

RETIREE MEDICAL DEPENDENT COVERAGE POLICY REVIEW

PRESENTED BY
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OVERVIEW



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- Conclusion and recommendation



What was the Firm asked to do with this review?

- In Spring of 2024, the County engaged our firm to conduct an independent review of the retiree medical dependent coverage policy and provide advice to the County on the contribution rates charged to eligible retirees for dependent coverage.
- As a part of that engagement, we conducted an objective review to answer a specific question.

What question was answered in this review?

- Under the terms of the Board Policy, what is the amount that retirees are required to—or entitled to—pay for dependent coverage if they elect to enroll in the County’s medical plan?

SCOPE OF REVIEW



What did we review?

- The scope covered four decades of materials and information from 1980 until 2023.

How was it conducted?

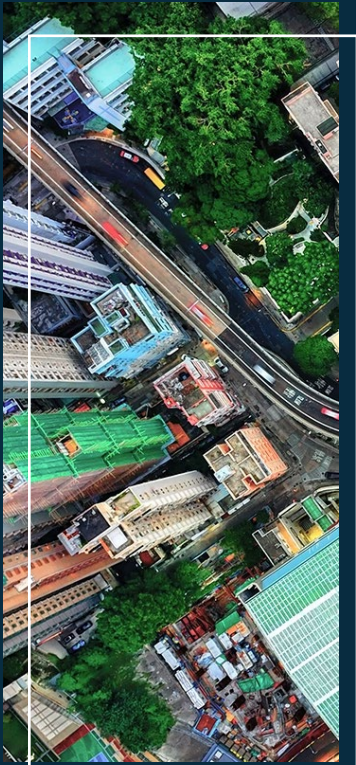
- We reviewed volumes of data.
 - Board materials (including minutes, agendas, supporting documentation, audio and video footage)
 - County documentation (including HR policy and procedure manuals, internal memos, emails, contribution rate calculations, financial reports, participant communications and rate-setting materials)
- We interviewed stakeholders.
 - Current and former County actuarial and benefits consulting firms, former County staff who assisted with the administration of the benefit, and County retirees who have participated in the benefit



What is our key finding?

Since 2017, County retirees have been paying less for their dependent coverage than what the Board Policy provides.

- For purposes of this review, “Board Policy” means the Board action as described in the HR Manual.
- Board Policy was originally adopted by the Board in 1981 following presentations and recommendations from the County Manager and staff.
- The first version of the HR Manual setting forth both sections of the Board Policy (i.e., the Board Policy and County Manager Procedures) appears to have been drafted in 1994.
- Prior to 1994, Board minutes, agendas and internal memorandum described the Board Policy.



Since 1981, Board Policy, with respect to County contributions retirees receive for coverage, has been amended by Board action four times.

- **1980** – County Manager recommended eligible retirees be included in the County group insurance program.
- **1981** – Board approved offering of retiree medical insurance and coverage of dependents. No County contribution was provided for coverage.
- **1984** – Board approved a \$25/month County contribution.
- **1985** – Board approved contribution of \$25/month for eligible retirees with 10 to less than 20 years of service and 100% of the total cost of coverage for individual-only coverage for eligible retirees with 20 or more years of service.
- **1996** – Board approved contribution of 50% of the total cost of coverage for individual-only coverage for eligible retirees with 10 to less than 20 years of service and 100% of the total cost of coverage for individual-only coverage for eligible retirees with 20 or more years of service.
- **2004** – Board approved changes to account for a new enhanced plan offering. The contributions for the standard plan remained the same as the 1996 policy and the contributions for the enhanced plan were limited to the *County paid portion* of the total cost of coverage for individual-only coverage.
- **2010** – Board eliminated the retiree medical benefit for new hires after July 1, 2010.



Starting in 1981, Board Policy promised to provide retirees and their dependents coverage based on the same group rate set for active employees.

- In February 1981, approved the following terms:

Retirees must meet the following criteria to remain in the active employee's group:

- 1) *Must be receiving a monthly retirement check*
- 2) *Must be under age sixty-five (65)*
- 3) *Must have a minimum of ten (10) years service with Mecklenburg County (as a permanent employee)*

Retirees will be responsible for paying their own premium and may elect to cover dependents under age sixty-five (65) with the responsibility for any dependent premiums. Rates will be the same as the active employee's group... (emphasis added)

- Board Policy does not define what either “rates” or “premiums” mean.
- However, based on the context of the time, the Board intended for retirees to receive just the benefit of enrollment (i.e., access to coverage) in the group medical plan, without the benefit of receiving a County contribution to further reduce that group rate.



In 1981, no contributions were approved for retiree or dependent coverage.

- This effectively means that retirees were promised the opportunity to be included in the same risk rating pool as active employees to achieve the same group rate but were not promised any reduction to that group rate (i.e., no promise of contribution or subsidy to that group rate).
- Internal memorandum prepared by County staff documented and former County staff confirmed that this was the original promise and intent of the retiree medical coverage policy.
- The approved Board Policy promised retirees that they would be entitled to pay the group rate (or total cost of coverage) charged by Blue Cross Blue Shield for the coverage options available to active employees, but without any contribution.
- A memorandum that was presented to the Board outlined the rates charged in 1980 for active employee coverage.

	Individual	Parent/Child	Family
<u>Group</u>			
Employer	\$ 25.64	\$ 25.64	\$ 25.64
Employee	\$ -	\$ 15.96	\$ 30.04
	\$ 25.64	\$ 41.60	\$ 55.68
<u>Non-Group</u>			
(High level coverage)	\$ 49.61	\$ 62.00	\$ 99.22

- Showing that the monthly group rate for active employees was \$41.60 and \$55.68 for the two dependent coverage options, which was approximately \$20 and \$45 less respectively than non-group rates.

In 1981, the methodology used to determine dependent coverage rates was different for active employees and retirees because no contribution was approved.

- Active Employee Methodology: Total Cost of Dependent Coverage minus Approved County Contribution for Active Employees

- Illustrative Example:

	<u>Individual Coverage</u>	<u>Parent/Child Coverage</u>	<u>Family Coverage</u>
Total Cost of Coverage*	\$25.64	\$41.60	\$55.68
minus			
County Contribution**	-\$25.64	-\$25.64	-\$25.64
Monthly Amount Paid by Active Employee	\$0.00	\$15.96	\$30.04

* These are the active employees' group rates in the 1980 memorandum.

** These amounts are the subsidized amounts that the County paid on behalf of active employees in 1980.

- Retiree Methodology: Total Cost of Dependent Coverage minus Approved County Contribution for Retirees

- Illustrative Example:

	<u>Individual Coverage</u>	<u>Parent/Child Coverage</u>	<u>Family Coverage</u>
Total Cost of Coverage*	\$25.64	\$41.60	\$55.68
minus			
County Contribution**	\$0.00	\$0.00	\$0.00
Monthly Amount Paid by Retiree	\$25.64	\$41.60	\$55.68

* These amounts are the same rates as the active employees' group rates in the 1980 memorandum.

** There are no amounts listed because, at the time, retirees were not entitled to any contribution under the 1981 Board Policy.



In 1984, the Board first approved a County contribution for retirees who elected coverage.

Active Employee Illustrative Example:

	<u>Individual Coverage</u>	<u>Parent/Child Coverage</u>	<u>Family Coverage</u>
Total Cost of Coverage*	\$25.64	\$41.60	\$55.68
minus			
County Contribution**	-\$25.64	-\$25.64	-\$25.64
Monthly Amount Paid by Active Employee	\$0.00	\$15.96	\$30.04

* These are the active employees' group rates in the 1980 memorandum.

** These amounts are the subsidized amounts that the County paid on behalf of active employees in 1980.

Retiree Illustrative Example:

	<u>Individual Coverage</u>	<u>Parent/Child Coverage</u>	<u>Family Coverage</u>
Total Cost of Coverage*	\$25.64	\$41.60	\$55.68
minus			
County Contribution**	-\$25.00	-\$25.00	-\$25.00
Monthly Amount Paid by Retiree	\$0.64	\$16.60	\$30.68

* These amounts are the same rates as the active employees' group rates in the 1980 memorandum.

** These amounts are the \$25 that retirees are entitled to under the 1984 Board Policy.





In 1985, the Board approved a change to the contribution amount for County retirees with 20 or more years of service.

■ Active Employee Illustrative Example:

	Individual Coverage	Parent/Child Coverage	Family Coverage
Total Cost of Coverage*	\$25.64	\$41.60	\$55.68
minus			
County Contribution**	-\$25.64	-\$25.64	-\$25.64
Monthly Amount Paid by Active Employee	\$0.00	\$15.96	\$30.04

* These are the active employees' group rates in the 1980 memorandum.

** These amounts are the subsidized amounts that the County paid on behalf of active employees in 1980.

■ Retiree Illustrative Example:

	Individual Coverage	Parent/Child Coverage	Family Coverage
Total Cost of Coverage*	\$25.64	\$41.60	\$55.68
minus			
County Contribution***	-\$25.00	-\$25.00	-\$25.00
Monthly Amount Paid by Retiree with 10 or more but less than 20 years of service	\$0.64	\$16.60	\$30.68
	Individual Coverage	Parent/Child Coverage	Family Coverage
Total Cost of Coverage*	\$25.64	\$41.60	\$55.68
minus			
County Contribution***	-\$25.64	-\$25.64	-\$25.64
Monthly Amount Paid by Retiree with 20 or more years of service	\$0.00	\$15.96	\$30.04

* These amounts are the same rates as the active employees' group rates in the 1980 memorandum.

** These amounts are the \$25 that retirees are entitled to under the 1985 Board Policy.

*** These amounts are 100% of the premiums paid for individual-only coverage under this example pursuant to the 1985 Board Policy.



In 1996, the Board approved a change to the contribution amount for County retirees with 10 or more years of service but less than 20 years of service.

Active Employee Illustrative Example:

	Individual Coverage	Parent/Child Coverage	Family Coverage
Total Cost of Coverage*	\$25.64	\$41.60	\$55.68
minus			
County Contribution**	-\$25.64	-\$25.64	-\$25.64
Monthly Amount Paid by Active Employee	\$0.00	\$15.96	\$30.04

* These are the active employees' group rates.

** These amounts are the subsidized amounts that the County paid on behalf of active employees in 1980.

Retiree Illustrative Example:

	Individual Coverage	Parent/Child Coverage	Family Coverage
Total Cost of Coverage*	\$25.64	\$41.60	\$55.68
minus			
County Contribution**	-\$12.82	-\$12.82	-\$12.82
Monthly Amount Paid by Retiree with 10 or more but less than 20 years of service	\$12.82	\$28.78	\$42.86
	Individual Coverage	Parent/Child Coverage	Family Coverage
Total Cost of Coverage*	\$25.64	\$41.60	\$55.68
minus			
County Contribution***	-\$25.64	-\$25.64	-\$25.64
Monthly Amount Paid by Retiree with 20 or more years of service	\$0.00	\$15.96	\$30.04

* These amounts are the same rates as the active employees' group rates in the 1980 memorandum.

** These amounts are 50% of the premiums paid for individual-only coverage under this example pursuant to the 1996 Board Policy.

*** The amounts are 100% of the premiums paid for individual-only coverage under this example pursuant to the 1996 Board Policy. 12



From 1981 until 2017, the County administered the retiree medical dependent coverage in accordance with Board Policy, as amended from time to time.

- The Board approved the changes to contributions from 1984 until 1996 by taking action after recommendation by the County Manager.
- In January 2004, the Board approved changes to the coverage options available to include a standard plan and a new enhanced plan upon County Manager recommendation.
- In 2010, the Board eliminated retiree medical benefits for employees hired after July 1, 2010 on County Manager recommendation.

- From 1981 until 2017, the Board Policy was:

Total Cost of Dependent Coverage *minus* Approved County Contribution for Retirees

- An illustrative example of 2012 follows.

SUMMARY OF FINDINGS

This example shows how 2012 was calculated.

<u>Standard Plan</u>	<u>Individual Coverage</u>	<u>Parent/Child Coverage</u>	<u>Emp/Spouse Coverage</u>	<u>Family Coverage</u>
Monthly Total Cost of Coverage	\$633.43	\$757.87	\$885.70	\$1,013.53
<i>minus</i>				
County Contribution	-\$579.26	-\$579.26	-\$579.26	-\$579.26
Monthly Amount Paid by Active Employee	\$54.17	\$178.61	\$306.44	\$434.27

<u>Standard Plan</u>	<u>Individual Coverage</u>	<u>Parent/Child Coverage</u>	<u>Retiree/Spouse Coverage</u>	<u>Family Coverage</u>
Monthly Total Cost of Coverage*	\$633.43	\$757.87	\$885.70	\$1,013.53
<i>minus</i>				
County Contribution**	-\$316.72	-\$316.72	-\$316.72	-\$316.72
Monthly Amount Paid by Retiree with 10 or more but less than 20 years of service	\$316.72	\$441.16	\$568.99	\$696.82

<u>Standard Plan</u>	<u>Individual Coverage</u>	<u>Parent/Child Coverage</u>	<u>Retiree/Spouse Coverage</u>	<u>Family Coverage</u>
Monthly Total Cost of Coverage*	\$633.43	\$757.87	\$885.70	\$1,013.53
<i>minus</i>				
County Contribution***	-\$633.43	-\$633.43	-\$633.43	-\$633.43
Monthly Amount Paid by Retiree with 20 or more years of service	\$0.00	\$124.44	\$252.27	\$380.10

* These amounts are the same rates as the active employees' group rates for the year.

** These amounts are 50% of the individual premium (i.e., the total cost of coverage/premium for individual-only coverage).

*** The amounts are 100% of the individual premium (i.e., the total cost of coverage/premium for individual-only coverage).





In 2017, the County began providing a subsidy for dependent coverage that was more than what was intended by the Board Policy and more than what was done in prior years.

- Under the Board Policy, the amount retirees are entitled to pay for dependent coverage is determined as follows:
 - For retirees with 10 to less than 20 years of service:
Total Cost of Dependent Coverage *minus* 50% of the total cost of coverage for individual-only coverage
 - For retirees 20 or more years of service:
Total Cost of Dependent Coverage *minus* 100% of the total cost of coverage for individual-only coverage
- However, in 2017, the method for calculating what retirees paid changed to:
 - For retirees with 10 to less than 20 years of service:
Total Cost of Individual-Only Coverage *minus* 50% of the total cost of the individual-only coverage *plus* the subsidized incremental Monthly Amount Paid by active employees for dependent coverage
 - For retirees 20 or more years of service:
Total Cost of Individual-Only Coverage *minus* 100% of the total cost of the individual-only coverage *plus* the subsidized incremental Monthly Amount Paid by active employees for dependent coverage
- Examples of 2017 showing both calculations follow.

SUMMARY OF FINDINGS

This example shows how 2017 was calculated.

Standard Plan	<u>Individual Coverage</u>	<u>Parent/Child Coverage</u>	<u>Emp/Spouse Coverage</u>	<u>Family Coverage</u>
Monthly Total Cost of Coverage	\$751.71	\$1,277.90	\$1,653.76	\$2,630.98
<i>minus</i>				
County Contribution	-\$638.95	-\$1,022.32	-\$1,323.01	-\$2,104.78
Monthly Amount Paid by Active Employee	\$112.76	\$255.58	\$330.75	\$526.20

Standard Plan	<u>Individual Coverage</u>	<u>Parent/Child Coverage</u>	<u>Retiree/Spouse Coverage</u>	<u>Family Coverage</u>
Monthly Total Cost of Coverage	\$751.71	\$1,277.90	\$1,653.76	\$2,630.98
<i>minus</i>				
County Contribution - Methodology Changed To Increase the County's Contribution Based on the Amount Charged to Active Employees for Incremental Additional Coverage	-\$375.86	-\$646.47	-\$947.16	-\$1,728.93
Monthly Amount Paid by Retiree with 10 or more but less than 20 years of service	\$375.86	\$631.44	\$706.61	\$902.06

Standard Plan	<u>Individual Coverage</u>	<u>Parent/Child Coverage</u>	<u>Retiree/Spouse Coverage</u>	<u>Family Coverage</u>
Monthly Total Cost of Coverage	\$751.71	\$1,277.90	\$1,653.76	\$2,630.98
<i>minus</i>				
County Contribution - Methodology Changed To Increase the County's Contribution to Cause Retirees to Pay Only the Amount Paid by Active Employee	-\$751.71	-\$1,022.32	-\$1,323.01	-\$2,104.78
Monthly Amount Paid by Retiree with 20 or more years of service	\$0.00	\$255.58	\$330.75	\$526.20



This example shows how 2017 was calculated.

SUMMARY

Standard Plan	Individual Coverage	Parent/Child Coverage	Emp/Spouse Coverage	Family Coverage
Monthly Total Cost of Coverage	\$751.71	\$1,277.90	\$1,653.76	\$2,630.98
<i>minus</i>				
County Contribution	-\$638.95	-\$1,022.32	-\$1,323.01	-\$2,104.78
Monthly Amount Paid by Active Employee	\$112.76	\$255.58	\$330.75	\$526.20



Standard Plan

Monthly Total Cost of Coverage

minus

County Contribution - Methodology Changed To Increase the

Parent/Child: $\$375.86 + \$255.58 = \$631.44$

Emp/Spouse: $\$375.86 + \$330.75 = \$706.61$

Family: $\$375.86 + \$526.20 = \$902.06$

Monthly Amount Paid by Retiree with 10 or more but less than 20 years of service	\$375.86	\$631.44	\$706.61	\$902.06
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Standard Plan

Monthly Total Cost of Coverage

minus

County Contribution - Methodology Changed To Increase the County's Contribution to Cause Retirees to Pay Only the Amount

Individual Parent/Child Retiree/Spouse

Parent/Child: $\$0 + \$255.58 = \$255.58$

Emp/Spouse: $\$0 + \$330.75 = \$330.75$

Family: $\$0 + \$526.20 = \$526.20$

Monthly Amount Paid by Retiree with 20 or more years of service	\$0.00	\$255.58	\$330.75	\$526.20
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SUMMARY OF FINDINGS

This example shows how 2017 should have been calculated.

<u>Standard Plan</u>	<u>Individual Coverage</u>	<u>Parent/Child Coverage</u>	<u>Emp/Spouse Coverage</u>	<u>Family Coverage</u>
Monthly Total Cost of Coverage	\$751.71	\$1,277.90	\$1,653.76	\$2,630.98
<i>minus</i>				
County Contribution	-\$638.95	-\$1,022.32	-\$1,323.01	-\$2,104.78
Monthly Amount Paid by Active Employee	\$112.76	\$255.58	\$330.75	\$526.20

<u>Standard Plan</u>	<u>Individual Coverage</u>	<u>Parent/Child Coverage</u>	<u>Retiree/Spouse Coverage</u>	<u>Family Coverage</u>
Monthly Total Cost of Coverage*	\$751.71	\$1,277.90	\$1,653.76	\$2,630.98
<i>minus</i>				
County Contribution**	-\$375.86	-\$375.86	-\$375.86	-\$375.86
Monthly Amount Paid by Retiree with 10 or more but less than 20 years of service	\$375.86	\$902.05	\$1,277.91	\$2,255.13

<u>Standard Plan</u>	<u>Individual Coverage</u>	<u>Parent/Child Coverage</u>	<u>Retiree/Spouse Coverage</u>	<u>Family Coverage</u>
Monthly Total Cost of Coverage*	\$751.71	\$1,277.90	\$1,653.76	\$2,630.98
<i>minus</i>				
County Contribution***	-\$751.71	-\$751.71	-\$751.71	-\$751.71
Monthly Amount Paid by Retiree with 20 or more years of service	\$0.00	\$526.19	\$902.05	\$1,879.27

* These amounts are the same rates as the active employees' group rates for the year.

** These amounts are 50% of the individual premium (i.e., the total cost of coverage/premium for individual-only coverage).

*** The amounts are 100% of the individual premium (i.e., the total cost of coverage/premium for individual-only coverage).





There is no evidence that the Board approved an amendment to the Board Policy to provide an additional subsidy in 2017.

- Historically, the Board only amended Board Policy to change contribution rates upon express recommendation from the County Manager and County staff, which included background and context to inform the Board’s decision to take action.
- Because the change in calculation methodology was not so presented, it suggests the Board only authorized annual changes to the amount charged to retirees for dependent coverage and did not make, or intend to make, changes to Board Policy.
- It is not clear whether the Board was informed of these annual changes during the budget approval process.
- Further, the Firm is not aware of any informed Board action that approved a change to the Board Policy to increase the subsidy or contribution made by the County from 2017 until the present.
- As such, the Firm is unable to conclude that retirees who were vested prior to 2017 would have a vested right to continue to receive the increased subsidized dependent coverage that the new 2017 methodology provided.
- In addition, the Firm is unable to conclude that retirees who became vested, or will become vested, on or after 2017 are entitled to receive a permanent increase in the County’s contribution towards dependent coverage.



Conclusion

- Since 2017, retirees have been paying less for their dependent coverage than what the Board Policy provides.
- Despite a consistent past practice of following an established methodology which matched the Board’s original intent, in 2017, the County began subsidizing retiree medical dependent coverage more than Board Policy allowed without Board Policy amendment.

Recommendation

- To be consistent with Board Policy, the Firm recommends that the County stop including the additional subsidy that it began providing in 2017 and revert to calculating the cost of dependent coverage for retirees based on the Board Policy’s original intent using the methodology established in 1981.