

Health and OPEB Funding Strategies:

2008 National Survey of Local Governments

Study by Cobalt Community Research

*Analysis by
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*Partially Sponsored by
The National Conference on Public Employee Retirement Systems*





Acknowledgements

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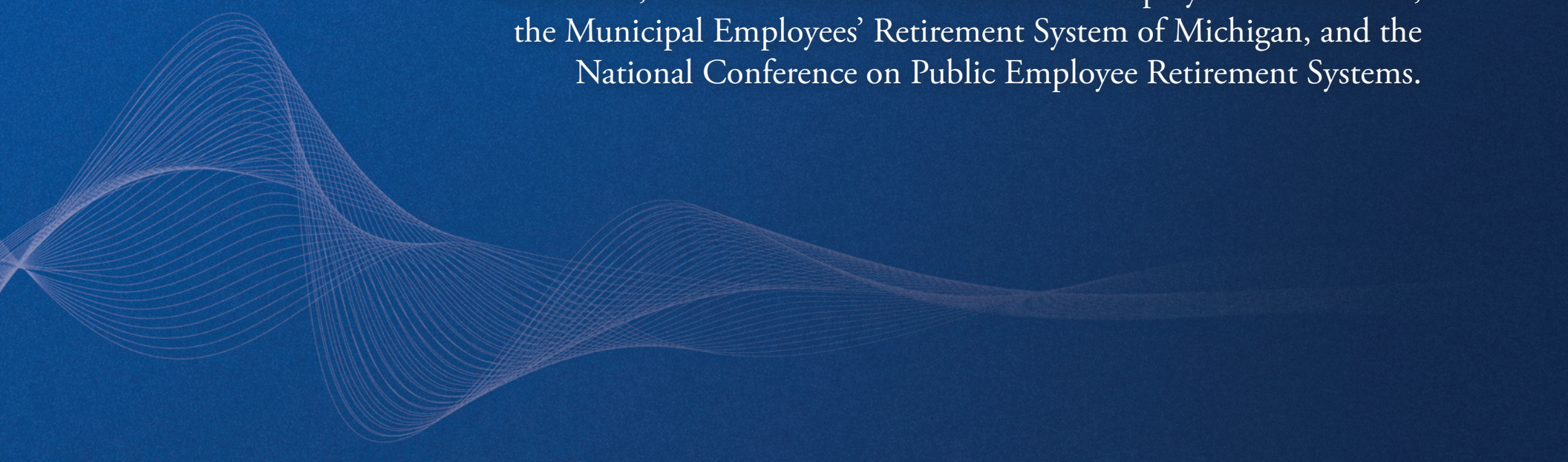


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Executive Summary and Overview

In 2004, the Governmental Accounting Standards Board (GASB) issued Statement Number 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB).” This statement created a national standard for the measurement and disclosure of OPEB liabilities, especially in the area of health care for retirees.

Local governments across the nation have been struggling with soaring health care costs for many years. The awareness of this new liability and the requirement to disclose it have created heightened concerns with the affordability of public sector health care.

This is the first year of this annual study to provide detailed insight into the awareness of and response to GASB 45 and to map the strategies local governments have put in place and plan to put in place to address health care costs. While several studies have examined OPEB issues for statewide retirement systems or for a limited sample of local governments, this study deliberately targeted a representative cross-section of local governments across the United States. This provides a snapshot of larger local governments balanced with the small local governments that make up more than 75% of local governments in the United States. It is important to note that while small local governments are the most numerous, they do not make up the majority of public-sector employees or public-sector health costs.

Here are major questions this study seeks to answer:

- What strategies are local governments using to address their health costs? What do they plan to do in the next 2 years?
- Who is aware of the GASB 45 requirements and has done the valuation? What levels of health liability are local governments facing?
- Which strategies are local governments using to reduce or fund their liabilities?

Three key findings emerge from the research. First, few of the responding small local governments provide health care to their employees, and only a small percentage provide health care to retirees. This makes sense since many of the governments with populations of less than 5,000 have few (if any) full-time employees. Coverage at larger local governments approach 90% for active employees and 50% for retirees.

Second, while a majority of local governments provide health care to employees, a range of cost-reduction strategies could help limit future expenses. While many have made changes to co-pays and deductibles, many other options remain.

Third, 74% of local governments who provide retiree health care are aware of the GASB 45 requirements, and 46% report that they have already calculated the liability or the calculation is in process. However, while awareness of the liability is solid, decisions about funding and effective tools to reduce and fund the future liability have yet to be widely determined.

Section 1: Characteristics of the Respondents

The survey questionnaire was sent to a random sample of approximately 7,500 local governments in the United States, drawn from the U.S. Census Bureau's government database. Responses were received from 1,534, for a 20% response rate. Responding governments included counties, municipalities, townships, and special districts as defined by the U.S. Census Bureau (including various authorities, boards, and other types of local governmental organizations). Exhibit 1 compares the distribution of the respondents by type of government with the distribution for all similar governments in the U.S. It indicates that the respondents represent a somewhat larger proportion of municipal governments than are found in the U.S. and somewhat smaller portions of townships and special districts.

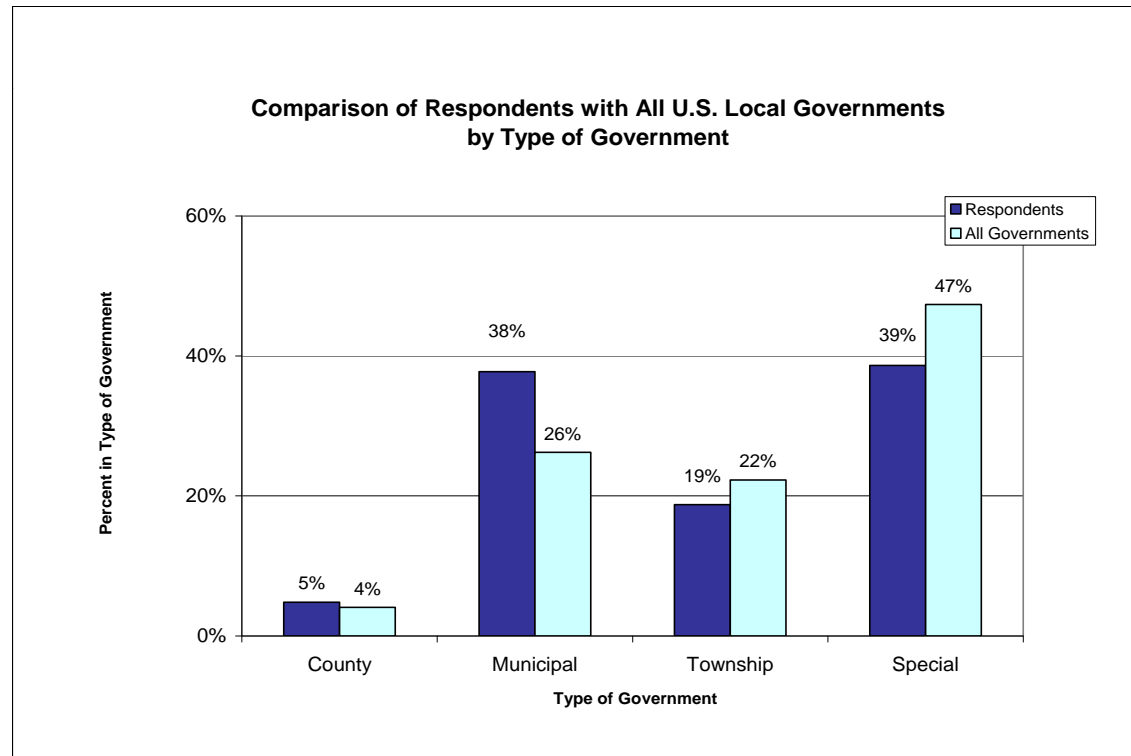


Exhibit 1

Section 1: Characteristics of the Respondents

As shown in Exhibit 2, the respondent governments served a wide range of populations. Of the respondents, 944 (62% of the total) represent governments that serve populations of less than 5,000. Another 252 respondents (16% of the total) represent governments with populations of 10,000 or more. This representation is similar to 2002 Census Bureau data. Overall, the respondent governments serve 22.8 million people.

(Note: numbers in parentheses after the chart title refer to the question number in the survey questionnaire. “No Answer” refers to respondents who did not answer the question.)

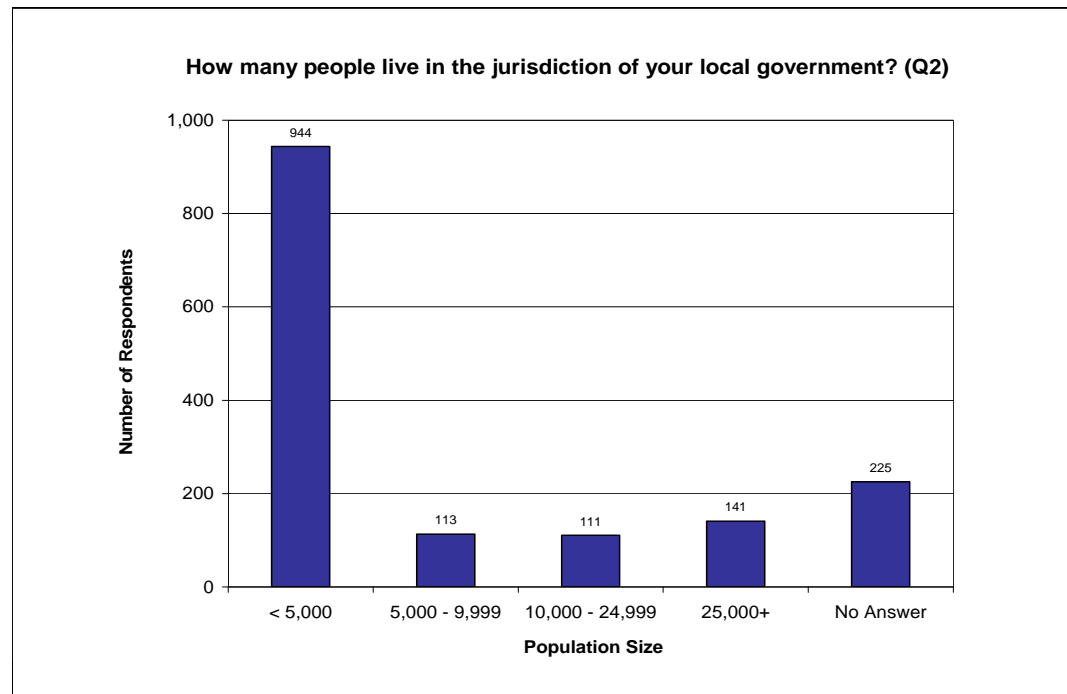


Exhibit 2

Section 1: Characteristics of the Respondents

Exhibit 3 shows the respondents by population size and type of government. Over half of the respondents represented municipal and township governments. Another third represented special districts, and the remainder represented county governments.

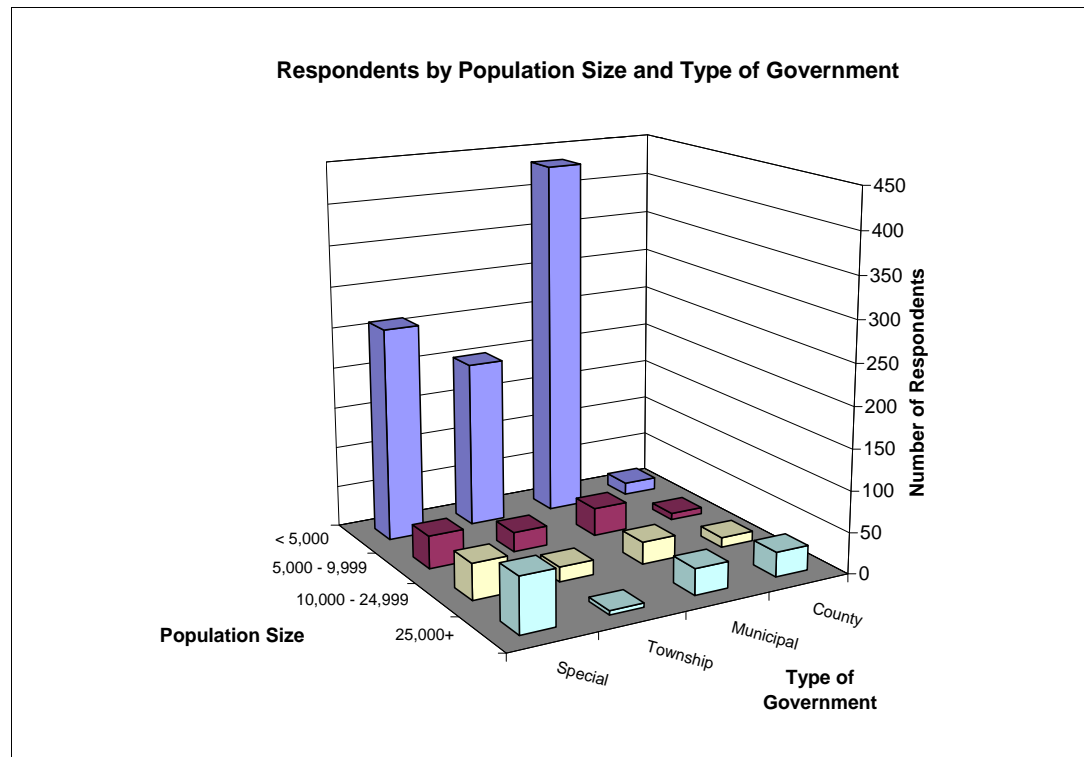
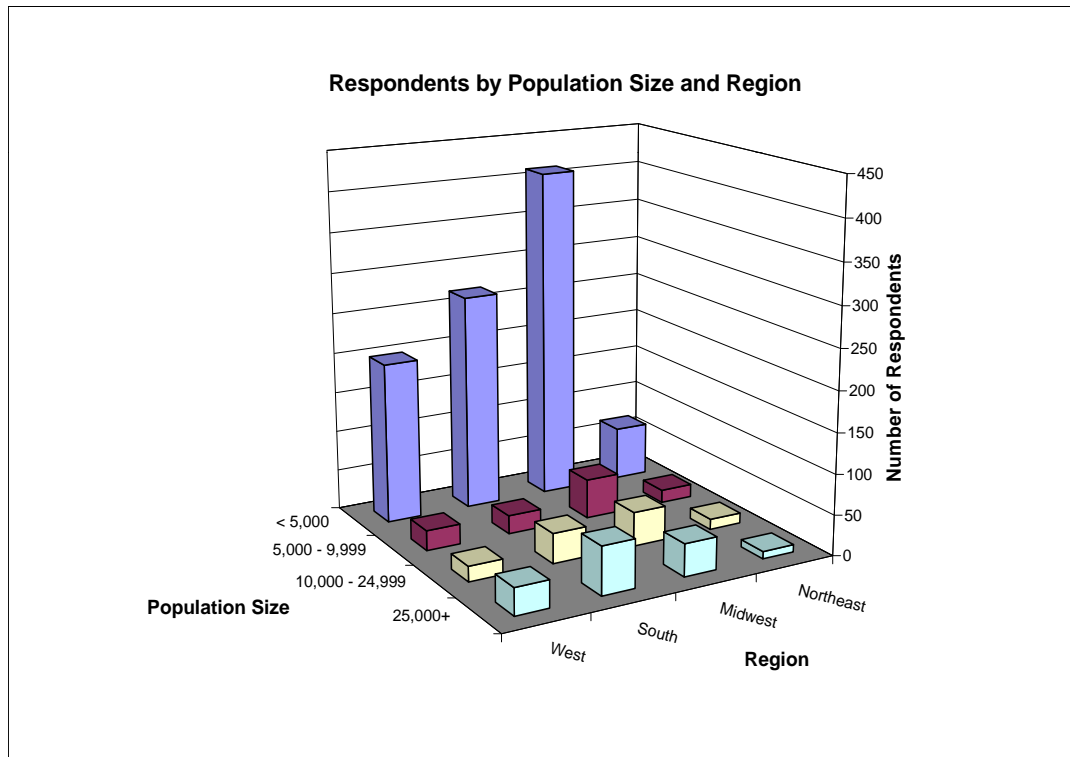


Exhibit 3

Section 1: Characteristics of the Respondents

Exhibit 4 shows the distribution of the respondents by population size and region. It's interesting to note that the bulk of the smaller respondents represent jurisdictions in the South and Midwest. In addition, a relatively small number of respondents were from the Northeast.



Census Bureau Regions

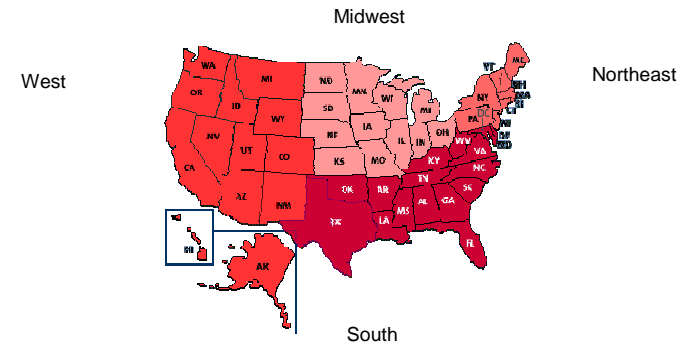


Exhibit 4

Section 1: Characteristics of the Respondents

Exhibit 5 shows the distribution of respondents by the number of employees working for the local government. This exhibit highlights the large number of small governments with populations of less than 5,000. These generally employ fewer than 5 full-time workers. As will be discussed later in this report, this has implications regarding the provision of health care, which is different from the pattern shown by larger governments.

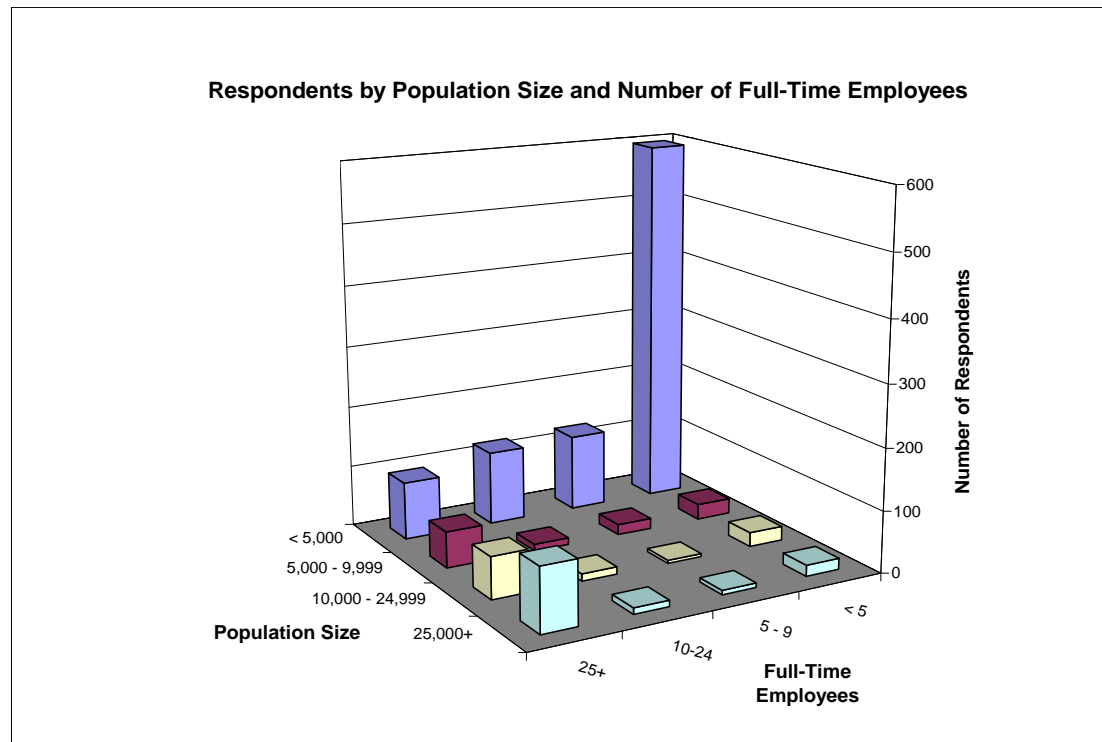


Exhibit 5

Section 2: Annual Revenues and Expected Changes

In order to help gauge the respondent governments' current fiscal capacity and potential future fiscal stress, the survey requested information about annual revenues for the most recently completed fiscal year and expected changes in next year's revenues and levels of employment. As shown in Exhibit 6, for the most recently complete fiscal year, 74% of the respondents had annual revenues of less than \$10 million, 13% had revenues between \$10 million and \$100 million, and 2% had revenues of \$100 million or more. (Note: percentages may not always equal 100% because of rounding error.)

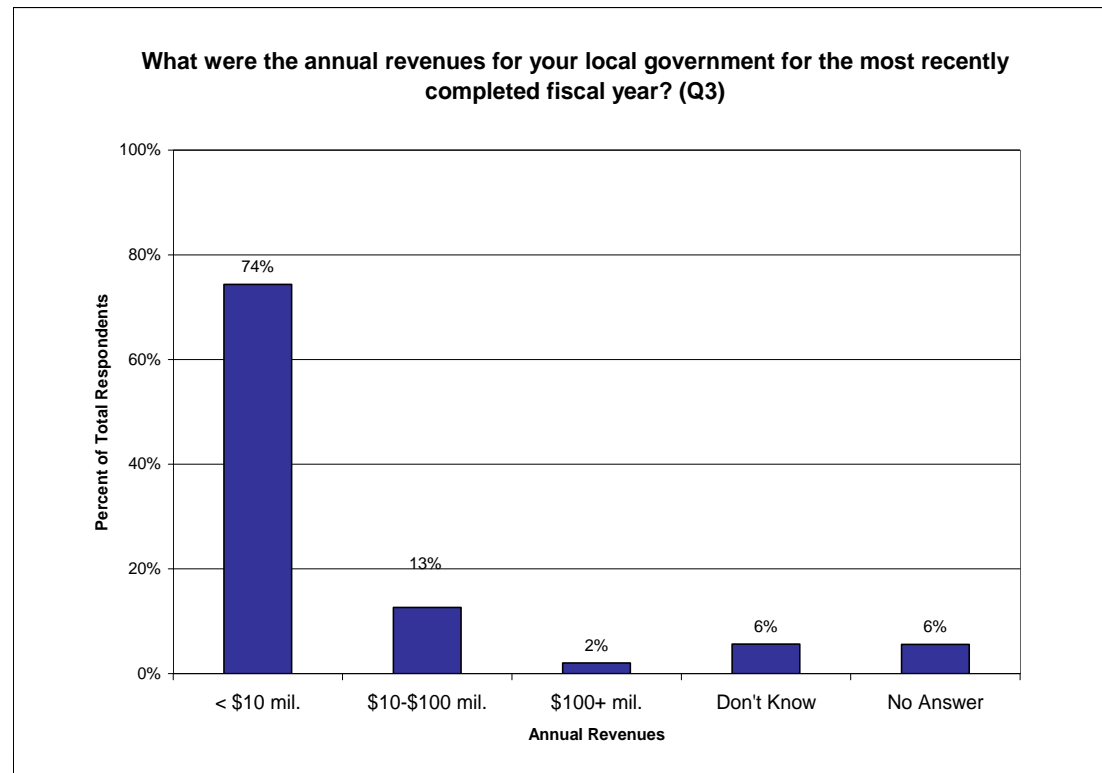


Exhibit 6

Section 2: Annual Revenues and Expected Changes

Exhibit 7 shows the distribution of respondents by population and annual revenues. Most respondents represent local governments with annual revenues of less than \$10 million. These governments conform to the GASB's definition of "Phase 3" governments, for which the GASB's Statement 45 on OPEB accounting standards apply for financial reporting periods beginning after December 15, 2008. Unlike larger governments, many of the small respondent governments that provide retiree health care have yet to calculate their OPEB liabilities, as discussed later in this report.

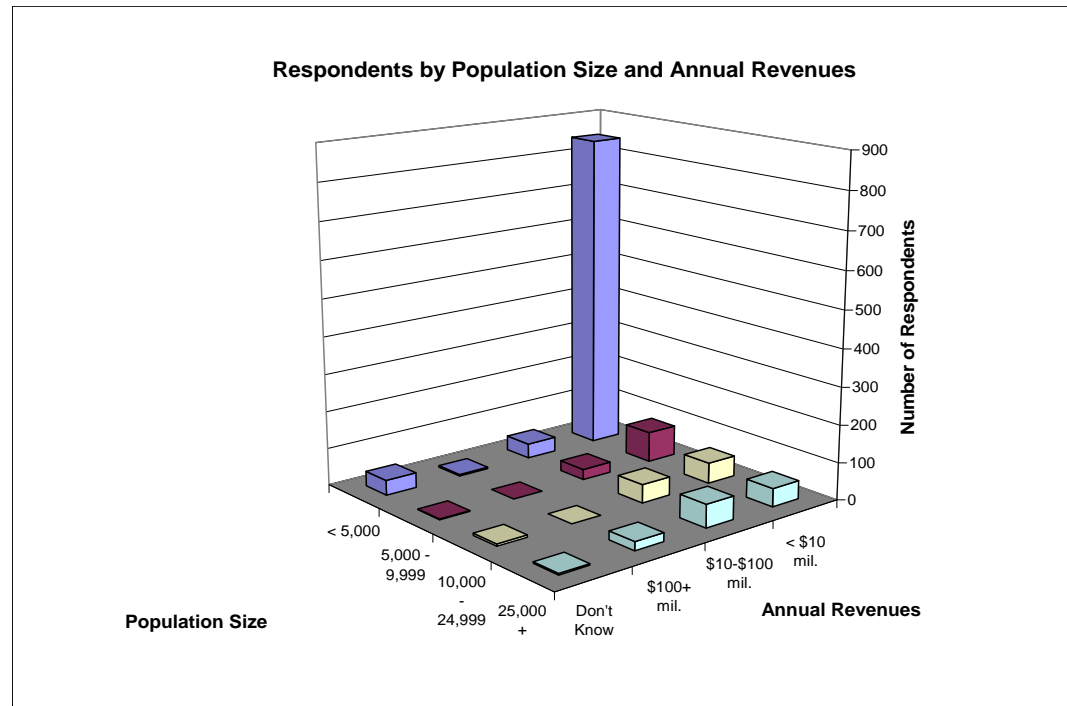


Exhibit 7

Section 2: Annual Revenues and Expected Changes

Exhibit 8 shows respondents by annual revenues and major geographic region.

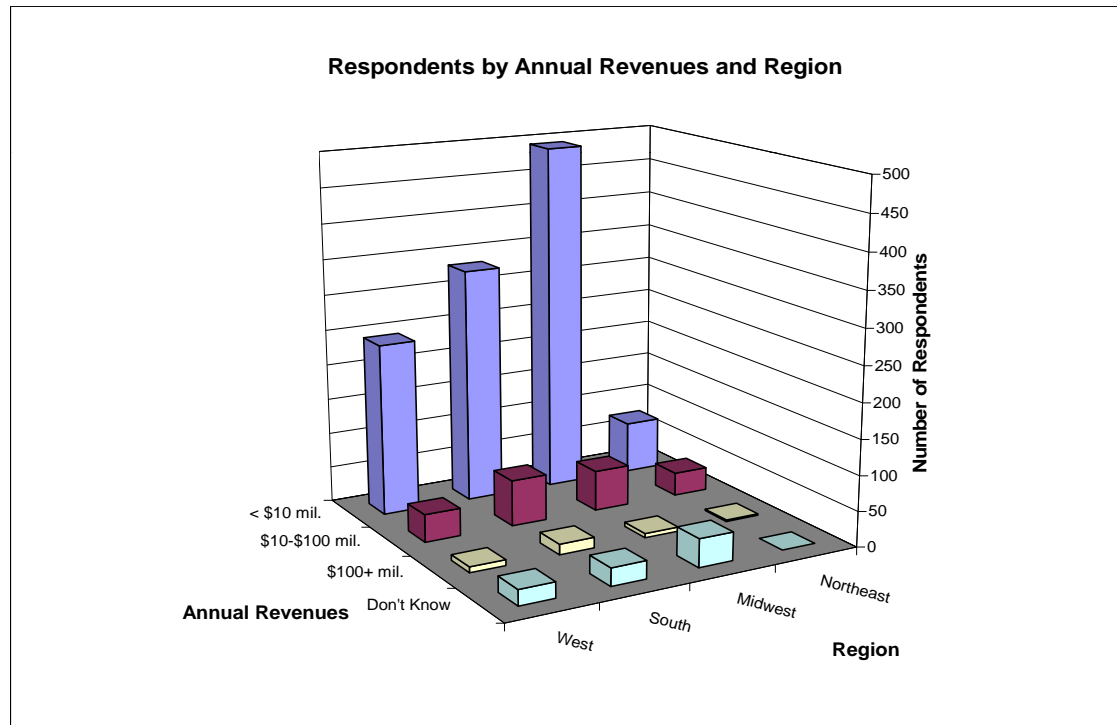


Exhibit 8

Section 2: Annual Revenues and Expected Changes

Exhibit 9 shows respondents by annual revenues and type of government.

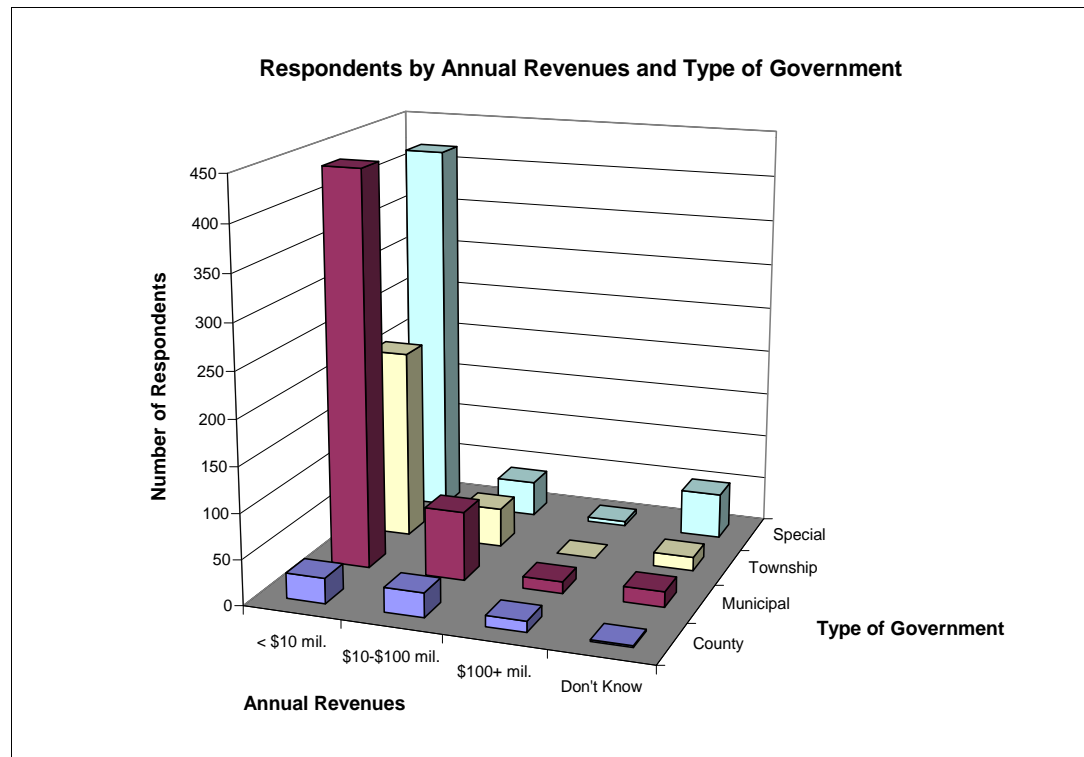


Exhibit 9

Section 2: Annual Revenues and Expected Changes

Exhibit 10 shows the distribution of respondents by expected changes in next year's level of revenues. Interestingly, 47% of the respondents expect revenues to stay the same, and 22% expect revenues to increase. Only 16% expect revenues to decrease, another 10% are uncertain, and 4% did not respond to the question.

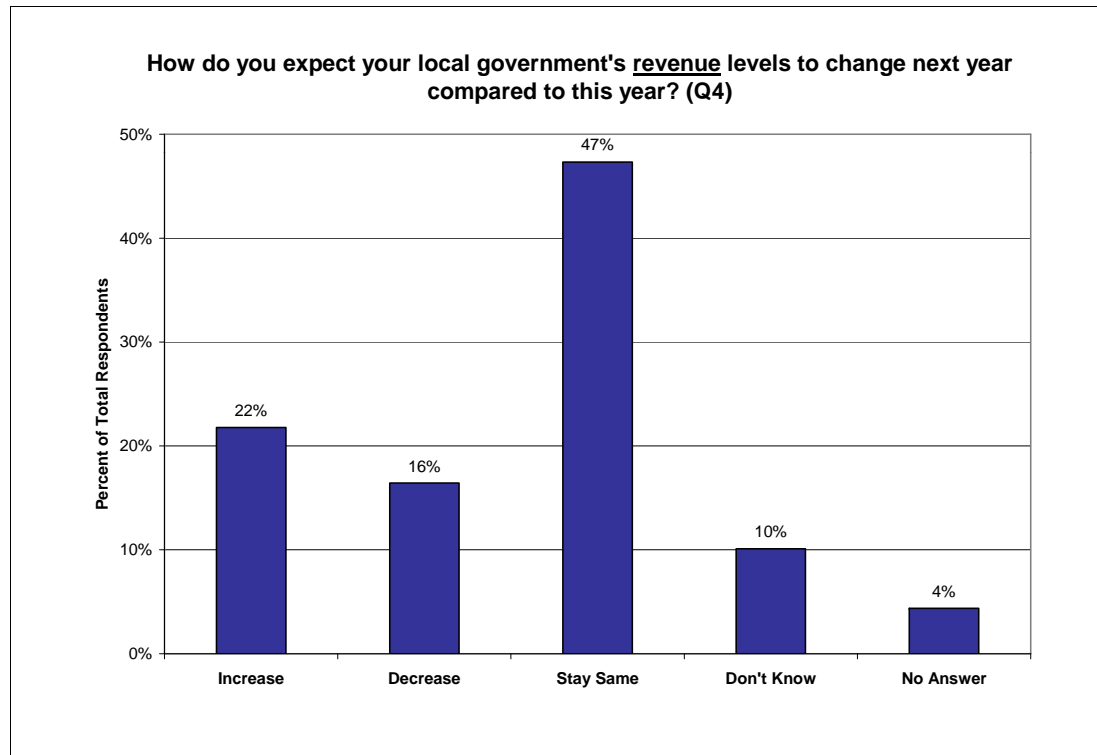


Exhibit 10

Section 2: Annual Revenues and Expected Changes

Exhibits 11, 12, and 13 show expected changes in revenues by different groups of respondents. Exhibit 11 shows that over 40% of the respondents with populations of 25,000 or more expect revenues to increase next year, compared with less than 20% of respondents with populations of 5,000 or less. Roughly the same proportion (15% to 20%) of respondents in all population categories expect revenues to decrease.

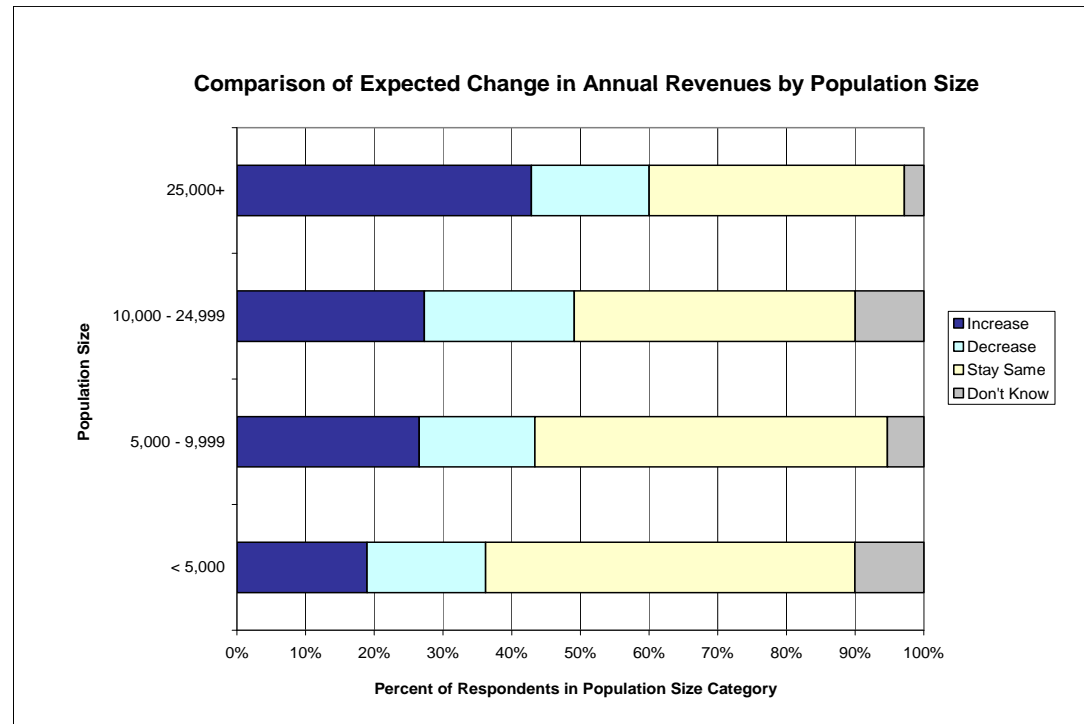


Exhibit 11

Section 2: Annual Revenues and Expected Changes

While larger governments appear more likely to expect revenues to increase next year, there does not appear to be a relationship between expected revenue changes and geographic region. Exhibit 12 shows that between 40% and 50% of respondents in all four major geographic regions expect revenues to stay the same next year; between 20% and 30% expect revenues to increase; and between 15% and 20% expect revenues to decrease.

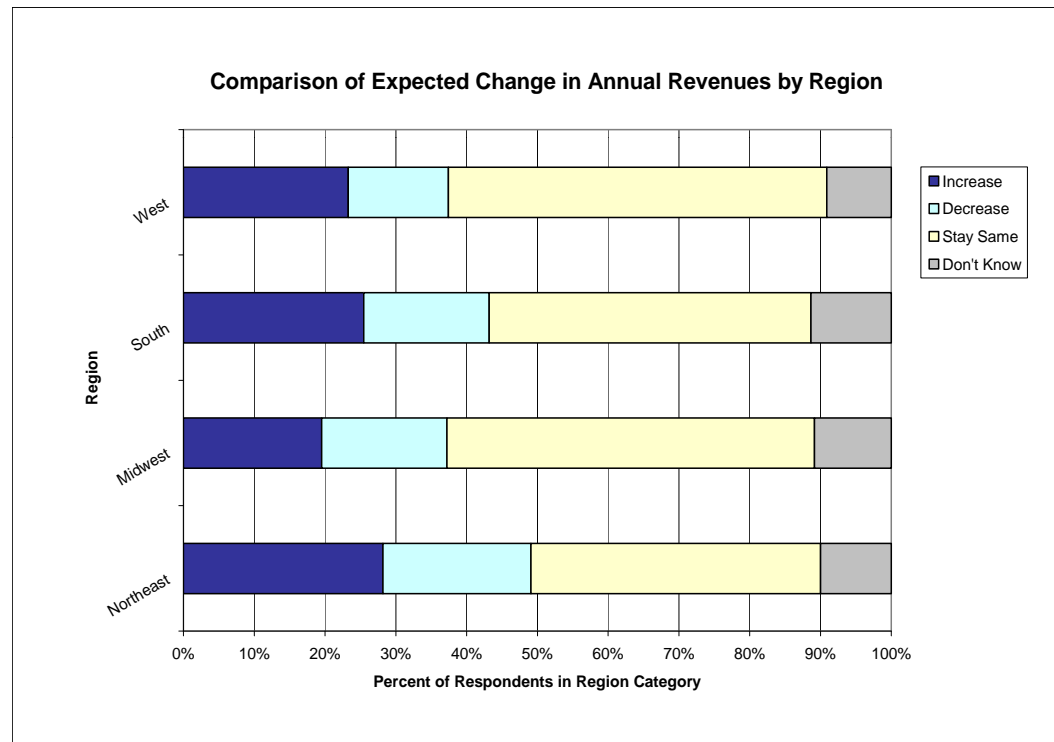


Exhibit 12

Section 2: Annual Revenues and Expected Changes

Exhibit 13 shows that respondents representing county governments were somewhat more likely to expect revenues to increase next year than were those representing other governments. On average, 33% of county respondents expect revenues to increase compared with between 20% and 25% of respondents representing other governments.

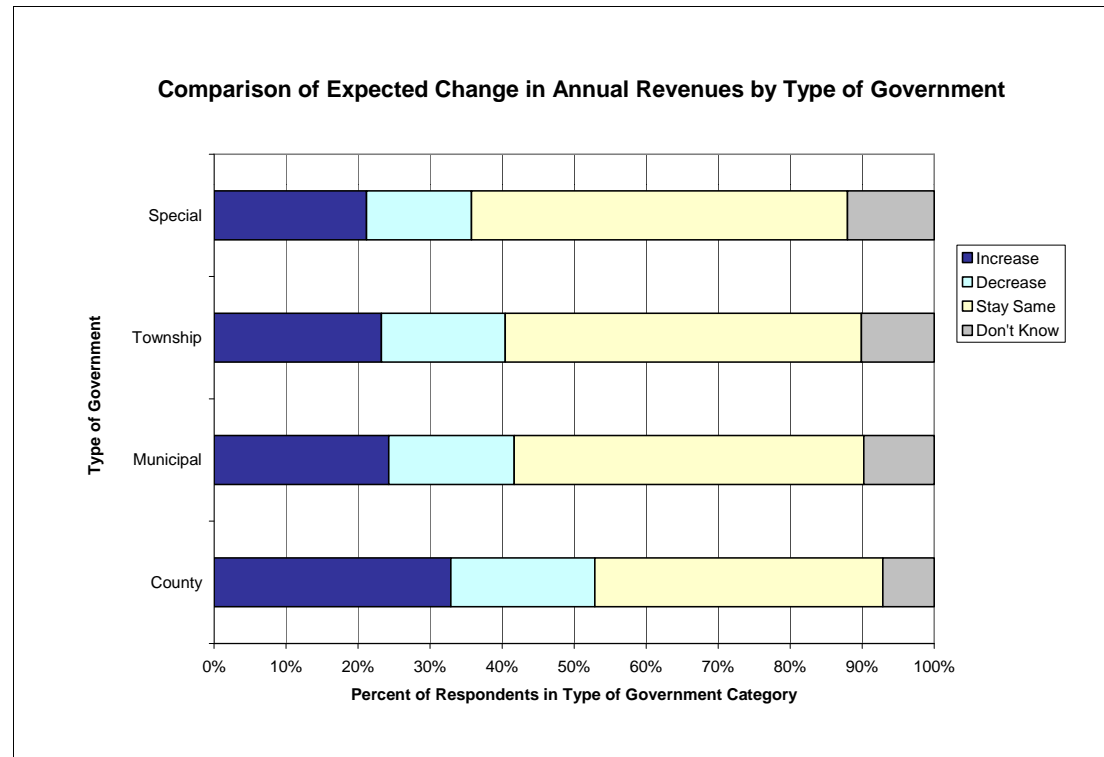


Exhibit 13

Section 2: Annual Revenues and Expected Changes

Exhibit 14 shows the distribution of respondents by the expected change in next year's level of government employment and indicates that the vast majority of respondents (78%) expect next year's employment levels to stay the same. Larger governments are twice as likely to be increasing or decreasing employment levels than the overall respondents report below.

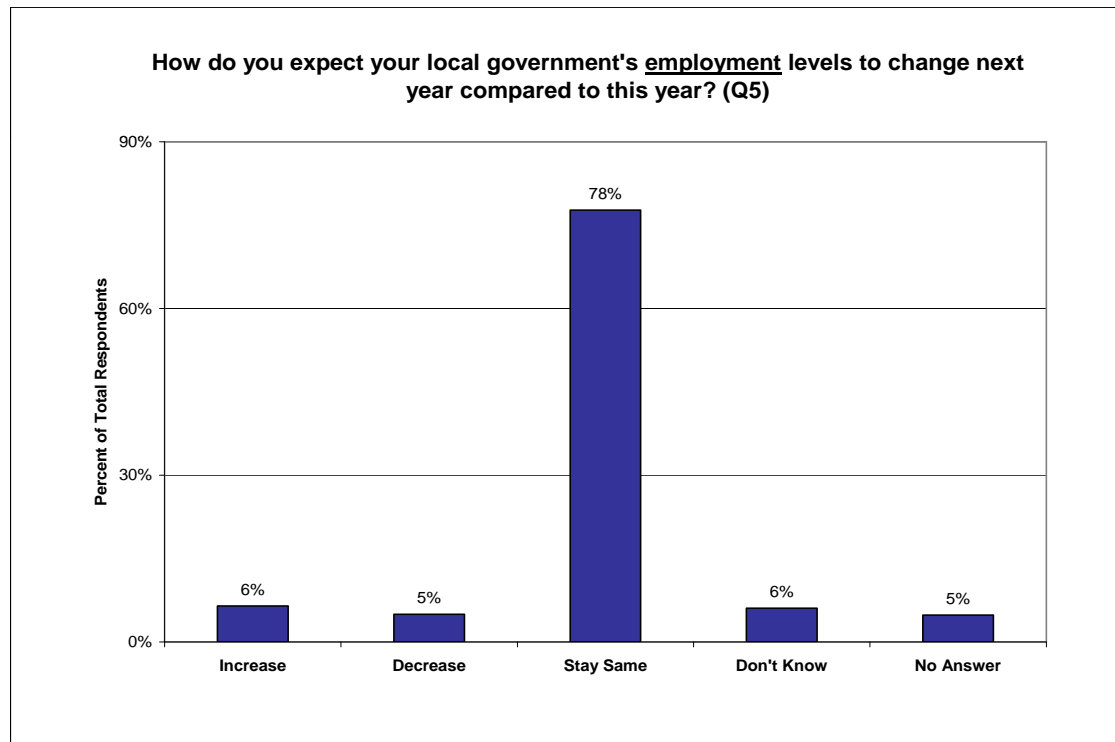


Exhibit 14

Section 2: Annual Revenues and Expected Changes

To the extent the governmental workforce is expected to change, Exhibit 15 shows that it will most likely involve the consolidation of public services, outsourcing, and the greater use of part-time and temporary positions. Note that 6% of the respondents expect to see an increase in their full-time positions. Larger governments are more likely to consolidate/share services and send services out to contract.

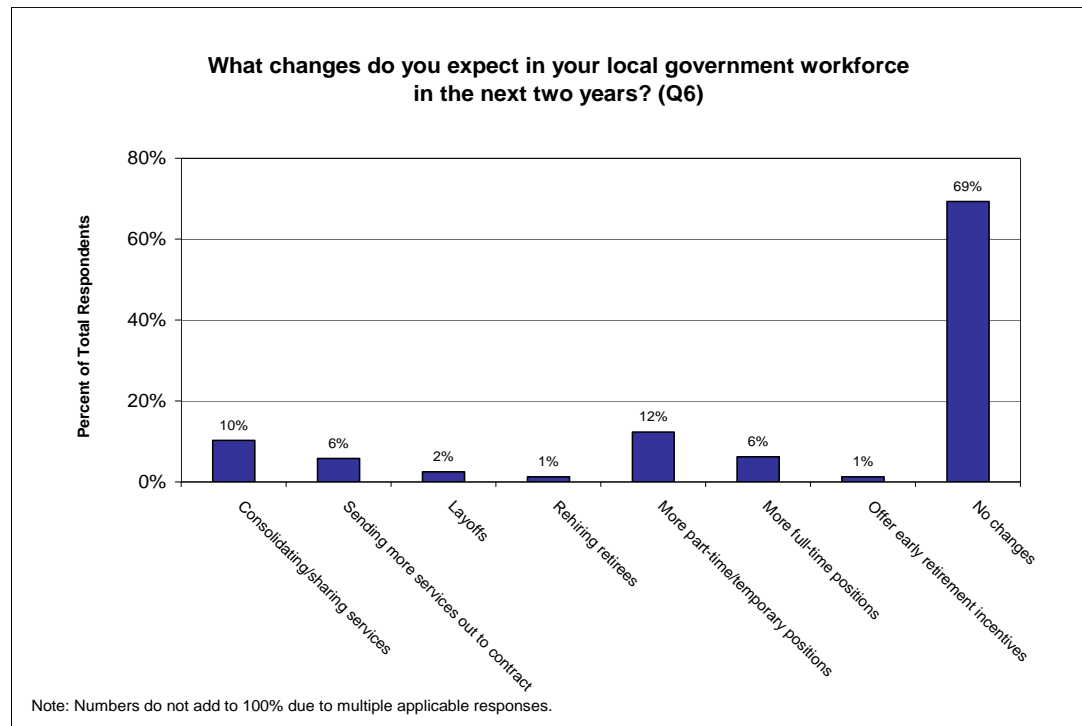


Exhibit 15

Section 2: Annual Revenues and Expected Changes

There appears to be little current movement among smaller respondents to change their long-term benefit policies. Exhibit 16 shows that while 6% of the respondents have adopted a formal policy to review long-term benefit costs and 16% have plans to do so in the future, the vast majority have not adopted a formal policy and have no future plans. For larger governments, just over 50% have adopted such policies or plan to do so.

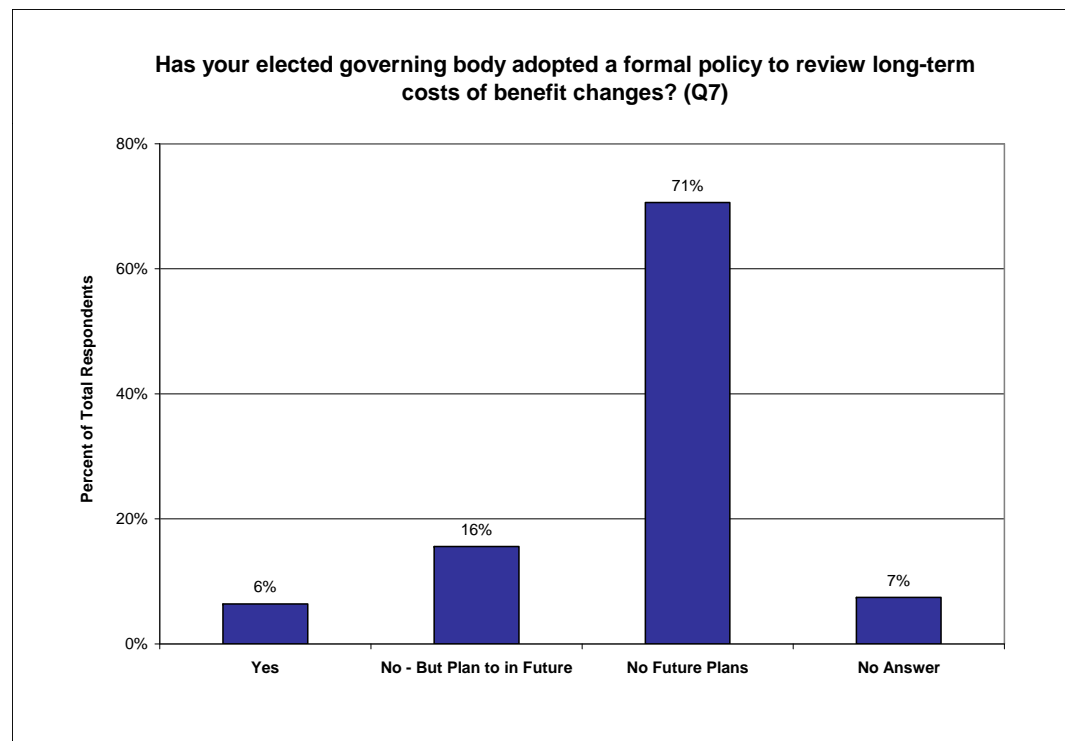


Exhibit 16

Section 3: Provision of Health Care to Active Employees

One focus of the survey was to gauge the extent to which governments offer health care benefits. Exhibit 17 shows that a little over half (52%) of the respondents indicated they provide health care benefits to active employees. However, as discussed later, not all that offer health care for active members also offer it to retirees. The limited extent to which the respondent governments offer health care to active employees was unexpected and appears to be related to the size and type of respondent governments, as discussed in the next slides.

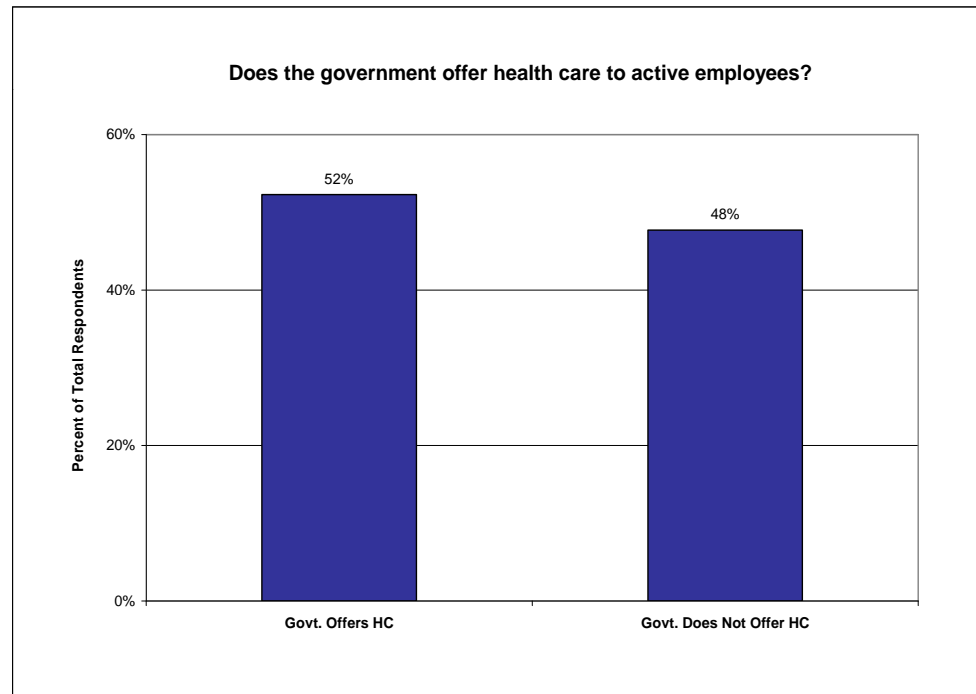


Exhibit 17

Section 3: Provision of Health Care to Active Employees

Exhibit 18 shows the extent to which different sized governments offer health care benefits to active employees. Interestingly, the vast majority (over 85%) of governments serving populations of 10,000 or more provide health care benefits to active employees. However, only about 45% of respondent governments serving populations of less than 5,000 provide health care to active employees.

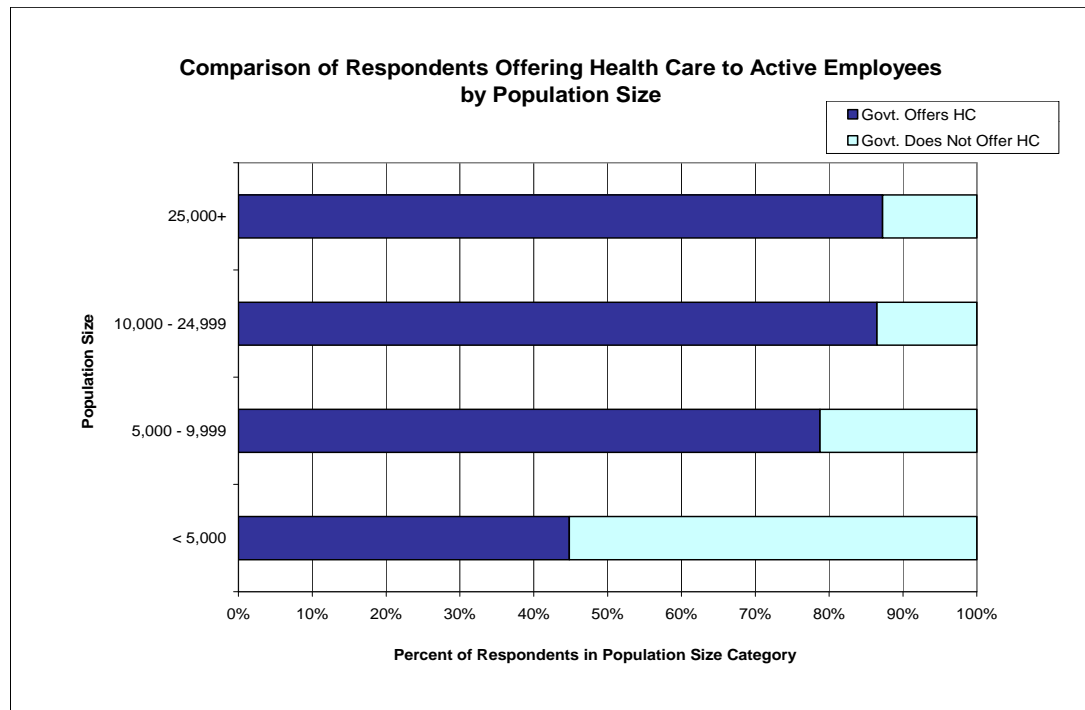


Exhibit 18

Section 3: Provision of Health Care to Active Employees

Exhibit 19 shows the extent to which the respondents' provision of active employee health care varies by major geographic region. Over 80% of respondents from the Northeast offer health care to active employees, compared with about 60% for Southern respondents and 50% for Western respondents. Only 40% of respondents from the Midwest offer health care to active employees; however, this may reflect the relatively large proportion of Midwest respondents representing small governments with populations of less than 5,000.

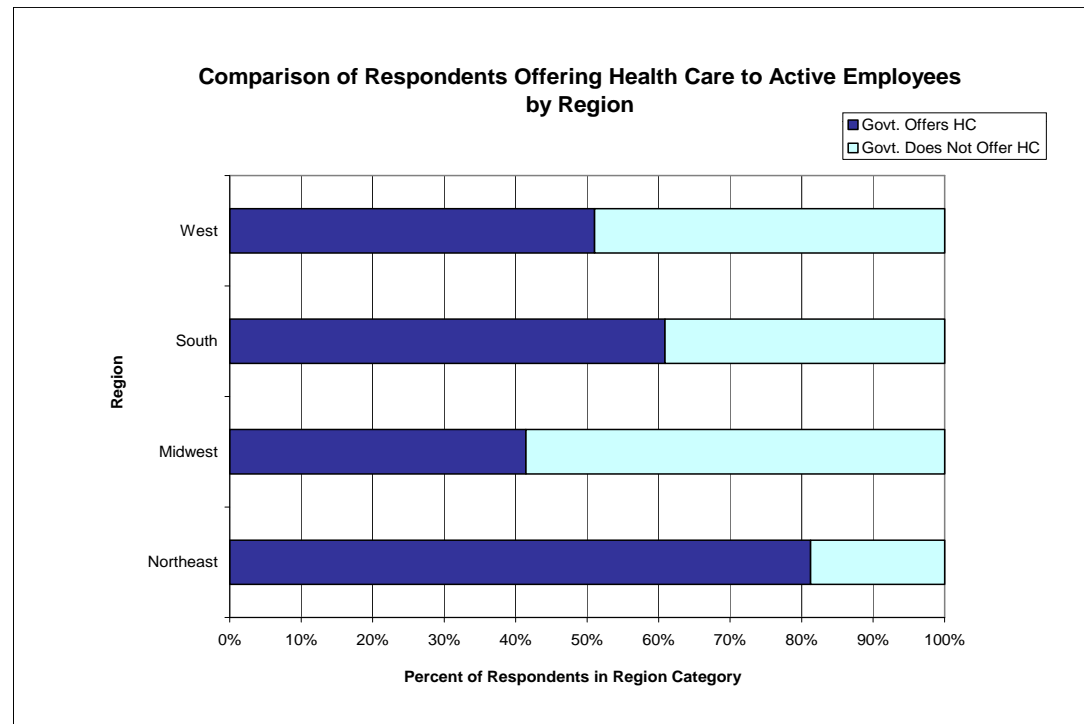


Exhibit 19

Section 3: Provision of Health Care to Active Employees

Exhibit 20 shows that the vast majority of respondents representing county governments (96%) provide health care to active employees. Smaller proportions of respondents from municipal governments, townships, and special districts offer health care to active employees. However, readers should note that the respondents in these categories generally represent smaller governments. Consequently, care should be taken in extrapolating these results to municipalities, townships, and special districts as a whole.

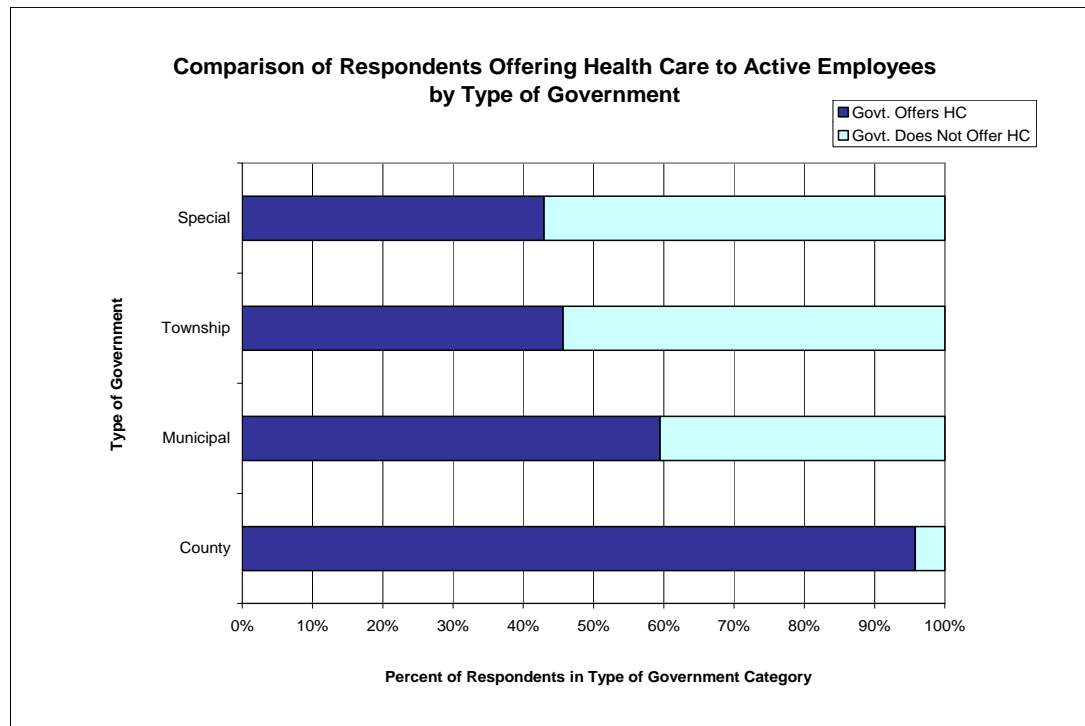


Exhibit 20

Section 3: Provision of Health Care to Active Employees

For the government respondents that provide health care to active employees, Exhibit 21 shows the percentage of the premium paid by the local government. The vast majority of these respondents (74%) pay between 81% and 100% of the premium. Most of the remaining respondents pay more than 60% of the premium.

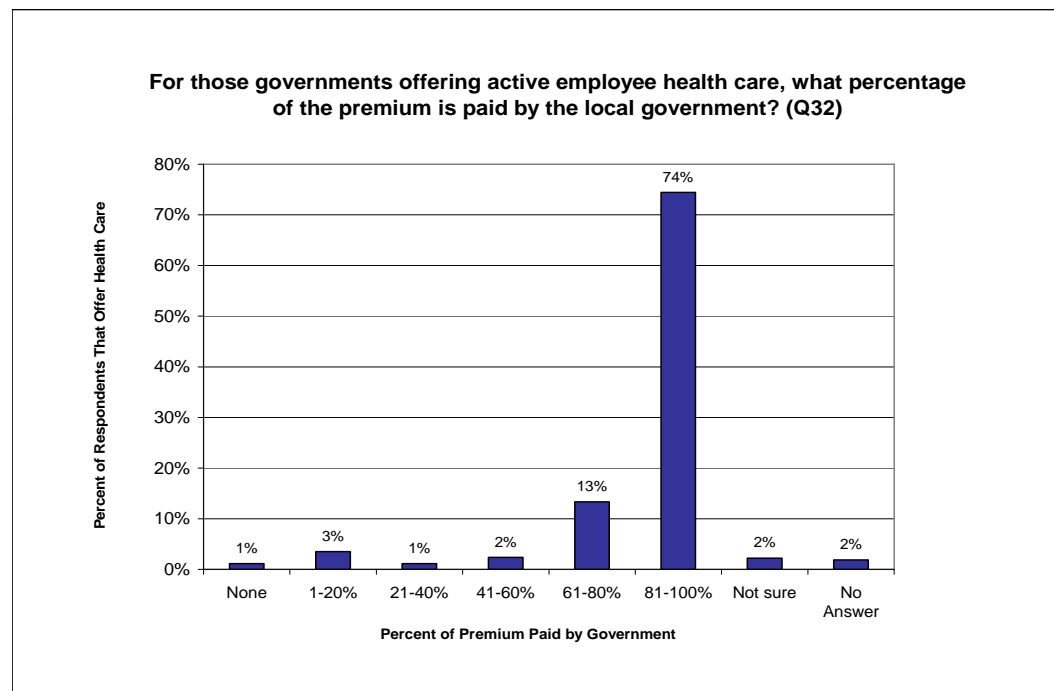


Exhibit 21

Section 3: Provision of Health Care to Active Employees

For the government respondents that provide health care to active employees, Exhibit 22 shows the means of purchasing the care. Approximately one-third (34%) purchase health care as a single employer and 29% purchase health care through a coalition. Another 15% purchase health care through the state, and 19% use some other means. Most larger local governments purchase health benefits as single employers.

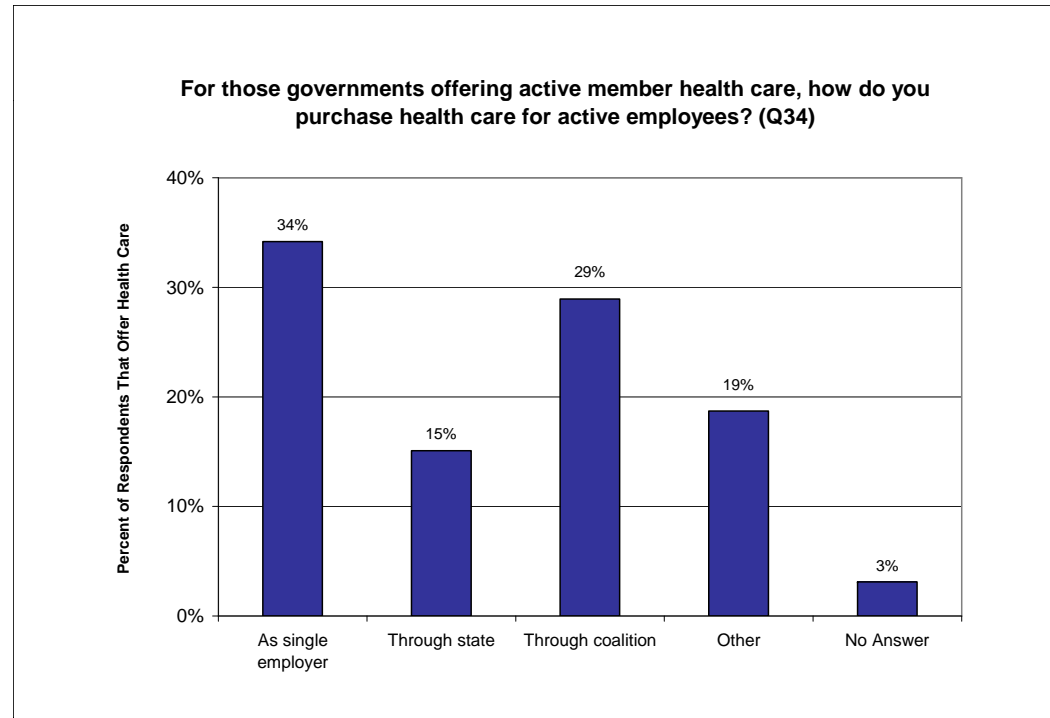


Exhibit 22

Section 4: Provision of Health Care to Retirees

Another surprising result of the study is the small percentage of respondent governments that indicated they provide retiree health care. As shown in Exhibit 23, only 241 of the total respondents (16%) reported they provide health care for retirees. Of these, 152 indicated they provide health care to both Medicare-eligible retirees and pre-Medicare eligible retirees. Another 67 provide retiree health care only to pre-Medicare eligible retirees, and 22 provide it only to Medicare-eligible retirees.

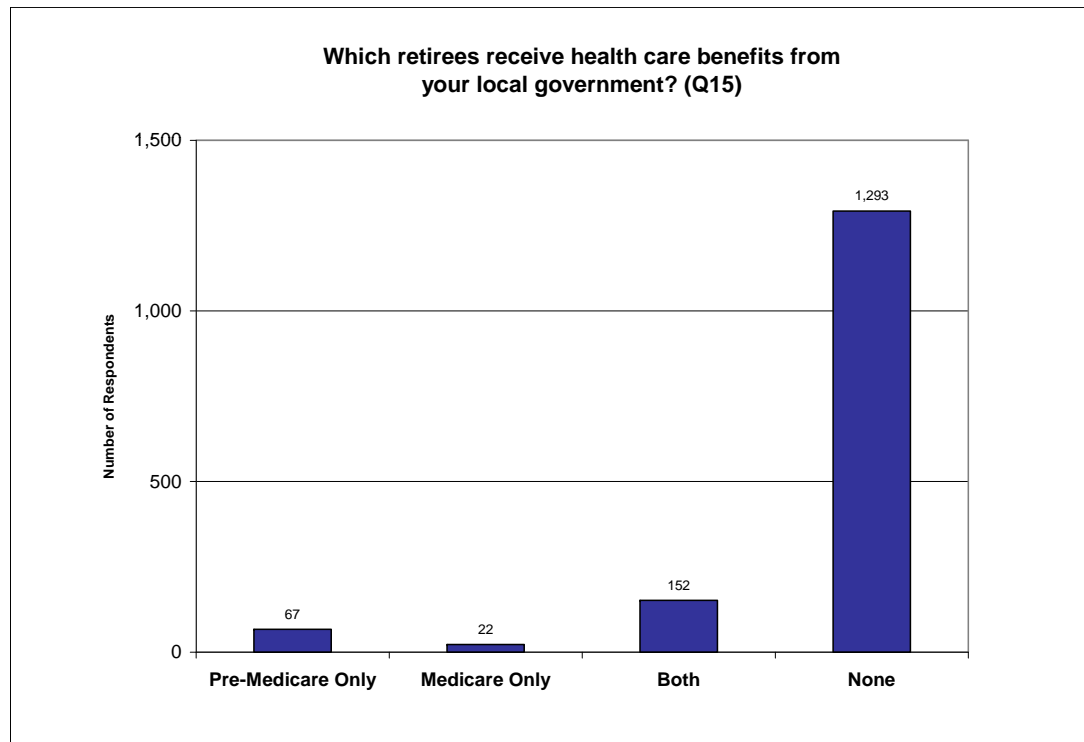


Exhibit 23

Section 4: Provision of Health Care to Retirees

Exhibit 24 shows a clear correlation between the size of the jurisdiction (measured by population) and the provision of retiree health care. Approximately half of the respondents from governments with populations of 25,000 or more provide retiree health care, compared with about 35% for governments with populations between 10,000 and 24,999, and 30% for governments with populations between 5,000 and 9,999. Less than 10% of the respondents representing governments with populations of less than 5,000 provide retiree health care.

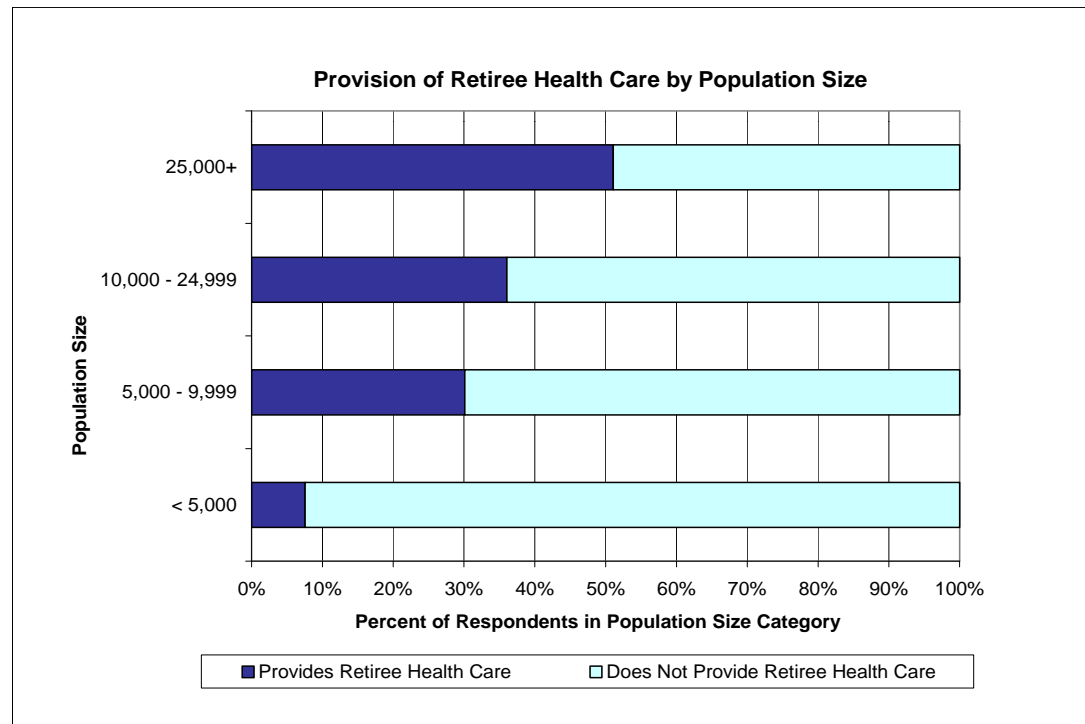


Exhibit 24

Section 4: Provision of Health Care to Retirees

Exhibit 25 shows that a larger percentage of respondents from the Northeast provide retiree health care (38%) than those from the other geographic regions. A smaller percentage of respondents from the West and Midwest provide retiree health care (9% and 12%, respectively), although this may have less to do with geographic region than the fact that many of the respondents from these regions represent governments with populations of less than 5,000.

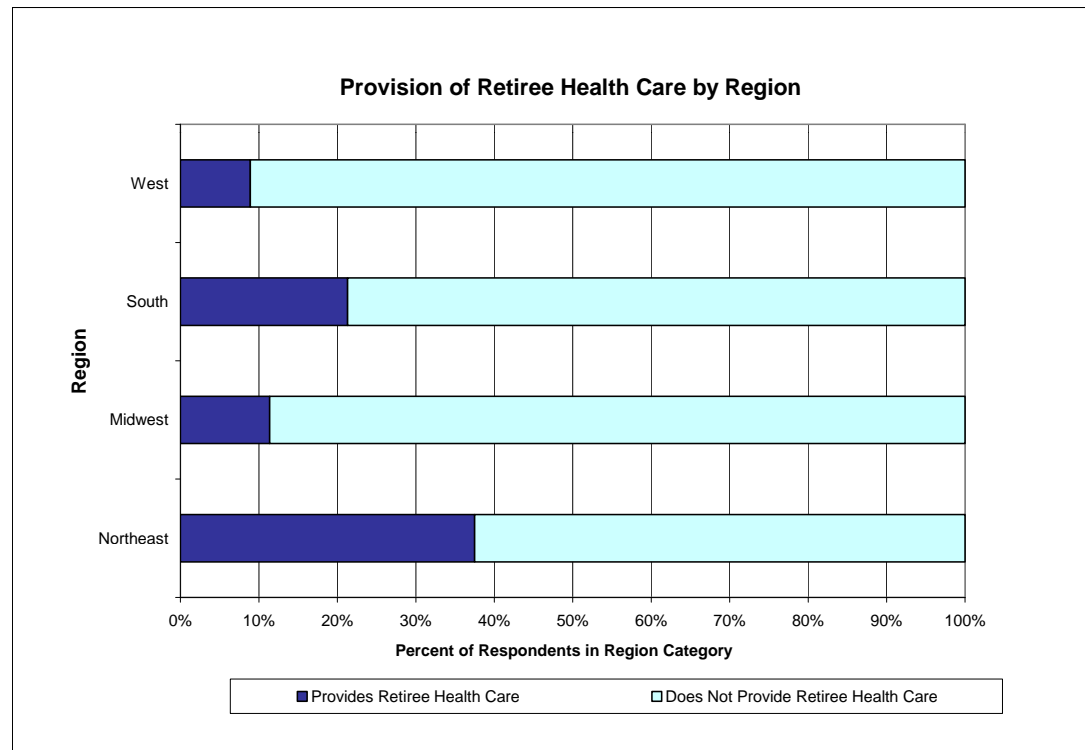


Exhibit 25

Section 4: Provision of Health Care to Retirees

As was the case with the provision of health care for active employees, county governments are also more likely to offer health care for retirees. Exhibit 26 shows that of the respondent county governments, 46% offer health care benefits for retirees. This compares with about 15% for municipalities and townships, and less than 10% for special districts.

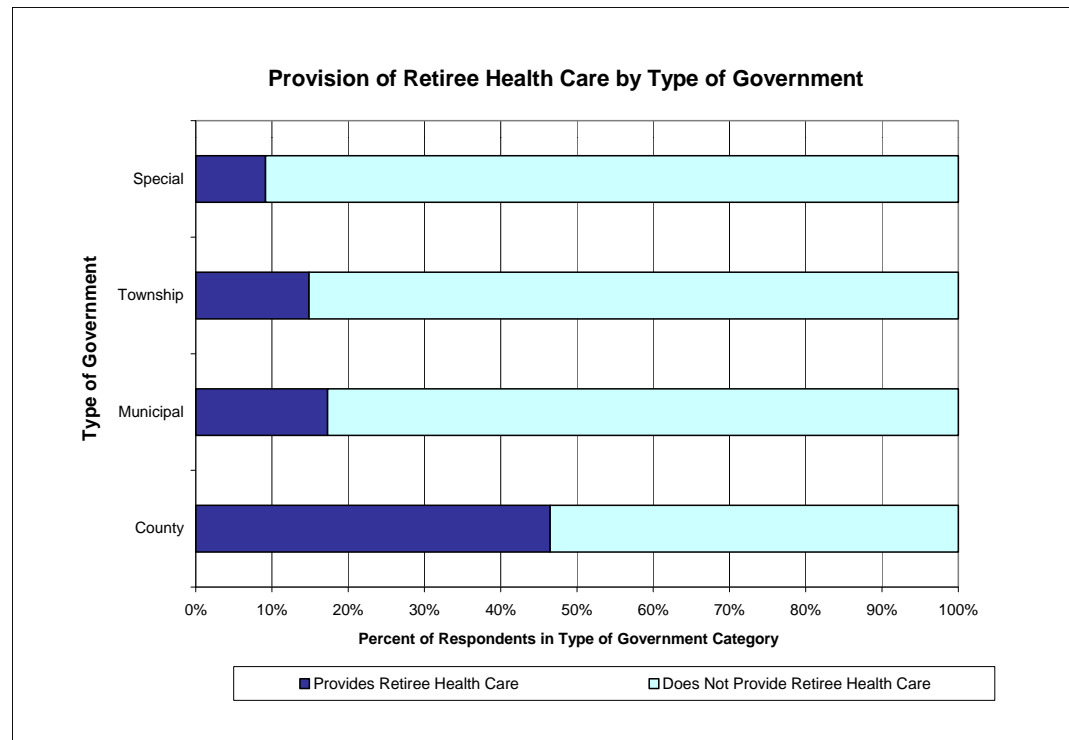


Exhibit 26

Section 4: Provision of Health Care to Retirees

Exhibit 27 shows that of the respondents offering health care for pre-Medicare eligible retirees, 34% pay between 81% and 100% of the premium, 27% pay a lesser percent of the premium, and 32% pay none of the premium. Those respondent governments paying none of the premium were essentially offering retirees access to active member group health coverage and so were likely offering what the GASB describes as an “implicit rate subsidy.” This means they offer access to health care coverage at a premium rate that blends active employee and retiree health care costs.

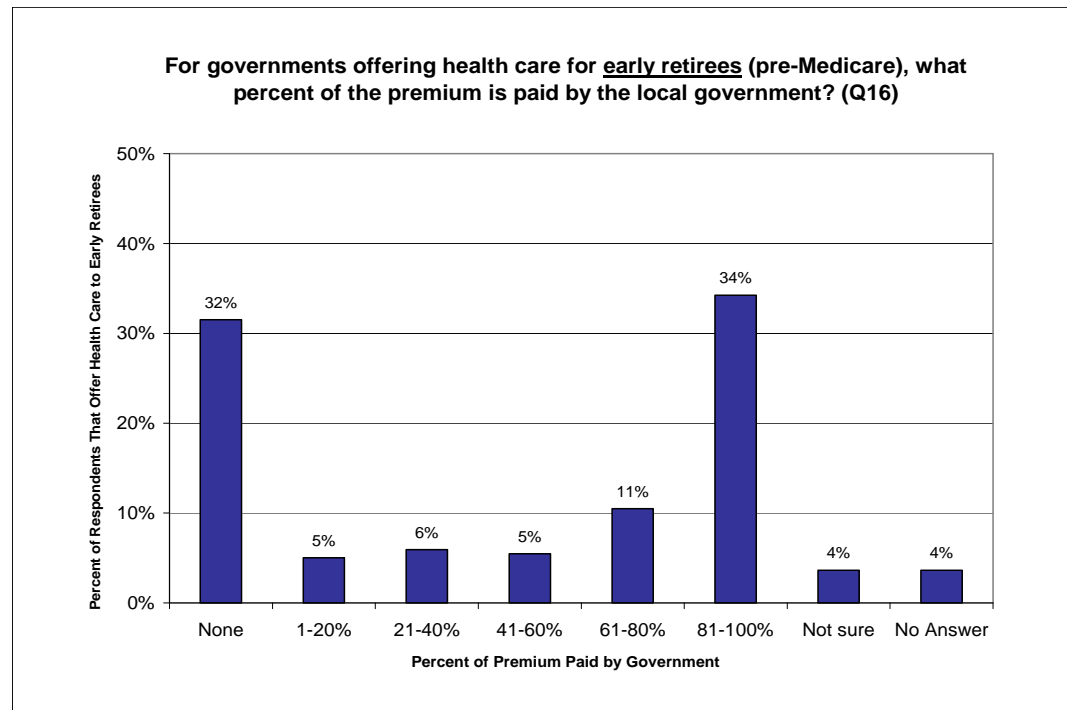


Exhibit 27

Section 4: Provision of Health Care to Retirees

Exhibit 28 shows that of the respondents offering health care coverage to Medicare-eligible retirees, 32% pay between 81% and 100% of the premium, 15% pay some lower share of the premium, and 39% pay none of the premium. Since insurance companies provide a separate rate for Medicare-eligible retirees, there is little (if any) implicit rate subsidy.

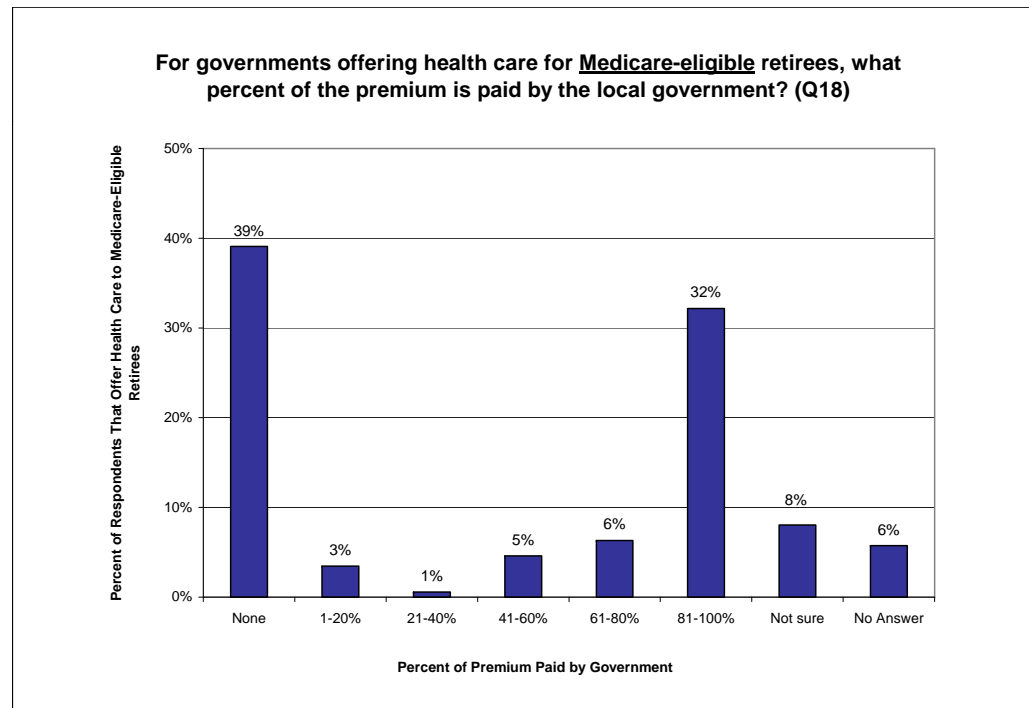


Exhibit 28

Section 4: Provision of Health Care to Retirees

Exhibit 29 shows that retiree health care premiums are the same as active member premiums for nearly half (48%) of the respondents that offer retiree health care. This supports the conclusion that many governments offering retiree health care do so using a premium rate that blends the costs of active and retired members. Retiree health care premiums are higher than active member premiums for 15% of the respondents and lower than active member premiums for 24% of the respondents.

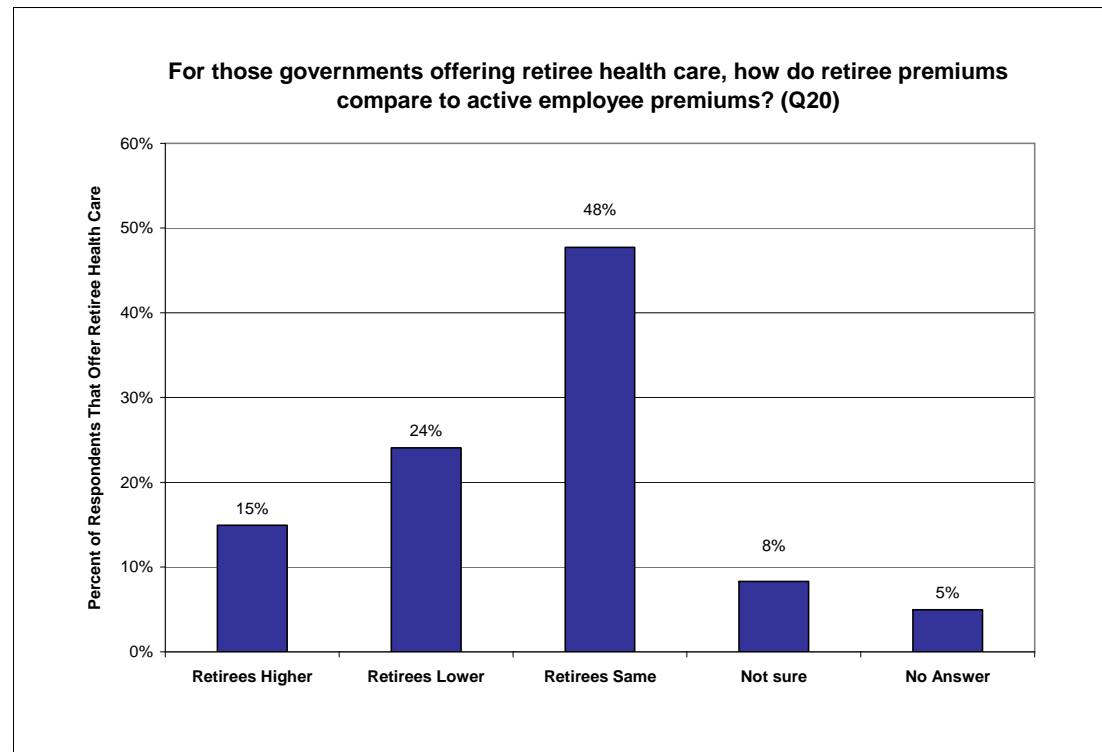


Exhibit 29

Section 4: Provision of Health Care to Retirees

Many of the respondents providing retiree health care purchased the care as a single employer, rather than through the state or a coalition. Exhibit 30 shows that of the respondents providing retiree health care, 43% purchased it as a single employer, 24% purchased it through a coalition, 19% through the state, and 11% through some other arrangement. Again, larger governments are much more likely to purchase health coverage on their own.

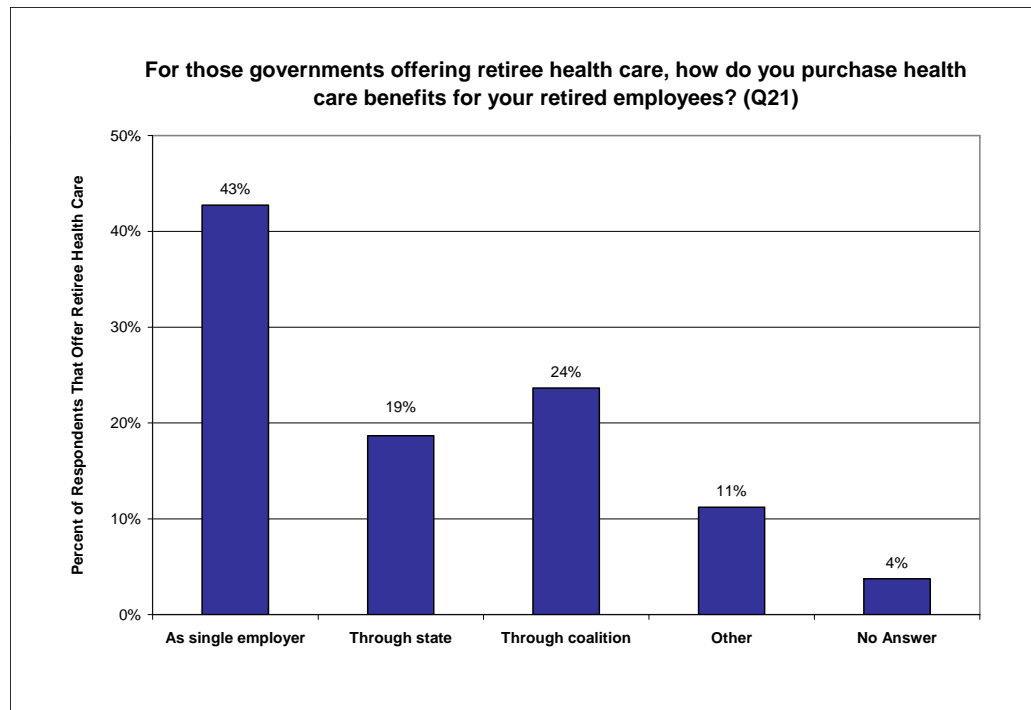


Exhibit 30

Section 5: Addressing GASB

Another goal of the survey was to determine the extent to which governments that provide retiree health care are aware of the related financial reporting requirements established by the Governmental Accounting Standards Board (GASB) in Statement No. 45. Exhibit 31 shows that of the respondents providing retiree health care, the vast majority (74%) are aware of Statement 45. Moreover, as the next slides show, many of the respondents that are not aware of Statement 45 represent very small jurisdictions and special districts.

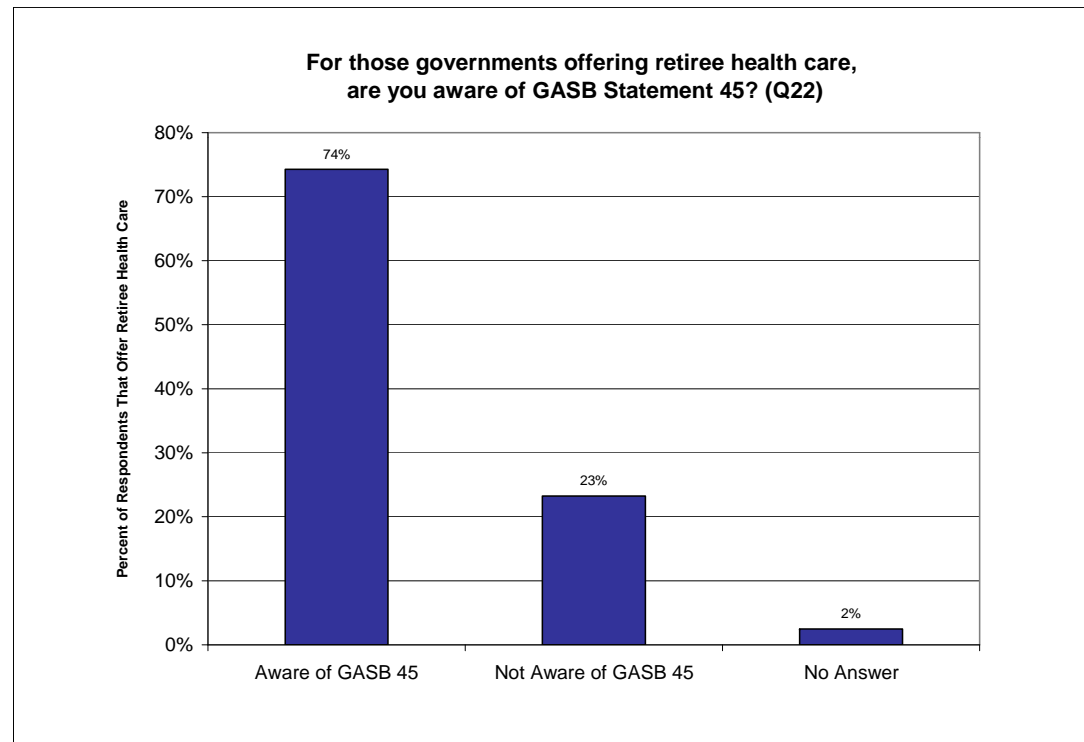


Exhibit 31

Section 5: Addressing GASB

Exhibit 32 compares respondents' awareness of GASB Statement 45 by size of jurisdiction. For respondents representing jurisdictions with populations of 10,000 or more, the vast majority (approximately 90% or more) are aware of Statement 45. Moreover, over 70% of respondents representing jurisdictions with populations between 5,000 and 9,999 are aware of Statement 45. However, only 60% of respondents representing the smallest jurisdictions are so aware.

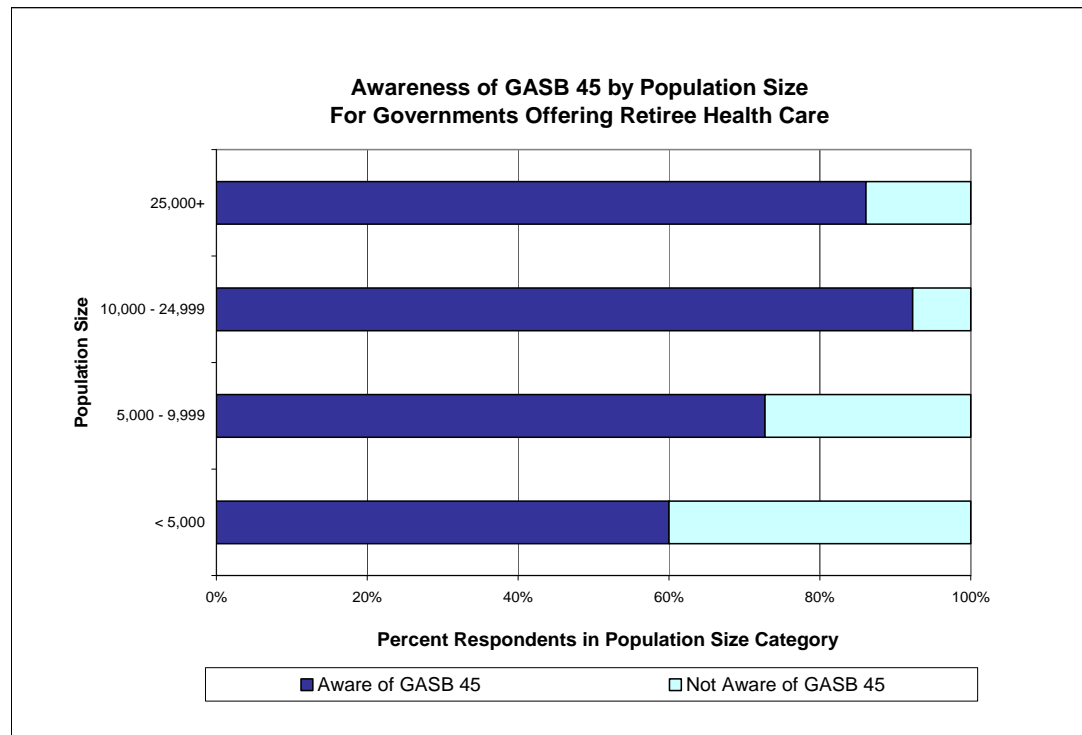


Exhibit 32

Section 5: Addressing GASB

Exhibit 33 shows that awareness of GASB Statement 45 does not vary much by major geographic region. Across all regions, between 75% and 80% of respondent governments offering retiree health care are aware of GASB Statement 45.

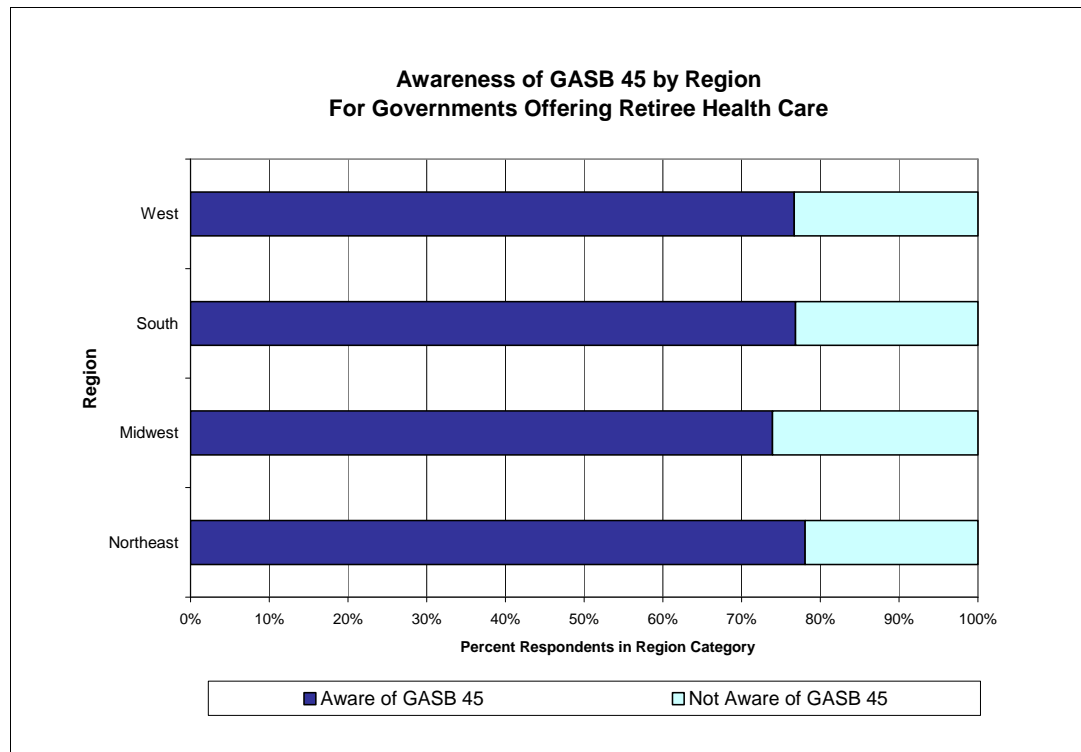


Exhibit 33

Section 5: Addressing GASB

Awareness of GASB Statement 45 does vary by type of government. Exhibit 34 shows that more than 75% of respondents from county, municipal, and township governments that offered retiree health care are aware of GASB Statement 45. However, less than 60% of respondents from special districts are aware.

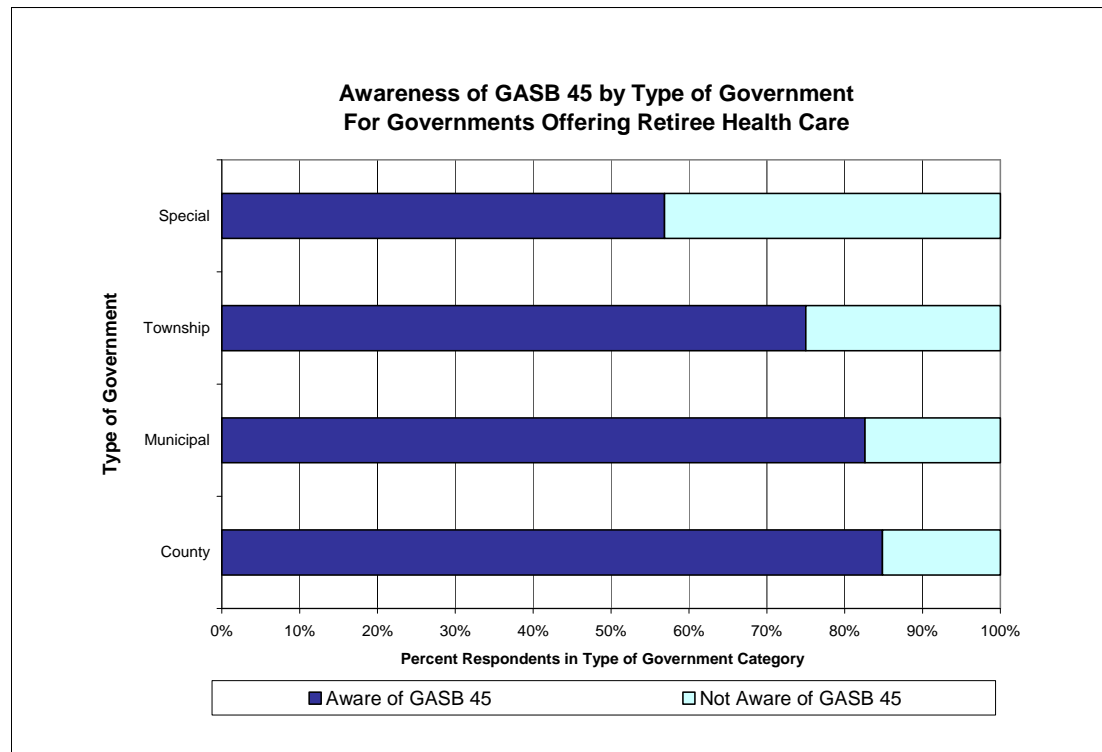


Exhibit 34

Section 5: Addressing GASB

Exhibit 35 shows that of the respondents offering retiree health care, 26% have calculated their OPEB liability and another 21% are in the process of calculating it. Another 27% have not calculated it; however, these generally represent the “Phase 3” governments who are required to report the OPEB calculations in their financial statements for periods beginning after December 15, 2008. A significant portion of the respondents (26%) providing retiree health care were not sure or did not respond to this question.

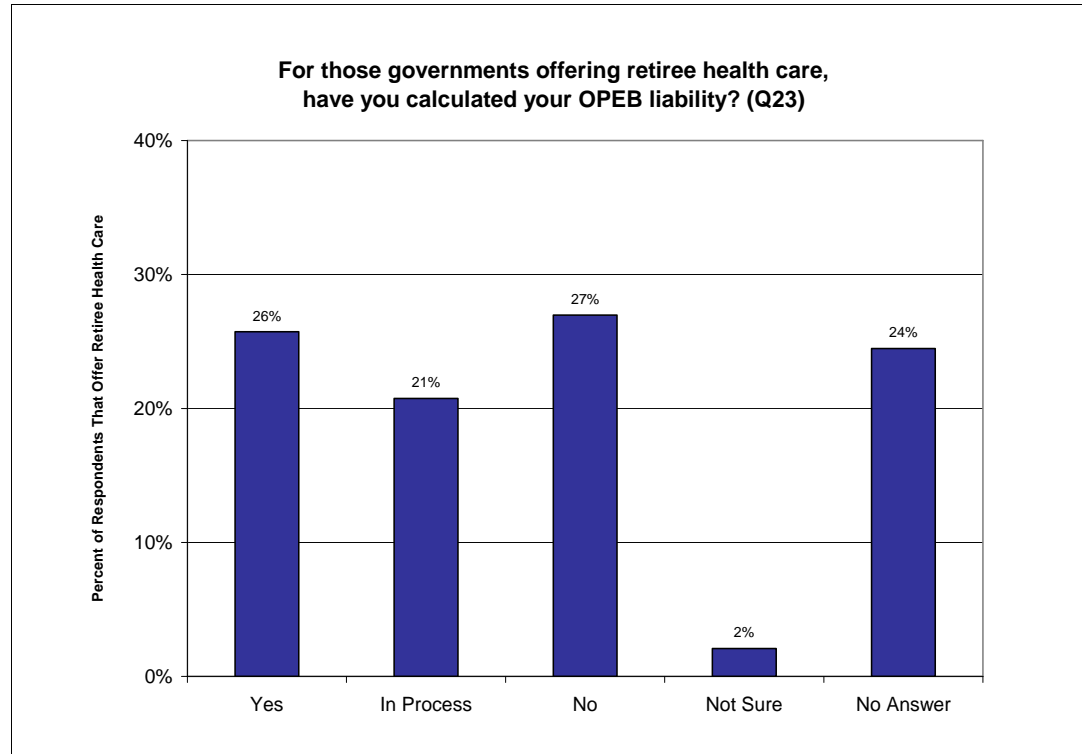


Exhibit 35

Section 5: Addressing GASB

Of the respondents that have calculated their OPEB liability, Exhibit 36 shows that the vast majority (82%) have liabilities of less than \$50 million. This reflects the fact that many of the respondents represent smaller local governments. For a few respondents, the OPEB liability extended beyond \$500 million.

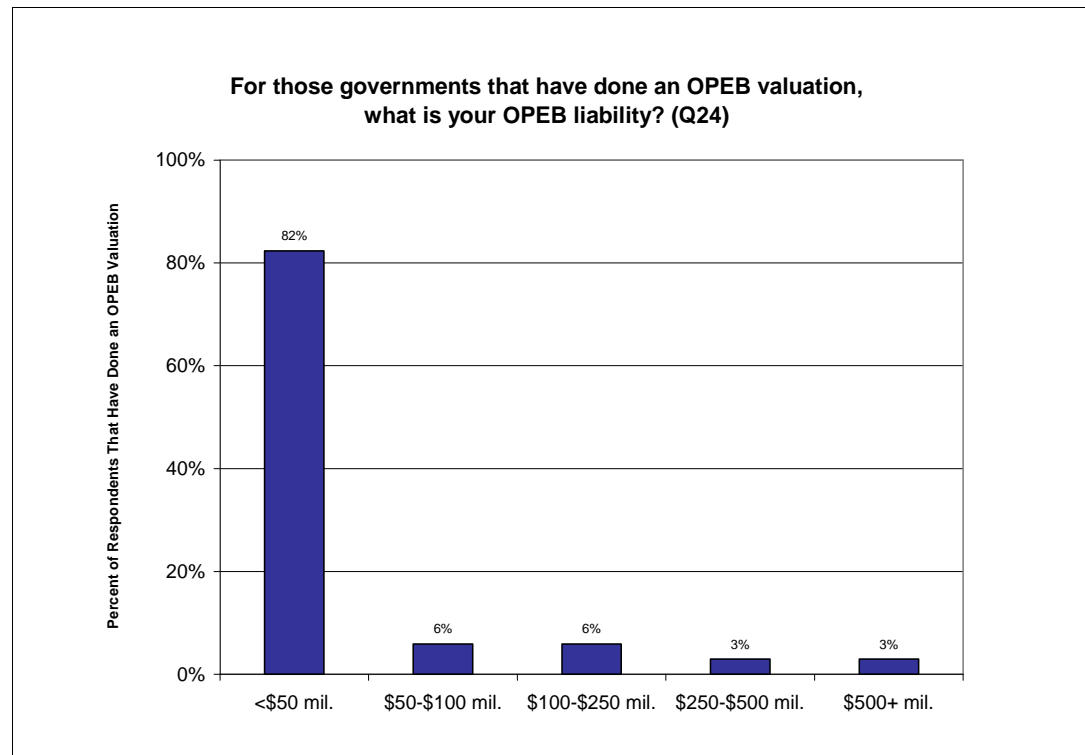


Exhibit 36

Section 5: Addressing GASB

Exhibit 37 shows that for the majority of respondents (75%) that have calculated their OPEB liability, the annual required contribution (ARC) related to retiree health care benefits is less than \$5 million. Again, this reflects the fact that the respondents generally represent smaller governments. Approximately 10% did not respond to this question.

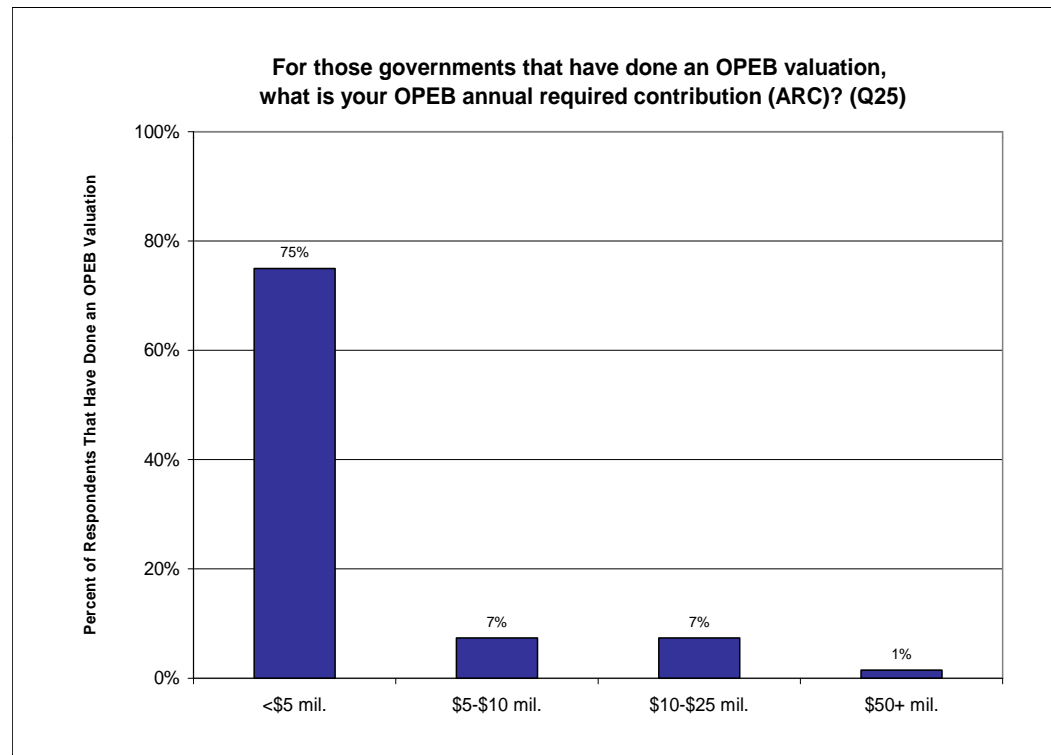


Exhibit 37

Section 5: Addressing GASB

For respondent governments providing retiree health care, there were several approaches with regard to financing the OPEB liability. Exhibit 38 shows that 21% indicated they would not pre-fund, but rather continue the pay-as-you-go approach. Only 8% indicated they would pay the full annually required contribution (ARC) to prefund benefits and another 6% indicated they would partially prefund the benefits. Another 20% indicated they had not yet determined their approach to funding. Larger governments were more likely to fully fund the ARC. Interestingly, none of the respondents indicated they plan to issue OPEB bonds to prefund the liability. About 40% did not respond to this question.

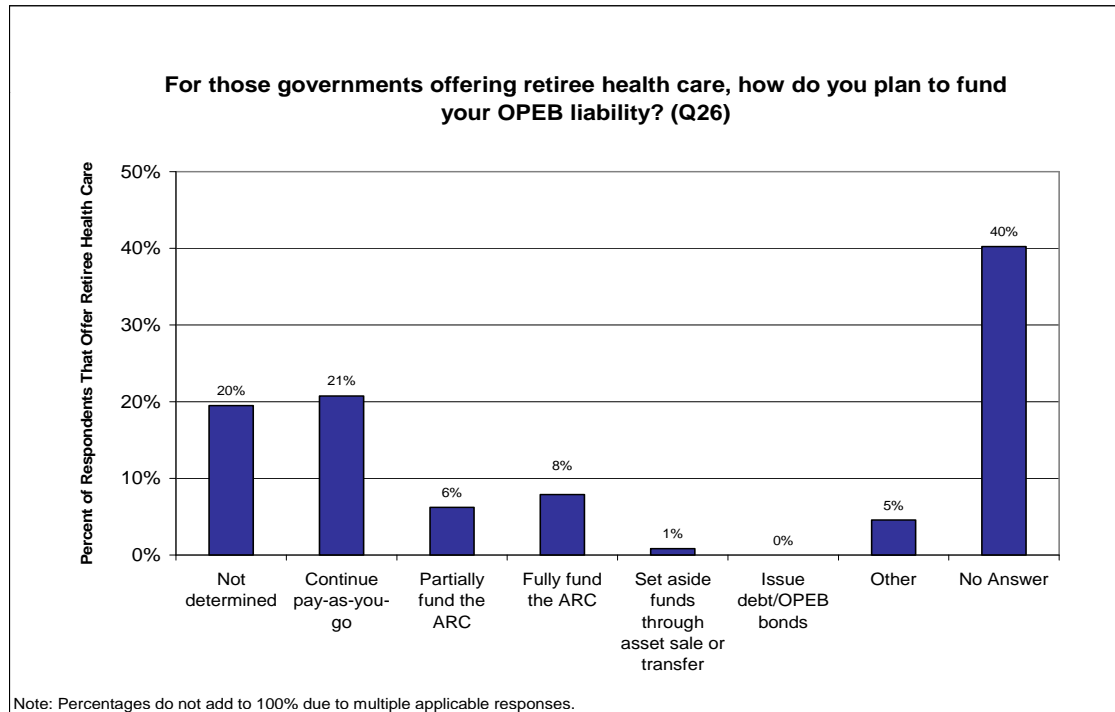


Exhibit 38

Section 5: Addressing GASB

As shown in the previous slide, 14% of the respondents that provide retiree health care have decided to fully or partially prefund the OPEB liability. Exhibit 39 shows that of these, many expect to rely on the general fund or an agency fund. Only a few are planning to put funds in a separate trust, either established as a voluntary employees' beneficiary association (VEBA) or a governmental trust established under Section 115 of the Internal Revenue Code (IRC). It should be noted that some governments plan to use more than one account or trust. For example, a government intending to partially prefund might use a combination of general funds as well as funds held in a 115 trust.

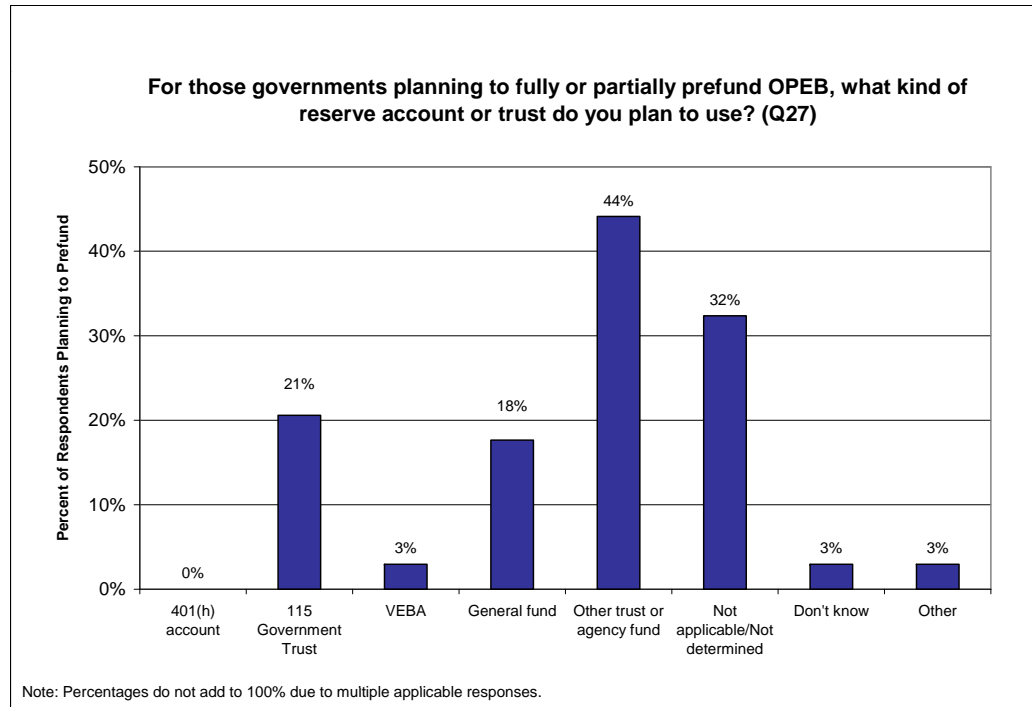


Exhibit 39

Section 5: Addressing GASB

With regard to setting aside assets to prefund the OPEB liability, of the respondents that provide retiree health care, only 14% indicated that they had set assets aside. Exhibit 40 shows that 7% reported accumulating less than 10% of the assets currently needed to fund the liability and 4% reported accumulating more than 50% of the assets needed to fund the liability. Over half of the respondents that provide retiree health care did not respond to this question.

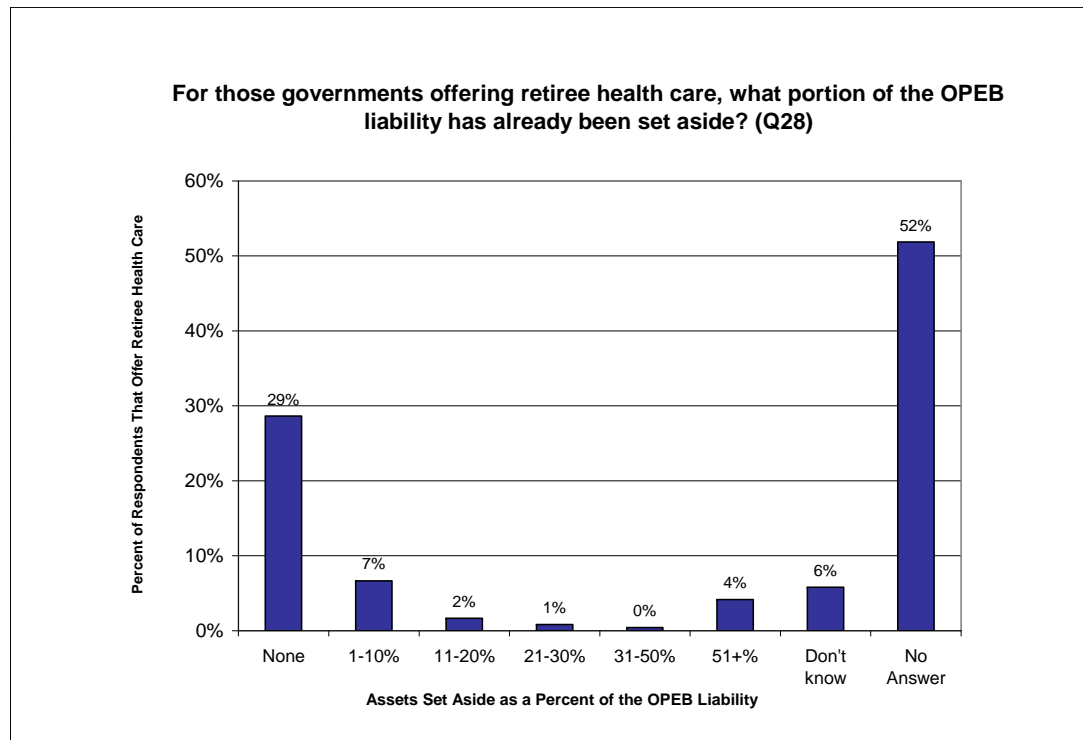


Exhibit 40

Section 5: Addressing GASB

For governments that have set aside OPEB assets, Exhibit 41 suggests that the assets are largely self-managed or managed in conjunction with an outside investment firm. However, the responses to this question were limited; therefore, the results may not reflect general practice.

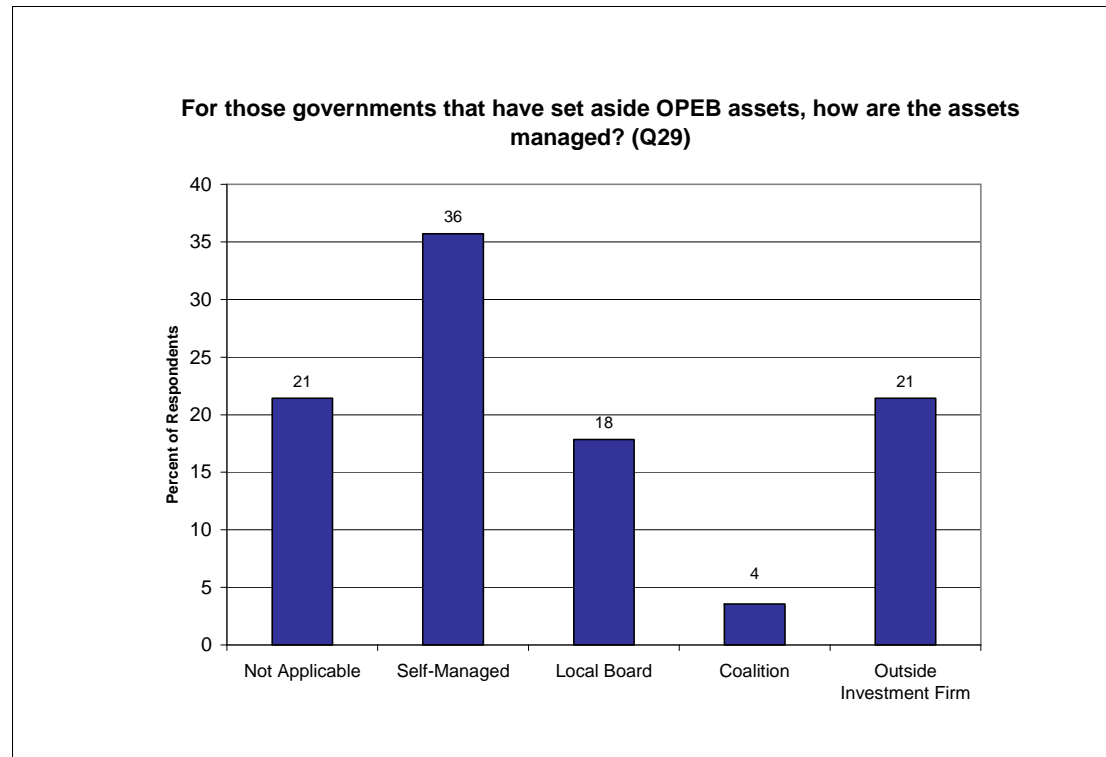


Exhibit 41

Section 6: Health Care Strategies

The final goal of this survey was to examine various approaches to controlling health care costs that have been implemented by governments during the past two years or are expected to be implemented over the next two years. Some of these changes may have been made more than 2 years ago and are not reflected in this data. Exhibit 43 shows potential approaches related to changes in plan eligibility requirements or employee/retiree cost sharing. Many of the respondents indicated they implemented increases in deductibles, increases in health and drug co-pays, and increases in the members' share of premium costs during the past two years. Interestingly, a noticeably smaller percentage expect to implement such changes over the next two years.

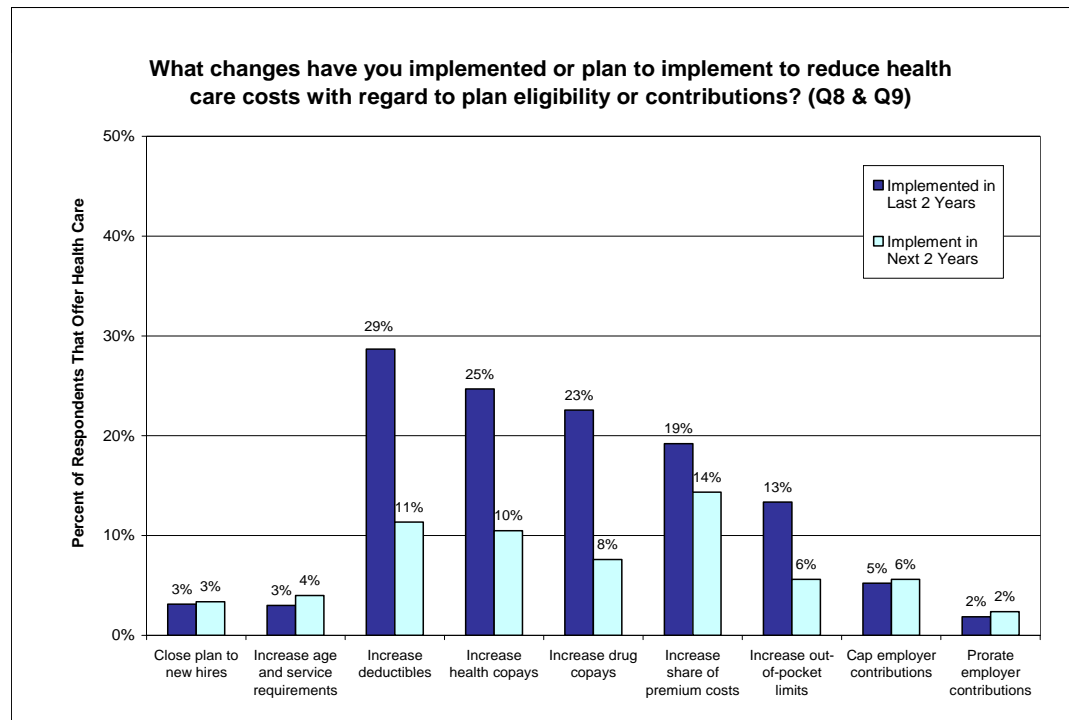


Exhibit 43

Section 6: Health Care Strategies

Exhibit 44 shows various changes in health care plan design made over the past two years or planned over the next two years. Of these, the most frequent changes over the past two years include: implementing wellness initiatives, expanding the use of generic drugs, and implementing health savings accounts (HSAs) or health reimbursement arrangements (HRAs). A smaller percentage expect to implement such changes over the next two years. These data do not reflect any changes made more than 2 years ago.

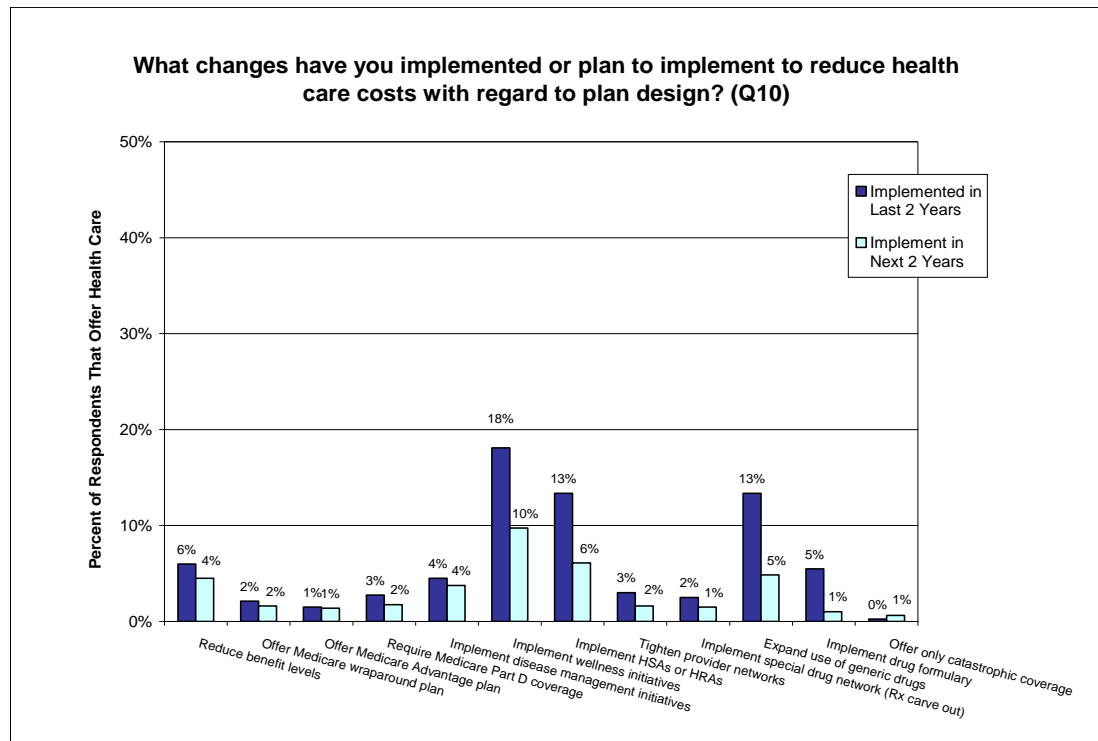


Exhibit 44

Section 6: Health Care Strategies

Exhibit 45 shows health care purchasing changes that have been implemented over the past two years or are planned for the next two years. The changes that stand out include negotiating lower costs with the current carrier, changing the current carrier or health plan, and educating employees/retirees to make better health care decisions. These data do not reflect any of these changes made more than 2 years ago.

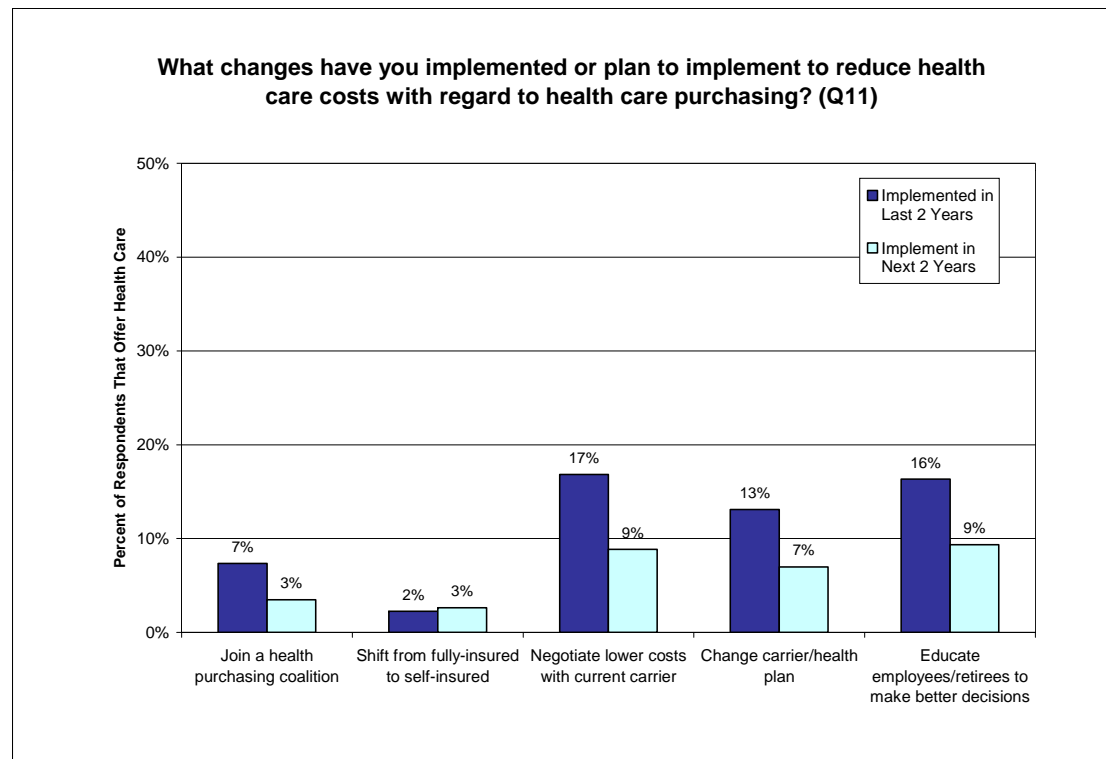


Exhibit 45

Section 6: Health Care Strategies

The survey also asked about health care changes that have recently been implemented or are planning to be implemented with regard to benefit elimination. Exhibit 46 shows that very few of the respondents have taken steps to eliminate benefits for active members or retirees. Of these, the most frequent change has been to require retirees to pay 100% for family coverage, but this change has been implemented by fewer than 10% of the respondents. These data do not reflect any changes made more than 2 years ago.

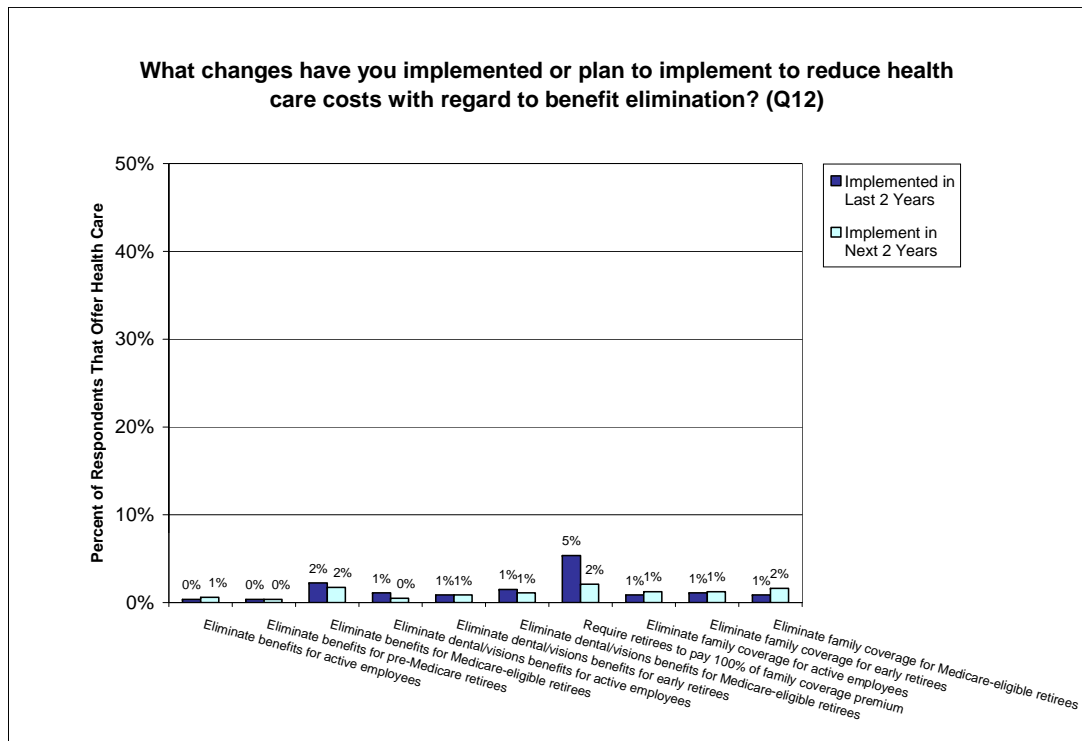


Exhibit 46

Section 7: Detailed Data Tables

Table 1: Descriptive Information

	Number of Respondents	% of Respondents
Number of Full-Time Employees		
< 5	787	51.3%
5 - 9	165	10.8%
10-24	160	10.4%
25+	350	22.8%
No Answer	72	4.7%
Total	1,534	100.0%
Population Size		
< 5,000	944	61.5%
5,000 - 9,999	113	7.4%
10,000 - 24,999	111	7.2%
25,000+	141	9.2%
No Answer	225	14.7%
Total	1,534	100.0%
Geographic Region		
Northeast	112	7.3%
Midwest	625	40.7%
South	460	30.0%
West	337	22.0%
Total	1,534	100.0%
Type of Government		
County	71	4.6%
Municipal	555	36.2%
Township	276	18.0%
Special	568	37.0%
Missing	64	4.2%
Total	1,534	100.0%

Note: Percentages may not add to 100% due to rounding.

Section 7: Detailed Data Tables

Table 2: Local Government Revenues and Employment

	Number of Respondents	% of Applicable Respondents
What were the annual revenues for your local government for the most recently completed fiscal year? (Q3)		
< \$10 mil.	1,141	74.4%
\$10-\$100 mil.	194	12.6%
\$100+ mil.	31	2.0%
Don't Know	87	5.7%
No Answer	81	5.3%
Total	1,534	100.0%
How do you expect your local government's revenue levels to change next year compared to this year? (Q4)		
Increase	334	21.8%
Decrease	252	16.4%
Stay Same	726	47.3%
Don't Know	155	10.1%
No Answer	67	4.4%
Total	1,534	100.0%
How do you expect your local government's employment levels to change next year compared to this year? (Q5)		
Increase	99	6.5%
Decrease	76	5.0%
Stay Same	1,192	77.7%
Don't Know	93	6.1%
No Answer	74	4.8%
Total	1,534	100.0%

Note: Percentages may not add to 100% due to rounding.

Section 7: Detailed Data Tables

Table 3: Expected Changes

	Number of Responses	% of Applicable Responses
What changes do you expect in your local government workforce in the next two years? (Q6)		
Consolidating/sharing services	158	10.3%
Sending more services out to contract	89	5.8%
Layoffs	38	2.5%
Rehiring retirees	19	1.2%
More part-time/temporary positions	189	12.3%
More full-time positions	95	6.2%
Offer early retirement incentives	19	1.2%
No changes	1,063	69.3%
Total Respondents	1,534	NA

Note: Number of responses may exceed total respondents due to multiple applicable responses.

Has your elected governing body adopted a formal policy to review long-term costs of benefit changes? (Q7)

Yes	98	6.4%
No - But Plan to in Future	239	15.6%
No Future Plans	1,083	70.6%
No Answer	114	7.4%
Total	1,534	100.0%

Note: Percentages may not add to 100% due to rounding.

Section 7: Detailed Data Tables

Table 4: Health Care for Active Employees

	Number of Responses	% of Applicable Responses
Do your active employees receive health care benefits? (Q31)		
Actives Receive	802	52.3%
Actives Do Not Receive	732	47.7%
Total	1,534	100.0%
What percentage of the premium for active employees is paid by the local government? (Q32)		
None	9	1.1%
1-20%	28	3.5%
21-40%	9	1.1%
41-60%	19	2.4%
61-80%	107	13.3%
81-100%	597	74.4%
Not sure	18	2.2%
No Answer	15	1.9%
Total Providing Health Care to Active Employees	802	100.0%
How do you purchase health care benefits for your active employees? (Q34)		
As single employer	274	34.2%
Through state	121	15.1%
Through coalition	232	28.9%
Other	150	18.7%
No Answer	25	3.1%
Total Providing Health Care to Active Employees	802	100.0%

Note: Percentages may not add to 100% due to rounding.

Section 7: Detailed Data Tables

Table 5: Health Care for Retired Employees

	Number of Responses	% of Applicable Responses
Which retirees receive health care benefits from the local government? (Q15)		
Pre-Medicare Only	67	4.4%
Medicare Only	22	1.4%
Both	152	9.9%
None	1,293	84.3%
Total	1,534	100.0%
What percentage of the premium for <u>early retirees</u> (pre-Medicare) is paid by the local government? (Q16)		
None	69	31.5%
1-20%	11	5.0%
21-40%	13	5.9%
41-60%	12	5.5%
61-80%	23	10.5%
81-100%	75	34.2%
Not sure	8	3.7%
No Answer	8	3.7%
Total Providing Early Retiree Health Care	219	100.0%
What percentage of the premium for <u>Medicare</u> retirees is paid by the local government? (Q18)		
None	68	39.1%
1-20%	6	3.4%
21-40%	1	0.6%
41-60%	8	4.6%
61-80%	11	6.3%
81-100%	56	32.2%
Not sure	14	8.0%
No Answer	10	5.7%
Total Providing Medicare Retiree Health Care	174	100.0%

Note: Percentages may not add to 100% due to rounding.

Section 7: Detailed Data Tables

Table 5: Health Care for Retired Employees (continued)

	Number of Responses	% of Applicable Responses
How do retiree premiums compare to active employee premiums? (Q20)		
Retirees Higher	36	14.9%
Retirees Lower	58	24.1%
Retirees Same	115	47.7%
Not sure	20	8.3%
No Answer	12	5.0%
Total Providing Retiree Health Care	241	100.0%
How do you purchase health care benefits for your retired employees? (Q21)		
As single employer	103	42.7%
Through state	45	18.7%
Through coalition	57	23.7%
Other	27	11.2%
No Answer	9	3.7%
Total Provided Retiree Health Care	241	100.0%

Note: Percentages may not add to 100% due to rounding.

Section 7: Detailed Data Tables

Table 6: OPEB Costs and Liabilities

	Number of Responses	% of Applicable Responses
Are you aware of GASB Statement 45, which establishes reporting requirements for OPEB liabilities? (Q22)		
Aware of GASB 45	179	74.3%
Not Aware of GASB 45	56	23.2%
No Answer	6	2.5%
Total Providing Retiree Health Care	241	100.0%
Have you calculated your OPEB liability? (Q23)		
Yes	62	25.7%
In Process	50	20.7%
No	65	27.0%
Not Sure	5	2.1%
No Answer	59	24.5%
Total Providing Retiree Health Care	241	100.0%
What is your OPEB liability? (Q24)		
<\$50 mil.	56	82.4%
\$50-\$100 mil.	4	5.9%
\$100-\$250 mil.	4	5.9%
\$250-\$500 mil.	2	2.9%
\$500+ mil.	2	2.9%
Total Having Calculated the OPEB Liability (Includes calculations in process)	68	100.0%
What is your OPEB annual required contribution (ARC)? (Q24)		
<\$5 mil.	51	75.0%
\$5-\$10 mil.	5	7.4%
\$10-\$25 mil.	5	7.4%
\$50+ mil.	1	1.5%
No Answer	6	8.8%
Total Having Calculated the OPEB Liability (Includes calculations in process)	68	100.0%

Note: Percentages may not add to 100% due to rounding.

Section 7: Detailed Data Tables

Table 7: OPEB Funding

	Number of Responses	% of Applicable Responses
How do you plan to fund your OPEB liability? (Q26)		
Not determined	47	19.5%
Continue pay-as-you-go	50	20.7%
Partially fund the ARC	15	6.2%
Fully fund the ARC	19	7.9%
Set aside funds through asset sale or transfer	2	0.8%
Issue debt/OPEB bonds	0	0.0%
Other	11	4.6%
No Answer	97	40.2%
Total	241	100.0%
What kind of account do you use for your OPEB reserve? (Q27)		
401(h) account	0	0.0%
115 Government Trust	7	20.6%
VEBA	1	2.9%
General fund	6	17.6%
Other trust or agency fund	15	44.1%
Not applicable/Not determined	11	32.4%
Don't know	1	2.9%
Other	1	2.9%
Total	34	123.5%
<i>Note: Percentages do not add to 100% due to multiple applicable responses.</i>		
How much funding have you set aside to offset the OPEB liability? (Q28)		
None	69	28.6%
1-10%	16	6.6%
11-20%	4	1.7%
21-30%	2	0.8%
31-50%	1	0.4%
51+%	10	4.1%
Don't know	14	5.8%
No Answer	125	51.9%
Total	241	100.0%

Note: Percentages may not add to 100% due to rounding.

Section 7: Detailed Data Tables

Table 8: Health Care Changes Recently Implemented or Planned
(% of Respondents Offering Health Care)

	<u>Implemented in Last 2 Years</u>		<u>Implement in Next 2 Years</u>	
	Number of Respondents	% of Those Offering HC	Number of Respondents	% of Those Offering HC
Eligibility Changes (Q8)				
Close plan to new hires	25	3.1%	27	3.4%
Increase age and service requirements	24	3.0%	32	4.0%
Contribution Changes (Q9)				
Increase deductibles	230	28.7%	91	11.3%
Increase health copays	198	24.7%	84	10.5%
Increase drug copays	181	22.6%	61	7.6%
Increase share of premium costs	154	19.2%	115	14.3%
Increase out-of-pocket limits	107	13.3%	45	5.6%
Cap employer contributions	42	5.2%	45	5.6%
Prorate employer contributions	15	1.9%	19	2.4%
Design Changes (Q10)				
Reduce benefit levels	48	6.0%	36	4.5%
Offer Medicare wraparound plan	17	2.1%	13	1.6%
Offer Medicare Advantage plan	12	1.5%	11	1.4%
Require Medicare Part D coverage	22	2.7%	14	1.7%
Implement disease management initiatives	36	4.5%	30	3.7%
Implement wellness initiatives	145	18.1%	78	9.7%
Implement HSAs or HRAs	107	13.3%	49	6.1%
Tighten provider networks	24	3.0%	13	1.6%
Implement special drug network (Rx carve out)	20	2.5%	12	1.5%
Expand use of generic drugs	107	13.3%	39	4.9%
Implement drug formulary	44	5.5%	8	1.0%
Offer only catastrophic coverage	2	0.2%	5	0.6%
Total Respondents Offering Health Care	802			

Section 7: Detailed Data Tables

Table 8: Health Care Changes Recently Implemented or Planned (continued)
 (% of Respondents Offering Health Care)

	<u>Implemented in Last 2 Years</u>		<u>Implement in Next 2 Years</u>	
	Number of Respondents	% of Those Offering HC	Number of Respondents	% of Those Offering HC
Purchasing Changes (Q11)				
Join a health purchasing coalition	59	7.4%	28	3.5%
Shift from fully-insured to self-insured	18	2.2%	21	2.6%
Negotiate lower costs with current carrier	135	16.8%	71	8.9%
Change carrier/health plan	105	13.1%	56	7.0%
Educate employees/retirees to make better decisions	131	16.3%	75	9.4%
Benefit elimination (Q12)				
Eliminate benefits for active employees	3	0.4%	5	0.6%
Eliminate benefits for pre-Medicare retirees	3	0.4%	3	0.4%
Eliminate benefits for Medicare-eligible retirees	18	2.2%	14	1.7%
Eliminate dental/visions benefits for active employees	9	1.1%	4	0.5%
Eliminate dental/visions benefits for early retirees	7	0.9%	7	0.9%
Eliminate dental/visions benefits for Medicare-eligible retirees	12	1.5%	9	1.1%
Require retirees to pay 100% of family coverage premium	43	5.4%	17	2.1%
Eliminate family coverage for active employees	7	0.9%	10	1.2%
Eliminate family coverage for early retirees	9	1.1%	10	1.2%
Eliminate family coverage for Medicare-eligible retirees	7	0.9%	13	1.6%
Total Respondents Offering Health Care	802			

Methodology

- Cobalt Community Research conducted a stratified random survey of local governments based on the U.S. Census Bureau's 2002 Governments Integrated Directory (GID), augmented with contact information from the Government Finance Officers Association. Approximately 7,500 surveys were distributed by mail between February and May 2008.
- All surveys are subject to inaccuracies based on sampling error, response error, etc. Based on the 1,534 valid responses collected for this survey, the response rate is over 20 percent. This provides a significant dataset for analysis.

About Cobalt Community Research

- Cobalt Community Research is a non-profit coalition created to help organizations measure, benchmark, and manage their efforts through high-quality affordable surveys, focus groups, and facilitated meetings. In addition, Cobalt uncovers trends, innovations and best practices across many fields to help organizations thrive as changes emerge in the economic, demographic and social landscape. Cobalt is headquartered in Lansing, Michigan.

Services available to governmental and non-profit organizations include the following:

- **Benchmark Surveys:** Find where you stand in citizen, member and employee satisfaction compared to public and private organizations
- **Focus Groups:** Gather average citizens, members or employees to gather their thoughts about ideas or issues
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- **Keynote Speakers:** Help meeting and conference attendees think about society's future and how to thrive in it

For more information:

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- Gabriel Roeder Smith & Company (GRS) is a leading provider of actuarial and benefits consulting services. Since its inception in 1938, GRS has placed special emphasis on services to the public sector. A trusted partner to its clients, GRS brings innovative, practical solutions to the challenges faced by benefit plans and plan sponsors.
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About the Government Finance Officers Association

- The purpose of the Government Finance Officers Association is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and practices and promoting them through education, training and leadership.
- Objectives
 - **Expert Knowledge.** Continue to be recognized as a leading source of expert knowledge in public financial management by exercising leadership in research, recommended practice and policy development, and information dissemination.
 - **Education and Training.** Enhance the expertise and professionalism of financial managers and policymakers and provide recognition for their achievements.
 - **Financial Leadership.** Engage in efforts to assist finance officers to develop the skills and capabilities necessary to enable them to become organizational leaders as well as technical experts.
 - **Raising Public Awareness of Sound Financial Policy and Practice.** Take leadership in promoting public awareness of policies and practices that enhance sound financial management of public resources.
 - **Enhanced Cooperation.** Cooperate with and complement the services provided by other organizations (U.S., Canadian, and international) to increase the effectiveness of the GFOA.
 - **Strategic Use of Technology.** Provide information and analytical tools to help governments identify and apply appropriate, economical technologies to support efficient resource allocation, quality services, and effective decision making and to promote citizen involvement.
 - **Association Operations.** Maintain a high quality, fiscally stable association capable of achieving the GFOA's mission and maximizing member participation.

For more information:

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About the International Foundation of Employee Benefit Plans

- The International Foundation of Employee Benefit Plans is a nonprofit organization, dedicated to being a leading objective and independent global source of employee benefits, compensation, and financial literacy education and information.
- The International Foundation provides educational and information services such as books, periodicals, online resources, research services, a peer network, and it houses the largest employee benefits library in North America. Over 100 educational programs on various benefits and compensation topics are held each year, including the Annual Employee Benefits Conference, covering topics including fiduciary responsibility, pensions, investments, health care, technology and benefits communications.
- The Foundation also offers the Certified Employee Benefit Specialist (CEBS) program, which is cosponsored by the Wharton School of Business of the University of Pennsylvania in the U.S., and Dalhousie University in Canada.
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For more information:

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About the National Conference on Public Employee Retirement Systems

- The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public sector pension funds, representing more than 500 funds throughout the United States.
- NCPERS is a unique network of public trustees, administrators, public officials and investment professionals who collectively manage over \$3 trillion in pension assets.
- NCPERS core missions are federal advocacy, conducting research vital to the public pension community, and educating pension trustees and officials.

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