Johnson – Grenzeback All in Favor. VOTED.

## Retiree Health Insurance Mitigation Plan Discussion and Vote

Selectman Grenzeback recused himself from participation in this discussion and left the table. Chairman Wilson outlined the process to be followed this evening, noting that it has been a long and complicated one and her hope is that interested individuals have reviewed the detailed information on the website. The Chairman noted that there is no magical solution to this issue and the outcome may not satisfy all. She explained that the current benefits landscape is complicated and the monthly premiums range from $36/month to $239/month.

Chairman Wilson recalled that in 2009, the Town received an actuarial study that outlined the $93million liability, with the Finance Committee beginning to address this issue with Town Meeting as far back as 2008. She noted that the Finance Committee has continued to advocate for a plan to address this issue and fully fund the liability. A study committee was formed that included representatives from the Board of Selectmen, the Finance Committee, the Audit Advisory Committee and at-large members. Recommendations were presented to Town Meeting and to the Board in 2011 and 2012, suggesting a combination of approaches both to increase funding and to decrease costs. First, the Town could increase its annual contributions to the fund to defray long-term liability which would require that the Town find at minimum, an additional $1million per year in its budget or from additional tax dollars, beyond the pay-as-you-go amount. Town Management advised and the Board of Selectmen agreed that until the time the Town could find additional revenue as with a tax override, this approach was not feasible without spending down reserves or unreasonable service cuts, although will be a part of the future piece of the puzzle.

Chairman Wilson noted that the Town took several actions on the cost side; it changed plan providers and avoided a 10% increase in premiums for the benefit of retirees and the Town. In 2012, the Town, like 259 other communities in Massachusetts, took advantage of the newly enacted Municipal Health Insurance Reform Legislation. This allowed the Town to change its plan design, copayments and deductibles to be consistent with the most highly selected insurance plan offered by the State to its employees. The Town's unions participated in this process and they determined how to allocate $195,000 in avoided expense for the benefit of plan participants, including retirees. During this time, Chairman Wilson explained that Town management met to discuss health care expenses with two groups of union representatives, each of which included a retiree representative. Finally, the Finance Committee and the GASB Study Committee, the cross disciplinary group put together to study the issue, recommended shifting the split in retiree health insurance contributions. The Board considered information provided by its actuaries, its insurance advisor and information about contribution rates from other communities. Chairman Wilson pointed out that notably, only two other communities were identified that had contribution rates as high as Winchester's at 90%.

Chairman Wilson explained that the Board also examined the impact on the various retiree groups. In November, 2012, the Board voted that as of July 2014, premium splits would be changed to the consistent split of 50%-50%, a rate that was already in place for some retirees. She noted that the Board recognized that this might create a financial hardship for some retirees and made its vote subject to the condition that a mitigation plan be adopted to "mitigate, moderate or cap" the impact of the changes for low income and/or high impact retirees. The fund was seeded with approximately $55,000, although the Board anticipated that this amount would be increased substantially as the mitigation plan was designed. Retirees were notified immediately at the time of the vote, and Town Meeting was informed. In 2014 the Board anticipated that its mitigation plan would be primarily means based with a possible phase-in period. The Board expected to use an objective income-based standard for what was an appropriate level of income to spend for health insurance, looking to the Affordable Care Act for confirmation. Those who were being asked to spend more would be reimbursed by the Town. Chairman Wilson noted that the opposition to a means-based plan was

widespread and passionate, some of the opposition coming from the retirees themselves, but also from other parts of the community and the concerns about privacy, access and pride are well documented in the comments made by many who attended meetings and through the local media.

Chairman Wilson recalled that with assistance from Senator Lewis, a working group was assembled that consisted of two members from the Board of Selectmen (Selectmen Wilson and Johnson), the Town Manager, the Comptroller and a number of retirees who also engaged the assistance and advice of now Moderator, Peter Haley. The retiree representatives were Jan Dolan, Ginny Laats, Joan Grenzeback and John Frongillo. She offered the Board's thanks to these individuals for their willingness to represent the retiree population through what is now known as the Winchester Retirees Health Insurance Committee. This group met to share ideas on how the mitigation plan might best meet the goal of alleviating financial hardship for those retirees most impacted by the contribution changes. Chairman Wilson indicated that this goal was shared by every person at the table. Through these conversations, and with assistance from Senator Lewis and Mr. Haley, the Winchester Retirees Health Insurance Committee identified the pre-2004 group of retirees as those most vulnerable to the rate change. Those retirees had previously enjoyed splits of 90% - 10% if on Medicare, or 85% - 15% or 71% -29%. As the longest retired, these individuals in general were more likely to have lower pension income than more recent retirees.

The retiree representatives asked whether the Board could replace its means-based mitigation plan with a plan that would offer permanent relief to this identified group of retirees. Town Manager with the help of the Town's professional advisers performed the analysis and the proposal to change the pre-2004 retirees to a split of 70% - 30% instead of 50% - 50% would cost the Town in 2014 dollars approximately $350,000 per year and the Town would sacrifice about $3.5 million to $5million of the long-term liability savings. The Chairman explained that the arrangement would also reduce the impact on the largest population of the current retirees, more than 300 in number and likely those with the lowest income.

Selectman Johnson and Chairman Wilson, the Board's representatives to the working group, along with the Town Manager determined that this was a fair and reasonable balance between the finances of the Town and the burden on the retirees, as well as achieving the goal of mitigating the highest impact. On March 24th the plan was recommended to the full Board. The recommended plan also included a two-year phase in period for all retirees and in addition, advocated for a means-based mitigation fund, smaller than what had originally been planned, but available to all based upon income. This was primarily to address unusual cases. Following the recommendation, the Board voted to release for public comment, this draft mitigation plan offering the features. The plan was published on the Town's website and was mailed to each of the Town's retirees. Written comments were received from sixteen individuals and organizations, including the Finance Committee, the MultiCultural Network, and the Winchester Retirees Health Insurance Committee. These comments were in addition to the extensive comments received by the Board as a whole and individually in the many months leading up to the release of the draft plan. Chairman Wilson noted that this issue has been the subject of extensive and varied comments and the Board is grateful for the robust input. She explained that the Board had originally intended to vote on the plan at their April 2nd meeting, but the Board was happy to amend that schedule at the request of the newest member, Selectman Powers. She explained that the Board is now in the position to vote on the draft plan and invited Ken Lombardi to the table to provide the financial information and the effect of the mitigation plan.

Ken Lombardi informed the Board that there currently are thirty-eight (38) pre-2004 non-Medicare retirees with individual coverage. This population breaks down into twenty-one retirees that appear will not be entitled to Medicare and seventeen (17) that will ultimately be entitled to Medicare. Currently, the membership pays 15% of the premium, approximately $107 / month and would have been the cost on July 1, 2014 however based upon the proposal the share increases to 22½% resulting in a $161.28 premium, increasing again to $214.91 on July 1, 2015. The premium split would then

remain at a 70% - 30% split. Mr. Lombardi explained that all of this is based upon current costs and would be subject to change as renewal advice occurs. For the seventeen (17) members who will move to Enhanced, even though the contributory share shifts from 15% to 22½% and then to 30%., most of the population will move into the Enhanced level and all will see a significant reduction in premium contribution as they migrate into Enhanced and enroll in Medicare.

Pre-2004 members who have non-Medicare coverage and enrolled in the HMO, there is not a significant change in cost structure based upon going to the 70% - 30% premium split. There are currently four retirees in this group that have family coverage, and one of the members is not likely to move to Enhanced because they are Medicare ineligible at this time. Cost differences are not significant in this population. For the others that have family coverage in this bracket, there will be a significant cost reduction because they will be going from a family split down to the progression of the 20% premium increasing to 30% premium based upon the agreed upon mitigation proposal.

Mr. Lombardi explained that additionally, the Town Manager's recommendation to lower future retiree costs moves the Enhanced plan to a calendar year arrangement to take better advantage of Medicare rules and regulations and lower costs. The expectation is that the Enhanced rate will level out and possibly reduce on January 1st beginning in 2016. The renewal will be off-cycle and not on the typical fiscal year cycle. For the approximately thirty (30) other non-Medicare retirees that are post-2004, all will migrate to Medicare, but in the meantime their cost goes from $236.40 / month at 33% to $297.29 / month and then to $358.19. With time, this population will migrate to the lower cost plans.

Mr. Lombardi informed the Board that there are nine (9) non-Medicare retirees who purchase a family plan, and at this time the split is currently 66 1/3% and 33 1/3%. As this population migrates to Enhanced, they will also see a cost reduction. Mr. Lombardi explained that the Town Manager, through negotiations with the current insurance provider, Harvard Pilgrim Health Care, was able to secure a two (2) person rate. He noted that there are four of the post-2004 non-Medicare retirees having to pay a family rate. There are fifteen (15) pairs of family members that have non-Medicare coverage that are in the post-2004 category and then on July 1st will see a significant cost reduction as they will not be contributing to a full premium rate but rather contributing to a two-person rate beginning on July 1, 2014. The cost reduction will be from $594.59 down to $322.14.

Mr. Lombardi noted that there are a significant number of retirees, all with family coverage and about seventy-six (76) in number, in all likelihood that will be able to migrate to the Enhanced plan because they will be entitled to Medicare. He explained that the focus this evening is on the Town's Medicare supplement plans however the Town does have a Medicare HMO style arrangement that is available, as well as other senior plans. He indicated that it would be a lower-cost service area program, i.e., must reside in the State.

Town Manager noted that he has provided a brief memo that recommends a plan that is robust and takes into consideration the various constituencies. He indicated that he believes that the plan is reasonable and recommended the Board's endorsement.

*Motion: That the Board of Selectmen, in accordance with the Board of Selectmen's vote of November 5, 2012 pertaining to Health Care Premiums for retirees and in order to provide a plan to mitigate, moderate or cap the impact of premium rate changes for retirees of low income, and / or who may have high out-of-pocket healthcare costs and who would otherwise be disproportionately affected, that effective July 1, 2014 the following mitigation plan be adopted for implementation in accordance with Chapter 32B section 11C, 16, 18A and 19 in accordance with Attachment "A": Mitigation Plan:

1.) All post-2004 retirees (both non-Medicare and Medicare) plans to be cost-phased to 50%-50% (in equal amounts) over a two year (fiscal) basis. This phase-in to apply to all retirees who retire before June 30, 2015.
2.) All pre-2004 retiree plans (both non-Medicare and Medicare) to be cost-phased to 70%-30% (in equal amounts) over 18 months with the first change occurring July 1, 2014 and the second change occurring January 1, 2016. The rate for these plans to be established at 70%-30% going forward instead of 50%-50%.
3.) All pre-2004 non-Medicare retirees to migrate to HPHC Enhance Medicare Plan 70%-30%.
4.) A means-based mitigation fund of approximately $55,000 as a further safety net for retiree subscribers who would qualify for further mitigation in accordance with the Affordable Care Act income standards. This fund to be in effect for no less than three (3) years but possibly available on an on-going basis depending upon the level of need shown as the plan is put in place.
5.) The phase-in results are subject to the usual annual rate increase proposed by Harvard Pilgrim for all subscribers.

Johnson – Fontana

Selectman Powers informed the Board that had he been a sitting Selectman at the time this vote was taken he would have grandfathered all pre-2004 retirees. He explained that it is very aggressive to increase rates to 50%, noting that when Town Manager Howard was Mayor of Malden, the health insurance split was increased to 80% - 20%, and questioned why Winchester felt it was entitled to increase the premium split to 50%. He recalled that he was a member of the Board of Selectmen when PERA was funded, and after thirty-two years, the Town of Winchester is approximately 92% funded; no effort was made to fund the retirement system in one year [Note: The pension is currently approximately 77% funded.]. He suggested that this is a plan that puts the funding of the liability on the backs of the senior citizens. Selectmen Powers pointed out that there is a Town Meeting vote on the horizon and a State vote related to Chapter 32B, therefore suggested that the Board of Selectmen delay voting this evening.

Selectman Fontana commented that this group that consists of the Town Manager, Senior Management, and advisor Ken Lombardi is well-informed and thoughtful and aware of all of the factors related to this complex topic of OPEB. He pointed out that the top category of cost growth in public budgets over the last thirty years is health care services. He explained that this problem is far from over and can be distilled into two categories. He suggested that contributions made today dwarf future contributions. He noted that this liability is not a curve that declines nor is it a curve that stays flat in the future or one that increases at a proportionate rate over time, but rather a curve that is increasing at an exponential rate. Selectman Fontana pointed out that this liability could have severe and drastic consequences if it is not addressed. He noted that the population being served with the health care benefit is increasing, not stabilizing or shrinking; the liability is drastically underfunded.

Speaking to pension reform, Selectman Fontana explained that what eventually happened was a severe change in benefits and contributions; pension reform did not end well for anyone and there were losers across the landscape. He informed the audience that as a member of the Board of Selectmen he gave thought to designing a plan or implementing a policy to deal with this complicated issue that is a significant crisis that is not unrecognized, and at the same time being true and empathetic to retirees, future retirees, employees and taxpayers. He noted that he thought about both grandfathering and freezing benefits, but knew that the further this issue is pushed out the more significant risk that it poses. Selectman Fontana suggested that the way to deal with this is through shared compromise. He indicated that he does not like the statement that this issue has been put on

the backs of the retirees because the Board has taken several actions that have been articulated. Selectman Fontana noted that the Board is asking the retirees to be a part of the solution, but has also instituted health care design and plan benefit changes, and the Town now has a balanced budget since Town Manager Howard's arrival where previously the budget had been running in deficit; reserves are in place. He suggested that a shared solution is best rather than dealing with this issue in the future.

Selectman Powers offered the following amendment to the original motion:

*Motion: That the Board of Selectmen amend the pre-2004 retirement plans for both non-Medicare and Medicare participants, to be cost phased in at 75%-25% over two years, with the first change occurring July 1, 2014 and the second change to occur on July 1, 2016; the rates being established at 75% - 25% going forward.

Powers – Johnson

Chairman Wilson informed her colleagues that she feels that a 70%-30% rate split was a good rate to achieve for the pre-2004 retirees and happens to be consistent with the average rate split for communities in Massachusetts. She noted that it also provides some parity to the cost increases between the pre-2004 population and the post-2004 population, based upon dollar amount. Each phase of the implementation now has Medicare retirees whether pre-2004 or post-2004 experiencing between a $35 - $40 increase. She questioned the impact on the OPEB liability if the 75%-25% adjustment were to be made.

Selectman Powers noted that he does not have this impact number, however the OPEB liability is a thirty year liability that the Board is trying to settle in one year, something that he does not feel is proper. Selectman Fontana noted that the problem does not go away, is still significant, and will result potentially in budget cuts, reserve expenditures, override funding, etc.

Insurance consultant Ken Lombardi informed the Board that he cannot comment on the proposal to tweak the contributions put forward by Selectman Powers, but reminded the Board that the single biggest issue that the Town has is the significant number of retirees who are insured as a part of the Town's health plan. He noted that there are 500 individuals covered under the various retiree options and only about 700 active employees, almost a 50-50 split with the number continuing to grow. He indicated that he is not sure that the Town can delay or consider significant changes to their proposal. He suggested that the Board be mindful of the size of the population which continues to grow to the point where if left unattended will create an even bigger issue.

Chairman Wilson pointed out that another piece of relief that will be available to the pre-2004 population is the introduction of the plan that is an HMO-like plan and when implemented will be priced at a favorable contribution rate for both the retiree and the Town, creating an incentive to select the plan. This will allow retirees to mitigate their own cost increase. Chairman Wilson also noted that the Board has been hearing about the burden placed on retirees for a long time and she understands where it comes from. If the mitigation plan is approved this evening, Chairman Wilson noted that the Town will have reduced its long-term liability cost over thirty years from $93million to $64million. She explained that there is still a lot of work remaining and the Board of Selectmen, with assistance from the Finance Committee, Town Meeting and others in the community will need to continue to work to find a way to fund this liability. She suggested that much of this will rest with the taxpayers. She indicated that the taxpayers already support retiree healthcare benefits by funding the budget in millions of dollars annually for the cost of healthcare benefits. Chairman Wilson explained that in the future, the Board will need to look for ways to obtain more revenue or the taxpayers will bear the burden of foregone opportunities in the budget.

Vice Chairman Johnson noted that the Board worked very hard to accommodate everyone with the biggest improvement made being the "spouse + 1" which will reduce what participants pay now. He pointed out that this is a complicated issue and urged people to take their time and read about it.

*On the Amendment to the motion:

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| In favor: | Powers | |
| Opposed: | Fontana, Johnson, Wilson | VOTED. |

*On the main Motion:

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|---|---|---|
| In favor: | Fontana, Johnson, Wilson | |
| Opposed: | Powers | VOTED. |

Chairman Wilson declared a recess at 8:35 PM; she reconvened the meeting at 8:40 PM at which time Selectman Grenzeback rejoined his colleagues at the table.

## Hospital Gift Account Funds for Ambulance Purchase

Vice Chairman Johnson noted that the issue of Hospital Gift Account funds being used for the ambulance purchase was recently raised by the Capital Planning Committee. The Finance Committee has also made some minor adjustments to the capital plan, including the ambulance as an add-on. He noted that the MIS request has been reduced and the public safety building firing range eliminated. He informed his colleagues that there is approximately $110,000 as a balance in the Hospital Gift Account and his suggestion is for the Board to consider using the bulk of this amount towards the ambulance purchase in place of Free Cash. There would be a remaining balance of $9973 in the Hospital Gift Account.

In response to Selectman Powers' question as to whether there are any requests for Hospital Gift Funds relating to health or safety issues on the horizon, Town Manager indicated that there are no known requests coming forward. He reported that a PILOT payment will be received later this Spring. Chairman Wilson informed her colleagues that she has no objection to using some of the gift account funds for this purpose, but questioned how this request would fit with the other capital pieces.

Vice Chairman Johnson recalled that the Capital Planning Committee had requested two separate warrant articles with a request to use Free Cash as a funding source. Chairman Wilson indicated that she would like to have a recommendation from the Finance Committee. Selectman Powers suggested that the Finance Committee should be happy with this solution because Free Cash funds would not be used. He explained that the Hospital Gift Account was set up to be used for things of this nature, therefore a consistent usage. Vice Chairman Johnson pointed out that Chief Nash has indicated that the back-up ambulance currently in use will not be certified by the State in the next round of certifications.

*Motion: That the Board of Selectmen authorize the expenditure of $100,000 from the Hospital Gift Account towards the purchase of the Fire Department Ambulance.

Johnson – Powers

Town Manager noted that the MIS reduction was prioritized, although it has been in the queue for a while. He informed the Board that he talked with the IT Director earlier today and he indicated that he will live with whatever funds he receives however the upgrade to the MIS system will be done piecemeal.

# Winchester Mitigation Funds for Health Care Costs

| FUND BEGINNING AMOUNT | SOURCE | WHO IS ELIGIBLE | USED FOR | HOW LONG | LEFTOVER GOES... |
|---|---|---|---|---|---|
| $195,000 | 25% of amount saved town with plan change; became effective July 1, 2013 | *Union members and non-medicare retirees; have to meet deductible; have to submit health history | cat scans, MRI'S, high tech radiation, emergency room, in patient/out patient | Until it runs out or the law changes; (as of 10/28/14 there is $180,000 left) | No leftover |
| $20,000 FY 2015 | Part of FY 2015 $9,795,000 Million health insurance budget | *Non-union members; have to meet deductible; have to submit health history | cat scans, MRI'S, high tech radiation, emergency room, in patient/outpatient | Subject to yearly appropriation | If not used closes to free cash yearly |
| | | | | | |
| $55,000 FY 2015 | Part of FY 2015 $9,795,000 Million health insurance budget | **Retirees who apply by submitting income tax return or other documentation verifying/supporting their income. Individuals with less than $30,000 total income; retiree and spouse whose total household income is less than $48,000 | Defraying health insurance premiums; (Comptroller proposed in draft plan that retirees be paid ahead of time – if they choose not to set it aside for their premiums, that is beyond the town's control) | Subject to yearly appropriation | If not used closes to free cash yearly |

* Use form: TOWN OF WINCHESTER HEALTH REIMBURSEMENT ARRANGEMENT REQUEST FORM; file with Jean Marrone, Comptroller's Office

**Use form: TOWN OF WINCHESTER, MASSACHUSETTS RETIREE HEALTH INSURANCE MITIGATION PLAN HARDSHIP APPLICATION

saved as: WHAC final mitigation funds chart
November 10, 2014