ORANGE WATER AND SEWER AUTHORITY

A public, non-profit agency providing water, sewer and reclaimed water services to the Carrboro-Chapel Hill community.

TO: **Human Resource Committee**
Barbara Foushee, Chair
Yinka Ayankoya
Jeff Danner
John Young
Robert Morgan, Ex-Officio

THROUGH: Ed Kerwin

FROM: Stephanie S. Glasgow

DATE: January 31, 2018

SUBJECT: **Human Resource (HR) Committee Meeting**
Monday, February 5, 2018, 5:30 pm, OWASA Boardroom

Agenda

1) **Retiree Health Benefits for New Hires**
   Evaluate information and options for the health benefits provided to retirees.
2) **Deferred Compensation (457) Plan**
   Discuss information and options for the deferred compensation benefits.

Stephanie S. Glasgow, MESH, MPM, PHR, SHRM-CP
Director of Human Resources and Safety

Item 1

Retiree Health Benefits for New Hires

Purpose

Provide information for discussion to consider updates to the Retiree Health Benefits for New Hires.

Background

In 2014, based on the recommendations in a report issued by consultants who analyzed OWASA's compensation and benefit programs, the Board considered changes to our Retiree Health Benefits for New Hires. The Board ultimately decided to defer action.

On November 16, 2018, the Human Resource Committee met to discuss this item and requested additional information on retiree health insurance benefits provided by benchmark organizations.

Current Plan

In the current retiree health insurance plan, OWASA pays a percentage of the health insurance premiums for pre-65-year-old retirees and provides a Medicare Supplement for post-65-year-old retirees. An employee's age and years of service determine the percentage of premium paid by OWASA follows:

Years of Service	Age	Percentage of Premium (Pre-65) or Supplement (Post-65) Paid by OWASA
10 years	60	50%
15 years	60	75%
20 years	60	100%
30 years	Any age	100%

Pre-65-year-old retirees stay on OWASA's group health plan. The Fiscal Year 2018 monthly premium is $1,097.46 per individual.

Post-65-year-old retirees receive a Medicare Supplement where costs vary based on the plan chosen by the retiree. These decisions are private with OWASA having no influence. The average cost for Medicare Supplement plans is $183.20 and $124.00 for Part D prescription coverage, bringing our average monthly cost per post-65-year-old retiree to $307.20.

Options Considered

In 2014, the Board considered a variety of options for altering the plan, including:

Option 1. Cost-share applicable to employees hired after July 1, 2014 (or other date). The maximum benefit provided by OWASA would be 75% of health care premiums for pre-65-year-old retirees or Medicare supplement for post-65-year-old retirees as follows:

Years of Service	Age	Percentage of Premium (Pre-65) or Supplement (Post-65) Paid by OWASA
10 years	60	25%
15 years	60	50%
20 years	60	75%
30 years	Any age	75%

- Reduces future OWASA liability as employee turnover occurs.
- Brings this benefit to a similar level as other local agencies.

Option 2. **Cost-share applicable to all employees hired after July 1, 2014 (or other date).** OWASA would pay 100% of the health insurance premiums or Medicare supplement for employees retiring with 30 years or more of service. OWASA would pay 50% of the health insurance premiums or Medicare supplement for employees retiring at age 60 with 15 years of service: the benefit would increase by 5 percentage points for each additional year of service.

Years of Service	Age	Percentage of Premium (Pre-65) or Supplement (Post-65) Paid by OWASA
15 years	60	50%
16-25 years	60	5 percentage points additional contribution for each year of service after 15 years
30 years	Any age	100%

- Reduces future OWASA liability as employee turnover occurs.
- Brings this benefit to a similar level as other local agencies.

The following table shows Retiree Benefits for local entities.

Entity	Retiree Benefits
Cape Fear Public Utility Authority	Cape Fear Public Utility Authority formed in July 2008 from a merger of the City of Wilmington and New Hanover County. Existing employees hired prior to July 2008 are eligible for individual health polices until age 65. If hired after July 2008, no retiree benefits available.

City of Durham

Employees hired prior to July 1, 2008 are eligible to participate in the medical benefits up to age 65. Those hired after July 1, 2008 must participate in a Retirement Health Savings (RHS) plan by contributing 2% each pay period up to $1,000 per plan year. The City of Durham contributes $35.00 per pay period with a maximum of $910 per year. The total annual RHS contribution will not exceed $1,910 for the plan year. The plan includes a vesting schedule for employer contributions.

Hire Date	10 Years of Service	15 Years of Service	20+ Years of Service
Prior July 2008	Active Employee Cost + 50% of City Cost	Active Employee Cost + 25% of City Cost	Pays Active Employee Cost
After July 2008	50% Vested	75% Vested	100% Vested

Greenville Utilities Commission

Retirees remain on the group plan until age 65 and may participate in Medicare Supplemental Plan and Medicare Part-D at the same percentage based on the eligibility schedule below.

Years of Service	Base Plan Contribution Percentage Age 55 - 59	Base Plan Contribution Percentage Age 60 - 64
20 – 24 Years	50% for retiree	65% for retiree
25 Years or more	75% for retiree	95% for retiree

Orange County

If hired on or before June 30, 2012 retirees must have worked 10 years as permanent employees for Orange County. If hired after, retirees must have worked 20 years as permanent employees. After age 65, Orange County pays for Medicare Supplemental Plan and Part D at same percentage.

Hire Date	Before* - 6/30/2012		7/1/2012 and later	
Age	Under age 65	65 or older	Under age 65	65 or olde
Years of Service (Minimum)	10	10	20	20
Retiree Coverage	100%	100%	100%	100%
Age	Under age 65	65 or older	Under age 65	65 or olde
Years of Service (Minimum)	n/a	5	n/a	10
Retiree Coverage	n/a	50%	n/a	50%

*Prior to 7/1/2008, County subsidized the cost of retiree dependent health premiums.

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<tr>
<td>Town of Carrboro</td>
<td>If hired before July 1, 2007 the retiree may remain on the group health plan until age 65 at which time they participate in a Medicare Supplement Plan based on the same eligibility schedule. If hired after July 1, 2007 the same schedule applies but retiree receives a monetary stipend for their own plan. The stipend amount is based on the current active employee individual premium rate.
<table>
<tr><th>Years of Service</th><th>Percentage
Insurance Premium or Stipend Amount</th></tr>
<tr><td>10 – 14 Years</td><td>50%</td></tr>
<tr><td>15 – 19 Years</td><td>75%</td></tr>
<tr><td>20 or more Years</td><td>100%</td></tr>
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<tr>
<td>Town of Cary</td>
<td>Retirees with 15 years of service are eligible for the Town to subsidize 50% of the individual rate. Each additional year of service beyond 15 years increases the percentage of the subsidy by 5%, with a maximum subsidy of 100% for 25 years of service. When the retiree is no longer covered by the group health insurance plan due to coverage under Medicare or some other form of a Federal Government-sponsored health insurance program, the Town will continue to provide a subsidy to the retiree to be applied to the cost of the retiree’s Medicare supplemental plan, Part D prescription drug plan, Town-sponsored group vision plan, and Town sponsored group dental plan, or any other applicable health-related supplemental plan. The amount of the subsidy applied toward these plans shall not exceed 100% of the amount due each month to keep these plans in force, will not change more than once each fiscal year, and will never exceed the amount of the subsidy provided to the retiree still active on the Town’s group health insurance plan. The retiree is responsible for paying any balance due after the Town’s subsidy (if applicable) has been applied. Current, monthly subsidy amount is $718.</td>
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<td>Town of Chapel Hill</td>
<td>Retirees hired prior to July 1, 2010 receive health insurance or Medicare Supplement premiums paid by employer on a vested schedule based on their time in service. If hired after July 2010, mandatory enrollment in a Retirement Health Savings (RHS) plan with employee contributions of 1% of compensation and the Town contributes $35 each pay date (26 pay periods). The plan includes a vesting schedule for employer contributions.
<table>
<tr><th>Hire Date</th><th>5 Years of Service</th><th>10 Years of Service</th><th>15 Years of Service</th><th>20+ Years of Service</th></tr>
<tr><td>Prior July 2010</td><td>25% of Premiums Paid by Town</td><td>50% of Premiums Paid by Town</td><td>75% of Premiums Paid by Town</td><td>100% of Premiums Paid by Town</td></tr>
<tr><td>After July 2010</td><td>25% Vested</td><td>50% Vested</td><td>75% Vested</td><td>100% Vested</td></tr>
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<tr>
<td>Town of Hillsborough</td>
<td>The retiree may continue to receive health insurance coverage comparable to that being provided for regular employees without cost either for the life of the retiree or until eligible for Medicare. No post-65 benefits available.
<table>
<tr><th>Hire Date</th><th>Minimum Age</th><th>Continuous service with Town</th></tr>
<tr><td>Before Feb. 2009</td><td>55</td><td>20</td></tr>
<tr><td>After Feb. 2009</td><td>60</td><td>30</td></tr>
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Action Requested

Review and discuss options for modifying OWASA's Retiree Benefits for New Hires and provide guidance to staff.

Item 2

Deferred Compensation (457) Plan

Purpose

To discuss options for making our Deferred Compensation Plan more competitive in the marketplace and more meaningful to employees.

Background

In 2014, based on the recommendations in a report issued by consultants who analyzed OWASA's compensation and benefit programs, the Board considered changes in our Deferred Compensation Plan. The Board ultimately decided to defer action.

At the time, the Human Resources Committee established the following goals for improving the Plan:

- No reduction in the amount of benefit currently provided to employees.
- Expand the benefit to include employees with six-months to less than four years of service.
- Improve the competitiveness of OWASA's Plan (benefit not to be less than 4% of wages).
- Implement an employer matching contribution whereby OWASA will match an employee's voluntary contribution.

The Human Resource Committee discussed this item on November 16, 2017 and requested additional information on Deferred Compensation of benchmark organizations.

Current Plan

OWASA currently provides biweekly contributions to eligible employees' Deferred Compensation Plan accounts. The contributions begin after an employee has reached four years of service. The amount of the contribution increases as employees reach certain anniversary milestones, as shown below. The amounts of the contributions have not changed since 2001. As a result, the value of this important employee benefit has declined. The annual inflation rate between 2001 and 2017 was 2% making the $40 contribution now worth under $29 today.

	Employee Tenure				
	Hire date to <4 years	**4-9 years**	**10-14 years**	**15-19 years**	**20+ years**
OWASA Biweekly Contribution	None	$40	$60	$80	$100
OWASA Annual Contribution	None	$1,040	$1,560	$2,080	$2,600

	Employee Tenure				
	Hire date to <4 years	**4-9 years**	**10-14 years**	**15-19 years**	**20+ years**
Examples of Benefit Percentage at Certain Salary Levels					
$34,000	0	3.1%	4.6%	6.1%	7.6%
$70,000	0	1.5%	2.2%	3%	3.7%
$100,000	0	1%	1.6%	2.1%	2.6%

Options Considered

In 2014, the Board considered a variety of options, including:

Option 1	Maintain current plan elements but add an employer contribution of $20 per pay-period for employees with six-months to less than four years of service, and an employer matching contribution of up to 2.5%.
Option 2	Increase each employee's salary by the amount of their current Plan contribution and convert the Plan to a percentage-based matching plan.
Option 3	Convert the Plan to a percentage-based matching program with no provision to maintain each employee's current benefit level.
Option 4	Convert the Plan to a percentage-based employer contribution with no requirement for an employee matching contribution.

The Board also considered variations of the above options.

The table below summarizes some of the key elements and observations of the four options.

Key Elements/Observations	Option 1	Option 2	Option 3	Option 4
Current biweekly benefit maintained	Yes	Yes, but done so through salary increases	No but includes a percentage-based employer contribution (2%) not dependent on employee match	Only 50% of current benefit and done so through salary increases
Benefit provided to employees with 6-mos to < 4-years of service	Yes	Yes	Yes	Yes
Employer matching contribution	Yes	Yes	Yes (up to 3% in addition to above	Yes (up to 5%)
Accomplishes goals	Yes	3 of 4	3 of 4	3 of 4
Eliminates deflationary aspect of current benefit	No	Yes	Yes	Yes
Market competitive	Yes and No (benefit less than 4% for certain employee groups)	Yes and No (benefit less than 4% for certain employee groups)	Yes (benefit is up to 5% but requires employee investment)	Yes (benefit is up to 5%)
Requires employee match	Biweekly fixed amount – no Additional 2.5% - yes	Yes	2% - no Additional 3% - yes	Yes

Local Entity Comparison

The table below list benchmark data for other local entities.

Organization	Deferred Compensation	Effective	Employee Contribution	Last Update
Town of Chapel Hill	401K - employer 5% contribution	At hire	Not Required	Not sure of exact date but 18+ years ago
Town of Hillsborough	401K - employer 5% contribution	At hire	Not Required	Employer reported "Unknown"
Town of Carrboro	401K - employer 3% contribution	At hire	Not Required	July 1, 2013

Organization	Deferred Compensation	Effective	Employee Contribution	Last Update
Greenville Utilities Commission	401K - employer contributes flat amount $40 per pay period ($1,040 annually)	At hire	Not Required	Employer reported "Unknown"
Cape Fear Public Utility Authority	401K and 457 offered; employer 2% contribution, plus another 2% match if the employee contributes 2% or greater	First of the month following employment	Not Required to receive employer contribution; matching option available	January 1, 2018
Town of Cary	401K and 457/401a plan offered; employer will contribute 5% to employee's choice of 401K or 401a	At hire	Not Required	Not sure of exact date 17+ years ago
City of Durham	401K and 457 offered; employer contributes 5% to 401K	At hire	Not Required	Unknown
Orange County	401K and 457 offered; employer contributes $715 per year; if an employee contributes employer will matches up to $63 each pay period for a matching total of $1,512 per year; employee can choice either 401K or 457 for the employer contribution/matching option	At Hire	Not Required to receive employer contribution; matching option available	July 1, 2014

Action Requested

Review and discuss options for modifying OWASA's Deferred Compensation Plan and provide guidance to staff.