



# City of CHARLOTTE

## MEMORANDUM

TO: Mayor Lewis and City Council Members

FROM: Gregg Guetschow, City Manager

SUBJECT: Council Policy Regarding Retiree Health Insurance

DATE: July 7, 2017

I previously reported to Council our intent to propose a modification to the City's policy regarding retiree health insurance. You will find a marked-up version of the proposed policy elsewhere in the agenda packet. City Clerk Ginger Terpstra and I met with retirees this week to discuss the proposed changes.

The current policy was adopted in 2010 and replaced a policy in effect since 1987. The policy change was intended to cap legacy costs associated with the program and ultimately bring an end to the City's obligations to retirees for health insurance. At present, 12 former employees and their spouses are eligible for benefits under the policy. One current employee and one former employee and their spouses are expected to receive this benefit in the future. Finance Director Christine Mossner has estimated that the cost of this benefit, which is budgeted at \$120,000 for 2017, will peak at \$155,000 in 2021 and gradually decline thereafter until the last of the eligible retirees is deceased.

The impetus for the change to the 2010 policy is to address a modification that Blue Cross has made in the manner in which it calculates premiums. Briefly, the City formerly had its premiums calculated as part of an area rate reflecting the experience of covered employees in our region of the state. Beginning in 2017, premiums were determined based on the City group alone and resulted in a 19% increase in cost. After consulting with our service provider Austin Benefits, we came to believe that including retirees as a part of the group being provided coverage on the policy might be adversely affecting the premium calculation.

To address this, the new policy would move all but one of the retirees out of the group plan and into individual insurance policies. (One former employee retired pursuant to a provision of a union contract which required that he be provided insurance coverage through the City's group plan. That benefit terminates in 2019.) The City's cost would remain the same as is currently the case. For retirees under age 65, we would contribute into a health reimbursement account an amount equal to a percentage of the monthly premium that we would be paying if they remained in the group. For those over 65, we would contribute a percentage of \$500 monthly.

On several occasions, Council member Ridge has suggested that the \$500 monthly amount provided to retirees over the age of 65 is more generous than is warranted. In 2010, the staff recommendation was to set this amount at \$375, replacing a practice of paying the full cost associated with a Medicare supplement plan. After receiving input from affected retirees, Council set the amount at the current \$500. The amount has not been adjusted since that time.

The vast majority of retirees covered by the policy receive a benefit equal to between 78% and 94% of \$500 per month, depending upon their years of service at the time of their retirement. In the retiree is married, his or her spouse also receives an equivalent amount. It should be noted, while this amount was intended to recognize that retirees over the age of 65 would be covered by Medicare, that is not true of all. Retired Police and Fire Department employees who were hired prior to 1987 would not be eligible for Medicare unless they qualify through some other employment.

For the current year, the benefit for those retirees over 65 and their spouses is estimated to cost \$68,880. If the benefit were reduced to \$375 per month, the annual cost would decrease by \$16,992 to \$51,888.

Council should be aware that it has no legal obligation, apart from the one union contract provision referenced above, to provide retiree health insurance benefits. Unlike pension benefits, which are protected by provisions of the Michigan Constitution, Council may make such changes to the policy as it desires. In 2010, the Council recognized that promises had been made to its employees and retirees that it should honor, particularly given that the benefit being provided would eventually cease to have an impact on the City's budget.

Finally, I wish to call to Council's attention one other propose modification to the policy at paragraph 7.1. I am recommending that the percentage contributed to a retirement health savings plan for the community development director be increased from 1.5% to 3%. I cannot recall the rationale for the percentage proposed in the original policy. I believe that an increase to 3% provides a benefit level that is more internally consistent than the current policy provides.