



## Memorandum

**Date:** April 4, 2016  
**To:** Thomas J. Bonfield, City Manager  
**Through:** Wanda Page, Deputy City Manager  
**From:** Regina Youngblood, Human Resources Director  
**Subject:** Council Members Health Benefits

### Background

On November 19, 2015, a Durham City Council Insurance Subcommittee (Subcommittee) Meeting was held to discuss health insurance benefits for outgoing Council Members. Diane Pearson, Durham County's Benefits Manager, presented the Retiree Benefits Policy for Durham County, with an emphasis on the parts of the policy that applied to County Commissioners.

Per the Retiree Benefits Policy of Durham County, County Commissioners who serve at least 10 years are offered medical insurance benefits available to employees who have 30 years of continuous service. Commissioners are eligible for these benefits after the expiration of their 10<sup>th</sup> year in office and when they are no longer holding a County Government elected position. Once Medicare eligible, a Commissioner must enroll in Medicare, and the County provides a Medicare supplement amounting to approximately \$330-340 per month.

The Subcommittee directed City staff to research the implications of extending health insurance to outgoing Council Members with least 10 years of active City of Durham Council service.

### Issues and Analysis

The City of Durham provides health insurance for active City Council Members. However, when a Council Member completes his/her service there is no policy that authorizes continued coverage on the City's health plan.

By policy (HRM-508), access to the City of Durham's health plan benefits following separation is limited to a select group of retired employees who:

1. were hired prior to July 1, 2008;
2. have at least 10 years<sup>1</sup> of City of Durham service; and
3. are under age 65.

Insurance coverage is provided at employee rates and levels for retiring employees with at least 20 years of service. Retirees with 15-19.999 years of City service pay the employee

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<sup>1</sup> This is the standard for early and service retirements. Disability retirement requires a minimum of five years of service. Disability retirees with 5-14.99 years of City services pay the employee rate, plus 50% of the City contribution.

rate, plus 25% of the City contribution. Retirees with 10-14.99 years of City service pay the employee rate, plus 50% of the City contribution. Retirees with less than 10 years with the City of Durham are eligible for Health Benefits under COBRA.

In addition, Department Directors hired prior to July 1, 2008 who retire from the City may continue health insurance at employee rates and levels up to age 65 if vested in the retirement system with 5 years of City of Durham service.

At age 65 health insurance benefits with the City ends and coverage with Medicare begins. The City of Durham provides a partial reimbursement to qualifying retirees for the cost of a qualifying Medicare supplement plan. The eligibility criteria for receiving a Medicare supplement includes, but is not limited to, the requirement that an individual must be receiving a benefit from the North Carolina Local Governmental Employees' Retirement System (NCLGERS).

The City is a participating member of the NCLGERS and is governed by the laws, regulations, and policies of this system regarding retirement. Employees are considered retired from the City only as defined by the NCLGERS.

Council members do not contribute to the North Carolina Local Governmental Employees' Retirement System. Upon ending their term of service with the City of Durham they would not meet the NCLGERS definition of a City of Durham retiree.

Full-time and temporary with benefits employees hired after June 30, 2008 are required to contribute to a Retirement Health Savings (RHS) plan. Benefits eligible active employees contribute 2% of their annual earnings up to \$1,000 to the account each year (pre-tax). The City of Durham contributes \$35.00 per pay period to each employee's account. Part-time employees do not have RHS plans.

RHS funds are set aside to reimburse participants for qualifying medical expenses (e.g., out-of-pocket expenses, prescriptions, premiums, etc.). The RHS funds can only be accessed after separation from City of Durham service. Separated participants can access 100% of their employee contributions. Access to employer contributions is subject to a vesting schedule<sup>2</sup>. However, the account becomes 100% vested for employer portions upon participant's death, disability, or retirement.

Council members do not have RHS plan accounts; they don't make any contributions and the City does not make any contributions on their behalf.

### **Exception Options**

There are currently two Council Members who have served for 10 or more years. They are:

William Bell (14 years)

Cora Cole-McFadden (14 years)

The above Council Members are also the only two active members who began their Council service prior to July 1, 2008.

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<sup>2</sup> 20 years of City of Durham service (YOS) = 100% vested; 15 YOS = 75% vested; 10 YOS = 50% vested.

The tenures of the remaining active Council Members are as follows:

Eddie Davis (2 years)	Charles Reece (4 months)
Jillian Johnson (4 months)	Stephen Schewel (4 years)
Don Moffitt (3 years)	

Over the past 10 years (from 2005 to 2015) seven Council Members have ended Council service, three of them with at least 10 years of service to the City of Durham. They are:

Farad Ali (4 years)	<b>Arthur J Howard Clement (30 years)</b>
John Best (4 years)	Thomas Stith (8 years)
<b>Eugene Brown (12 years)</b>	James Woodard (7 years)
<b>Diane Catotti (12 years)</b>	

It has been the practice of the City of Durham to implement policy changes that impact employees prospectively. The following options are explored for active Council Members.

#### **Option 1 – RHS Plan Participation**

To allow Council Members to participate in the RHS plan, the plan provisions would need to be amended to include Council Members. To amend the plan, the City of Durham would need to complete the RHS Adoption Agreement again in its entirety.

According to ICMA-RC, the City's RHS Plan Administrator, The City can add an eligibility group to the RHS plan as long as the vesting, benefit eligibility requirement, and allowable expenses are the same for all participants. Also, every person in the new eligibility group would be required to participate in the RHS plan (i.e., Council Members would not have the flexibility to opt out).

Council Members would be required to contribute 2% of their annual stipend up to \$1,000 to the account each year (pre-tax). The current stipend amount for Council Members is \$21,308.05 annually, with the exception of the Mayor who receives a stipend of \$25,084.34.

The City of Durham would contribute \$35.00 per pay period to Council Members account. The fiscal impact to the City of Durham would be predictable and approximately \$6,370 annually (\$35 per pay period x 26 pay periods x 7 participants).

#### **Option 2 - Health Plan Coverage until Age 65**

To allow Council Members to have health plan coverage upon separation, The City of Durham would need to add a Council Member Exception to HRM-508 to offer health plan coverage for outgoing Council Members with a minimum of 10 years of Council service. The Medicare Supplement Program Guidelines would also need to be revised if the City of Durham wanted to offer a Medicare supplement for eligible Council members who are 65 and older. An exemption for Council Members would need to be added since they do not contribute to the NC Retirement System.

Four of the seven existing Council Members are already 65 or older, and one will reach age 65 before completing 10 years of service. Assuming each completes 10 years of Council service they may be eligible for a Medicare supplement under this exception. The average Medicare supplement amount is \$100.75 per month. The approximate fiscal impact associated with offering Medicare supplements would be \$6,045 annually.

For the two remaining Council Members who will be under 65 following their 10<sup>th</sup> year of service, one means to estimate the cost of this exception would be to examine the average cost of health care claims. For the last three plan years (2012-13 to 2014-15) the average claims per employee per month was \$841.05.

Assuming the policy change only applies to existing Council Members and assuming that every existing Council Member will serve a minimum of 10 years, the approximate fiscal impact on claims could be \$10,092.60 annually for each member. The two Council Members would be carried on the City of Durham health plan for approximately 9 or 20 years, respectively, before reaching 65.

It should be noted that this option exposes the City of Durham of Durham to the greatest potential for expense. While the above prediction of claims has been provided for consideration, one single claim could cost the City of Durham as much as \$250,000 before stop loss insurance would be activated.