M E M O R A N D U M

November 16, 2016
December 2, 2016 (Updated Task Force Summary)

TO: Commissioner Hanley, Chair
Commissioner Ruth, Vice Chair
Commissioner Hadsall
Commissioner Kelly
Commissioner Kilpatrick
Commissioner Krafft
Commissioner McInerney
Commissioner Stack
Commissioner Theisen
Commissioner Woods
Commissioner Wurtzel

FROM: Robert V. Belleman
Controller/CAO

RE: ***RETIREE HEALTHCARE ACTION PLAN***

Attached herewith is a copy of the *Retiree Healthcare Action Plan* ("Action Plan") for your review and consideration. The Action Plan was developed from the list of forty-seven (47) ideas the Retiree Healthcare Task Force developed during their 11 meetings. The Task Force ranked these ideas into three choices (i.e. First Choice, Second Choice and Third Choice) creating the basis of their overall recommendations to the Board of Commissioners. Some of the Retiree Healthcare Task Force ideas overlapped in each of the choices. For example, "Education" appeared as a First and a Second Choice option for the Task Force, which I believe emphasized the importance this recommendation should have in our efforts to manage costs. The Retiree Healthcare Task Force Report ("Report") was submitted to the Labor Relations Committee at its February 8, 2016 meeting. The Labor Relations Committee requested the Report be presented to a Committee of the Whole and an invitation be extended to retirees to attend the Committee of the Whole meeting. The Committee of the Whole meeting was held on April 12, 2016 at THEDOW. The Labor Relations Committee, at its May 9, 2016 meeting, asked that I prepare this *Action Plan* incorporating those ideas from the Report which offer the County potential savings.

I worked with Angela Garner of Brown & Brown and Amy Deford, Saginaw County Retirement and Benefits Administrator to assemble information contained in the *Saginaw County Retiree Health Care Pricing Analysis*, which provides greater detail of each recommendation and whether the County would incur costs and/or savings associated with implementation of a specific recommendation. This year Saginaw County bid out its health insurance coverage, which afforded us the opportunity to include

various Task Force recommendations so we could quantify the costs and/or savings associated with each recommendation. I also worked with Paul Wyzgoski of Dickinson Wright and Warren Creamer of RW Baird to assemble information regarding bonding for retiree healthcare. I engaged John Clark and Stephen Hitchcock of Giarmarco, Mullins & Horton, P.C. to review Saginaw County's collective bargaining agreements and policies as they pertain to retiree healthcare. Mr. Hitchcock met with the Labor Relations Committee on October 10, 2016 to discuss his legal opinion regarding the County's ability to adjust retiree healthcare by implementing the Task Force recommendations.

A summary of the Retiree Healthcare Task Force's recommendations and related savings and/or cost follows:

First Choice:

1) **Bond first, address cost savings opportunities after to take advantage of current interest rates** - The County currently has an unfunded actuarial liability of $127,512,197. The County currently spends approximately $6.6 million on retiree healthcare. The County was able to estimate the size of a bond, using the annual budget for retiree healthcare, between $97,450,000 (20 year) and $119,565,000 (30 year), which would represent between 77 percent and 94 percent funding. However, the County's unfunded actuarial liability changes every two years based on the assumptions the actuarial uses in projecting our liability. There would be costs associated with bonding. Also, bonding would be helpful as long as the County would be able to earn more interest on the investment of the bond proceeds than what it is paying for these bonds (known as positive arbitrage).
2) **Education** - There is an estimated savings of $37,126 (1/2 percent of claims). The savings would be directly associated with changes retirees make in their decision-making on how services are provided and what medication (i.e. generic v. brand-name medication) is used. The cost of education would be time and materials expended in educating retirees on their benefits and alternative programs. The savings only occur when retirees conscientiously make changes in the way they utilize their healthcare benefits.
3) **Offer buyouts to existing retirees** - There could be savings associated with offering buyouts to retirees who are utilizing retiree healthcare. The County, on average spends $16,649 per eligible retiree and dependent for retiree healthcare. The key would be to identify the appropriate dollar amount to retirees to waive retiree healthcare. The cost would be the incentive times the number of retirees who take it.
4) **Coaching for lifestyle management changes and Preventive Program on certain diseases to help control costs** - Blue Cross Blue Shield offers various lifestyle coaching programs at a range of $100 to $300 annually for services to assist retirees in improving their quality of life. It could be several years before the County realizes lower healthcare costs as a result of lifestyle coaching. The County could experience an increase in its retiree healthcare costs as a result of recommended procedures and/or medications.
5) **Contract locally to service prescription drug program for possible savings for maintenance/generic medications- possibly with a local hospital** - There would be a cost associated with engaging the Health Department or a local pharmacy benefit manager to provide medication to our retirees. The potential savings would be dependent on the "buying" power of the Health Department or the pharmacy benefit manager and how many members would participate.
6) **Coordinate incentives for certain items like obtaining and reducing cholesterol, weight loss, lowering blood pressure** - The area of "wellness incentives" has become more

regulated with a limit on the amount the incentive could be. The exact cost of this program would be dependent on the number of eligible participants. The potential savings would be difficult to track and it may be several years before savings are realized with better lifestyles.

7) **Look at a Wellness Program for Retirees and offer incentives for doing healthy activities -** The County currently offers reimbursement up to $200 toward wellness activities for active employees and retirees who are eligible for healthcare.
8) **Move Drugs to a Part D Provider/Carve out prescription drugs or require Retiree to take Medicare Part D -** The County currently contracts with Blue Cross Blue Shield of Michigan. BCBS does not allow the County to "carve out" its post 65, retiree pharmacy coverage. The County could experience coordination issues. The County did not receive a bid on this service when it requested bids as part of its healthcare renewal process.
9) **Prescription Assistance Programs to assist in lowering cost of medications to retirees and group -** The County could provide education/instruction on how retirees could access manufacturer websites for possible discounts on prescription drugs. The County would not realize savings; however, a retiree could avail themselves to potential savings.
10) **Evaluate Medicare Advantage Plan with Rx (Part D) -** The County included the opportunity for potential third party administrators to offer the County a Medicare Advantage Plan with Rx coverage as part of its recent bid for healthcare renewal services. The County could realize $2,337,725 in annualized savings by providing post-65 retirees with a fully insured Medicare Advantage plan.
11) **Evaluate need for lifestyle medications and whether or not non-medically necessary prescriptions should be allowed -** The County could save money by eliminating lifestyle medications from its retiree healthcare pharmaceutical coverage. The County spends approximately $110,000 on sexual dysfunction medications. Retirees who need these types of medications for medical necessity could still receive them.
12) **Implement a High Deductible Health Plan with Health Savings Accounts for future retiree coverage versus actual insurance benefit so the future retirees can save for future retiree healthcare costs outside of the County's benefits-** A High Deductible Health Plan affords retirees an opportunity to benefit from healthy lifestyle by retaining their account balance each year for use in future years. The County would save money by how it shares in the pre-funding of the Health Savings Account.

Second Choice

1) **Education -** same as First Choice #2.
2) **Implement Medtipster -** This program allows members to use a variety of pharmacies to receive generic medications at no cost (zero copay). The County would have to pay a fee for this service. The County would pay the full price of the medication. The County could save between $80,000 and $100,000 minus the annual fee.
3) **Separate Plan Documents for Retirees and Actives -** The County could separate its retirees from its active employee health plan. A Separate Plan for Retirees could save the County by eliminating benefits implemented under the Affordable Care Act (i.e. adding dependents to the plan until they are 26 years of age). An estimate of savings is $115,000. There would be a cost to develop a healthcare plan for retirees as well as identifying vendors to insure pre-65 and post-65 retirees.
4) **Voluntary removals from health insurance, depending on when retired -** The County would save approximately $16,649 (adjusted annually) for each retiree who elects to waive

insurance coverage. The exact savings would be dependent on how many retirees voluntarily waive coverage.

5) **Labor Negotiations for upcoming retirees -** Implement First Choice options.
6) **County Policy - don't hire back Retirees (potential changes in MERS policy and Board policy)** – County benefits from hiring retired employees by avoiding additional health insurance costs.
7) **Chronic and Clinical Care Management Programs -** First Choice #4, 6 & 7.The County would realize a cost for wellness programs with potential benefits several years down the road.
8) **Conduct Health Risk Assessment with incentive offered -** First Choice #4, 6, & 7.
9) **Offer buyouts to existing retirees -** First Choice #3.
10) **Changing the traditional plans to PPO to take advantage of network discounts -** The County would save $13,338 annually.
11) **Evaluate Medicare Advantage Plan with Rx (Part D) -** First Choice #10.
12) **Review Actuarial Assumptions -** The County would not save by implementing this suggestion because actuarial valuations must conform to industry standards and actuarial valuations only predict costs of a plan. An actuarial valuation does not contribute to the cost of the plan.

Third Choice

1. **Education -** First Choice #2.
2. **Look to other employers/spouses/new job to cover Retiree/Family with possible "opt in" at a later date** - The County would save approximately $16,649 per retiree who elected to be covered by a spouse or another employer during their "opt out period." The exact amount of savings would depend on the number of years the retiree opted out of the County's retiree health plan and the number who opted out.
3. **Offer buyouts to existing retirees -** First Choice #3
4. **Implement Medtipster -** Second Choice #2
5. **Prescription Assistance Program to assist in lowering cost of medications to retirees and group -** First Choice #9
6. **Changing the traditional plan to PPO to take advantage of network discounts -** Second Choice #10.

Frank McArdle, Tricia Neuman, and Jennifer Huang of the Kaiser Family Foundation state, in their article, *Retiree Health Benefits At the Crossroads*,

> Large employers (with 200 or more employees) typically self-insure the benefits for pre-65 retirees and contract with health insurers to make available their provider network and administer the benefits and claims payment on a national basis. The employer may either combine the pre-65 retirees along with the active employee in the same risk pool, or break out retirees in a separate risk pool. Most recently, as discussed further below, some employers that previously included active employees and retirees in the same plan have taken steps to create a separate legal plan for retirees only, as retiree only plans are exempt from some of the more costly requirements of the ACA (p. 2). Because of this significant exemption, retiree-only plans are not required to comply with some of the more costly requirements of the ACA, e.g., extending medical plan eligibility to adult children up to age 26, no annual or lifetime dollar limits on essential health benefits,

covering preventive health services with no patient cost sharing, the four page uniform summary of benefits and coverage, as well as certain other provisions.... As a result of the new ACA requirements and the exemption for retiree-only plans, many employers that had included retirees in the same plan with active employees had a financial incentive to create a separate legal plan for retirees and avoid ACA cost increases with respect to the retirees. That change would allow the employer to continue providing the same coverage to retirees as was provided prior to the ACA (p. 8). The exemption is also important because it allows stand-alone health reimbursement arrangements (HRAs) for retiree-only plans, which can be used to pay retiree premiums for group or individual health insurance coverage. Without the retiree-only exemption, stand-alone HRAs would violate the ACA's ban on annual dollar limits and face other regulatory restrictions (under current rules, without the retiree-only exemption, HRAs must be integrated with a group health plan and cannot be used to pay premiums for individual health insurance coverage or coverage through a federal or state exchange.)(p.9)

Employers offering pre-65 coverage typically offer the retirees the same health plan options that are available to active employees that, for large employers, would typically consist of a choice among several options, e.g., a PPO, an HMO, and (less frequently) a traditional indemnity plan. Such coverage is typically comprehensive and more generous than what Medicare currently provides, in that employer plans typically include a limit on out-of-pocket costs and provide a prescription drug benefit with no coverage gap. Often employers will contract with a separate pharmaceutical benefit manager (PBM) to provide the prescription drug coverage (known as a "carve-out"), although sometimes the same insurer providing the medical benefits will also arrange to provide the prescription drug benefits (known as the "carve-in"). (p. 2)

<u>Retiree Healthcare Guarantee is shifting</u>

The Retiree Healthcare Task Force reviewed articles on how recent court decisions have reversed long-standing case law that retiree healthcare is "guaranteed" for life. The two articles were *Retirees Could Lose Their 'Guaranteed' Health Care Benefits and Supreme Court Repudiates Case Law on Retiree Health Care – What Should Employers Do?* In fact, the United States District Court Eastern District of Michigan Southern Division issued an opinion on September 27, 2016 in a case involving City of Hamtramck public safety retirees denying the Plaintiff's claim of lifetime guarantee for healthcare. A copy of the court decision is attached for your review. Every situation is somewhat different in facts, which could affect the Courts interpretation of a challenge. Saginaw County desires to avoid a legal battle over retiree healthcare. Saginaw County also appreciates the service our retirees provided the County. The proposed Action Plan incorporates the Retiree Healthcare Task Force recommendations. The Task Force worked diligently to ensure retirees' healthcare benefits remained affordable, available and sustainable. The County remains committed to this overarching goal. The County desires to honor our relationship with retirees by offering retiree healthcare that meets their needs and remains affordable to the County and the retirees. The proposed Action Plan evidences this commitment.

Action Plan

Saginaw County should pursue implementation of the following recommendations:

- Education – First Choice #2, Second Choice #1, and Third Choice #1

- Prescription Assistance Programs to assist in lowering cost of medications to retirees and group – First Choice #9, Third Choice #4
- Chronic & Critical Care Management Programs – Second Choice #7
- Evaluate a Medicare Advantage Plan with Rx (Part D)– First Choice #10, Second Choice #11
- Separate Plan Documents for Retiree & Active – Second Choice #3
- Implement Medtipster- Second Choice #2 and Third Choice #3
- Coaching for lifestyle management changes and Preventive Program on certain diseases to help control costs; Coordinate incentives for certain items like obtaining and reducing cholesterol, weight loss, lowering blood pressure; Look at a Wellness Program for Retirees for doing healthy activities – First Choice #4, 6, & 7. Second Choice #7 & 8
- Look to other employers/spouses/new job to cover Retiree/Family with possible "opt in" at a later date – Third Choice #5
- Labor Negotiations for upcoming retirees – Second Choice #5

The County requested CBIZ compare the proposed Medicare Advantage Plan to our existing retiree health plans to determine the actuarial equivalence of the proposed Medicare Advantage Plan are to the County provided self-insured plans. Ultimately, the County wants to know whether the proposed Medicare Advantage Plan is **as good or better than** our retiree health plans in place today. CBIZ verified the proposed Medicare Advantage Plans meet or exceed all of the existing post 65 plans offered to retirees. A copy of the CBIZ letter is attached herewith for your review and consideration.

I believe I should meet with the Retiree Healthcare Task Force to share this Action Plan with them and obtain feedback on the proposed action items contained herein. The Retiree Healthcare Task Force could offer great insight into how retirees may receive this information and how to better address potential concerns or challenges. The Retiree Healthcare Task Force indicated in its Report that "doing nothing" was not an option for the County. Brown & Brown has agreed to meet with retirees as a group and on a one-on-one basis to evaluate how the proposed changes would impact them individually once a recommendation has been initiated. Change is difficult and could create a great deal of stress or anxiety. I believe Saginaw County should work closely with its retirees to ensure they remain informed of potential changes and how those changes may impact them. Our success in controlling costs while providing a respectable level of healthcare coverage to our retirees will be dependent our ability to adequately communicate with our retirees.

Saginaw County has struggled to balance its General Fund and Law Enforcement budgets since 2008 with the decline of property tax revenues and increasing unfunded liabilities associated with Municipal Employees' Retirement System (MERS) Defined Benefit pension plan and Other Postemployment Benefits (retiree healthcare). The County of Saginaw issued a $52 million bond in 2014 to fund its unfunded actuarial accrued liability. The purpose of bonding for this unfunded accrued liability was to stabilize the budget and avoid the spike in annual required contributions while possibly benefiting from greater investment returns than interest rates on the bonds. Saginaw County received its Actuarial Valuation for December 31, 2015 which projects the County will have to increase its annual contribution to MERS by 71 percent and contribute approximately $4.5 million (Option A Full Impact). There is no "quick fix" to these financial challenges. Saginaw County will need to pursue multiple opportunities to address these challenges. It is financially prudent for Saginaw County to consider cost containment ideas for retiree healthcare since it remains a large financial commitment of the County and its unfunded liability continues to grow.