County Administrator's Recommendations

Other Post Employment Benefits

Unrepresented Employees & Certain Retirees

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How did OPEB Become such an issue?

- Concern over OPEB was triggered by the collapse of several major <u>private</u> sector retirement pension and health plans
- Governmental Accounting Standards Board (GASB), which governs the County's accounting reporting, requires the County to report its long-term liabilities such as retiree medical costs
- GASB intended that shining the light on these long term liabilities would force the public sector to address, and hopefully avoid, the collapses in benefit plans that occurred in the private sector

OPEB within the Context of Contra Costa County

- As of 1-1-06 we have 8,438 active employees, 4,856 retirees and 360 surviving spouses, and their dependents who are eligible for OPEB benefits
- The liability/cost for our entire pool of existing employees and retirees over the course of our lifetimes, is approximately $2.57 billion
- We are currently only budgeting for the annual health care premium for current retirees called PAYGO ($36 million in 07-08), and putting aside zero for our current employees
- We spent $113 million for our active and retiree health program in FY 06/07 and have budgeted $130 million for FY 07/08
  - Health programs are now 12% of total salary & benefit costs
  - Retirement is 20% of total salary & benefit costs
  - Permanent Salaries are only 52% of total salary & benefit costs

What’s our health care cost challenge?

- Actuarial studies tell us that in addition to the 8,438 active employees we will have over 12,773 retirees consuming retiree health care services during the next 30 years; retirees will live longer; and, health care costs will continue to increase

- Even with a fixed active population, as more people retire our annual total health care premium costs will increase

  - $130 million and 10.7% of our budget now ($36 million/2.9% retirees)
  - $374 million and 22.8% in 10 years ($106 million/6.5% retirees)
  - $684 million and 31.0% in 20 years ($237 million/10.7% retirees)
  - $1,191million and 40.2% in 30 years ($462 million/15.6% retirees)
  - and continue to increase until approximately 2085

- The ever growing health care expense demand on the general fund, will eventually consume our ability to provide public services

History

- Specific Goals and Objectives ☑

  The Board of Supervisors has set four specific goals: 1) to fully comply with GASB Statement 45; 2) to adopt and follow an OPEB financing plan, which balances our requirement to provide public services with our desire to provide competitive health care benefits for our employees both now and when they retire; 3) to minimize collateral detrimental impact to the provision of indigent health care in our County; and 4) pursue and support Federal and State legislation.

- Economic Census Assumptions and Rationales ☑

  Prior to ordering the first formal OPEB liability valuation, the OPEB task force met with actuaries from Buck Consultants and developed economic census assumptions and rationales for the actuarial valuation.

- Funding Strategy ☑

  While the County has paid for health care costs on a Pay-As-You-Go ("Pay-Go") basis for over forty years, the Board has publicly acknowledged the need to begin to partially pre-fund the benefit. Due to the size of the liability it is almost impossible for the County to fully pre-fund the liability; rather partial pre-funding will be phased in over thirty years. It is the Board's intent to fully pre-fund OPEB benefits over time.

History (continued)

- <u>Funding Levels</u> ☑

  The Board established an initial pre-funding target for the County of 100% of its retirees, which currently translates to 40% of the total OPEB liability. This means that during the next 30 years, we will need to incorporate updated demographics and cost information into our financing plan in order to fully fund our OPEB benefits. In establishing this target level, a variety of things were considered: 1) specific funding guidelines for financial long-term obligations; 2) the Government-wide balance sheet impact of various funding levels; 3) the liability impact of various funding levels; 4) the volatility of the assumptions/risk of funding; and 5) the ability to fund/affordability (for more information see the June 26, 2007 report to the Board).

- <u>Pre-funding resources</u> ☑

  As an initial step towards funding the County's OPEB liability, the Board of Supervisors adopted the allocation of resources (and the future investment income earned) totaling $588 million (plus interest) reserved by the end of fiscal year 2022/23, and $100 million added annually thereafter.

- <u>Employee Communication Forums and Information Sessions</u> ☑

  The County Administrator scheduled OPEB informational sessions throughout the County for our employees. The purpose of the presentations was to provide information regarding OPEB, to answer employees questions, and to seek employees input and suggestions on solutions.

History (continued)

- Establishment of a Trust Fund ☑

  The Board approved an irrevocable trust (Internal Revenue Code Section 115) for OPEB funding for Contra Costa County (1/15/08). The purpose of establishing the Trust is to comply with GASB to establish a mechanism for 1) saving OPEB funds, 2) earning interest, and 3) discounting our liability.

- Selection of a Benefit Design Consultant ☑

  County selected and contracted with a Benefit Design consultant – Buck Consultants to help in identifying cost control options.

- On-going/Future Milestones☐

  - Board adopts FY 2008/09 budget including OPEB cost reduction strategy.
  - County continues to work with consultants to analyze County demographics, our and other jurisdictions' health benefit programs, cost containment strategies, and alternative plan structures.
  - Buck Consultants to provide County with updated OPEB liability in 2008.
  - Board adopts FY 2008/09 budget including a minimum of $10 million directed to OPEB pre-funding resources; monies will be redirected from Workers Compensation.
  - Task Force will evaluate and offer recommendations on the use of OPEB bonds as part of any OPEB cost redirection plan.
  - Appoint stakeholder task force to recommend cost containment strategies and recommendations for health care design/programs within specific parameters.

The Cost of Health Care

- The County's health care expenditure and OPEB liability is determined by the cost of health care for active employees (current & future), and for retirees (current & future)
- The cost of the County's health care and the size of the County's OPEB liability are due to two factors
  - The *number of individuals* receiving health care, and
  - The *cost* of health care premiums
- The only way to reduce the County's health care costs and OPEB liability is to affect one or both of these factors

Board of Supervisors Commitment

- Most significantly:
  - 40% OPEB Pre-Funding Target,
  - established a 115 Irrevocable Trust as a 'lock-box' for pre-payment of OPEB, and
  - dedication of the following specific pre-funding resources

Redirect Workers Compensation	2008/09	$10
Redirect UAAL Rate Adjustment	2009/10	$10
Redirect POB Bond payments	2014/15	$33
Redirect POB Bond payments	2022/23	$47

[$588 million end of FY 2022/23 & $100 million thereafter]

The Facts

- OPEB liability $2.6 billion (as of 1/1/06)
- Funding target 40% of liability
- Funding period of 30 years
- Identified partially pre-funding resources
- Remaining pre-funding *Shortfall* is $139 million

Options

- Given the County's existing commitments, the Board has three options:
  - Preserve Programs Approach - preserve programs and take all cuts from benefits
  - Preserve Benefits Approach – fund benefits at their current level and take all cuts from programs
  - Balanced Approach - reduce both future benefits and programs

Balanced Approach

The County can partially pre-fund the OPEB liability and reduce costs by reducing both benefits and programs

- Pros
  - Fewer cuts to programs would be necessary if cuts were also made to benefits
  - If a new health care tier for new hires were established, long-term the County could pre-fund the entire OPEB liability
  - Future medical inflation costs would be shared by employees, retirees, and the County depending upon cost containment parameters
  - Not reliant on Health Care Legislation
- Cons
  - Depending upon the cost containment parameters identified, there would be a cost increase to most active employees and retirees

Solving the County's Health Care Cost Problem

- Given the size of the liability, the slowing economy, the size of the program cuts over the last few years, and pending State budget cuts:
  - The County cannot responsibly eliminate enough programs to solve the County's health care cost problem
- The County must contain the growth of the County's cost of health care

All Suggestions Were Considered

- Some of the other options considered:
  1. Provide employee only coverage – employee pays dependent cost
  2. County limits contribution to 50% of the premium cost
  3. Hard dollar cap on premium paid by County
     1. Roll-back rates (2006)
     2. Current rates (2008)
     3. Future fixed rate (2009)
  4. Cap on annual growth of County's share of the premium
  5. Employees contribute to a DC plan to prefund their share of the premium
  6. Amount of premium paid by County varies with plan experience – drive participants into best performing plan
  7. Offer a retiree cafeteria plan – no pretax option for retirees
  8. Part time work program for retirees who earn just enough to pay premiums and allow them to pay on a pre-tax basis
  9. No retiree health benefits for new hires or those eligible after a certain date

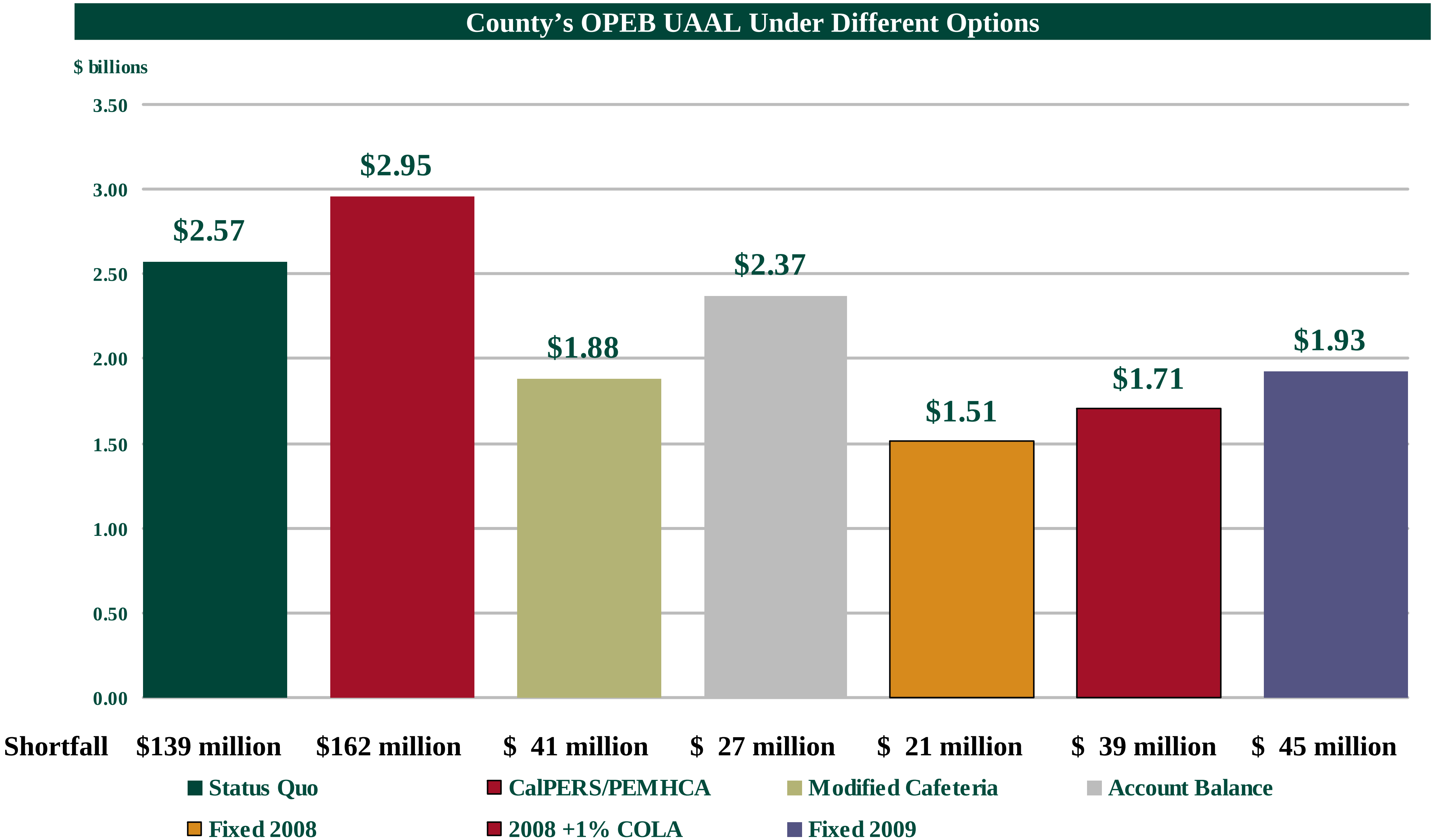
Options Considered (continued)

10. Terminate the DB retiree health plan and mandate and DC only plan
11. Provide incentives for all current employees to move to a DC plan and cap the DB plan
12. Move all employees into PEMHCA
13. Pull out of PEMHCA
14. Implement various plan design cost share reductions (Rx copays, eliminate dual coverage)
15. Increase pay or other benefit and reduce health care contribution
16. Add health care bonus waiver program
17. Create health care spending account to incentivize savings to be used for health care spending as retirees
18. Introduce employee contribution based on a formula based (in part) on salary level
19. Tier benefits based on various groups and when they will retire.

Number of Possible Solutions Considered

- There are a huge number of possible benefit designs under consideration that can be used to deliver benefits to the County's employees and retirees
- The issue is not *design*, but total *cost*
- The following basic approaches would have a material impact on health care cost and therefore our OPEB liability. Except for CalPERS/PEMHCA, each could be used with a tiered approach for new hires to further reduce future costs:
  - CalPERS/PEMHCA
  - Modified Cafeteria Option
  - Account Balance Option
  - Fixed Subsidy Option
  - Freeze +1% COLA Option
  - Variable to Fixed Rate Option

Benefit Option Impact Summary*



*For all options except PEMHCA, Safety calculated at Frozen Rate.

County Administrator's Recommendations

Information presented to you today will be included in my April 15 recommendations to the Board of Supervisors for changes to health care benefits for unrepresented employees and for persons who retired from unrepresented positions:

– no dual coverage in two county health plans for an employee or retiree after December 31, 2008

– once eligible, required enrollment in Medicare Parts A & B (for individuals under 65 as of December 31, 2008)

– fixing the County health care subsidy at the 2009 level

– a new health care tier for new hires, hired after December 31, 2008

– pursue portability and savings mechanisms

– start a task force to develop health care plan options

Changes for unrepresented current active employees & persons who retired from unrepresented positions

- Coverage available as **either** the primary or as a dependent if both spouse/partner are County employees (no dual coverage)
- Once eligible, required enrollment in Medicare Parts A & B (for individuals under 65 as of December 31, 2008)
- Cost growth containment – fix health care subsidy at the 2009 level
- Pursue health care portability and mechanism for saving for future health care costs

Fixed Subsidy - 2009

County fixes its future payments towards health plan premiums at 2009 level

- Pros
  - Reduces the OPEB liability
  - Reduces health care cost growth for County
  - Eliminates medical inflation growth for County
- Cons
  - Starting in 2010, all future medical inflation growth will be borne by employees & retirees, unless changes are made in health care plans

New Tier for New Hires

- Proposed for new hires as of January 1, 2009:
  - Access to health benefits while employed
  - Coverage available as **either** the primary or as a dependent if both spouse/partner are County employees (no dual coverage)
  - Separate rate pool (unblended rate with no implied subsidy to retirees - active employees do not subsidize retirees' rates)
  - Upon retirement: 1) no County contribution towards health care premiums; and 2) access to County health plans

Benefit Design Task Force

- Establish Benefit Design Task Force charged with design recommendations for a new Health Benefit Program
- Members of the Task Force to include a finite group:
  - Designated members of unrepresented employee and retiree groups
  - County subject matter experts
  - Benefit design, actuary, and tax consultants
- Set specific achievement goals/parameters
  - Design benefit plans that maximize benefit choices/options within subsidy amounts
- Set specific target dates for completion of any plan redesign recommendations before 2010

Goals

- Fully comply with GASB Statement 45 – which is intended to guarantee the sustainability of health care benefits into the future
- Adopt and follow an OPEB financing plan, which balances our requirements to provide public services with competitive health care benefits for our employees (now and when they retire)
- Pursue and support Federal and State health care legislation

Next Steps

- Recommend to the Board on April 15 the actions described in this presentation and ask them to declare their intent to pursue these recommendations
- Return to the Board on May 6 for formal Board action
- Continue employee and retiree information sessions
- Recommend FY 08/09 budget that incorporates health plan changes and budget reductions
- Continue meeting & conferring as labor contracts expire
- Continue community education and outreach on our efforts to achieve our goals

Questions?
All OPEB Reports Available at WWW.CCCOUNTY.US

Contra Costa County 2008 Rates and Contributions

		Current contributions	2008 Annual Premium	Annual County Subsidy	Annual Retiree/Employee Share
Actives/Retirees (under 65)					
Kaiser	EE	80%	$5,996.4	$4,797.12	$1,199.28
	EF	80%	$13,971.48	$11,177.18	$2,794.30
Health Net HMO	EE	80%	$7,177.08	$5,741.66	$1,435.42
	EF	80%	$17,605.68	$14,084.54	$3,521.14
Health Net PPO	EE	59%	$9,986.88	$5,846.32	$4,140.56
	EF	59%	$23,724.48	$13,888.31	$9,836.17
CCHP - A	EE	98%	$6,197.04	$6,073.10	$123.94
	EF	98%	$14,764.56	$14,469.27	$295.29
CCHP - B	EE	90%	$6,836.64	$6,152.98	$683.66
	EF	90%	$16,244.88	$14,620.39	$1,624.49

Contra Costa County 2008 Rates and Contributions

		Current contributions	2008 Annual Premium	Annual County Subsidy	Annual Retiree Share
Retirees (over 65)					
Kaiser Cost	EE	80% + $96.40	$6,623	6,455	168
Retiree	EF	80% + $192.80	$15,224	14,493	731
Kaiser Senior	EE	80% + $96.40	$2,724	2,724	0.12
Advantage	EF	80% + $192.80	$7,426	7,426	0.12
Health Net Cost	EE	80% + $96.40	$4,853	4,853	0.12
Retiree	EF	80% + $192.80	$9,706	9,706	0.12
Health Net	EE	80% + $96.40	$3,557	3,557	0.12
Seniority Plus	EF	80% + $192.80	$7,114	7,113	0.12
Health Net Flex	EE	59%+96.40	$7,710	5,670	2,040
Net PPO	EF	59%+192.8	$15,420	11,340	4,079
CCHP - A	EE	98% + $96.40	$5,040	5,040	0.12
Retiree	EF	98% + $192.80	$12,451	12,451	0.12
CCHP - B	EE	90% + $96.40	$5,680	5,680	0.12
Retiree	EF	90% + $192.80	$13,931	13,931	0.12

Retiree rates for EF calculated with 2 people on Medicare