of private sector and 31 percent of federal workers had a college degree or higher.

The biggest difference between private and federal employment, illustrated in the graph above, lies in the proportion of jobs paying less than $25,000 a year. In 2008 more than 43 percent of private-sector workers earned less than $25,000 a year. Most federal employees fell squarely in the middle earnings brackets, making $25,000 to $75,000 a year.

A larger share of federal than private-sector workers earned $75,000 to $150,000 a year. Beyond that level, private employees were overrepresented. The percentage earning more than $250,000 in 2008 (not shown in the graph above) was twice as high as the percentage of federal employees (1 percent compared to 0.5 percent).

In order to protect the confidentiality of its respondents, the Current Population Survey assigns all extremely high levels of earnings the same value or "topcode." As a result, it's impossible to accurately compare all private sector and federal workers in the long right-hand tail of the earnings distribution

But not all earnings are confidential. We, know, for instance, that the president of the United States earned $400,000 in 2008. He also enjoyed a $50,000 annual expense account and rent-free accomodations for himself and his family at the White House.

By comparison, the compensation of the chief executive officers of the 500 biggest companies of the United States in 2008 came out to an average of $11.4 million each.

Consistent with the overall picture described above, statistical analysis of the impact of individual education and experience on earnings in the United States by the Harvard economist George Borjas showed that federal employees are paid considerably less than comparable private workers at the top end.

As the conservative columnist Ross Douthat points out, earnings inequality is generally lower in public-sector employment, and countries with a larger public sector therefore experience less overall income inequality.

Some oinking can definitely be heard out there in the labor market, but anyone willing to follow the numbers can tell that the biggest piggies are not those employed by the federal government.

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M E M O R A N D U M

March 2, 2011

TO: Councilmembers

FROM: Karen Orlansky, Director
Office of Legislative Oversight

SUBJECT: **Follow-up to OLO Report on Achieving a Structurally Balanced Budget: Estimated Savings from Alternative Health Insurance Cost Share Scenarios and Summary of Prescription Drug Copay Structures**

This memorandum addresses several additional questions from Councilmembers about health benefits for employees of the County Government, Montgomery County Public Schools, Montgomery College, and M-NCPPC. The specific questions answered are listed below.

	Question	**Begins on Page**
A	What would be the cost savings from changing the health benefit premium cost share for County Government employees in the Choice Group from an 80/20 to a 76/24 split?	2
B	What would be the cost savings across the four tax supported agencies from changing to a fixed employer contribution for medical plan premiums – specifically under a scenario where the agency contribution is fixed at 95% of MCPS' lowest cost plan?	3
C	What are the current copay structures for the prescription drug benefit offered to employees of the County Government, MCPS, Montgomery College, and M-NCPPC? In particular, what is the difference in copays for generic versus brand name prescription drugs?	4

If you have any questions about information in this memo, please contact Sarah Downie in OLO at x77877 or sarah.downie@montgomerycountymd.gov.

c: Steve Farber

A. What would be the cost savings from changing the health benefit premium cost share for County Government employees in the Choice Group from an 80/20 to a 76/24 split?

When it comes to health benefits, there are two groups of Montgomery County Government employees – the "Choice" group and the "Select" group. The Choice group consists of employees represented by bargaining units and unrepresented employees hired before October 1, 1994. The Select group consists of unrepresented employees hired on or after October 1, 1994. As of January 4, 2011, there were 7,104 employees in the Choice group and 868 employees in the Select group who were enrolled in medical plans.

For employees in the Choice group, the current premium cost share for health benefits is 80/20, i.e., the County pays 80% of the premium and the employee pays 20%. For employees in the Select group, the current premium cost share for health benefits is 76/24.

The table below compares the projected annual health premium costs for County Government under the current cost share arrangements with the projected costs if the Choice group cost share was changed, as of January 1, 2012, to the same 76/24 currently paid by the Select group. In sum, the County Government would save an estimated $2 million in FY12; $4.4 million in FY13 (the first full year of implementation); and $5.8 million by FY16.

Projected Annual County Government Health Premium Costs ($ in millions)

Cost Share Model	FY11 Budget	Projected Health Premium Costs*				
		FY12	FY13	FY14	FY15	FY16
Current Cost Share	$81.5	$88.3	$97.0	$106.8	$117.6	$129.3
76/24 Cost Share for Choice	--	$86.3	$92.6	$102.0	$112.3	$123.5
Difference	**0**	**($2.1)**	**($4.4)**	**($4.8)**	**($5.3)**	**($5.8)**

*The calculations for the projected costs assume current plan designs and no enrollment changes, and include tax supported and non-tax supported positions.

To be clear, the projected savings shown above result from shifting some of the current annual premium costs (and future cost increases) from County Government to Choice group employees. For the County Government medical plan with the highest enrollment, the table below illustrates how this option would change the premium costs for an employee in the Choice group.

Annual Employee Health Premium Cost Projections (80/20 vs. 76/24 Cost Share)

	2011	2012	2013	2014	2015	2016
County Government - Carefirst High Option POS Plan (family coverage, Choice group)						
80/20 Cost Share (Current)	$3,204	$3,500	$3,857	$4,247	$4,674	$5,140
76/24 Cost Share	--	$4,200	$4,629	$5,097	$5,609	$6,168
Additional Cost to Employee	--	**+$700**	**+$771**	**+$849**	**+$935**	**+$1,028**

B. What would be the cost savings across the four tax supported agencies from changing to a fixed employer contribution for medical plan premiums – specifically under a scenario where the agency contribution is fixed at 95% of MCPS' lowest cost plan?

As reviewed in OLO's Part II report (page C-8), one option for changing the structure of health benefit premiums paid by the County is to establish a fixed dollar amount for the employer contribution. The information shown below details the potential savings associated with setting a fixed employer contribution for medical benefit premiums across the four tax supported agencies that equates to 95% of the premium of MCPS' lowest cost medical plan (currently the Carefirst BlueChoice HMO plan).

The table below compares the projected annual agency health premiums expenditures under the current cost share arrangements with the projected costs under this fixed employer contribution option implemented across all four agencies as of January 1, 2012. Under this option:

- In FY12, the net savings across the four agencies would be about $25 million; by FY16, the net savings across the four agencies would increase to about $67 million.

- While County Government and MCPS would achieve annual agency savings, M-NCPPC and Montgomery College would actually pay more. This is because under the existing cost share arrangements, the agency share of annual premium costs for M-NCPPC and Montgomery College is currently lower than 95% of MCPS' lowest cost plan.

Annual Agency Health Premium Costs for All Agencies ($ in millions)

Cost Share Model	FY11 Budget	Projected Agency Premium Costs*				
		FY12	**FY13**	**FY14**	**FY15**	**FY16**
All Agencies						
Current Cost Share	$306.9	$331.7	$361.9	$393.8	$428.4	$466.1
Fixed Contribution	--	$306.9	$310.2	$337.5	$367.0	$399.2
Difference	**--**	**($24.7)**	**($51.7)**	**($56.3)**	**($61.4)**	**($66.9)**
Difference by Agency						
MCPS	--	($19.2)	($40.1)	($43.5)	($47.2)	($51.2)
County Government	--	($6.3)	($13.2)	($14.5)	($16.0)	($17.6)
M-NCPPC	--	$0.3	$0.5	$0.6	$0.6	$0.7
Montgomery College	--	$0.5	$1.0	$1.0	$1.1	$1.1

*The calculations for the projected costs assume current plan designs and no enrollment changes, and include tax supported and non-tax supported positions. For Montgomery College, the calculation assumes a fixed contribution for medical and prescription benefits since the College combines medical and prescription drug plan premiums.

C. What are the current copay structures for the prescription drug benefit offered to employees of the County Government, MCPS, Montgomery College, and M-NCPPC? In particular, what is the difference in copays for generic versus brand name prescription drugs?

As reviewed in OLO's Part II report (page C-1), there are differences among how each agency currently structures their employee health benefits, including prescription drug plans. As a result, comparing prescription plans is complex as each plan contains multiple variables.

Table 1 (pages 6-7) summarizes information on the copay structure of the prescription drug benefits currently offered by County Government, MCPS, Montgomery College, and M-NCPPC. To address the question posed by the Council, the focus of OLO's data collection was on how each agency structures prescription drug plans to encourage the use of less expensive "generic" drugs as opposed to brand name drugs.[1]

In sum, a review of the four agencies' prescription drug plan documents shows the following related to copay structures and generic incentives:

- All four agencies have a multi-tier prescription drug copay design, with lower copays for generic drugs and higher copays for brand name drugs. In addition, all of the agency's Caremark plans (except for the County Government's High Option plan) also differentiate copays for "preferred" brand drugs (less expensive) and "non-preferred" brand drugs (more expensive).[2]

- Except for one plan in County Government (the Caremark Standard Option plan), the County Government and MCPS prescription drug plans have lower copays for both generic and brand name medications compared to the prescription drug plans for Montgomery College and M-NCPPC.

- Both the County Government and MCPS Caremark plans require a participant to pay the entire cost difference if he/she chooses a brand name drug when a generic equivalent is available. Both agencies allow participants to receive a waiver from this additional cost requirement, although MCPS' plan has a stricter standard that must be met.

- Some of the agency plans include additional provisions (e.g., higher copays, limited or no coverage for certain medications) for "life style" drugs.[3]

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[1] A brand name drug is a drug for which a manufacturer has patent protection. A generic drug is a biologically or chemically equivalent, lower-cost version of a brand name drug whose patent has expired.

[2] Preferred (or formulary) brand name drugs are not equivalents of non-preferred brand name medicines, but are medicines in the same therapeutic category used to treat the same condition. Each plan selects the medications that qualify as preferred brand name drugs based on factors such as cost, safety, and effectiveness.

[3] "Life style" drugs generally refer to medications that treat non-life threatening conditions; examples include drugs taken for cosmetic purposes or sexual dysfunction.

Mail Order Incentives. All four agencies offer participants the option of purchasing maintenance drugs[4] through mail order. Through mail order, a plan participant can purchase a longer term supply of medication than at a retail pharmacy (for example, a three-month supply as opposed to a one-month supply) for either the same copay or a higher copay that is still less than purchasing the same quantity through retail. Some plans also charge participants a penalty if they purchase a maintenance drug through a retail pharmacy rather than mail order.

PRESCRIPTION DRUG COPAYS IN OTHER JURISDICTIONS.

OLO's Part II report included information in the Appendix (prepared by CountyStat in March 2010) that summarizes prescription drug plan components for several jurisdictions in the region including Prince George's County, Howard County, Baltimore County, and Fairfax County.

In Table 2, beginning on page 8, OLO provides updated prescription drug copay information for those jurisdictions as well as for the State of Maryland[5] and selected plans in the Federal Government.[6] The comparative data compiled for other prescription drug plans outside the four tax supported agencies was limited to retail and mail order copay structures and amounts.

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[4] A maintenance drug is a medication used for a long time period to treat a chronic condition.

[5] The Governor of Maryland has proposed changes to the State's prescription drug plan that, if enacted, would increase copays as of July 1, 2011.

[6] Since the Federal Government offers multiple health plans, OLO selected four different plans that the Federal Office of Personnel Management website lists as offered in Maryland and/or the District of Columbia.

Table 1: Summary of Prescription Drug Plan Copays for County Agencies

Prescription Drug Plan	Deductible	Retail Copay (short-term medication)	Mail Order Copay (maintenance medication)	Other Plan Details
Montgomery County				
CVS Caremark High Option (only MCGEO & IAFF bargaining unit active employees eligible)	None	• $4 Generic • $8 Brand ($4 if no generic available)	Same as retail	• If participant chooses a brand drug when a generic equivalent exists, they must pay the brand copay plus the cost difference between the brand drug and the generic (unless physician checks "dispense as written" on prescription). • For 3rd fill at retail pharmacy, participant pays cost difference between mail order and retail.
CVS Caremark High Option	None	• $5 Generic • $10 Brand ($5 if no generic available)	Same as retail	
CVS Caremark Standard Option	$50	• $10 Generic • $20 Preferred Brand • $35 Non-Preferred Brand	Same as retail	
Kaiser Permanente (included in medical plan)	None	• $5 Generic or Brand at Kaiser pharmacy • $15 Generic or Brand at network pharmacy	$5 Generic or Brand	• Brand drug only provided when (1) no generic equivalent is available, (2) physician checks "dispense as written" on the prescription, <u>or</u> (3) brand is listed on Kaiser's formulary.
MCPS				
CVS Caremark	None	• $5 Generic • $10 Preferred Brand • $25 Non-preferred Brand	• $0 Generic • $10 Preferred Brand • $25 Non-Preferred Brand	• If participant chooses a brand drug when a generic equivalent exists, they must pay the brand copay <u>plus</u> the cost difference between the brand drug and the generic (unless physician provides letter of medical necessity). • Mail order copay rates apply to maintenance medication ordered from a CVS retail location. • For 3rd fill at retail pharmacy (besides CVS), participant pays cost difference between mail order and retail.
Kaiser Permanente	None	• $5 Generic or Brand at Kaiser pharmacy • $10 Generic or Brand at network pharmacy	$5 Generic or Brand	• Brand drugs only provided when no generic equivalent is available.

Table 1. Summary of Prescription Drug Plan Copays for County Agencies, continued

Prescription Drug Plan	Deductible	Retail Copay (short-term medication)	Mail Order Copay (maintenance medication)	Other Plan Details
Montgomery College				
CVS Caremark (Bundled with CIGNA PPO medical plan)	$150	• $10 Generic • $20 Preferred Brand • $40 Non-Preferred Brand	• $20 Generic • $40 Preferred Brand • $80 Non-Preferred Brand	• Double copay for fourth fill at retail pharmacy • Employees who use brand-name drugs are eligible for one free fill of the generic alternative. • Includes Drug Utilization Review program[7]
CVS Caremark (Bundled with CIGNA POS medical plan)	None	• $10 Generic • $20 Preferred Brand • $40 Non-Preferred Brand	• $20 Generic • $40 Preferred Brand • $80 Non-Preferred Brand	
Kaiser Permanente (included in medical plan)	None	Kaiser Pharmacy • $15 Generic • $30 Brand Network Pharmacy • $16 Generic • $37 Brand	• $15 Generic • $30 Brand	
M-NCPPC				
CVS Caremark	None	• $8 Generic • $16 Preferred Brand ($21 if generic is available) • $25 Non-Preferred Brand ($35 if generic is available)	• $16 Generic • $32 Preferred Brand ($42 if generic is available) • $40 Non-Preferred Brand ($60 if generic is available)	• Additional copay for Preferred or Non-Preferred Brand drugs applies if a participant or their physician requests a brand drug when a generic is available. • Double copay for fourth fill of brand drugs at retail pharmacy. • Copay for most life style drugs is 50%. • Copay for limited distribution biotech products is $50.

[7] Drug Utilization Review Program ensures appropriate drug therapies for members using prescriptions in the areas of nonsteroidal anti-inflammatory, gastrointestinal, fungal infection, migraine, and sexual dysfunction.

Table 2. Summary of Prescription Drug Plan Copays for Other Jurisdictions

Prescription Drug Plan	Retail Copay (short-term medication)	Mail Order Copay (maintenance medication)
Prince George's County		
Medco	• $10 Generic • $20 or 20% of cost Preferred Brand (whichever is greater, up to a maximum of $50) • $40 or 30% of cost Non-Preferred Brand (whichever is greater, up to a maximum of $50)	• $20 Generic • $40 or 20% of cost Preferred Brand (whichever is greater, up to a maximum of $100) • $80 or 30% of cost Non-Preferred Brand (whichever is greater, up to a maximum of $100)
Howard County		
Aetna Open Access or Open Choice PPO (included in medical plans)	• $10 Generic • $30 Preferred brand • $50 Non-preferred brand	Same as retail
Kaiser Permanente (included in medical plan)	Kaiser Pharmacy • $10 Generic • $30 Preferred Brand • $50 Non-Preferred Brand Network Pharmacy • $30 Generic • $50 Preferred Brand • $75 Non-Preferred Brand	• $10 Generic • $30 Preferred Brand • $50 Non-Preferred Brand
Fairfax County		
CIGNA Open Access Plus (included in medical plan)	• $10 Generic • $20 Preferred Brand • $40 Non-Preferred Brand	• $20 Generic • $40 Preferred Brand • $80 Non-Preferred Brand
BlueChoice POS and Blue Preferred (included in medical plans)	• $10 Generic • $20 Preferred Brand • $35 Non-Preferred Brand	• $20 Generic • $40 Preferred Brand • $70 Non-Preferred Brand
Kaiser Permanente (included in medical plan)	Kaiser Pharmacy • $10 Generic • $20 Preferred Brand • $35 Non-preferred Brand Network Pharmacy • $20 Generic • $40 Preferred Brand • $55 Non-preferred Brand	• $16 Generic • $36 Preferred Brand • $66 Non-Preferred Brand

Table 2. Summary of Prescription Drug Plan Copays for Other Jurisdictions, continued

Prescription Drug Plan	Retail Copay (short-term medication)	Mail Order Copay (maintenance medication)
Baltimore County		
Express Scripts	• $5 Generic • $20 Preferred brand • $35 Non-Preferred brand	• $10 Generic • $40 Preferred brand • $70 Non-Preferred brand
Kaiser Permanente (included in medical plan)	Kaiser Pharmacy • $5 Generic • $15 Brand Network Pharmacy • $11 Generic • $27 Brand	• $5 Generic • $15 Brand
State of Maryland		
Catalyst Rx	1-45 Day Supply • $5 Generic • $15 Preferred Brand • $25 Non-Preferred Brand 46-90 Day Supply • $10 Generic • $30 Preferred Brand • $50 Non-Preferred Brand	1-45 Day Supply • $5 Generic • $15 Preferred Brand • $20 Non-Preferred Brand 46-90 Day Supply • $10 Generic • $20 Preferred Brand • $20 Non-Preferred Brand
Federal Government		
Aetna HealthFund (included in medical plan)	• $10 Generic • $35 Preferred Brand • $60 Non-Preferred Brand	• $20 Generic • $70 Preferred Brand • $120 Non-Preferred Brand
Kaiser Permanente Standard Option (included in medical plan)	Kaiser Pharmacy • $12 Generic • $35 Preferred Brand • $50 Non-preferred Brand Network Pharmacy • $22 Generic • $55 Preferred Brand • $70 Non-preferred Brand	• $20 Generic • $66 Preferred Brand • $96 Non-preferred Brand
Carefrst BlueChoice High Option (included in medical plan)	• $10 Generic • $30 Preferred Brand • $50 Non-preferred Brand	• $20 Generic • $60 Preferred Brand • $100 Non-Preferred Brand
Coventry HealthCare (included in medical plan)	• $15 Generic • $30 Preferred Brand • $60 Non-preferred Brand	• $30 Generic • $60 Preferred Brand • $120 Non-Preferred Brand

M E M O R A N D U M

March 14, 2011

TO: Councilmembers

FROM: Karen Orlansky, Director
Office of Legislative Oversight

SUBJECT: **Follow-up to OLO Report on Achieving a Structurally Balanced Budget: County Government and MCPS Data on Employee Recruitment, Hiring, and Turnover**

This memorandum responds to questions from Councilmember Riemer related to County Government and MCPS employee recruitment, hiring, and turnover. The agency information summarized below reflects data that were either already published or that the human resources offices of County Government and MCPS were able to compile at OLO's request with relative ease. While more refined information may be possible to gather, it would require substantial additional agency staff time to extract it from various data sets.

If you have any questions about the information in this memo, please contact Leslie Rubin at x77998.

1. Employee Recruitment and Hiring

The County Government and MCPS provided OLO with summary data related to employee recruitment and hiring, including data on the number of applications received annually, the number of minimally qualified applicants, and the number of individuals hired for certain positions. These data are presented below.

County Government. Between FY05 and FY10, the County Government received, on average, 74 applicants for every posted job announcement, including postings for public safety and non-public safety positions. The table below summarizes the average number of resumes (or applicants) received per job posting for each of the past six fiscal years.

Average Number of Applicants per Job Posting, FY05 – FY10

	FY05	**FY06**	**FY07**	**FY08**	**FY09**	**FY10**	**Annual Average FY05-FY10**
Average number of applicants per job posting	69	68	69	72	87	81	74

Source: MCG Office of Human Resources, Fall 2010

Note that these data reflect averages for <u>all job postings</u>. Because these are averages across many different types of jobs, the data do not reflect the number of applications received for jobs that historically either receive an unusually large number of applicants or jobs that are considered "hard to fill."

The County Government's Office of Human Resources (OHR) also provided data specific to the recruitment and hiring of police officer candidates and fire rescue recruits between calendar years 2008 and 2010. During these three years, a total of approximately 4,700 individuals applied to be a police officer candidate and approximately 9,000 individuals applied to be fire rescue recruits.

Each year, 80-86% of the police officer candidate applicants and 98% of fire rescue recruit applicants met (or exceeded) the minimum qualifications for these entry-level public safety positions. Over these three years, the County Government hired a total of 2.8% of the police officer candidate applicants who met minimum qualifications and 1.4% of the fire rescue recruit applicants who met minimum qualifications. The table below summarizes the data on the number of applicants who met minimum qualifications and the number eventually hired.

Summary of Police and Fire Recruitment and Hiring for Applicants Meeting Minimum Qualifications, Calendar Years 2008-2010

Calendar Year	Number of Applicants Meeting Minimum Qualifications	Number of Qualified Applicants Hired	Percent of Qualified Applicants who were Hired
Police Officer Candidates*			
CY08	993	55	5.5%
CY09	1,813	16	0.9%
CY10	1,069	36	3.4%
Police Total	**3,875**	**107**	**2.8%**
Fire Rescue Recruits**			
CY08	6,347	106	1.6%
CY09		18	0.3%
CY10	2,536	0	0%
Fire Total	**8,883**	**124**	**1.4%**

* Total number of police office candidate applicants: CY08 = 1,217. CY09 = 2,264. CY10 = 1,240

** Total number of fire rescue recruit applicants: CY08 and CY09 combined = 6,479. CY10 = 2,591

Source: MCG Office of Human Resources

Montgomery County Public Schools. MCPS' Office of Human Resources and Development provided data on MCPS' recruitment and hiring of teachers between school years 2007 and 2011 (SY07-SY11). During this five-year period, the number of teacher applicants each year ranged from a low of 6,387 (SY08) to a high of 9,984 (SY10). During this same time period, the number of applicants interviewed by MCPS each year ranged from 1,126 (SY11) to 3,556 (SY08). As MCPS hired fewer teachers, the percent of total applicants hired declined. Specifically, in SY07, MCPS hired 17.6% of all applicants; and in SY10, MCPS hired only 6.4% of all applicants.

Before the current school year, MCPS staff report that they had received more teacher applications annually than they had the capacity to review. To select applicants to interview, MCPS staff first identified specific qualifications being sought and used a database to pull out a subset of the entire pool of teacher applications that met those qualifications; a cohort of individuals for interview was then selected from this subset. Beginning in SY11, a new data management system allows MCPS to review all applications to identify individuals to interview.

Summary of MCPS Teacher Recruitment and Hiring, School Years 2007-2011

School Year	Applicants			
	#	# Interviewed	# Hired	% Hired
MCPS Teachers				
SY07	7,250	3,220	1,279	17.6%
SY08	6,387	3,556	976	15.3%
SY09	6,545	2,493	779	11.9%
SY10	9,984	1,984	641	6.4%
SY11	6,738	1,126	493	7.3%
Total	**36,904**	**12,379**	**4,168**	**11.3%**

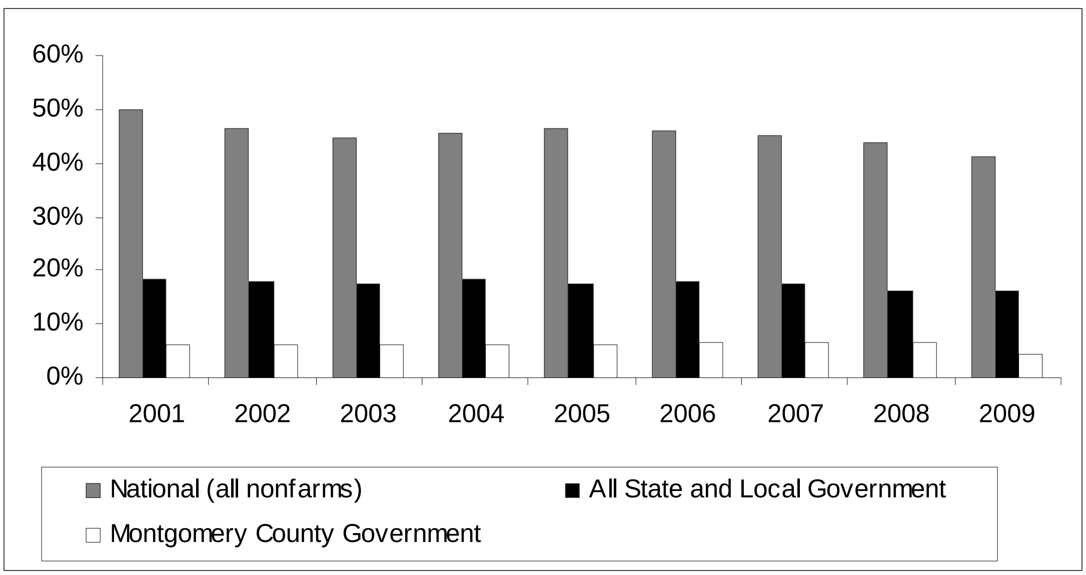
Source: MCPS Office of Human Resources and Development

2. Employee Retention/Turnover Data

OLO obtained employee retention/turnover data for the County Government and MCPS and corresponding national data for comparison.

County Government. Between 2001 and 2009, the County Government's turnover rate – the percent of employees who separate from County Government employment – was 6.6% of the workforce (or less) each year, as shown in the chart and table below. During this time period, County Government turnover rates remained substantially below national turnover rates (which ranged from 40% to 50% annually) as well as below the average turnover rates for all state and local government (which ranged from 16% to 19% annually).

Comparison of Employee Turnover Rates
County Government vs. National and State/Local, 2001-2009



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Montgomery County Gov't	6.0%	6.1%	6.2%	6.2%	6.1%	6.6%	6.5%	6.4%	4.4%
National (non-agricultural jobs)	49.8%	46.3%	44.5%	45.4%	46.5%	46.0%	45.1%	43.6%	41.0%
All State and Local Gov't	18.5%	17.9%	17.3%	18.3%	17.6%	18.1%	17.6%	16.2%	16.1%

Source: Bureau of Labor Statistics Job Openings and Labor Turnover Survey; MCG Personnel Management Review

According to information compiled by the Office of Human Resources, between 74.6% and 84.1% of County Government turnover over the past decade was classified as "voluntary," as opposed to other types of turnover such as involuntary, management/fiscal, and medical. During this same time period, the percent of turnover classified as "retirement" ranged between 24.5% and 41.6%. (See table below.)

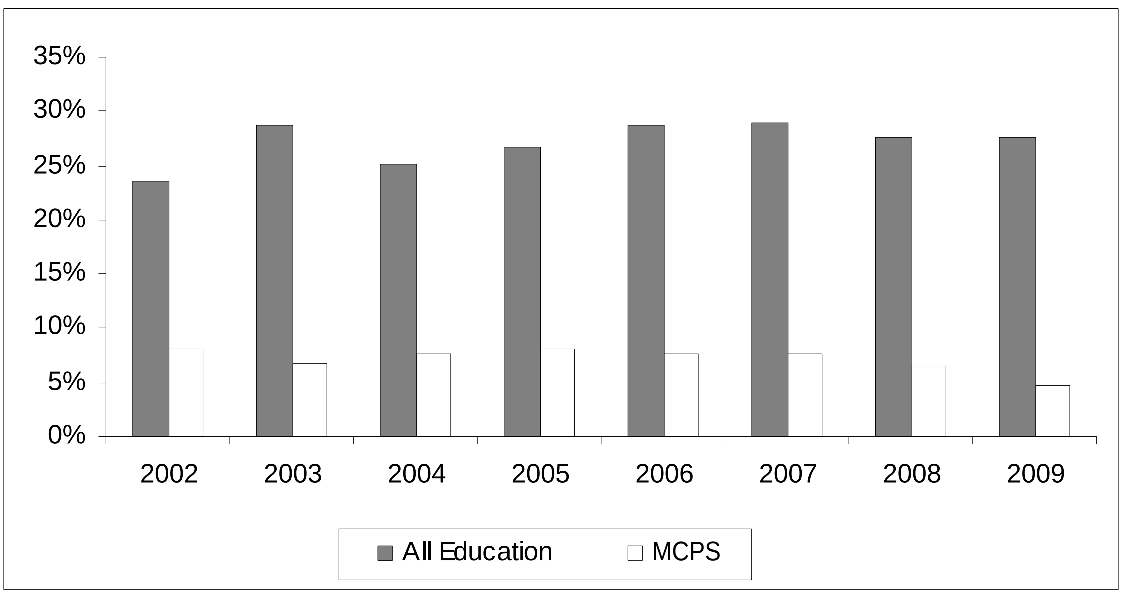
County Government Employee Turnover Rates, Voluntary and Retirement-Based, 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Voluntary	74.6%	80.8%	76.7%	79.4%	82.3%	79.0%	79.5%	84.1%	69.3%
Any Type of Retirement	24.5%	36.5%	41.6%	32.4%	28.9%	28.2%	26.9%	38.6%	33.2%

Source: Bureau of Labor Statistics Job Openings and Labor Turnover Survey; MCG Personnel Management Review

Montgomery County Public Schools. MCPS' historical turnover rate is also low compared to national turnover rates at all levels of education. Between 2002 and 2009, MCPS' turnover rate ranged between 4.7% and 8%, while the national turnover rate for all education levels during the same time period ranged from 23.5% to 29%. The chart and the table below illustrate this data.

Comparison of Employee Turnover Rates
MCPS vs. National, 2002-2009



	2002	2003	2004	2005	2006	2007	2008	2009
MCPS*	8.0%	6.9%	7.6%	7.9%	7.7%	7.6%	6.4%	4.7%
All Education**	23.5%	28.7%	25.1%	26.6%	28.8%	29.0%	27.6%	27.7%

*Fiscal year data

**Includes entire education sector (e.g., elementary, secondary, college, post-graduate, technical)

Source: Bureau of Labor Statistics Job Openings and Labor Turnover Survey; MCPS Staff Statistical Profile, 2006 and 2009

The table below contains additional data on MCPS' overall turnover rate compared to its teacher turnover rate, and data on the percent of all turnover attributable to teacher separations and to retirement. The data show that between FY02 and FY09, the turnover rate for teachers was very close to MCPS' overall turnover rate. Teacher turnover ranged from 4.6% to 8.1%, while all turnover for MCPS employees ranged from 4.7% to 8.0%. Turnover from teacher separations ranged from 51.8% to 60.7% during this time period and turnover due to retirement ranged from 28.7% to 37.9%.

MCPS Turnover Trends, FY02 – FY09

	FY02	**FY03**	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**	**FY09**
Teacher Turnover Rate*	8.1%	6.7%	7.9%	7.7%	7.4%	7.7%	7.4%	4.6%
Overall turnover rate	8.0%	6.9%	7.6%	7.9%	7.7%	7.6%	6.4%	4.7%
% of Turnover								
Due to Teacher Separations	54.7%	53.1%	55.4%	51.8%	51.3%	53.5%	60.7%	52.0%
Due to Retirement	29.2%	31.1%	33.2%	33.0%	28.7%	32.4%	31.9%	37.9%

*Does not include transfers or promotions
Source: MCPS Staff Statistical Profile, 2006 and 2009

FY10 data on turnover in the County Government and MCPS will be available in April as part of the Council's review of agency budgets and with the publication of the County Government's latest Personnel Management Review.

c: Steve Farber

M E M O R A N D U M

March 17, 2011

TO: Councilmembers

FROM: Aron Trombka, Senior Legislative Analyst
Leslie Rubin, Legislative Analyst
Office of Legislative Oversight

SUBJECT: Follow-up to OLO Report on Achieving a Structurally Balanced Budget: Additional Information about Current Retirement Benefits

This memorandum responds to Councilmember Elrich s request for additional information about retirement plan benefits currently provided to employees of the County Government and Montgomery County Public Schools (MCPS). It is organized as follows:

- Part A provides an overview of defined benefit, defined contribution, and hybrid retirement plans;
- Part B summarizes the current retirement plans for County Government and MCPS employees;
- Part C presents calculations of the income from retirement benefits for four hypothetical examples of employees who elect to retire on July 1, 2011; and
- Part D contains a series of questions and answers that explain the different retirement benefit amounts illustrated by the examples presented in Part C.

In sum, the primary factors that drive the amount of an employee s retirement benefits are the structure of the retirement plan the employee belongs to and the amount of time an employee has been enrolled in the plan.

A. Overview of Defined Benefit, Defined Contribution, and Hybrid Retirement Plans

Defined Benefit Plans. A defined benefit plan provides a retired employee with a sum of money paid regularly as a retirement benefit (i.e., a pension) from the time of retirement until death. A retiree s annual pension is determined by a formula that takes into account the employee s final earnings, years of service,[1] and a pension multiplier. [2] In addition, defined benefit plans often include a provision to annually increase the dollar amount of the pension (post-retirement) with a cost-of-living adjustment (COLA).

[1] Defined benefit plans often allow members to count earned sick leave toward their years of service for retirement purposes.

[2] A pension multiplier is the percent of wages used to calculate an annual pension.

To fund defined benefit plans, employers make annual contributions into a retirement trust fund[3] based on the projected funding needed to pay promised pensions to both current and future retirees. Plans often require employees to contribute a set percent of salary each year to help fund their future retirement benefits. The money in the retirement trust fund is managed by the employer (often at the direction of an independent board). A combination of employee contributions, employer contributions, and the trust fund s investment earnings pay for employees pensions.

In defined benefit plans, employees are required to work a minimum number of years before they become eligible to receive a pension (called vesting). If an employee separates from the employer before vesting, the employer typically refunds the employee s contributions to the plan. If an employee vests but separates from the employer before qualifying for retirement, typically the employee can either receive a refund of his or her own contributions plus interest or receive a pension at a later date when the employee <u>would have been</u> eligible for retirement from the employer.

Defined benefit plans place the financial risk for funding pensions on the employer. The employer remains responsible for paying participating employees an annual pension amount upon their retirement, regardless of the balance in the retirement trust fund.

Factors that Affect Pension Benefits. In most defined benefit plans, the following factors determine the amount of a retiree s annual pension:

- <u>Final salary</u>: An employee s final salary is one of the three main components in calculating a pension.
- <u>Multiplier</u>: The multiplier, which reflects a percent of wages used to calculate an annual pension, is the second of the three main pension formula components.
- <u>Length of service</u>: The length of an employee s service with an employer is the third of the three pension formula components.
- <u>Social Security integration</u>: Social security integration refers to whether a pension plan lowers the pension amount that a retiree collects when the retiree reaches Social Security retirement age (SSRA). In an integrated plan, the pension amount decreases when an employee reaches SSRA. In a non-integrated plan, the pension amount does not decrease.

The equation below shows one example of how an employee s final salary and years of service are combined with a multiplier to calculate the amount of an employee s pension.

Final Earnings	x	Multiplier	x	Years of Service	=	Annual Pension
$70,000	x	2%	x	30	=	$42,000

Defined Contribution Retirement Plans. In a defined contribution plan, an employee contributes a set percent of his or her salary to a retirement account. Often an employer also will make contributions to the employee’s retirement account – either contributing a set percent of an employee’s salary or matching a percent of an employee contribution. The employee guides investment of the funds in the retirement account and bears the entire risk of changes in investment returns. The employer’s financial responsibility ends after making any required contribution to an employee’s retirement account.

[3] The amount of the annual contribution required by the employer typically is determined by an actuary.

Unlike defined benefit plans, defined contribution plans are portable. This means that upon separation, employees can take retirement funds in a defined contribution plan with them and transfer the funds to a new retirement account. Upon retirement, the employee's benefit is the total of the employee and employer contributions and any investment income earned on the joint contributions.

Factors that Affect Defined Contribution Retirement Benefits. The following factors determine how much money an employee will accumulate in a defined contribution retirement account.

- Annual salary: Employer and employee contributions to defined contribution plans are often calculated as a percent of an employee's annual salary.
- Employer/employee contribution rate: Employer and employee contribution rates determine the amount of money (e.g., percent of salary) deposited annually into an employee's retirement account.
- Length of service: Length of service affects both the total amount contributed to an employee's retirement account and the length of time to earn investment income for the account.
- Investment choices and market performance: The size of a defined contribution account is a function of the market return of the investment choices selected by the employee.

Hybrid Plans. Hybrid plans have characteristics of both defined benefit and defined contribution plans. Some hybrid plans have a defined benefit component and a defined contribution component, while others have different structures entirely. With a hybrid retirement plan, the financial risk is shared between the employer and the employee, with the specific division of risk varying by the details of the funding and benefit structure of the hybrid plan.

B. Summary of County Government and MCPS Retirement Plans

1. County Government.

The County Government provides all three types of retirement plans, and County law outlines which employees are covered by which plans. The table below summarizes each plan and the employees covered. Participation is required for full-time employees, and optional for part-time employees.

Summary of County Government Retirement Plans

<table>
<tr><th>Retirement Plan</th><th>Plan Type</th><th>Active Members*</th><th>Covered Employees</th></tr>
<tr><td>Employees' Retirement System (ERS)</td><td>Defined Benefit</td><td>4,635</td><td>• Employees hired before October 1, 1994
• Represented public safety employees regardless of date of hire</td></tr>
<tr><td>Employees' Retirement Savings Plan (RSP)</td><td>Defined Contribution</td><td>3,272</td><td rowspan="2">• Non-public safety employees hired on or after October 1, 1994
• Non-represented public safety employees hired on or after October 1, 1994</td></tr>
<tr><td>Guaranteed Retirement Income Plan (GRIP)</td><td>Hybrid</td><td>942</td></tr>
</table>

* This is the number of active MCG employees enrolled in the retirement plan as of October 2010.

Employees Retirement System (ERS)   Defined Benefit. As shown in the table above, employees hired before October 1, 1994 and all represented public safety employees belong to the County Government s defined benefit pension plan. These employees are divided into seven different pension groups determined by their bargaining unit and date of hire. Each group has a separate set of variables used to calculate pensions (e.g., multiplier, average final salary, etc.) and different requirements for retirement eligibility (combination of age and/or years of service).

The ERS is integrated with Social Security, meaning that retirees receive a smaller pension (determined by a formula that varies by group) once they reach Social Security retirement age. The County Government s Board of Investment Trustees manages and invests ERS funds.

Retirement Savings Plan (RSP) – Defined Contribution. The County Government opened its defined contribution plan in 1994 when it closed its defined benefit plan to non-public safety and non-represented employees hired after October 1, 1994. For most employees in the RSP, the County currently contributes 8% of salary and the employee contributes 4% of salary annually.[4] Employees in this plan direct the investment of the funds in their retirement account and can take their funds with them when they leave County Government service.

Guaranteed Retirement Income Plan (GRIP) – Hybrid. The County Government created its hybrid plan, the GRIP, in 2009. The GRIP is open to all employees who are eligible for the RSP. New hires must choose between the two plans and existing RSP members were given a one-time option to transfer to the GRIP.

Like the RSP defined contribution plan, the County currently contributes 8% of salary and the employee contributes 4% of salary to an employee’s GRIP account for most employees. Like a defined benefit plan, the County guarantees a fixed rate of return (currently 7.25% annually) on funds in employees GRIP accounts. If GRIP investments earn less than the guaranteed return annually, the County is responsible for making up the difference. Investments that earn more than the guaranteed return offset part of the cost of the County’s annual contribution to the GRIP accounts.

Summary of Retirement Plan Factors. The table on the next page summarizes the key provisions that determine the amount of pension/retirement benefits for the different County Government s retirement plans.

[4] A small number of non-represented public safety employees participate in the RSP and GRIP. For these employees, the County contributes 10% of the employee’s salary and the employee contributes 3%.

Summary of County Government Retirement Plans:
Key Provisions that Determine the Amount of an Employee's Pension/Retirement Benefit

Defined Benefit Plans	FY11 Contribution (percent of salary)		Minimum Age / Years of Service		Multiplier	Final Salary Calculation	Social Security Integration
	Employee	Employer	Any Age	Or			
Non-public safety hired pre 10-1-94	4%	24.9%	30 years	60 years old/ 5 years of service	2.0%	Average of highest 3 consecutive years	Integrated for employees hired after July 1, 1978
Police	4.75%	31.9%	25 years	55 years old/ 15 years of service	2.4%		
Deputy Sheriff/Corrections	4.75%	35.85%	25 years	55 years old/ 15 years of service	2.4%		
Fire	5.5%	38%	20 years	55 years old/ 15 years of service	2.5%		

Defined Contribution Plan / Hybrid Plan

Employees hired on or after October 1, 1994	FY11 Contribution (percent of salary)	
	Employee	Employer
Non-Public Safety	4%	8%
Non-Represented Public Safety	3%	10%

Source: Montgomery County Code Chapter 33; Montgomery County Employees Retirement System 2009 Actuarial Valuation Report

2. Montgomery County Public Schools

All MCPS employees participate in a defined benefit retirement plan. Approximately three quarters of MCPS employees participate in a defined benefit plan funded and administered by the State of Maryland. All other MCPS employees participate in a locally-funded defined benefit plan that is identical to the State plan. MCPS refers to these plans (whether State-funded or MCPS-funded) as the employees Core Pension.

In addition to the Core Pension, State law requires MCPS to provide a Pension Supplement to employees in the State pension plan.[5] MCPS provides the Pension Supplement to all MCPS employees, regardless of whether they are in the State- or locally-funded plan. The Pension Supplement that MCPS provides is 150% higher than required by State law. The Core Pension multiplier of 1.8% combined with the 0.2% Pension Supplement provides MCPS employees with an overall 2.0% pension multiplier.

The table below summarizes the key factors that determine the amount of an MCPS employee s pension benefits.

Summary of MCPS Pension Plans:
Key Provisions that Determine the Amount of an Employee s Pension*

Core pension paid by…	Active Employees+	FY11 Contribution (percent of salary)		Minimum Age / Years of Service		Multiplier	Final Salary Calculation	Social Security Integration
		Employee	MCPS	Any Age	Or			
State	16,923	5.5%	1.92%	30 years	60 years old/ 5 years service	2%	Average of highest 3 consecutive years	Non-Integrated for service after 7-1-98
MCPS	4,956	5.5%	20.49%					

* For employees hired on or after July 1, 1998
\+ This is the number of active MCPS employees enrolled in the pension plan as of September 2010
Source: MCPS *Understanding Your Retirement* (October 2009)

C. Income from Retirement Benefits – Four Examples

OLO calculated the pension/retirement income that four <u>hypothetical employees</u> who elect to retire on July 1, 2011 would receive under current retirement plan designs. OLO calculated retirement benefit income for one MCPS employee and three County Government employees (listed below) who were chosen to illustrate (1) differences between MPCS and County Government pension plans, (2) the impact on retirement income from retiring after 20 years compared to 30 years, and (3) the difference in retirement income from a defined benefit plan compared to a defined contribution plan.

Example (1): MCPS Teacher with Master's Degree and 30 years of service
Example (2): Master Firefighter with 30 years of service
Example (3): Firefighter III with 20 years of service
Example (4): Child Welfare Case Worker with 30 years of service

To calculate the income from retirement benefits, OLO needed to make certain assumptions about the hypothetical employees. For the four calculations, OLO assumed the employees:

- Had similar starting salaries;
- Began employment with the agency (County Government or MCPS) at age 24; and
- Retired at the maximum salary for their grade.[6]

[5] State law requires MCPS to provide a Pension Supplement of a 0.08% multiplier. MCPS adds an additional 0.12%, for a total multiplier of 0.2%. Montgomery County is the only Maryland county required to supplement State teacher pensions.

[6] Based on past pay adjustments, employees who work in the same job class until they are eligible for normal retirement will have reached the maximum salary for that grade.

In addition, the calculations:

- Assume Social Security benefit amounts based on the scenario that a retiree does not take another paid job after leaving County service and will be eligible for benefits beginning at age 62; and
- Present all dollar amounts in pre-tax, current year dollars.

With the exception of the Firefighter III example, OLO calculated benefits for an employee who retired after 30 years of service. Because firefighters are eligible for normal retirement after 20 years of service,[7] OLO calculated the retirement benefits for a Firefighter III who served 20 years.

A complete list of assumptions used to calculate retirement benefit income appears on page 11. Of course, changing the assumptions would alter the calculations.

Example (1): Teacher with Master's Degree. Teachers participate in the State retirement system and receive a supplemental pension benefit from MCPS. As shown in the table below, a teacher who retires after 30 years of service on July 1, 2011, would receive an annual pension equal to 48.5%[8] of average final salary.[9] At the current maximum salary of $96,966, the teacher would retire with an annual pension of $47,009.

At age 62, the retiree would begin receiving an annual Social Security benefit of $17,724. Because MCPS' pensions do not integrate with Social Security, the Teacher receives a Social Security benefit of $17,724 in addition to his/her annual pension of $47,009, for a total retirement benefit of $64,733. Under current law, the Teacher's pension and Social Security benefits are both adjusted annually to account for inflation.

Annual Pension Payments for an MCPS Teacher with Master's Degree
Retiring at Maximum Salary in July 2011
(Current Year $)

Years of Service	30
Age at Retirement	54
Final Salary	$96,966
Annual Retirement Benefit (until age 62)	**$47,009**
Pension	$47,009
Social Security	$0
Annual Retirement Benefit (age 62+)	**$64,733**
Pension	$47,009
Social Security	$17,724

The table above shows that the amounts of the annual pension ($47,009) and of the Social Security benefit ($17,724) remain constant over time. The amounts remain constant because they are shown in current year dollars and OLO assumed that future cost of living adjustments will approximate the future rate of inflation, canceling each other out. For example, future cost of living adjustments will raise the Teacher s annual pension income above $47,009. However, the increases will be offset by inflation, keeping the value of future payments equal to $47,009 when measured in current year dollars.

[7] Firefighters at age 55 or older are eligible for normal retirement with 15 years of service.
[8] Teachers receive an annual pension equal to 1.28% of average final salary for each year of service before FY99 and 2.00% of average final salary for each year of service from FY99 onward.
[9] Average final salary equals the mean of the employee s highest three consecutive years of salaries.

Example (2): Master Firefighter. Firefighters participate in the County Government s Employees Retirement System. After 30 years of service, a firefighter receives an annual pension equal to 70% of his/her average final salary. At the current maximum Master Firefighter salary of $87,422, the employee would retire with an annual pension of $58,382.

Because the County Government's pension integrates with Social Security, when the retired Master Firefighter reaches age 62, s/he will receive a Social Security benefit of $17,028 and will receive a reduced pension of $40,138 per year. Under current law, the Master Firefighter's pension and Social Security benefits are both adjusted annually to account for inflation.

Annual Pension Payments for Master Firefighter
Retiring at Maximum Salary in July 2011
(Current Year $)

Years of Service	30	
Age at Retirement	54	
Final Salary	$87,422	
Annual Retirement Benefit (until age 62)	**$58,382**	
Pension		$58,382
Social Security		$0
Annual Retirement Benefit (age 62+)	**$57,166**	
Pension		$40,138
Social Security		$17,028

The amounts of the annual pre-Social Security ($58,382) and post-Social Security pensions ($40,138) as well as the Social Security benefit ($17,028) remain constant over time. The amounts remain constant because they are shown in current year dollars and OLO assumed that future cost of living adjustments will approximate the future rate of inflation, canceling each other out. For example, future cost of living adjustments will raise the Master Firefighter s annual pre-Social Security pension income above $58,382. However, the increases will be offset by inflation, keeping the value of future payments equal to $58,382 when measured in current year dollars.

Example (3): Firefighter III. Firefighters who retire after 20 years of service receive an annual pension equal to 50% of average final salary. At the current maximum Firefighter III salary of $74,272, the employee would retire with an annual pension of $37,318.

Because the County Government's pension integrates with Social Security, when the retired Master Firefighter reaches age 62, s/he will receive a Social Security benefit of $12,336 and will receive a reduced pension of $25,656 per year. Under current law, the Firefighter's pension and Social Security benefits are both adjusted annually to account for inflation.

Annual Pension Payments for Firefighter III
Retiring at Maximum Salary in July 2011
(Current Year $)

Years of Service	20
Age at Retirement	44
Final Salary	$74,272
Annual Retirement Benefit (until age 62)	**$37,318**
Pension	$37,318
Social Security	$0
Annual Retirement Benefit (age 62+)	**$37,992**
Pension	$25,656
Social Security	$12,336

The amounts of the annual pre-Social Security ($37,318) and post-Social Security pensions ($25,656) as well as the Social Security benefit ($12,336) remain constant over time. The amounts remain constant because they are shown in current year dollars and OLO assumed that future cost of living adjustments will approximate the future rate of inflation, canceling each other out. For example, future cost of living adjustments will raise the Firefighter s annual pre-Social Security pension income above $37,318. However, the increases will be offset by inflation, keeping the value of future payments equal to $37,318 when measured in current year dollars.

Example (4): Child Welfare Case Worker (Grade 23). Non-public safety County Government employees hired since 1994 participate either in the Retirement Savings Plan (RSP) of the Guaranteed Retirement Income Plan (GRIP). RSP and GRIP participants do not receive an annual pension. Instead, the County Government and the employee both make annual contributions to a retirement account. Currently, the County Government annually contributes 8% of salary and the employee contributes 4% of salary to the employee's RSP or GRIP retirement account.

The current maximum salary for a Grade 23 County Government employee is $88,027. In this example, the Child Welfare Case Worker participated in the GRIP and received an annual guaranteed return of 7.25% for the entirety of his/her County employment.[10] Under current terms of the GRIP, the Child Welfare Case Worker would have accumulated a retirement account balance of more than $536,000 by the end of his/her 30 years of service.

In addition, the retiree would be eligible for a Social Security benefit of $17,076 per year beginning at age 62. The receipt of Social Security benefits does not alter the retirement benefit for employees in the RSP or GRIP.

Retirement Account Balance for Child Welfare Case Worker
Retiring at Maximum Salary in July 2011
(Current Year $)

Years of Service	30
Age at Retirement	54
Final Salary	$88,027
Social Security Benefit (age 62+)	$17,076
Retirement Account Balance	$536,132

A table summarizing the income from retirement benefits for the four positions appears on the following page. The assumptions used in the calculations are listed below the table. The table on the following page also includes a present value calculation of the retirement income for each of the four employee examples (see question #4 on page 13).

[10] Neither the RSP nor the GRIP existed 30 years ago. A Child Welfare Case Worker (or other non-public safety County Government employee) who retires in July 2011 after 30 years of service would receive a pension as a member of the Employees Retirement System (ERS). The County closed the ERS to non-public safety and non-represented employees hired since 1994 and the majority of current non-public safety County Government employees participate in the RSP or GRIP.

The Child Welfare Case Worker example in this memo is a hypothetical case intended to illustrate the retirement benefit for an employee who retires after 30 years in the GRIP. A similar example for an RSP participant could be calculated based on assumptions of the market performance of the employee s investment selections.

Summary of Income from Retirement Benefits
Four Examples of Employees Retiring at Top of Salary Grade in July 2011

	Teacher (MA Degree)	Master Firefighter	Firefighter III	Child Welfare Case Worker
Years of Service	30	30	20	30
Age at Retirement	54	54	44	54
Final Salary	$96,966	$87,422	$74,272	$88,027
Annual Retirement Benefit (until age 62)	$47,009	$58,382	$37,318	$0
Pension	$47,009	$58,382	$37,318	--
Social Security	$0	$0	$0	$0
Annual Retirement Benefit (age 62+)	$64,733	$57,166	$37,992	$17,076
Pension	$47,009	$40,138	$25,656	--
Social Security	$17,724	$17,028	$12,336	$17,076
Retirement Account Balance	--	--	--	$536,132
Present Value of Retirement Benefit				
excluding Social Security	$1,363,264	$1,291,709	$1,198,851	$536,132
including Social Security	$1,753,192	$1,666,325	$1,470,243	$911,804

<u>Assumptions</u>

- All dollar amounts represent current year dollars.
- Pension payments and retirement account withdrawals are subject to Federal and State income tax. All dollar amounts shown are pre-tax dollars.
- All employees worked full time, were hired into their positions at age 24, and retire on July 1, 2011 with no unused sick leave.
- All employees retired with a top of grade salary for the position (including longevity awards).
- The Social Security Administration's online "Social Security Quick Calculator" is the source for annual Social Security benefits.
- Social Security pension amounts assume that retirees do not take another paid job after leaving County service and will be eligible for benefits beginning at age 62.
- The Child Welfare Case Worker's retirement account balance assumes a starting salary of $25,000; an annual employer contribution of 8% of salary; an annual employee contribution of 4% of salary; and participation in the GRIP with an annual guaranteed return of 7.25%.
- Present value calculations assume that pension and Social Security cost of living adjustments equal the future rate of inflation.
- Present value calculations assume an average life expectancy of 84 years (the current average life expectancy assumption for ERS plan members).

D. Retirement Plan Questions and Answers

This final section adopts a question and answer format to explain the major variations between/among the retirement benefits received by the four employee examples presented above.

1. Why does the Teacher's annual pension payment remain unchanged after age 62, while the two Firefighters' pensions from the County Government decrease at that age?

<u>Social Security Integration:</u> Since FY79, the County Government's pension plan has "integrated" with Social Security. Social Security integration means that an employer reduces a retiree's annual pension payment when the retiree becomes eligible for Social Security.[11] When a Firefighter becomes eligible for Social Security, the County Government's integrated plan reduces the annual pension payment to 68.75% of the initial annual pension amount.

Neither the State's pension plan nor the MCPS pension supplement integrates with Social Security for service after July 1, 1998. Therefore, for all service after that date, a Teacher's pension is not reduced when a retiree becomes eligible for Social Security.

2. If the Teacher's final salary is greater than the Master Firefighter's final salary, why does the Teacher receive a lower annual pension (up to age 62) than the Master Firefighter?

<u>Pension Multipliers:</u> As described earlier in this memo, a retiree's annual pension payment is based on both average final salary and a multiplier. The Master Firefighter who worked for 30 years earned a pension equal to 2.5% (the multiplier) of average final salary for the first 20 years of service plus 2.0% of average final salary for the next 10 years of service. The multipliers result in the Master Firefighter receiving a pension equal to 70% of final average salary after 30 years of service.

Teachers receive an annual pension equal to 1.28% of average final salary for each year of service before FY99 and 2.0% of average final salary for each year of service from FY99 on. A Teacher retiring this summer after 30 years of service would have a pension equal to 48.5% of average final salary. In future years, a Teacher retiring after 30 years of service will have worked additional post-FY99 years (with those years subject to the higher 2.0% multiplier), and so, will have a higher pension.

3. The Firefighter III retires with a final salary that is about 85% of the Master Firefighter's final salary. Why is the annual pension for the Firefighter III only equal to about 64% of the Master Firefighter's annual pension?

<u>Years of Service:</u> One of the primary factors that determines a retiree's final pension is years of service. In the examples shown in this memo, the Master Firefighter worked for 30 years while the Firefighter III worked for 20 years. Based on current Employee Retirement System plan provisions, a firefighter's annual pension equals 50% of average final salary after 20 years of service and rises to 70% of average final salary after 30 years of service. Working ten additional years results in the retiree receiving a higher annual pension.

[11] For the examples in this memo, OLO assumed that the retirees would not take another paid job after leaving County service. As such, these retirees would become eligible for Social Security benefits beginning at age 62.

4. **The Teacher and the Firefighters receive annual pension payments while the Child Welfare Case Worker leaves employment with a retirement account. Is there a way to compare these different types of retirement benefits?**

Present Value Analysis: Pensions offer a stream of fixed payments from the time of retirement until the end of life; retirement accounts provide a cash balance that is available for withdrawal or re-investment during retirement.[12] The two plan types offer different benefits that make them difficult to compare.

Nonetheless, a present value analysis offers one means of comparison. Present value is a calculation of the current value of future cash payments. These calculations allow for a comparison of a current year cash amount (such as a retirement account balance) with a stream of future cash payments (such as pension benefits). Present value analysis also can be used to compare the relative value of different pension plans.

OLO calculated the present value of the Teacher, Master Firefighter, Firefighter III pension benefits shown as examples in this memo.[13] For this analysis, OLO assumed that retirees would receive benefits through age 84, the current average life expectancy for members of the County Government's Employees' Retirement System. For the Child Welfare Case Worker, the cash balance of his/her retirement account at retirement equals the present value of this benefit.

As shown in the table below, the present value of the retirement benefits (excluding Social Security benefits) for the four examples shown in this memo are:

Position	Type of Retirement Benefit	Years of Service	Present Value of Retirement Benefit
Teacher (MA)	Pension	30	$1,363,264
Master Firefighter	Pension	30	$1,291,709
Firefighter III	Pension	20	$1,198,851
Child Welfare Case Worker	Retirement Account	30	$536,132

5. **Are retirement plan benefits and Social Security the sole source of income for retired County employees?**

Post-Retirement Employment and Savings: The amount of income (other than retirement benefits and Social Security) available to retirees varies depending on the life and financial circumstances of the retiree. Depending on age, skill sets, and health, a person could take a new job after leaving County employment.

In addition, employees who are able and choose to set aside additional retirement savings during their working years have additional resources available to them during retirement. The County Government and MCPS provide employees the option of making additional pre-tax contributions (capped under federal law) annually to deferred compensation accounts.

c. Steve Farber

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[12] ERS and GRIP account withdrawals are subject to IRS penalties if made before the retiree reaches the age of 59½.

[13] Present value analyses commonly discounts future payments to account for inflation. The present value calculations in this memo do not discount future pension or Social Security payments because both of these benefits include annual cost of living adjustments. The present value calculations in this memo assume that pension and Social Security cost of living adjustments approximate the future rate of inflation.

M E M O R A N D U M

March 22, 2011

TO: Councilmembers

FROM: Craig Howard, Legislative Analyst
Sarah Downie, Research Assistant
Office of Legislative Oversight

SUBJECT: **Follow-up to OLO Report on Achieving a Structurally Balanced Budget: Consolidation of Agency Group Insurance Programs**

This memorandum responds to a request from Councilmembers Leventhal and Elrich for information on options for consolidating group insurance administration across County Government, Montgomery County Public Schools, and Montgomery College. Specifically, it describes the current group insurance administrative structure; explains the three types of consolidation identified by the Cross-Agency Resource-Sharing Committee for potential cost savings; and discusses issues that would need to be worked through by the agencies as part of implementing any or all of the consolidation options.

Background. Over the past 10 years (FY02-FY11), total agency expenditures on group insurance for active and retired employees (medical, prescription drug, dental, vision, and life insurance) more than doubled. In FY11, County Government, Montgomery County Public Schools (MCPS), and Montgomery College budgeted a combined $383.8 million for active and retiree group insurance expenditures. Projections for the next five years show agency health care costs continuing to increase at an estimated 10% per year.[1]

To date, while the agencies have joined together in competitive bid efforts to choose plan vendors, each agency continues to structure and administer its own group insurance plans for active and retired employees. In December 2010, the Cross-Agency Resource-Sharing Committee (CARS) identified three potential options for achieving cost savings and/or operational efficiencies through consolidating agency group insurance functions.[2]

[1] OLO Report 2011-2, *Achieving a Structurally Balanced Budget in Montgomery County – Part II: Option for Long-Term Fiscal Balance*, December 7, 2010. FY11 budgeted agency expenditures for group insurance do not include OPEB pre-funding, as none of the agencies made OPEB contribution in FY11.

[2] The CARS Committee consists of the heads of six County agencies (County Government, MCPS, Montgomery College, M-NCPPC, WSSC, and the Housing Opportunities Commission) and the Staff Director of the County Council. The purpose of CARS is to "provide a forum for coordination among Montgomery County agencies that seeks to share ideas/best practices, develop resource-sharing strategies to achieve operational efficiencies, reduce costs and improve the quality of services offered to our residents and businesses."

The rest of this memorandum is organized as follows:

Part A, Current Administrative Structure, reviews the staffing arrangements, costs, and other key components associated with providing group insurance benefits to employees and retirees of County Government, MCPS, and Montgomery College.

Part B, Consolidation Options, defines the three types of group insurance consolidation proposed for review by CARS and explains how each has the potential to produce cost savings and/or operational efficiencies.

Part C, Implementation Considerations, discusses issues identified by CARS or agency staff that would need to be addressed as part of implementing any or all of the consolidation options.

A. Current Administrative Structure

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. This section reviews the following components of the group insurance administrative structure in each agency, all of which are relevant to understanding the potential advantages as well as challenges to the different options for consolidation:

- In-house vs. contracted functions;
- FY11 agency staffing and personnel costs; and
- The number and type of group insurance plans offered.

In-House vs. Contracted Functions. Offering group insurance plans to employees requires agencies to provide numerous "administrative" functions. Agencies can choose to provide these functions in-house, through contracts with plan vendors, or a combination of both.

County Government, MCPS, and Montgomery College have similar approaches to dividing the group insurance administrative functions between agency staff and contractors. Table 1 (on the next page) lists the major group insurance administrative functions, and indicates whether it is performed primarily by agency staff or a contractor.

While the overall breakdown of how the agencies provide the administrative functions related to group insurance are similar, agency staff note that each agency has separate administrative management systems. For example, each agency has different financial management, budgeting, payroll, human resource, procurement, information technology, etc. systems. As a result, the process of enrolling an employee in their selected health plan and coordinating the appropriate deductions from that employee's biweekly paycheck are different in each agency.

In addition, agency staff note that contractors are sometimes hired to provide specialized assistance as needed for functions typically performed by agency staff.

Table 1. Summary of Group Insurance Administrative Functions Performed by Agency Staff vs. Contractors in County Government, MCPS, and Montgomery College

Function	Performed by…	
	Agency Staff	Contractors
Employee eligibility and enrollment – determining eligibility of employees to receive benefits, processing enrollment of employees into selected plans, processing changes to employee enrollment status, etc.	✓	
Employee education, communication, and technical assistance – answering employee questions, preparing and disseminating information on plan provisions, etc.	✓	
Administrative systems management – processing and coordinating employee plan selections with the appropriate human resource, financial, budget, etc. systems	✓	
Data collection and management – collecting, maintaining, analyzing, and reporting statistical and demographic data	✓	
Vendor relations and oversight – managing competitive bid process to select vendors, evaluating vendor performance and overseeing contracts, etc.	✓	
Regulatory compliance – ensuring plan compliance with applicable federal, state, or local laws and/or regulations	✓	
Claims processing – managing and administering the payment/reimbursement process to employees and/or providers		✓
Provider networks – building and maintaining a network of providers under each plan, negotiating reimbursement rates with providers, etc.		✓
Drug formularies – developing and maintaining the list of prescription drugs (generic and brand) covered under each prescription drug plan		✓
Related program administration – administering COBRA and Flexible Spending Accounts		✓
Other – miscellaneous tasks and special projects	✓	✓

FY11 Staffing and Personnel Costs. At OLO's request, each agency provided an estimate of the FY11 staff effort (measured in workyears) dedicated to performing group insurance administrative functions and FY11 total personnel costs associated with those workyears. As shown in Table 2, in FY11, County Government, MCPS, and Montgomery College combined:

- Allocate an estimated 24 workyears to perform group insurance plan administration for over 41,000 plan enrollees; and
- Spent an estimated $2.3 million in agency personnel costs related to group insurance plan administration.

Table 2. FY11 Workyears and Personnel Costs for Agency Group Insurance Administration

Agency and Office/Department	2011 Enrollment* (Medical Plans)	FY11 Budgeted	
		Workyears	Personnel Costs
MCPS, Department of Financial Services	27,115	15.0	$1,320,000
County Government, Office of Human Resources	12,346	7.2	$785,000
Montgomery College, Office of Human Resources	1,824	2.0	$190,000
Total	**41,285**	**24.2**	**$2,295,000**

*Medical plan enrollment for both active and retired employees as of January 1, 2011.

The total number of workyears for each agency do not represent individual positions as some staff perform group insurance administrative functions as one component of their overall duties. For example, the 7.2 workyears of staff effort in County Government come from 12 full-time and 2 part-time positions. Additionally, each agency's workyear total in Table 2 does not include staff from other offices or departments that spend a portion of their time on group insurance-related issues (e.g., budget staff, legal staff).

FY11 Group Insurance Plans. OLO's Part II report on *Long-Term Options for Achieving Fiscal Balance* identified several key components related to each agency's group insurance plans, including plan design, annual plan premiums, and premium cost share arrangements. An additional factor from a group insurance administration perspective is whether agency group insurance plans are self-insured or fully-insured. The distinction between self-insured and fully-insured plans is described below.

- **A self-insured plan** is one where the agency sets aside funding and pays all claims under the plan out of a self-insurance fund. Each year, the agencies (with the assistance of actuaries) calculate the total premiums needed to cover the cost of anticipated claims. The agencies contract with vendors (also referred to as third-party administrators) to administer the self-insured plans, and pay the vendors an administrative fee. The vendor provides access to its network of care providers and processes claims payments on behalf of the agency. For self-insured plans, the agencies are responsible for determining the plan design.

- **A fully-insured plan** is one where a contracted insurance vendor establishes the total premiums each year and the vendor is responsible for paying all claims under the plan. There is no additional administrative fee apart from the premiums paid to vendors under a fully-insured plan. For a fully insured plan, the insurance vendor has products with pre-determined plan designs that it offers to the agencies.

Under both self-insured and fully-insured plans, the agency (and not the vendor) determines the cost share for employees; that is, how much of the annual premium is paid by the employee and how much is paid by the agency.

For each agency and type of group insurance in FY11, Table 4 (on the next page) lists the number of contracted vendors, the specific plans offered, whether or not the plan is self-insured. Each plan is offered to both active employees and retirees unless otherwise noted.

As detailed above, for self-insured plans, each agency pays a fee to each vendor that is selected to administer a group insurance plan. The administrative fee charged by each vendor of a self-insured plan is established through the competitive bid process, and generally equates to a specific monthly fee paid by the agency per plan enrollee.

Table 3 details that the three agencies will pay an estimated $19.4 for vendors to administer self-insured plans in FY11 for over 41,000 plan enrollees. The majority of the administrative fees ($17.1 million or 88%) are associated with medical plans.

The $19.4 million spent on administrative fees for self-insured plans represents about 5% of the agencies combined total cost of providing group insurance to employees in FY11 ($383.8 million).

Table 3. FY11 Administrative Fees for Vendors of Self-Insured Group Insurance Plans

Agency	2011 Enrollment* (Medical Plan)	FY11 Administrative Fees for:		Total
		Medical Plans	Rx, Dental, and Vision Plans	
MCPS	27,115	$11,400,000	$1,412,000	$12,812,000
County Government	12,346	$5,058,000	$822,000	$5,880,000
Montgomery College**	1,824	$646,000	$58,000	$704,000
Total	**41,285**	**$17,104,000**	**$2,292,000**	**$19,396,000**

*Medical plan enrollment for active and retired employees as of January 1, 2011.
**Montgomery College staff report that the College does not pay administrative fees for its prescription plan under the current contract. Instead, the vendor receives the differences between the retail cost of prescription drugs and the price the vendor is able to negotiate with participating pharmacies.

Table 4. FY11 Group Insurance Plans Offered by County Government, MCPS, and Montgomery College

Agency	Vendors/Plans Offered	Self-Insured	Fully-Insured
Medical Plans			
County Government	Carefirst POS (high and standard option)	✓	
	Carefirst Indemnity (retirees only)	✓	
	United Healthcare HMO	✓	
	Kaiser Permanente HMO		✓
MCPS	Carefirst POS (actives only)	✓	
	Carefirst HMO	✓	
	United Healthcare POS (open)	✓	
	United Healthcare POS (closed)	✓	
	United Healthcare HMO	✓	
	Kaiser Permanente HMO		✓
Montgomery College	CIGNA PPO	✓	
	CIGNA POS	✓	
	Kaiser Permanente HMO		✓
Prescription Plans			
County Government	Caremark (high and standard option)	✓	
	Kaiser Permanente		✓
MCPS	Caremark	✓	
	Kaiser Permanente		✓
Montgomery College	Caremark	✓	
	Kaiser Permanente		✓
Dental Plans			
County Government	UCCI PPO	✓	
	UCCI DMO (actives only)		✓
MCPS	Aetna PPO	✓	
	Aetna DMO		✓
Montgomery College	CIGNA PPO	✓	
	CIGNA DMO		✓
Vision Plans			
County Government	National Vision Administrators	✓	
MCPS	National Vision Administrators	✓	
Montgomery College	Vision Service Plan		✓

B. Consolidation Options

The Cross-Agency Resource-Sharing Committee identified three potential options for achieving cost savings and/or operational efficiencies through "consolidation and streamlining" of agency group insurance programs for County Government, MCPS, and Montgomery College:

1. Consolidate the employee medical, dental, and vision benefit plan offerings of County agencies under fewer vendor arrangements;
2. Consolidate the employee benefit plan offerings of County agencies under one administrative unit that supports all agencies; and
3. Establish a uniform plan design for employee benefits across the agencies.

Each of these consolidation options is further explained below, including how the option could lead to cost savings and efficiencies and a summary of CARS' latest recommendations. Part C of this memo (on page 11) identifies potential issues associated with implementing any or all of these options.

OPTION #1: Consolidate the health benefit plan offerings for medical, dental, and vision benefits under fewer vendor arrangements.

As reviewed earlier, most of the agencies' health plans are self-insured, which means that the County pays for the cost of claims but contracts with vendors to administer the health plans by performing functions such as managing the provider network. The only fully insured plans are each agencies' Kaiser Permanente medical and prescription plans and each agencies' dental HMO plan. With these fully insured plans, the County pays insurance premiums and the insurer is financially responsible for enrollees' claims.

In the past, the County agencies have joined in competitive bid efforts to choose plan vendors, but requests for proposals have always included a provision that decisions could vary from agency to agency. At present, there are four different vendors managing 12 medical plans across the three agencies (as shown in on page 6), as well as three different vendors managing dental plans, and two different vendors managing vision plans.

Under this consolidation option, the agencies would jointly agree to select a common vendor (or vendors) for each type of benefit (medical, dental, vision) to achieve savings through the competitive bid process. This approach would also likely reduce the number of plan offerings to two or three per agency; however, plan design could still be different across the agencies.

This option would model the vendor consolidation strategy taken by the agencies for prescription drug coverage, where all three agencies have uniform vendor arrangements despite having different prescription drug plan designs.

Potential Cost Savings and Efficiencies. The CARS group estimated that this option could save between $2-4 million annually combined across the three agencies. The CARS report does not detail how the cost estimate was developed, but notes that "discussions with vendors and analysis of data provided in recent plan bids suggests that lower costs could be achieved."[3]

Savings under this option would occur through the competitive bid process with vendors charging lower administrative fees since they know that a successful bid would result in a contract with all three agencies. Agency staff believe that this approach has likely achieved savings in the administrative costs for prescription drug plans.

As noted on page 5, in FY11, the agencies spend a combined $19.4 million on fees to vendors for administering the various self-insured plans. The $2-4 million in savings estimated by CARS would correspond to a 10-20% reduction in administrative fees over FY11 levels.

CARS' Recommendation. The CARS December report recommended adopting this vendor consolidation option, but with a deferred implementation date of FY13. Specifically, the final report stated: "This is a FY13 initiative that will require some longer term planning and studying. The Benefits Workgroup will begin meeting regularly to jointly address this and other cost savings and resources sharing opportunities."[4]

OPTION #2: Consolidate the health benefit plan offerings of county agencies under one administrative unit that supports all county agencies.

County Government, MCPS, and Montgomery College each assign staff to administer group insurance functions. Currently, an estimated 24 workyears perform these functions across the three agencies for personnel costs totaling about $2.3 million.

As described on page 3, the agencies have similar approaches to dividing the group insurance administrative functions between agency staff and contractors. Agency staff perform functions such as managing employee eligibility and enrollment, overseeing vendor contracts, and responding to employee questions, while contract staff perform functions such as processing claims and maintain provider networks.

Option #2 would create a centralized office that would perform these in-house functions for all agencies. The office could be located within one of the three agencies, within an existing outside entity, or within a new outside entity established for this purpose.

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[3] Cross-Agency Resource Sharing Committee, First Quarterly Report of Employee and Retiree Benefits Subcommittee, September 15, 2010.

[4] http://www.montgomerycountymd.gov/content/EXEC/ACAOs/CARS/xls/cars_all_responses_12-08-2010a.xls

Potential Cost Savings and Efficiencies. CARS did not provide an estimated cost savings for this option, but did note four possible efficiencies that could be achieved from a single administrative unit:

- Streamlined administration – currently, each agency had one or more director/division chief/manager positions overseeing group insurance functions.
- Streamlined staff – each agency has benefit staff responsible for vendor relations, enrollment and eligibility, paying carriers, tracking plan experience, rate setting, communicating to plan participants, and liaison with Medicare.
- Improved reporting – broad experience data could stabilize rate and plan experience.
- Consolidated communication of benefits and benefit levels.

As indicated by two of the possible efficiencies noted by CARS – streamlining administration and staff – realizing cost savings from this option would occur if the agencies are able to eliminate redundant positions. Given that the staff would still have to serve the same number of clients (i.e., the employees of all three agencies) and perform the same administrative functions, it is not clear how many positions could be eliminated under this option. The workload for some positions may not be affected by the consolidation, such as positions responsible for responding to phone calls from employees or processing plan enrollment. Additionally, absent a uniform plan design (see Option #3), the staff would still need to be able to provide agency-specific information and services to the enrollees from each agency.

Using the FY11 staffing and personnel cost data to provide a sense of the potential savings under this option, OLO estimates that for every 10% reduction in workyears the agencies combined would achieve approximately $230,000 in savings. This estimate assumes that workyears are eliminated, and not shifted to perform other functions.

As discussed by agency staff, in the short-term, creating a combined administrative unit could require additional operating funds for items such as creating a common record-keeping system, etc. that may offset some of the cost savings. In the long-term, however, a single administrative unit could create opportunities for better levels of service and/or greater cost savings than each agency would be capable of achieving on its own. Examples include:

- Automating plan enrollment
- Providing more information for enrollees online
- Hiring staff with more specialized skills (e.g., speakers of other languages)
- Single contracts for group insurance consultation, underwriting, and OPEB valuation

CARS Recommendation. The CARS December 2010 report recommended that the Employee and Retiree Benefits Subcommittee should continue to research and study this option. Specifically, the report notes that "this is a longer term initiative that should be studied in detail before pursuing" and listed an implementation date of "post FY12."[5]

[5] http://www.montgomerycountymd.gov/content/EXEC/ACAOs/CARS/xls/cars_all_responses_12-08-2010a.xls

OPTION #3: Establish a uniform plan design across the agencies

Currently, County Government, MCPS, and Montgomery College offer multiple group insurance plans and structure those plans differently. As a result of plan design differences, health plans with similar names in different agencies are not the same plan.

Under this option, the agencies would offer employees identical health plans in terms of plan design (e.g., annual deductibles, copays for services). This approach would likely reduce the number of plan offerings to two or three per agency. This option could also include, but would not necessarily require, moving to the same cost share arrangements across agencies.

Potential Cost Savings and Efficiencies. The CARS group did not provide an estimated cost savings for this option. However, agency staff note that this option has the potential for the largest amount of savings. While the first two options are intended to create savings within administrative fees (costing a total of $19.4 million in FY11) and staffing ($2.3 million in FY11), this option could achieve savings within the largest component of group insurance costs, the cost of care utilized by plan enrollees (approximately $363 million in FY11).

The savings from this option would primarily result from changing plan designs to encourage more efficient use of care and/or shifting costs onto employees (e.g., higher copays, limitations on coverage). If this option included a uniform cost share arrangement, savings would be realized if agencies (especially MCPS) paid a smaller share of employees' health benefit premiums than they currently do. Currently, Montgomery College has the lowest employer cost share for active employees, 75%, while MCPS pays 90%-95% and the County Government pays 80% for most employees.

Having a uniform plan design would not provide significant additional administrative savings over and above what could be achieved by consolidating vendor arrangements and agency administration under Options #1 and #2. However, it would likely be easier for vendor and agency staff to provide information to employees if all the plans were identical. Another benefit of this option is that there would be equity among the employees of all the agencies, especially if cost share is included.

CARS Recommendation. The CARS December report recommended that the Employee and Retiree Benefits Subcommittee should continue to research and study this option. Specifically, the report notes that "this is a longer term initiative" that should be discussed in conjunction with Option #2 and listed an implementation date of "post FY12."[6]

[6] http://www.montgomerycountymd.gov/content/EXEC/ACAOs/CARS/xls/cars_all_responses_12-08-2010a.xls

C. Implementation Considerations

As summarized above, these three consolidation options have the potential to achieve cost savings and operational efficiencies. If adopted, CARS (and agency staff) identified several implementation issues with these options, detailed below, that would need to be worked through.

Collective bargaining. All three agencies negotiate over aspects of health benefits as part of the collective bargaining process with their represented employee groups. The collective bargaining agreements between the County Government and MCPS and their respective employee groups contain information on the cost share arrangements between the employer and employee and many aspects of health plan design. Montgomery College's agreements with employee groups include health benefit cost share arrangements, but not aspects of health plan design.

In order to implement a uniform plan design, the agencies would first have to reach a consensus about what the benefits plan design should look like. Then, each agency (in particular County Government and MCPS) could be required to discuss some or all components of the uniform plan with employee groups as part of the collective bargaining process.

Timing of group insurance bid cycles. The agencies recently completed a bid process for medical, dental, vision, and life insurance plans with new three-year pricing agreements and/or contracts that took effect on January 1, 2011. Implementing Options #1 or #3 before the next scheduled bid cycle would require the agencies to end all current agreements with vendors and re-bid contracts under a revised structure.

Disruption for plan participants. Each vendor offers its own network of providers, so contracting with fewer or different vendors means that some employees and retirees would have to switch to a new network of health care providers. This change could be particularly disruptive to employees who are currently undergoing long-term treatment with a provider that may no longer be a part of their available network. On the other hand, if a smaller number of vendors have a larger portion of business from county agencies, they might have additional leverage to recruit providers to participate in their plans and could potentially minimize service disruption.

Organizational location of a central administrative unit. With Option #2, which would consolidate all in-house administrative functions into one unit that serves all agencies, a decision would need to be made on where this centralized administrative unit would be located and who it would report to. The agencies (and associated stakeholders) may not agree on the appropriate location for this administrative function.

Differences in administrative management systems across the agencies. Each agency maintains different management systems for human resources, finance, budget, payroll, information technology, etc. Maintaining unique administrative systems, even with a centralized office, could reduce or eliminate the potential for efficiencies and/or savings.

If you have any questions about information in this memo, please contact Craig Howard in OLO at x77985 or craig.howard@montgomerycountymd.gov.

c: Steve Farber