

Council Agenda Report

Date: March 13, 2017

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SUBJECT: Other Post-Employment Benefits for Retirees

Recommendation: That Council discontinue new retiree health insurance for new employees effective July 1, 2017.

Discussion:

Background

Health insurance for retirees was a historic framework of most governments and large companies. However, over the years, the health insurance environment has changed. The cost of health insurance has risen and continues to rise. Oversight agencies in an effort to recognize the costs of future health insurance for an employee when they retire (Other post-employment benefits or OPEB) have begun to require actuarial reports on these costs and require them to be recorded on the books of publically traded companies and now governments. The City began to record this costs on their books several years ago and currently has a liability of \$5.5 million dollars. Due to new guidance effective in FY18, OPEB costs will rise. With the next valuation, and even without considering the costs of new employees, the number will only continue to grow. Because of these regulations, publically traded companies have discontinued retiree's health insurance plans and governments are starting to do so as well.

Future Coverage

Staff is suggesting that Council discontinue new retiree health insurance for new employees. When considering this, it is important to consider whether health insurance will be available for employees when they retire especially if they retire in their early 50s. The Affordable Care Act (ACA) has provided affordable care for people today. But even with the uncertainty of how the ACA will change in future years, Maryland has been proactive in providing affordable health insurance. Health insurance is now affordable to those who retire at an early age.

The Numbers

McWilliams Financial Group has analyzed our health insurance census. 25% of our census is made up of retirees. However, they make up 25-40% of the costs in a given year. With LEOPS, the number of retirees under 65 will continue to grow and drive up the census number and costs.

Fiscal Impact: In terms of cash savings, we will not realize a saving for 20 years. However, our actuarial values for OPEB (see above) will begin to decrease. In addition, we are providing savings for the City and citizens 20 years for now.

Approved: