MEMORANDUM

June 13, 2007

TO: Management and Fiscal Policy Committee

FROM: Multi-Agency OPEB Work Group

SUBJECT: Update for June 25, 2007 MFP Committee Meeting

The purpose of this memorandum is to provide an update, from our March 19th meeting with the Management and Fiscal Policy (MFP) Committee, on County agencies' activities related to implementation of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB). As previously noted, tax-supported agencies impacted by GASB45 and represented on this work group include: the County, Montgomery County Public Schools (MCPS), Montgomery College (College), and the Montgomery County portion of the Maryland-National Capital Park and Planning Commission (M-NCPPC); the Washington Suburban Sanitary Commission (WSSC) is the only non tax-supported agency participating in the work group.

At the request of Steve Farber, Council Staff Director, the focus of this status update is on the following five areas:

1. Status of OPEB trusts;
2. Status of communication plans;
3. Status of review of options for limiting liability;
4. Projected schedule for future actuarial valuations; and
5. Lessons to date from the experience of other jurisdictions.

The current status, including progress since the March 19th meeting, is presented below for each area.

Status Report

1. Status of OPEB Trusts

Attachment A provides an update for each agency on the work related to establishing OPEB trust. As of the date of this report, MCPS, M-NCPPC, and WSSC have established OPEB trusts; the County and College trust work is in process. Where possible, Attachment A also addresses the question of composition of the trusts' boards, which was raised at the March meeting.

2. Status of Communication Plans

Since the March meeting, the following communication activities have occurred:

- *One or more agencies have either included articles on OPEB in their employee newsletters, or interested parties such as retirees have published such articles. As an example, MCPS included an OPEB article in its most recent active employees' newsletter, which can be found at http://www.mcps.k12.md.us/departments/ersc/docs/FYB Summer 07.pdf, and in a newsletter to retirees, which can be found at http://www.mcps.k12.md.us/departments/ersc/docs/RETIRING_TIMES_OPEN_ENROLLMENT_2007.pdf. The MCPS retirees' association also included an OPEB article in their most recent newsletter.*

- *The communications subgroup has met several times with the agencies' public information officers and AON Consulting's communications consultant to address draft communications, including further development and review of frequently asked questions for website posting. The frequently asked questions are in the final stages of review.*

- *The County has developed a website that includes information on actuarial valuation(s), fiscal analysis, multi-agency reports to the MFP Committee, and Council/Committee packets. As soon as the frequently asked questions referred to above are finalized, the website will be placed into production; this approach is being taken as a result of recommendations made by several public information officers and the AON communications consultant. It is anticipated that each agency will create an OPEB presence on its own government's website, and may link to the County website for common documents, such as Council/Committee packets and multi-agency reports to the MFP Committee. The agencies may wait for reaction to the County's website content before posting their own so as to incorporate any lessons learned. Attachment B provides some most recent extracts from the website under development.*

3. Status of Review of Options for Limiting Liability

Attachment A provides an update for each agency on the work related to exploring options for limiting liability, which for most agencies has not significantly changed since the March 19th meeting. At this time, the County agencies are jointly bidding their health and prescription drug plans, and will be working with vendors to discuss alternatives that may positively impact retiree costs in light of the OPEB requirements.

At the March meeting, the Council requested that the County provide any analysis performed on options for changes to plan design and cost impacts of such options. Attachment C is a listing of scenarios that could potentially reduce the County's OPEB liability, developed by the County during its work on the topic in 2006. The County engaged its actuarial firm, AON Consulting, to perform an analysis of certain scenarios in preparing for labor negotiations. Preparations for negotiations are continuing due to re-openers negotiated in the areas of employee benefits.

4. Projected Schedule for Future Actuarial Valuations

GASB Statement No. 45 requires that a government the size of the County obtain an actuarial valuation at least once every two years. From a prudent fiscal management perspective, and because of the historic volatility of healthcare costs, the County and all members of the Work Group at this time intend to obtain actuarial valuations on an annual basis. Such work would typically be performed during the late summer/fall timeframe, in conjunction with the health benefits rate setting process, and in time to provide disclosure information, as required, for financial reporting purposes.

At the March 19th meeting, the MFP Committee requested to be provided with any analysis that may have been performed on the increase in the results of the actuarial valuations from 2003 to 2006. Attachment D provides a high level analysis prepared by AON Consulting for the County when the initial 2006 valuation results were received. The analysis compares the 2006 projected amounts (Actuarial Accrued Liability [AAL] and Annual Required Contribution [ARC}/Annual OPEB Cost [AOC]) from the 2003 valuation 6 year projections; to the results of the 2006 valuation, noting the major reasons for the differences. This analysis was prepared for both the full funding and no funding assumptions, which were the two assumptions reported on in both actuarial valuations. Representatives of AON Consulting will be present at the June 25th MFP Committee meeting to respond to any questions relating to the information in Attachment D.

5. Lessons to Date from the Experience of Other Jurisdictions

The members of the multi-agency OPEB work group gather information about the status and progress of other jurisdictions from a variety of sources, such as personal contacts, professional organizations such as GFOA and NACO, technical resources such as GASB, consultants such as the actuarial firms under contract, external auditors, technical materials and articles, and through training sessions and seminars. As a result of these communications, our observations are as follows:

- *<u>Trust</u> – Our understanding is that most governments have already, or are planning to, create an OPEB trust. Our sense is that we are generally ahead of many governments in the creation of trusts, especially in those cases where a trust can be established by management or executive board action. The exception to this relates to the County, where a trust is required to be established by legislation. The County has been coordinating with GASB, our auditors, and others, over the last several months, to address complex reporting and accounting issues associated with cost-sharing multiple employer plans. In our technical discussions with GASB, of which there have been many, our understanding is that we are raising issues that others have not yet even identified, and therefore the clarifying technical guidance is being developed as a result of our inquiries. In this situation, there has been limited opportunity to learn from the lessons of other jurisdictions, and it is more likely that they will learn from us.*

- *<u>Communications</u> – Our understanding from conversations with other governments and external consultants is that generally we are ahead of other governments in developing a communications plan, and in developing a website dedicated to OPEB information that will publicly communicate, in one location, information such as valuations, fiscal analysis, and executive and legislative branch reports. Our observations as they relate to communication of potential plan design changes are addressed below.*

- *<u>Plan Design and Limitations of Liabilities</u> – As was noted in previous MFP Committee meetings, there are other jurisdictions, such as Anne Arundel County and Howard County, that have approached this topic a little differently than we have. For example, these are work groups that have identified and analyzed a large number of possible plan changes, and then made those reports publicly available, for example on their web sites. Our understanding from those organizations, or from consultants who work with them, is that a significant amount of time or money may be spent on analyzing many options that will never be implemented, and that an alternative* *approach may have been to focus more on analyzing a limited number of options.*

The most significant factor in implementing any changes appears to be whether the government agency operates in a union versus non-union environment. Those agencies without a union are able to more quickly adopt and implement changes than those with a union. In either case, agencies are slow to make the changes, perhaps waiting to see what other jurisdictions are doing. We have generally not observed others taking actions other than identifying possible plan changes to limit the liabilities. We have also learned in our survey of other AAA rated and selected other regional counties that there are generally only a few other counties with an unfunded liability the size of the County's. This appears to result from plan design, rather than from the other jurisdictions having large liabilities that are funded.

- *<u>Legal</u> – Our observation is that we are ahead of many other governments from a perspective of researching the legal ramifications, constraints, etc of implementing the OPEB standards. This has been determined through discussions with external law firms, and in-house counsel and financial personnel from other governments. We continue to receive calls from external law firms and consultants, and in-house counsel, often at the request of their financial managers, seeking input on legal issues that we have researched, but they are only beginning to address. In our discussions with external legal counsel, they have affirmed the issues we have raised as the right issues, and they have consistency concurred with in-house legal counsel's perspective on, and solutions to, those issues.*

- *<u>Accounting and Reporting</u> – We have learned in our communications with various constituencies noted above that, due to the cost-sharing nature of our self-insured plan, we are dealing with extremely complex accounting and reporting issues, often involving interpretation of the technical literature and areas where GASB is trying to craft its own position on the issue. Other Phase I governments have been seeking advice from us on accounting and reporting issues. We continue to work with GASB, our external auditors, GFOA and others as appropriate on such topics.*

The Work Group appreciates this opportunity to keep the MFP Committee apprised of agency progress towards OPEB implementation. Representatives from each agency and several of the actuarial firms will be present at the June 25, 2007 MFP Committee meeting to answer questions about the material provided.

Attachments

Status of OPEB Trust Establishment, and Plan Design Change and Liability Limitation Considerations

Agency	Trust Establishment	Plan Design Change and Liability Limitation Considerations *
County	The County is in the process of finalizing its draft legislation to establish an Internal Revenue Code (IRC) Section 115 Trust for OPEB benefits. Final revisions incorporate comments made by the MFP Committee at the March 19th meeting regarding composition of the Board of Trustees; the draft legislation includes an OPEB Board comprised of three ex-officio members. The legislation will not however, at this time, provide for participation in the County's trust by other agencies with their own plan, such as the College. Since the March meeting, we have continued to discuss with GASB the reporting and accounting that would result from structuring the County's trust to allow for investment participation by governments with their own plans. The latest authoritative interpretations provided by GASB would result in reporting in the County's CAFR, and potentially in the College's financial statements, that was not anticipated under this arrangement. Under the first scenario, the College's OPEB investments would not be able to be treated by the College as OPEB trust assets, thus resulting in lower discount rates for valuation purposes and higher Annual Required Contributions and liabilities. In the second scenario, the County would essentially be required to report the County's OPEB assets as its own, and include the College's required plan reporting in the County's CAFR; this reporting could be seen as confusing or misleading by some readers of the County's CAFR. We are in the process of discussing the GASB guidance with others, such as our external auditors, other jurisdictions, and GFOA, and would hope to be provided with more acceptable interpretation of the authoritative guidance in the future. If that were to	As noted at the March 19th meeting, the MCGEO and the FOP bargaining units had tentatively agreed to a reopener (pending Council approval), to include employee health benefits. This is scheduled to begin in September 2007. With regard specifically to these negotiations, as well as the full term bargaining with the IAFF, any agreed to or arbitrated employee health benefit changes would not take effect prior to July 1, 2008. An internal County staff workgroup has been and is continuing to work with consultants on relative financial impacts of various OPEB scenarios including those for upcoming bargaining.

Status of OPEB Trust Establishment, and Plan Design Change and Liability Limitation Considerations

	occur, the County would intend to take action to amend the trust legislation to allow participation by these other agencies. The County's initial legislation is anticipated to be transmitted to the Council in the near future.	
MCPS	The Board of Education approved a resolution to amend the existing pension trust at its March 13, 2007 meeting. The amendment created a "Master Trust" that contains two component trusts for pension and OPEB benefits. Each component trust would satisfy the exclusive benefit rules whereby assets under each can only be used for participants therein. By using this approach, MCPS will take advantage of the favorable investment contracts it has already negotiated for the pension plan, provide common investments, use the same investment committee, and simplify administration. Questions were raised about this approach at the last MFP Committee meeting on this subject, and follow-up information was provided to the Committee.	MCPS made significant changes to the benefit plan offered to retirees in 2002. Retirees pay 36 percent of the plan cost while MCPS pays 64 percent. MCPS mandates that Medicare eligible retirees enroll in Medicare, and are covered by a Medicare supplement plan or an HMO. The point-of-service plans are not available to Medicare eligible retirees. MCPS changed its prescription drug plan in 2002. Co-pays were increased, and use of generic drugs and mail order pharmacy for purchasing maintenance medications was made mandatory. MCPS is working with the unions and retiree association to review plan design in the context of the GASB funding challenge.
College	The College has been working toward the establishment of a trust for FY08. The College has been on a dual course of action. The first choice was investigating the possibility of participating with the County in their trust agreement which would have been the most efficient way to establish a trust arrangement since the College does not have its own retirement board which could have been used to establish an additional trust arrangement. This method could have also produced a higher rate of return on investment assets and/or reduced transaction expenses by participating with a large pool of investment assets. The College was advised on Friday, June 8 that the County has run into a problem with	The College is evaluating ways to change the eligibility criteria for retiree group insurance benefits (i.e., make it more restrictive). Currently, employees that have worked 5 years are eligible for retiree group insurance; the College contributes 40% of the premium and the retirees contribute 60% of the premium. Employees that have 10 years of service or more are eligible for retiree group insurance, where the College contributes 60% of the cost of the premium and the retiree pays 40% of the premium. The College reviews all of the group insurance plans annually and makes changes to specific plan provisions to meet budget guidelines. Additionally,

Status of OPEB Trust Establishment, and Plan Design Change and Liability Limitation Considerations

	GASB with accounting and reporting and this option is for the time being off the table. The second choice for the College is the establishment of a separate trust. The College has done some preliminary work on this method by bringing in consultants to advise the College on steps to consider in the establishment of a trust. Since the College's Board of Trustees does not meet again after the month of June until September, any official action will take place after September.	we will be participating in a bid process with the other County agencies this year and an overall review of the plans will be part of this process.
M-NCPPC	The Commission has amended the existing Trust document. The Board of Trustees has been expanded from two Commissioners, one from each county, to include the Executive Director, Secretary-Treasurer, and Personnel Director. The Commission's Investment Manager has been designated as the Administrator as the major focus for the coming years will be on investing the funds in the trust.	M-NCPPC had a study of Retirement Health Insurance benefits done in June 2006 by Aon Consulting. This study compared benefits of the Commission with Montgomery and Prince George's County Governments, Montgomery County Public Schools, Montgomery College and Washington Suburban Sanitary Commission. Based on that study, and consistent with the November report, a Commission committee is reviewing possible plan design changes. However any proposed changes must first be reviewed and approved by the Commission. Amendments that legal counsel determines fall within the scope of collective bargaining will then need to be agreed upon with respective union representatives.
WSSC	At their May 16, 2007 meeting, WSSC's Commissioners approved an OPEB trust to be effective on July 1, 2007. Trustees are expected to be appointed at the June 20, 2007 Commission meeting. WSSC representatives will be attending the MFP Committee meeting and can share the results of that process.	Many jurisdictions are looking at revising their plans to pro-rate the employer subsidy based upon years of service at time of retirement. The Commission has already implemented such a cost sharing formula for retiree health, with 20 years of service required to receive the full employer subsidy. Also, several years ago, the Commission reduced the employer subsidy for

Status of OPEB Trust Establishment, and Plan Design Change and Liability Limitation Considerations

		all health plans from 85% to 80%. Additionally, the cost sharing percentage for the Point-of-Service plan, in which most retirees participate, was further reduced to 78%. We have also increased co-pays in recent years and continue to annually review plan design for further cost containment.

* As noted in our report, in addition to the items listed below, most of which have not changed significantly from the March report, the County agencies are jointly bidding their health and prescription drug plans, and will be working with vendors to discuss alternatives that may positively impact retiree costs in light of the OPEB requirements.

MONTGOMERY COUNTY MARYLAND

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OPEB/GASB45

new

Welcome to the Montgomery County, Maryland Department of Finance web site.

The Department of Finance is responsible for the financial administration of the County government, including accounting, debt management, revenue collection, and risk management.

The Department of Finance is working hard to promote a paperless system for the distribution of information. You will find several documents, policies, reports, and other items available in electronic format throughout this site.

If you have questions relating to the financial operations of the County, please contact the department directly at 240-777-8860.

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- **Status Reports to the County Council**
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- **County Council Packets and Resolutions**
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Retiree Health Benefits / Other Post-Employment Benefits (OPEB)

Status Reports to the County Council

- Multi-Agency Update to MFP Committee for March 19, 2007 Meeting
- Multi-Agency Update to MFP Committee for November 27, 2006 Meeting
- Multi-Agency Update to MFP Committee for June 26, 2006 Meeting
- Multi-Agency Update to MFP Committee for November 28, 2005 Meeting

Retiree Health Benefits / Other Post-Employment Benefits (OPEB)

Financial Impact Information

- Multi-Agency Analysis
- Fiscal Plan Summary FY08-13-Scenario 1
- Fiscal Plan Summary FY08-13-Scenario 2
- FY 08 OPEB Trust Contributions Schedule - Recommended Budget (Page # 7 - 2 and 7 - 3)
- FY 08 OPEB Trust Contributions Schedule - Recommended Budget for Non-Departmental Accounts (Page # 67-7)

Retiree Health Benefits / Other Post-Employment Benefits (OPEB)

County Council Packets and Resolutions

- County Council April 10, 2007
- County Council Funding Resolution April 10, 2007
- County Council March 27, 2007
- MFP Committee March 19, 2007
- MFP Committee November 27, 2006
- MFP Committee June 26, 2006
- MFP Committee November 28, 2005
- MFP Committee November 10, 2003

POST RETIREMENT GROUP INSURANCE

Generic Scenarios to Reduce OPEB Liability

Premise

Reducing the future costs of providing post retirement group insurance will reduce the overall liability to an organization and therefore reduce the amount of that liability to be funded. Many organizational factors will influence which options will be considered and which will not. The template below is only an attempt to identify various factors that influence group insurance costs.

Affected Groups

- Current Retirees
  - Medicare
  - Non-Medicare

- Current Actives
  - Retirement eligible
  - Not retirement eligible

- Future New hires

Factors influencing post retirement group insurance costs and related action considerations for addressing costs

- Eligibility for post retirement group insurance
  Considerations –
  - More rigorous age and service requirements for employees
  - Availability to dependents
    - Health coverage not available to dependents
    - Health coverage not available to dependents if eligible for coverage elsewhere
  - Not eligible for post retirement medical or prescription when Medicare becomes primary

- Employer contribution towards post retirement group insurance
  Considerations –
  - Reducing contribution amounts overall
  - Weighting rates based on years of service
  - Percent of contribution based on lowest cost plans with retiree paying the rate differential for more costly plans

  - Contribution towards retiree group insurance only, with retiree paying rate differential for dependents
  - Contributions based on flat dollar amounts versus percent of premium (could be incorporated via a Health Savings Account in a Consumer Directed Health Plan)
  - Determining the effect of active-retiree subsidy practices on post retirement costs

- Funding
  Considerations –
  - Potential advantages of moving to fully insured Medicare supplement plans
  - Active employees pre-funding a portion of their post retirement benefit cost.

- Benefit delivery mechanisms
  Considerations –
  - Mandatory generic drugs where available
  - Mandatory use of mail order for certain maintenance drugs
  - Use of certain pharmacies for specialty drugs

- Plan design changes
  Considerations –
  - Deductible amounts
  - Co-pay amounts
  - Co-insurance levels
  - Mandatory prescription formularies
  - Annual out-of-pocket and lifetime maximums
  - Post retirement life insurance amounts

- Items covered
  Considerations –
  - Exclude certain items currently covered for medical, dental and prescription

- Plan elimination
  Considerations –
  - Not offering certain benefits post retirement, such as dental
  - Offering discount programs versus full coverage, e.g., for dental

Montgomery County

AAL Amortized as a Fixed Dollar Amount

GASB Valuation at July 1, 2006

	Partial Funding	Partial Funding -0.5%	Partial Funding +0.5%	Full Funding	No Funding		
	6.00%	5.50%	6.50%	8.00%	4.00%	7.50%	7.75%
	6% not needed by MCG					5-year phase-in	3-year phase-in
Actuarial Accrued Liability (AAL)							
Current Results (a)	1,606,895,124	1,759,227,482	1,473,234,701	1,158,927,574	2,365,248,969	1,251,357,778	1,203,787,347
Results with Ret Prem as % of Plan Costs (b)	1,521,040,114	1,664,321,068	1,395,282,623	1,099,374,246	2,233,985,205	1,186,425,369	1,141,627,078
Prem % of Cost + Mercer Assum. (c)	1,459,416,539	1,593,066,307	1,341,834,654	1,063,954,281	2,121,716,167	1,145,897,238	1,103,749,813
Prem % of Cost + Mercer Assu.+ Mercer Claim (d)	1,267,623,331	1,380,704,950	1,168,157,141	933,055,303	1,828,501,131	1,002,401,293	966,736,290
Mercer's 2006 Projected APBO				797,377,000	1,478,456,000		
Annual OPEB Cost (AOC)							
Current Results (e)	166,092,650	177,249,250	156,152,882	132,280,760	219,784,925	139,365,448	135,725,005
Results with Ret Prem as % of Plan Costs (f)	156,521,422	166,921,716	147,256,555	125,010,498	206,582,986	131,611,739	128,219,611
Prem % of Cost, Mercer Assum. (g)	147,127,591	156,418,016	138,844,760	118,937,422	191,830,549	124,848,046	121,811,211
Prem % of Cost + Mercer Assu.+ Mercer Claim (h)	127,611,858	135,439,404	120,643,508	103,992,271	165,485,103	108,919,339	106,385,818
Mercer's 2006 OPEB Cost				75,026,000	137,088,000		
2006/07 Expected Benefit Premiums							
Current Results (i)	33,263,930	33,263,930	33,263,930	33,263,930	33,263,930	33,263,930	33,263,930
Results with Ret Prem as % of Plan Costs (j)	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210
Prem % of Cost, Mercer Assum. (k)	33,078,933	33,078,933	33,078,933	33,078,933	33,078,933	33,078,933	33,078,933
Prem % of Cost + Mercer Assu.+ Mercer Claim (l)	35,071,616	35,071,616	35,071,616	35,071,616	35,071,616	35,071,616	35,071,616
2006/07 Expected Net OPEB Obligation (NOO)							
Current Results (m)	83,046,325	88,624,625	78,076,441	132,280,760	186,520,995	54,484,234	67,417,622
Results with Ret Prem as % of Plan Costs (n)	78,260,711	83,460,858	73,628,277	125,010,498	182,073,776	45,929,716	59,079,344
Prem % of Cost, Mercer Assum. (o)	73,563,796	78,209,008	69,422,380	118,937,422	158,751,616	51,432,756	62,656,359
Prem % of Cost + Mercer Assu.+ Mercer Claim (p)	63,805,929	67,719,702	60,321,754	103,992,271	130,413,488	49,841,160	58,843,016
Value of Implicit Subsidy by Actives							
APBO	86,000,000	95,000,000	78,000,000	60,000,000	131,000,000	65,000,000	62,000,000
AOC	10,000,000	10,000,000	9,000,000	7,000,000	13,000,000	8,000,000	8,000,000
NOO	5,000,000	5,000,000	4,000,000	7,000,000	4,000,000	9,000,000	8,000,000
Benefit Payments	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000
Diff. because of Mercer's Assumptions only							
APBO	62,000,000	71,000,000	53,000,000	35,000,000	112,000,000	41,000,000	38,000,000
AOC	9,000,000	11,000,000	8,000,000	6,000,000	15,000,000	7,000,000	6,000,000
NOO	5,000,000	5,000,000	4,000,000	6,000,000	23,000,000	(6,000,000)	(4,000,000)
Diff. because of Mercer's Claims only							
APBO	192,000,000	212,000,000	174,000,000	131,000,000	293,000,000	143,000,000	137,000,000
AOC	20,000,000	21,000,000	18,000,000	15,000,000	26,000,000	16,000,000	15,000,000
NOO	10,000,000	10,000,000	9,000,000	15,000,000	28,000,000	2,000,000	4,000,000

Montgomery County

AAL Amortized as a Level Percent of Pay

GASB Valuation at July 1, 2006

	Partial Funding	Partial Funding -0.5%	Partial Funding +0.5%	Full Funding	No Funding	5-year phase-in	3-year phase-in
	6.00%	5.50%	6.50%	8.00%	4.00%	7.50%	7.75%
	6% not needed by MCG						
Actuarial Accrued Liability (AAL)							
Current Results (a)	1,606,895,124	1,759,227,482	1,473,234,701	1,158,927,574	2,365,248,969	1,251,357,778	1,203,787,347
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Mercer's 2006 Projected APBO				797,377,000	1,478,456,000		
				135,678,303	350,045,131		
Annual OPEB Cost (AOC)							
Current Results (e)	117,970,070	126,370,841	110,556,317	93,117,720	158,947,416	98,228,321	95,594,351
Results with Ret Prem as % of Plan Costs (f)	110,969,989	118,788,083	104,072,605	87,859,913	149,121,764	92,609,199	90,161,194
Prem % of Cost, Mercer Assum. (g)	103,421,634	110,345,134	97,315,022	82,983,765	137,257,044	87,177,828	85,015,508
Prem % of Cost + Mercer Assu.+ Mercer Claim (h)	89,649,639	95,508,200	84,489,083	72,462,016	118,453,498	75,966,405	74,157,734
Mercer's 2006 OPEB Cost				75,026,000	137,088,000		
				(2,563,984)	(18,634,502)		
2006/07 Expected Benefit Premiums							
Current Results (i)	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210
Results with Ret Prem as % of Plan Costs (j)	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210
Prem % of Cost, Mercer Assum. (k)	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210
Prem % of Cost + Mercer Assu.+ Mercer Claim (l)	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210	24,509,210
2006/07 Additional Contributions							
Current Results (m)	34,475,825	38,676,210	30,768,949	68,608,510	0	14,743,822	23,695,047
Results with Ret Prem as % of Plan Costs (n)	30,975,785	34,884,832	27,527,092	63,350,703	0	13,619,998	21,883,995
Prem % of Cost, Mercer Assum. (o)	27,201,607	30,663,357	24,148,301	58,474,555	0	12,533,724	20,168,766
Prem % of Cost + Mercer Assu.+ Mercer Claim (p)	20,315,609	23,244,890	17,735,331	47,952,806	0	10,291,439	16,549,508
2006/07 Expected Net OPEB Obligation (NOO)							
Current Results (m)	58,985,035	63,185,420	55,278,159	0	134,438,206	58,975,289	47,390,094
Results with Ret Prem as % of Plan Costs (n)	55,484,995	59,394,042	52,036,302	0	124,612,554	54,479,991	43,767,990
Prem % of Cost, Mercer Assum. (o)	51,710,817	55,172,567	48,657,511	0	112,747,834	50,134,895	40,337,532
Prem % of Cost + Mercer Assu.+ Mercer Claim (p)	44,824,819	47,754,100	42,244,541	0	93,944,288	41,165,756	33,099,016
Value of Implicit Subsidy by Actives							
APBO	86,000,000	95,000,000	78,000,000	60,000,000	131,000,000	65,000,000	62,000,000
AOC	7,000,000	8,000,000	6,000,000	5,000,000	10,000,000	6,000,000	5,000,000
NOO	4,000,000	4,000,000	3,000,000	0	10,000,000	4,000,000	4,000,000
Benefit Payments	0	0	0	0	0	0	0
Diff. because of Mercer's Assumptions only							
APBO	62,000,000	71,000,000	53,000,000	35,000,000	112,000,000	41,000,000	38,000,000
AOC	8,000,000	8,000,000	7,000,000	5,000,000	12,000,000	5,000,000	5,000,000

Montgomery County

AAL Amortized as a Level Percent of Pay

GASB Valuation at July 1, 2006

	Partial Funding	Partial Funding -0.5%	Partial Funding +0.5%	Full Funding	No Funding	5-year phase-in	3-year phase-in
	6.00%	5.50%	6.50%	8.00%	4.00%	7.50%	7.75%
NOO	4,000,000	4,000,000	3,000,000	0	12,000,000	4,000,000	3,000,000
Diff. because of Mercer's Claims only							
APBO	192,000,000	212,000,000	174,000,000	131,000,000	293,000,000	143,000,000	137,000,000
AOC	14,000,000	15,000,000	13,000,000	11,000,000	19,000,000	11,000,000	11,000,000
NOO	7,000,000	7,000,000	6,000,000	0	19,000,000	9,000,000	7,000,000

Attachment D

Montgomery County

GASB Valuation at July 1, 2006

AAL Amortized as a Level Percent of Pay

	Full Funding		No Funding		
	8.00%		4.00%		
Actuarial Accrued Liability (AAL)	$'000		$'000		
Mercer 2006 AAL	797,000	69%	1,478,000	62%	
Difference due to retiree premium valuation	60,000	5%	131,000	6%	Aon used the actual dollar amount paid, not % of liability
Difference due to actuarial assumptions	35,000	3%	112,000	5%	Aon used assumptions in Mercer's 2005 study
Difference due to the claims used	131,000	11%	293,000	12%	Aon's claims (based on recent experience) higher than Mercer's
Difference due no. of participants valued	136,000	12%	351,000	15%	Difference due to participants valued & other demographic changes*
Aon's 2006 Results	1,159,000	100%	2,365,000	100%	
Annual OPEB Cost (AOC)/ARC					
Mercer 2006 OPEB Cost	75,000	81%	137,000	86%	
Difference due to retiree premium valuation	5,000	5%	10,000	6%	
Difference due to actuarial assumptions	5,000	5%	12,000	8%	
Difference due to the claims used	11,000	12%	19,000	12%	
Other Differences	(3,000)	-3%	(19,000)	-12%	includes no. of participants valued, salary used for amortization etc
Aon's 2006 Results	93,000	100%	159,000	100%	

Number of participants valued	Actives		Retirees		Spouses	
	Mercer	Aon*	Mercer	Aon	Mercer	Aon
Medical	7,202	8,415	3,350	3,846	1,829	2,144
Rx	7,202	8,415	3,350	2,072	1,829	1,625
Dental	7,618	8,415	3,466	4,034	1,813	2,120
Life	8,349	8,415	3,287	3,929	N/A	N/A

* Aon assumed that 90% of all future retirees will elect coverage.

MCPS MONTGOMERY COUNTY PUBLIC SCHOOLS
www.montgomeryschoolsmd.org MARYLAND

April 20, 2007

The Honorable Marilyn J. Praisner
President, Montgomery County Council
100 Maryland Avenue, 6th floor
Rockville, Maryland 20850

Dear Mrs. Praisner:

This letter is in response to your questions at the March 19, 2007, Management and Fiscal Policy Committee meeting regarding the trust established by the Board of Education. The enclosed memorandum clarifies the legal issues raised at that meeting and the opinion provided to the Board of Education by its legal counsel as staff explored the issues raised.

If you have additional questions, please contact me at 301-279-3626.

Sincerely,

Larry A. Bowers

Larry A. Bowers
Chief Operating Officer

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MONTGOMERY COUNTY
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2007 APR 24 PM 3:00

LAB:vnb

Enclosure

Copy to:
Dr. Weast
Members of the Board of Education
Ms. DeGraba
Dr. Spatz
Mr. Girling

Office of the Superintendent of Schools
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

April 20, 2007

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools

Subject: Other Post-Employment Benefits Trust

On March 13, 2007, the Board of Education approved a resolution to amend the Montgomery County Public Schools (MCPS) Employees Retirement and Pension Trust Agreement to create a Master Trust Agreement that contains two component trusts—one for the pension plan obligation and one for the funding of Other Post-Employment Benefit (OPEB) expenses—in response to the Governmental Accounting Standards Board Statement 45 (GASB 45) issued in June 2004.

On March 19, 2007, MCPS staff joined other Montgomery County agencies' staff at a meeting with the Montgomery County Council's Management and Fiscal Policy (MFP) Committee to brief the committee members on the status of agency efforts to comply with GASB 45.

At that meeting, Council President Marilyn Praisner objected to the Board of Education's decision to create a Master Trust and suggested that a separate trust that has no employee or retiree representatives serving as trustees should have been created. It is her opinion that it was inappropriate for an employee or retiree representative to serve as a trustee overseeing the investments of the OPEB trust account since there would be no "employee" money in the account. Currently, both an employee and a retiree representative serve as trustees.

Mrs. Praisner also expressed concern that trust fund assets might not be sufficiently protected, and that pension and OPEB funds might be commingled under this arrangement. Staff assured her that the trust had been set up to ensure that each account would be used for its intended purpose and there would be no commingling of funds.

The other MFP Committee members agreed with Mrs. Praisner's objection to the Board's decision to create the trust in this fashion, and directed staff to communicate their reservations to the Board of Education.

Mrs. Praisner's concerns were shared with counsel, who was asked for a reaction to her objections. In the attached letter, Mark Muedeking, Esq., of DLA Piper, concludes that the structure of the OPEB trust established by the Board of Education does not violate any legal restrictions and meets the legal requirements of GASB 45. A copy of his letter has been forwarded to the County Council.

Following the March 19 MFP Committee meeting, Dr. Kenneth Muir, president of the MCPS Retiree Association and current trustee of the Board of Investment Trustees, expressed his concerns to Mrs. Praisner regarding the discussion at the MFP Committee meeting. His letter and Mrs. Praisner's response are attached to this memorandum.

I do not believe any additional action is necessary at this time. If you have any questions, please contact Mr. Larry A. Bowers, chief operating officer, at 301-279-3626.

JDW:vnb

Attachments

Copy to:
Executive Staff
Mrs. DeGraba
Mr. Girling

DLA PIPER

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6225 Smith Avenue
Baltimore, Maryland 21209-3600
www.dlapiper.com

Mark Muedeking
mark.muedeking@dlapiper.com
T 202.861.6258
F 410.580.3220

April 13, 2007

Mr. G. Wesley Girling
Director, Benefits Strategy and Vendor Relations
Montgomery County Public Schools
7361 Calhoun Place
Suite 401
Rockville, MD 20855

Dear Mr. Girling:

You asked us to respond to an issue raised at the County Council Management and Fiscal Policy Committee meeting a few weeks ago regarding the proposed trust arrangement to fund retiree health obligations of Montgomery County Public Schools ("MCPS") (the "OPEB Trust"). In particular, the Council President suggested that it may be inappropriate and/or illegal for trustees of the OPEB Trust to be employees of the sponsor and/or beneficiaries of the plan when the OPEB Trust holds only assets derived from employer contributions.

As you know, the decision to structure the OPEB Trust in the same way as the pension trust was the result of a careful, deliberative process. We believe that the decision to have the OPEB Trust operate in the same manner as the pension trust, with the same trustees and under the same terms, was a reasonable alternative designed to maximize efficiency and accomplish MCPS's goals of prefunding OPEB obligations. While sharing the same structure and trust document as the pension trust, the OPEB Trust is a separate trust that is operated and maintained for the exclusive purpose of pre-funding retiree health benefits for participants and beneficiaries who are eligible to receive those benefits. As a result, although the OPEB Trust and pension trust share a trust document, have the same trustees and may make side-by-side or co-investments under certain circumstances, the assets of the OPEB Trust are separately accounted for and, from a legal standpoint, cannot be used under any circumstances to pay pension benefits, or any expense not related to the OPEB Trust.

Although the assets of the OPEB Trust will be derived solely from employer contributions, once those contributions are received by the OPEB Trust, they are no longer MCPS assets and are trust assets that are held for the exclusive benefit of retirees and their beneficiaries. The trustees must manage all trust assets in the same way, regardless of source. From a legal standpoint, there is no distinction between trust assets based on whether they were contributed by the sponsor or participants. The trustees have a fiduciary responsibility to the participants and beneficiaries, not to MCPS. Section 6.2 of the trust agreement expressly states that trust assets must be used for the exclusive benefit of participants in the retiree medical plan and/or their beneficiaries.

It is not unusual for employer-sponsored benefit plans to have a committee of trustees, some or all of whom are employees of the plan sponsor. In fact, Section 408(c)(3) of the Employee Retirement Income Security Act of 1974 ("ERISA") specifically provides that nothing prohibits a fiduciary from "serving as a fiduciary in addition to being an officer, employee, agent, or other representative of a party in interest." Similarly, Section 408(c)(1) of ERISA provides that nothing prohibits a fiduciary from receiving a benefit under a plan as a participant or beneficiary in the plan as long as the benefit is computed and paid

DLA PIPER

consistent with the terms of the plan as applied to all participants and beneficiaries. Although the OPEB Trust is not subject to ERISA because MCPS is a governmental entity, the statutory provisions of ERISA were based on the common law of trusts, which does govern the OPEB Trust.

Furthermore, there is nothing in Maryland state law that would prohibit an employee of the plan sponsor from serving as a trustee for an employer-sponsored benefit plan. This is true regardless of whether the assets of the trust result from employer contributions, employee contributions or a combination of the two. Similarly, the trust requirements enumerated in GASB 45 that must be met in order to be able to offset OPEB liabilities with the prefunded amounts do not impose any restrictions on who may serve as a trustee. GASB 45 simply requires that employer contributions to the trust must be irrevocable, that assets must be dedicated to providing benefits to retirees and beneficiaries in accordance with the terms of the plan and that assets must be legally protected from creditors of the employer or plan administrator. We believe that the OPEB Trust meets these requirements.

The trustees of the OPEB Trust include various officers of MCPS who serve by virtue of their position of employment, as well as other appointed trustees, which currently include an employee/retiree representative. We are aware of no facts that would indicate that allowing these individuals to serve as trustees is inappropriate or otherwise involves a structural conflict of interest that would be in contravention of their fiduciary responsibilities or be considered illegal in any way. Moreover, during the roughly 15 years that I have provided legal counsel to MCPS in connection with matters involving the operation of the pension trust, it has been my experience that the employee and non-employee trustees have comported themselves with the highest standards of fiduciary care, and I have not observed any conduct that would lead me to believe that they were not acting consistent with their legal duties or not serving the best interests of MCPS and the participants and beneficiaries of the pension plan.

For these reasons, we believe that the structure of the OPEB Trust would not violate any legal restrictions or otherwise be inappropriate under the circumstances.

We hope that this letter is helpful and responsive to your request. Should you have any questions or would like to discuss, please do not hesitate to contact me.

Very truly yours,

DLA Piper US LLP

Mark Muedeking

Kenneth K. Muir, EdD, APR
14933 Waterway Drive
Rockville, MD 20853-3618
301-460-9583 kkmuir@aol.com

April 4, 2007

The Honorable Marilyn Praisner, President
Montgomery County Council
100 Maryland Avenue
Rockville, MD 20850

Dear Marilyn:

I'm writing to express concern over your comment, at the MFP Committee meeting on March 19, that the Retiree Health Benefits Trust, to be established by the Montgomery County Board of Education, should be "employer-run."

The implication I took from that comment was that the non-MCPS employees on the MCPS Retirement and Pension System's Board of Investment Trustees (Board) would not be able to make good management decisions if that Board also had responsibility for a Health Benefits Trust.

The Board of Investment Trustees has nine members appointed by the Board of Education to three-year terms. Five members are MCPS administrators who serve as a result of their positions. The remaining four are community members, three of whom are investment professionals. I serve as a retiree member.

The Board has four regular meetings each year and, in addition, has special meetings when necessary to interview investment managers or fulfill other responsibilities. The Board is advised by representatives from Ennis Knupp + Associates, one of the major public pension plan advisors in the U.S. Currently, the Board oversees the investment of nearly $900 million in pension assets for MCPS employees and retirees. I cannot recall more than one or two instances in the past five years when an action of the Board was other than unanimous.

My understanding is that the Board of Education has proposed setting up a Health Benefits Trust to be completely separate from the Pension and Retirement Trust, but managed by the same Board of Investment Trustees. I favor that arrangement for the following reasons.

Trustees' Knowledge and Experience. When I was first appointed to the Board five years ago, I described myself as the "newest and dumbest" trustee, even after attending a three-day workshop for trustees put on by the plan's previous pension plan advisor. There is a tremendous amount to learn about being a good fiduciary and competent trustee.

The current Board has that knowledge and experience. It is augmented by the fact that the three community trustee representatives are investment professionals, serving in various capacities for investment companies.

Competent Money-managing Experience. Working with Ennis Knupp, the Board has engaged 12 different professional money managers with whom to invest the MCPS assets. Our choices of those managers are based on our asset allocation policy as well as the managers' track records in producing significant earnings with reasonable management fees.

Best Return on the Dollar Invested. If it were necessary to create another Board of Investment Trustees, it would have to hire an administrator, a plan advisor, take the time to develop investment policies, and hire good money managers—all things that have already been done by the existing Board.

I believe it would be far less expensive for the current Board to administer Health Benefit Trust funds separately from Pension and Retirement Trust funds, but with the current group of experienced and proven advisers and managers.

Sincerely,

Kenneth K. Muir

Message received on April 4, 2007 at 6:59 p.m. from Praisner's Office, Councilmember [Councilmember.Praisner@montgomerycountymd.gov]

Ken, I received you letter regarding my comments during the MFP Committee meeting on March 19th about the retiree health benefits trust. I certainly appreciate the fine work being done by the MCPS trust and my comments were not intended to imply any questions about the work of the Trust. I anticipate that the same school system positions/firms who are working on the current trust would be involved in ensuring that the new account would be equally well managed. However, that is not the issue with this new responsibility. We are in unchartered waters when it comes to this new obligation and I believe we should proceed very cautiously. Unlike the other trust funds, there will be **no** employee or retiree personal contributions to this account -- only government funds. Assumptions about investment and return will be a government obligation that may have an impact on the future structure of health benefits. I can envision a situation where the government representatives will have one view and the retirees will have another and, in my view, it would be best that we not complicate it further. It may not be necessary to set up a separate trust just a modified management structure for these funds only. At least. I would like that option on the table.

Marilyn Praisner
Councilmember - District 4

Montgomery County Public Schools
ERSC

Retiring Times

New Directions for MCPS Retirees

VOLUME 4 • NUMBER 3 SPRING 2007

Retiree Open Enrollment Announcement

The Montgomery County Public Schools (MCPS) will conduct the annual retiree benefit plan open enrollment beginning Monday, April 30, and continuing through Friday, May 18, 2007.

During open enrollment, MCPS retirees will have the opportunity to make changes to their medical, dental, vision, and prescription plan options; to drop coverage; or, under certain circumstances, add coverage that was previously dropped.

In mid-April the Employee and Retiree Service Center (ERSC) will forward detailed information to all retirees participating in MCPS benefits. If you currently have benefits from MCPS and do not receive an enrollment booklet in the mail, please call ERSC at 301-517-8100.

The mailing will include benefit comparison charts, rate information, and an enrollment form, if you want to make changes to your current level of benefits.

MCPS retirees will have the opportunity to meet with benefit program vendors and ERSC staff to discuss open enrollment options at three health fairs to be held during the month of May. Representatives from ERSC and benefit plan vendors will be available to answer retiree questions. ■

VENDOR HEALTH FAIRS

DATES	LOCATION	TIME
Thursday, May 3, 2007	Julius West Middle School	
Tuesday, May 8, 2007	651 Great Falls Road	3:00–5:00 p.m.
Thursday, May 17, 2007	Rockville MD 20850	

Please check the ERSC Web site for up-to-date open enrollment information.

UnitedHealthcare

From time to time, retirees contact the Employee and Retiree Service Center (ERSC) expressing concerns about their health plans. Questions can range from access to in-network providers to a belief that benefit levels have been changed without providing proper notice to our retirees. MCPS reviews each question on a case-by-case basis, and we are proactive in our efforts to resolve all health plan issues. We sometimes find issues that reflect a misunderstanding of how our health plans work.

ACCESS TO DOCTORS AND HOSPITALS

MCPS expects all the health plans offered to retirees to provide sufficient access to doctors and hospitals. Our plans are sound, with well-thought-out processes for ensuring network sufficiency, and we are satisfied that UnitedHealthcare (UHC) is following the outline for services contracted by MCPS. From time to time, doctors leave plans, and there are instances of providers leaving networks; but there is not a mass defection of doctors from the UHC plan. Often, doctors who leave the plan cannot reach agreement with the insurance company on compensation. On other occasions, doctors leave the managed care networks altogether, retire, or pass away.

MCPS often hears that retirees who participate in a UHC plan and reside outside of Maryland/DC are not able to obtain benefits or access to participating plan providers. Under most circumstances, benefits are available to retirees. Retirees may be enrolled in one of our four different UHC plans.

IN-NETWORK VS. OUT-OF-NETWORK BENEFITS

MCPS retirees may choose from a variety of medical plans. Health Maintenance Organizations (HMOs), including Optimum Choice, CareFirst BlueChoice, or Kaiser Permanente. Each of the HMOs requires participants to obtain benefits from in-network providers. The two Point-of-Service (POS) plans administered by UHC require a participant to visit a participating provider to obtain in-network benefits. POS plans also allow participants to see a provider that does not participate in network and retirees will still receive out-of-network benefits. The UHC indemnity plan allows a participant to see the provider of his/

continued on page 2

IN THIS ISSUE:

Governmental Accounting Standards Board (GASB) Update

For nearly 40 years, the Montgomery County Public Schools (MCPS) has recognized and funded the cost of pension benefits during the years employees earned retirement credit. Today, the MCPS Employees Retirement and Pension System trust fund has assets in excess of $900 million set aside exclusively to pay retirement benefits to MCPS retirees.

Until recently, MCPS was not required to recognize and fund the cost of the health and life insurance benefits provided to retirees. The costs were managed on a pay-as-you-go basis.

However, in June 2004 the Governmental Accounting Standards Board (GASB) issued Statement No. 45 (GASB 45) that addressed Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. These non-pension benefits are commonly referred to as other post-employment benefits (OPEB) and include health and life insurance offered to retirees. GASB 45 now requires similar accounting for OPEB in place for pensions, beginning July 1, 2007.

In response to the new GASB requirement, MCPS has asked our actuarial consultant to complete an analysis of the OPEB liability. Our consultant has determined that MCPS must include more than $1 billion on our financial statements for OPEB, beginning July 1, 2007.

While GASB does not require MCPS to fund the accrued expenses, credit rating agencies have signaled AAA-rated jurisdictions such as Montgomery County to fund the obligation if they expect to maintain their AAA Bond rating. As a result, MCPS has been working with the Montgomery County Council, the county government, and other county-funded agencies on a Joint Agency Workgroup on OPEB to develop a plan to fund the obligation to ensure money is available to cover the cost of providing health and life insurance benefits to retirees in the future.

The Joint Agency Work Group on OPEB has recommended a five-year phase-in strategy to fund OPEB, and the Board of Education has included an additional $16 million in the FY 2008 budget as the first installment toward full funding. The contribution amount is expected to increase by an additional

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UnitedHealthcare, continued from page 1

her choice. Benefits are subject to copays and deductibles. Nonparticipating doctors may require payment up front and the member must seek reimbursement for services rendered by the UHC doctor. Any cost that exceeds the reasonable and customary fee is the responsibility of the member.

Laboratory services

On January 1, 2007, UHC entered into a national contract with LabCorp. At that time, LabCorp became UHC's primary in-network laboratory for all of its health plans. At the same time, UHC terminated its agreement with Quest Labs. LabCorp is among the largest clinical laboratories in the world, with more than 1,300 patient service centers in the United States. Quest Labs is still available to retirees covered under Medicare, and on an out-of-network basis for POS and indemnity plan participants.

Medicare Supplement Plan

Nearly 80 percent of MCPS plan participants enrolled in the UHC plan are in the Medicare Supplement plan. For retirees who participate in the Medicare supplement plan, Medicare is your primary insurance. There are no in-network restrictions for the Medicare supplement plan, and participants may see any doctor who participates in Medicare. The benefits are the same for all plan participants anywhere in the United States. There is no UHC provider network for Medicare retirees. The Medicare supplement plan offered to MCPS retirees is a fee-for-service indemnity plan.

Claims payment concerns

MCPS also has been told on several occasions that "UHC takes too long to pay a claim, or denies claims for no reason at all." Please recognize that UHC is not perfect, and sometimes will make mistakes with claim payments.

When this occurs, MCPS holds UHC accountable for the mistake, with the expectation that the error will be resolved immediately. Years of experience dealing with complaints has demonstrated that the problem does not always rest with the insurance company. UHC will not pay a claim if the claim is submitted with incorrect procedure codes or insufficient information. Doctors' offices can also make mistakes when filing claims.

MCPS expects UHC to be precise when paying claims on its behalf, and when a claim takes longer to process due to incorrect information or a doctor providing inaccurate or incomplete information, UHC is doing what it has been instructed to do. UHC was hired by MCPS to provide health insurance to our retirees according to our plan provisions. These procedures help keep down costs to retirees by paying properly documented claims only. ▪

$16 million for each of the next four years, until $80 million is reached in FY 2012.

As part of its funding plan, on March 13, 2007, the Board of Education amended the existing pension plan trust to create an umbrella trust with two accounts—one account for the pension plan assets and one account to oversee the OPEB assets. The money set aside in the OPEB trust account may only be used for the exclusive benefit of plan participants and to pay the cost of OPEB expenses.

Over the next few weeks, the Montgomery County Council will be considering whether to approve the funding of the OPEB contribution for the five county-funded agencies. The combined FY 2008 OPEB cost for the five county-funded agencies is approximately $32 million—a number that will spark debate about the county's ability to sustain the level of health and life insurance benefits provided to retirees. Indeed, the County Council Management and Fiscal Policy Committee has asked all county agencies to assess the full range of options for limiting their OPEB liability, and these options include evaluating the level of benefits provided, the employer/retiree cost-sharing arrangements, rules for determining eligibility for coverage, etc.

The Board of Education remains committed to providing retirees with competitive benefit options, and will continue our efforts to offer benefit programs that are affordable to both retirees and Montgomery County taxpayers. Look for updates on OPEB-related developments in future editions of *Retiring Times.* ▪

Count on Generics for Prescription Cost Savings

During the past few years, a number of well-known brand-name drugs have lost their patent protection and are now available to the Montgomery County Public Schools (MCPS) retirees in a lower-cost generic form. The trend of new generic launches is expected to continue for the foreseeable future.

Generic drugs are much lower in cost than their brand-name counterparts, and are of the same high quality as the brand-name drug. Some generic medication may cost as much as 75 percent less than their brand-name counterparts. For a generic alternative to receive Food and Drug Administration (FDA) approval, the generic medication must be exactly like the brand-name equivalents in effectiveness, safety, ingredients, performance, strength, and dosage form.

Why do generic medications cost less? The manufacturers do not have to spend hundreds of millions of dollars that are required to discover, create, and market the original medication. The majority of the cost of a brand-name drug includes the manufacturer's effort to recoup their investment. Once the patent has expired, a generic manufacturer can produce the drug for a decidedly lower cost, and the savings are passed on to consumers in the form of a lower out-of-pocket prescription cost.

More than half of all prescriptions in the U.S. are currently filled with generic medications. There has been a significant increase in the availability of generics over the past few years. This trend is expected to continue. In 2005 and 2006, such highly utilized drugs as Allegra, Biaxin, Zoloft, Zocor, Pravachol, and Flonase came off patent and are now available in generic form. The table below provides a list of products that are projected to lose patent protection in 2007 and 2008 and will be available in the generic alternative in the near future.

In 2006 MCPS employees and retirees filled more than 31,000 prescriptions for these 10 drugs, at a cost of over $4.5 million. When drugs lose their patent protection, MCPS retirees and their dependents can save money with lower co-pays when ordering the generic alternative. The projected savings can add up quickly during the year.

For example, when Zocor did not have a generic alternative available, a 90-day supply would cost an MCPS retiree in Prescription Plan A a $50 co-pay. A 90-day supply of generic Zocor has a $10 co-pay—saving $160 a year. Retirees who participate in Prescription Plan B save even more. When Zocor was only available as a brand-name drug, a 90-day supply had a $70 co-pay for a Plan B participant, while a 90-day supply of generic Zocor now has a $20 co-pay—saving our retirees $200 a year. ▪

2007 (Projected)		2008 (Projected)	
Drug	**Treatment of**	**Drug**	**Treatment of**
Norvasc	Blood Pressure	Imitrex	Migraine
Lotrel	Blood Pressure	Lamictal	Seizure
Ambien	Sleep Disorder	Toprol XL	Blood Pressure
Zyrtec	Allergy	Fosamax	Osteoporosis
Omnicef	Infection	Risperdal	Pyschosis

Note: Patent expiration and generic launches can be affected by delays in FDA approval and patent litigation.

Plan Bids

This summer, The Montgomery County Public Schools (MCPS) plans to join with the county government, Montgomery College, Maryland-National Capital Park and Planning Commission and the Washington Suburban Sanitary Commission (county agencies) to bid medical and prescription drug plans for agency employees and retirees. By joining together in a bid process, the five county agencies hope to achieve favorable pricing for health care and prescription drug coverage offered to their active and retiree plan participants.

The bid will ask vendors to duplicate the existing plan designs, with no expected changes to existing benefit levels. The agencies will evaluate medical and prescription drug vendors from a variety of perspectives, including the adequacy of provider networks, customer service, claims processing, competitive pricing, and system and reporting capabilities. It is anticipated that any changes that result from the bid process will be implemented January 1, 2008, for active employees and on July 1, 2008, for retirees (unless it would make sense to make the change sooner).

MCPS will keep the employee bargaining units and the MCPS Retiree Association involved through participation on the Joint Employee Benefit Committee.

Retiring Times

News from the Employee and Retiree Service Center
7361 Calhoun Place, Suite 190
Rockville, MD 20855-2787
phone: 301-517-8100
e-mail: ERSC@mcpsmd.org

Larry A. Bowers
Chief Operating Officer

Susanne G. DeGraba
Chief Financial Officer

G. Wesley Girling, Director
Benefits Strategy and Vendor Relations

Elaine R. Freedman
Communications Specialist and Editor

Employee and Retiree Service Center

Retirees, when was the last time you updated your life insurance beneficiary/beneficiaries?
Please visit the Employee and Retiree Service Center (ERSC) Web site to obtain a life insurance beneficiary form.
Once completed, please return to ERSC at the address above.

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