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: May 2, 2018

SUBJECT: **Human Resource (HR) Committee Meeting**
Wednesday, May 9, 2018, 5:30 pm, OWASA Boardroom

Agenda

1) **Deferred Compensation (457) Plan**
Discuss information and options for the deferred compensation benefits.

2) **Retiree Health Benefits for New Hires**
Evaluate information and options for the health benefits provided to retirees.

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

Stephen Winters, CPA
Director of Finance and Customer Service

Background and Information about Deferred Compensation Benefit Plans

At the February 5, 2018 meeting, the Human Resource Committee confirmed its goals for OWASA's deferred compensation (457) plan to be:

- 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.

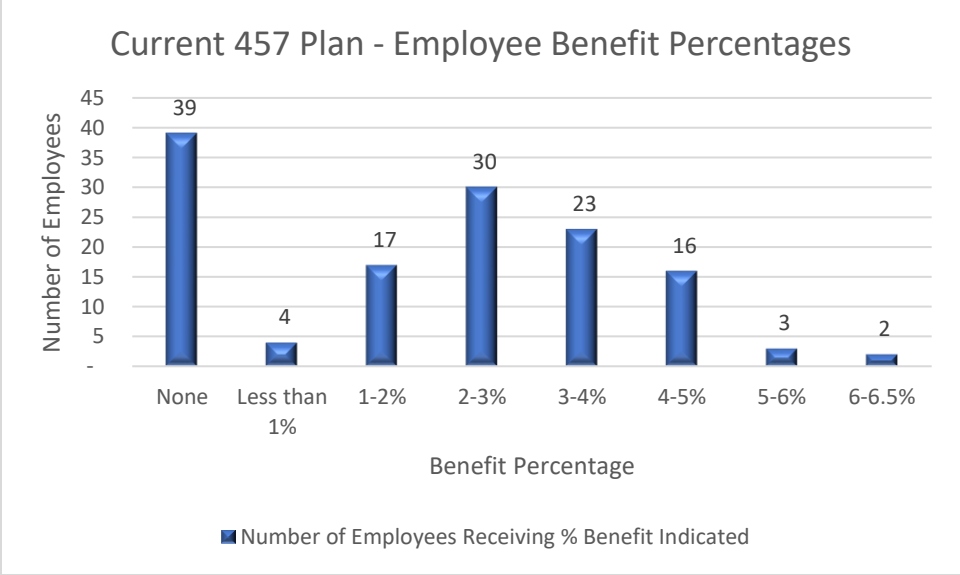
OWASA's current 457 plan has not been updated since 2001 and includes:

OWASA's Contribution to Employees' 457 Accounts (amount)					
	Employee's Tenure				
	0 to < 4 Years	4 to 9 Years	10-14 years	15-19 Years	20+ Years
Bi-weekly	$0	$40	$60	$80	$100
Annual	$0	$1,040	$1,560	$2,080	$2,600

Since this benefit is a fixed amount, the annual percentage of this benefit depends on the amount of an employee's salary. Below are three examples:

OWASA's Contribution to Employees' 457 Accounts (percentage)					
	Employee's Tenure				
	0 to < 4 Years	4 to 9 Years	10-14 years	15-19 Years	20+ Years
$34,000	0%	3.1%	4.6%	6.1%	7.6%
$70,000	0%	1.5%	2.2%	3.0%	3.7%
$100,000	0%	1.0%	1.6%	2.1%	2.6%

The graph to the right shows the benefit percentage current employees receive under the current fixed-contribution 457 plan.



Subsequent to the February 2018 committee meeting, John Young shared an idea that staff has also considered:

- Create a new percentage-based plan.
- Existing employees would be able to choose between remaining on the current fixed-contribution plan or switching to the new percentage-based plan.
- New hires would only be eligible for the percentage-based plan.
- An existing employee who chooses the percentage-based plan would not be able to switch back to the fixed-contribution plan, but it would not be financially beneficial to do so.
- An existing employee who chooses to remain on the fixed-contribution plan would be able to switch to the percentage-based plan whenever it becomes beneficial to do so. The employee would not be able to switch back to the fixed-contribution plan but it would not be financially beneficial to do so.

Our nearby peers provide percentage-based contributions to their employees

- Chapel Hill, Hillsborough, Cary, Durham contribute 5% of an employee's wages.
- Carrboro contributes 3% of an employee's wages.
- None of these organizations require employees to contribute (no contribution matching component).

The following are cost estimates of the current fixed-contribution plan and variations of a percentage-based plan:

Plan Option	Estimated Annual Cost	Estimated Increase in Cost vs. Current Plan	Number of Employees Who Would Benefit by Switching to Percentage-Based Plan
Current Fixed-Contribution	$168,000	$0	Not Applicable
Employer Contribution of 3%	$246,000	$78,000	92
Employer Contribution of 4%	$327,000	$159,000	115
Employer Contribution of 5%	$409,000	$241,000	129

Assumptions in, and observations about the percentage-based options shown above include:

- Employees are eligible after six-months at OWASA.
- Employees who would benefit by remaining on the fixed-contribution plan would choose to stay on the current plan.
- Any of the options could require employees to contribute in order to receive the benefit, at no additional cost to OWASA.
- Making this a "matching" plan would likely lead to more employees choosing to remain on the current plan since employees are not currently required to contribute to receive the benefit.

Action Requested

Provide guidance to staff regarding next steps, including:

- What other options, if any, would the Committee like staff to model?
- Does the Committee want to include a vesting component whereby employees do not vest in OWASA's contribution until they have been at OWASA for a certain number of years?
- What recommendation does the Committee want to make to the Board of Directors on May 24, 2018?

Item 2 - 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, 2017 and February 5, 2018, the Human Resource Committee met to discuss this item. At the last meeting, the Committee:

- Agreed to a goal of keeping the benefit competitive with other local governments
- Instructed Staff to request comparison data from private organizations
- Requested a document explaining Retirement Health Savings (RHS) plans to include whether there is a minimum or maximum contribution
- Requested Staff provide options similar to Orange County, City of Durham and the Town of Chapel Hill and an option where OWASA provides 75-100% of premiums for those with 30 years of service

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 and Part D prescription coverage is $183.20 and $124.00, respectively, bringing our average monthly cost per post-65-year-old retiree to $307.20.

Comparison Data

The following table shows Retiree Benefits for local entities.

<table>
<tr><th>Entity</th><th>Retiree Benefits</th></tr>
<tr><td>Cape Fear Public Utility Authority</td><td>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.</td></tr>
<tr><td>City of Durham</td><td>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.
<table>
<tr><th>Hire Date</th><th>10 Years of Service</th><th>15 Years of Service</th><th>20+ Years of Service</th></tr>
<tr><td>Prior July 2008</td><td>Active Employee Cost + 50% of City Cost</td><td>Active Employee Cost + 25% of City Cost</td><td>Pays Active Employee Cost</td></tr>
<tr><td>After July 2008</td><td>50% Vested</td><td>75% Vested</td><td>100% Vested</td></tr>
</table></td></tr>
<tr><td>Greenville Utilities Commission</td><td>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.
<table>
<tr><th>Years of Service</th><th>Base Plan Contribution Percentage Age 55 - 59</th><th>Base Plan Contribution Percentage Age 60 - 64</th></tr>
<tr><td>20 – 24 Years</td><td>50% for retiree</td><td>65% for retiree</td></tr>
<tr><td>25 Years or more</td><td>75% for retiree</td><td>95% for retiree</td></tr>
</table></td></tr>
</table>

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 Supplement 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 older
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 older
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.

Town of Carrboro

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.

Years of Service	Percentage Insurance Premium or Stipend Amount
10 – 14 Years	50%
15 – 19 Years	75%
20 or more Years	100%

Town of Cary

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.

<table>
<tr><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>
</table></td></tr>
<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>
</table></td></tr>
</table>

The following table shows information on employee retirement benefits received from private organizations. None of the organization's said they offer a health insurance benefit for retirees.

Organization	Retiree Benefits
Capital Investment Companies	401K match (amount is discretionary)
Coastal Federal Credit Union	Information not provided
CPI Security	401K match
Edwards Jones Investments	Information not provided
Electric Supply and Equipment Company	401K match ½ up to employees 4% contribution – maximum match 2%
Electric Supply and Equipment Company	Information not provided
Gallagher (Hill, Chesson and Woody)	401K 5% match that begins after 1-year of service
Martin Starnes & Associates, CPA's	401K employer matches 100% of the first 1% plus 50% of the next 5% that employee chooses to defer into the plan – match maximum 3.5%
PCL Civil Constructors, Inc.	Information not provided
Sheetz	401K with employee stock ownership plan

<u>Retirement Health Savings Plan</u>

Information on Retirement Health Savings (RHS) programs administered by ICMA-RC is provided as Attachment 1.

Options for Consideration

Option 1

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%

- Keeps benefits the same

Option 2

Those hired by OWASA after July 1, 2018 (or other date) must participate in a Retirement Health Savings plan by contributing 2%* each pay period up to $1,000** per plan year. OWASA contributes $35 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
After July 1, 2018	50% Vested	75% Vested	100% Vested

*or some other amount as determined by the Board
**annual limitations are optional

- Reduces future OWASA liability as employee turnover occurs
- Removes retirees from the group health plan
- Cost projections are fixed
- Brings this to a similar benefit as other local agencies (Town of Chapel Hill and City of Durham)

Option 3

Those hired by OWASA after July 1, 2018 (or other date) must work 20 years as a permanent employee and be age 60 to be eligible for benefits. After age 65, OWASA pays for Medicare Supplement Plan and Part D.

Service	Pre-65 (group health plan)	Post-65 (Medicare and Part D)
20 or more Years	100%	100%

- Reduces future OWASA liability as employee turnover occurs
- Eliminates currently offered benefits for post-July 1, 2018 hires who reach 10 and 15 years of service as well as those who reach 30 years of service at any age

- Limits Pre-65 retirees to no more than 5 years on group health plan (an employee with 30 years of service who retires before reaching 60 years of age would not be eligible)
- Brings this to a similar benefit as Orange County

Option 4

Those hired by OWASA after July 1, 2018 (or other date) will receive a maximum benefit paid by OWASA of 75% of health care premiums for Pre-65-year-old retirees or Medicare Supplement for Post-65-year-old retirees as follows:

Service	Age	Percentage Premium (Pre-65) or Medicare 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 level similar to other local agencies

Option 5

Those hired by OWASA after July 1, 2018 (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 percent for each additional year of service.

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

- Reduces future OWASA liability as employee turnover occurs
- Eliminates currently offered benefits for post-July 1, 2018 hires who reach 10 years of service
- Reduces currently offered benefits (percentage covered by OWASA) for post-July 1, 2018 hires who reach 15 years of service
- Reduces currently offered benefits for post-July 1, 2018 hires who reach 20 years of service at age 60 making the number of years 25 at age 60 to reach 100% of premiums paid
- Keeps 100% of premiums paid for those with 30 years of service

Summary

	Option 1	**Option 2**	**Option 3**	**Option 4**	**Option 5**
Annual Cost per Pre-65 retiree	$13,169.52	0	$13,169.52	25% = $3,292.38 50% = $6,584.76 75% = $9,877.14 75% = $9,877.14	50% = $6,584.76 100% = $13,169.52
Annual Cost per Post-65 retiree	$3,686.40	0	$3,686.40	25% = $921.60 50% = $1,843.20 75% = $2,764.80 75% = $2,764.80	50% = $1,843.20 100% = $3,686.40
Annual Cost for working employee	0	$910	0	0	0

Action Requested

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

Get to Know Your Retirement Health Savings (RHS) Plan

For a Financially Healthy Retirement

Congratulations for participating in a valuable benefit for your financial future! Your ability to cover medical expenses is key to a comfortable and secure retirement. Your **VantageCare Retirement Health Savings (RHS) Plan** is designed to help you and your loved ones pay for future health-care costs through a tax-advantaged saving and investing vehicle. It is sponsored by your employer and administered by ICMA-RC.

Here's an overview of how a typical RHS plan works.



1 Participation

Participation is mandatory for eligible employees. Eligibility is defined by your employer.

To enroll or to update your dependents, complete the *VantageCare RHS Plan Employee Enrollment/Change Form* and return it to your benefits office.

2 Contributions

Contributions can be made by you, your employer, or both of you. Your employer defines the contribution types, amount, and frequency for the eligible group(s).

Tax Benefits

Your RHS plan helps you save with tax advantages.

- Your contributions, if applicable, are made pre-tax, which reduces your current taxable income.
- Earnings build up tax-deferred within your account.
- Distributions for qualifying expenses, including for a surviving spouse and dependents, are made tax-free.

3 Investments

At enrollment, a diversified target-date fund based on your age or another default investment option is selected for you. However, you can make changes at any time. You control how contributions and associated earnings are invested, choosing from all available options.

Investment changes can be made online by logging into your account at www.icmarc.org, or by calling Investor Services at 800-669-7400.

4 Withdrawal Reimbursements

To request reimbursements, you must:

A. Be eligible for benefits. You are generally eligible:

- at normal retirement; or
- at separation from service; or
- if you become totally and permanently disabled; or
- upon death

(Continued on back)

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B. Have qualifying benefits, which generally include all medical expenses under IRS rules (IRC Section 213), other than direct long-term care, plus non-prescription medications as allowed under IRS guidance. Typical examples, which apply to benefits for you, your spouse, or dependents, include:

- Medical Insurance Premiums
- Medical Out-of-Pocket Expenses
- Medicare Part B Insurance Premiums
- Medicare Part D Insurance Premiums
- Medicare Supplemental Insurance Premiums
- Prescription Drug Insurance Premiums
- COBRA Insurance Premiums
- Dental Insurance Premiums
- Dental Out-of-Pocket Expenses
- Vision Insurance Premiums
- Vision Out-of-Pocket Expenses
- Qualified Long-Term Care Insurance Premiums
- Non-Prescription Medications allowed under IRS guidance

For more information, view IRS Publication 502—**www.irs.gov/publications/p502**

C. Complete the *VantageCare RHS Plan Reimbursement Request Form* and submit it to Meritain Health, ICMA-RC's third-party claims processor. (For your initial claim, you must also complete the *VantageCare RHS Plan Benefit Eligibility Form.*)

The following insurance premiums are NOT eligible for reimbursement:

- Pre-taxed
- Life insurance
- Accidental, Death and Dismemberment (AD&D)
- Cancer policies and similar fixed-indemnity policies

5 After Your Death — Surviving Spouse and/or Dependents

In the event of your death:

- Your account will be transferred to your surviving spouse and/or surviving eligible dependents.
- If no spouse or eligible dependents survive you, your remaining account assets will revert to your employer.

You should always refer to your employer's adoption agreement/amendment for the most current plan features.

Effective _____, your plan's custom features include:

Contribution Type: _____

Vesting: _____

Eligible Benefits: ❑ All Qualifying Medical Benefits ❑ Insurance Premiums Only ❑ Other _____

Forfeiture Provision: _____

Other: _____

Resources

For more information, please refer to your *VantageCare RHS Plan Employee Enrollment Kit* or contact:

ICMA-RC (800-669-7400)

- Account inquiries, other than claims
- Account statements
- Change personal data (also inform Meritain Health if you are eligible for benefits)

Meritain Health (888-587-9441)

- Claims-related inquiries once you are eligible to receive benefits
- Change personal data if you are eligible for benefits (also inform ICMA-RC)

Your Employer's Benefits Office

- Plan rules, such as benefit eligibility

Your ICMA-RC representative can also help you with your overall saving, investing, and retirement planning goals.