

POTOMAC AND RAPPAHANNOCK
TRANSPORTATION COMMISSION

RESOLUTION

MOTION: _____

RESOLUTION NO. 08-03-____

SECOND: _____

OFFICIAL COMMISSION MEETING
MARCH 6, 2008

RE: PRTC/VRE RETIREMENT HEALTH BENEFITS PROPOSAL

WHEREAS, no retirement health benefit exists for PRTC / VRE staff; and

WHEREAS, the absence of such a benefit was identified as a “parity” concern during the FY 2008 budget process (inasmuch as a benefit for this purpose is a common practice among the jurisdictions), prompting the PRTC Board to conclude that such a benefit should be created beginning in FY 2009; and

WHEREAS, the PRTC Board directed management to formulate a “retirement health benefit” proposal for the Board’s consideration; and

WHEREAS, management has done so after surveying member/neighborhood jurisdictions to learn what their practices in this area are; and

WHEREAS, management’s proposal has been presented to the PRTC Board and has been judged to be soundly premised and affordable.

NOW, THEREFORE, BE IT RESOLVED that the Potomac and Rappahannock Transportation Commission does hereby approve the retirement health benefits proposal as presented, effective July 1, 2009.

BE IT FURTHER RESOLVED that the Commission also authorizes its Chairman and Executive Director to take steps as necessary to implement this proposal on behalf of PRTC/VRE.




Potomac and Rappahannock
Transportation Commission

14700 Potomac Mills Road
Woodbridge, VA 22192

March 6, 2008

TO: Chairman Jones and Commissioners

FROM: Alfred H. Harf 
Executive Director

RE: PRTC/VRE Retirement Health Benefits Proposal

Recommendation:

Approve the inclusion of a "retirement health benefits" accommodation as an employee fringe benefit for PRTC/VRE staff, beginning in FY 2009.

Background:

In the course of producing the FY 2008 budget, management did a comparative analysis of the fringe benefits offered to PRTC / VRE staff and the staff of member/neighbor jurisdictions to see if "parity" concerns were present. That led to a conclusion that two adjustments warranted consideration: an increase to the employer contribution to the "deferred compensation (457) retirement" plan (which was approved by the PRTC Board when it adopted the FY 2008 budget); and the establishment of an employer-sponsored retirement health benefit (hereinafter referred to as the "benefit proposal" or the "benefit"). Management recommended that the retirement health benefit be tabled until FY 2009 so that further fact-finding could be done to develop the "benefit" proposal. The PRTC Board reaffirmed its intent to establish this benefit in FY 2009 as part of the adopted FY 2009 PRTC budget principles.

The fact-finding has now been completed and management has developed a benefit proposal that is the subject of this action item. It is timely to present it now since it is envisioned to start in FY 2009, and therefore the funding necessary to do so must be incorporated in the FY 2009 proposed budget; this has been done in the "budget" action item appearing elsewhere on this month's agenda for the Board's consideration.

The starting point for our fact-finding was the knowledge that PRTC/VRE staff has no "retirement health benefit", while member/neighbor jurisdictions generally do. To learn what this benefit entails in each member/neighbor jurisdiction, management contacted the jurisdictions' HR departments and compiled the summary appearing here as an attachment. While the benefit differs by jurisdiction, three features are present in most, if not all, of the jurisdictions:

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- Jurisdictions' plans generally have two elements: (1) retirees can remain part of the active employee health insurance pool (retirees' out-of-pocket costs for insurance premiums are either the same as for active employees or discounted compared to market rates); and (2) an employer-provided monetary contribution, pegged to years of service, to defray a portion of retirees' out-of-pocket cost for health-related expenses.
- Jurisdictions' plans have a "length-of-service" requirement to qualify for the benefit, generally amounting to 15 years of service.
- The "employer-provided monetary contribution" element is generally payable post-retirement, meaning that the contributions begin at retirement and continue throughout the retirement years. Because costs being absorbed by the jurisdiction on behalf of its retirees post-date the retirees' retirement date, the new GASB rules require that accruals occur while the active employee earns the benefit, which in turn requires actuarial analysis to size the accruals.

While PRTC management's first impulse was to emulate the jurisdictions' approach to retirement health benefits, the size of our organization is a stumbling block to doing so for two reasons. First, our health insurers have advised that they will not allow PRTC/VRE retirees to remain in the "active employee" pool because allowing this in a pool as small as ours would materially increase the liability exposure. Second, the GASB stipulation about accruing for post-retirement payments and its attendant, actuarial analysis requirement is unduly complicated for an organization of our size.

Because of these differences, management concluded that the plan for PRTC/VRE would have to be different, explicitly accounting for the fact that: (1) our retirees will not be members of the active PRTC/VRE employee pool (and therefore will have to purchase insurance independently); and (2) to avert the GASB stipulation and its attendant actuarial analysis, payments would have to be made while the employees are still active employees rather than when they retire (or leave PRTC / VRE), and would have to cease once they have retired.

The benefit proposal being presented here is structured in this fashion. Its features are as follows:

1. A monthly dollar amount for all current full-time employees who have attained five years of service with PRTC/VRE would be contributed. This length of service has been chosen to coincide with the "vesting" requirement for the Virginia Retirement System.

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2. The monthly contribution increases monthly as the time of service lengthens, beginning at the rate of \$15 per month for five years of service and capped at \$165 per month for fifteen years or more service. These "rate" and "cap" amounts have been proposed after reviewing the benefit offerings of the surveyed jurisdictions, such that the rate and cap as stated are "in the mainstream" of what the jurisdictions offer. Rates conceivably could be increased in the future if market and budget conditions warrant, though this is not an explicit part of the proposal.
3. The contributions cease when the employee ceases employment with PRTC/VRE for any reason.
4. Budget for each year's contributions in that year's budget.
5. Use the ICMA Retiree Health Savings (RHS) Plan as the investment vehicle, featuring discrete "RHS" accounts -- separate from the 457 accounts that already exist -- so that the contributions arising from this benefit are expressly for reimbursement of retirees' out-of-pocket health expenses only. In the unlikely event a retiree dies before their RHS funds have been depleted, the balance is inheritable so long as beneficiaries are named at the outset.

The benefit proposal as described above reflects PRTC management's preference, which differs in four respects from what VRE management favors. Since the benefit proposal would apply to both PRTC and VRE staff, a discussion of the four issues that PRTC management and VRE management see differently warrants discussion, so the Commission can consider what is being proposed with full knowledge of these differences.

The first of these differences pertains to when an employee first qualifies for the benefit. As discussed earlier, PRTC management favors a "five years of service" requirement, while VRE management favors a "one year of service" requirement. VRE management believes that offering the benefit sooner broadens the benefit's appeal, and is also "fairer" because more employees get it sooner. PRTC management considers five years of service a reasonable waiting time for this benefit, because five years evidences a

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degree of commitment to PRTC/VRE deserving of an investment in the longer term, just as the five years of service requirement is structured for the Virginia Retirement System (VRS) benefit for employees to qualify for a guaranteed benefit¹.

The second and third differences pertain to the magnitude of the employer contribution. As discussed earlier, PRTC management favors a graduated contribution as a function of years of service, beginning at \$15 per month and topping out at \$165 per month (for employees with 15 years of service or more), while VRE management favors a "\$40 per month, ungraduated" rate no matter how many years of service an employee has. VRE management's views on these issues are motivated principally by the desire to offset the cost of offering the benefit sooner as discussed in issue # 1. VRE management also contends that a uniform rate will be perceived to be fairer because, generally speaking, those with more years of service tend to be senior-level staff. PRTC management's views on these issues have been shaped by the practices of our member governments in terms of structuring and sizing the contributions.

The fourth and final difference pertains to the "vehicle" used for this proposed new benefit. As discussed earlier, PRTC management is proposing an ICMA-administered RHS plan. VRE management favors an approach in which employees are given the option of placing the new employer contribution in a 457 account instead of an RHS account for three reasons. First, VRE management reason that such flexibility is desirable because some employees may have existing retirement health benefits by virtue of marital relationships and/or past employment experiences such that a new RHS account might have little benefit. Second, VRE management see this flexibility as an added recruitment tool, likening it to "cafeteria-style" approaches being taken by some employers for an even broader array of benefits. Third, VRE management view the RHS reimbursement process as cumbersome², in contrast to 457 accounts where retirees have more direct access to their funds for any purposes they choose.

¹ Employees that leave PRTC/VRE having worked for less than five years have an entitlement to only the so-called "employee" contribution, which can be withdrawn as a lump sum either at the time they cease PRTC/VRE employment or at retirement age. While PRTC/VRE bears the cost of the VRS "employee" contribution as well as the "employer" contribution, the lion-share of the VRS benefit is realized only if an employee amasses five years or more of "VRS-qualifying" service (which can be a combination of PRTC/VRE service and service for other employers that are VRS participants).

² Retirees have to submit invoices for eligible out-of-pocket expenses to make draws on their RHS accounts.

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While PRTC management does not dispute either of these points (inasmuch as 457 withdrawals can be used for any purpose, not just for reimbursement of health-related purposes), the RHS approach is being proposed for two reasons. First, it is more in keeping with the aim of adding this as an employer-sponsored benefit, and RHS approaches are gaining currency as employers migrate away from “guaranteed benefits” towards “guaranteed contributions”. Second, every employee is certain to have post-retirement, out-of-pocket medical-related expenses no matter what their personal situation, the magnitude of which will surely be large enough to make full use of the RHS amount employees would be able to amass over time based on this proposal. With regard to the RHS reimbursement process, it is the same as the FSA program already in existence for active PRTC/VRE employees to set aside pre-tax earnings for reimbursement of out-of-pocket, qualifying health expenses, so the process is both familiar and straightforward though employees who have not opted for an FSA account will need to familiarize themselves with the procedures.

Fiscal Impact:

Management has estimated the FY 2009 cost of this plan as proposed – it amounts to \$24,574 and \$15,605 for PRTC and VRE, respectively. These FY 2009 expenses would be borne as part of the proposed FY 2009 budgets, and estimates for ensuing years would be built into each year’s budget proposal.

Attachment: As stated

Jurisdictional Retiree Health Benefits

	Prince William	Fredburg	Stafford	Manassas	Manassas Pk	Arlington	Fairfax
Elements	VRS Retiree Health Credit Plan: Credit of \$1.50 times years of service for a maximum credit of \$45 per month (30 years service required). In addition there is a supplemental PWC plan: Credit offset of \$5.50 times years of service for a maximum credit of \$165 per month (30 years service required) to defray the cost of health premiums at retirement	For retirees with 10+ years of service hired before 7/1/96, the City provides subscriber only coverage. Retirees hired after 7/1/96 must have at least 15 years of service and receive a credit of \$60/month. The credit can be used towards a city sponsored plan or an alternate plan of the employee's choosing. An additional \$4 per month credit is given for every year beyond 15 years.	VRS Retiree Health Credit Plan: Credit of \$1.50 times years of service for a maximum credit of \$45 per month (30 years service required). In addition there is a supplemental Stafford plan: retiree pays \$45 for subscriber only coverage if he/she is under 65 and \$45 for subscriber only coverage carve out plan 65+.	Retirees age 55 with at least 15 years of service may stay on the city's health insurance plan and are eligible to receive a credit based on length of service. At age 65 the credit ends and the employee must come off the City health insurance plan.	None. Retirees are treated as COBRA participants and must pay 102% of the premium. Coverage lasts until the retiree drops for any reason.	Retirees may remain on the County health plan and premiums paid by the County (credits) are based on years of service (6 tiers) and type of plan selected (CIGNA HMO, CIGNA POS and Kaiser HMO).	Retirees may remain on the County health and dental plan and receive a subsidy based on years of service
Eligibility	15 years of service	15 years of service	Age 50 plus 15 years of service	Age 55 with 15 yrs of service	N/A	Minimum 0-9 years of service (tier one).	Age 55 with a minimum of 5 years of service
Duration	Life of retiree	Life of retiree	Life of retiree	Until age 65	Until employee cancels for any reason	Life of retiree	Life of retiree
Years of Service count prior to plan implementation	Yes	Yes	Yes	Yes	N/A	Yes	Yes
Minimum value of credit to employee	\$105/month (\$22.50 from VRS and \$82.50 from PWC)	\$60/month for those hired after 7/1/96. For those hired before 7/1/96 the credit is \$258.70 to \$315.50	Under 65- \$403.32 (\$22.50 from VRS plus \$380.82 from Stafford) Over 65- \$349.25 (\$22.50 from VRS plus \$326.75 from Stafford)	15-19 years of service- \$100/month 20+ years of service- \$200/month	N/A	Credit for single coverage- \$57.86. Credit for two party coverage- \$58.62. Credit for family coverage \$84.25. Retirees with Medicare pay less than retirees who are not enrolled in Medicare.	\$30/mo for 5-9 years service \$65/mo for 10-14 years service \$155/mo for 15-19 years service \$190/mo for 20-24 years service \$220/mo for 25+ years service
Discounted Insurance Premiums (by jurisdiction's plan)	Yes	Yes	Yes	Yes	N/A	Yes	Yes
Maximum value of credit to employee	\$210/month (\$45 from VRS and \$165 from PWC)	\$120/month for those hired after 7/1/96 and \$258.70 to \$315.50 for those hired before 7/1/96	Under 65- \$425.82 (\$45 from VRS plus \$380.82 from Stafford) Over 65- \$371.75 (\$45.00 from VRS plus \$326.75 from Stafford)	\$200/month	N/A	Credit for single coverage- \$307.65. Credit for two party coverage- \$599.97. Credit for family coverage \$862.53. Retirees with Medicare pay less than retirees who are not subscribers.	\$220/month