

Memorandum



City of Tempe

Date: November 5, 2009

To: Mayor and Council

From: Jon O'Connor, Deputy Human Resources Manager (ext. 8423)
Tom Duensing, Deputy Financial Services Manager (ext 8866)
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Through: Charlie Meyer, City Manager (ext. 8884)
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Subject: OPEB – Retiree Medicare Supplemental Plans

BACKGROUND:

On August 20th 2009, Council approved a new Retiree Healthcare Policy (effective 7/1/09) that included a requirement for all Medicare eligible retirees to transition to a fully insured Medicare supplemental insurance coverage beginning January 1, 2010. A committee of retiree representatives, 5-sided partnership representatives and HR and Financial Services staff met over the past months to develop the RFP for the Medicare supplemental coverage and evaluate submitted proposals. Staff is pleased to report that, upon approval by Council, Medicare eligible retirees will have three options to choose from for their healthcare and prescription drug coverage.

GOALS:

Based on Council guidance, the committee focused on, and was successful in, meeting the following goals:

- Continue to provide supplemental medical coverage for Medicare eligible retirees.
- Reduce overall costs for providing post-Medicare benefits to City retirees by meeting the OPEB actuarial assumption of a maximum \$275/month per participant premium cost.
- Find coverage comparable to the City's Basic Option PPO and CIGNA Medicare Advantage plans for Medicare eligible retirees.
- Include a prescription drug benefit comparable to that currently available.
- Provide a "buy up" option with a higher level of benefit for an additional monthly cost to retirees.

RECOMMENDATION:

The committee is seeking City Council approval for a contract with United Healthcare (UHC) for the provision of three options for Medicare eligible retirees. Highlights of the three plans follow:

- Basic Plan: This Private Fee For Service type of plan replaces Medicare and UHC then becomes the contact point for the retiree participant. The monthly premium is \$274.13, subsidized at 100% for the retiree and 70% for any dependents for those who retired prior to June 30, 2009; and up to \$350/month for those retiring after June 30, 2009 and with 10 years of service as of that date. Also available for a premium of \$180.35 is a basic HMO plan with similar benefits to the Private Fee For Service plan. This plan is limited to participating HMO service providers in Arizona and some options for Arizona residents travelling out of state as well as nationwide emergency and urgent care. The HMO offers a lower cost option for those retirees wishing to lower the cost of dependent coverage or falling under “Group 2” who receive a flat monthly subsidy up to \$350.
- “Buy-up” Plan - Senior Security: This buy-up option allows the participant to maintain their Medicare coverage, with Medicare continuing to be the contact point, as this type of plan functions as a supplement to Medicare. A \$500 deductible applies prior to benefits being payable (except prescription drugs). Once the deductible is met, there are no additional costs for medical providers who accept Medicare assignment, except the required co-pays for prescription drugs. The monthly premium is \$337.31. The “buy-up” cost for a single retiree would start at \$63.18/month.

IMPLEMENTATION:

At the committee’s request, Human Resources will provide full details of the upcoming changes to all retirees by mail and email, posted on the retiree website, and through informational sessions scheduled during November and December.

FOLLOW-UP:

Staff continues to monitor possible changes to Medicare coverage and options relative to the current federal healthcare initiative and recognizes that these plans and their costs may change as early as calendar year 2011, requiring further committee evaluation.