



## **Staff Report**

**Subject:** Retiree Health Insurance Program

**Department/Program:** Administration/Finance

**Explanation:** During the 2021 budget process, staff had reported on the status of the employee retirement program, which was adopted in 2017. Under this program employees with 15 years of service who are age 60 or older may retire and continue as participants in the City's health insurance plan, paying the same amount as active employees do. They may also continue coverage for their spouse and/or dependent children, however, they are responsible for payment of their full premium. This plan was intended to assist employees who are physically struggling with the demands of their jobs but unable to take early retirement due to the high cost of health care. The cost of this program to the city was to be offset by the salary savings from replacing these tenured, higher paid workers with ones starting at the bottom of the pay ranges.

While this program is well intentioned it is costing far more than was anticipated. For employees retiring in 2020 and 2021 alone the cost of their health insurance premiums to the city will be almost \$300,000. The salary savings being realized are not as high as were anticipated either, and less than half of the retirees fit the intended profile, minimizing productivity gains. In 2023 the costs of the program will exceed the savings; in 2024 they will be nearly double.

Staff recognizes the value of this benefit to the employees and would like to preserve it but are striving also to be fiscally responsible.

Under the current plan, the cost of the program to the City for an employee retiring at age 60 is \$30,857- this is the total cost for 5 years. The cost to the retiree is \$1,807. This is a 95% city / 5% retiree cost ratio. The *annual* cost is \$6,171 for the city and \$361 for the retiree. In an effort to be fiscally responsible and reduce the cost to the city, staff is proposing a change in the cost ratio only, to 50% city / 50% retiree. The annual cost for each would then be \$3,266. All other components of the program would remain unchanged. This would take effect January 1, 2022, giving employees who are considering early retirement the opportunity to plan accordingly. All employees currently retired or who choose to retire prior to January 1<sup>st</sup> would be permanently grandfathered in at the existing discounted rates, so they will not be impacted by this change.

*Why this is good for the retiree*

The primary benefit to the employee of the retiree insurance program is the ability to stay on the City's plan at our negotiated group rates through SLAIT. This component of the benefit will not change. Conversely, without the benefit of access to the City's group insurance, retirees who are not yet eligible for Medicare would have to obtain insurance on the open market under the Affordable Care Act. Annual costs for a plan comparable to ours for a 60 year old non-smoker is about \$11,700. Any pre-existing conditions could increase that figure. Therefore, even under the revised 50/50 cost share, early retirees would still save at least \$8,434 on the cost of health premiums each year compared with buying on the open market. Employees may still take advantage of this benefit at age 60 as well as obtain coverage for their dependents.

*Why this is good for the City*

The five year cost to the City for a retiree is reduced from \$30,857 to \$16,332, resulting in substantial cost savings and reducing a potential long term financial burden on the City. While there are several retirees for whom the cost of premiums exceeds their salary savings under the current ratio, there are none under the proposed ratio.

**Recommendation:** Make a motion for a resolution updating the employee retirement program to reflect a cost ratio of 50/50 to be effective January 1, 2022.

**Submitted By:** Denise Keller, Finance Officer

**Date:** March 16, 2021