

**Retiree Healthcare Discount Program
Item #36
May 10, 2012**

Today's presentation

- District Budget Guidance
- Retiree Healthcare Discount Program
 - What is it?
 - Where did it come from?
 - Current status and projections
 - Findings/Alternatives Presented
- Retiree and Employee Responses
- Additional Alternatives
- Staff Recommendation and Governing Board Guidance

Budget Guidance

DEP, Governor's Office, Legislature

- Re-examine structure and activities to meet core mission without exceeding means of Florida citizens to pay
- Analyze and streamline staffing
- Review/adjust salary & benefit levels
- Pare down/eliminate non-core activities
- Ad valorem cap requiring \$128.3M recurring ad valorem reduction
- Consistency between WMDs and State

Retiree Healthcare Discount Program

What is the program?

- Benefit over and above FRS Health Insurance Subsidy
 - \$5/month (X) # yrs in FRS (max of 30 yrs or \$150/month)
- Benefit over and above Medicare 50% premium discount
- 2% discount on health insurance premiums for each year of FRS service (maximum 60% discount)
- Eligibility criteria for minimum District and FRS service and age, based on District procedure



What is the program?

- Applies to all insurance plans (HMO/OAP/PPO) and applies to retiree only, retiree + spouse and retiree + family coverage
- Applies to all retirees, including those who reach Medicare eligibility
 - Modified prior to VSP program to discontinue 2% discount upon reaching Medicare eligibility
- **Subject to annual funding availability and budget approval**

Where did the program come from?

- Recruitment and retention incentive
- Several proposals made in 2006 at height of state economic activity and real estate boom
- High turnover rates
 - 3% State Unemployment
 - 7.8% turnover rate at SFWMD
 - Average time of 118 days to fill positions
- Palm Beach County median house @ \$391,000

Where did the program come from?

Recruitment & retention incentive proposals in 2006 included:

- Matching deferred compensation contributions
- Increasing leave accrual rates
- Implementing a retiree healthcare discount program

2% Retiree Healthcare Discount Program Background

- Program began in January 2007
- Modified in 2009:
 - Require minimum of 6 years of consecutive District service immediately preceding retirement and be age 62; or
 - Have 25 years of FRS service, regardless of age, and a minimum of 6 years of consecutive District service immediately preceding retirement
- Modified in 2011 prior to VSP program:
 - Discount ends upon reaching Medicare eligibility

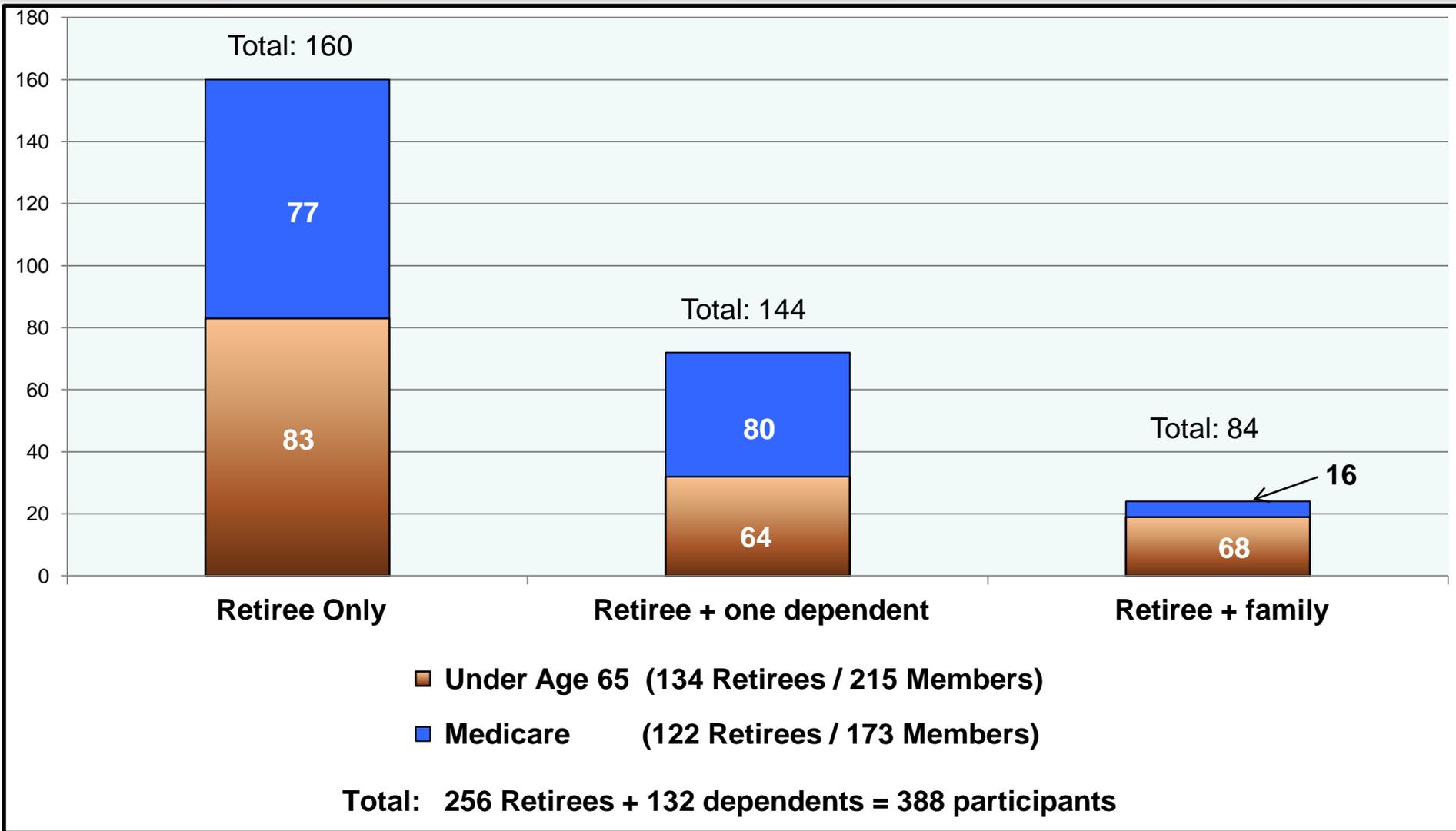
2% Retiree Healthcare Discount Program Background

- Cost of Discount paid by District and current employees
 - 2007 Projected annual cost to District: \$186,000 - \$300,000
 - Estimated maximum participation at 120-130
 - 2007 participants – 83 (72 retirees and 11 dependents)
- **Subject to annual funding availability and budget approval**
 - Governing Board
 - Legislature, Governor line item veto authority

Program Participation

- January 2012 enrollment:
 - 388 participants (256 retirees + 132 dependents)
- More than 400% increase since inception of program
- 3X the 130 maximum estimated at beginning of program
 - 2007 – 83 participants (72 retirees + 11 dependents)
 - 2012 – 388 participants (256 retirees + 132 dependents)

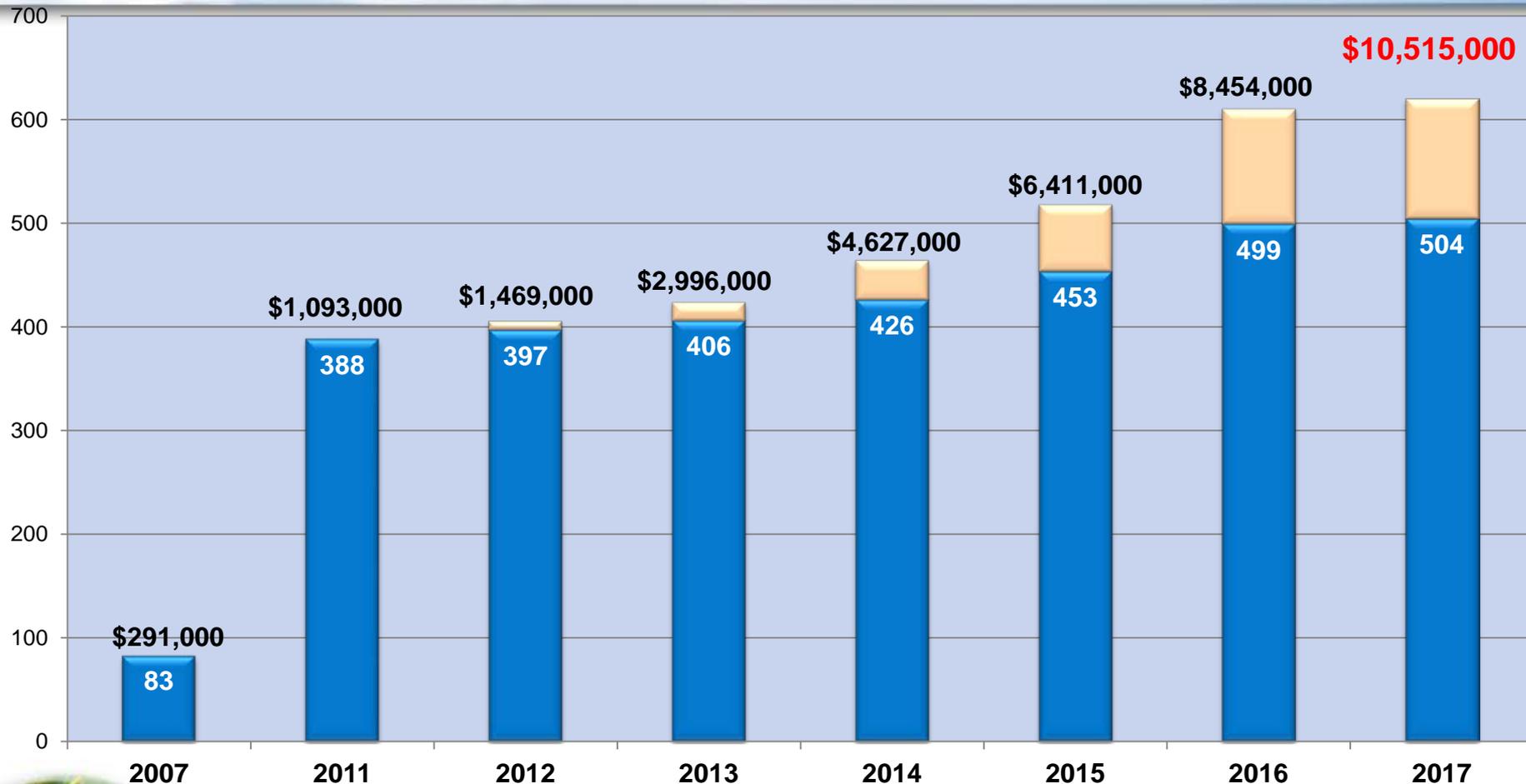
Program Participation (January 2012)



Program Participation & Costs

- Youngest retiree in program will receive benefit for 16 years before reaching Medicare age in year 2028
- District projected cost based on today's rates:
 - Projected cost for all current participants over next 6 years: *\$8.5 million* (includes *\$1.9 million* for Medicare eligible participants)
 - Projected DROP participant cost over next 6 years: *\$2.0 million*
 - Projected Total cost for Program over next 6 years: *\$10.5 million*

Enrolled DROP Participants and Projected Cumulative Cost



Annual Cost: \$1,469,000 \$1,527,000 \$1,631,000 \$1,784,000 \$2,043,000 \$2,061,000

■ Current Regular & Medicare Retirees: \$8.5 million
■ Enrolled DROP Participant Cost: \$2.0 million



Current Program Summary

- Budgetary constraints
- Current program not sustainable
- Program has always been subject to funding availability and budget approval
- Benefit inconsistent with other WMDs and State agencies
- Goes above and beyond FRS Health Insurance Subsidy and statutory requirement

Initial Array of Options



Initial Options Considered

- Continue current program
 - Not sustainable
 - Not consistent with other WMDs and State
- Make program self-funded (No taxpayer support)
 - Discount would be funded by current employees
 - Estimated \$1100-\$1200 annual cost per employee to fund current benefit
 - On top of changing deductibles and other cost-reduction measures
 - No pay increases for 5 years
 - Significant financial impact to current employees

Initial Options Considered

- Discontinue program
- Modify program to reduce cost to the District, but maintain some level of benefit for current retirees
 - Review Eligibility Criteria
 - Different configurations of benefit
 - Provide more fiscal certainty
 - Establish a window of opportunity for existing employees who are close to retirement and meet program criteria to opt in
- Presented proposal to retirees and employees on March 20, 2012 for feedback (4 meetings held)

Proposal presented March 20, 2012

- Discount ends for all retirees upon reaching Medicare eligibility
- Discount ends for current Medicare retirees
 - Medicare retirees will continue to receive 50% reduction in premium (currently built into our rate structure)
- In order to maintain eligibility for the 2% retiree healthcare discount program, current employees (including DROP participants) must declare their intention in writing by 7/2/12 to retire and separate by 12/12/12
 - Program closes 7/2/12 at close of business
 - Employees must file retirement paperwork with FRS and separate from the District by close of business 12/12/12

Proposal Presented March 20, 2012

- Discount to apply to retiree only, no discount on spouse/dependent coverage, effective 01/01/13
- Discount for existing retirees as of 01/01/2013 to be based on Retiree Rate only for HMO (or lowest plan); retiree pays difference in premiums for other plans
- **Program will continue to be subject to annual funding availability and budget approval**

Proposal Presented March 20, 2012

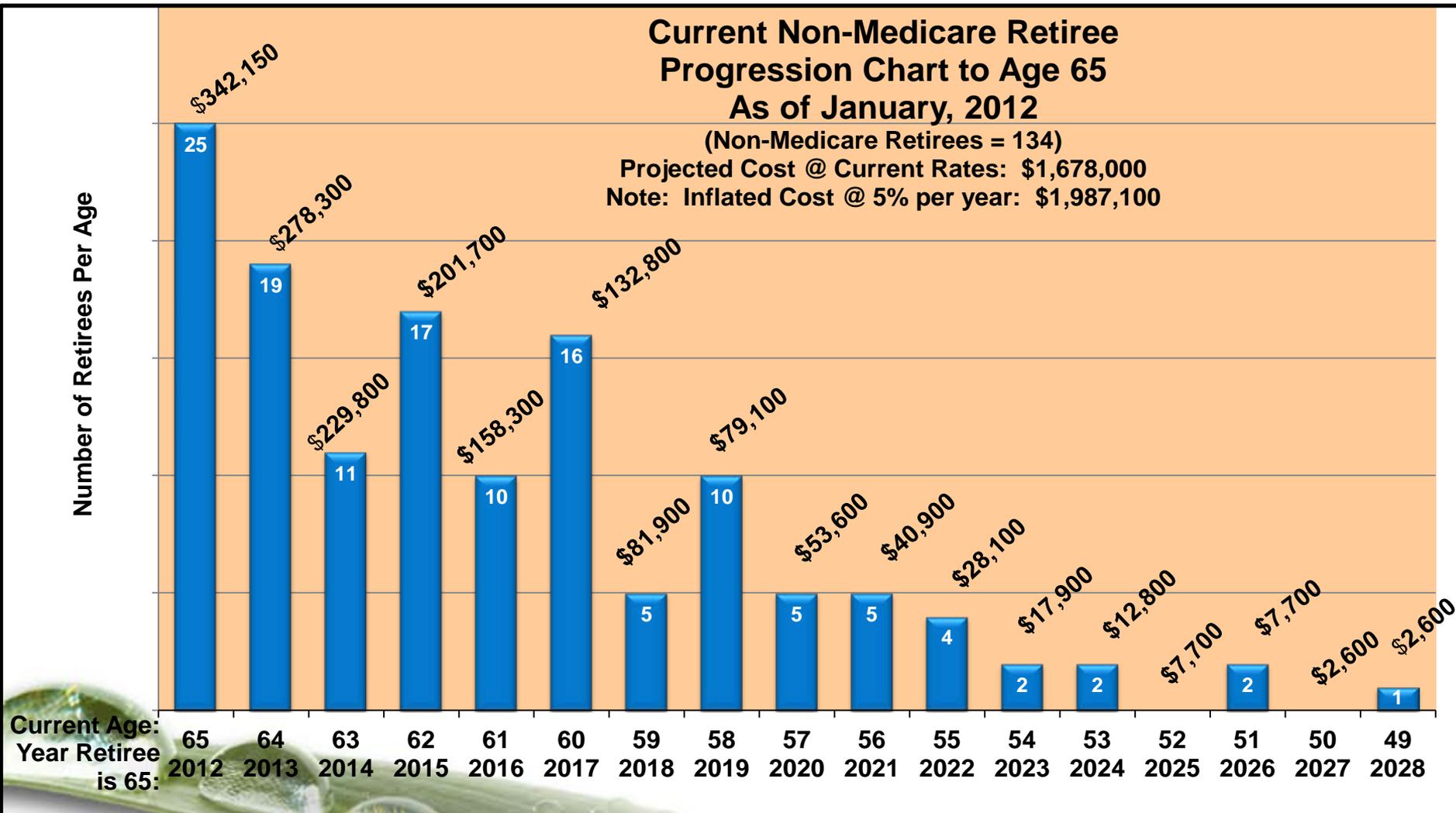
Current Non-Medicare Retiree Progression Chart to Age 65 As of January, 2012

(Non-Medicare Retirees = 134)

Projected Cost @ Current Rates: \$1,678,000

Note: Inflated Cost @ 5% per year: \$1,987,100

Number of Retirees Per Age



Retiree & Employee Responses to March 20, 2012 Presentation

- More than 120 comments, suggestions and/or questions received:
 - Continue as is for existing retirees (26)
 - Eliminate the program (23)
 - Proposed modifications to original proposal (27)
 - Change dates of opt in window (2)
 - Management Pay for Insurance (8)
- Evaluated additional options based on responses

General Criteria for ALL options

- Discount ends for all retirees upon reaching Medicare eligibility
- Discount ends for current Medicare retirees
 - Medicare retirees will continue to receive 50% reduction in premium (currently built into our rate structure)
- In order to maintain eligibility for the 2% retiree healthcare discount program, current employees (including DROP participants) must declare their intention, in writing by 7/2/12 to retire and separate by 12/12/12
 - Program closes 7/2/12 at close of business
 - Employees must file retirement paperwork with FRS and separate from the District by 12/12/12 at close of business
- **Program will continue to be subject to annual funding availability and budget approval**
- Retirees and their eligible dependents shall be offered the same group health insurance at a premium cost of no more than the premium cost for active employees

Revised Options for Consideration

Option 1

- Match FRS Health Insurance Subsidy
 - \$5/month (X) # yrs in FRS (max of 30 yrs or \$150/month)
- Benefit for retiree only regardless of plan
- Estimated cost for life of program: \$1.2 Million
- Reflects 134 retirees
- Cost does not reflect any current employees who opt into program by 7/2/2012
- **Program subject to annual funding availability and budget approval**

Option 2

- Fund 2% discount per year of FRS service at HMO rates
- Discount applies to retiree only; no discount for spouse or family coverage
- Estimated cost for life of program: \$2.0 Million
- Reflects 134 retirees
- Cost does not reflect any current employees who opt into program by 7/2/2012
- **Program subject to annual funding availability and budget approval**

Option 3

- Fund 2% discount per year of FRS service at HMO rates
- Discount applies to retiree, retiree + spouse and retiree + family coverage
 - Discount costed for HMO, OAP and PPO @ HMO rates
- Estimated cost for life of program: \$3.4 Million
- Reflects 134 retirees plus dependents
- Cost does not reflect any current employees who opt into program by 7/2/2012
- **Program subject to annual funding availability and budget approval**

Option 4 (Recommended)

- Fund 2% discount per year of FRS service at HMO or OAP rates
- Discount applies to retiree, retiree + spouse and retiree + family coverage
 - Discount costed for HMO @ HMO rates
 - Discount costed for OAP and PPO @ OAP rates
- Estimated cost for life of program: \$4.0 Million
- Reflects 134 retirees plus dependents
- Cost does not reflect any current employees who opt into program by 7/2/2012
- **Program subject to annual funding availability and budget approval**

Options Summary

- Option 1: Doubles FRS Health Insurance Subsidy
 - Estimated Cost \$1.2 Million
 - Benefit for retiree only
- Option 2: 2% discount at HMO Rate
 - Estimated Cost: \$2.0 Million
 - Benefit for retiree only
- Option 3: 2% discount at HMO Rate
 - Estimated Cost: \$3.4 Million
 - Benefit for retiree plus dependents (spouse or family)
- Option 4: 2% discount at HMO or OAP Rate
 - Estimated Cost: \$4.0 Million
 - Benefit for retiree plus dependents (spouse or family)

For ALL Options

- Program closes to new enrollees 7/2/12
- New enrollees must retire and separate employment by 12/12/12
- Discount ends upon reaching Medicare eligibility

Next Steps

- Governing Board guidance regarding program criteria and options outlined above
- Finalize costs in early July when potential pool is established; report final numbers to Governing Board
- Proposed funding from current Self Insurance Fund balances to pay for program over its remaining life
- **Program subject to annual funding availability and budget approval**

Governing Board Discussion & Guidance

