glendale california

CITY OF GLENDALE, CALIFORNIA
REPORT TO THE:

Joint ☐ City Council ☒ Housing Authority ☐ Successor Agency ☐ Oversight Board ☐

October 6, 2015

AGENDA ITEM

Report regarding unblending medical insurance premium rates between active Glendale City employees and retired City employees effective June 1, 2016 and the authorization of subsidies for existing retired employees currently participating in the City's retiree medical insurance plans who meet specific criteria.

1) Resolution Unblending Medical Insurance Premium Rates Effective June 1, 2016 and Authorizing Subsidies for Retired Employees who Meet Specified Criteria.

COUNCIL ACTION

Public Hearing ☐ Ordinance ☐ Consent Calendar ☐ Action Item ☒ Report Only ☐

Approved for Oct. 6. 2015 calendar

ADMINISTRATIVE ACTION

	Signature
Submitted by: Matt Doyle, Director of Human Resources	[signature]
Robert Elliot, Director of Finance	Robert Elliot
Prepared by: Matt Doyle, Director of Human Resources	[signature]
Approved by: Scott Ochoa, City Manager	by Yasmin K Beers
Reviewed by: Yasmin K. Beers, Assistant City Manager	Yasmin K Beers
Michael J. Garcia, City Attorney	by [signature]

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RECOMMENDATION

That the Council adopt the attached Resolution unblending medical insurance premium rates between active Glendale City employees and retired City employees effective June 1, 2016 and authorizing subsidies for existing retired employees currently participating in the City's retiree medical insurance plans who meet specific criteria.

BACKGROUND/ANALYSIS

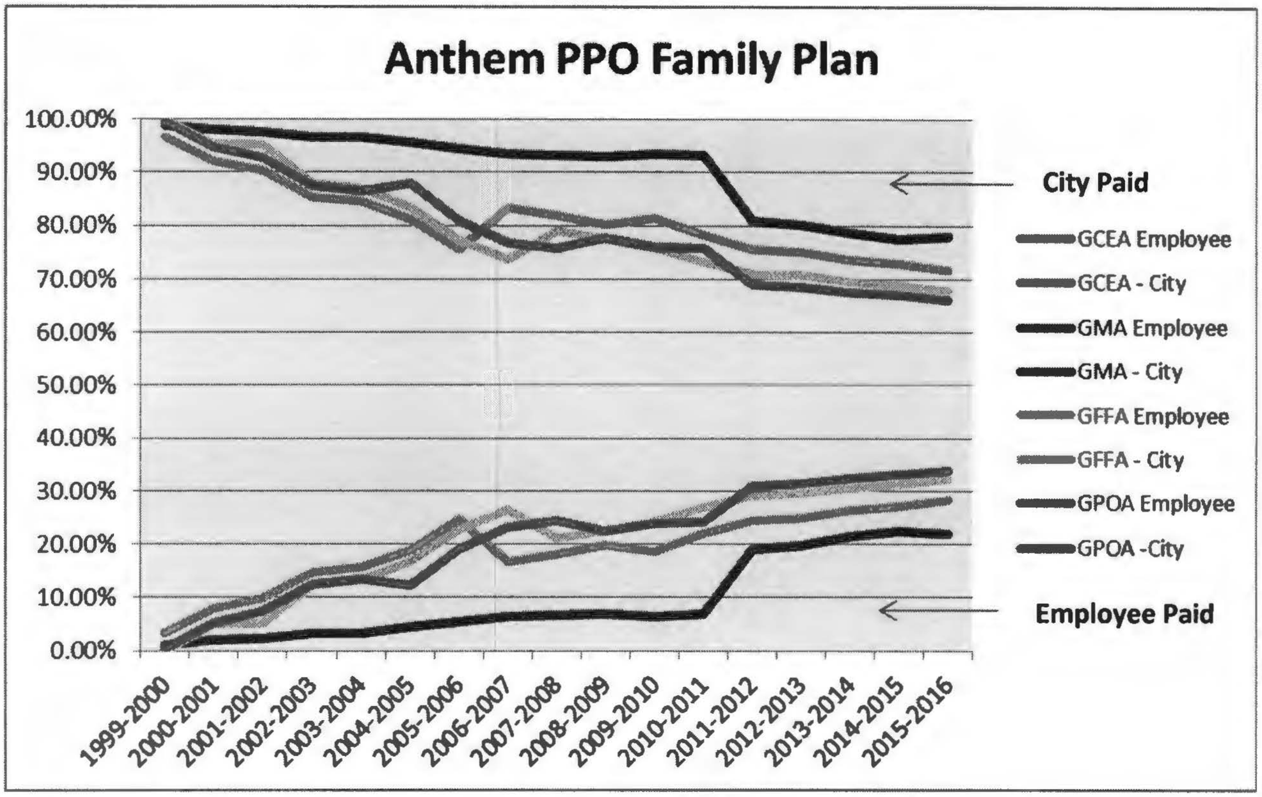
The City has a long history of providing quality medical insurance programs to its employees and dependents, and for many years, as set forth in the respective employee Memoranda of Understanding (MOU), has allowed employees to remain on the plan following retirement. In addition to allowing retired employees to remain on the City's health insurance plan, the City and insurance carriers, consistent with practice in the insurance industry prior to GASB 45, traditionally "blended" the active and retiree rates together, applying the same increase to both groups for each year's medical insurance renewal. This practice, which was never formally adopted nor contained in an MOU, ordinance or resolution, creates what's known as an "*implied subsidy*," whereby the premiums applied toward active employees' medical insurance subsidize the premiums charged to retired employees. Doing so has significantly reduced the insurance premiums charged to retired employees who remain on the City's health insurance plan.

Blending and GASB 45 & 75

The practice of "blending" the active and retiree medical insurance rates has historically had minimal financial implications for the City. The *implied* subsidy was simply absorbed by the City on a pay-as-you-go basis. Effective in FYE 2008, the Governmental Accounting Standards Board (GASB) established Statement No. 45, which requires the City to calculate and disclose the unfunded liability in its Comprehensive Annual Financial Report (CAFR). More problematic is that another GASB Statement (GASB No. 75) requires that, beginning fiscal year 2017/2018, the City must actually book this liability on its entity-wide balance sheet. These non-pension related costs are often referred to as Other Post-Employment Benefits or OPEB, and are significant as discussed below.

As observed in GASB 45, the pooling of employees and retirees for the purposes of setting insurance rates has two significant financial impacts on the City: 1) because the City pays the majority of the health insurance premiums for active employees, the City contributes a larger dollar amount than if retired and active employee rates are assigned separately; and 2) the City has an ever-increasing unfunded liability for retiree health insurance, which creates what GASB No. 45 refers to as an *implied subsidy*.

The chart on the following page illustrates the historical trend of the City's payment of active employee medical insurance premiums being overwhelmingly borne by the City versus employees. This particular example shows the Anthem PPO family plan breakdown going back to 1999/2000. Appendix A illustrates these payments for the Anthem HMO and Kaiser family plans. Only over the past 4-5 years have active employees begun to share in the greater proportion of medical insurance premium costs relative to the City's historical expenditures. Similar to the pension cost-sharing programs now in existence, active employees today bear a much higher burden of the overall medical insurance costs than their predecessors. (The City is currently in the process of negotiating the terms of the unblending process with the various employee associations representing active employees).



The *implied subsidy* for OPEB is reflected in the City's Retiree Healthcare Valuation prepared biennially by John Bartel of Bartel Associates, LLC, who is the City's actuary. As the number of retirees increases and the blending practice continues, the *implied subsidy* has grown from roughly $100 million in 2009 to approximately $229 million today, and will continue to grow if action is not taken. (See Table1) This figure represents an unfunded liability which must be reflected in the City's Comprehensive Annual Financial Report (CAFR), and beginning in Fiscal Year 2017/2018, must be booked as an actual liability on the City's entity-wide balance sheet, as per the requirements of GASB No. 75. This will also have a significant impact on the City's enterprise funds, as the liability is distributed according to the fund that generates the cost, and will have an impact on each enterprise fund's financial performance.

Table 1: Unfunded OPEB Liability

Valuation Year	Unfunded OPEB Liability
2009	$103 million*
2011	$191 million*
2013	$214 million*
2014	$229 million* (estimated by Bartel Associates, LLC)

* Does not include $16 million liability from Medicare Part A reimbursement for employees hired prior to April 1986, as required by all City MOUs.

The implications of this new GASB No. 75 requirement will have a devastating effect on the City's overall balance sheet and ultimately, the City's operating budgets. If the City were to attempt to fully fund the OPEB liability, it would require an investment of approximately 20.2% of

The implications of this new GASB No. 75 requirement will have a devastating effect on the City's overall balance sheet and ultimately, the City's operating budgets. If the City were to attempt to fully fund the OPEB liability, it would require an investment of approximately 20.2% of the City's payroll, which is roughly $25.5 million each year, the majority of which would affect the General Fund, severely impacting police, fire, parks, library and other vital ongoing related services. (See Table 2) This level of expenditure would amount to an unrealistic and unsustainable cost to the City, especially in light of increasing PERS costs.

Table 2: Other Post Employment Benefits (in $ Millions)

	General Fund Payroll	General Fund OPEB Current Funding		General Fund Annual Required Contribution (ARC)		General Fund Shortage	Citywide Shortage (Includes non-General Fund)
FY 2014-15	$81.6	0.00%	**$ -**	20.2%	$16.5	**($16.5)**	**($27.3)**
FY 2015-16	$82.3	1.00%	**$0.8**	20.2%	$16.7	**($15.9)**	**($26.3)**
FY 2016-17	$83.3	1.25%	**$1.0**	20.2%	$16.8	**($15.8)**	**($26.1)**
FY 2017-18	$83.9	1.50%	**$1.3**	20.2%	$17.0	**($15.7)**	**($26.0)**
FY 2018-19	$84.5	1.75%	**$1.5**	20.2%	$17.1	**($15.6)**	**($25.8)**
FY 2019-20	$85.1	1.75%	**$1.5**	20.2%	$17.2	**($15.7)**	**($26.0)**
FY 2020-21	$85.7	1.75%	**$1.5**	20.2%	$17.3	**($15.8)**	**($26.2)**
FY 2021-22	$86.3	1.75%	**$1.5**	20.2%	$17.4	**($15.9)**	**($26.3)**

While the GASB pronouncements are not law, they are the generally accepted accounting principles (GAAP) that must be followed for fair presentation of a public entity's financial performance.

Agencies failing to comply with GASB 75 risk receiving a modified opinion on the CAFR which would likely impair the City's ability to obtain Federal grants. The City of Glendale receives over $50 million in Federal grants each year.

Additionally, failure to comply with GASB 75 would likely cause the City's bond rating to suffer, which would increase the City's costs for borrowing for long-term debt, and cause particular harm to Glendale Water & Power, which relies on bonding to fund its large capital projects.

Other public agencies have varying approaches to addressing their OPEB liabilities, with most choosing to put off the difficult decisions that need to be made. The State of California, for example, has not addressed its unfunded liability, which now stands at $71 billion and is growing by approximately $5 billion each year. The City of Los Angeles, to its credit, is funding an OPEB trust with a sizable contribution in the amount of approximately $300 million annually; however, these are funds that are being diverted from its operating budget, thus impacting vital City services such as police, fire, library, parks, streets and other important services. Many comparable agencies utilize the CalPERS medical, which has yet to address the OPEB liabilities with its member agencies.

The issue of the GASB pronouncements and the practice of blending came to the forefront of the City's attention in 2009 when there was a shift in the medical insurance business practice away from blending. This was due in part to recommendations by the Center for

Medicare/Medicaid Services (CMS) that Medicare Part D (prescription) costs for Medicare retirees be self-sustaining. Additionally, the City's new health benefits broker, Keenan & Associates, recommended a move away from blended rates as a means of compliance with the GASB pronouncements and mitigating the OPEB liability.

At the time, a decision was made to continue the practice of blending until better alternatives could be considered. Additionally, a committee comprised of retired City employees was formed to enhance communication regarding health and insurance-related issues and monitor each year's renewal. Since 2009, this committee has met regularly, and has been vocal in its support for a continuation of the blending practice.

In the absence of alternatives which would mitigate the significant impact the unblended rates would have on retirees, the City continued the practice of blending active and retiree insurance rates in 2009 and for each subsequent renewal to the present. Unfortunately, as previously mentioned, the continuation of this practice caused the OPEB liability to more than double.

Proposal to Un-Blend: June 1, 2016

After a significant amount of review and analysis stretching back several years, the City has determined that the only realistic means of mitigating the $229 million OPEB liability would be to eliminate the practice of blending active and retired employees' medical insurance rates in subsequent insurance renewals. Thus, the proposed Resolution will be recommending this course of action to the City Council, with a scheduled effective date of June 1, 2016.

Retirees were notified of these proposed changes in a letter from the City Manager dated August 20, 2015. A series of informational meetings for retirees were conducted over the course of September and a website was established and updated regularly with new data and information. The proposed changes were also presented to the retiree committee in the months preceding the distribution of the letter.

Not unlike the proactive measures City leaders have taken to address pension reform through increased cost-sharing and the movement to lower retirement formulas over the past five years, this action will address the large and growing OPEB unfunded liability head-on.

The unfortunate consequence of unblending is that retiree medical insurance rates for the City's plans will generally increase, in some cases dramatically. Preliminary estimates show that Early Retirees (retirees younger than 65) on the City's PPO plan would experience a 74% increase in the premium; Medicare Retirees on the City's PPO plan could see a 48% jump in premiums. For the Anthem HMO, Early Retirees would see a 31% increase; while Medicare Retirees would see a slight *reduction* of approximately 7%. On the Kaiser Plan, Early Retirees would face a 97% increase; whereas Medicare Retirees would see a minor reduction. (See Appendix B) These figures represent estimates of the effects of unblending and may differ based upon the actual medical insurance renewals effective June 1, 2016.

While these increases are indeed significant, there are alternatives that exist today for quality health coverage at very reasonable costs. The various insurance exchanges, including those available under the Affordable Care Act (ACA) and other changes in the insurance industry have ushered in a very robust and competitive insurance marketplace for individuals of retirement age.

While the City has been aware of the need to address the substantial OPEB liability for at least five years, a decision to unblend medical insurance premium rates was not going to be considered until viable alternatives and options could be found to mitigate the sizable cost increases.

As previously mentioned, a series of meetings were conducted over the month of September which provided information on the proposed changes, and interface with City staff and representatives of Keenan & Associates, the City's health benefits broker, regarding the above-mentioned alternatives. The meetings were well-attended and of those who took the time to explore alternatives to the City's retiree medical plans, many were able to find options and services that will meet their ongoing medical insurance needs.

It is important to note that in spite of the availability of alternative options to the City's retiree medical insurance plans, the City is not proposing to remove coverage from retirees or somehow preclude them from continuing to obtain coverage through the City of Glendale.

Alternatives For Early Retirees (Pre-Medicare)

For Early Retirees, the various insurance exchanges, including *Covered California*, which is California's medical insurance exchange for the ACA, offer various PPO, EPO and HMO plans which are comparable to the City's plans, at very affordable rates.

The City's health benefits broker, Keenan & Associates, provides direct access and assistance through the many options available under the various insurance exchanges with its *Keenan Direct* program, which is available to Early Retirees. In addition to the on-site informational meetings, a dedicated City of Glendale toll-free number for *Keenan Direct* has been set up to provide support and referrals to the various plans available under the exchanges. Retirees can search their specific physicians to determine plans and options available to them.

Enrollees under Covered California or any of the ACA exchange programs cannot be refused coverage or charged additional amounts due to pre-existing conditions. This is a very positive development which did not exist prior to the passage of the ACA, and frankly is an integral factor in the City's proposed strategy to address this issue.

The open enrollment period for the Early Retiree exchange programs is scheduled to begin November 1, 2015 and run through January 31, 2016. Retirees seeking an alternative plan prior to the June 1, 2016 unblending can sign up during this open enrollment period or choose to remain on the City's existing plan. The earliest effective date for this new coverage would be January 1, 2016.

Alternatives For Medicare Retirees

For Medicare Retirees, Keenan's *Futuris Care* program offers a very robust and affordable health insurance exchange, with numerous highly affordable Medicare Advantage and Medicare Supplement options depending on the retiree's particular needs. The *Futuris Care* program was introduced to Glendale's Medicare Retirees in May of 2014 and has been well-received by those who have enrolled. In 2014, 27 retirees and spouses enrolled in *Futuris Care*, and although provided the option of returning to the City's plan, none have chosen to do so. As with *Keenan Direct*, *Futuris Care* offers the resources, staff and guidance of the Keenan & Associates team through the sometimes complex and confusing world of insurance.

The open enrollment for *Futuris Care* or any other Medicare program runs from October 15, 2015 through December 7, 2015, with an effective date of January 1, 2016. Again, Medicare

Retirees seeking to change to a non-City plan prior to the June 1, 2016 unblended renewal may enroll during this time frame. Alternatively, Medicare Retirees can choose to remain on their existing City retiree medical insurance plan and once again consider switching during the regular City Open Enrollment period in April 2016, with a June 1st effective date. Or, retirees can choose to remain on their existing City retiree medical insurance plan and pay the unblended insurance premium. Retirees choosing to remain on their existing City plan need not do anything at this point.

Option to Switch Amongst Existing City Plans

Retirees choosing to remain on the City's medical insurance plans can always switch to another City plan during the City's usual Open Enrollment in April of each year (with a June 1st effective date) in order to examine additional options. An example of this would be moving from the Anthem PPO plan to the HMO or Kaiser, which are likely to be more affordable. Appendix C illustrates the effects of switching from amongst different City plans. Similarly, this past year, the City added a lower-cost Kaiser plan, which will again be available to Early Retirees for next year's renewal. The City will continue to explore different options, plan designs and new insurance carriers for each medical insurance renewal to best meet the needs of plan participants.

Subsidies and Transitional Support

During the preliminary discussions of the unblending proposal, the City Manager and staff received a significant amount of feedback from retirees, including members of the retiree committee, at the various meetings and through letters, emails and other means of communications. Much of the feedback naturally focused on the proposed changes, potentially higher costs and the sense that additional time was needed to more thoroughly evaluate options going forward. This feedback was valuable and extremely helpful in determining the next steps in this process.

In light of these concerns, the City is proposing a series of modifications to the original unblending proposal which staff believes will ease the burden of this transition for many retirees. These measures are designed to provide retirees an additional degree of flexibility and time in addressing these changes. The proposal to unblend effective June 1, 2016 remains unchanged. However, the following additional measures are being proposed as part of the Resolution for adoption:

Temporary Transitional Subsidy – June 1, 2016 through December 31, 2016

A Temporary Transitional Subsidy will be offered by the City to all retired employees currently enrolled in one of the City's retiree medical plans which will provide a subsidy to bridge the gap between the amount of the blended insurance rate and the unblended rate from June 1, 2016 through December 31, 2016. Previous discussion of subsidies only applied to lower income retirees. The Temporary Transitional Subsidy will provide:

- Up to $200 per month (the lesser of the difference between next year's premium on the City's plan and this year's premium on the City's plan, or $200) if the retiree's total household income exceeds $100,000 per year; or

- Up to $300 per month (the lesser of the difference between next year's premium on the City's plan and this year's premium on the City's plan, or $300) if the retiree's total household income is below $100,000 per year. The income threshold includes all household income including taxable and non-taxable pension income, subject to verification.

The purpose of the Temporary Transitional Subsidy is to provide additional time at a reduced rate to enable full consideration of available options. Some of the feedback the City received revealed that some individuals felt pressured to make a choice between remaining on the City's plan or selecting one of the alternative programs available on the exchange, which have open enrollment periods during October, November and December of this year. The Temporary Transitional Subsidy provides a subsidy through the end of 2016, which would enable a variety of options between now and the fall of 2016 for consideration. In essence, it will provide retirees with an additional year to consider available options.

<u>City Subsidy for Lower Income Retirees – Effective January 1, 2017</u>
This subsidy, designed to protect the most vulnerable of the retiree population from an income standpoint, was originally proposed to begin June 1, 2016. However, in light of the addition of the above Temporary Transitional Subsidy, this ongoing City subsidy for lower income retirees will take effect January 1, 2017, following the completion of the Temporary Transitional Subsidy. The Lower Income Retiree subsidy would be available for retirees currently enrolled in one of the City's retiree medical insurance plans, who had a minimum of ten years of salaried service time with the City.

The Lower Income Retiree subsidy will provide up to $200 per month for retirees with a household income of $50,000 per year or less (subject to verification), to bridge the gap between the amount of the blended insurance rate and unblended rate. This ongoing subsidy would be available to retirees meeting the above criteria for a duration as follows: retirees who benefitted from one of the "enhanced" PERS retirement formulas (2.5% at 55 for Miscellaneous, or 3% at 50 for Safety) are eligible for the subsidy until eligibility for Medicare at age 65; retirees who retired prior to the "enhanced" PERS retirement formulas would be eligible beyond Medicare age.

Similar to the Temporary Transitional Subsidy, the income threshold includes <u>all</u> household income including taxable and non-taxable pension income, subject to verification. If secondary income through additional employment or other forms of income push the income above the $50,000 per year threshold, the retiree would be ineligible for this ongoing subsidy.

Both the Temporary Transitional and Lower Income Retiree subsidies are only available to retirees who (1) remain on one of the City's retiree medical plans and (2) retired on or before August 1, 2015.

<u>Medical Insurance Mobility</u>
Historically, retirees who have left the City's retiree medical insurance plan have been prohibited from returning. This restriction was largely due to concerns over adverse selection and the deleterious effects that would potentially have on plan costs. Due to concerns and apprehension some retirees have expressed about leaving the City's medical plan in favor of a non-City plan, the City is proposing, on a going-forward basis, to allow retired employees to <u>return</u> to one of the City's retiree medical insurance plans if they opt out of the City's plan and are dissatisfied.

Retirees choosing to return to a City plan would only be able to do so during the appropriate open enrollment period and would pay the unblended medical insurance premium rate, notwithstanding the aforementioned subsidy programs. A retiree returning to one of the City's plans would have to show evidence of medical insurance coverage immediately prior to their requested return. Additionally, all of the rules regarding enrolling new dependents upon return to the City's plan would still apply. This provision will only apply to existing retirees currently on the City's retiree medical insurance plan, and would preclude those retirees who had left the City's plan prior to August 1, 2015, with the exception of those who previously enrolled in *Futuris Care.*

The Medical Insurance Mobility option is a significant new development since the introduction of the unblending proposal. For the retirees who have expressed concern about leaving the security and familiarity of the City's retiree medical insurance plan, this option addresses that concern

Part A Reimbursement

Historically, the City has reimbursed Medicare-aged retirees who are not eligible for free Part A coverage for their Medicare Part A costs only if they remain in one of the City's retiree medical insurance plans. This provision has been contained in the various MOUs over the years. For this action to unblend medical insurance rates, the City is proposing to change this restriction and allow eligible retirees to continue receiving the Part A reimbursement regardless of what plan is selected, including non-City plans.

This provision will allow further mobility and flexibility in enabling retirees to make choices without jeopardizing the existing Part A reimbursement benefit. This provision will only apply to existing retirees currently on the City's retiree medical insurance plan, and would preclude those retirees who had left the City's plan prior to August 1, 2015, with the exception of those who previously enrolled in *Futuris Care*. Additionally, prospective retirees who are not eligible for free Part A coverage will be eligible for this provision.

Staff believes that between the transitional and ongoing subsidies, as well as the flexibility afforded to retirees in allowing a return to the City's plan and continuation of the Part A reimbursement for those leaving the City's plan will help ease the transition to the unblended status.

Conclusion

The proposed Resolution effectuates the unblending of medical insurance rates during the next scheduled renewal on June 1, 2016. As with the proactive measures City leaders have taken to responsibly address long-term pension liabilities, this action will similarly confront yet another formidable financial liability, one that has yet to be funded or addressed. Failure to address the OPEB liability will cause the estimated $229 million unfunded liability to continue to grow. While the impacts on retiree medical rates are significant, the available options and alternatives, as well as the transitional subsidies and flexibility measures proposed, appear to reasonably mitigate the overall effect of these changes.

FISCAL IMPACT

The proposal to unblend medical insurance rates effective June 1, 2016 will reduce the City's existing unfunded OPEB liability from an estimated $229 million to approximately $20 million. The $20 million is made up of: $4 million for the Lower Income Retiree Subsidy and $16 million for the Medicare Part A reimbursement.

The annual savings to the City in medical insurance premiums as a result of the unblending for active employee costs are $1,567,976.

The cost of the Temporary Transitional Subsidy (June 1, 2016 – December 31, 2016) is approximately $1,167,891.

The annual cost of the ongoing Lower Income Retiree Subsidy effective January 1, 2017 is approximately $382,176.

ALTERNATIVES

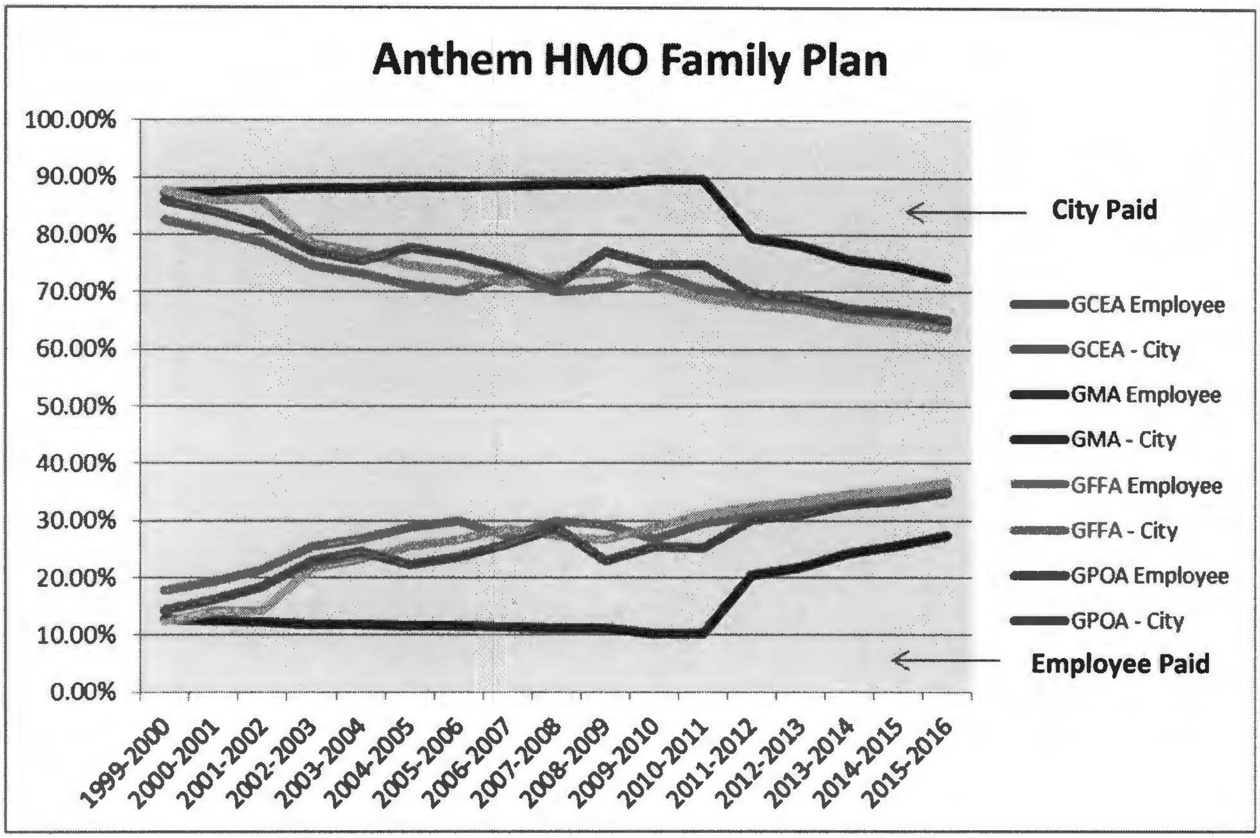
Alternative 1: Approve Resolution as submitted.

Alternative 2: Not approve Resolution as submitted.

Alternative 3: The City Council may consider any other alternative not proposed by staff.

EXHIBITS

See Appendices A, B, and C (attached).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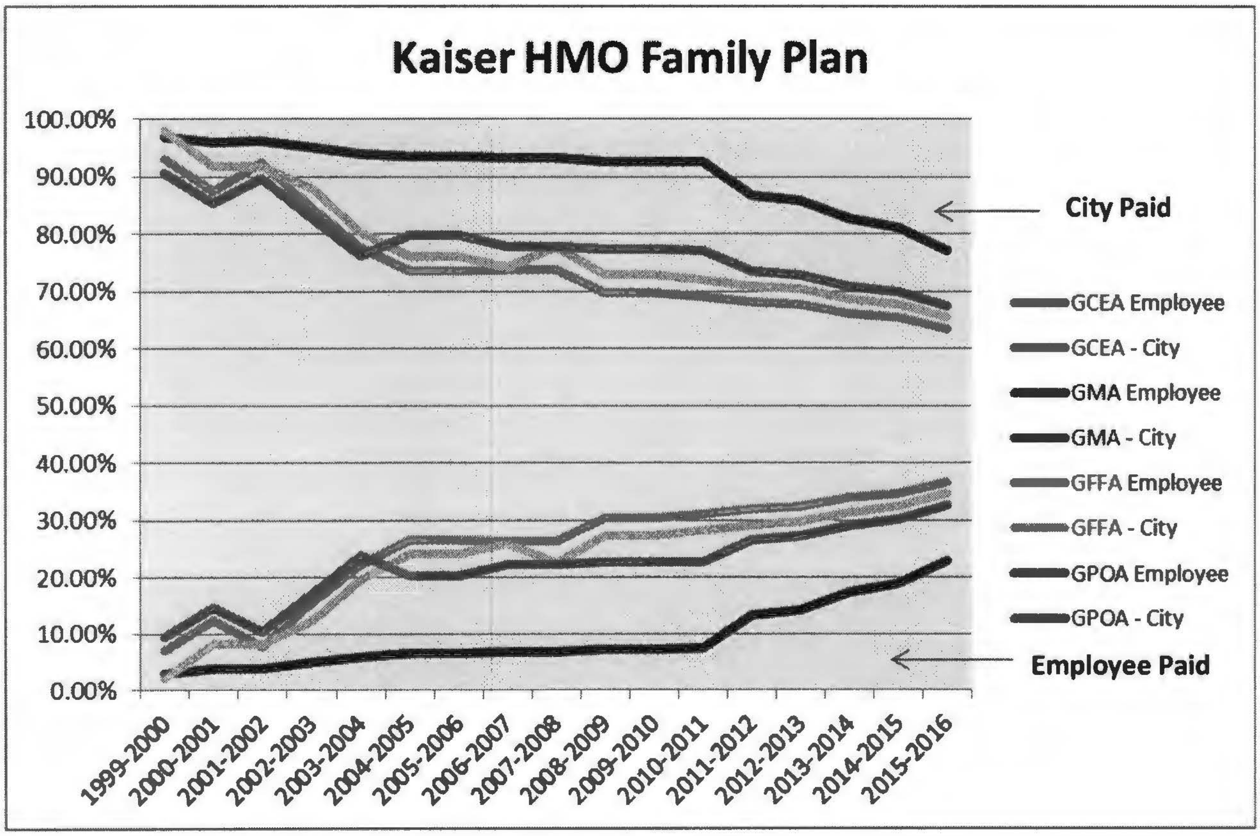
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Appendix B

Early Retirees

Anthem PPO (California Early Retirees)

	2015 Total Monthly *Blended* Premium Cost	2015 Total Monthly Estimated *Unblended* Premium Cost	Total Difference
Single	$548.50	$958.64	$410.14
Two Party	$1,404.14	$2,454.13	$1,049.99
Family	$1,991.20	$3,480.04	$1,488.84

Anthem HMO (California Early Retirees)

	2015 Total Monthly *Blended* Premium Cost	2015 Total Monthly Estimated *Unblended* Premium Cost	Total Difference
Single	$530.72	$694.29	$163.57
Two Party	$1,114.46	$1,457.94	$343.48
Family	$1,592.02	$2,094.61	$502.59

Kaiser HMO (California Early Retirees)

	2015 Total Monthly *Blended* Premium Cost	2015 Total Monthly Estimated *Unblended* Premium Cost	Total Difference
Single	$532.36	$1,049.66	$517.30
Two Party	$1,064.64	$2,099.33	$1,034.69
Family	$1,506.50	$2,970.55	$1,464.05

Anthem PPO (Out-of-State Early Retirees)

	2015 Total Monthly *Blended* Premium Cost	2015 Total Monthly Estimated *Unblended* Premium Cost	Total Difference
Single	$556.06	$972.35	$416.29
Two Party	$1,423.50	$2,489.08	$1,065.58
Family	$2,018.68	$3,529.55	$1,510.87

Appendix B

Medicare Age Retirees

Anthem PPO (Medicare Age)

	2015 Total Monthly *Blended* Premium Cost	2015 Total Monthly Estimated *Unblended* Premium Cost	Total Difference
Single Medicare	$282.04	$419.27	$137.23
Two Party – 1 Med	$827.04	$1,374.40	$547.36
Two Party – 2 Med	$564.08	$838.40	$274.32

Anthem HMO (Medicare Age)

	2015 Total Monthly *Blended* Premium Cost	2015 Total Monthly Estimated *Unblended* Premium Cost	Total Difference
Single Medicare	$526.12	$491.97	($34.15)
Two Party – 1 Med	$1,056.84	$1,021.76	($35.08)
Two Party – 2 Med	$1,052.20	$983.94	($68.26)

Kaiser HMO (Medicare Age)

	2015 Total Monthly *Blended* Premium Cost	2015 Total Monthly Estimated *Unblended* Premium Cost	Total Difference
Single Medicare	$173.54	$162.66	($10.88)
Two Party – 1 Med	$703.12	$693.68	($9.44)
Two Party – 2 Med	$347.08	$325.32	($21.76)

Anthem PPO (Out-of-State Medicare Age)

	2015 Total Monthly *Blended* Premium Cost	2015 Total Monthly Estimated *Unblended* Premium Cost	Total Difference
Single Medicare	$282.04	$419.27	$137.23
Two Party – 1 Med	$834.60	$1,388.11	$553.51
Two Party – 2 Med	$564.08	$838.40	$274.32

Appendix C

Early Retirees

Options to Switch from One City Plan to Another City Plan
(additional amounts are obtained by subtracting the estimated unblended new cost from the blended current cost)

Switching from **Anthem PPO** to **Anthem HMO**

	Anthem PPO *Blended* (Current Cost)	Anthem PPO Estimated *Unblended* (New Cost)	Stay in Anthem PPO (additional amt)	Anthem HMO Estimated *Unblended* (New Cost)	Change from Anthem PPO to Anthem HMO (additional amt)
Single	$548.50	$958.64	+ $410.14	$694.29	+ $145.79
Two Party	$1,404.14	$2,454.13	+ $1,049.99	$1,457.94	+ $53.80
Family	$1,991.20	$3,480.04	+ $1,488.84	$2,094.61	+ $103.41

Switching from **Kaiser HMO** to **Anthem PPO**

	Kaiser HMO *Blended* (Current Cost)	Kaiser HMO Estimated *Unblended* (New Cost)	Stay in Kaiser HMO (additional amt)	Anthem PPO Estimated *Unblended* (New Cost)	Change from Kaiser HMO to Anthem PPO (additional amt)
Single	$532.36	$1,049.66	+ $517.30	$958.64	+ $426.28
Two Party	$1,064.64	$2,099.33	+ $1,034.69	$2,454.13	+ $1,389.49
Family	$1,506.50	$2,970.55	+ $1,464.05	$3,480.04	+ $1,973.54

Switching from **Kaiser HMO** to **Anthem HMO**

	Kaiser HMO *Blended* (Current Cost)	Kaiser HMO Estimated *Unblended* (New Cost)	Stay in Kaiser HMO (additional amt)	Anthem HMO Estimated *Unblended* (New Cost)	Change from Kaiser HMO to Anthem PPO (additional amt)
Single	$532.36	$1,049.66	+ $517.30	$694.29	+ $161.93
Two Party	$1,064.64	$2,099.33	+ $1,034.69	$1,457.94	+ $393.30
Family	$1,506.50	$2,970.55	+ $1,464.05	$2,094.61	+ $588.11

Appendix C

Medicare Age Retirees

Options to Switch from One City Plan to Another City Plan
(additional amounts or savings are obtained by subtracting the estimated unblended new cost from the blended current cost)

Switching from **Anthem PPO** to **Anthem HMO**

	Anthem PPO *Blended* (Current Cost)	Anthem PPO Estimated *Unblended* (New Cost)	Stay in Anthem PPO (additional amt)	Anthem HMO Estimated *Unblended* (New Cost)	Change from Anthem PPO to Anthem HMO
Single	$282.04	$419.27	+ $137.23	$491.97	+ $209.93
Two Party – 1 Med	$827.04	$1,374.40	+ $547.36	$1,021.76	+ $194.72
Two Party – 2 Med	$564.08	$838.40	+ $274.32	$983.94	+ $419.86

Switching from **Anthem PPO** to **Kaiser HMO**

	Anthem PPO *Blended* (Current Cost)	Anthem PPO Estimated *Unblended* (New Cost)	Stay in Anthem PPO (additional amt)	Kaiser HMO Estimated *Unblended* (New Cost)	Change from Anthem PPO to Kaiser HMO (savings)
Single	$282.04	$419.27	+ $137.23	$162.66	($119.38)
Two Party – 1 Med	$827.04	$1,374.40	+ $547.36	$693.68	($133.36)
Two Party – 2 Med	$564.08	$838.40	+ $274.32	$325.32	($238.76)

RESOLUTION NO. _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF GLENDALE, CALIFORNIA UNBLENDING MEDICAL INSURANCE PREMIUM RATES BETWEEN ACTIVE CITY EMPLOYEES AND RETIRED EMPLOYEES EFFECTIVE JUNE 1, 2016 AND AUTHORIZING SUBSIDIES, REIMBURSEMENTS OR OTHER BENEFITS FOR RETIREES WHO MEET SPECIFIED CRITERIA

WHEREAS, the City of Glendale allows retired employees to remain on the City's insurance plan provided that the employee pays the premium; and

WHEREAS, the City and its insurance carriers, as a practice, have "blended" the active and retiree rates together, where the rates are determined based on the claims experience of active employees and retirees together; and

WHEREAS, the practice of blending has never been approved by Council action, nor is it contained in any Memorandum of Understanding, resolution, ordinance or motion approved by the Council; and

WHEREAS, the practice of blending creates an "implied subsidy" whereby the premiums attributed to active employees subsidize the premiums charged to retirees; and

WHEREAS, in 2008, the Governmental Accounting Standards Board (GASB) adopted Statement No. 45 (GASB 45), which requires the City to calculate and disclose the unfunded liability caused by the implied subsidy in its Comprehensive Annual Financial Report (CAFR); and

WHEREAS, GASB recently adopted Statement No. 75 (GASB 75), which requires that, beginning in fiscal year 2017/18, the City must book the unfunded liability on its entity wide balance sheet; and

WHEREAS, the City's Retiree Healthcare Valuation states that the implied subsidy has grown from roughly $100 million in 2009 to approximately $229 million today, and continues to grow; and

WHEREAS, booking the unfunded liability on the City's balance sheet will have significant impacts on each of the City's enterprise funds' financial performance, the City's overall balance sheet, the City's long-term bond rating, and the City's operating budgets if continued unabated; and

WHEREAS, the City Council desires to unblend the medical insurance premium rates between active employees and retirees, effective June 1, 2016 to address the implications of the implied subsidy; and

WHEREAS, the City Council desires to provide a temporary subsidy to all retirees from June 1, 2016 through December 30, 2016 to provide additional time at a reduced unblended rate to enable full consideration of options and assist in the transition to this change; and

WHEREAS, the City Council desires to provide a subsidy for lower income retirees to assist the most vulnerable of the retiree population from an income standpoint; and

WHEREAS, the Council finds it is in the best interests of the City and serves valid public purposes to unblend the medical insurance premium rates and provide the temporary and long-term subsidies contemplated herein.

NOW THEREFORE BE IT RESOLVED BY THE COUNCIL OF THE CITY OF GLENDALE, CALIFORNIA AS FOLLOWS:

SECTION 1 – Recitals of Fact. Council finds that the facts set forth in the Recitals above and in the Report to Council dated October 6, 2015, including all Appendices, are true and correct and are incorporated herein by reference.

SECTION 2 - Unblending. Effective June 1, 2016, medical insurance rates between active City employees and retired City employees will be "unblended," meaning that for the June 1, 2016 medical insurance renewal and each subsequent medical insurance renewal thereafter, premium rates will be established according to the claims experience of active employees and retired employees separately.

SECTION 3 - Temporary Transitional Subsidy – June 1, 2016 through December 31, 2016: A Temporary Transitional Subsidy (as defined below) is available to all retired employees currently enrolled in one of the City's retiree medical plans, and will provide a subsidy to bridge the gap between the amount of the 2015/16 blended insurance rate (the rate in effect that the retiree is paying from June 1, 2015 through May 30, 2016) and the unblended rate as of June 1, 2016. The duration of this Temporary Transitional Subsidy will be from June 1, 2016 through December 31, 2016. The amount of the Temporary Transitional Subsidy will be as follows:

(A) If the retiree's total household income is $100,000 or more per year, the amount of the Temporary Transitional subsidy will be (i) the difference between the monthly unblended insurance rate of the City plan the retiree is enrolled in as of June 1, 2016 and the 2015/16 blended rate, calculated monthly, that the retiree is paying , or (ii) $200 per month, whichever is less; or

(B) If the retiree's total household income is less than $100,000 per year, the amount of the Temporary Transitional subsidy will be (i) the difference between the monthly unblended insurance rate of the City plan the retiree is enrolled in as of June 1, 2016 and the 2015/16 blended rate, calculated monthly, that the retiree is paying, or (ii) $300 per month, whichever is less.

The income threshold set forth in (A) and (B) above includes all household income including, but not limited, to taxable and non-taxable pension income, subject to verification of federal income tax returns by the City. If the retiree leaves the City's retiree medical insurance plan, the subsidy ceases. The Temporary Transitional subsidy will only apply to individuals who are retired from City service as of May 31, 2016 and are on a City medical plan. This subsidy does not apply to any employee who retires on June 1, 2016 and thereafter.

SECTION 4 - Lower Income Retiree Subsidy – Effective January 1, 2017 Effective January 1, 2017, the Lower Income Retiree Subsidy is available for retirees currently enrolled in one of the City's retiree medical plans, who had a minimum of ten years of salaried service time with the City. The Lower Income Retiree Subsidy is only available to those retirees with a household income of $50,000 per year or less. The amount of the Lower Income Retiree Subsidy as of January 1, 2017 will be equal to (i) the amount of the difference between the 2016/17 unblended rate and the 2015/16 blended insurance rate for each respective carrier and plan (the rate in effect that the retiree is paying from June 1, 2015 through May 30, 2016), or (ii) $200 per month, whichever is less. As of June 1, 2017 and thereafter, the Lower Income Retiree Subsidy will be equal to the amount of the difference between the unblended rate in the applicable benefit year and the 2015/16 blended rate, adjusted annually by the annual insurance premium percentage increase for each respective carrier and plan. The Lower Income Retiree Subsidy will be available to retirees meeting the above criteria for the following duration:

(A) Retirees who retired under the "enhanced" PERS retirement formulas (2.5% at 55 for Miscellaneous, or 3% at 50 for Safety) are eligible for the Lower Income Retiree Subsidy until they are eligible for Medicare at age 65; or
(B) There will be no durational requirement for retirees who retired prior to the implementation of the "enhanced" PERS retirement formulas.

The income threshold for the Lower Income Retiree Subsidy includes all household income including but not limited to taxable and non-taxable pension income, subject to verification of federal income tax returns by the City. If a retiree leaves the City's retiree medical insurance plan, the Lower Income Retiree Subsidy shall cease as to that retiree, provided if the retiree returns to a City plan, then the retiree may be eligible for the Lower Income Retiree Subsidy if he or she otherwise satisfies the criteria of the subsidy. The Lower Income Retiree Subsidy will only apply to individuals who are retired from City service as of May 31, 2016 and are on a City medical plan. This subsidy does not apply to any employee who retires on June 1, 2016 and thereafter.

SECTION 5. Medical Insurance Mobility. The Medical Insurance Mobility program enables retired employees to return to one of the City's retiree medical insurance plans if they opt out of the City's plan and subsequently desire to return to the City's plan. Retirees choosing to return to a City plan will only be able to do so during an authorized open enrollment period and will pay an unblended medical insurance premium rate. Lower Income Retirees returning to one of the City's retiree medical plans may be eligible for the Lower Income Retiree Subsidy. A retiree returning to one of the City's plans will be required to provide proof of medical insurance coverage immediately prior to their requested return. This provision will apply only to retirees on the City's plan as of August 1, 2015, with the exception of those retirees who enrolled in *Futuris Care* prior to August 1, 2015 (who may re-enroll in a City medical plan).

SECTION 6. Medicare Part A Reimbursement. Retired City employees who are not eligible for free Medicare Part A coverage shall be eligible for reimbursement for the Part A costs regardless of what plan is selected, including non-City plans. This provision will only apply to retirees currently on the City's retiree medical insurance plan, and would preclude those retirees who had left the City's plan prior to August 1, 2015, with the exception of those retirees who enrolled in *Futuris Care* prior to August 1, 2015 (who will be eligible for reimbursement). Additionally, prospective retirees who are not eligible for free Part A coverage will be eligible for this provision.

SECTION 7. Reservations. The City reserves the right to select, administer, or fund any fringe benefit programs involving insurance that now exist or may exist in the future. The City, acting through the City Council, reserves the right to rescind, modify or adjust the provisions set forth herein, including any subsidies, reimbursements and enrollment options. Should the unblending of medical insurance premium rates be invalidated by a court, then any subsidies associated with the unblending shall also be invalidated.

Adopted this ______ day of _______________, 2015.

____
Mayor

ATTEST:

____
City Clerk

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss.
CITY OF GLENDALE)

I, ARDASHES KASSAKHIAN, City Clerk of the City of Glendale, certify that the foregoing Resolution No. was duly adopted by the Council of the City of Glendale, California, at a regular meeting held on the 6th day of October, 2015, and that same was adopted by the following vote:

Ayes:

Noes:

Absent:

Abstain:

City Clerk

APPROVED AS TO FORM

CHIEF ASSISTANT CITY ATTORNEY

DATED 10/1/15