



Metropolitan Water Reclamation District of Greater Chicago

100 East Erie Street
Chicago, IL 60611

Legislation Text

File #: 10-1453, **Version:** 1

TRANSMITTAL LETTER FOR BOARD MEETING OF NOVEMBER 18, 2010

COMMITTEE ON PENSION, HUMAN RESOURCES AND CIVIL SERVICE

Mr. Richard Lanyon, Executive Director

Requesting Approval to Change Health Care Subsidy for Retirees. "AMENDED. REFER TO FILE #10-1453A"

Dear Sir:

Following discussion at the August 12, 2010 and October 14, 2010 study sessions, the November 4, 2010 Committee on Budget and Employment hearings and suggestions received from employees, retirees and the Retirement Fund, it is recommended that the District subsidy for retiree health care be changed. The proposed change is expected to result in annual savings to the District of \$1,366,269.

In 1985, the Board of Commissioners adopted a policy of paying 75% of the cost of retiree health insurance premiums, while retirees contributed the balance of 25%. This subsidy level has not changed since 1985. After so many years, it is appropriate to consider whether or not the 75% subsidy should be modified.

Therefore, the method for determining the District subsidy for retiree health care was reviewed based upon the following considerations:

1. Employees who earn larger pensions should pay an additional amount for health care.
2. Retirees who earn pensions that are less than \$2,000 per month in 2010 should not receive a decrease in the District subsidy for retiree health care. The \$2,000 per month limit should be indexed each year by 3% to keep pace with the annual increases in annuities.

In other words, the subsidy for retiree health care should be based, in part, on ability to pay.

Based on these criteria, it is recommended that the basic District subsidy for retiree health care remain at 75%, and that retirees be required to contribute a percentage of their monthly annuity toward health care costs. The retiree cost of health care would be 25% plus a percentage of monthly annuities. Retirees with an annuity of \$2,000 per month or less would continue to receive the 75% subsidy and would contribute no additional percentage of their annuities to the cost of health care.

This formula is adjustable each year, based upon the needs of the District.

Exhibit A provides illustrations of the formula and the resulting annual contributions from retirees if 0.5%, 1.0% or 1.5% of the monthly annuity were used in the formula.

Exhibit B provides five examples of retirees who currently participate in the District's retiree health care program, and the effect that the new formula would have on their monthly contributions. The actual monthly retiree contributions taking effect on January 1, 2011 will be calculated based on actual claims experience for the twelve-month period ending September 30, 2010.

The District submitted an application to participate in the federal government's Early Retiree Reinsurance Program, which is part of the new health care reform law. Under this program, the District will be reimbursed for a portion of the cost of providing health coverage to non-Medicare eligible retirees. The reimbursement funds must be used to reduce health care costs for retirees, and may be used to lower retiree contributions. While this is a temporary program with limited funding, it would mitigate the effect of a subsidy change in the short term.

Approval is requested to implement a policy of a 75% retiree health care subsidy, and that retirees with monthly annuities greater than \$2,000 be required to contribute 1.5% of their monthly annuity toward health care costs, effective January 1, 2011. The 75% subsidy for retirees with monthly annuities below \$2,000 per month would remain unchanged.

Requested, Denice E. Korcal, Director of Human Resources

Respectfully Submitted, Gloria Alitto Majewski, Chairman Committee on Pension, Human Resources and Civil Service

Disposition of this agenda item will be documented in the official Regular Board Meeting Minutes of the Board of Commissioners for November 18, 2010

Attachments