MINUTES
THE TOWN OF INDIAN RIVER SHORES
6001 North Highway A1A, Indian River Shores, FL 32963

RETIREE BENEFITS & ORGANIZATIONAL STRUCTURE WORKSHOP MEETING

Wednesday, April 10, 2013
10:00 a.m.

PRESENT:	**Brian M. Barefoot, Mayor**	
	Gerard A. Weick, Vice Mayor	
	Thomas W. Cadden, Councilman	
	Richard M. Haverland, Councilman	
	Thomas F. Slater, Councilman	
STAFF PRESENT:	**Richard Jefferson, Town Manager**	**Laura Aldrich, Town Clerk**
	Robert Stabe, Public Safety Director	**Barbara Morgan, Postal Center**
	Mark Shaw, Shawn Hoyt, Chris Runge, Bart Crosby, Charlene Hall, Kim Wall, PSD	
	Heather Christmas, Finance Department	**Darlene Wiltzius, Finance Department**
OTHERS:	**Danielle McClintock, Brown & Brown Agency**	
	Retirees Virginia Gilbert, Barbara Readdy, Alice Hayslip, Joe Richter, Ed Morris, and Lou Puchala	
	Residents Former Mayors Bill Kenyon & Barbara Holmen-McKenna; PZV Board members Bill Beardslee & Chris Hendricks	

1. **Call to Order**
   a. Pledge of Allegiance
   b. Invocation (Councilman Slater)
   c. Roll Call
   The meeting was called to order at 10:03 with the Pledge of Allegiance, invocation and roll call performed as recorded above.

2. **Retiree Health Care Options**

Mayor Barefoot clarified we will discuss the general health insurance first, then the retiree insurance. We have had meetings and received a very good summary from Danielle, and the bottom line is, if we continue the current plan, the premiums go up 16.5%. Danielle has provided four other options, plans from BCBS and United Health Care. Each option requires the employee to pay more for copays for certain procedures and larger deductibles for individuals or families. Six to seven percent of the increase is caused by the Affordable Care Act and is unavoidable.

Danielle McClintock, Brown & Brown Agency, said they have narrowed the options to 17. The most affordable are in the small package she provided, with a maximum deductible of $2,000. She compared the current plan with BCBS Options 5466 (Option 1), which increases the deductible from $1,000 to $2,000, and decreases the out of pocket maximum by $500 from $4,000 to $3,500 for individual. The copays increase from $20 to $30 for primary care, and up by $15 each for specialists and chiropractic care to $60. Major diagnostics (CAT, PET, and MRI) increased from $200 to $250, emergency room from $150 to $250, and walk in clinic from 60 to $75. The biggest change is inpatient and outpatient hospital care, which has been a flat copay of $800 to requiring the deductible to be met first ($2,000) *plus* 20% until the out of pocket max of $3,500 for an individual is met. Having surgery at a surgery center is a flat $300, up from $100 on the current plan. Physician fees are charged separately, currently $50, and on these options they are subject to the deductible. The prescription coverage stays the same on both plans, as well as the doctor provider network.

Option 5467 (Option 2) increases the deductible only by $500 to $1,500, but the out of pocket maximum is higher by $1,000 at $5,000. The primary care is the same, and specialist and chiropractic care is less of an increase at $5 higher than current. Major diagnostics are $100 more rather than $50, emergency room increase is only $50 rather than $100, and the ambulatory surgery center requires 20% after the deductible is met. If the Town offers BCBS, Danielle suggested that the Town offer both 5466 and 5467 so the employees could weigh what is better for their needs. Option 1 or 2 are 9.5% higher than the current premium.

Vice Mayor Weick asked about the network physician coverage in Vero Beach, and Danielle said Blue Cross offers the best network of physicians available in the area, and United is comparable but not quite as strong.

Councilman Haverland questioned if we would have better rates in June after two employees retire. Danielle discussed that the census would not impact rates until 45 days after a change, and had no idea what the savings might be.

Mayor Barefoot asked what questions were raised at the staff meeting this morning, and the Town Manager deferred to Darlene Wiltzius who said the majority were interested in Option 1 or 2 that Danielle just explained, and to offer as a buy-up plan a third option to stay with the plan we currently have. Danielle clarified that the HMO plan has "open access" now and does not require a referral like the plans used to.

Ms. McClintock discussed the United Healthcare (UHC) FE5 next, which is a closed network (must use their physicians). The deductible goes up to $1,500 from $1,000, the out-of-pocket maximum drops significantly from $4,000 to $1,500. Copays aren't included in the out of pocket maximum. With BCBS everything except prescriptions goes towards this. The copay for primary drops to $15, and specialist goes to $15 from $45 if they go to the designated doctor. Independent x-rays are free, versus $50 BCBS copay. Emergency Room fee goes up to $200 rather than $150 for in or out of network, and urgent care goes from $60 to $75. The first admission to the hospital costs $2,500, and subsequently would be $1,000. Outpatient surgery is just $150, but doctor's fees are subject to the deductible and may be higher than surgery cost. Prescription drugs are different in this plan, with higher costs and they are under a tier system, with United distinguishing between specialty and standard drugs. It is just $10 for generic drugs, but brand name drugs could be $100 for tier 2 or $200 for tier 3 per prescription. Mail order for a 90 day supply is still $25 for generic, and $87.50 or $150 for the other tiers. The total premium is 1.3% increase over current.

Councilman Haverland asked if UHC is noticeably different compared to BCBS in terms of quality of performance. She said United is the largest insurer in the country, and both are very high quality insurers.

Retiree Joey Richter asked her to explain the box stating rates can vary from 10.5% to 15% due to medical underwriting, which Ms. McClintock related to the variance factors of a small group such as age and sex. The Town received a 10.5% decrease. Vice Mayor Weick noted the renewal for Option 1 and 2 plans are roughly $327,600 and this UHC is $302,800. Danielle also added if we moved to UHC and change the current elections, our rates could be adjusted if a spouse is added or someone leaves since they are based on the census when we enroll. This only applies if we change insurance carriers, and would not apply to BCBS.

The final page is the higher option for UHC Plan FE3, which would be offered with the other UHC plan. The deductible goes up, out of pocket maximum goes down, primary care visit goes to $25 from $15 and specialist office visit drops to $25 for designated rather than $35, and $50 for non-designated. X-rays are covered, diagnostics are up $50 from $150, and Emergency Room and urgent care are both higher. The biggest difference is with hospitalization, which is better on the current plan, as this would go up because of the deductible. Outpatient care is better but the doctor will be higher. Prescriptions are worse than the lower plan. This plan is a 2.9% increase.

Discussion revealed that the number of employees is different (23 on the Option 1 and 2 page, 20 on the others) and the retirees are not included on the census. Councilman Slater said we have operated with assumption that retirees are included in the base plan which causes a higher cost, and if we provide incentives to the nine or eleven retirees, it will lower our rates. There was discussion regarding retirees and the census. Danielle said next year the exchanges will be operating under AHA, and the employees and retirees could probably find less expensive insurance with preexisting conditions. The Council discussed this further, with Councilman Slater stating it is important to help the retirees, and do something good for them; if it is a cost savings for them, it would be worth some incentive to have them take it. Our overall insurance costs for active employees would go down with them off the policy. Councilman Haverland said the retiree liability of $1.8 million would be significantly reduced as retirees drop off the medical insurance. Town Manager Jefferson said he has talked with most of the nine retirees, and they are looking at insurance policies if they are off the plan. Councilman Slater said in the package for one of the Finance Committee meetings there was a chart of how the rate would go down for Town employees from $300,000 to $200,000. It is worth having a stipend, since ingredients are here for savings for the Town, current employees and retirees, and the liability would drop from $1.8 million to $500,000. Vice Mayor Weick said we have to have realistic, hard numbers.

Danielle suggested giving the employees a year rather than rushing into it, as other entities have.

Bart Crosby relayed his experience with obtaining a quote to insure his family of seven, which would have a higher annual cost for him but could have saved the Town $3,072 and himself $3,000. The proposal to Mr. Jefferson was that the Town pays him $1,000 a month and he would pay the $230, with the Town saving $400 a month. The 50% split on savings isn't enough, Mr. Crosby added, and Town Manager Jefferson said he is locked into splitting the savings 50%. It would be helpful to have flexibility to offer 60 or 70%. Vice Mayor Weick noted that the incentive payments increase tax liability and raise the final average salary, which is a cost to the pension liability. Vice Mayor Weick said if the Town gets everyone to get their own insurance, it may be less expensive than a group policy. Mr. Puchala said it would help if the payment were taxed.

Joe Richter said he is one of the two employees that are not able to get his own policy until 2014 when the pre-existing condition exclusion is removed.

Mr. Crosby said there are ways to pay the employees that are not taxable, like the cell phone stipend. Vice Mayor Weick suggested a Flexible Spending Account. He suggested the Town go with an alternate plan for this year and continue to follow this through with Affordable Health Care in the future. Councilman Haverland said the agreement to a stipend must be voluntary by the retirees. Mayor Barefoot discussed the incentive that the Council offered at the last meeting to entice the employees to find their own insurance, and Town Manager Jefferson said the 50% offered was not beneficial enough for some. Mayor Barefoot said it can't be individual negotiations, asking what number would move them, and said maybe it's 75%. Councilman Haverland said no other towns had opt-out plans. Chief Stabe his opting out was before the Town offered the incentive package, and was more than 50%. Councilman Haverland said this would be a great benefit to those who have insurance available at their spouse's place of employment, not so much for those who are single. Chief Stabe agreed, and he's saving the Town a considerable amount of money. He said if Richard had the opportunity to allow a larger savings share split for the employees he may have a huge response from Public Safety employees. He has also talked to some more recent retirees and the $2,000 offered was way too low. The Council may have to consider a better figure for the Town and retirees.

Mayor Barefoot suggested that the Council agree to move forward offering BCBS Alternate 1 and 2, and a buy up plan. On a parallel track, the Town Manager can speak with employees and individual retirees to find the number to produce the desired result so it will be a win-win-win position situation for the employees, retirees and the Town.

Councilman Haverland has a problem accepting a plan with 9.5% increase when there is a comparable plan with almost no increase. He proposed the Town go with the United Health Care plan, and if the employees feel so compelled, pay the $60 buy-up to be in another plan, although it doesn't cover the cost.

Danielle said we can't have both carriers, and with UHC our rate could change based on the census.

Chief Stabe also asked that the Council consider that there are a large number of employees under the collective bargaining agreement, which clearly states the Town will pay 100% of the employee's health care premium and is valid through 9-30-15. Councilman Haverland suggested they may be willing to reopen the contract.

Everyone agreed there needs to be one plan that is beneficial to both the employees and the Town, and it will be money well spent to renew the current plan for month or two to get the right answer.

3. **Retiree Defined Benefit Pension Alternatives**

Mayor Barefoot asked for summary of what was passed by the last Council regarding terminating the plan.

Vice Mayor Weick said it was his understanding that the Council was going to close the plan, and the two current two employees could take a lump sum buy-out from the General Employee Defined Benefit plan and move to the Defined Contribution plan. Mr. Jefferson said the two active employees are really not involved in this, as they have agreed to move their funds to the Defined Contribution Plan. Three participants are retired, and currently receive a monthly stipend from the plan administered by the FLC. The Town pays approximately $1200/year to keep sending the checks, investing the funds and obtaining required actuarial valuations.

The rationale for terminating the plan, Councilman Haverland said, is the annual financial report (CAFR) said we will terminate the plan. It is unpopulated, as employees have not continued to participate. The Town has an investment risk, it is only 56% funded as of FYE 11, and it assumes 6.9% rate of return. With 40% invested in short term bonds, it can't make this rate of return. The recent accounting rulings require that any unfunded pension liability be reported on the annual financial statement beginning in 2015. Heather Christmas clarified that they are not changing the requirement for an actuarial study at least every three years.

Mr. Jefferson clarified with Ms. Christmas that the total cost is about $2,000 a year for management and actuarial fees. Councilman Haverland said the investment return assumption is the problem, and who will bear the investment risk. The Council sets this rate of return, and our 10 year return is about 6%, so it should be lowered to that rather than 6.9%. If this were done, the amount of money received when liquidating the plan would be higher (amount paid to employees) and they could invest the higher amount and bear the investment risk. The lump sum payment would allow remaining funds to become part of their estate, with a lump sum payment.

Councilman Cadden said the Mayor asked him to contact some wealth management agencies, and invited Kyle Morgan to speak with them. He is with Merrill Lynch in Vero Beach, and has been a Certified Financial Planner for 20 years. He wanted the ladies to understand their options and give them their best advice, one on one.

Councilman Cadden suggested they do this now.

Councilman Haverland asked that the Pension Board meet and set the rate to 6% (at the next Council meeting). He did not think what we are offering them is fair. Town Clerk Aldrich offered a point of information that the Council sits as the Pension Board for the Defined Benefit General Employees Plan, and it would have to be a separate meeting apart from the Town Council action.

Virginia Gilbert addressed Mayor Barefoot, introducing the other affected retirees Alice Hayslip and Barbara Readdy. She said they have not been offered anything from the Town, and found out about this from the newspaper. To be asked to discuss their options with Mr. Morgan is not timely, as they would like to know first what the figure is at 6.9%, and then if it is changed to 6%. Mayor Barefoot asked if the decision were made today to terminate the plan and give them a lump sum on May 31 or June 1, what would that amount of money be. It would be issued at 6.9%, and Mr. Morgan has that number. Councilman Haverland said the revised number may be 10 or 15% higher. Ms. Gilbert said the figure is based on ten years life expectancy, and all of them have longevity on their side. Councilman Slater said the return over the past 10 years has been 6%, so that is just a way of looking at the return. Ms. Gilbert said the figure in the paper would not take them out to their expected lifespan, it will come up well short. Councilman Haverland said that is going to be the case, because it is assumed the money will be invested, and if they invested at say Vanguard, you pay the fee and choose your funds. You should earn on average over a long period of time, enough to keep taking out what you have been, it should go until the day you die. Ms. Gilbert said that is the key word that has the three of them so stressed, SHOULD be. They were guaranteed they would receive this based on single life annuity. With no risk, it might run out in 10 years. In private equity funds, it could be higher. Right now, the Town has taken the risk, and has proven its inability to project or manage money. Councilman Haverland said most of the employees hired in the last ten years have assumed their own risk.

Vice Mayor Weick gave an example using $100,000 lump sum, and take out $10,000, you get 6% on $90,000, get $5400 interest, and the next year take out more, it lasts twenty or thirty years. Mr. Morgan said to maintain the qualified nature of this sum, there are higher taxation and distribution rules. There are complications here they are not experiencing now. It's happening all across the country, the investment risk is going from municipality to CFP's. It takes experience to understand the options and make this decision.

Councilman Haverland said irrespective of the exact amounts, they should meet with Mr. Morgan. Councilman Cadden said if they could please spend the time with Mr. Morgan and get the facts, then come back and see the Council.

4. **Council Discussion Regarding Organizational Structure Post-Town Manager Retirement**

Richard has met with all of the Council, and no one is uncomfortable with the ideas he has shared regarding the transition. Councilman Haverland said he is perfectly comfortable with the concept, but implementation has not been fully discussed. He said the compensation adjustments have not been discussed fully, and Councilman Cadden recommended waiting until the regular Council meeting, which Mr. Clem also advised.

Mayor Barefoot said he put this on the agenda to make sure everyone is up-to-date on the plan, not to discuss names and numbers. Town Manager Jefferson said he has the manager's contract with figures on his desk for the Council to review.

5. **Audience Discussion**

None.

6. **Adjourn**

Hearing no further comments, the meeting was adjourned at 12:10 p.m.

Respectfully submitted,

/s___________________
Laura Aldrich, Town Clerk

(Approved by the Town Council at the May 23, 2013 *meeting)*

Please Note: The Town of Indian River Shores does not routinely keep verbatim minutes. Any party interested in such an appeal relating to any decision made by the Council with respect to any matter considered at this meeting is responsible to record the meeting and include the testimony and evidence upon which the appeal is to be based.