

**To the Mayor and Members of the City Council****May 19, 2020**

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**SUBJECT: RETIREE HEALTH PLAN PREMIUMS**

As of FY2017 active and retiree health costs were separated into two different funds operating independent of each other. The purpose of this was two-fold: Employees would no longer share their City contributions and employee premiums to help subsidize retiree healthcare costs, thus making employee premiums more competitive with the market, and, subsequently, retirees would be more responsible for their costs of healthcare. It is relevant to note that state law requires plan designs for both active employees and retirees to be actuarially equivalent, but does allow for retirees to go on a Medicare supplement type plan upon obtaining age 65.

Additionally, as a result of the above it was determined in 2017 that the City would start to require retirees to contribute to the City's Preferred Provider Organization (PPO) plan that is now referred to as the Health Center Plan. The plan, at that time, was to have retirees pay \$50/month and increase by \$50/month for the next two years to a total of \$150/month, which is reflective of what retirees over the age of 65 pay to Medicare for their Part B coverage. However, the performance of the retiree health plan in 2018 and 2019 showed improvement and the additional \$50 increases were unnecessary.

Unfortunately, FY 2020 is not shaping up as a good year for retirees. As mentioned, above, while the retiree costs for health care had been running well and they entered the current fiscal year with a \$2.5 million fund balance, it is projected that retirees will be over budget by \$1.7 million this year. Claims during the first six months of the fiscal year have trended twenty-eight percent over the same period last year. As a result, it is expected that contribution increases from both the retirees and the City will be needed for 2021. Any increases in retiree premium on the PPO plan will be limited to an additional \$50/month for a total of \$100/month, as previously planned, and dependent coverage (spouse, children and family) is planned to increase by three percent. At this time, it is expected that the City will need to increase its contribution by a little over six percent. Retiree only coverage for the City's high deductible health plan (Consumer Choice) will remain at zero premium cost to retirees, but dependent coverage (spouse, children and family) is also expected to increase by three percent with the City contribution increasing by six percent as well.

Active employee premiums are not expected to increase for 2021 and, probably, for 2022 because their performance has continued to be strong.

If you have any additional questions, please contact Brian Dickerson, Human Resources Director at 817-392-7783.

**David Cooke**  
**City Manager**