



Finance Committee

Finance Committee Meeting Minutes
 Monday, January 30, 2012, @ 5:15 pm
 Judge Welsh Room at the Provincetown Town Hall
 Called to Order: 5:15 pm

Membership:

| P | E | U | Name | |
|-------------------------------------|-------------------------------------|--------------------------|-------------------------|---------------------------------|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Thomas Coen, Chair | |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Ann Maguire, Vice Chair | |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Thomas Thurston | |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Daniel Jackson | |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Erik Yingling | |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | Thomas Donegan | |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Glen Dombrow | |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Frederic Biddle | |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Michael Canizales | |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | (Open), Alternate | <input type="checkbox"/> Voting |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | (Open), Alternate | <input type="checkbox"/> Voting |

(Note: P = Present E = Excused U = Unexcused)

These minutes are in brief format. This meeting was filmed and is available for viewing at <http://www.provincetowntv.org> or on DVD at the Provincetown Television office.

| | |
|----------------------------|-------------------------------|
| Also Present: | Kerry Adams, School Committee |
| Elaine Anderson, BoS Chair | Cass Benson, SC |
| David Bedard, BoS | Jamie Kryszkiewica, SC |
| Austin Knight, BoS | Loretta Stewart, SC |
| John Santos, Bos | Shannon Patrick, SC |
| David McChesney, BoS | Beth Singer, Supt. Of Schools |
| Sharon Lynn, Town Manager | Dan Hoort, Finance director |

Order of Business:

1. Joint Public Meeting with the Board of Selectmen and the School Committee to review the FY13 School Committee budget.

2. Joint Public Meeting with the Board of Selectmen to discuss possible Medicare Part B premium reimbursement to retirees.
3. Minutes of prior meetings, as time permits.
4. Any other business that may legally come before the Committee.

Joint Meeting with the School Committee & Board of Selectmen

Review FY 2013 School Budget

Superintendent Beth Singer introduced the 2013 School Budget by way of the upcoming academic improvements and past accomplishments.

The School Budget was explained in detail by section by Superintendent Singer. She thoroughly answered questions from the Board of Selectmen and members of the Finance Committee on individual line items within the budget.

MOTION: Move that the Board of Selectmen vote to support the FY 2013 School Committee Budget in the amount of \$3,266,892.00.

Motion by: Austin Knight **Seconded by:** John Santos **Yea 5 Nay 0**

MOTION: Move that the Finance Committee vote to support the FY 2013 School Committee Budget in the amount of \$3,266,892.00.

Motion by: Ann Maguire **Seconded by:** Tom Thurston **Yea 8 Nay 0**

The School Committee left.

Joint Meeting with the Board of Selectmen – Medicare Part B

Chairman Tom Coen went over the FinCom's Report and Recommendations on Reimbursement of Medicare Part B Premiums to Retirees followed by open discussion with the Board of Selectmen.

MOTION: Move that the Board of Selectmen vote to adopt “option 2” as recommended by the Finance Committee as a one year transitional assistance with a \$20,000.00 maximum expenditure.

Motion by: Austin Knight **Seconded by:** John Santos **Yea 5 Nay 0**

List of documents reviewed:

1. *Proposed FY 2013 School Budget*
2. *January 24, 2012 memo to the Board of Selectmen (attached)*
3. *Mandatory Shift to Medicare – Analysis of Impact on Retirees’ Total Premium Costs (spreadsheet)*
4. *Medicare Spreadsheet Cheat Sheet*

| | |
|---------------|---|
| Next Meeting: | February 2, 2012 @ 1:00 pm |
| Adjourn: | 6:32 pm |
| Minutes by: | Thomas Coen, based on the transcript by the Board of Selectmen’s secretary. |

Approved by  on April 27, 2012
Thomas Coen, Chair



Finance Committee

Memo

To: Board of Selectmen

From: Thomas Coen

CC: Finance Committee, Town Manager, Assistant Town Manager, Finance Director, Benefits Administrator, Insurance Advisory Committee

Date: January 24, 2012

Re: Report & Recommendations on Reimbursement of Medicare Part B Premiums to Retirees

- ATT: 1. Mandatory Shift to Medicare - Analysis of Impact on Retirees' Total Premium Costs
2. Medicare Spreadsheet Cheat Sheet

Ladies and Gentlemen of the Board of Selectmen:

At long last, here is our report on the impact the transfer to Medicare will have on the Town retirees' premium costs. The analysis was complicated, but we've tried to boil it down to the essentials.

Special thanks are due to the Finance Director and the Benefits Administrator, without whom this report would not have been possible.

Background

On March 31st, just prior to the April Town Meeting, the Insurance Advisory Committee (IAC) voted 6-0-0 to "request the Town of Provincetown to pay 80% of the Medicare Part B premium of all retiree's on Medicare as their primary insurance when M.G.L. Chapter 32B, Section 18 is passed."

Section 18 was a local option that would, if it had been accepted by Town Meeting, require that all eligible Town retirees to transfer to a Medicare plan offered by Town. An article to do so was included in the Annual Town Meeting warrants in 2009 and 2011. The articles were indefinitely postponed both times in order to allow more education and comment by retirees, and to allow time to consider Medicare Part B cost sharing options.

Report & Recommendations on Reimbursement of Medicare Part B Premiums to Retirees

According to analysis done by the IAC in 2009, the shift to Medicare would cause most retirees to pay higher out of pocket premium costs. Asking the Town to pay 80% of the Medicare Part B premium would be consistent with what the Town pays for other insurance premiums.

Local adoption of Section 18 became a moot point on Monday July 12, 2011, when Governor Patrick approved the state's FY 12 budget, which also made important changes to G.L. c. 32B, including the requirement that all eligible retirees to transfer to a Medicare plan offered by the municipality. The intent of the change was to provide budgetary relief to municipal governments.

The law requires that the plans be of comparable actuarial value to those under the retiree's existing coverage, which the Town's plans are. It also provides an exception for retirees with dependents to stay their existing plans.

In addition to the short term savings that the Town will realize by transferring retirees to Medicare, the Town's long term unfunded liability for retiree health insurance will be reduced by 32% to 48%.¹ As of June 30, 2010 this liability was estimated to be \$74,715,726.²

It is important to note that the section of Chapter 32B that mandates the transfer of retirees to Medicare is completely separate from other health care reform provisions. There is no collective bargaining requirement and no mandate to share the savings with retirees. Any decision to do so is a policy matter for the Board of Selectmen to consider.

Approach

The basic objective of our analysis was to determine, for the current fiscal year, what the costs and savings of shifting to Medicare would be, for both the retirees and Town. In order to do this we took a "snapshot" of the retirees' data, as of July 1st, to establish a baseline. This was important because the retiree population and plan enrollments are changing constantly.

We then filtered the retirees into different categories in order to accurately calculate the before and after costs. The factors we took into account were the following:

- The plan that the retiree was enrolled in.
- Individual versus family plan.
- Age of the retiree and spouse (over age 65 as of July 1, 2011, or turning 65 between then and June 30, 2012).
- Eligibility for Medicare.
- Already enrolled in Medicare Part B and paying premiums (Yes or No).

Using this information we were able to do a detailed calculation of the retiree and Town insurance premium costs before and after the shift to Medicare.

To limit the complexity of the analysis, we assumed that retirees and spouses who subscribed to Blue Cross Blue (BC/BS) plans would shift to BC/BS Medex Enhanced, and that subscribers to

¹ See *Analysis of Adopting M.G.L. Chapter 32B, Section 18 or 18A* by the Segal Company, dated April 12, 2011.

² See *Barnstable Count Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2010* by the Segal Company, dated October 6, 2011

Report & Recommendations on Reimbursement of Medicare Part B Premiums to Retirees

Harvard Pilgrim (HP) plans would shift to HP Medicare Enhanced. This appears to be the general trend, although some retirees are choosing Tuft's Medicare Preferred plan that is slightly cheaper.

Findings

Here is a summary of our initial findings, without taking into account any possible reimbursement of Medicare Part B premiums.

1. There are 146 retired subscribers³ to the Town's medical insurance plans.
2. In total, the Town will contribute \$1,653,465.60 this fiscal year to the cost of their insurance premiums, at the rate of 80%.
3. Retiree health insurance premium contributions comprise 48.1% of Town's \$3,437,500 health insurance budget for this year.
4. Of the 146 retired subscribers, 95 subscribers and/or their spouses are, or will become eligible for Medicare during this fiscal year.⁴
5. The current cost to the Town of the 95 subscriber's health insurance is \$982,972.80.
6. Of the 95 eligible subscribers, 29 have already voluntarily transferred to Medicare prior to July 1, 2011.
7. The out of pocket cost for premiums for the 29 subscribers already on Medicare will increase slightly for some and will decrease slightly for some.⁵
8. Per our analysis, if all of the 66 remaining subscribers had shifted to Medicare on July 1, 2011, the savings to the Town this year would have been approximately \$361,404.36, after penalties for late enrollment of approximately \$45,914.04.⁶
9. Of the 66 eligible subscribers, 9 are already enrolled in Medicare and paying their Medicare Part B premiums, despite the fact that they are on "active" plans.

³ One subscriber to an active employee plan represents a single insurance policy, whether it is for a single individual or a family. Once a subscriber moves to a Medicare supplement plan, each retiree and spouse are counted as separate subscribers.

⁴ Eligible means that the retiree and/or spouse are 65 years or older; they do not have children or other dependents that would require them to stay on a family plan; and they meet the other eligibility requirements of the federal Department of Health & Human Services. (See the Medicare.gov website for more details).

⁵ All retirees on Medicare will pay \$99.90 monthly for the Medicare Part B premium, effective January 1, 2012. Town employees who retired in 2009 or prior were grandfathered, until this year, at a rate of \$96.40. Those who retired in 2010 or 2011 were paying \$110.50 and \$115.40 respectively. As a result, recent retirees will see a decrease in their premiums, while earlier retirees will see an increase of \$3.50 per month.

⁶ The penalty is 10% of the Medicare Part B premium for each year that the retiree delayed enrollment in Medicare and must be paid for the rest of the retiree's life. The Town is required by state law to pay the penalty, because the Town did not adopt the now repealed Chapter 32B, Section 18 on a timely basis.

Report & Recommendations on Reimbursement of Medicare Part B Premiums to Retirees

10. All 9 will see their annual out of pocket premium costs reduced by \$844.80 to \$2,049.60, and the Town will pay no late enrollment penalties for them.
11. The remaining 57 eligible subscribers must enroll in Medicare this year.
12. The majority of the 57 will officially transfer to Medicare policies on July 1, 2012.⁷
13. This means that, in reality, the Town's savings will be spread over both this fiscal year and next fiscal year.
14. With regard to the 57 subscribers, 32 will realize annual savings ranging from \$313.20 to \$1,678.00.
15. The 25 remaining retirees will see their annual out of pocket premium costs increase anywhere from \$237.60 to \$673.20.

The relatively small number of retirees affected is a bit of a surprise in light of the IAC's earlier analysis. The explanation is that the cost of active employee plan premiums has been inflating at a much higher rate than the cost of Medicare premiums.

For example, the Medex Enhanced premium increased by .5% in FY11 and 6.8% in FY12. By way of contrast, the Master Medical premium increased 6.3% in FY11 and by 12.4% in FY12. If this trend continues, retirees on Medicare will benefit considerably from relatively lower costs of their healthcare in the future.

Reimbursement Scenarios

After completing the initial analysis, we examined the costs of four possible scenarios, outlined below, for reimbursing a portion of the retirees' Medicare Part B. Savings to Town are net of the estimated late enrollment penalties that the Town is required by law to pay.

1. No reimbursement

As noted in our findings above, the Town would realize the greatest possible savings (\$361,404.36), but 25 retirees would see their total premium costs increase.

2. Reimburse only retirees directly affected, by the amount they are affected

If the Town reimburses the 25 affected retirees for the difference in their premium costs, the annual cost to the Town would be \$12,096.00, slightly reducing the Town's savings to \$349,308.36.

3. Reimburse all retirees for 57% of the premium

This is a variation of request put forward by the Insurance Advisory Committee. 57% is the minimum across the board reimbursement percent that would ensure that all retirees would be "made whole" as a result of the transfer to Medicare. The cost to Town would be \$74,481.44, reducing the Town's potential savings by 21%, to \$286,922.92.

⁷ This is due to the timing of the healthcare reform act. Most retirees will have to wait until the next general enrollment period (January 1 through March 31) to enroll in Medicare Part B.

Report & Recommendations on Reimbursement of Medicare Part B Premiums to Retirees

4. Reimburse all retirees for 80% of the premium

This is the recommendation of the Insurance Advisory Committee. It would cost the Town \$104,535.36 annually, and would reduce the Town's savings by 29%, to \$256,869.00.

There are probably other variations of these scenarios that we could have modeled, but these seemed to be the most straightforward.

The attached spreadsheets contain the details of our calculations for each scenario. Page 1 provides a summary, for each scenario, of the retirees' annual cost savings or increases and the Town's annual savings. Highlighted cells indicate that the retiree's costs go up. Pages 2-9 show all of the detailed calculations for each scenario. Also attached is a "Cheat Sheet" that explains what each column on pages 2-9 means.

Discussion & Recommendations

The Finance Committee met on November 21st and December 8th to review the results of the analysis. The consensus of the Committee members was that scenarios 3 and 4 were not acceptable, for the following reasons:

1. The Town's savings would be significantly reduced, especially if the reimbursement were to become permanent.
2. While the IAC's 2009 analysis showed a significant majority of Medicare eligible retirees would face increased premium costs, our latest analysis shows that only 26% will be affected. The remaining 74% will actually save money. An across the board reimbursement would result in the 74% receiving a windfall transfer of income from the Town.

Of the two remaining options, most of the discussion focused on Scenario 2 – reimburse only retirees directly affected. Issues that we discussed included:

1. Retirees who retired prior July 1, 2011 had the reasonable expectation that they would have the option of remaining on the Town's active employee plans if they chose to do so. That option was eliminated with little notice, forcing retirees 65 or older, and those who will turn 65 this year, who are on active plans to make a sudden transition during this fiscal year.
2. For the 23% of the retirees who will have higher premium costs, there will also be an unanticipated financial burden with little time to plan for it. Younger retirees will have one year or more to plan on making the transition.
3. The cost to Town of implementing this scenario is minimal.
4. Any reimbursement should be considered transitional assistance, limited to the first year impact on the retiree.

Report & Recommendations on Reimbursement of Medicare Part B Premiums to Retirees

The consensus of the Committee was that Scenario 2 is both fair to the retirees, and preserves all but a small portion of the Town's savings.

The Finance Committee voted 6-0-0 on December 8th to recommend Scenario 2 to the Board of Selectmen, i.e. to reimburse only retirees who were retired prior to July 1, 2011, and who are over 65 or will turn 65 by June 30, 2012, and who will be directly affected by an increase in their total premiums, based on the analysis that we did.

The Committee's motion also specified a limit of \$15,000 in total, which would allow for any Medicare supplement premium increases during the transition.

The Committee also discussed, but did not make any formal recommendation on, the simplest way to implement the policy, if adopted by the Board of Selectmen. This would involve:

- Setting up a budget line item for transitional assistance in FY13, in the amount of \$15,000 or more if prudent.
- Obtaining Town Meeting approval for the reimbursement as part of the Division II – Finance budget.
- Calculating the actual reimbursement costs as of July 1, 2012.
- “Cutting” a onetime reimbursement check to the affected retirees in FY13.

In addition, the Committee recommended, informally, that retiree health insurance costs be budgeted as a separate line item in the budget beginning in FY13. This will make it easier to track the trends in those costs separately from the active employee health insurance costs.

We hope that you find this information useful as you consider your policy options.

Respectfully submitted,



Thomas Coen, Chair, Finance Committee