

# City of Somerville

## Retiree Health Insurance Information, Analysis and Recommendations Spring, 2009



# An Escalating Crisis

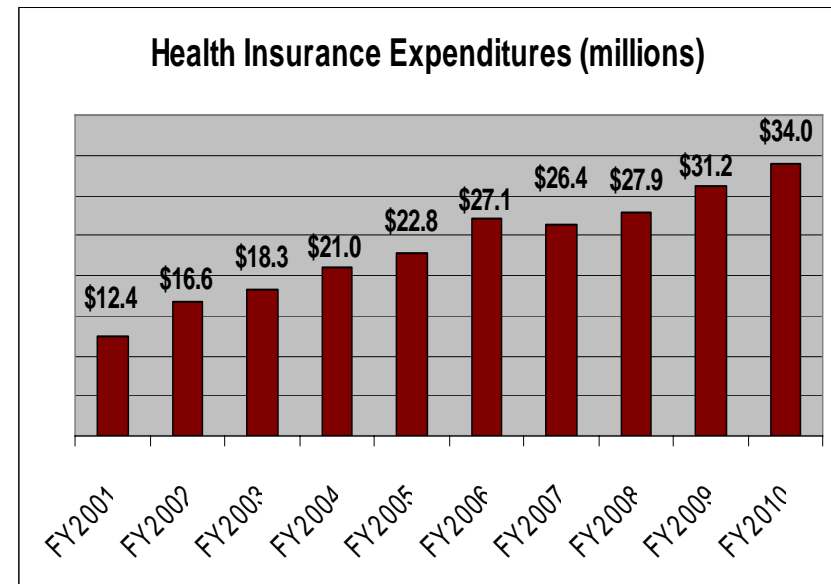
- ❑ Health care costs are escalating faster than the rate of inflation – **and** faster than our ability to pay:
  - Costs currently amount to 15% of entire city budget
  - FY10 appropriation expected to increase by \$3.7M (unabated)
  
- ❑ Somerville pays significantly more per person per retiree for health insurance than many other Massachusetts cities and towns
  
- ❑ Despite increased commercial tax revenue, better cost management, increased cost-sharing in employee health care and other efficiencies, growing health insurance costs threaten the City's ability to invest in core public services

# How Much Does It All Cost?

❑ Costs more than doubled from 2001-2009

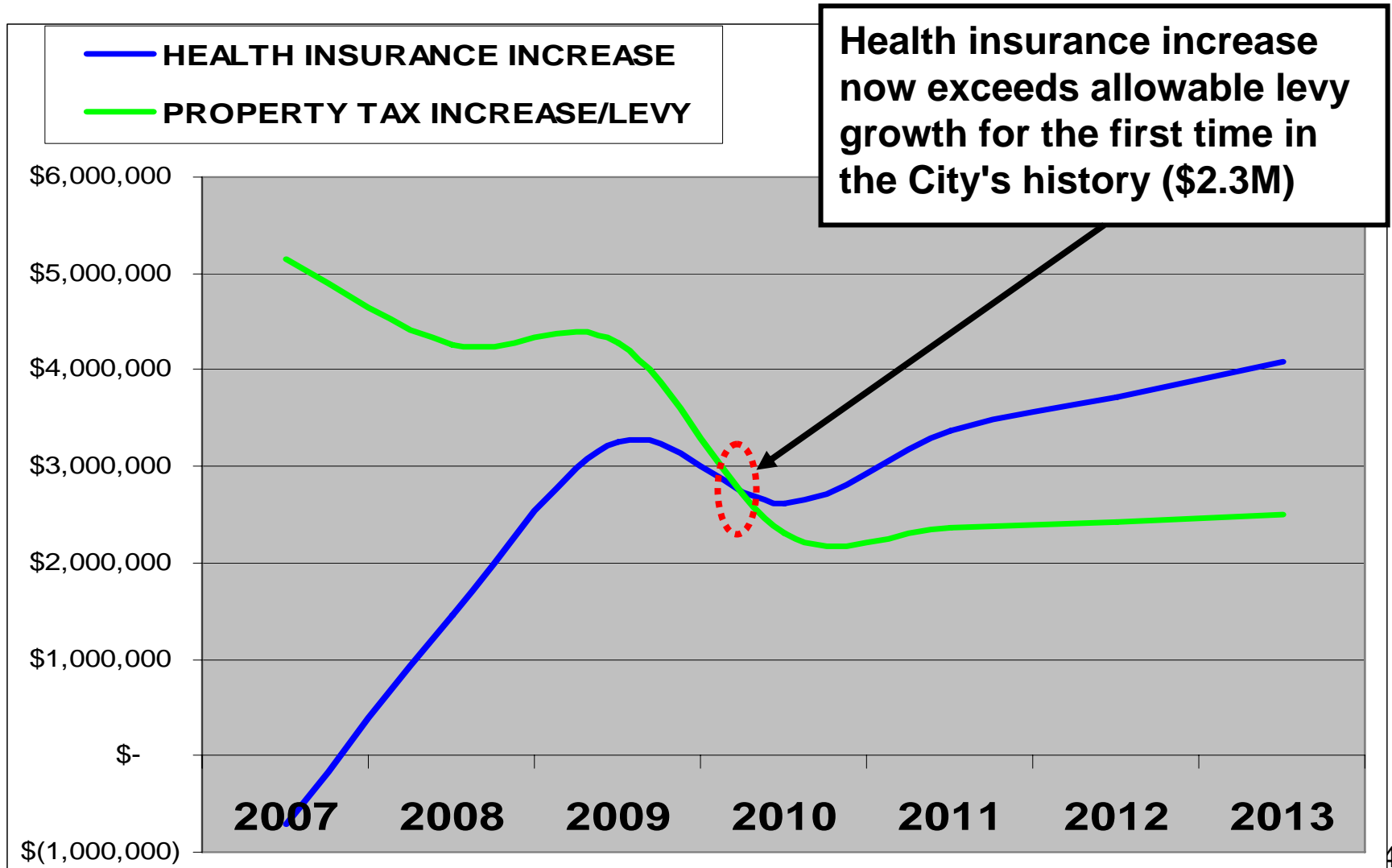
❑ FY01-FY10  
projected increase = 174%

❑ Expenditures will exceed  
\$34M next fiscal year  
(up from \$31M)



❑ FY09-10 increase will exceed allowable levy  
growth (\$2.3M) for the first time in our history

# Rising Costs vs. Property Tax Growth



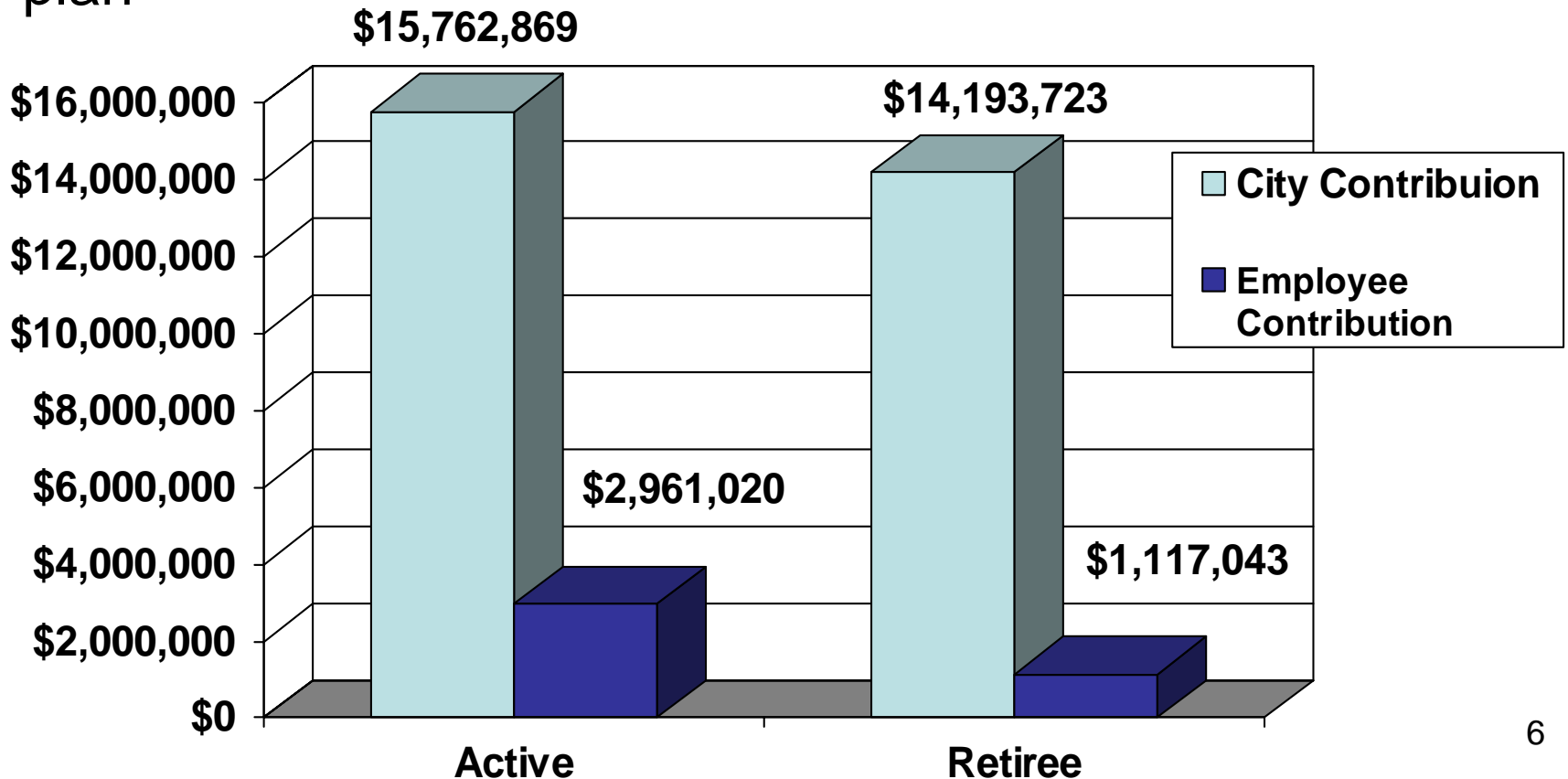
# Other Post Employment Benefits

## □ OPEB liability

- o Governmental Accounting Standards Board (GASB) 45 requires financial statements from local governments to list the total dollar value of retiree health insurance promises made to each worker and employee
- o Current Pay as you go system ignores value of health care benefits that retirees and active workers alike have already earned but not received
- o Required actuarial study to determine liability
- o Liability huge – exceeds \$500 million – generous contribution ratios up liability which can affect our bond rating

# Costs Cont.

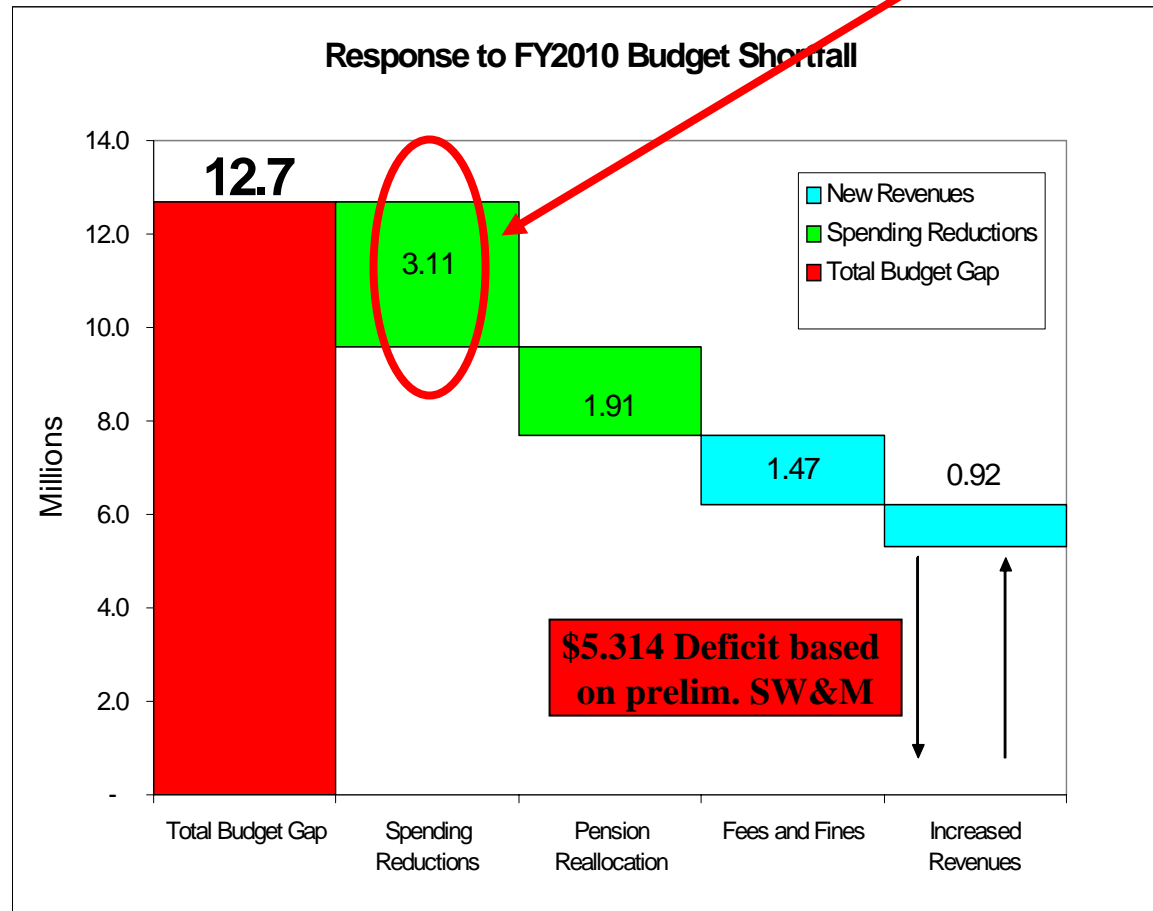
- ❑ City picks up over 93% of retiree health care costs vs. 84% for actives
- ❑ It takes between 4 and 6 property taxpayers to fund one retiree family HMO plan or one retiree family Indemnity plan



# What's At Stake?

- ❑ Opportunity costs
- ❑ What else could we have done with the +\$20M that went to escalating health insurance?
- ❑ Without reducing costs, City will be forced to make deep cuts to personnel and core services

\* Increasing contribution ratios contribute to the spending reductions



# What Have We Done Thus Far?

- ❑ Wage Freezes and furloughs (\$350K)  
(Non-union, SPD Superiors, and Patrolmen)
- ❑ Non-union contribution increases (FY09 80/20; FY10 75/25 - effective July 1<sup>st</sup>)
- ❑ Convened the IAC and the FAC
- ❑ School efforts mirror City

# Controlling Costs While Maintaining Equity

- ❑ Build a **sustainable** system
- ❑ Maintain or improve coverage for retirees
- ❑ Maintain generational parity and continuity of health insurance
- ❑ Similar to strategy for active employees, work to bring costs for retiree health insurance into line with those in other municipalities

# Overall Health Insurance Strategy

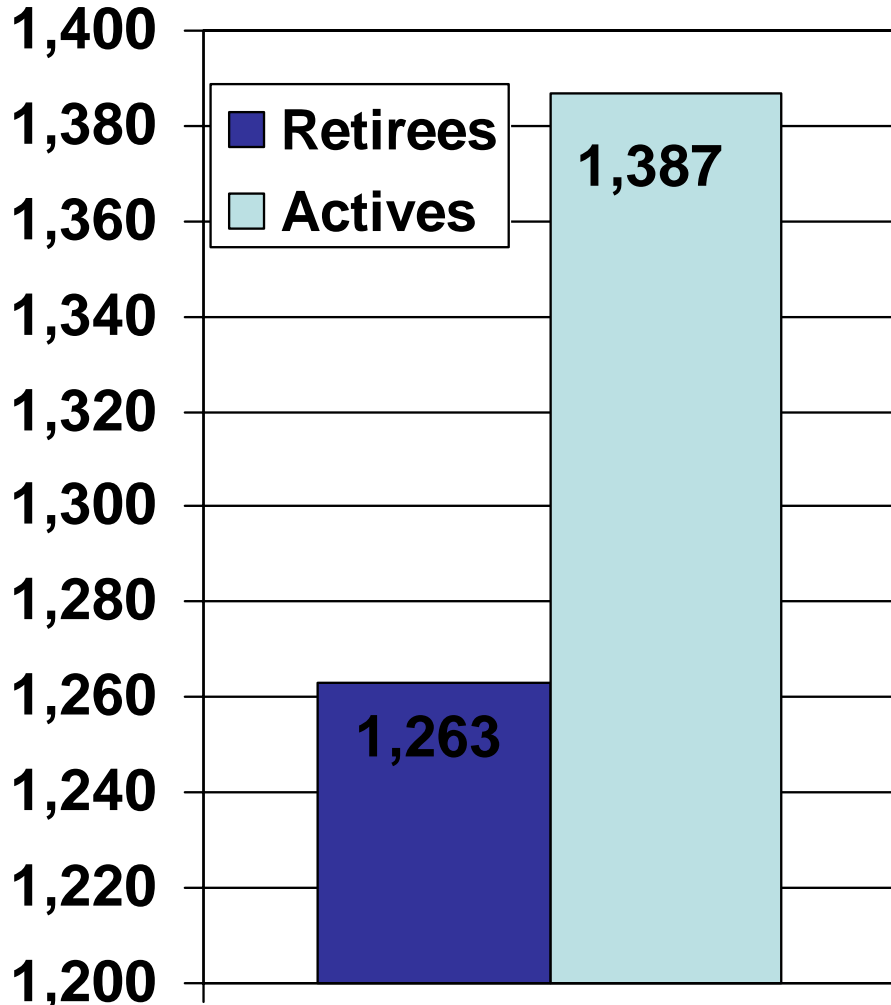
## Achieved:

- ✓ Implemented FY09 and FY10 non-union health insurance contribution increases
- ✓ Negotiated union health insurance contribution increases
- ✓ Continue working to bring all contribution ratios to a uniform level

## In Progress:

- Improve plan design
- Consider GIC option
- Adopt Section 18.
- Move retirees away from the Indemnity plan
- Implement retiree contribution increases:
  - Increase Indemnity plan from 99/1% to 60/40%
  - Increase HMO, PPO, and supplemental from 90/10% to 75/25%

# Employee and Retiree Plans by the Numbers



□ 1,263 Retiree Plans (48%)

□ 1,387 Active Employee Plans (52%)

□ Total Plans in Force: 2,650

# What Are The Health Care Choices?

- ❑ Retired and active employees have 5 health plan options and 3 supplemental plans\*
- ❑ Spouses and dependents are also eligible for coverage

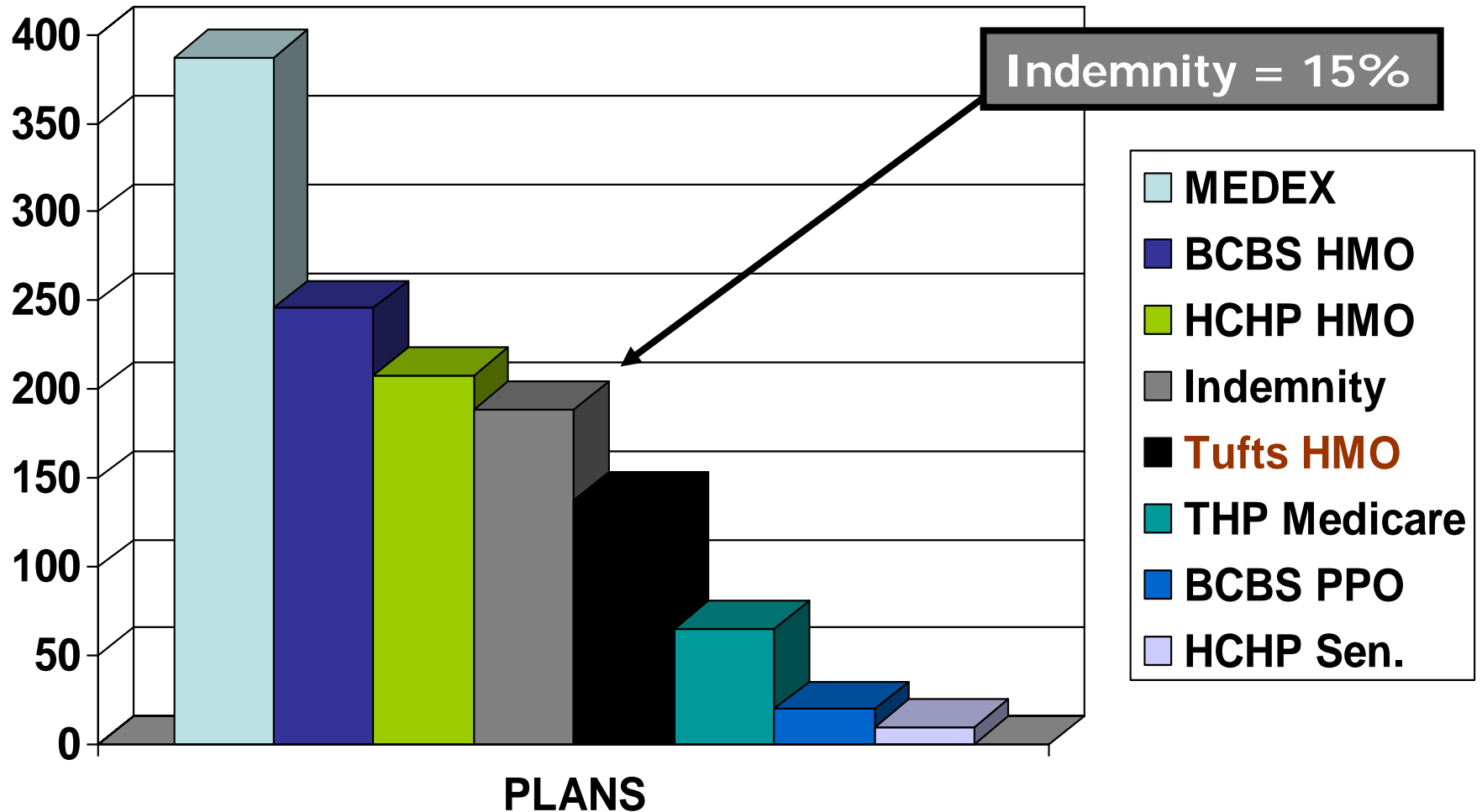
1. BCBS Indemnity	4. Tufts PPO
2. BCBS PPO	5. HPHC HMO
3. BCBS HMO	* <i>BCBS MEDEX</i>
* <i>Tufts Medicare</i>	* <i>HCHP 1<sup>st</sup> Seniority</i>

# Contribution Ratios by Unit

- ❑ 9 City bargaining units; 8 School bargaining units
- ❑ Non-union staff City/School at 80/20 (75/25 effective July 1<sup>st</sup>)
- ❑ Retirees = 90/10 (HMO/PPO) & Indemnity = 99/1

<u>CITY</u>	<u>NEGOTIATED RATIOS</u>	<u>SCHOOL</u>	<u>NEGOTIATED RATIOS</u>
SEIU Local 888 (E-911)	80/20	UAW Community Schools	Me Too = Lowest Rates
Police Employees Association	80/20	UAW Program Admin.	Me Too
Police Superior Officers Association*	80/20 (7-1-09)	STA Paraprofessionals	Me Too
Municipal Employees Association A	80/20	AFSCME Cafeteria	Me Too
Municipal Employees Association D	80/20	AFCME Clerical	Me Too
Municipal Employees Association B	85/15	STA SCALE employees	Me Too
School Custodians	85/15	STA Teachers	Me Too
FAS / Fire Suppression	85/15	Somerville Admin.	Me Too
FAS / Fire Alarm Operators	85/15		

# What Plans Do Retirees Use?



# How Do Our Retirees Compare?

<u>City or Town</u>	<u>Indemnity</u>	<u>HMO</u>	<u>PPO</u>
<b>Somerville</b>	<b>99%</b>	<b>90%</b>	<b>90%</b>
<b>Boston</b>	<b>75%</b>	<b>90%</b>	<b>90%</b>
<b>Springfield</b>	<b>75%</b>	<b>75%</b>	<b>75%</b>
<b>Quincy</b>	<b>No</b>	<b>90%</b>	<b>75%</b>
<b>Medford</b>	<b>81%</b>	<b>81%</b>	<b>81%</b>
<b>Malden</b>	<b>n/a</b>	<b>82.25%</b>	<b>82.25%</b>
<b>Brookline</b>	<b>75%</b>	<b>75%</b>	<b>75%</b>
<b>Worcester</b>	<b>75%</b>	<b>75%</b>	<b>75%</b>
<b>Lawrence</b>	<b>75%</b>	<b>75%</b>	<b>75%</b>
<b>New Bedford</b>	<b>n/a</b>	<b>75%</b>	<b>75%</b>
<b>Weymouth</b>	<b>80%</b>	<b>82.5%</b>	<b>82.5</b>
<b>Chelmsford</b>	<b>n/a</b>	<b>60%</b>	<b>60%</b>

# Indemnity Plan

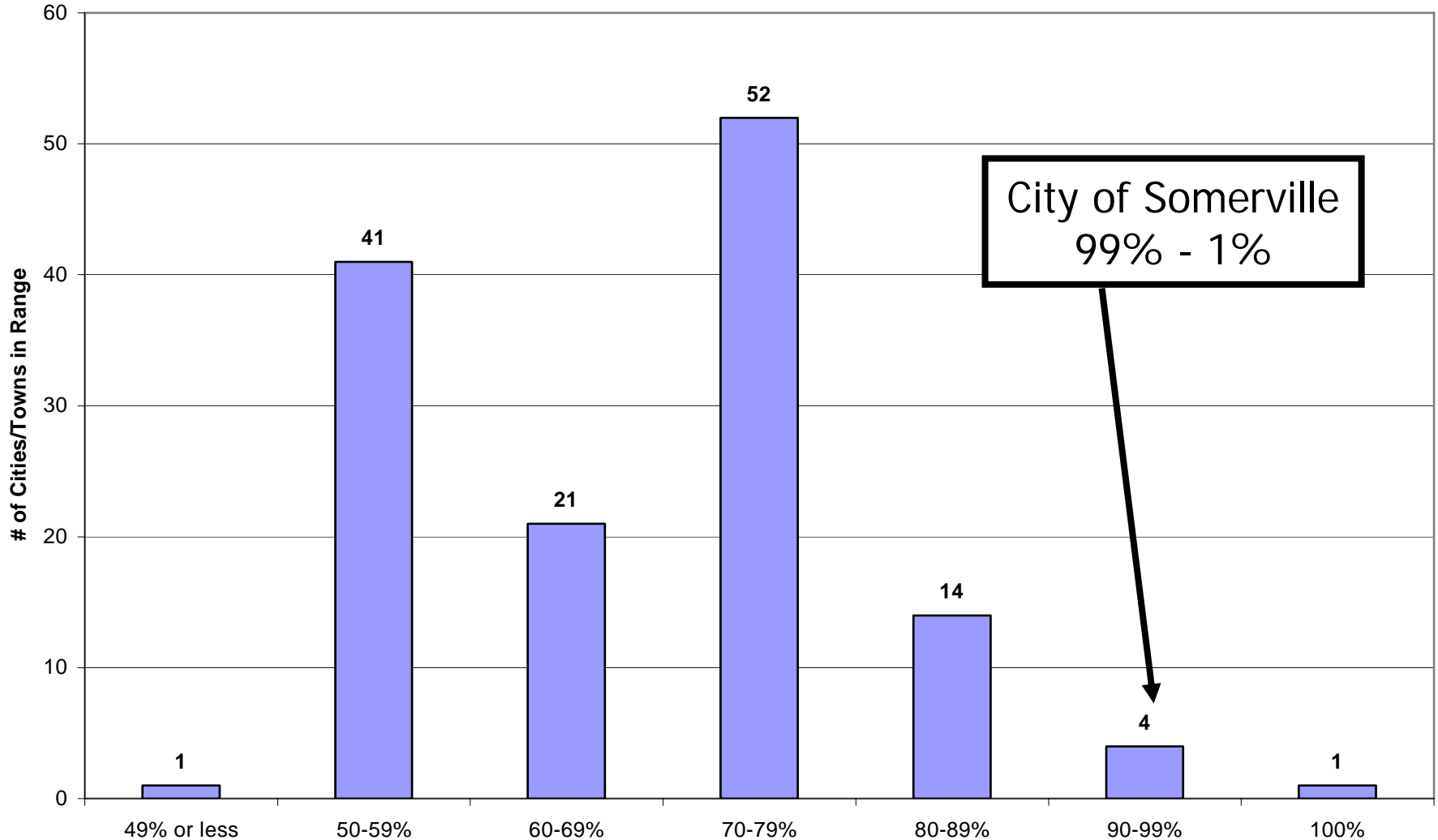
- ❑ BCBS has stopped offering to other municipalities
- ❑ Goal: move retirees off Indemnity plan (189 retiree plans)
- ❑ Legally mandated to offer Indemnity
- ❑ Contribution split = 99/1
- ❑ Increasing contribution level to 40% will save \$989,279
- ❑ Taxpayer Metric: the average 2-family tax bill = \$4,145;  
Cost of retiree indemnity (F) = \$23,692.
  - **It takes 5.72 taxpayers to fund 1 family Indemnity Plan**

	(1) Monthly Retiree Contribution	(2) Proposed (8-1-09)	(3) New Rates (10-1-09)	Increase (3-1)
Family	\$17.89	\$715.60	\$825.09	\$807.2
Individual	\$7.15	\$286	\$329.76	\$322.61

- ❑ City can save \$989,279 from moving retirees and actives away from indemnity to PPO and HMO

# Most Other Cities and Towns Contribute to Employee and Retiree Indemnity Plans at a Much Lower Rate

City/Town Contribution Rates to Indemnity Plans



Source: Benchmark Titles Salary Survey, FY07 - Massachusetts Municipal Personnel Association,

# PPO Plan

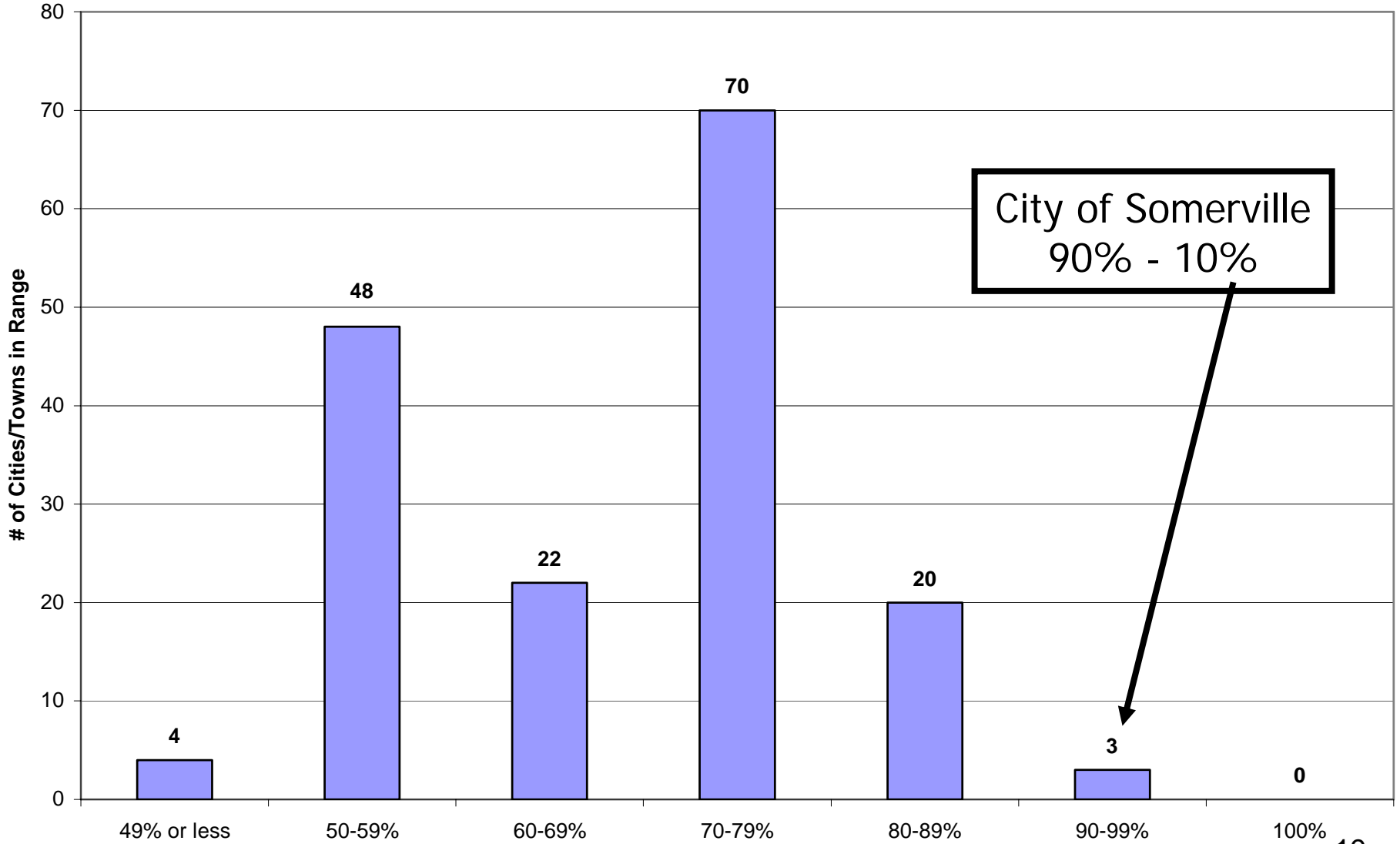
- ❑ BCBS Blue Care Elect Preferred (PPO) (20 retiree plans)
- ❑ Projected FY10 funding = \$1,545,091 (no changes)
- ❑ Contribution split = 90/10% & change to 75/25%

	(1) Monthly Retiree Contribution	(2) Proposed (8-1-09)	(3) New Rates (10-1-09)	Increase (3-1)
BCBS PPO				
Family	<b>\$161.01</b>	<b>\$402.53</b>	<b>\$464.08</b>	<b>\$303.07</b>
Individual	<b>\$64.35</b>	<b>\$160.88</b>	<b>\$185.49</b>	<b>\$121.14</b>

- ❑ City can save \$40,380 from adjusting retirees contributions to align with surrounding cities and towns

# PPO Plans

City/Town Contribution Rates to PPO Plans



Source: Benchmark Titles Salary Survey, FY07 - Massachusetts Municipal Personnel Association,

# HMO Plan

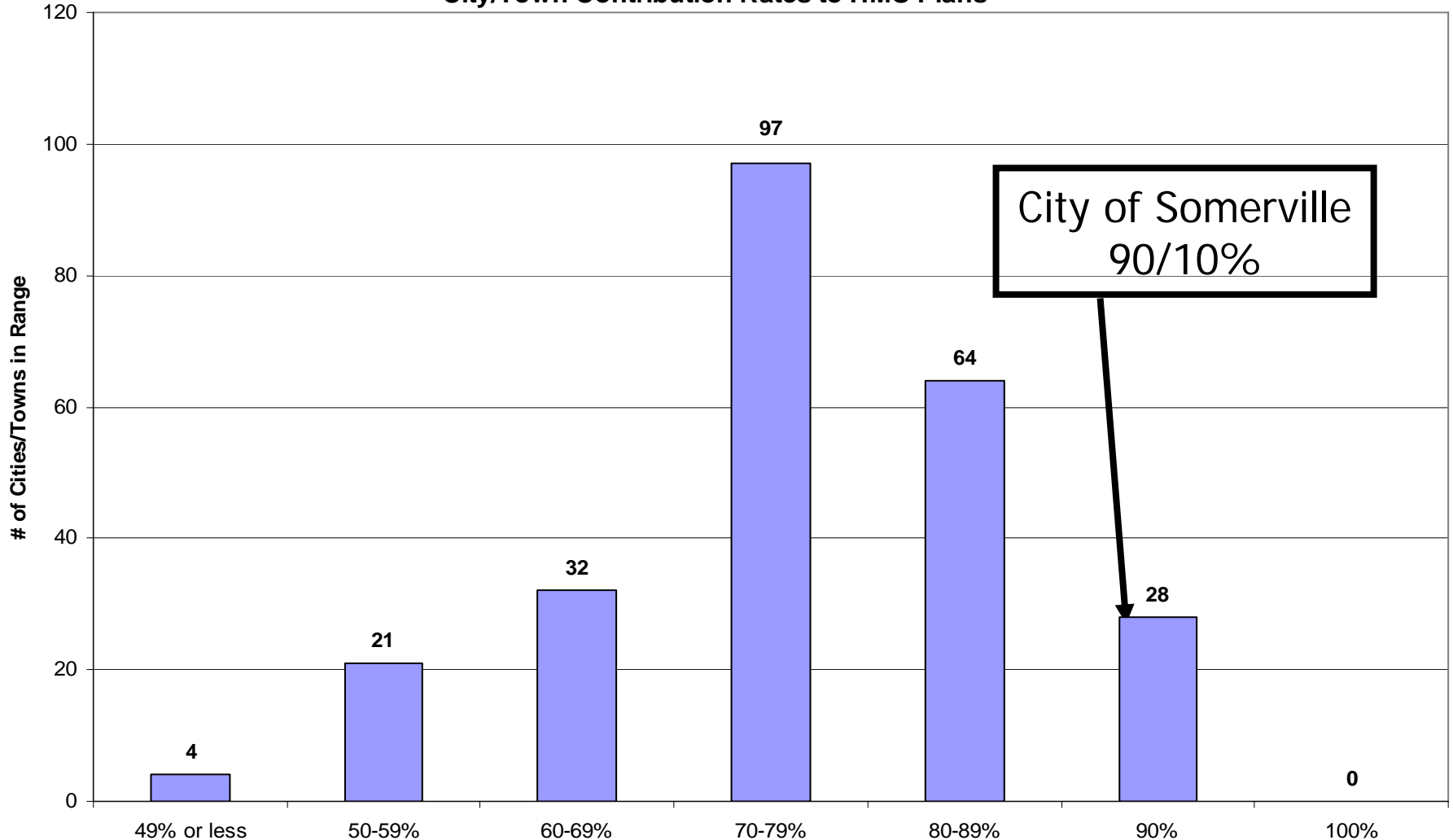
- ❑ BCBS Network Blue, Tufts, and HPHC (592 retiree plans)
- ❑ Contribution split = 90/10%; change to 75/25%
- ❑ Taxpayer Metric: the average 2-family tax bill = \$4,145; Cost of retiree HMO (F) = \$18,348
  - o It takes 4.43 taxpayers to fund 1 family HMO Plan

	(1) Monthly Retiree Contribution	(2) Proposed (8-1-09)	(3) New Rates (10-1-09)	Increase (3-1)
BCBS Network Blue HMO (246)				
Family	\$152.40	\$381	\$439.29	\$286.89
Individual	\$53.80	\$142.00	\$163.73	\$109.93
HPHC HMO (208)				
Family	\$157.00	\$392.50	\$411.07	\$254.07
Individual	\$58.00	\$145.00	\$151.63	\$93.65
Tufts HMO (138)				
Family	\$162.60	\$406.50	\$441.23	\$278.63
Individual	\$54.60	\$136.50	\$148.25	\$93.65

- ❑ City can save \$815,758 from adjusting retiree contributions to align with surrounding cities and towns

# HMO: Comparable Coverage at Reduced Expense to City

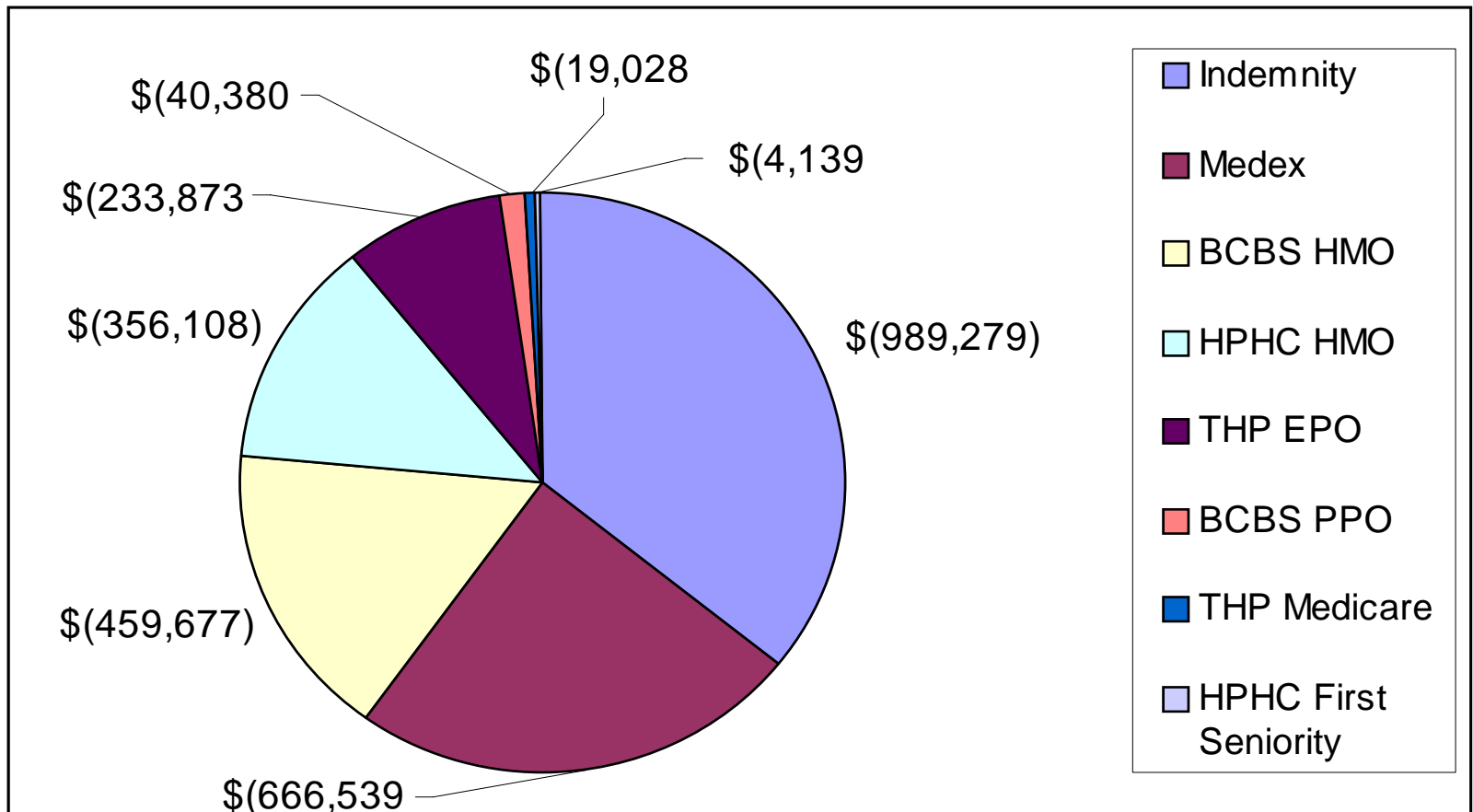
City/Town Contribution Rates to HMO Plans



Source: Benchmark Titles Salary Survey, FY07 - Massachusetts Municipal Personnel Association,

# Summary

- ❑ FY10 appropriation will increase by +\$3.7M (no action)
- ❑ Majority of increase can be mitigated
- ❑ Full action results in \$2.769M in savings; net appropriation increase = \$908,529

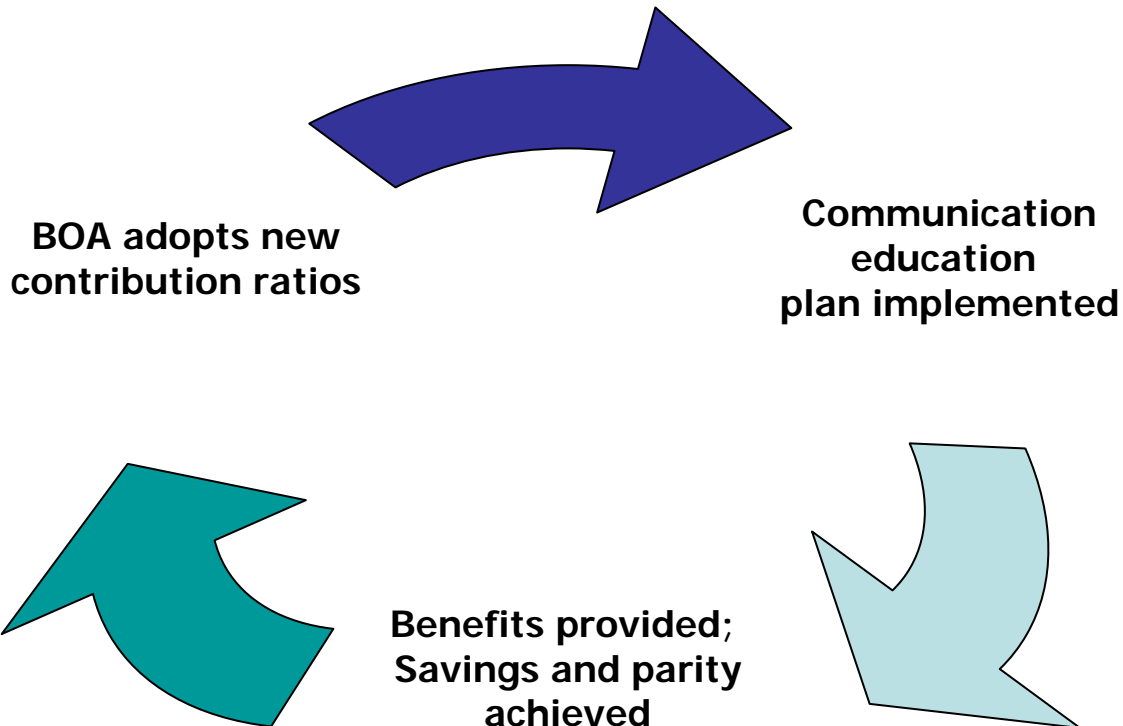


# Challenges

- ❑ Outreach and Communication
- ❑ BOA action necessary (Board Order)
- ❑ Collective bargaining
- ❑ Left unabated, escalating costs will continue to hamper our ability to provide and invest in our core services

# Implementation Plan

- ❑ FY2010 budget is dependent on target implementation date of Aug 1<sup>st</sup> 2009
- ❑ Two month aggressive outreach and education campaign by City Administration



# Communication and Outreach

- ❑ Comprehensive outreach and communications plan similar to past efforts to reach each and every retiree
- ❑ Tailored mailing to all retirees with new rates and information to be mailed 5/22/09
- ❑ Invitations to indemnity participants to a workshop with health plan representatives to be mailed 5/22 (6 workshops to be held wks of 6/8, 6/15 and 6/22)
- ❑ Five trained employees will be available to speak with retirees who have any questions or concerns

# City of Somerville

