

City Of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 21, 2008
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: JAMES K. HARTMANN, CITY MANAGER
SUBJECT: BUDGET MEMO # 41 : RESPONSE TO QUESTIONS REQUESTING INFORMATION ON POTENTIAL CHANGES TO RETIREE LIFE INSURANCE

Council members Lovain and Wilson requested information on the estimated savings of eliminating retiree life insurance for new employees or employees with less than 10 years of service beginning in FY 2009, and how such policies would affect the pre-funding requirements for OPEB obligations.

1. What would it save to eliminate retiree life insurance for new employees?

There would be a small savings of less than \$75,000 in the FY 2009 budget from eliminating retiree life insurance for new employees as the actuarial calculation of liability was based on what had been offered and provided already to existing employees and to retirees. Such a policy would not affect the OPEB obligation for FY 2009. It would begin to have an impact in subsequent fiscal years. However, it would be a very gradual and minor impact in the beginning and over a long period of time it would become a major impact as current employees and retirees aged and eventually passed away. Therefore, reaching a zero liability could take up to 50 or 60 years.

In order to determine the estimated effect for FY 2010 and FY 2011, an actuarial study would need to be undertaken to calculate the impact. However, as noted above, it would not likely have a major impact on the overall liability in the early years of such a policy.

2. What would it save to eliminate retiree life insurance for employees with less than 10 years of service?

Again, in order to determine the effect this policy would have on the pre-funding requirements for OPEB obligation, a detailed actuarial calculation would need to be done.

3. What would the City save in changing the retiree life insurance benefit so that it provided less benefits to retiree's beneficiaries when they died?

Again, an actuarial study would need to be conducted to determine savings.

The current City-paid life insurance premium for active employees covers two times annual salary, although employees can purchase additional life insurance at their own cost. The City continues to support the life insurance benefit plan after an employee retires by paying for the premium. Retirees are eligible for a benefit of two-times annual salary until he or she is 65. Then the coverage declines until it reaches 25% of two-times salary (i.e. 50% of salary) as shown in the chart below. At this point, it does not decline any further. Redesigning this declining scale is an option to consider in the future.

<b>Age</b>	<b>% Salary</b>
65	150%
66	130%
67	110%
68	90%
69	70%
70 or over	50%

### **Recommendation**

Given the fact that a phase-in of a reduction or elimination of life insurance benefits for future employees would have little budget impact in FY 2009, and given the fact that the Watson Wyatt study is planning on analyzing and addressing total compensation including benefits, I recommend that the discussion of the design of life insurance benefits in the future be addressed when Council looks at compensation and all benefits (health, life and retirement) when it receives the results of the Watson Wyatt study. When the study is complete, we will be able to see how the life insurance benefit (for active employees and retirees) compares to the jurisdictions with whom we compete for employees, and then set the City compensation policy going forward.

The only major budget savings that could occur in FY 2009 would be a reduction in life insurance benefits for existing employees and retirees, or eliminating the employer subsidy of the life insurance benefit. Given that inflation is currently running at 4.9%, that employer provided life insurance is the norm for our comparator jurisdictions, and that the MRA is 0% in the Proposed Budget and 1% in the Alternative Budget, I do not recommend that the structure of the life insurance benefit be altered in FY 2009.