



HISTORIC
FRANKLIN
TENNESSEE

ITEM #4
FINANCE
08-18-11

MEMORANDUM

August 10, 2011

TO: Budget and Finance Committee

FROM: Eric Stuckey, City Administrator
Shirley Harmon, Human Resources Director
Tammie Pitts, Benefits Manager

SUBJECT: Sunset Clause For Retiree Insurance Option

Purpose:

The purpose of this memorandum is to provide the Board of Mayor and Aldermen (BOMA) with information to consider the provision of retiree insurance coverage under the **Special Early Retirement Option**. This plan applies to eligible employees under the age of 62 who have both attained the age of 55 and completed 30 years of credited services on the date of their retirement.

Background:

The City of Franklin currently has in place three (3) health insurance options available to qualified retiring employees. The insurance option offered at the time of retirement is based on the retiree's completed years of service with the City and his/her age at retirement. Coverage is available to qualified retirees and their eligible dependents until they reach the age of 65.

The original retiree insurance plan offers medical benefits to employees who have attained the age of 62 and completed twenty (20) years of service (**Normal Early Retirement**). These individuals may continue their same coverage at the employee rate, so the premiums may increase or decrease accordingly.

In 2001, the Board of Mayor and Aldermen amended the Employee Benefit Plan to offer insurance benefits to special early retirees who have both attained the age of 55 and completed 30 years of credited service. The City pays the first \$207.75 toward the monthly single premium and the first \$535.50 toward the monthly family premium. The retiree portion of the premium may change due to an increase or decrease in renewal cost. This **Special Early Retirement** option was established with a sunset clause making the plan available to qualifying employees who retire on or before June 30, 2011. On May 24, 2011, the Board of Mayor and Aldermen voted to extend the sunset clause through September 30, 2011 to allow time for further review by Sherrill Morgan, the City's Employee Benefits Consultant.

The Option II high deductible group health plan was introduced in 2006. At that time, the City began offering this **Alternative Retirement Insurance Plan** to those who retired after 25 years of service regardless of age. The City pays a fixed amount of \$125.00 for single coverage per month and \$275.00 for family coverage per month. The retiree portion of the premium may increase or decrease depending on the renewal cost.

If the **Special Early Retirement** insurance option sunsets on September 30, 2011, retiring employees between the ages of 55 and 62 with 30 years or more of service would be eligible to elect coverage under the **Alternative Retirement Insurance Plan**. There are currently six employees who are eligible to retire under the **Special Early Retirement Option** prior to September 30, 2011. If the **Special Early Retirement Option** is no longer available after September 30, 2011, and these employees elect to retire after that date, they remain eligible to elect coverage under the **Alternative Retirement Insurance Plan**.

Staff is working with Sherrill Morgan to establish long-term goals for all the City's benefits including retiree insurance. Sherrill Morgan, along with Randy Gomez, a principle health care actuary with Nyhart, have reviewed the health insurance options available to City of Franklin retirees and provided a joint recommendation concerning the sun-setting of the **Special Early Retirement Option**. Their review concluded if this option sunsets, the City will experience a decrease in the GASB 45 liability, a reduction in the City's contribution, and a reduction in health plan cost. Therefore, they support the decision to let this option sunset. A copy of their recommendation is attached.

Financial Impact:

By allowing the **Special Early Retirement Option** for retiree insurance to sunset, the City would experience a reduction in the City's contribution, a reduction in the GASB 45 liability, and a reduction in health plan cost.

Options:

1. Allow the **Special Early Retirement Option** to sunset on September 30, 2011.
2. Extend the sunset date for the **Special Early Retirement Option**.

Recommendation:

Staff concurs with the recommendation of Sherrill Morgan to recommend that the City allow the **Special Early Retirement Option** for retiree insurance to sunset on September 30, 2011.

SHERRILL MORGAN

Memorandum

Date: August 8, 2011
To: City Of Franklin Tennessee
From: Mark Morgan, President of Sherrill Morgan
Regarding: Sunset clause for retiree insurance option

The following recommendation is based upon the information provided. Sherrill Morgan utilized the services of Mr. Randy Gomez principle health care actuary with Nyhart and is the joint recommendation of both.

It is our opinion the impact on the City's GASB 45 liability will be a decrease. After the sun-setting of the "age 55 with 30 years of service" benefit, those employees that would have been eligible for the benefit will only be able to elect the Option II plan (a high deductible plan) if they retire prior to age 62. Previously the employee could have elected Option I or II. The GASB actuary based on the study provided for July 1, 2007 and July 1, 2008 assumed that the "age 55 with 30 years of service" benefit would continue and 50% of employees retiring under this benefit would elect Option I and 50% elect Option II. The City's explicit subsidy for Option II is a smaller dollar amount than for Option I. Below is a comparison of the retiree contribution and city subsidy for Options I and II for this benefit.

	Retire before age 62 Under Rule of age55 with 30 YOS	
OPTION I	Single	Family
City explicit subsidy	207.75	535.5
Retiree pays	333.25	705.04
Total premium	541.00	1,240.54

Option II		
City explicit subsidy	125.00	275.00
Retiree pays	146.41	450.19
Total premium	271.41	725.19

The GASB 45 savings is being generated from those future retirees who will now have to elect Option II instead of Option I if they retire before age 62. We are not able to determine how much of a decrease will occur but do not believe it is a significant amount of the total GASB liability.

There would also be a reduction in health plan claims and utilization but this reduction would not be significant compared to the total health care budget. The reduction in the city's contribution, the reduction in the GASB 45 liability and the reduction in the health plan cost all support the decision to let the benefit sunset.

This action would support future redevelopment of a sustainable post retirement medical plan and reduce future liability.