

### Recommendations:

1. Authorize fixed dollar limits on the County's contribution to health care for active employees and retirees.
2. Advertise an increase in the real estate tax rate to fund future liabilities for retiree health care.

### Goal:

To provide a competitive and sustainable health care system as part of a total compensation system.

### Program Summary:

The County's current system of providing health care for active and retired employees covers between 73 percent and 80 percent of the cost for an array of plans, including family coverage – all with comprehensive prescription coverage. The monthly cost to the County, depending on the plan chosen by the employee, ranges from \$290 per month for an HMO single policy to a \$862 per month for a point-of-service (POS) family policy<sup>(1)</sup>.

In order to provide a financially affordable and sustainable health care plan that is competitive for active employees and best-in-class for retirees, the following actions are proposed:

- 1. Create a "cafeteria plan" for active employees.** This approach, common in the private sector, will provide active employees with a fixed dollar amount based on the number of people covered by their health care plan selection. Employees can then make choices using pre-tax dollars among different plans. County annual contributions will range from \$33 a month for employees who do not participate in health plans, to \$958 a month for employees who select family health coverage.
- 2. Place a cap on retiree health care subsidies beginning at \$900 a month and declining to \$600 a month over the next 10 years.** The amount will be adjusted for the number of people covered by the retiree's plan, providing a ratio of coverage that is no greater than that for active employees. Phasing the cap over ten years reduces the impact on current retirees and those retiring in the next decade. Additionally, for new employees, the minimum tenure to access retiree health care would increase from five to ten years. Employees with less than 25 years of service would continue to have a reduced, prorated benefit.

### Fiscal Impact:

Under the current health care system, the County's liability for retirees is estimated at \$50.2 million a year, of which only \$11.5 million is budgeted on an on-going basis. The liability for the revised program reduces the annual liability to an estimated \$18.7 million<sup>(2)</sup>. The change for active employees lowers costs \$2 million, which brings funds available to \$13.5 million for retiree health care. This leaves an unfunded requirement estimated \$3.5 million and \$5.5 million. **It is recommended that the real estate tax rate be increased to close this gap and provide for the sustainability of the retiree health care system.**

### **Background:**

Providing health care for employees and retirees has become difficult given increasing health care costs and the inability of the Federal government to fashion a long-term solution to the nation's health care needs. Since Fiscal Year 2000, the health care insurance costs paid for by the County have increased from about \$18.8 million to over \$35.3 million, reflecting an average annual increase of more than 9.5% per year.

Additionally, current accounting standards<sup>(3)</sup> require that local governments calculate their future liabilities for providing health care to retirees. This is an important requirement given the increasing cost of health care and growing population of retirees. In the spring of 2007, the County estimated that its unfunded actuarial liability at \$516 million<sup>(4)</sup>. To fund this liability it would require annual appropriations of \$50.2 million. This approach would provide more stable year-to-year budgeting compared to paying all health care costs on a current year basis.

### **Additional Steps:**

The Schools will need to evaluate their liabilities for retiree health care and options to fund them.

### **Notes:**

- <sup>(1)</sup> Unlike most jurisdictions in Northern Virginia, active and retired employees are treated the same. Other jurisdictions, including those in the Virginia Retirement System (VRS), provide a fixed dollar subsidy to retirees. The amounts range from \$210 in Prince William County to \$400 in Loudoun County. The VRS subsidy is \$120.
- <sup>(2)</sup> All amounts are being re-verified by the original actuary. A confirming estimate is also being developed by a second actuary.
- <sup>(3)</sup> The standards were established by the Governmental Accounting Standards Board ("GASB"), which issued Statement Number 45 on *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions* (OPEB). This statement requires Arlington County (as of Fiscal Year 2008), as well as other state and local governments to report all "other post-employment benefits" (OPEB) plan assets and liabilities (and where applicable the net assets and the change in plan net assets) held in trust or as an agent for OPEB. It also calls for disclosure of information about the funded status, the funding process of the OPEB plan and about employer contributions to the plan. The OPEB benefits include the County's health, dental, and life plans.
- <sup>(4)</sup> The projected liability for the Schools is \$267 million and is not addressed in the proposal.