

Office of the Superintendent of Schools
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

May 23, 2011

MEMORANDUM

To: Members of the Board of Education
From: Jerry D. Weast, Superintendent of Schools
Subject: Retiree Health Benefit Changes

Due to the severe economic challenges of the Great Recession, staff members have discussed possible changes to Montgomery County Public Schools (MCPS) retiree health benefits with the employee associations and MCPS retirees' association during the past several months. The purpose of this memorandum is to recommend to you the proposed changes.

Currently, any employee who retires from MCPS with five or more years of service receives retiree health benefits with an employer/retiree cost share of 64 percent/36 percent. All retirees are required to enroll in Medicare Part B when eligible, so that the MCPS coverage becomes supplemental to Medicare. Retirees have a choice of two prescription plans that have either higher co-payments and lower premiums or lower co-payments and higher premiums.

During Fiscal Year (FY) 2011, MCPS will spend \$42.7 million on retiree health benefits. Total cost of retiree health benefits for FY 2011, including the retirees' share of expenses, will be \$74.5 million. AON Hewitt, our benefits consultant, estimates medical costs will increase in FY 2012 more than 10 percent for retirees who are not yet Medicare eligible, more than 7 percent for retirees on Medicare, and more than 8 percent for prescription drugs.

In discussions with the employee and retirees' associations, the proposal is to change retiree health benefits for all new hires after July 1, 2011, and for all employees hired since July 1, 2006. A few exceptions are noted below. Current retirees and employees hired prior to July 1, 2006, would not be affected.

The new cost sharing formula would be based on years of MCPS service, rewarding longer service. This method is consistent with what other Maryland jurisdictions provide for retiree benefits. Retirees would be required to have a minimum of 10 years of service with MCPS to

qualify for retiree health benefits. Spousal and dependent coverage would be subject to the same cost shares. The structure would be as follows:

<u>Years of Service</u>	<u>Employer Share</u>	<u>Retiree Share</u>
10–15 years of service	40 percent	60 percent
15–20 years of service	50 percent	50 percent
20 or more years of service	64 percent	36 percent

This cost sharing plan would be in effect for all new hires as of July 1, 2011. We propose to grandfather employees hired since July 1, 2006, who are over age 55 at the current employer/retiree cost-share level as they have the least amount of time to adjust their work plans in light of the changes. Similarly, anyone hired since July 1, 2006, who reaches 30 or more years of credited service in the Maryland State Teachers Retirement and Pension Plan and thus is eligible to retire will be grandfathered at the current employer/retiree cost share.

The current employees who are having their anticipated cost sharing changed are those hired since July 1, 2006, who will be between the ages of 42 and 54 as of July 1, 2011. Approximately 1,500 individuals are affected. They still will have access to retiree health benefits, but at the new cost-share levels. These employees have a number of years to modify their plans if they choose to maximize the employer contribution toward retiree health benefits.

Employees who retire on disability would receive one of the following options: for those retiring on work-related accidental disability, the highest employer cost share; or for those retiring based on a personal illness caused disability, the cost share based on their years of service.

While cost savings will be minor during the first years, estimated at \$276,000 for FY 2012, in the long-term, the cost savings will be significant. Additionally, the Other Post-Employment Benefits (OPEB) liability for retiree health benefits will be decreased by \$12 million and the Annual Required Contribution (ARC) for OPEB would be reduced by \$4.5 to \$5 million for FY 2012. Both of these numbers are based on the assumption that no alteration of behavior will occur due to these changes, such as employees retiring later.

WHEREAS, The Board of Education of Montgomery County, Maryland, adopted an employee benefit plan effective December 15, 1958, that provides for insurance coverage for the benefit of both active and retired plan members and their qualified dependents; and

WHEREAS, The Board of Education has from time to time made changes to plan provisions for both active and retired plan participants; and

WHEREAS, Montgomery County Public Schools staff members, employee associations, and the retirees' association support the proposed changes to retiree benefit eligibility based on years of service; and

WHEREAS, The Board of Education Fiscal Management Committee reviewed and endorsed these recommended changes on April 12, 2011; and

WHEREAS, This is consistent with what other Maryland jurisdictions provide for retiree benefits; now therefore be it

Resolved, That effective July 1, 2011, the Employee Benefit Plan for retirees be amended; and be it further

Resolved, That retiree benefits will be based on the years of service as follows:

<u>Years of Service</u>	<u>Employer Share</u>	<u>Retiree Share</u>
10–15 years of service	40 percent	60 percent
15–20 years of service	50 percent	50 percent
20 or more years of service	64 percent	36 percent

and be it further

Resolved, That the Board of Education president and the superintendent of schools be authorized to execute the documents necessary to implement the retiree health benefit changes.

JDW:LAB:sdg