Response to Questions on the FY 2006 Advertised Budget Plan

Request By: Chairman Connolly

Question: What is County staff doing to deal with the ever increasing cost of retiree healthcare?

Response: Over the last few years, health care expenses nationwide have increased at double-digit rates for employees, retirees, and employers. The impact has been felt harder by retirees, who bear a larger percentage of the premium cost and whose income levels generally only increase by 2-3 percent annually for the cost of living.

While the Board of Supervisors increased the retiree subsidy amounts in FY 2001, FY 2004, and FY 2005, healthcare costs have climbed faster than inflation. In FY 2000, a full-career retiree paid $140.92 per month for individual coverage and the County subsidy covered the remaining $60.00 (30 percent). (Beginning in FY 2001, the County switched from premium increases beginning July 1 to increases beginning January 1 to shift open enrollment to mirror that of the federal government. Therefore, premium increases beginning in 2002 are implemented on a calendar year basis.) In Calendar Year 2005, the retiree paid $258.03 and the subsidy covered the remaining $175.00 (40 percent). So while the County subsidized a larger percentage of the cost, the actual payment by the retiree increased.

Effective January 1, 2006, it is projected that premium increases for health insurance will increase by a moderate 12-15 percent. These estimates are based on prior experience and anticipated moderation in cost growth. This increase is significantly lower than the 20-25 percent increase originally projected. The County will monitor and adjust the health insurance plans to minimize dramatic fluctuations in premiums in future years.

There are several recent developments in retiree health care that are being evaluated by staff, including Medicare Part D, which will become effective January 1, 2006. Medicare Part D will provide a prescription drug benefit for Medicare-eligible retirees that is partially subsidized by the federal government. Staff is currently exploring potential cost savings that may be achieved from Medicare D, and expects to report back to the Board of Supervisors later this year. Long-term options that are being evaluated include retiree health savings accounts, which allow employees to save monies to help pay for health expenses they incur in retirement. Staff will also focus on disease management programs to mitigate increasing health care costs.

It should be noted that any proposed enhancement to retiree benefits must be evaluated for fiscal impact, both from a budgetary standpoint and relative to the benefits liability that must be reported to comply with the Governmental Accounting Standards Board (GASB) Statement 45. Currently, the County's subsidy is funded on a pay-as-you-go basis. Beginning in FY 2008, GASB 45 will require that the County accrue the cost of these post-employment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the County. This funding methodology mirrors the funding approach used for pension/retirement benefits. The County will have the option of continuing to fund benefit payments as they come due, which would result in a large unfunded liability, or prepay during employees' active employment in order to decrease the unfunded liability. Based on preliminary information, the impact to the County would be approximately $250 million with advanced funding, or $575 million without advanced funding. In FY 2006, the County will continue to examine the advantages and disadvantages of each option to ensure that the County responds to the new GASB standard properly, while maintaining the fiscal integrity of the County.

The following chart displays historical and current retiree health care premiums. Due to the change in the effective date of premium increases mentioned above, 2000 refers to the fiscal year, 2001 refers to premiums in place from July 1, 2000 through December 31, 2001, and the remaining years refer to calendar years.