AD HOC TASK FORCE
TO STUDY
BENEFITS FOR ACTIVE AND RETIRED MEMBERS

COMPOSITION OF MEMBERS

Chair of the Baltimore City Council Taxation Committee

Chair of the Baltimore City Council Education and Labor Subcommittee

President of the City Council's Designee

Director of the Department of Finance

Director of the Department of Human Resources

Deputy Director of Finance

Labor Commissioner

Administer of the Fire and Police Employees' Retirement System

Administrator of the Employees' Retirement System and the Elected Officials' Retirement System

Member of the Baltimore Retired Police Benevolent Association

Member of the Baltimore City Fraternal Order of Police

President of the Baltimore Fire Fighters Association

Representative of the Commission on Aging and Retirement Education

Member of the Employees Retirement System

Member of the Health Insurance Committee

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INTRODUCTION

The **Ad Hoc Task Force to Study Benefits for Active and Retired Members** was created as a result of City Council Bill 03-1196 (Resolution). The Task Force was created, specifically, for the purpose of studying loss of benefits to active and retired members of the City Retirement Systems. The purpose is to develop safeguards to prevent such losses in the future and proposing administrative or legislative changes to ensure that these beneficiaries are held harmless in the future.

The resolution requires that the Task Force meet for a period of four (4) months and report its findings to the City Council at the conclusion. The Task Force commenced on December 10, 2003 and was composed of City Council representatives, various labor organizations representatives, and representatives of City Government Departments. Since the first meeting was held a considerable time after the adoption of the resolution, a sixty (60) day extension was granted to complete the study.

The resolution identified specific topics for review, which consisted of:

- Reduced Health Care Benefits and Increased Medical and Prescription Costs
- Lack of Pension Increases
- Cost of Living Increases
- Loss of Term Life Insurance

The Task Force conducted twenty (20) scheduled meetings, each meeting usually being for a period of two (2) hours. A Chairman was appointed at the first meeting by Councilman Keiffer J. Mitchell, Jr., Chairman, Taxation Committee. Councilman Mitchell was of the opinion it would not be appropriate for him to Chair the task force. The task force Chairman set the agenda for each meeting and meeting minutes were maintained, copies of which are included in this report.

Individual members of the Task Force had opinions during discussions of the specific topics, but the focus of attention was directed to make recommendations and findings in a collective manner.

The Task Force had considerable discussion about the Health Insurance Committee (HIC) and its purpose and role in making recommendations for benefits that

were adopted by the Board of Estimates. The Task Force received a contingent of representatives from the Independent Drug Dealers and Chair Drug Stores who made a presentation. An effort was made to invite representatives from Express Scripts, the contract Pharmacy Benefit Manager, but no response was received to make a presentation.

A recommendation of the Task Force was to include the Chairman of the Task Force to become a member of the Health Insurance Committee(HIC). On March 29, 2004, City Council Resolution 04-1331 was introduced and immediately adopted for the purpose of recommending that the Chair of the Ad Hoc Task Force become a member of the HIC. The HIC is comprised of seven (7) members: Four (4) City Officials and three (3) union representatives. Currently the seven (7) members consist of the First Deputy Mayor, a representative of the American Federation of Teachers Union, the Labor Commissioner, a representative of AFSCME, a representative of the Baltimore City Fire Fighters, the Department of Finance, and the Department of Human Resources.

A topic of review ALoss of Life Insurance@ was not considered for review by the Task Force. The policy was effective March 1, 1961 as a Group Term Life Policy and was the creation of a Board of Trustees within the Police Department. The premium for the life of the policy was a fixed amount for all members and the policy was issued by Minnesota Mutual Life Insurance Company. The policy contract stated the company may terminate the policy on any anniversary date by giving notice to the Trustees at least thirty-one days in advance if the number of employees insured on the policy anniversary date is less that 50% of those eligible for insurance. On the anniversary date the policy participation by members of the Department was 17% of those eligible. At the time of termination the Department had 3,859 eligible employees of which only 651 were policyholders, less 17%. The company elected to exercise a clause in the contract that permitted the termination of the group term life policy. The company provided members with an opportunity to convert and acquire a Whole Life Policy as termed in the contract. The issue of termination was reviewed by the Maryland Insurance Administration and in their opinion the action by the insurance company was justified under the terms of the policy contract. Since this issue was confined to active and retired members of the Baltimore City Police Department and the City Administration was not a participant in the creation and development of the insurance policy, the issue was not studied.

Part 5 which contains all reports, proposals, and submissions by Task Force members and others is in a separate binder because of its size and volume. That binder is submitted to the Council as part of this report for review at the Office of Legislative Reference.

This report of the Task Force recommendations and findings is submitted for review.

Background

In February of 2003, without prior warning to retirees and employees, the Department of Human Resources asked and the Board of Estimates approved AYear 2004 Modification to the City=s Health Plan@. This plan more than doubled health care and prescription costs for retirees while increasing, to a much lesser degree, the same cost for elected officials and un-represented employees. In August of 2003, the Board of Estimates slightly rolled back a portion of the increase to retirees.

There was no notice given to retirees during this period other than what was reported in the press.

The City had Open Enrollment using its past practices without any additional meetings or information provided to retirees to alert them to the drastic amount of increases that were to take effect on January 1, 2004. Retirees were blind sided by the amount and breadth of the cost increases.

On January 1st, the full health care deduction was made from retirees= checks and over 400 retirees= checks could not cover the health care deduction. This problem was especially felt by retirees in the Optimum Choice Plan where the annual cost for the pre-medicare husband and wife plan went from $38.74 to $2,367.56 (a 6011% increase).

The Department of Human Resources was inundated with thousands of phone calls from retirees asking what happened and why.

The Baltimore Retired Police Benevolent Association, Inc. requested of the City Council to create an Ad Hoc Task Force to study the health care changes, certain retirement benefits and certain death benefits. After the introduction of the Resolution, other organizations asked to be members of the committee and City Council Resolution #03-1196 was amended to permit a broad representation of retirees and employee groups.

The Ad Hoc Task Force has met weekly since January 7, 2004 and has gathered a plethora of data, received written and verbal reports from the Departments of Finance and Human Resources, Office of the Labor Commissioner, the Fire and Police and the Employees= Retirement Systems. Most frustrating within this process was that the City either could not or would not provide clear and concise reports of the revenue sources, expenses, surplus uses and reserves related to the health care and prescriptions plans.

Despite not having 100% of the necessary data, the Task Force persevered and believes the data and findings contained herein are accurate and can lead to a Afair and reasonable@ health care cost and plan for the City, its employees and retirees. In addition, there are a number of cost-saving recommendations to lower the City=s health care cost.

HEALTH BENEFITS

- **Healthcare - Retirees**

  Before the mid 1970=s, retirees received the same healthcare benefits and paid the same rates as employees. Thereafter, until 2004, retirees continued to have the same healthcare benefits as employees, but paid a rate based on a formula that made retirees responsible for 50% of any increases in the 1970=s base rate. The range of retirees= contributions was from a few % to near 30%. City employee contributions range from zero to 15%. The City provided the same healthcare benefit at the same cost to all retirees regardless of their years of service. In 2004, in the biggest benefit take back in City history, the retirees= cost of healthcare was increased over 100% by a combination of premium and co-pay increases and a substantial reduction in healthcare benefit coverage.

- **Concerns Cited**

  - The City stated that the healthcare plan is Avery generous@ compared to private sector employers= healthcare plans B that the costs of the healthcare plans would increase by 10-13% in calendar year 2003 and 2004.

  - AThe City is expected to spend $40.3 million in calendar year 2003 for retiree medical costs. The City believes the most equitable method for controlling retiree medical cost is to establish a set monthly amount the City will pay for the different types of coverage. The monthly amounts listed on Schedule A are based on 50% of the premium for the plan in which the largest number of Medicare (BC/BS Traditional) and non-Medicare (BC/BS PPN) retirees participate. The non-Medicare retirees will have the option of paying less by choosing one of the less expensive HMO medical plans available.@ (February 13, 2003 B Department of Human Resources letter to Board of Estimates.)

- **Task Force Findings**

  - **The current City healthcare policy is to give, all persons receiving a bi-weekly check from the retirement systems, the same healthcare and prescription plans ASame Benefit to All@.**

    No consideration is given to how long the retiree worked for the City, was the retiree eligible for healthcare while working for the City, or was the retiree even an employee of the City (vs. a State, satellite agency or a program funded employee).

The City needs to base City healthcare benefits on years of service the retiree had in the City retirement systems. This would then make health benefits fair, reasonable and commensurate with service rendered. After all, employer healthcare plans are not social benefits, but should reflect benefits earned by years of service rendered to the employer. The current Asame benefit to all@ policy is social in nature and unfairly over compensates low service employees at the expense of longer service employees. For example, there are retirees with as little as 2 years of service receiving the same healthcare benefits as retirees with over 50 years service. Needless to say, the latter retirees= health benefits are worth many times his retirement benefit while in the former case, the health benefits are worth only a fraction of the retirement benefits.

The Baltimore Efficiency & Economy Foundation, Inc. (BEEF) report made this same recommendation, and the Mayor told BEEF in 2002 he planned certain healthcare changes as well as tying the levels of retirees= coverage to their years of active service. Obviously, this didn=t happen but should. Retirees with 30 years of service should be entitled to the same subsidy and healthcare benefits as an active employee receives. Retirees with less than 30 years of service would receive a proportionately lesser subsidy with a subsidy cut-off at a certain minimum number of years of service.

- **The City needs to provide healthcare only to retirees who were eligible for same as an active employee. Certain job classifications and certain part-time employees are not eligible for City provided fringe benefits with the exception of retirement plan participation. When these employees retire, the current Asame benefit to all@ policy provides healthcare and prescription benefits to them. This combination of benefits is worth more in retirement and costs the City more than when the retiree was employed by the City. The City needs to coordinate its employee personnel policies with its retirement and healthcare policies and coverages.**

- **The City needs to bill all non-general fund entities for healthcare plan costs of their employees who retire from the City retirement systems. Currently, there are satellite and State agencies, and non-general fund programs that have certain employees who are members of City retirement systems for which the entities pay for their retirement and fringe benefit costs. However, upon retirement these employees become eligible for City provided healthcare and prescription plans under the current Asame benefit to all@ policy and the prior funding sources are not billed for reimbursement of those costs.**

- **The City needs to review all federally and state funded programs, all satellite entities with healthcare access and all enterprise fund functions to determine if retiree healthcare costs should be appropriately billed and reimbursed**

- **The City needs to review who is entitled to healthcare plan benefits. Liberal access has been noted as a cost driver in the year 2000 B.E.E.F. report. Coverage is provided for certain non-family members, for children from two families and even coverage for two families under certain circumstances (qualified domestic relations orders). The Asame benefit to all@ policy provides overly generous coverage to a number of non-traditional family members.**

- **Retirees will substantially overpay for their healthcare in 2004 for several reasons. The way the City administers healthcare deductions on bi-weekly payroll is different than how raises or pay increases are handled. For example, the City initiates health care increases on the earliest pay period after the end of the year. This year that date was January 1, 2004. This will result in an overpayment of 3.6%. That is a substantial amount. However, for retirement increases or pay raises, the City uses a different method commonly known as the 50-50 rule. The raise date must occur in the first half of the pay period in order for the raise to be effective in that period. For example, the 1% increase in retirement benefits to the ERS retirees was not paid until January 15, 2004 because the effective date occurred on the last day of the period ending January 1, 2004.**

  Additionally, according to the City, retirees= and employees= healthcare costs are supposed to be based on the same total healthcare cost. However, the amount used by the City for retirees is 3B 5% higher than those used for employees. For example, for the Blue Cross/Blue Shield PPN Option, the following are the total monthly costs.

	Active	Retired
Individual	**$156.90**	**$165.65**
Parent & Child	**$304.55**	**$314.32**
Husband & Wife	**$350.86**	**$368.85**
Family (3)	**$380.82**	**$400.23**

  The combined overcharge to retirees could be in excess of 9%.

  The City should use the A50/50 rule@ for retirees s healthcare payments. The A50/50 rule does a much better job of assigning costs to the proper time period.

- **Employees will overpay their healthcare in 2004 for the above stated reason; however, because employees are paid on varying dates the overpaid amount will be less than 3.6%.**

  The City should use the A50/50 rule@ for employees healthcare payments. The A50/50 rule does a much better job of assigning costs to the proper time period.

- **The administration and cost sharing of retirees= healthcare plans needs to be brought out into the open. Retirees pay 22 times as much for their healthcare as an unrepresented employee or an elected official. The cost determination process needs to be transparent and the City and retirees need to work together to insure Afair and reasonable@ healthcare is provided to retirees in their after-work years.**

  The Deputy Director of Finance, Ed Gallagher, will tell you ARetirees= healthcare cost more.@ Of course it does. That=s the nature of any group health insurance plan. In a group plan some members cost more, some member cost less but everyone is eligible to receive coverage. Generally speaking an older person will require more healthcare resources but why should persons the same age pay dramatically different healthcare rates just because one is retired and the other is still working? Not providing retirees with the same healthcare benefits at the same rates, proportionate to their length of City service, as active employees is uncaring and unfair. The following jurisdictions provide retirees healthcare coverage equal to active and charge premiums proportionate to the retirees length of service with the organization; The State of Maryland, Baltimore, and Montgomery Counties. Anne Arundel, Harford, Howard and Prince Georges Counties charge retirees premiums of 20% or less of the total annual cost.

  The City needs to step up and act responsibly to provide to former City employees, who have given a lifetime of service to the City, healthcare benefits and premiums equal to current City employees.

  In order for this to happen, the cost determination process of retirees= healthcare plans needs to be legislated, so that all parties can work together and be an informed part of the process. In addition, retiree representation on any City Labor-Management Committee, such as the HIC Committee, is a must so that retirees can be informed and part of the process.

HEALTH BENEFITS

- **Healthcare B Retirees**

  - Currently, retired City employees and their dependents who are Medicare eligible are required to have Medicare **Part A and B** to maintain coverage for City Health insurance which becomes a supplemental Medigap policy. On December 8, 2003, President George Bush signed into law, the Medicare Prescription Drug Improvement and Modernization Act. This law includes a **Part D** which is prescription coverage for those on Medicare.

- **Concerns Cited**

  - While the law includes monetary incentives for employers to keep pre-existing prescription programs, it is a concern of the Task Force that the day may come when the City decides that these monetary incentives may not be enough to warrant keeping an increasingly expensive prescription program for retirees and dependents.

  - Post employment benefits for retirees will be subjected to new accounting rules by 2007 according to the Government Accounting Standards Board (GASB). New proposed accounting regulations are similar to rules in place for pension accounting. Benefits such as medical, dental or life insurance will have to be accounted for cost. The idea is to recognize the cost of post employment benefits while the employee is still actively working. There will most likely be an increase in annual expense and a new liability for the City on its balance sheet.

  - The City does not provide any access to any group benefit for Long Term Care insurance.

- **Task Force Findings**

  - **Therefore, the Task Force recommends that future active and retired employees receive a guarantee by law that prescription coverage will always be a City of Baltimore benefit.**

  - **Therefore, the Task Force recommends a guarantee by law be given to active and retired employees that the City will continue to provide benefits despite possible increases.**

- **The Task Force recommends that the City begin pre-funding healthcare benefits using trust funds similar to what it does for retirement benefits. This fund should receive any current healthcare reserves, all healthcare premiums, pay all costs, and provide an annual audited report on the totality of the City=s healthcare revenues and expenses. Creation of such a trust fund would be a prudent step forward by the City ensuring the future viability of employees and retirees healthcare.**

- **The Task Force recommends that the City provide a group benefit to active/retired employees to enable them to buy Long Term Care Insurance. The City does not have to contribute to the cost of the insurance, all that is needed is that the City work with a provider to set up a group policy that may be accessed by those interested employees.**

HEALTH BENEFITS

- **Open Enrollment**

  As we have seen in the recent cicada invasion, city employees and retirees can count on our own version of an invasion B the onslaught of healthcare Ainformation and enrollment packages@ in their mail boxes every October/November. These packages B while providing necessary information B offer this information in varying formats, differing amounts of information, etc. The BEEF report of 2001 stated that: AThe comparison charts given to employees are well done but exhaustive. They are difficult to get throughY@

  Included with all of this information is a package from the City outlining your current benefits, the costs (with no emphasis added to any changes) and a statement that informs people that if they do not wish to make any changes to their benefits, they need do nothing. Unfortunately, many people choose to make no changes, assuming that there have been no significant changes B either in costs or benefits.

- **Concerns Cited**

  The information provided is overwhelming and difficult to compare. The process of offering open enrollment to active and retired employees at the same time places a huge burden on the health benefits staff at one time. Proposed changes in costs or benefits are not made clear to the employee/retiree.

- **Task Force Findings**

  - **A single sheet be included in every Aexplanation of current benefits@ package outlining the members current plan and costs. This sheet would clearly offer a comparison to any new price and outline all changes to the member=s existing coverage.**

  - **All information/enrollment kits would provide certain minimum information, including a list of medical providers.**

  - **All information/enrollment kits would provide the information in a similar format (to allow for easier comparisons).**

  - **The Health Benefits office would provide informational phone lines to assist people in comparing plans.**

  - **The open enrollment process for retirees and actives would be staggered (or overlapped) to allow more staff availability for each group**

HEALTH BENEFITS

$ Pre-funding health care vehicles for employees

Pre-funding is a vehicle to offset escalating health care cost post employment. This is afforded by having active employees make monthly contributions to finance future retirement medical care.

Pre-funding can be instituted through payroll deductions.

Several of the pre-fund alternatives allow the use of pre-tax employee contributions.

Below is a brief summary of retiree health care pre-funding.

Voluntary Employee Benefit Association Trust

Advantages

1. Well established federal regulations and structure
2. No funding limits for public employees
3. Both employer and employee contributions allowed
4. If properly designed, can be funded by unused sick or other leave.

Disadvantages

1. Federal filing and approval required
2. Subject to nondiscrimination rules
3. Employee contributions are post tax only

Internal Revenue Code Section 401 (h) Plan

Advantages

1. Allowed by the IRS regulations
2. Employee and employer contributions allowed
3. Employee pre-tax contributions allowed
4. No need to establish a new plan

Disadvantages

1. Can only be offered in conjunction with an existing 401 (a) pension plan
2. Medical funding is subordinate to pension plan funding
3. Maximum funding limits established by tax codes

Integral Part/State Grantor Trust

Advantages

1. No federal oversight
2. Employer and employee contributions allowed
3. Flexibility

Disadvantages

1. Post-tax employee contributions only

General Asset Account

Advantages

1. No federal oversight
2. Employer and employee contributions allowed
3. Flexibility

Disadvantages

1. Assets not secure
2. Assets can be diverted to other uses
3. Post-tax employee contributions only

- **<u>Concerns Cited</u>**

  - As has been mentioned several times throughout this report, the sudden and unanticipated health care cost increases passed to retirees on January 1, 2004 left many of them unprepared financially. As also mentioned, many retirees bi-weekly checks were insufficient to cover the new health care deductions. Many more retirees chose to end their health care coverage rather than reduce their take-home pay to zero. The breadth and scope of these increases was not expected and had never occurred in the recent history of the City.

- **<u>Task Force Findings</u>**

  - **City employees must be encouraged to access every vehicle possible to effectively plan for retirement. One of the major concerns of every employee is to ensure adequate health care coverage at retirement, in a plan that best suits their needs.**

  - **Providing a pre-funded health care plan is one of the best methods available to allow an employee to start planning for their retirement. This**

will also allow them to choose a health care plan based on what is best for them, not being forced to make a decision based on cost.

- **The Committee strongly suggests that the City of Baltimore create a pre-funded health care benefit to address this issue.**

HEALTH BENEFITS

- **Year End Blue Cross Rebate**

  Rates are established for the upcoming year based on many complex formulas. Given that Blue Cross is an indemnity plan, the final rates for any given year may result in a surplus or a deficit. Testimony provided indicated that the usual occurrence is a year-end surplus which is rebated to the City. Again, testimony to the committee indicated that this Arebate@ is then placed into a Areserve account@ to cover any future deficits.

  The rebate last year was $10 million. There is currently $20 million in reserve.

- **Concerns Cited**

  - The year-end rebates are partially the property of the health plan participants B not just the City.

  - The committee did not hear clear testimony of how any funds from the health care Areserve account@ are distributed.

- **Task Force Findings**

  - **A reserve account should be maintained with the sole purpose of covering any deficit in the indemnity programs. However, at no time should this reserve fund retain any more than its current reported balance of $20 million.**

  - **A formula should be developed to address the year-end rebate from Blue Cross. In the absence of a Trust Fund established to provide funding for future healthcare benefits (as mentioned elsewhere in this report), a percentage of the combined funds should be distributed into a Areserve fund@. Any plan participant funds remaining should either be rebated to the employee/retiree or used to offset their next year=s healthcare premium.**

PRESCRIPTION BENEFITS

- **Prescription Cost Containment**

  Currently the City of Baltimore has contracted with Express Scripts as the Prescription Benefit Management System (PBM) provider for long-term (100 day mail order) prescriptions for both active and post-employment employees. The contractual agreement establishes co-pays in a three-tiered system that differentiates between active and retired employees. Listed below are the co-pays effective January 1, 2004.

  Active Employees

100 Day Mail Order	30 Day Local Fill
1. $15.00 for a generic drug	$10.00 for a generic drug
2. $25.00 for a brand named drug	$20.00 for a brand named drug
3. $35.00 for non-preferred drug	$30.00 for non-preferred drug

  Retirees and Unrepresented Employees

100 Day Mail Order	30 Day Local Fill
1. $20.00 for a generic drug	$15.00 for a generic drug
2. $40.00 for a brand names drug	$30.00 for a brand names drug
3. $60.00 for a non-preferred drug	$40.00 for a non-preferred drug

- **Concerns Cited**

  - Local pharmacies have been frozen out by the City for usage by employees and retirees for filling prescriptions for maintenance drugs in excess of thirty days. An employee or retiree, in order to fill a ninety-day prescription locally, must make three visits and pay three co-pays to the local pharmacy.

  - In an effort to reduce the contributions of our post-employment employees, the Task Force expanded its efforts beyond the borders of the USA. With pharmaceutical companies increasing their costs at an annual rate of 15% - 17% many cities and states, to reduce their pharmacy benefit expenditures, have integrated Canadian based pharmaceutical companies into their total healthcare package, one such corporation is No Borders, USA.

- **Task Force Findings**

  - **The City needs to give local pharmacies the ability to fill maintenance drug prescription over 30 days on the same terms and costs as it does with Express Scripts. Without doing so, millions of dollars in local expenditures are exported to Missouri at the expense of the local economy, jobs and tax base.**

  - **Although the previous recommendation is preferred, there are other PBM options. No Borders, USA, a Cleveland, Ohio corporation, has developed a comprehensive pharmaceutical delivery program that can incorporate the Canadian alternative with the City=s current PBM Express Scripts, or replace the present PBM.**

    No Borders, USA, provides Immediate Pharmaceutical Services, Inc. (IPS) Ohio based as an optional PBM to Express Scripts.

    IPS Benefit Design

    1. **Coordinated analysis of current benefit design**
    2. **Prospective review of benefit design options and their potential impact clinically and economically**
    3. **Summary of recommended benefit design strategies**
    4. **Customized inclusions/exclusions and limitations**
    5. **Drug specific benefit coverage**
    6. **Age specific and sex specific drug limitations**

    IPS=s Financial Management and Planning

    The effective utilization of a good benefit design partnered with a comprehensive utilization management program will aid in the City=s financial management and planning. Finding the right balance between employee and employer cost sharing combined with maximizing the City=s return on every dollar spent is IPS=s cornerstone for supporting prudent financial management of the City=s health care dollars.

    Additionally, IPS has the capability of providing direct billing to the City eliminating the need for an intermediate vendor. This translates into a cost savings to the City and those savings could be applied to the reduction of co-pays and health care increases.

IPS=s Cost Containment

IPS can structure a plan to initiate cost containment within a formulary. IPS=s generic policy is based on a constant and consistent supply of generic medications. Thus enabling them to consistently substitute a less expensive brand name medication with its generic equivalent.

IPS has also identified modern drug treatment programs which have effective and less expensive alternatives. The recent marketing of newer pharmaceuticals which affords very little or no therapeutic advantages over existing medications, unfortunately incrementally increases health care costs. Once IPS identifies a drug treatment as a less expensive alternative, they contact the member=s physician to explain the situation and obtain authorization to modify the original prescription. IPS=s program objective is to achieve the therapeutic result with the least costly course of treatment.

IPS=s Member Services

1. **Mail Service for long-term drug therapy**
2. **Delivery anywhere within the USA via US Postal or United Parcel Services 14 to 21 days for maintenance drug therapy**
3. **Complete drug utilization review to ensure therapeutic appropriateness**
4. **Detailed patient drug education material provided with each new prescription.**
5. **24 hour a day consultation with a pharmacist**
6. **Receive quality prescriptions at reduced cost**

In closing, IPS=s awareness to the education process of the employer and employee is paramount. Communication is essential for cost control. Education of City employees and retirees about effective purchasing and utilization of pharmaceutical services is their strength. Patient specific drug information profiles supported by 24 hour access to professional staff ensure the highest quality of consumer education. PSI=s customer service and marketing departments, equipped with up to the minute plan design information, are able to assist every employee on how to obtain prescriptions.

No Borders, USA has a product that is fiscally responsible and can be integrated into the City=s current PBM or it can fully utilize the services of IPS. Most maintenance drugs can be purchased through the Canadian pharmaceutical companies fractionally to U.S. prices. In return, these savings translate to lower co-pays and applied revenues to reduce health care increases.

- **PLEASE NOTE: The City and Express Scripts were asked many times to have Express Scripts present their views and comments to the AD HOC Task Force. For reasons never expressed to the Task Force, Express Scripts never presented their views and had no involvement whatsoever with the Task Force or this report.**

PRESCRIPTION AMOUNTS

- **Mail Order Prescriptions – Express Script**

  Employee and retiree prescription co-pays sky-rocketed this past year. These costs are especially exorbitant when using local pharmacies. For example – employees and retirees are no longer able to fill a 100 day supply of a maintenance drug at a local pharmacy for one price – instead, they pay for three 30-day refills. People are naturally hesitant to change – and, as cited throughout this report, the Health Benefits Office has done a poor job of encouraging the steps necessary for significant cost savings. The committee heard testimony that for every 10% of employees/retirees who participate in Express Scripts – the City saves $2 million.

- **Concerns Cited**

  - Little notice was given to employees/retirees of the upcoming drastic increases in prescription drug co-pays.

  - Clear, concise enrollment packages were not distributed to facilitate use of Express Scripts Mail Order.

  - The Health Benefits office has done no follow-up to encourage the use of Express Scripts by a larger percentage of employees/retirees.

- **Task Force Findings**

  - **Express Scripts and the City need to do a continuous marketing campaign encouraging the use of its program.**

  - **Express Scripts and the City must make its information simple to review and its process easy to use.**

  - **Future contracts with prescription providers should contain penalties if the company is unable to encourage usage by a substantial number of employees/retirees.**

  - **As cited elsewhere in this report, other methods of prescription cost savings should be considered – whether it be with local pharmacies or others.**

PENSION BENEFITS

- **Post Retirement Benefit Increases – ERS**

  Post-retirement benefit increases range from a minimum of 1% to a maximum of 5% based on investment performance and availability of assets actually determined as of June 30th of each year. Eligible retirees and beneficiaries generally receive a minimum of 1% variable benefit increase whenever investment performance falls below 7.5%, and up to a 5% increase whenever investment performance exceeds 7.5%. In those years when the investment performance exceeds 10.0%, everyone benefits. The retirees receive higher post-retirement benefit increases and the City uses its portion of the excess earnings to offset its liabilities to the system.

- **Concerns Cited**

  - Under performance of the plan assets in recent years has resulted in increased contributions from the City.

  - The System Trustees and the City have voiced concerns with the original Baltimore City Code language that created the post-retirement increases and indicated that post- retirement increases are one of the reasons for increasing retirement plan costs. While these concerns have been brought to the Committee=s attention, no Aexpert@ testimony was offered to buttress them.

- **Task Force Findings**

  - **Post-retirement benefits paid to retirees or their beneficiaries over the last 3 years have been insufficient to keep up with cost-of-living increases – especially health care.**

  - **The Committee heard testimony from actuaries involved in the original legislation creating post-retirement increases. They dispute the testimony concerning structural problems with the wording of the benefit provisions. Post-retirement benefits have been in effect since 1982. This benefit has stood the test of time. It has not caused any increase in the City=s annual contribution. The City=s pension costs are increasing because of increases to the basic plan benefits, the decline in investment performance, the City=s practice of using early retirement (Avoluntary layoffs@) benefits to reduce its workforce and the City=s practice of using any available credits to reduce its annual contribution to the System.**

  - **The Administrations of both Retirement Systems have acknowledged to this Committee their displeasure with recent investment performance. The Systems have undertaken a review of investment managers, recently replacing many of them. This committee recommends that close attention**

be given to managers= ongoing performance B measured against goals set by the Trustees and the various investment markets themselves. The Trustees must act quickly when it has been determined that a manager is not performing as expected.

- **Through written and verbal testimony before this Committee B most members were made aware for the first time of concerns that had been on-going within the System=s Administrations. Many of these issues could have a direct impact on the earnings of current and future retirees. This fact reinforces the concern of system members that very little information is provided to plan members. This Committee recommends that the System provide some type of information newsletter to its members on a regular basis B perhaps a separate one for retirees and for active members. The ERS system published and announced a quarterly newsletter in the fall of 2003. A subsequent newsletter was published in July 2004. The Committee commends ERS for its efforts and recommends ERS continue to publish said newsletter on a quarterly basis.**

- **Employees= Retirement System**
  City of Baltimore, Maryland
  Employer Contribution History

Employer Contributions

Fiscal Year	Amount	% of Covered Payroll
1994	$20,558,163	7.1%
1995	22,664,750	7.8
1996	22,119,015	7.4
1997	19,679,864	7.1
1998	20,989,768	7.2
1999	19,709,553	6.5
2000	18,869,253	6.1
2001	16,592,465	5.4
2002	17,714,152	5.8
2003	17,736,030	5.6
2004	17,352,473	5.7

PENSION BENEFITS

- **Post Retirement Benefit Increases – F&P**

  Post-retirement benefit increases are provided when investment performance exceeds 7.5%. Unlike the E:S, there is no 1% guaranteed annual minimum nor is there a cap on the maximum increase. All excess investment earnings from 7.5% to 10% are allocated to provide the increases. These earnings are calculated to pay the retiree or their beneficiaries for their lifetime. These increases are paid through assets placed in reserve when investment earnings exceed 7.5%. They are not the obligation of the City of Baltimore.

- **Concerns Cited**

  - Under performance of the plan assets in recent years has resulted in increased contributions from the City.

  - The System Trustees have voiced concerns with the original Baltimore City Code language that created the post-retirement increases. While these concerns have been brought to the Committee:s attention, no Aexpert@ testimony was offered to buttress them.

- **Task Force Findings**

  - **Post-retirement benefits paid to retirees or their beneficiaries over the last 3 years have been insufficient to keep up with cost-of-living increases – especially health care. In fact, retirees have not received any increase since January 2000.**

  - **The Committee heard testimony from actuaries involved in the original legislation creating post-retirement increases. They dispute the testimony concerning structural problems with the wording of the benefit provisions. Post-retirement benefits have been in effect since 1982. This benefit has stood the test of time. It has not caused any increase in the City:s annual contribution. The City:s pension costs are increasing because of increases to the basic plan benefits, the decline in investment performance, recent salary increases to members above the System:s assumed rate of salary increase and the City:s practice of using any available credits to reduce or eliminate its annual contribution to the System.**

  - **The Administrations of both Retirement Systems have acknowledged to this Committee their displeasure with recent investment performance. The Systems have undertaken a review of investment managers, recently replacing many of them. This committee recommends that close attention**

be given to managers= ongoing performance B measured against goals set by the Trustees and the various investment markets themselves. The Trustees must act quickly when it has been determined that a manager is not performing as expected.

- **Through written and verbal testimony before this Committee B most members were made aware for the first time of concerns that had been on-going within the System=s Administrations. Many of these issues could have a direct impact on the earnings of current and future retirees. This fact reinforces the concern of system members that very little information is provided to plan members. This Committee recommends that the System provide some type of information newsletter to its members on a regular basis B perhaps a separate one for retirees and for active members.**

- **Fire and Police Employees= Retirement System**
  City of Baltimore, Maryland
  Employer Contribution History

Employer Contributions

Fiscal Year	Amount	% of Covered Payroll
1994	$22,830,874	14.5%
1995	18,941,915	11.3
1996	19,009,746	10.9
1997	9,305,246	5.3
1998	13,830,605	7.4
1999	268,139	0.1
2000	235,272	0.1
2001	217,340	0.1
2002	252,220	0.1
2003	34,678,878	14.1
2004	48,321,205	19.8

PENSION BENEFITS

- **DROP – F & P**

  - Eligibility:

    1. Any member in service with 20 or more years of F&P service may apply to participate in DROP by filing a written application not less than 30 nor more than 90 days before the date the DROP participation will start.

    2. Any member in service who terminates employment immediately becomes ineligible to participate or to continue to participate in the DROP.

  - Term of DROP:

    The maximum period of time that a member can participate in the DROP is a single term of 3 consecutive years, beginning on the member=s DROP start date.

  - No Service Credit While in DROP:

    A DROP participant remains a member of the F&P, but is not credited with F&P service.

    With one notable exception, compensation during the member=s DROP participation period shall be disregarded in calculating the member=s Average Final Compensation (A.C.). (See Intermediate DROP Retirement Benefit).

  - Ending DROP Participation:

    1. If a member terminates services anytime during or at the end of the three year DROP period, his participation in the DROP ends automatically.

    2. A member may elect to end his participation in the DROP on either the first or second anniversary of the DROP participation start date. The election must be made by filing an application with the System at least 30 days in advance of the first or second anniversary of the member=s DROP start date.

    3. A member who continues employment after terminating participation in the DROP shall resume earning service credit in the F&P.

4. Once a member who continues employment after terminating participation in the DROP, the member cannot again participate in the DROP at a later date.

5. If a member retires at the end of his participation in DROP and begins receiving DROP retirement benefits, and is then re-employed in a position covered by the F&P, all DROP retirement benefit payments will be suspended until the member=s later retirement.

o DROP Account:

The member=s DROP account shall consist of:

1. For each full year of a member=s DROP participation, an amount equal to the annual service retirement allowance the member would have received had the member retired from service and begun receiving his maximum retirement allowance.

2. For each partial year of a member=s DROP participation, an amount equal to a member=s pro-rated annual service retirement allowance.

3. A separate sub-account consisting of the member=s mandatory contributions required of all in-service F&P member.

4. Interest compounded annually at 8.25% until the member terminates from service.

o DROP Benefits:

1. Basic DROP Benefit:

A member who terminates service during or at the conclusion of a DROP period, will receive:

a. The service retirement benefit the member would have received if the member had retired on the date his DROP participation began; and

b. The balance in the member=s DROP account.

2. Intermediate DROP Retirement Benefit:

A member who continues working following the conclusion of the DROP period and terminates service within 18 months after the DROP period has ended, will receive:

a. All benefits under the Basic DROP Benefit; and

b. 3.5% of the member=s Average Final Compensation (A.C.) for each month/year of service credit following DROP (taking into account the member=s compensation while in DROP) not to exceed 4 years.

c. 2% of the member=s A.C. for each year of service not already included in the calculation of the member=s retirement benefit under 1 and 2.

3. Full DROP Retirement Benefit:

A member who continues working following participation in the DROP and terminates service 18 or more months after the DROP period has ended, will receive:

a. The full service retirement as of the member=s actual date of retirement, excluding the member=s time while in the DROP; and

b. 1.5 % of the member=s A.C. for each year/month of service credit following DROP not to exceed 4 years and

c. The balance in the member=s DROP account.

4. Ordinary Disability:

a. Any member who retires on account of an ordinary disability during or at the end of his DROP period will receive the Basic DROP Benefit.

b. Any member who retires on account of an ordinary disability less than 4 years after the end of his DROP period will receive the Intermediate DROP benefit.

c. Any member who retires on account of an ordinary disability 4 or more years after the end of his DROP period will receive the Full DROP Benefit.

5. Special Disability Benefit:

Any member who retires on account of a special disability during or after his DROP period will receive the special disability benefit of an annuity of the member=s accumulated contributions and interest, plus 66 2/3% of A.C. as provided for in '34(f). This benefit will be paid instead of any DROP retirement benefits, and the member will not receive the balance in his DROP account.

6. Ordinary Disability Benefit:

The ordinary death benefit payable at the death of a member who dies during or after his participation in the DROP will equal the regular ordinary death benefit provided for in '34(h), plus the balance of the member=s DROP account provided that if the member=s surviving parent or spouse elects to receive an Option 3 Ordinary Death Benefit by using the DROP retirement benefit which would have been applicable to the member if the member had retired rather than died at such time.

a. If a beneficiary of a deceased DROP participant elects to receive the lump sum Ordinary Death Benefits pursuant to '34(h)(1) and (2), such beneficiary must receive the balance of the deceased member=s DROP account in a lump sum payment; or

b. If a surviving parent or spouse of a deceased DROP member elects to receive the Ordinary Death retirement benefit (paid biweekly) pursuant to '34(h)(3) such beneficiary may elect to receive the balance of the deceased member=s DROP account in a lump sum payment or in periodic payments, as explained in section (H) below.

7. Special Death Benefit:

The special death benefit payable at the death of a member who dies during or after his participation in the DROP will equal either of the following as elected by the member=s beneficiary:

a. the regular ordinary death benefit described above; or

b. the special death benefit payable under '34(I) as though the member had never participated in the DROP.

8. Benefits for Re-employed DROP Participants:

a. If a member receiving DROP retirement benefits is re-employed in a position covered by the F&P, and then later receives a service or disability retirement, the member will resume receiving his DROP benefits which had been suspended at the time of his re-employment, and in addition he will receive 2% of the member=s A.C. for each year of service credit earned during the member=s re-employment period.

b. If a member receiving DROP retirement benefits is re-employed in a position covered by the F&P, and then later dies, the member=s beneficiary would receive an ordinary death benefit equal to that which would have been payable under '34(h).

This re-employment death benefit would also apply to line of duty deaths.

- Post Retirement Benefit Increases:

  1. A member who retires during or at the end of his participation in the DROP would have his DROP participation period counted toward his eligibility for post-retirement benefit increases.

  2. A member who continues working at the end of his participation in the DROP would not have his DROP participation period counted toward the eligibility requirement for post-retirement increases.

  3. Post-retirement benefit increases for former DROP participants would be applied prospectively.

- Form of Payment of Benefits from DROP account:

  A member can choose to receive the total balance of the DROP account as:

  1. one lump sum after the member=s retirement or death; or

  2. periodic payments in the same form as the member has elected to receive his retirement benefit.

- **<u>Concerns Cited</u>**

  - The creation of the DROP Plan offered a benefit that would encourage experienced members of the Fire and Police Departments to extend their employment past the 20 year minimum service requirement.

- **<u>Task Force Findings</u>**

  - **The DROP Plan has been successful in lengthening the careers of experienced members of the Police and Fire Departments B and has offered a leveling effect whenever salaries and benefits have spiked in neighboring jurisdictions.**

  - **Included in the actual DROP legislation is a requirement that the DROP plan come under fiscal review at year end FY -04. Any changes that may be proposed will be presented to the Council. This committee urges a careful review of any proposed changes that may be presented.**

Summary of Recommendations

- **Healthcare - Retirees**

  - Replace A Same benefit to all A retirees healthcare policy with a fairer policy based on employees premiums prorated for years of service (Page 4)

  - Provide healthcare only to retirees who were eligible for same as an active employee (Page 5)

  - Bill all entities for the healthcare cost of their retirees (Page5)

  - Review liberal eligibility access provisions for healthcare entitlement (Page 5)

  - Refund the 2004 overpayment made by retirees and employees (Page 6)

  - Open the healthcare cost determination process for input by the public, employees and retirees (Page 7)

  - Guarantee that prescription coverage will always be a City benefit (Page 8)

  - Begin pre-funding healthcare benefits using Trust Funds (Page 8)

  - Provide access to Long Term Care Insurance (Page 9)

  - Provide clear, concise, meaningful and comparable information for open enrollment periods (Page 10)

  - Stagger the open enrollment periods for employees and retirees to ensure access to City Human Resources personnel (Page 10)

  - Provide a vehicle for employees to pre-fund their share of healthcare costs in retirement (Page 11)

  - Mandate that all healthcare revenue excesses are either placed in the reserve account (currently established) or are refunded to employees and retirees (Page 14)

  - Give local pharmacies the ability to fill 90 day prescriptions without increasing City costs (Page 15)

  - Consider other Prescription Benefit Manager (PBM) options including Canadian drugs (Page 16)

  - Encourage PBM with incentives or penalties to attain certain levels of mail order prescription program usage (Page 19)

- **Pension Benefits**

  - Protect post-retirement benefits from reduction by the City (Page 20)

  - Provide regular communications to employees and retirees on the status of their retirement plans and retirement benefits (Page 21)

  - Review with care the Deferred Retirement Option Program (DROP) and any proposed changes to same (Page 28)

- **OTHER ISSUES**

  - The Task Force recognizes there are many other healthcare and pension issues, such as, dental, vision care, etc., that were not addressed but should be reviewed in the future