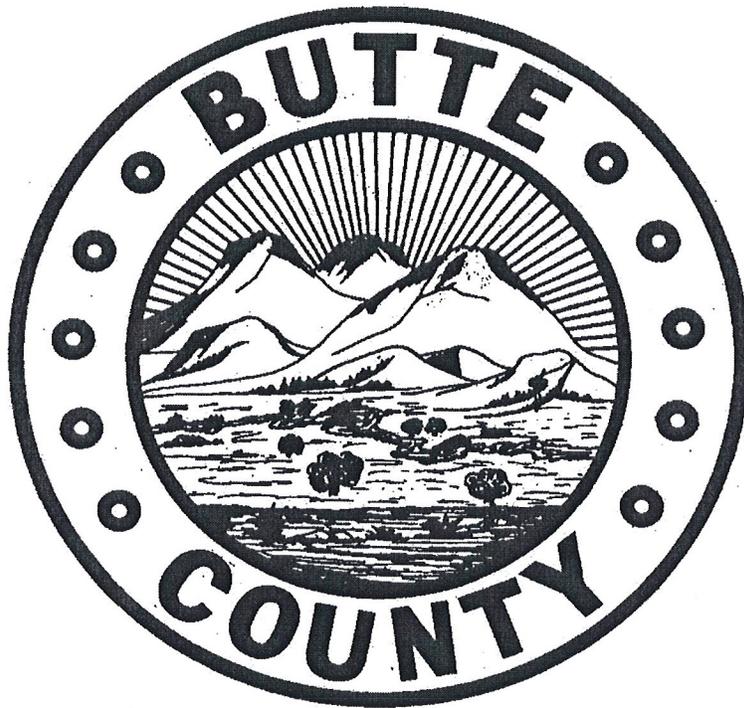


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Butte County
Superior Court
MAR 2 2009
Sharol Strickland Clerk
By *[Signature]* Deputy

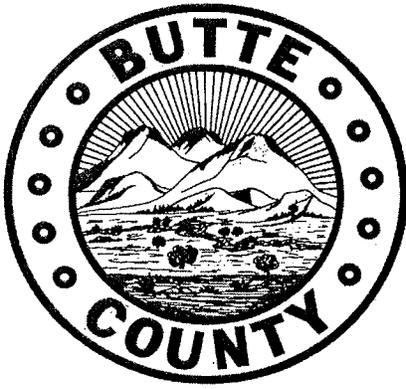
Butte County Grand Jury

2008-2009

Interim Report



March 2, 2009



Butte County Grand Jury

2008-2009

Members of the Jury

Joan Krebs, Foreperson

James Adams

Mary Amicarella

Douglas Brum

Rose Mary Burke

Desta Dunlap

Kenneth Goodhue

Kathy Haines

Marjorie Hartnett

Garrett Jackson

Albert Klein

Robert Leask

Tracy Lotter

Diane Otten

Walter Sipher

John Vorisek

John Welton

Peggy Williams

Lee Wood

**BUTTE COUNTY GRAND JURY REPORT 2008/2009
PAYMENT OF MEDICAL INSURANCE PREMIUMS
FOR BUTTE COUNTY RETIREES**

SUMMARY

During the course of the 2008/2009 Grand Jury's review of County expenditures, the Grand Jury discovered that the County was paying nearly \$1 million solely for medical insurance premiums for about 120 retired Butte County employees. As medical insurance premiums increase and additional employees with accrued sick leave elect to take early retirement, these costs will increase dramatically.

The benefits of Butte County employees are contained in nine Memorandum of Understandings (MOUs) and two Resolutions. These documents include sick leave, incentives to save sick leave, and medical benefits for County employees who elect to retire prior to age 65. In reviewing these MOU agreements and Resolutions, the Grand Jury noted that the County is currently obligated to pay the full cost of medical insurance premiums for employees who (1) elect to retire prior to age 65, (2) have accrued sick leave savings and (3) elect to use their sick leave savings to have the County pay the full cost of their medical insurance premiums. Retirees are also able to upgrade to more expensive plans at the County's expense. By contrast County employees, who have not yet elected to retire, pay a portion of their medical insurance premiums. All of the MOUs with the County's employee Bargaining Units have expired as of October, 2008 and are currently being renegotiated. The Grand Jury recommends that the County negotiate the medical insurance premium provisions to require new retirees to pay a portion of their medical insurance premiums.

The Grand Jury learned that during previous contract negotiations, the County compared employee compensation against twelve other counties. The group included Sacramento, Santa Cruz, Solano, and Napa. The Grand Jury believes that counties used for comparing compensation should have a similar cost of living index. The Grand Jury recommends that the County negotiate to replace the above named counties with counties that have more comparable socio-economic attributes.

BACKGROUND

County personnel fall under nine different employee Bargaining Unit Memoranda of Understandings or "MOUs" and two different Resolutions related to Non-Represented staff who are the County Officials, Department Heads and their Assistants. County Department Heads' rights are set forth in one of these Resolutions as well as in individual Department Heads' contracts. These MOUs and Resolutions include working conditions, compensation, medical benefits, and retirement benefits. While the terms of

the agreements are similar, there are also some differences as outlined in the Table below. In reviewing these agreements, the Grand Jury noted that the health insurance benefits to retired employees appeared generous and very expensive to the County. The benefits exceed those offered by private industry and other governmental agencies. In addition, forecasting the County's cost for these benefits is difficult due to unpredictable increases in medical insurance premiums and the indeterminate number of employees who may elect to retire.

APPROACH

The Grand Jury reviewed the nine bargaining units MOUs and two Resolutions. The Grand Jury met with County staff to confirm its understanding of the agreements and to obtain information on the County's medical insurance plans and premiums.

One member of the Grand Jury who is employed by a bargaining unit was recused from the interviewing, report preparation/writing, and voting.

DISCUSSION

Employee Compensation Package

County staff stated that a review of total employee compensation and benefits conducted several years ago indicated the need to offer the medical insurance retirement benefit in order to attract qualified staff. The survey compared Butte County to twelve counties: Stanislaus, Santa Cruz, Yolo, Merced, Sonoma, Napa, Sacramento, Shasta, Sutter, Placer, Solano, and El Dorado. It is not known if the reviewers anticipated double digit increases in the cost of medical insurance in most of the years since the survey was conducted, or if the magnitude of the total cost to the County was realized. The retiree medical benefits were one part of the total compensation package. All of these agreements are being renegotiated this year, giving the County the opportunity to review and renegotiate retiree medical benefits.

Medical Insurance Benefits

Butte County provides medical, dental, and vision benefits to all current full-time employees under ten optional plans. While employed, the County pays a fixed amount and the employees pay the balance of the medical insurance premiums depending upon the plan selected. Regardless of the plan selected, County payments are limited to:

- Employee - \$472.78
- Employee plus spouse - \$921.30
- Employee plus family - \$1,207.41

Depending upon the number of people covered and the plan selected, the employee's contribution ranges from \$50 to \$930.

Medical insurance benefits are also provided to employees who retire from Butte County under CalPERS (California Public Employees' Retirement System) when they meet the required minimum age, length of service, and accumulated sick leave conditions specified in their respective employment agreements. However, under the current agreements, after retirement, the County pays the total cost of the health insurance premium for one year if the employee has, depending upon the terms of the MOU or Resolution, five or ten or more years of continuous service with the County. The Elected Official and Appointed Department Head Resolution and individual Department Heads' contracts have different conditions. Then, depending upon the employee's accrued sick leave savings, which are used to "buy" premium coverage, medical insurance is paid for additional months or years until the employee and spouse qualify for Medicare. In Fiscal Year 2007/2008, the County paid almost \$1 million in health insurance benefits for about 120 retired employees. Depending upon the selected plan and coverage, the County's current costs for medical insurance premiums range from \$349 to \$2026 per month, per retiree. As shown in the example below, the cost to the County could exceed over \$100,000 for a qualified retiree. As more employees retire and medical insurance premiums increase, the cost to the County will continue to rise.

The Grand Jury reviewed the retirement medical benefits from some other state and county agencies with similar job parameters and found:

- Similar, but slightly higher, minimum age to qualify for early retirement
- Longer minimum length of service to qualify for paid medical insurance premiums, some as high as 20 years
- Upper limits on the amount the agency would pay for retiree medical insurance premiums.

Sick Leave Incentives and Benefits

While employed with Butte County, the employee earns 96 hours of sick leave per year (or 8 hours per month). The County offers the sick leave savings benefits shown below in order to encourage employees to use their sick leave prudently. Under the nine bargaining MOUs and two Resolutions, after age 50, a retiring employee may choose to convert his/her unused sick leave hours to:

- Extend their length of service for retirement benefits.
 - Receive cash up to \$3000.
 - Qualify to have the County pay medical insurance premiums by converting sick leave savings in excess of 240 hours.
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- During open enrollment, the retiree can also elect to upgrade for a plan with higher benefits and the County pays the total cost of the increased medical insurance premium.

Example of Cost to the County

An employee, after turning 50 with twenty years of service to the County with no sick days taken, decides to retire. The employee will have accumulated 1920 hours of sick leave. Under the current agreements, the employee would receive the first year of medical insurance free of charge. After the first year, the employee can then elect to convert his/her accrued sick leave savings in excess of 240 hours to County paid medical insurance premiums.

- In this example, the retiree's eligible sick leave would be 1920 hours, minus 240 hours, equaling 1680 hours. For each eight hours of eligible sick leave, or one sick leave day, the retiree is eligible to request the County to purchase one month of medical insurance.
- In this example, with 1680 hours of qualified sick leave, the retiree would be entitled to receive 210 months, or 17.5 years of 100% paid, full coverage medical insurance. When the retiree qualifies for Medicare Insurance at age 65, he/she could then elect to use the balance of the qualified sick leave to request that the County pay for the medical insurance of the retiree's spouse.
- In this example, the approximate cost to the County for fifteen years of medical insurance premiums for one retiree ONLY, who chose a plan with a premium of \$600 (the average of all plans is \$601), would be \$108,000.

In this example, note that one month of medical insurance premiums costs the retiree 8 hours of sick leave savings. If the value of the selected plan is \$600, the value of each hour of sick leave is \$75. In most cases this would exceed the retiree's pre-retirement hourly salary.

Summary of Qualifying Conditions for the Agreements

In Table 1 below, the qualifying conditions for having the County pay for a retiree's sick leave are summarized for the nine bargaining unit MOUs and two Resolutions .

Table 1

Bargaining Unit / MOU or Resolution	Minimum Age / Minimum Years Of Service to qualify for paid medical insurance	Qualifying Sick Leave (Hrs)	Sick Leave Hours Employee	Sick Leave Hours Spouse And Family
6 Bargaining Unit MOUs	50/10	Unused Sick Leave: Greater than 240 hrs.	Retired Employee: 8 hrs. of sick leave qualifies for 1 month of paid medical insurance	Spouse of Retired Employee: 12 hrs. of sick leave qualifies for 1 month of paid medical insurance
3 Bargaining Unit MOUs	50/5	See Note 1	Retired Employee: See Note 1	Employee and Dependents: See Note 1
2 Resolutions	50 to 55/ Varies	Varies: None to 240 hrs	Retired Employee Varies: No Sick leave savings required to 8 hrs per month of paid medical insurance	Employee and dependents: No Sick leave savings required to 12 hrs per month of paid medical insurance

Note 1:

Unused sick leave hours are converted to sick leave days. Each sick leave day is eligible for one month of paid medical insurance. The eligible sick leave months are added to the twelve free months (first year of retirement) for those employees who retire with five or more years of continuous service and then multiplied by the current cost of the employee's medical insurance premium. The total becomes the value of a medical insurance fund that the retiree can use to purchase medical insurance for his/her self and any dependents.

FINDINGS

- F1. When negotiating the recently expired bargaining unit MOUs, the County reviewed the compensation packages of twelve other counties. Some of the counties did not have comparable cost of living or socio-economic parameters.
- F2. As an incentive to save sick leave, the County offers three options for converting unused sick leave upon retirement. The rationale for offering incentives to save sick leave appears valid.

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- F3. Under the nine recently expired bargaining unit MOUs, the County pays the full cost of medical insurance premiums for retirees who qualify for CalPERS retirement and have accumulated sick leave savings. During open enrollment, the retiree may elect to change to a higher benefit plan with the County paying the increased premium.
 - F4. In most cases, the medical insurance benefit exceeds the hourly rate paid to the employee prior to retirement. Medical insurance premiums for about 120 County retirees are currently costing the County nearly \$1 million per year. As medical premiums rise and more employees retire with accumulated sick leave, these costs will increase.
 - F5. It is difficult for the County to predict or budget for retiree medical insurance premiums, due to the County's lack of control over insurance premium increases and employee decisions to retire.
 - F6. The County is in the process of negotiating new agreements with the nine bargaining units, which provides an opportunity to renegotiate this benefit.

RECOMMENDATIONS

- R1. When comparing employee compensation packages, negotiate to replace counties such as Sacramento, Santa Cruz, Sonoma, Napa, with counties having comparable cost of living and socio-economic parameters to those of Butte County
- R2. Continue to offer cash payments and length of service extension for unused sick leave, but negotiate to change the medical insurance premium benefit to a shared cost, similar to that formula used to determine the portion of the medical insurance premium paid by the County for employees prior to retirement. For example, in the new Bargaining Unit MOUs being negotiated, fix the County's monthly contribution for retiree medical insurance premiums and require the retiree to pay the remainder.
- R3. For current retirees with vested retirement rights, continue to have the County pay the total cost of health insurance premiums. For future retirees, negotiate to modify the current practice which permits retirees to move to a higher plan at the County's expense. Negotiate to have the retiree pay the difference in premiums.

REQUEST FOR RESPONSES

Board of Supervisors

County Human Resources Department
