Presentation to Board of Supervisors
February 5, 2008

Final Report to Address the
Cost of Retiree Medical Insurance
and the County's OPEB Liability

Presented by the County Administrator and
the Human Resources Director
## Current “Pay-As-You-Go” Costs

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Retiree Health Benefits Costs</th>
<th>% of Payroll</th>
<th>Percentage Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>$20M (budget)</td>
<td>7.60%</td>
<td>38%</td>
</tr>
<tr>
<td>2005-06</td>
<td>$15.7M</td>
<td>5.92%</td>
<td>29%</td>
</tr>
<tr>
<td>2004-05</td>
<td>$12.4M</td>
<td>4.53%</td>
<td>26%</td>
</tr>
<tr>
<td>2003-04</td>
<td>$ 9.6M</td>
<td>4.00%</td>
<td>20%</td>
</tr>
<tr>
<td>2002-03</td>
<td>$ 8.4M</td>
<td>3.40%</td>
<td>17%</td>
</tr>
<tr>
<td>2001-02</td>
<td>$ 6.7M</td>
<td>2.85%</td>
<td></td>
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</tbody>
</table>
GASB 43 & 45

- Must reflect commitments made and the financial impacts on the County.

- Sonoma’s OPEB liability:
  - $381 million – 2004
  - $398 million – 2005 (adjusted for medical inflation)
  - $500 - $600 million – 2007 estimate
Options for Addressing OPEB?

1. Double our retiree medical contributions from approximately $20 M to $39M* by:
   a) Cutting 200 – 250 positions for 30 years?
   b) Asking voters for more money?

2. Reduce retiree medical benefit program into a fiscally sustainable one.

*Based on $398 million unfunded liability.
Primary Goal of Board of Supervisors

- Create and maintain a retiree medical program that is sustainable in the long run.
- Status quo is not sustainable.
- Unfunded liability will approach $900 million in 5 years if we do nothing.
What is “Sustainable”?

- 5% - 7.5% of the salary portion of payroll (approximately $20 million at high end of this range, $ amount increases with future payroll).
- What kind of benefit can we sustain with 5% - 7.5% of payroll costs for 30 years?
Is 5% - 7.5% of Payroll Fair?

- Our 9 comparison counties for setting management salaries average 2.6% of payroll.
- For every 1% greater than 7.5%, it requires us to eliminate 32 more positions.
- We lost approximately $14 million in new annual revenues to cover increased retiree medical costs.
Is 5% - 7.5% of Payroll Fair?

- This $14 million could have funded 156 new positions to meet service demands.
- We will not look back, but we have to stop the bleeding and avoid elimination of current positions and/or essential public services.
- Next 2 years will be difficult – eliminating positions partly due to retiree health. If costs exceed 7.5%, we will be eliminating positions solely due to retiree health.
County of Sonoma Retiree Health Benefits
30-Year Projection of Annual Required Contribution and Premium Costs
Stakeholder Involvement

- 18 months of dialogue with all affected groups via Joint Labor Management Benefits Committee (JLMBC).
- Solicited ideas and ran over 100 actuary scenarios.
- Labor groups, retirees, unrepresented groups through JLMBC process agreed on evaluation criteria for desired new retiree medical program.
## JLMBC Evaluation Criteria

| Cost Savings                                                                 | Plan for long-term sustainability                                                                 |
|                                                                             | Significant savings impact                                                                          |
|                                                                             | Long term solution                                                                                   |
|                                                                             | Make progress towards target                                                                          |
| Fairness                                                                     | Minimize level of pain (health benefit costs for those with lower income have greater impact)          |
|                                                                             | Grandfather (honor years of service and honor expectations of current employees and retirees)          |
|                                                                             | Protection to the most vulnerable (defined as age and income)                                       |
|                                                                             | Consider ability to pay, Impact on retirees                                                          |
| Impact on County’s Ability to Provide Services                              | Recruit and retain quality employees                                                                  |
|                                                                             | Balance cost savings with negative impact on employees and retirees                                   |
|                                                                             | Ease of administration                                                                                |
|                                                                             | Ease of measurement and ease of understanding                                                          |
|                                                                             | Minimize impact on services to public                                                                 |
| Quality Health Care Program                                                  | Accessible to users (geographic/portability)                                                         |
|                                                                             | Access to group health insurance (regardless of who pays)                                             |
|                                                                             | Access to health care providers                                                                      |
|                                                                             | Affordable                                                                                           |
|                                                                             | Choice in health plans                                                                                |
| Flexible                                                                     | Flexibility to respond to changes in the state and national healthcare landscape                      |
|                                                                             | Accommodate potential change to state and federal healthcare                                           |
Stakeholder Involvement

- Limited input on specifics of a plan
- The following groups did put forth options:
  - Department & Agency Heads’ Association (DAHA), Sonoma County Confidential Employees’ Association (SCCEA), Sonoma County Administrative Management Council (SCAMC)
Key “Hot Button” Issues

- Implicit subsidy of rating under 65 premium rates with active employees.
- Retirees over 65 already have the implicit subsidy removed.
- If removed for under 65 retirees, would have potential to increase their rates by:
  - 25% – 50% for Kaiser and PacifiCare members
  - 24% for County Health Plan members
Key “Hot Button” Issues

- Medical Inflation
  - Percent of Premium v. Capitated Amount
  - Guaranteed COLA v. Ad Hoc COLA
- Impact on retirees over 65
Key Underlying Principle #1

- 5% - 7.5% of payroll over 30 years is a fixed amount.
- If there is a concern that you wish addressed, we have to take money from somewhere else.
  - For example, dependent coverage would get addressed by reducing money allocated to the retiree only.
Key Underlying Principle # 2

- Our first priority in allocating a fixed dollar amount (5% - 7.5% of payroll) is to the retiree.
Key Underlying Principle # 3

- We need to be respectful of the difficult transition to a sustainable program.
Key Underlying Principle # 4

- Those over 65 are likely more vulnerable to impacts of the transition.
Staff Recommendations

- Commit to a capitated amount of $400 - $500 per month, with at least 10 years of service.
- Provide a transition period of 3 years.
- Board adopt Ad Hoc COLA Policy.
Staff Recommendations

- Do not remove implicit subsidy for retirees under 65, at this time.
- Complete updated actuarial report soon.
- Begin meet and confer process and consider alternatives that result in an ARC of 5% - 7.5% of payroll, with some reasonable assurance (e.g., capitated amount).
Commit to a Capitated Amount of $400 - $500 per month

- Percent of Premium plans that reach 5% - 7.5%
  - 25% of premium = $80 - $175 per month
    - 5.53% ARC based on 2004; estimate 7.53% for 2007
  - 40% of premium = $129 - $281 per month
    - 5.86% ARC based on 2004; estimate 7.86% for 2007

- If medical inflation exceeds minimum actuary assumptions (4.25% in years 2013+), the program exceeds 7.5% of payroll – future Board will have to make cuts.
Commit to a Capitated Amount of $400 - $500 per month

- Two reasons to commit to capitated amount:
  1. Dollar benefit is too low to start when addressing medical inflation, compared to $400 - $500 flat dollar.
  2. Otherwise (e.g., premium share plans), Board is committing to an unknown $ amount in future.
Provide a Transition Period of 3 Years

- Split the difference between the current benefit and the capitated amount ($400 - $500 per month) into thirds and gradually reduce the benefit contribution.
  - e.g., $800 to $700 to $600 to $500
Board Adopt Ad Hoc COLA Policy

- Over 30 years, many things can change.
  - Demographics, payroll growth, health care, and the County’s financial position.
- If it appears one or more variables improve and the ARC dips below 7.5%, the Board will consider a COLA.
- Furthermore, if the County experiences a financial improvement, a one time reimbursement of medical inflation can occur.
Do Not Remove Implicit Subsidy, at this time

- Due to “prodding” by staff, the jury is still out on this one. This can benefit under 65 retirees 25% - 50% of premium.
- There is some long term risk that active employees may protest this.
Complete Updated Actuarial Report Soon

- While we have been talking, approximately 500 more employees retired and 500 new employees entered the system.
- We have not fully funded the ARC.
- Estimate is now $500 - $600 million.
- What is the new ARC?
Begin Meet & Confer Process

- Consider speeding up the creation of a new tier for new hires – delay reduces what we can offer to everyone.
- Must be capitated and within 5% - 7.5% of payroll.
Next Steps – Spring 2008

- Plan amendments to provide eligible retirees and their dependents access to County medical plans and to allow retirees to waive coverage if they are covered by other insurance.

- Meet and confer process with SEIU, DSA and SCLEA on initial proposal on retiree medical benefits as part of regular 2008 MOU negotiations.
Next Steps – Spring 2008

- Request Board take action on Ad Hoc COLA Policy for Retiree Medical Insurance.
- Request other employee organizations with MOUs to open contracts to negotiate changes in retiree medical benefits.
- Meet with unrepresented employees and retirees on proposed changes.

- Set up investment trust for OPEB
  - Consider alternatives to manage trust, such as Sonoma County Employees’ Retirement Association (SCERA) or other outside trustees

- Voluntary employee pre-tax medical savings plans e.g., Health Savings Accounts (HSAs), Voluntary Employee Benefit Association (VEBA) plans.
  - Evaluation by JLMBC, HR, Auditor-Controller
  - Recommendation to Board of Supervisors
  - RFP for vendor(s) selection
  - Meet and confer on proposed plan(s)
  - Implementation of plan(s)
Next Steps – 2008/2009

- Expansion of plan choices for retirees (out of state, over 65 supplemental plans) to provide better access and less costly plan options.
  - Evaluate and prepare recommendations
  - Communicate and consult with JLMBC and Retirees’ Association
  - Return to Board with additional retiree plan choices
  - Implement for Open Enrollment Spring 2009
Next Steps – 2008/2009

- Wellness & Disease Management programs to attempt, over the long term, to reduce claim and premium costs.
  - Research and prepare report on alternatives
  - Consult with JLMBC
  - Meet and confer with employee organizations
  - Implementation of program(s), including vendor selection