LOB #314:

RETIREE HEALTH

Purpose

This Line of Business is part of the County's comprehensive array of employee benefit offerings.

Description

The County provides a retiree health benefit subsidy to eligible retirees to help pay for health insurance. The monthly subsidy commences at age 55 and varies by length of service as detailed in the following table. It should be noted that employees who retired prior to July 2003 receive a monthly subsidy equal to the greater of $100 and the amounts below. The retiree health subsidy is provided to retirees on a discretionary basis, and the Board of Supervisors reserves the right to reduce or eliminate the benefit in the future if the cost of the subsidy becomes prohibitive or an alternate is chosen to aid retirees in meeting their health insurance needs.

Retiree Health Benefit Subsidy

Years of Service at Retirement	Monthly Subsidy
5 to 9	$30
10 to 14	$65
15 to 19	$155
20 to 24	$190
25 or more	$220

In addition to the retiree health benefit subsidy, County retirees benefit from an "implicit" subsidy by participating in the County's self-insured health plans. As premiums for the health plans are set using the blended experience of active employees and retirees, retiree premiums are lower than if they were set solely using the experience of the retiree group. The implicit subsidy to retirees is the differential between actuarial assumptions related to retiree claims and premiums and actual claims experience and premiums.

Beginning in FY 2008, the County's financial statements were required to implement Governmental Accounting Standards Board (GASB) Statement No. 45 for other post-employment benefits, which include the retiree health benefit subsidy and the implicit subsidy to retirees. This standard addresses how local governments should account for and report their costs related to post-employment health care and other non-pension benefits. Historically, the County funded these benefits on a pay-as-you-go basis. GASB 45 requires that the County accrue the cost of other post-employment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability 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 benefits. A valuation is performed to calculate the County's actuarial accrued liability and the associated annual required contribution (ARC). The liability and ARC are calculated annually, and adjustments are made due to benefit enhancements, medical trend experience, and normal growth assumptions.

Fund 73030, OPEB Trust, was created to capture long-term investment returns and make progress towards reducing the unfunded actuarial accrued liability under GASB 45 and funds the cost of other post-employment benefits (OPEBs) including health care, life insurance, and other non-pension benefits offered to retirees, such as the County's retiree health benefit subsidy. Expenditures in this LOB encompass all expenditures of the OPEB Trust Fund, including the retiree health benefit subsidy, the implicit subsidy to retirees, and costs related to the administration of these benefits and the associated GASB 45 liability such as the annual actuarial valuation.

Benefits

Retiree health benefits are part of the total compensation package that helps the County attract and retain employees. The retiree health benefit subsidy and implicit subsidy to retirees make health insurance more affordable for those retirees who elect to continue coverage with the County.

Mandates

The County is not mandated to provide this benefit.

Trends and Challenges

As increases in the cost of health care have historically outpaced inflation, the County will be challenged to continue to provide comprehensive and affordable health coverage to its retirees. One important step in meeting this challenge is the introduction of an Employer Group Waiver Plan (EGWP) in January 2016, which takes advantage of a more favorable rebate structure from the federal government and pharmaceutical manufacturers to lower the County's OPEB costs. The County will continue to pursue new strategies to provide retiree health benefits as the healthcare industry evolves.

Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
LOB #314: Retiree Health			
FUNDING			
Expenditures:			
Compensation	$86,603	$87,716	$90,450
Benefits	25,268	25,750	26,559
Operating Expenses	14,412,004	8,361,528	9,653,051
Total Expenditures	$14,523,875	$8,474,994	$9,770,060
Revenue:			
CMS Medicare Part D Subsidy	$1,172,895	$1,308,470	$1,000,000
Investment Income	46,435	37,598	50,000
Implicit Subsidy	6,446,000	0	0
Other Funds Contributions	4,321,540	3,415,606	3,476,866
Unrealized Gain/(Loss)	19,503,190	4,849,502	0
Total Revenue	$31,490,060	$9,611,176	$4,526,866
Transfers In:			
Transfer In from General Fund	$28,000,000	$28,000,000	$26,000,000
Total Transfers In	$28,000,000	$28,000,000	$26,000,000
POSITIONS Authorized Positions/Full-Time Equivalents (FTEs)			
Positions:			
Regular	1 / 1	1 / 1	1 / 1
Total Positions	1 / 1	1 / 1	1 / 1

Metrics

Metric Indicator	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
OPEB Annual Required Contribution	$38.9m	$30.5m	$31.0m	$13.3m	$13.8m

While the OPEB ARC has generally trended upward, it has experienced large decreases in two recent years. In FY 2014, the ARC decreased significantly based on trends in claims experience, savings from the consolidation of the County's self-insured health plans to a single vendor, and decreased plan costs as a result of plan design changes. A second decrease occurred in FY 2016, as the implementation of EGWP allows the County to take advantage of larger federal subsidies and pharmaceutical manufacturer rebates that have a more favorable accounting treatment. Savings from the FY 2016 ARC decrease are expected to be realized as part of the *FY 2016 Third Quarter Review* and the FY 2017 Advertised Budget Plan.