



Metropolitan Nashville and Davidson County, TN

Legislation Text

File #: BL2021-781, **Version:** 1

An ordinance amending Title 3 of the Metropolitan Code relative to medical care benefits for pensioners.

WHEREAS, the Council of the Metropolitan Government of Nashville and Davidson County has adopted a system of employee benefits which includes medical care benefits for employees and pensioners; and,

WHEREAS, the Study and Formulating Committee has issued a Final Report dated February 17, 2021, recommending that the following changes be made to medical care benefits for pensioners: (i) offer pensioners a Group Medicare Advantage plan as their only option; pensioners and their dependents must be Medicare eligible; and (ii) remove the Employer Group Waiver Plan language from the Metropolitan Code; and,

WHEREAS, based on current rates, it is estimated that offering eligible pensioners a Group Medicare Advantage plan as their only option would result in the realization of Other Post-Employment Benefits ("OPEB") liability reduction of \$1.1 billion; and,

WHEREAS, based on current rates, it is estimated that offering eligible pensioners a Group Medicare Advantage plan as their only option would also result in annual cash savings to the Metropolitan Government of \$14-21 million in the initial year; and,

WHEREAS, at its May 4, 2021 meeting, the Metropolitan Employee Benefit Board: (i) approved the recommendation of the Study and Formulating Committee to make Medicare Advantage plan the only choice for health insurance offered by the Metropolitan Government to pensioners with Medicare and whose covered dependents also have Medicare, effective January 1, 2023; and (ii) requested that within three years of implementation, the Benefit Board be provided an evaluation of how the Medicare Advantage plan is operating, as well as an update on the reduction of the OPEB liability; and,

WHEREAS, offering eligible pensioners a Group Medicare Advantage plan as their only option will render obsolete the requirement in the Metropolitan Code that the Benefit Board implement Medicare Part D or an Employer Group Waiver Plan for eligible pensioners; and,

WHEREAS, it is in the best interest of the Metropolitan Government to implement the recommendations made by the Study and Formulating Committee and approved by the Benefit Board regarding medical care benefits for pensioners.

NOW, THEREFORE, BE IT ENACTED BY THE COUNCIL OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY:

Section 1. Section 3.24.010 of the Metropolitan Code is hereby amended by deleting subsection A in its entirety and substituting in lieu thereof the following new subsection A:

"Each member shall be covered for medical care benefits during all times that the member is an eligible employee or pensioner and shall contribute for such benefits in accordance with Section 3.16.020. Effective January 1, 2023, a Group Medicare Advantage plan shall be the only option for medical care benefits offered by the Metropolitan Government to pensioners and their

dependents in circumstances where a pensioner and their dependents are Medicare eligible. For the purposes of Chapters 3.08 through 3.44, members shall include those persons who become eligible for the state county paid judges pension plan and elect to participate in the system.

Section 2. Effective January 1, 2023, Section 3.08.110 of the Metropolitan Code is hereby amended by deleting subsection F in its entirety.

Section 3. This ordinance shall take effect from and after its final passage, the welfare of The Metropolitan Government of Nashville and Davidson County requiring it.

Analysis

This ordinance amends Title 3 of the Metro Code to provide that effective January 1, 2023, a Group Medicare Advantage plan will be the only option for retiree medical benefits when the pensioner and their dependents are Medicare eligible. This ordinance, which comes as a recommendation from the Study & Formulating Committee and the Benefit Board, is a significant step toward addressing Metro's unfunded Other Post-Employment Benefits (OPEB) liability. OPEB pertains to benefits an employee receives upon retirement, such as health, dental, and drug coverage. Metro has historically operated on a "pay-as-you-go" basis for pensioner health benefits. This means that the Council appropriates the funds in the annual operating budget to cover Metro's portion of the health costs for that year. It is estimated that Metro's current unfunded OPEB liability is \$4.3 billion.

As a point of clarification, OPEB liability is unrelated to Metro's pension liability. Metro's pension fund has historically been very well managed, and is funded at 93%, which is an extremely high percentage for a city plan.

OPEB liability is not an issue Nashville is facing alone. According to a February 2021 report from the Reason Foundation, state and local governments have a collective \$1.2 trillion OPEB liability. A city's OPEB liability is important because it must be reflected in their financial audit, which is used by the bond rating agencies. This ordinance shifting retirees to a Group Medicare Advantage plan would reduce Metro's OPEB liability by \$1.1 billion and would save Metro approximately \$17 million per year in current operating costs for the medical plans.

Metro Human Resources has provided a Q&A sheet to the Council pertaining to this change. A copy of the Q&A sheet is attached to this analysis. The information provided by Metro HR states that the Medicare Advantage plan will result in significantly lower health insurance premiums for retirees, and that the vast majority of retirees (98+%) would not have to change medical providers. Of the roughly two percent remaining, they may not have to change providers if the provider accepts Medicare and agrees to bill Metro's insurer (currently Humana).

Additional benefits of the plan noted by Metro HR include no annual deductible, 100% coverage for hospital care, and no out-of-pocket maximum before the plan will pay.