



# MEMORANDUM

Council Agenda  
Item No. IX.L.  
11/8/2016

## The City of OKLAHOMA CITY

TO: Mayor and City Council

FROM: James D. Couch, City Manager

Resolution excluding employees hired after January 1, 2017, from eligibility and establishing criteria for retirees of The City of Oklahoma City or participating public trust to be eligible for premium cost-sharing, if any, when provided by the City Council or by the trustees of participating public trusts toward the premium costs for healthcare benefits; and providing an effective date of January 1, 2017. Deferred from October 25, 2016.

### Background

Other post-employment benefits (OPEB) is a term that is commonly used to refer to benefits provided for retirees other than pension benefits. Health insurance is the most common other post-employment benefit (OPEB). The cost of providing retiree health insurance is much like a pension, in that the employee receives an implied benefit after their active employment is complete.

Per State law, a retired employee may continue to elect coverage under any health insurance plan offered by the affected municipality that last employed the retired employee, including any health plans targeted for retirees and Medicare eligible retirees. However, the City is not required to subsidize the cost of retiree health premiums, unless the cost is more than 125% of the active employee total premium cost.

The City's practice has been to subsidize the cost of retiree health insurance premiums for retirees (premium cost sharing). On September 29, 2009, the City Council established a schedule for increasing the retiree contribution from 30% to 50% of the premium cost. For 2016 current retirees pay 44% of the premium cost with planned increases of 2% per year over the next three years until retirees reach the 50% level.

Even with retirees paying a larger portion of the premium cost, the liability the City faces for OPEB costs is growing. The problem is that in the past Oklahoma City retiree health coverage was funded on a pay-as-you-go basis as opposed to setting funds aside during an employee's employment years, allowing assets to grow and making them available in retirement to pay health benefits, similar to a pension plan.

To begin to address the issue, the City formed the Oklahoma City Other Post-Employment Benefits Trust (OPEBT) in 2008. The City makes

contributions to the trust to fund retiree health insurance for current and future retirees. The City has been making additional contributions above the required pay-as-you-go amounts and a balance of about \$39 million exists in the OPEBT. This compares with the City's full OPEB liability of \$440 million and equates to a funding level of 8.9%. For FY17, the City has budgeted \$15.8 million for retiree health insurance.

The City's actuary has estimated that future retiree health care costs will rise by over 50% over the next 10 years. This growing cost will put pressure on City funds, particularly the General Fund, and limit the flexibility in the future to continue important City services at the same level.

In order to address the growing liability for retiree health insurance, two actions are recommended in the attached resolution.

**1.) Increase Eligibility Requirements.** The first action proposed in the resolution will change eligibility for retiree health insurance premium cost sharing from 5 years of service and 55 years of age to 15 years of service and 60 years of age. This change is expected to reduce the OPEB liability by 5.5% or about \$31 million over the next 10 years. The change in eligibility is proposed to be effective January 1, 2017. Those employees who are eligible to receive premium sharing upon retirement under the current rules as of December 31, 2016, will be grandfathered in and will be eligible to receive premium sharing upon retirement. Employees who reach 25 years of service for non-uniformed employees, or 20 years of service for uniformed firefighters and police officers will continue to be eligible for premium cost sharing upon retirement.

**2.) Eliminate Eligibility for Premium Cost Sharing for New Employees.** The second action recommended in the resolution will eliminate retiree health insurance premium sharing for new employees hired after January 1, 2017. This change is expected to reduce the OPEB liability by 10.9% or \$60 million in 10 years and would eventually eliminate the liability.

In summary, the proposed actions impacting eligibility for retiree health insurance premium sharing, outlined above, are projected to reduce the OPEB liability by about \$90 million over the next ten years and will eventually completely eliminate the OPEB liability.

Review

Finance Department

Recommendation: Resolution be adopted.