HEALTH BENEFITS COMMITTEE

The Health Benefits Committee meeting was held on April 18, 2012 at 2:00 p.m. with Mrs. Kim Hawkins (Human Resources Director), presiding. Members present were Council President Leary, Mr. Koenig (City Manager), Mrs. Mitchell (Controller/Treasurer), Mr. Clendaniel (IUE-CWA Representative), Mr. Enss (Non-Bargaining Representative), Mr. Hewlett (representing the IBEW in the absence of Mr. Newberry), Mr. Hudson (Retiree Representative), and Mr. Roswell (FOP Representative). Mrs. Williams was absent.

AGENDA ADDITIONS/DELETIONS

Mr. Leary moved for approval of the agenda as presented, seconded by Mrs. Mitchell and unanimously carried.

Review and Discussion of Health Care Alternatives

During the Health Benefits Committee Meeting held on November 29, 2011, members agreed that the following four (4) options be presented to the actuary to perform a cost analysis:

1) Option #1 - City Contribution for a Preferred Provider Organization (PPO) Will Equal the Amount City Contributes for a Blue Cross/Blue Shield (BCBS) Health Maintenance Organization (HMO);

2) Alternative #1 - State Plan With Changes to Mirror State of Delaware - House Bill 81 Effective July 1, 2012;

3) Alternative #2 - City of Dover with Flat Percentage @ 15% for Under 65 and 10% for Over 65 of Total Premium; and

4) Alternative #3 - City of Dover with Flat Percentage @ 10% for Under 65 and 10% for Over 65 of Total Premium; and that the actuary be asked to provide figures for active employees and retirees separately and, if information for unions could be provided separately at no additional cost, that this be requested as well.

Mr. Scott Porter, Principal and Consulting Actuary, Milliman, Inc., reviewed a presentation entitled City of Dover, Delaware Health Benefits Committee - April 18, 2012. Mr. Porter explained that the purpose of the presentation was to provide information regarding the impact of the four (4) selected options on the cost of health care for current and future retirees and the impact on the trust which finances those benefits.

Following a period of discussion, Mr. Enss indicated his understanding that the goal of reducing Other Post-Employment Benefits (OPEB) liability would be one of the topics discussed during the City's union negotiations and noted that non-bargaining employees did not have the opportunity to negotiate.

Responding, Mrs. Mitchell reminded members that the actions of the Committee would be separate and distinct from union negotiations.

Mr. Enss requested that members reconsider the other cost-reduction alternatives which were previously proposed (some of which could not be costed out through the actuary), in addition to the four (4) options that were forwarded to the actuary for analysis as the most viable alternatives.

Mrs. Mitchell stated her belief that the other alternatives would not achieve a reduction in the OPEB liability.

Mr. Enss questioned the legality of retroactively changing the provisions contained in the City's Employee Handbook regarding retirement health benefits.

Mrs. Hawkins indicated that City Council has the authority to accept or reject changes to the Handbook which apply to non-bargaining employees when they are presented by staff.

Mrs. Mitchell stated her understanding that the intent of forwarding the four (4) options to the actuary was to solicit information that would allow members to make a decision on one of the options. She noted that other suggestions, such as an employee wellness program, could still be considered.

Mr. Koenig stated his view that the purpose of the Committee was to generate discussion on how to control long-term health care costs. He felt the point of sending the proposals to the actuary was to determine the amount of savings each proposal could potentially yield and then develop a recommendation.

Mr. Enss expressed his interest in a "bonus" program that would encourage employees to postpone retirement, which would reduce the amount of time that the City would have to pay simultaneous health benefits for both the retiree and the new employee assuming the retiree's position.

Responding, Mrs. Hawkins noted that, from a Human Resources standpoint, a deferred retirement option could cause issues of discrimination, noting that it would be difficult to allow a productive employee the option to defer retirement but not an employee whose performance was deteriorating. In addition, she felt that this option would fall into the category of a supplemental cost-saving measure (similar to a wellness program) that could be considered along with one of the primary options that were sent to the actuary.

Mrs. Mitchell stated that she believed that the goal of the Committee was to allow all representatives to examine the variety of health care scenarios so that members could agree on the fairest and most reasonable option, not merely the one that saved the City the most money.

Mr. Hudson reminded members that he had requested that the actuarial analysis include a breakdown of active and retired employees in order to determine the source of the savings that would be realized. *(Clerk's Office Note: Subsequent to the meeting, members were provided a Memorandum dated March 27, 2012 from Mr. Scott Porter regarding Cost Sharing Options Model for Retiree Health Benefits - Update for Future Retirees Only* ***(Attachment #1)*** *which provided information on the impact of the various options and alternatives on retirees.)* He indicated that he would not support any recommendations that would increase the health care costs paid by retirees.

Mr. Koenig stated his preference that the Committee make a recommendation regarding current employees at this time and leave the discussion of retiree benefits for a different occasion.

Mr. Roswell moved to recommend that the cost-sharing provisions and medical plan in effect at the time of retirement would remain unchanged for all current retirees, seconded by Mr. Hudson.

Responding to Mrs. Hawkins, Mr. Roswell stated that he did not wish to include an effective date for "current retirees" in the motion, noting that unions were in the process of conducting negotiations and he was unsure when the contracts would expire. He explained his view that retirees left the City with the assumption that they would be under a specific retirement plan for the rest of their retirement and had no options available to increase income to contribute to cost sharing. Mr. Roswell indicated that he did not agree with the concept of changing retirement benefits for retirees, questioned its legality, and did not think the Committee should entertain this option.

Responding to Mrs. Carolee O'Neal, Administrative Assistant (Public Works Department), Mrs. Mitchell stated that retirees currently contribute 25% for spouse or family coverage, as do current employees. Mrs. O'Neal noted that under the provisions of the motion, if the Committee were to recommend an active employee contribution of 10%, retirees would pay more than active employees for family coverage. Concurring, Mrs. Hawkins stated that the current contribution for the family plan is $245, and if a recommendation for a 10% employee contribution were made, the required contribution would be $160.

Mr. Roswell stated that different plans and groups would be affected differently; however, his main concern was that current retirees would be "left out of the equation" and not be subject to any recommendations that the Committee might make that would ultimately go forward to Council.

Mrs. Hawkins confirmed that two (2) married active City employees could each obtain individual health care coverage or could choose to enroll as an employee and spouse; however, under a 15% cost-sharing option, individual coverage for each employee would be slightly more cost effective.

On a call for the question by Mrs. Hawkins, the motion to recommend that the cost-sharing provisions and medical plan in effect at the time of retirement would remain in effect with no changes for all current retirees passed by a roll call vote of eight (8) yes and one (1) no (Mrs. Mitchell).

Mr. Koenig moved to recommend imposing a 15% employee premium cost-sharing arrangement across all categories and plans, excluding the retirees who were removed from consideration by the prior motion, effective July 1, 2012. The motion was seconded by Mr. Leary.

Mr. Clendaniel indicated his discomfort with taking action on a matter that affected non-bargaining employees due to his role as a representative of the IBEW, and because this was a matter that would be discussed during union negotiations.

Mrs. Hawkins reiterated that any changes to health care for union employees must go through negotiations. She noted that the purpose of the Committee was to bring the various groups to the

table to discuss options to address the rising cost of health care. It was her opinion that the negotiation process would be easier after alternatives were narrowed and representatives had the opportunity to participate in the planning process. She felt that the discussion of 21 suggestions by the Committee and the cost analysis of four (4) of those options provided valuable information.

Mr. Enss reminded members that non-bargaining employees do not have an opportunity to negotiate and felt that he could not support any of the proposed options until he had information about the legality of removing the medical retirement benefits that were "guaranteed" in the Employee Handbook which was adopted by Council.

Mrs. Mitchell stated her feeling that Council has the authority to change ordinances and set policy at any time.

Mrs. Hawkins explained that, in 2009, Council adopted benefit parity provisions for non-bargaining employees. She noted that this was a policy change to the Handbook that was favorable to employees and that no employees "fought" this change.

On a call for the question, the motion to recommend imposing a 15% employee premium cost-sharing arrangement across all categories and plans, excluding the retirees who were removed from consideration by the prior motion, effective July 1, 2012, failed by a roll call vote of five (5) no and four (4) yes (Mr. Leary, Mr. Koenig, Mrs. Hawkins, and Mrs. Mitchell).

Mrs. Hawkins advised members that the motion passed by the Committee and the issue of employee health care benefits would move forward to the Legislative, Finance, and Administration Committee, for their consideration.

Mr. Roswell stated that the formation of the Health Benefits Committee and the discussions that took place were good for developing ideas; however, he felt that there were other factors outside Committee deliberations (e.g., collective bargaining and considerations of non-bargaining employees) which made it difficult for the group to achieve consensus.

Mrs. Mitchell expressed the benefit of discussing the issues as part of the deliberation process as opposed to having a decision made "in a vacuum." She hoped that all members would leave the deliberations having reviewed a variety of information on this topic and having become better educated on the issues.

Mr. Koenig moved for adjournment, seconded by Mr. Leary and unanimously carried.

Meeting adjourned at 3:12 p.m.

Kim Hawkins, Director of Human Resources
Presiding Member

KH/JS/dd/tm
S:\AGENDAS-MINUTES-PACKETS\Misc-Minutes\HEALTH BENEFITS COMMITTEE\2012\04-18-2012 Health Benefits Committee.wpd

Attachment
Attachment #1 - Memorandum dated March 27, 2012 from Mr. Scott Porter regarding Cost Sharing Options Model for Retiree Health Benefits - Update for Future Retirees Only

1550 Liberty Ridge Drive
Suite 200
Wayne, PA 19087-5572

Tel **+1 610 687.5644**
Fax **+1 610.687.4236**

www.milliman.com

March 27, 2012

Ms. Donna Mitchell
Controller/Treasurer
City of Dover
5 E. Reed Street
Weyandt Hall, Suite 300
Dover, DE 19901

Re: Cost Sharing Options Model for Retiree Health Benefits – Update for Future Retirees Only

Dear Donna:

As requested, we have updated the cost-sharing options model to estimate the cost impact of modifying the premium sharing provisions under four alternatives to the Other Postemployment Benefit (OPEB) plan for future retirees only of the City of Dover. This letter is an update to the initial analysis contained in our February 29, 2012 correspondence regarding modifications to these provisions. Please refer to this prior analysis for more information. The model is intended to be used by management for the City and cannot be provided to any other individuals without Milliman's consent. We recommend that any alternatives considered for additional review be verified by Milliman. The four alternatives are as follows:

- Option #1 – City's contributions assume all members are enrolled in the HMO such that the member will contribute the difference between the HMO and any higher cost options such as the PPO
- Alternative #1 – City implements similar cost sharing provisions as HB #81 for the State which specifies different contribution percentages by the option elected by member, 6.5% of the premium for those who elect the HMO and 13.25% of the premium for those who elect the PPO.
- Alternative #2 – Retiree contributions will equal 15% of the premium if less than 65 and 10% of the premium if at least age 65
- Alternative #3 – Retiree contribution will equal 10% of the premium at all ages

The model has been updated to include an additional toggle to model if these proposed cost-sharing provisions would apply to all retirees (current and future retirees) or future retirees only. The current cost-sharing provisions are 0% for retiree coverage and 25% of the additional spouse premium (no cost sharing contribution for spouses of employees retired prior to 1992) for spouse coverage. If the proposed provisions only apply to future retirees, then the current cost-sharing provisions would continue to apply to the current retirees and spouses. Please note that this toggle overrides the toggle regarding the spouse cost-sharing provisions for pre-1992 retirees when it applies to future retirees only.

Below is a chart showing the estimated financial impact of limiting these changes to future retirees only. There is no impact on the normal cost as this represents the accrual cost for future retirees. Also, there is very little savings on the projected cash flows of the City if these provisions are limited to future retirees only. Please note that these costs are determined as of July 1, 2010 (the latest available census data). Depending on the actual demographic changes since this date, the actual impact will vary from the estimates shown.

Estimated Financial Impact on City's OPEB Costs Based on 7.0% Ultimate Discount Rate ($ in Thousands)						
	All Retirees	Future Retirees Only	Difference	All Retirees	Future Retirees Only	Difference
	Option 1			**Alternative 1**		
Actuarial Accrued Liability	$(1,048)	$(401)	$647	$(2,939)	$(1,133)	$1,806
Full Funding Contribution	(117)	(64)	53	(329)	(183)	146
Funding Policy (Phase-In) Contribution	(93)	(27)	66	(193)	(74)	119
Projected Cash Flows						
Year 1	(76)	(1)	75	(103)	(2)	101
Year 2	(74)	(3)	71	(104)	(5)	99
Year 3	(74)	(8)	66	(110)	(8)	102
Year 4	(78)	(12)	66	(121)	(14)	107
Year 5	(84)	(18)	66	(132)	(21)	111
	Alternative 2			**Alternative 3**		
Actuarial Accrued Liability	$(2,342)	$(947)	$1,395	$(1,382)	$(583)	$799
Full Funding Contribution	(263)	(151)	112	(156)	(92)	64
Funding Policy (Phase-In) Contribution	(184)	(61)	123	(97)	(38)	59
Projected Cash Flows						
Year 1	(132)	(2)	130	(58)	(1)	57
Year 2	(128)	(5)	123	(58)	(2)	56
Year 3	(129)	(10)	119	(59)	(4)	55
Year 4	(139)	(18)	121	(65)	(8)	57
Year 5	(149)	(26)	123	(70)	(12)	58

This chart displays the following cost items:

- The estimated impact on the accrued liability, normal cost and full funding contribution based on a discount rate of 7%. The full funding contribution would be payable if the City was contributing 100% of the GASB 45 Annual Required Contribution (ARC).

- The estimated impact on the funding policy contribution reflecting the City's 10-year phase-in plan. The fiscal year ending June 30, 2012 is the fourth year of the phase-in. This model determines the funding policy contribution based on 40% of the difference between the full funding contribution and the pay-as-you-go premiums paid for retirees.

- The estimated impact on the expected premiums paid (i.e. projected cash flows) by the City over the next 5 years (the model provides 10 years).

Each of these items is displayed separately for the four employee groups: Police, non-union, IUE and IBEW. Please note that existing retirees are either included in the Police group or the non-union group as union affiliation was not provided for all records.

Basis for Analysis

This analysis is based on the census data, plan provisions and actuarial assumptions and methods used in the July 1, 2010 Actuarial Valuation dated January 19, 2011 and the initial analysis dated February 29, 2012, unless noted above. Please refer to this report and correspondence for more information.

Future actuarial measurements may differ significantly from the current measurements presented in this analysis due to actual plan experience deviating from the actuarial assumptions, and changes in plan provisions, actuarial assumptions, and applicable law. An assessment of the potential range and cost effect of such differences is beyond the scope of this analysis.

Milliman's work is prepared solely for the internal business use of the City of Dover, Delaware. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

Use of this tool is subject to the Software Tool License Agreement between Milliman and City of Dover.

I am a member of the American Academy of Actuaries and meet its qualification standards to render this actuarial opinion.

If you have any questions, please do not hesitate to call.

Sincerely,



Scott Porter, FSA

SFP:mlm\DVR21-25
g:\corr12\DVR\ltr03_healthcostoptionsmodel_upd.docx