

*City of Alexandria, Virginia*

MEMORANDUM

**DATE:** APRIL 4, 2014  
**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL  
**THROUGH:** RASHAD M. YOUNG, CITY MANAGER   
**FROM:** NELSIE L. SMITH, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET   
**SUBJECT:** BUDGET MEMO #16: RETIREE HEALTH AND LIFE INSURANCE

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This memorandum responds to questions from Councilman Wilson regarding Retiree Health and Life Insurance. Two additional questions about the benefits' administration and the options for phasing out the retiree life insurance contributions were raised by Council. The responses to these questions have been consolidated here.

**Question:** "(Page 9.12, 10.86) The City provides retirees with \$260/month to cover health insurance, and currently covers the premiums of retiree life insurance. The proposed budget includes a savings of \$247,430 from removing City support of retiree life insurance premiums:

- 1) Of the \$4,740,581 budgeted for insurance, how much is budgeted specifically for retiree health insurance?
- 2) Of the \$3,120 available annually to retirees for health insurance, what is the average amount being received by retirees?
- 3) What is the average annual life insurance premium that is proposed to be passed on to existing retirees with the reduction of City premium support?
- 4) What would be the financial implications of modifying the existing \$260/month available for health insurance premium support to allow retirees to utilize that money for both health insurance and/or the City's group life insurance?" (Councilman Wilson)

**Response:**

- 1) Of the \$4.74 million budgeted for insurance in the Non-Departmental budget, \$2.45 million of that is budgeted specifically for standard retiree health insurance in FY 2015.

There are also retirees receiving health insurance premiums through the Line of Duty Act (LODA), which totals an additional \$958,520, and these funds are budgeted within departmental budgets in FY 2015.

- 2) As of March 10, 2014, 862 retirees/surviving spouses are enrolled in the City's health insurance program. Of this total, 800 retirees are eligible to receive the City's standard health insurance reimbursement of up to \$260/month. The remaining 62 receive health insurance premiums through the Line of Duty Act (LODA). Reimbursements paid through LODA are not capped at \$260/month and they average \$1,288/month or \$15,460/year. Regular retirees who are capped at \$260/month under the standard benefit receive on average \$230/month or \$2,760/year.
- 3) The average annual life insurance premium that is proposed to be passed on to existing retirees with the reduction of City premium support is approximately \$250 per retiree per year.
- 4) As of March 10, 2014, the City had 1,055 retirees that, in the FY 2015 Proposed Budget, would maintain eligibility for retiree life insurance through the City, but at their own expense. The cost of extending the \$260 maximum contribution from health insurance only to health and life insurance for all retirees currently receiving life insurance would be approximately \$123,150.

Such a modification raises concerns about equity among retirees given that some retirees would receive support while others would not. There are 271 retirees who do not receive health insurance through the City and would be eligible for the entire \$260 per month toward their life insurance, at a cost of approximately \$78,300 annually (an average of \$289 per retiree). Additionally, there are 305 retirees who receive health reimbursements below \$260/month who would be eligible for approximately \$44,850 annually in additional reimbursements (an average of \$147 per retiree) to help cover life insurance expenses. Lastly, there are 479 retirees who are currently enrolled in the City's health insurance plan who have health premiums that are equal to or exceed \$260/month and would not have the capacity to use the reimbursement for life insurance premiums.

**Question:** "How does the City administer its (\$260/month maximum) health insurance reimbursement program for its retirees?" (Council Work Session)

**Response:** Health insurance can be carried into retirement if the active employee meets both the criteria of retiring from a Primary City-sponsored retirement plan (VRS for General Schedule or Prudential for Fire and Police) **and** being enrolled in a City-sponsored health insurance plan prior to retirement.

After retirement, the retiree has two options for receiving City subsidized health insurance. One option is continuing enrollment within one of the City-sponsored health insurance plan. The other is participation in a non-

City sponsored plan with reimbursement through the City's Health Insurance Reimbursement Program.

**With either option, the monthly maximum amount the City will contribute to a retiree's cost of coverage is \$260 and requires proof of coverage as shown below:**

Retiree Health Insurance Reimbursement Program

1. The monthly reimbursement amount is based on a retiree's actual cost of monthly health insurance **up to \$260 per month**, or \$780 per quarter.
2. Upon the City's receipt of a "blue" Reimbursement Statement each quarter, the City reimburses the actual out-of-pocket expenses incurred by the retiree.
3. Every six months, each participating retiree is required to provide to the City proof/evidence of health insurance coverage in force.
4. The City issues reimbursement checks in accordance with the following schedule:

Quarter	Documents Received/ Approved By	Payments Made By
1 <sup>st</sup> (Jan-March)	March 1	April 30
2 <sup>nd</sup> (April-June)	June 1	July 30
3 <sup>rd</sup> (July-Sept)	September 1	October 30
4 <sup>th</sup> (Oct-Dec)	December 1	January 30

5. Stand-alone dental and vision care plans are not reimbursable.
6. If the retiree's monthly cost for health coverage is less than \$260, the retiree is only eligible to receive reimbursement for the actual cost of health insurance premiums.
7. Reimbursement will be made if the retiree is enrolled on his/her spouse's plan, however, the reimbursement is based upon the *difference* between the spouse's cost for an individual plan and the spouse's cost for converting to a family or employee-plus plan to accommodate the retiree (up to \$260/month).
8. If a retiree who had coverage for his/her spouse dies, the surviving spouse is permitted to continue to participate in the reimbursement program.

**Question:** "Can the City consider phasing out its support of retiree life insurance premiums over a longer timeframe, as opposed to eliminating it all at once in FY 2015?" (Council Work Session)

**Response:** The City has the capacity to phase out its support of retiree life insurance premiums. As an example, if the City were to reduce its support by 50% in FY

2015, the total cost to both the City and retirees would be split evenly for the year. If the City were to further reduce its support by the remaining 50% in FY 2016, the retirees would then become responsible for paying the full premiums out-of-pocket.

See the below table as an example:

	Total Life Insurance Premiums	City Share	%	Retiree Share	%	Average Annual Out-of-Pocket per Retiree
<b>FY 2014</b>	\$247,430	\$247,430	100%	\$0	0%	\$0
<b>FY 2015</b>	264,598	132,299	50%	\$132,299	50%	\$125
<b>FY 2016*</b>	264,598	0	0%	\$264,598	100%	\$250

*\*Assumes both FY 2015 cost (\$264,598) and number of retirees (1,055) hold constant in FY 2016.*

Regardless of how it is phased in, administratively, the Human Resources Department would be responsible for collecting premium payments from the retirees, and paying the vendor directly on their behalf.