

Sonoma County Association of Retired Employees (SCARE)

Discussion Items

Related to

Retiree Health Insurance Benefits

SCARE Concerns and Issues Regarding Retiree Health Insurance

1. **More Than a Broken Promise:** Retirees relied upon and made irreversible life decisions based upon a 40 year history of promises of health benefits using an affordable cost sharing formula which has now been replaced by a flat \$500/month contribution with no sharing in future inflationary costs. This totally changes the value and character of the benefit and most seriously affects retirees with low pensions (over 1,000 retirees receive less than \$1,000/month [Attachment 1A]); 59% of retirees under 65; the 47% of retirees and 70% of employees with dependents; and retirees who live outside the Kaiser service area.

The change to the flat \$500/month violates vested benefit rights as well as disrupts lives. Since SCARE's attorney sent Attachment 1B to the County, new legal developments, including a Washington Supreme Court decision in a situation that was very similar to ours, have only strengthened our legal position.

Additionally, the \$600/month allowance the County is giving employees (not retirees) is a subterfuge to "break" vested parity between retirees and active employees' health insurance benefits. (Attachment 1C)

2. **No Automatic Retirement COLA's:** Sonoma County retirees are the only county retirees (except for "new tiers" in a couple counties) in California without an automatic across-the-board COLA of 2 or 3%. This was a benefit that employee organizations traded for improved health benefits for retirees. Sonoma County gives occasional ad hoc across-the-board COLAs but we have only received 3 1% COLAs since 2000; none in the last 5 years with no COLA of any kind likely in 2009. Additionally, most other counties have a COLA to sustain purchasing power at a given level. In Sonoma County, even the "80% purchasing power" COLA's are only given if investment income is available in the retirement system and none are generally given for the first 10-12 years after retirement. This makes the flat \$500 health insurance contribution especially onerous for retirees as 100% of "medflation" will be shifted to retirees who have little or no increase in their pensions. New retirees can expect a 2 - 3% increase in their pension during the first 10 years after retirement and an increase of 99% to 1000% in their health benefit costs. (Attachments 2A - 2C))
3. **County Budget and Retirement System Cost Impacts:** The County is giving employees (not retirees) an extra \$600/month (\$7,200 annually) "cash allowance" which they have been told they can use for health insurance premium costs above the flat \$500 health benefits allowance. (This is an extra 15% increase for an employee earning \$48,000 !!!)
 - The \$600 per month "cash allowance" will cost the County taxpayers approximately \$33 million in salary and benefits. In FY 2009-10 alone, this is \$13 million more than the \$20 million savings from changing the County health insurance contribution to a flat \$500.
 - According to the County retirement system's (SCERA's) actuary, the \$600 monthly "cash allowance" will cost SCERA an additional \$52 million, which the county is legally obligated to pay. This is because the cash allowance becomes part of the retirement base pay for employees who retire, regardless of how long they have contributed toward it. Were the SCERA Actuary reports shared with Supervisors? (Attachments 3A - 3H)

4. **Penalizes Families and Couples:** The County proposals are particularly devastating to those retirees and employees with dependents. For example, in 10 years, a working parent on Kaiser with 2 children goes from \$177 to \$1,090, even when using \$600 cash allowance for health insurance. If on the County Health Plan, that parent would have to pay \$2726 after 10 years – obviously not possible. As a further example, a retiree under 65 with a spouse goes from \$125 to \$1,047 in 10 years. (See Attachments 4A - 4B for employees and 2B for retirees.)
5. **Forces Elderly Patients to Change Doctors and Hurts Non-Kaiser Hospitals and Medical Community:** The County's plan will drive employees and retirees into the Kaiser plan as it is so much less expensive than other plans; i.e., in 5 years, the cost to a retiree and 1 dependent under 65 will be approximately \$1,625 for the County Health Plan #2 and \$695 for Kaiser. (Attach. 4A) Is there any doubt what retirees and employees will have to choose? (Attachment 4B) This will force elderly retirees to switch to doctors who are unfamiliar with their medical conditions and will hurt struggling local doctors and hospitals. (Attachment 5A)
6. **Labor Unrest and Management Turnover:** The County is inflexibly focused on one option to solve the OPEB problem. Contract negotiations with major unions have broken down due to the imposition of the County's reduced health benefits on both retirees and employees. There is a great deal of labor unrest which causes a decrease in services. There has also been a lot of turnover in management staff and employees, which is disruptive to providing services. Additionally, there have been extraordinary legal fees with the County paying over \$1.2 million in the last 2 years to one legal firm alone for labor relations work. In spite of this, the County has lost all unfair labor actions filed against them so far. (Attachment 6A and 6B show a couple of these)
7. **Deputy Sheriffs' Association's** recent agreement included the establishment of a trust fund for retirees that is to be partially funded by the County. While we do not necessarily agree with the specifics of the agreement, it seems clear that the County is willing to agree to less severe cutbacks for some retirees but not the rest.
8. **Retirees are willing** to examine alternatives which share the health insurance cost burden and future medflation in a reasonable fashion! We ask that the change to a \$500 flat payment for health benefits be rescinded immediately and that a door to meaningful, multi-party dialogue be established.

Sonoma County Retirees Grouped by Amount of Pension
Information Provided by SCERA in 2008

Monthly Retirement	Number of Retirees	Percentage by Group	Cumulative Percentage
\$500 or less	317	9.7%	9.7%
\$500 - \$1,000	703	21.4%	31.1%
\$1,000 - \$2,000	1,018	31.0%	62.1%
\$2,000 - \$3,000	574	17.5%	79.6%
\$3,000 - \$4,000	293	8.9%	88.5%
Over \$4,000	<u>377</u>	11.5%	100.0%

3,282 Total Retirees

Retiree Pension Example - 20 Years
Sonoma County Ad-Hoc COLA Program vs Guaranteed COLAs of 2% and 3%
 Prepared by SCARE

Year	Sonoma County History & Projection			Hypothetical County with 2% Auto COLA		Hypothetical County with 3% Auto COLA	
	Across the Bd COLA %	Purch Power COLA %	Annualized (X 12)	2% Auto COLA	Annualized (X 12)	3% Auto COLA	Annualized (X 12)
1995			18,000		18,000		18,000
1996	1%	0%	18,180	2%	18,360	3%	18,540
1997	0%	0%	18,180	2%	18,727	3%	19,096
1998	1%	0%	18,362	2%	19,102	3%	19,669
1999	1%	0%	18,545	2%	19,484	3%	20,259
2000	4%	0%	19,287	2%	19,873	3%	20,867
2001	1%	0%	19,480	2%	20,271	3%	21,493
2002	1%	0%	19,675	2%	20,676	3%	22,138
2003	1%	0%	19,872	2%	21,090	3%	22,802
Ventura*		0%	19,872	2%	21,512	3%	23,486
2004	0%	0%	19,872	2%	21,942	3%	24,190
2005	0%	0%	19,872	2%	22,381	3%	24,916
2006	0%	0%	19,872	2%	22,828	3%	25,664
2007	0%	5.6%	20,984	2%	23,285	3%	26,434
2008	0%	4.0%	21,824	2%	23,751	3%	27,227
2009	0%	3%	22,479	2%	24,226	3%	28,043
2010	0%	3%	23,153	2%	24,346	3%	28,182
2011	1%	3%	24,079	2%	24,833	3%	29,028
2012	0%	3%	24,801	2%	25,329	3%	29,899
2013	0%	3%	25,545	2%	25,836	3%	30,796
2014	0%	3%	26,312	2%	26,352	3%	31,719
2015	0%	3%	27,101	2%	26,880	3%	32,671
Total	11%	31%	465,346	40%	489,082	60%	545,118
Above Sonoma County Over 20 Years				\$ 23,736		\$ 79,772	

This table is based on the following:

- (1) This example is based on someone who retires in 1995 with a monthly pension of \$1,500. That is approximately the average wage of retirees in 1995.
- (2) The bolded area of the table is actual based on COLA info from SCERA. The Purchasing Power COLA generally does not occur in the first 10-11 years after retirement. People retiring in 1995 did not receive a Purchasing Power COLA until 2007 (this is actual).
- (3) COLAs for 2009 - 2015 are based on prior years (there has been 1 across-the-board COLA in the last 6 years). Estimate of 3% per year for Purchasing Power COLAs are probably generous given the 30% loss in assets that SCERA has incurred this year due to market downturn.
- (4) 13 other 1937 Act Counties get purchasing power COLAs in addition to their flat auto COLAs. This was not figured in as figures on amount given are not available. However, it would increase the total for counties with a 2% COLA as inflation has been more than 3 %.

* In 2003, there was a COLA of .008 given based on the Ventura decision. It was left out as it was not a true COLA plus other counties got it too.

Sonoma County Retiree Health Benefits
Estimated Cost to Retirees of Implementing County Plan of Aug. 19, 2008 for 2009 to 2019
Prepared by SCARE

	Number Enrolled 2007	2008-09 Retiree Share	2009-10 Retiree Share	2013-14 Retiree Share	2018-19 Retiree Share	% Increase in Retiree Share in 10 Years
County Health Plan #2						
Non-Medicare Retirees						
Retiree	284	105.43	202.24	581.03	892.84	747%
Retiree & 1 dep under 65	191	207.25	494.11	1,624.95	2,237.86	980%
Retiree & 2+ dep under 65	45	289.62	730.24	2,469.49	3,326.01	1048%
Retiree & 1 dep over 65	128	158.54	354.46	1,125.49	1,594.34	906%
Retiree & 2 dep, 1 over 65	11	240.90	590.59	1,970.04	2,682.49	1014%
Medicare Retirees						
Retiree	552	56.72	(0.00)	81.57	249.32	340%
Retiree & 1 dep under 65	220	158.54	354.46	1,125.49	1,594.34	906%
Retiree & 1 dep over 65	147	113.44	225.20	663.14	998.63	780%
Retiree & 2 dep; 1 over 65; 1 under 65	2	192.19	450.95	1,470.58	2,038.97	961%
Retiree & 2+ dep under 65	9	240.90	590.59	1,970.04	2,682.49	1014%
County Health Plan #3						
Non-Medicare Retirees						
Retiree	3	93.63	168.40	459.97	736.87	687%
Retiree & 1 dep under 65	3	184.04	427.58	1,387.00	1,931.29	949%
Retiree & 2+ dep under 65	0	257.19	637.27	2,137.00	2,897.61	1027%
Retiree & 1 dep over 65	0	140.78	303.58	943.48	1,359.84	866%
Retiree & 2 dep, 1 over 65	1	213.93	513.26	1,693.46	2,326.14	987%
Medicare Retirees						
Retiree	1	50.37	(0.00)	16.45	165.42	228%
Retiree & 1 dep under 65	0	140.78	303.58	943.48	1,359.84	866%
Retiree & 1 dep over 65	0	100.74	188.79	532.91	830.83	725%
Retiree & 2 dep; 1 over 65; 1 under 65	0	170.67	389.26	1,249.94	1,754.69	928%
Retiree & 2+ dep under 65	0	213.93	513.26	1,693.46	2,326.14	987%
PacifiCare						
Non-Medicare Retirees						
Retiree	99	147.16	202.84	432.35	707.00	380%
Retiree & 1 dep under 65	62	294.32	505.68	1,364.70	1,913.98	550%
Retiree & 2+ dep under 65	37	397.34	717.67	2,017.38	2,758.93	594%
Retiree & 1 dep over 65	0	234.62	375.85	951.38	1,378.91	488%
Retiree & 2 dep, 1 over 65	0	337.64	587.85	1,604.05	2,223.84	559%
Secure Horizons						
Medicare Retirees						
Retiree	40	86.27	0.00	19.02	171.91	99%
Retiree & 1 dep under 65	7	234.62	375.85	951.38	1,378.91	488%
Retiree & 1 dep over 65	22	172.54	244.13	538.05	843.83	389%
Retiree & 2 dep; 1 over 65; 1 under 65	0	337.64	587.85	1,604.05	2,223.84	559%
Retiree & 2+ dep under 65	2	277.92	458.02	1,190.72	1,688.75	508%
Kaiser Permanente						
Non-Medicare Retirees						
Retiree	149	62.46	(0.00)	97.76	273.84	338%
Retiree & 1 dep under 65	79	124.93	237.30	695.52	1,047.69	739%
Retiree & 2+ dep under 65	37	176.77	377.28	1,191.66	1,689.98	856%
Retiree & 1 dep over 65	27	111.05	199.82	562.68	875.72	689%
Retiree & 2 dep, 1 over 65	0	162.89	339.80	1,058.82	1,518.01	832%
Kaiser Senior Advantage						
Medicare Retirees						
Retiree	173	48.58	(0.00)	0.00	101.87	110%
Retiree & 1 dep under 65	25	111.05	199.82	562.68	875.72	689%
Retiree & 1 dep over 65	76	97.16	162.34	429.84	703.75	624%
Retiree & 2 dep; 1 over 65; 1 under 65	0	162.89	339.80	1,058.82	1,518.01	832%
Retiree & 2+ dep under 65	5	149.01	302.33	925.99	1,346.04	803%

This table uses estimates of medical inflation that were used in County OPEB Actuarial Reports. County share is based on information provided by County HR Dept. The maximum County contribution will be \$500 phased in over 5 years. Out of state (Hawaii and Oregon/Washington) Kaiser rates differ slightly.

Analysis of Cost of \$600 Cash Payment Vs. Savings on Health Insurance

Savings are computed using medflation and comparing flat \$500 with 85% of lowest cost plan.

Prepared by SCARE

There were 3,686 employees receiving health insurance benefits as of 6/30/2008. According to figures in actuarial reports, the County has about 4,200 employees. Some positions may be frozen or eliminated so 4,000 is used so as not to overstate costs. Since this will not go into effect until FY09-10, most unions will have contracts by then with the \$600 in them. Using 7% for FICA even though FICA is actually 7.6% since there are employees whose total pay is over the max that can have Social Security charged on it.

Note: The total cost of the \$600 is substantially more here than the prior report as previous estimates for retirement, SS and workers comp were too low.

Table 1 - Cost of \$600 payment to Employees

28,699,200	3986 x 600 x 12
2,008,944	FICA 7%
654,342	Workers Comp 2.28%
8,654,000	Incr. in Dollar Contribution for Retirement *
40,016,486	Cost per year of \$600 cash offer

400,164,860 Cost over 10 years

* Taken from Segal actuarial report of January 14, 2009

Table 2 - County Svgs. On Implementing \$500 Flat Rate

County Svgs computed by comparing \$500 flat rate and 85% LCP Y-rated (see attached)

County Savings 2009-10	County Savings 2018-19	
442,631	11,559,838	Retirees
19,661,192	37,524,853	Employees
20,103,823	49,084,691	
Co. Svgs in 2009-10	20,103,823	
Co. Svgs in 2018-19	49,084,691	
Difference	28,980,868	
Divided by 9 (yrs) =	3,220,096	This is an average

so the following annual savings figures are not exact.

2009-10 Loss: Cost of \$40,016,486 minus svgs. of \$20,103,823 for a net loss of \$19,912,663 for the fiscal year.

Table 2 - Continued -

Average Additional Svgs/Yr.	2009-10
3,220,096	20,103,780
3,220,096	23,323,876
3,220,096	26,543,972
3,220,096	29,764,068
3,220,096	32,984,164
3,220,096	36,204,260
3,220,096	39,424,356
3,220,096	42,644,452
3,220,096	45,864,548
3,220,096	49,084,644
Svgs. over 10 yrs	345,942,120

Table 3 - Savings/(Loss) to County in 2009-10 and 2019-20

	2009-10	Total over 10 years
Cost for \$600/employee	40,016,486	400,164,860
Svgs with \$500 flat rate	20,103,823	345,942,120
County Savings (Loss)	(19,912,663)	(54,222,740)
County loss over 10 yrs. for cutting health benefits to \$500 and giving empl. \$600 cash allowance		(54,222,740)

Sonoma County Health Benefits Analysis
Estimated Cost to Employees of Implementing County Proposal of Flat \$500
Covers Years 2008-9 through 2018-19
Prepared by SCARE

	Number Enrolled 2008	2008-09 Employee Share*	2009-10 Employee Share **	Employee Share after deducting \$600***	2013-14 Employee Share	Employee Share after deducting \$600***	2018-19 Employee Share	Employee Share after deducting \$600***	% Increase in employee share in 10 years	2009-10 # of Empl. with Net Loss	2009-10 # of Empl. with Net Gain	2018-19 # of Empl. with Net Loss	2018-19 # of Empl. with Net Gain
County Health Plan #2													
Employee	266	105.43	280.21	(319.79)	581.03	(18.97)	892.84	292.84	178%		266	266	
Employee and 1 dep	262	207.25	1,033.63	433.63	1,624.95	1,024.95	2,237.86	1,637.86	690%	262		262	
Family	304	289.62	1,643.17	1,043.17	2,469.49	1,869.49	3,326.01	2,726.01	841%	304		304	
County Health Plan #3													
Employee	0	93.63	192.84	(407.16)	459.97	(140.03)	736.87	136.87	46%				
Employee and 1 dep	2	184.04	861.90	261.90	1,387.00	787.00	1,931.29	1,331.29	623%	2		2	
Family	2	257.19	1,403.19	803.19	2,137.00	1,537.00	2,897.61	2,297.61	793%	2		2	
PacificCare													
Employee	254	147.16	204.72	(395.28)	432.35	(167.65)	707.00	107.00	-27%		254		254
Employee and 1 dep	246	294.32	909.43	309.43	1,364.70	764.70	1,913.98	1,313.98	346%	246		246	
Family	482	397.34	1,402.75	802.75	2,017.38	1,417.38	2,758.93	2,158.93	443%	482		482	
Kaiser Permanente													
Employee	590	62.46	(48.18)	(648.18)	97.76	(502.24)	273.84	(326.16)	-622%		590		590
Employee and 1 dep	507	124.93	403.63	(196.37)	695.52	95.52	1,047.69	447.69	258%		507		507
Family	771	176.77	778.64	178.64	1,191.66	591.66	1,689.98	1,089.98	517%	771		771	
Totals	3686									2069	1617	2842	844

100% Total Employees with health benefits as of June 30, 2008

30% Total - Employee only

28% Total - Employee + 1 dep

42% Total - Employee + 2 dep

Assumptions:

* The 2008-09 Employee Share used in this table is based on current cost of insurance for retirees under 65 (as those were figures available) and adds mediation at the rates used in the County OPEB Actuarial Reports. It will be off a little as the various unions currently have different rates. It uses a Co. contribution share of \$500/month from 2009-10 through 2018-19

** Employee share is their cost AFTER the County has paid its \$500 share

*** The County proposal is to give employees an extra \$600/mo. that they may use towards their medical insurance. A negative figure in the "Empl. Share after deducting \$600" indicates that employee will have some of the \$600 left after paying for medical insurance. The minus in the "Employee Share" means they pay less than they pay now.

- Members of the original CHP will be phased into the County Health Value Plus Plan

- Combines 2 groups of PacificCare with different co-pays. Combines 3 groups of Kaiser with different co-pays

Retirees Will Have to Switch to Kaiser

The following is an example of the effect on retirees of the implementation of the 85% of the lowest cost plan – Y-rated. The problem shown here will be increased significantly by the implementation of the \$500 flat rate. The County should expect a major movement from County Health Plans and PacifiCare to Kaiser as the share of cost the retiree must pay increases drastically. While this is only one example, it exemplifies the effect of these changes on hundreds of retirees.

If only a few retirees are left in the County Health Plan, it is likely to cause the monthly cost to increase which will cause more people to switch.

Letter from one of our retirees:

During the open enrollment period from 4/24 – 5/23/08 effective 7/1/08, I changed our health coverage enrollment from PacifiCare to Kaiser. I have never had Kaiser before, but due to the cost increase and projected increases in the future due to the County's decision to limit their contribution to 85% of the lowest plan, I felt it financially necessary to change. This was done after much consideration because my husband and I had had the same Internal Medicine physician for over twenty years; likewise, I needed to change my long term OB/GYN doctor.

The open enrollment brochure indicated that PacifiCare increased rates from 9.9% to 12.1%. But upon review of the tables, the actual increase for me as retiree with one dependent under 65 was a 66% increase. This was due to the small notation beneath the tables that said, "85% of the lowest cost plan, Y-rated (i.e., frozen at the fiscal year 2007/2008 County contribution amount until that amount catches up with 85% of the lowest cost plan, for each level of coverage)."

PacifiCare monthly cost increased from \$177.30 to \$294.30, an increase of \$117.02 monthly. The cost of Kaiser for both of us for a month is \$124.93. Annualized savings to have Kaiser over PacifiCare is \$2032.68. My spouse has since turned 65, so amounts differ with Medicare.

N. I. of Santa Rosa