



CITY OF POQUOSON

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City Manager's Office

September 12, 2016

TO: Poquoson City Council
FROM: City Manager
SUBJECT: Retiree Health Insurance

As City Council is aware, for the last several months staff has been analyzing a proposal to amend the City's current Personnel Policy pertaining to Retiree Health Insurance Coverage (Policy #43). The City's current policy allows eligible employees to continue to participate in the City's Health Insurance Plan. At present the full cost of a retiree's participation in this program is borne by the retiree; however, to assist employees with the cost of health insurance the City elected on July 1, 2001 to participate in the VRS (Virginia Retirement System) Health Insurance Credit Program. This program provides for eligible retirees a credit of \$1.50 per month for each year of creditable service (up to 30 years) which is paid in addition to a retiree's monthly VRS retirement benefit.

The proposal being presented for your consideration is based upon a policy suggestion provided by Master Firefighter Tom Cannella during FY2016. Through his research Mr. Cannella identified that an enhanced retiree health insurance benefit was a common benefit offered by other localities in our area which places us at a significant disadvantage in terms of recruitment and retention of qualified employees. The proposed policy modification below is presented for consideration as an amendment to Personnel Policy #43, Retirees Under 65 Section:

Enhanced Retiree Health Insurance Benefit

1. Eligibility

On or after July 1, 2017 the retiring employee must have a minimum of twenty (20) years of creditable VRS service with the City of Poquoson and a minimum of 90 days of unused sick leave at the time of retirement from City service. Further, the retiring employee must give the employer a minimum of six (6) months' written notice of their intention to retire and must have participated in the City health care plan for a minimum of five (5) years immediately prior to retirement.

2. Employer Contribution

The City will contribute fifty (50) percent of the employee health insurance premium for retirees wishing to continue coverage under the City health care plan up to age 65. The City's fifty (50) percent contribution will be reduced by the amount of any employer-paid health insurance credit that the retiree may qualify for under the VRS program.

The proposed policy has at its core three main objectives; recruitment, retention, and recognition of dedicated long term employees.

Recruitment - The adoption of an enhanced retiree health insurance benefit will increase the City's ability to compete for well qualified employees. While the City historically has been unable to provide market rate compensation, it has prided itself on offering both an organizational culture and benefit program that make the City an attractive place to work. Through the adoption of an enhanced retiree benefit program, the City will make a significant stride in the one benefit area where we are not market-competitive. It will also send a strong message to those considering employment with the City that as an employer we value long term employment. Through the adoption of an enhanced retiree health insurance benefit, it is our expectation that we will increase the overall number of persons in and quality of our applicant pools. This will have a positive impact on our ability to hire qualified employees, which will in turn increase the likelihood that new employees will successfully complete their probationary period.

Retention – The adoption of an enhanced retiree health insurance benefit will positively impact the City's ability to retain qualified employees. Like most small local government employers who compete with larger, better paying neighbors the City is most vulnerable in terms of its ability to retain well qualified employees in the first third of their career. It is during this period that an employee gains the requisite skills, experience and competency that make them highly attractive to other, often higher paying employers. It is also at this time in their careers that employees begin to focus on "whole career-retirement planning".

There are several important benefits to increasing our retention rate. First and foremost as an employer we continue to enjoy the benefits of the employee's accumulated knowledge and expertise that the employee gained as an employee of the City of Poquoson. Secondly, the City saves the money and significant time related to recruitment and training of new employees. While the money for these expenses typically comes from the salary savings associated with the vacancy, it is better spent maintaining qualified employees. Third and most particularly, though not exclusively, associated with the Fire/Rescue and Police Departments each time a position turns over the position is essentially out-of-service for an extended period of the time. Particularly if a newly hired employee must attend the Police Academy, Fire Academy or Advanced EMS training respectively and is of limited operational value during precepting/field training. This in turn negatively impacts staffing levels at the operational level and in many instances requires the expenditure of overtime funds to bring back off-duty employees to maintain minimum staffing levels.

An additional retention-related benefit stems from the fact that many employees continue to work well beyond their eligible retirement date due to their inability to afford the high cost of health insurance. While this is understandable and the City clearly benefits from the continued service of these highly

valued employees, their presence in the work force has the unintended effect of reducing promotional opportunities for less senior employees, who in some cases leave the organization for promotional opportunities elsewhere.

Recognition of Dedicated Long Term Employees – The policy proposed for your consideration is designed to provide an enhanced retiree health insurance benefit for eligible employees retiring on or after July 1, 2017 who have a minimum of twenty years of creditable VRS service with the City of Poquoson. The choice of employees with twenty or more years of service is intended to recognize the significant contributions of employees that have dedicated two-thirds or more of their careers to public service with the City of Poquoson. The policy also requires an employee to have 90 days of unused sick leave to be eligible. This policy provision recognizes long term employees for their judicious use of sick leave over the course of their employment. (Note: A twenty year, full time employee would earn two hundred and forty days of sick leave during the course of their employment.)

Plan Costs:

To gain an understanding of what a policy of this type may cost over time, the City commissioned an independent actuarial analysis of the proposed policy. The actuarial study looked at both the actuarial costs associated with the current policy, i.e. the implicit rate/subsidy and the proposed change. The computed actuarial liability (30 year) of the current policy is \$791,172. This is the additional estimated cost over the period that the employer and participating employees will pay in addition to what would otherwise be required if the current and projected retirees were not participating in the plan as part of the actuarial pool under the City's current policy.

The combined actuarial projection for the current and proposed plan is estimated to be \$1,370,574 over the actuarial period and a required Annual Required Contribution (ARC) of \$131,382. It is important to note that this is the combined projection for both the current program and the proposed change. The portion of the ARC that is attributable to the current City program is \$74,645 and the portion that is attributable to the proposed policy change is \$56,737. The analysis also shows required ten year annual cash flow contributions for the current and proposed plan change ranging from \$27,120 to \$99,471 with a ten year average contribution of \$72,594.

Funding Plan:

As noted above in the near term, localities will need to begin including the actuarial projections of retiree health insurance related other post-employment benefits (OPEB) in government-wide financial statements. Historically, the City of Poquoson and most other local governments have treated this as a pay-as-you-go expense with the annual costs being paid by the annual health insurance rate structure. I would propose that we continue this practice as it relates to the current program.

This would allow us to focus on the projected actuarial cost and cash flow requirements of the proposed plan change. To meet these funding requirements I propose the following funding plan:

- 1) That the City establish (or join) a dedicated trust fund for this purpose;
- 2) That the City appropriate \$56,737 of unspent health insurance funds from the FY2016 budget as part of the mid-year appropriation to meet the FY2017 ARC associated with the proposed change;

- 3) That the City include in its adopted budget beginning in FY2018 a dedication of the projected ARC amount from unused, budgeted health insurance line items, to be supplemented if insufficient with available salary vacancy and training savings; and
- 4) That the City consider as part of the future mid-year appropriation process the feasibility of appropriating additional funds to prefund future obligations.

The City staff worked closely with the City's Financial Advisors to review this funding plan concept. It is their express opinion that if the City adheres to this plan, it will not adversely impact the City's credit rating.

Changes to the Plan Design:

The City Council, should it wish to provide an enhanced retiree health insurance benefit, may wish to modify any or all of the proposed plan components or eligibility requirements. Each modification will have an impact on the projected cost of the program. At the Council's direction, the staff will work with the actuary to revise the actuarial analysis to account for any changes the Council may wish to consider.

RESOLUTION NO. _____

RESOLUTION APPROVING AN AMENDMENT TO SECTION 43 OF THE CITY'S PERSONNEL POLICY MANUAL RE: RETIREE HEALTH INSURANCE COVERAGE

WHEREAS, following several months of reviewing and analyzing the City's current Personnel Policy pertaining to Retiree Health Insurance Benefits (Policy #43) and comparing it to enhanced plans offered by other localities in our area it was determined that the City's policy needed to be changed; and

WHEREAS, proposed amendments have been developed and carefully and thoroughly reviewed with City Council.

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Poquoson, Virginia:

Section 1: That the amendments to the City's Employee Health Insurance Program, Section 43, are hereby approved and incorporated into the City's Personnel Policy Manual.

Section 2: That this resolution shall be in effect on and after its adoption.

ADOPTED: _____

TESTE: _____
City Clerk

PERSONNEL POLICY
City of Poquoson, Virginia

Policy Title: Retiree Health Insurance Coverage
Section No.: 43

Effective Date:
Supersedes Policy:

PURPOSE:

It is the objective of the City of Poquoson, Virginia to provide health insurance to its retired employees through the City's Health Insurance Plan. The following policies govern administration of this plan. Any policies not specifically addressed here will be as delineated in the policy by the Administrator of the City's Health Insurance Plan.

Retirees Under 65

1. Eligibility

In order for the retired employee to be eligible for health insurance coverage he/she must have a combination of years of service with the City of Poquoson and age which add up to seventy. For example, an employee at the age 50 must have 20 years of service, at age 55 must have 15 years of service, and at age 60 must have 10 years of service. Retired employees in all cases must have a minimum of 5 years of service to become eligible for post retirement health benefits. When the retiree turns 65, the type of coverage and employee contribution for retirees over 65 become effective.

2. Type of Coverage

The retired employee may continue enrollment in the health insurance plan offered by the City under which he/she is covered at the time of retirement.

3. Employee Contribution

The retired employee pays the full amount of the retiree premium

Enhanced Retiree Health Insurance Benefit

1. Eligibility

On or after July 1, 2017 the retiring employee must have a minimum of twenty (20) years of creditable VRS service with the City of Poquoson and a minimum of 90 days of unused sick leave at the time of retirement from City service. Further, the retiring employee must give the employer a minimum of six (6) months' written notice of their intention to retire and must have participated in the City health care plan for a minimum of five (5) years immediately prior to retirement.

2. Employer Contribution

The City will contribute fifty (50) percent of the employee health insurance premium for retirees wishing to continue coverage under the City health care plan up to age 65. The City's fifty (50) percent contribution will be reduced by the amount of any employer-paid health insurance credit that the retiree may qualify for under the VRS program.

Retirees Over 65

1. Eligibility

The retired employee must be age 65 or older or otherwise eligible for Medicare. Retired employees in all cases must have a minimum of 5 years of service to become eligible for post retirement health benefits. The City has elected to participate in the VRS Health Insurance Credit Program. For more information contact the Finance Department.

2. Type of Coverage

The employee may only enroll in the Medicare Complementary Plan or an HMO Medicare Plan offered by the administrator of the City's Plan.

3. Employee Contribution

The retired employee pays the full amount of the retiree premium.

Retirees on Work Related Disability

1. Eligibility

The retired employee must be retired on a job related disability as defined by the Virginia Retirement System and be eligible for workers' compensation for the job related disability. The retired employee must be totally disabled. If a retired disabled employee works in another job where eligible for group medical benefits, then eligibility in the City plan will cease. Retired disabled employees in all cases must have a minimum of 5 years of service to become eligible for post retirement health benefits. When the retiree turns 65, the type of coverage and employee contribution for retirees over 65 will become effective.

2. Type of Coverage

The retired disabled employee may only enroll in an HMO plan offered by the administrator of the City's plan.

3. Employee Contribution

The City will contribute towards health insurance premiums on a graduated scale depending on years of service as follows:

20 plus years	-	80%
15-19 years	-	70%
10-14 years	-	60%
5-9 years	-	50%

4. Negotiations

The City Manager may negotiate with the retired disabled employee to supplement the employee's payment to another health insurance plan in lieu of paying the City's share of premiums if it is beneficial for the City to do so.

Premium Payments

Retirees will pay by cash, check or money order prior to the first of the month of coverage. Retirees who fail to pay their premium by the last day of the month preceding the first of their coverage month will be given a five-calendar day grace period. If the premium is not paid by then they will be notified by certified mail of the cancellation of their medical benefits.

Enrollment in Plan

The only opportunity for the employee to enroll in the plan is upon retirement, with one exception. The exception to this rule is the retiree who is enrolled in a spouse's active employee health benefits membership through the City of Poquoson. When the active employee terminates or retires, the retired spouse may elect to come into the Retiree Group within 31 days of the event. Retiring employees who do not wish to enroll in the City's Retiree Health Insurance Plan should sign the waiver portion of the Enrollment Form.

Employees must submit an application for retiree health insurance coverage within 31 days of the retirement application or notice.

Employees who terminate from active service and defer retirement will not be eligible for the City's Retiree Health Insurance Plan.

A retiree may change plans at retirement, during an open enrollment period or at the time of an eligibility status change. However, an employee may change plans upon becoming eligible for Medicare.

Coverage of Dependents

An employee may apply for employee plus one or family membership at retirement, whether or not the eligible family members were covered in the active employee group while the retiree was actively employed. A retiree may change their type of coverage upon enrollment or during any open enrollment period. The retired employee will pay for the cost of the premium for family coverage, except in the case of the job related disabled employee where the City will contribute towards health insurance premiums on a graduated scale depending on years of service.