

Response to Questions on the FY 2005 Advertised Budget Plan

Request By: Supervisor Hudgins

Question: What is the cost to the County to increase the retiree health benefit subsidies to \$175 for all retirees age 55 and over with 20 or more years of service?

Response: The additional cost for FY 2005 associated with increasing the retiree health benefit subsidy to \$175 per month for all retirees age 55 and over with 20 or more years of service would be \$527,700. The cost was calculated using current participation counts, including an estimate for the projected age and years of service for individuals participating in the program.

The current structure includes subsidies that vary by length of service and Medicare eligibility. In order to implement the change noted above, the structure would be adjusted to increase the subsidy for retirees under age 65 with 20 to 24 years of service and would eliminate the subsidy reduction after age 65 for those with more than 20 years of service who are eligible for Medicare. The current subsidy structure, as compared to the structure based on the changes noted above, is displayed in the following table.

Current and Adjusted Retiree Health Benefit Subsidies				
<u>Years of Service at Retirement</u>	<u>Current Structure</u>		<u>Structure w/ Increase for retirees w/ 20 or more years of service</u>	
	Before Age 65	After Age 65	Before Age 65	After Age 65
5 to 9	\$25	\$15	\$25	\$15
10 to 14	\$50	\$25	\$50	\$25
15 to 19	\$125	\$75	\$125	\$75
20 to 24	\$150	\$100	\$175	\$175
25 or more	\$175	\$125	\$175	\$175

Three categories of retirees would be affected if the structure was adjusted for retirees with 20 or more years of service. The associated costs for each category are as follows:

- \$87,900 – The cost of increasing the subsidy from \$150 to \$175 for those less than 65 years of age with 20 to 24 years of service.
- \$298,800 – The cost of increasing the subsidy from \$100 to \$175 for those 65 or older with 20 to 24 years of service who are Medicare eligible.
- \$141,000 – The cost of increasing the subsidy from \$125 to \$175 for those 65 or older with 25 or more years of service who are Medicare eligible.

It should be noted that the Ad Hoc Health Care Committee of the Retirees' Associations made a previous recommendation for the FY 2005 Budget to increase the subsidies for

those 65 years of age and older with 15 or more years of service by partially or completely eliminating the reduction when a retiree is eligible for Medicare. The committee proposed an increase of \$25 per month for retirees with 15 to 19 years of service and an increase of \$50 per month for retirees with 20 or more years of service. The estimated cost of adjusting the subsidy, calculated by the committee using actual counts, was \$361,500. Including those retirees who will reach the age of 65 during FY 2005, the Retirement Administration Agency placed the estimated cost at \$391,475.

It should also be noted that a proposed GASB standard that will likely be established will eventually require that the full cost of retiree health benefits, earned in the current and prior years, be reflected in financial statements. Any benefit enhancement to the retiree subsidy program will add to the total liability that must be recognized. The estimated amount of \$527,700 represents only the first year of costs associated with the proposed subsidy change. Annual costs will increase with the growth and aging of the retiree population. Based on a six percent growth rate of retirees, the total cost of the proposed change, if funded in advance, is estimated to be over \$13 million. If the enhancement is not funded in advance, this change would increase the unfunded accrued liability of the subsidy program that must be reported in future financial statements.