



# League Of Cities Annual Conference

*Yes, Reducing Costs of Employee Benefits IS Possible*

*Presented By:*

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# Case Studies

- ACERA
- City of Glendale



# ACERA - Overview

- Serves the retirees of Alameda County
- Have over 8,000 pensioners
- Over 5,500 covered for retiree medical
- ACERA provides a subsidy based on working at least 10 years at the County
- Provides a subsidy of 100% for the fully vested retiree

# ACERA - Long Term Sustainability

- ACERA must maintain trust assets that will fund 15 years of subsidies
- With rising healthcare rates, the 15-year funding projections were developing deficits
- Needed to look at alternatives to control costs

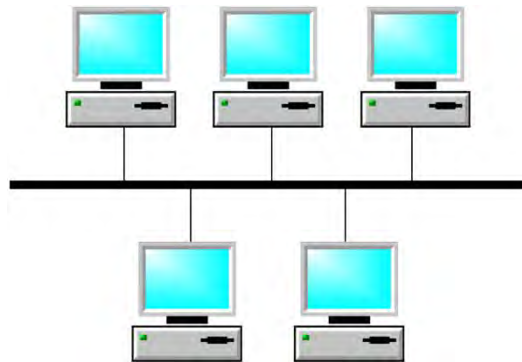


# ACERA - Medicare Exchange

- Implemented a Medicare Exchange for the over 65 non-Kaiser population
- All 1,300 retiree and dependants were required to participate
- Retirees selected 214 plans through 55 carriers

# Medicare Exchange

- A platform for retirees to access all Medicare plans providing useful resources to seniors and their families to design a plan that meets their needs
- A Medicare Exchange has an extensive network of Health plans nationwide along with a call center staffed with professional licensed Benefit Advisors
- Provides easy online tools and resources to advocate for the retiree transitioning to individual coverage



# ACERA - Financial Impact

- The average Medicare Exchange premium savings was 50% compared to group coverage
- ACERA able to drop the over 65 subsidy by 50%
- The savings was \$2,500,000 annually
- The subsidy is sustainable for the future



# City of Glendale

- Glendale has allowed retirees to stay enrolled in the Glendale plans when they retiree
- The retiree pays 100% of the rate
- The practice was not negotiated but simply allowed administratively for the last 30 years
- There are now 750 retirees covered
- The practice has created an Implied Subsidy





# City of Glendale

- Glendale's OPEB liability is almost entirely from the "Implied Subsidy" created by blending insurance premiums for current employees and retirees
- OPEB liability has grown significantly
  - \$103M in 2009
  - \$191M in 2011
  - \$214M in 2013
  - \$229M in 2014
- All unfunded

# Why Does Something Need to be Done Now?

- Impact of GASB 75
- Law and ethics
  - Unlike PERS liability, City has practical ability to act
  - Though legal, should the City take action?
    - Expectations of retirees, employees and the public
- Inability to sustain balance between compensation and service provision
- Impact of Affordable Care Act (ACA)

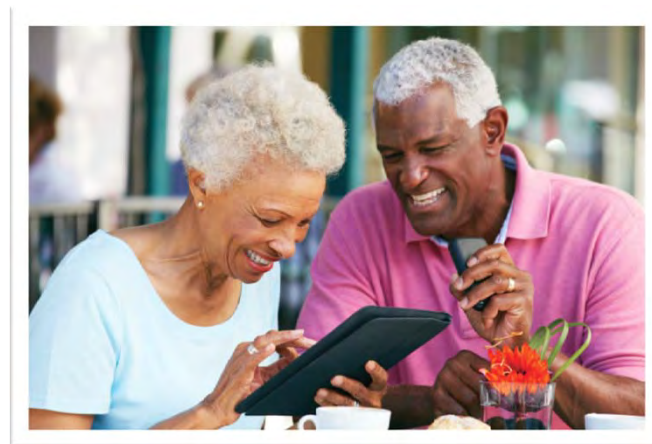


# What if OPEB is Not Addressed?

- Policy-level impact
  - Failure to follow GASB 75 would impact Annual Audit Opinion
  - City’s credit rating would likely be downgraded
  - (In)action on compensation reform
  - Erosion of public confidence
- Operations-level impact
  - “Crowding-out” funding for services
  - Erosion of public confidence
- Invitation for further ballot box intervention

# Options for Addressing OPEB?

- Continue status quo; OPEB liability grows approx. \$20M+/year
- Fund OPEB Trust – 20.2% of payroll
  - Estimated \$25.2M per year
- Two-tier system
  - Grandfather retirees, eliminate benefit for current employees; impacts on compensation strategy
- Life insurance policies on employees
  - No benefit to heirs, estates, or individuals
- Unblending current employees and retirees



## How will Glendale Address OPEB\*?

- Unblending current employees and retirees
  - Eliminates about 90% of OPEB liability
    - Retirees still able to stay on City unblended plan(s)
    - Eligible retirees will continue to receive Medicare Part A reimbursement
  - Meet and confer with bargaining groups regarding “buy-out” of future benefit
    - Allows City a sustainable compensation strategy
  - Subsidy for low-income pensioners
    - Means-tested; minimum 10 years service to Glendale
    - Up to \$200 per month for retirees with household income less than \$50,000
    - Open-ended, depending on retirement date (pre/post PERS enhancement)

\*Will be presented to City Council for approval on October 6

# The Options Available to the Retirees?

- Early Retirees
  - Stay in the current plan at the unblended rates
  - Access Covered Calif and the individual market through KeenanDirect
- Medicare Retirees
  - Stay in the current plan at the unblended rates
  - Access the Medicare market through FuturisCare – a Medicare Exchange



# Communication with the Retirees: Change is Very Hard

- A retiree committee was created in 2009 knowing that unblending would need to be dealt with at some point in the future
- Communication from the City Manager on the change
- Meetings with the retirees on the changes
  - Reasons for the change
  - What are the options available to the retiree?
  - How can you get individualized information?

