

**AN ORDINANCE AMENDING SECTION 4-39 OF CHAPTER 4 OF THE TOWN CODE
MODIFYING THE PROVISION FOR GROUP HEALTH AND HOSPITAL INSURANCE
FOR RETIREES**

THE BOARD OF ALDERMEN OF THE TOWN OF CARRBORO ORDAINS:

Section 4-39 Group Health and Hospitalization Insurance

The Town provides group health and hospitalization insurance programs for employees designated as permanent full-time and working a minimum of 37.5 hours per week.

In addition, the Town elects to extend health insurance benefits or provide a stipend to retirees. As long as it is provided by the Town and permitted by the provider, this benefit is available to retirees who meet the following eligibility requirements:

- have at least 10 years of continuous service with the town (or reinstated in accordance with Section 4-85 of the Personnel Ordinance);
- qualify for one of the retirement options available through the NCLGERS; and
- pay his or her share of the insurance premium.

Coverage for active employees and retirees is provided as follows:

Active Employees	Participate in Town Group Health Plan
Non-Medicare Eligible Retirees Hired Prior to July 1, 2007	Participate in Town Group Health Plan
Medicare Eligible Retirees (according to age) Hired Prior to July 1, 2007	Participate in Town Group Medicare Supplement Plan
Retirees hired on or after July 1, 2007	Receive a stipend to defray the costs of health insurance; eligible for coverage through COBRA

The stipend provided to retirees hired after July 1, 2007 will take into account the cost of the current premium for individual coverage for active employees and be increased based on changes in the consumer price index (CPI). Should the CPI decrease, there will be no reduction in the amount of the stipend. Staff will review the policy periodically and report to the Board as necessary.

Dependents of retirees who are on the plan at the time the employee retires may continue coverage as provided below.

Dependents of Active Employees	Participate in Town Group Health Plan
Non-Medicare Eligible Dependents of Retirees Hired Prior to July 1, 2007	Participate in Town Group Health Plan
Medicare Eligible Dependents of Retirees (according to age) Hired Prior to July 1, 2007	Participate in Town Group Medicare Supplement Plan
Dependents of retirees hired on or after July 1, 2007	Eligible for coverage through COBRA

ATTACHMENT A-2

Dependents that are not enrolled when the employee retires may not be added to the plan; and once removed from the plan, the dependents may not be re-enrolled. The Town pays no portion of the premium for a retiree's dependents.

The percentage of the insurance premium for the group health plan, the group Medicare Supplement Plan, or the percentage of the stipend paid for by the Town for retirees is based upon years of service according to the schedule listed below.

<u>Continuous years of Service</u>	<u>Percentage of Insurance Premium to be Paid by Town</u>
10 - 14 years	50%
15 - 19 years	75%
20 years and up	100%

As used in this section, the term "insurance premium" refers to the amount of premium charged by the insurance provider for the retiree coverage under the group health plan or the group Medicare supplement plan.

The benefits provided under this section are not intended to be contractual in nature and may be reduced or withdrawn at any time in the unilateral discretion of the Board of Aldermen for financial reasons or any other reason deemed sufficient by the Board of Aldermen.

Information concerning cost and benefits shall be available to all employees from the Human Resources Department.

**CURRENT ORDINANCE PROVISION REFERENCING GROUP HEALTH AND
HOSPITALIZATION INSURANCE**

Section 4-39 Group Health and Hospitalization Insurance

The Town provides group health and hospitalization insurance programs for employees designated as permanent full-time and working a minimum of 37.5 hours per week.

Employees who meet any of the retirement options available through the NCLGERS and retire with continuous service with the Town of Carrboro may continue in the Town's group health plan, if allowed by the provider, as long as the employee wishes to remain in the program and continues to pay his or her share of the insurance premium. Dependents of retirees at the time of the employee's retirement will also be eligible to continue for as long as the retiree is enrolled; however, the retiree will be responsible for paying the total cost of dependent coverage. Should the retiree become no longer eligible for coverage, the dependent will be offered coverage through COBRA. Retirees will not be permitted to add dependents that are not enrolled at the time of retirement.

<u>Continuous years of Service</u>	<u>Percentage of Insurance Premium to be Paid by Town</u>
10 - 14 years	50%
15 - 19 years	75%
20 years and up	100%

As used in this section, the term "insurance premium" refers to that amount of premium that the Town would have paid on behalf of the former employee if that person were still employed by the Town.

The benefits provided under this section are not intended to be contractual in nature and may be reduced or withdrawn at any time in the unilateral discretion of the Board of Aldermen for financial reasons or any other reason deemed sufficient by the Board of Aldermen.

Information concerning cost and benefits shall be available to all employees from the Human Resources Department.



Retiree Recommendation



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The Current State of Affairs



Source: Kaiser Foundation and Health Research and Educational Trust
The cumulative increases assume 1968 as the base.



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Components of a Premium Dollar



Admin. Expenses + Stop-Loss + Claims = Premium Dollar

Administrative Expenses

19%

Stop-Loss

5%

Claims

76%



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Basic Premise



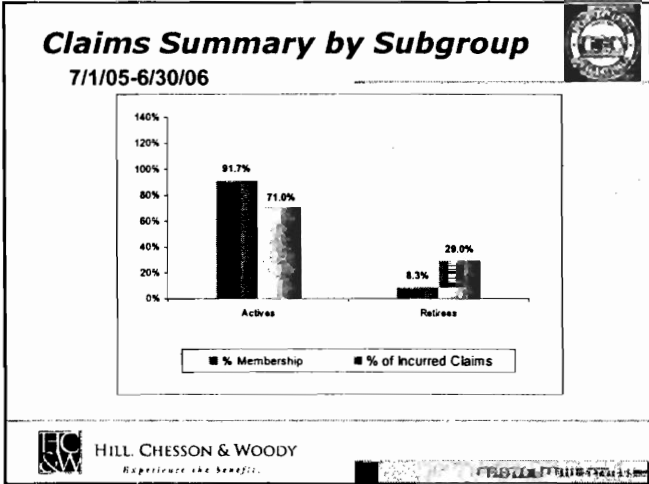
Claims = Cost

For every \$1.00 collected in premiums,
United Healthcare paid \$1.01 in claims.

Target = \$0.76



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- ### GASB Calculation
- There will be some future reporting requirements that could necessitate advance funding in order to continue to provide retiree health benefits.
 - The funding may be substantial; however, this amount would not be reported on the Town's financial books until fiscal year 2009-2010.
 - The Town is working to be proactive.
 - Bond rating agencies are not sure of the impact at this time, but do expect municipalities to address the issue.
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Retiree Recommendation

	Active Employees	Non-Medicare Eligible Retirees Hired Prior to 7/1/07	Medicare Eligible Retirees* Hired Prior to 7/1/07	Future Retirees Hired Post 7/1/07
Current Plan	On Town Group Medical Plan	On Town Group Medical Plan	On Town Group Medical Plan	N/A
Proposed Plan	On Town Group Medical Plan	On Town Group Medical Plan	On Town Group Medicare Supplemental Plan	Stipend

* Eligible due to Medicare age

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Marketplace Trends

"We expect employers to manage their OPEB obligations consistent with other costs... that is, in a prudent manner."
Standard & Poor's

"State and local governments are starting to take aggressive steps to reduce the enormous cost of providing healthcare benefits to retired teachers, police officers, fire fighters and other public workers."
USA Today

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Financial Summary

7/1/06

	Current	Renewal
With Retirees		
Total Annual Plan Cost	\$831,080	\$1,062,950
Increase from Current	-	27.9%
Total Annual Employer Cost	\$656,125	\$839,183
Employer Increase from Current	-	27.9%
Without Retirees		
Total Annual Plan Cost	-	\$804,762
Increase from Current	-	6.5%
Total Annual Employer Cost	-	\$717,561
Employer Increase from Current	-	9.4%
Without Post-65 Retirees		
Total Annual Plan Cost	-	\$1,023,558
Increase from Current	-	23.2%
Total Annual Employer Cost	-	\$811,630
Employer Increase from Current	-	23.7%
Total Annual Employer Cost for NEBCO	-	\$16,268
Total Annual Employer Cost with NEBCO	-	\$827,899
Employer Increase from Current	-	26.2%



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Estimated Stipend for Future Hires

	Based On Average Medical Trend	Based on Average CPI Rate
7/1/06 Single Rate with Retirees	\$368.16	\$368.16
7/1/06 Annual Premium for Single Coverage	\$4,418	\$4,418
Average Annual Increase	12.0%	3.0%
Estimated cost in 10 Years*	\$13,721	\$5,937

* Based on compounded average annual increase.



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Benefit Comparison for Medicare Eligible

	Current Plan - United Healthcare	NEBCO Plan III Medicare Supplement
Network	United Healthcare Network	Providers accepting Medicare Assignment
In-Patient Hospital	10%	Facility Days 1-513: \$0 (NEBCO pays 100%) Physician: Medicare Part B Deductible - \$131
Out-Patient Hospital	10%	Medicare Part B Deductible - \$131
Deductible	\$0/\$0	Medicare Part A: \$0 (NEBCO pays 100% of \$992) Medicare Part B: \$131
Coinurance Limit	\$1,500/\$3,000	Not Applicable
Emergency Room	\$100 Copay	Medicare Part B Deductible - \$131
Urgent Care	\$50 Copay	Medicare Part B Deductible - \$131
Outpatient Diagnostic	Labs, X-rays and Mammograms, 100% Others covered at coins. after deductible	Medicare Part B Deductible - \$131
Office Visit Copays	\$10/\$10 Copay	Medicare Part B Deductible - \$131
Prescription Benefit	Retail: \$10/\$25/\$40 Mail: 2.5 x Copay	Retail: \$10/\$25/\$50/50% Mail: \$20/\$50/\$150/50%
Wellness/Preventative	\$10/\$10 Copay	Medicare Part B Deductible - \$131



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Comparison of Retiree Cost

Years of Service	Current	Proposed	
		Male	Female
10-14 Years of Service (50% Employer Contribution)	Employee Only \$184.08	Age 65-69	\$140.85
		Age 70-74	\$132.50
		Age 75-79	\$140.85
		Age 80-84	\$151.25
		Age 85+	\$158.58
15-19 Years of Service (75% Employer Contribution)	Employee Only \$92.04	Age 65-69	\$171.63
		Age 70-74	\$181.40
		Age 75-79	\$165.11
		Age 80-84	\$165.11
		Age 85+	\$171.63
20+ Years of Service (100% Employer Contribution)	Town Pays All	Age 65-69	\$70.32
		Age 70-74	\$66.25
		Age 75-79	\$76.44
		Age 80-84	\$75.82
		Age 85+	\$79.29



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Compliance Consideration



The Town attorney has reviewed this proposal and has not identified any concerns, but recommended continued monitoring of compliance with all applicable employee benefit laws as outlined by HCW.



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Part-Time Employees



United Healthcare's Actuarial Perspective

"Underwriters don't like part-time employees on the medical plan... or rather, we consider them high risk."

Adverse selection concerns

- Time – Pent-up demand for services
- Wages/Contribution
- Not marketplace norm



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QUESTIONS?



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