

## AGENDA

### Task Force on Employee Wellness and Consolidation of Agency Group Insurance

Thursday, July 21, 2011

Council Office Building 5<sup>th</sup> floor conference room

- 4:00 Welcome from Bill Mooney, Task Force Chair, and introduction of members
- 4:20 Welcome and Remarks  
Council President Valerie Ervin  
Councilmember George Leventhal, Chair HHS Committee
- 4:40 Task Force Logistics
  - 1. Open Meetings – requirements for posting meetings and minutes (minutes are “action” minutes)
  - 2. Can an alternate attend a meeting in my place?
  - 3. Meeting dates and times
  - 4. Reserving time at the end of meetings for public/visitor comment
  - 5. How do Task Force members want to receive information, electronically, hard copy, or both?
  - 6. Forming subcommittees on employee wellness and insurance consolidation
- 5:00 Background material:
  - 1. Appointment resolution
  - 2. Information on the County and bi-County Agencies
  - 3. Open Meetings Law Summary
  - 4. Summary sheet – Group Insurance Costs for County Agencies
  - 5. Office of Legislative Oversight (OLO) memorandum on the consolidation of agency group insurance programs
  - 6. Executive Summaries OLO Report 2011-2, Achieving a Structurally Balanced Budget in Montgomery County Parts 1 and 2
- 5:20 Public/Visitor Comment
- 5:30 Adjourn

Resolution No.: \_\_\_\_\_  
Introduced: \_\_\_\_\_  
Adopted: \_\_\_\_\_

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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By: County Council

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**SUBJECT:** Appointments to the Task Force on Employee Wellness and Consolidation of Agency Group Insurance Programs

**Background**

1. Resolution No. 17-107 adopted on April 26, 2011, established the Task Force on Employee Wellness and Consolidation of Agency Group Insurance Programs. The Task Force is established to identify as much cost containment in employee health coverage as possible within the overall policy statement that access to affordable health care for all employees and all residents of Montgomery County is a primary goal of the Council.
2. The Task Force membership will include, but is not limited to, representatives from the County Government's Office of Human Resources and Department of Health and Human Services, Montgomery County Public Schools, Montgomery College, Maryland-National Capital Park and Planning Commission, and the Washington Suburban Sanitary Commission, as well as representatives of the bargaining unit organizations for the County and bi-County agencies, and public members who are public health experts or have experience with employee wellness programs.
3. The Task Force may organize itself into two committees to focus separately on the issues of employee wellness and consolidation of group health insurance plan design and administration.
4. No later than November 1, 2011, the Task Force will submit a report to the Council as specified in Resolution No. 17-107. The report may identify issues requiring further study and the Council may extend the time for the Task Force to conclude its work.

Action

The County Council for Montgomery County, Maryland approves the following resolution:

1. The following representatives of the County and Bi-county agencies are appointed to the Task Force on Employee Wellness and Consolidation of Agency Group Insurance Programs:

Wes Girling	Montgomery County Office of Human Resources
Dr. Ulder Tillman	Montgomery County Department of Health and Human Services
Susanne DeGraba	Montgomery County Public Schools
Richard Johnstone	Montgomery County Public Schools
Lynda von Bargaen	Montgomery College
Jan Lahr-Prock	Maryland-National Capital Park and Planning Commission
Carole Silberhorn	Washington Suburban Sanitary Commission

2. The following bargaining unit representatives are hereby appointed to Task Force on Employee Wellness and Consolidation of Agency Group Insurance Programs:

Gino Renne	MCGEO Local 1994
Erick Genser	IAFF Local 1664
Denise Gill	Fraternal Order of Police Lodge 35
Tom Israel	Montgomery County Education Association
Edye Miller	Montgomery County Association of Administrators and Principals
Richard Penn	American Association of University Professors
Karen DeLong	AFSCME Local 2380
David Rodich	SEIU Local 500
Michael Young	Fraternal Order of Police Lodge 30

3. The following individuals are hereby appointed to Task Force on Employee Wellness and Consolidation of Agency Group Insurance Programs:

Joan Fidler  
Lee Goldberg  
Paul Heylman  
Dr. Joseph Hibbeln  
Mark Lutes  
Thomas McNutt  
Brian McTigue  
William Mooney  
Farzaneh Riar  
Arthur Spengler

4. The Council appoints William Mooney to be the Chair of the Task Force on Employee Wellness and Consolidation of Agency Group Insurance Programs.

This is a correct copy of Council action.

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Linda M. Lauer, Clerk of the Council



# County Government

## MISSION STATEMENT

The mission of the Montgomery County Government is to provide for the peace, good government, health, safety, and welfare of the County in accordance with, and under authority of, the Constitution and laws of Maryland, and the Montgomery County Charter. To accomplish this mission, the Montgomery County Government provides: public laws and oversight through the County Council and the offices and boards of the Legislative Branch; the administration of judicial offices and public programs, services, and infrastructure through the County Executive and departments, offices, boards, and commissions within the Executive Branch.

## BUDGET OVERVIEW

The total approved FY12 Operating Budget for the County Government is \$1,596,984,520, an increase of \$72,591,550 or 4.8 percent from the FY11 approved budget of \$1,524,392,970 (excludes debt service). The total approved FY12 tax-supported operating budget for the County Government is \$1,222,908,680, an increase of \$59,352,430 or 5.1 percent from the FY11 approved tax-supported budget of \$1,163,556,250.

The County Government is the agency responsible for providing general services to residents. To do this, the agency is organized functionally into departments, offices, boards, and commissions which undertake all activities and operations of the government. County Government accounting information is organized by fund; this includes both tax supported and non-tax supported special funds, which either encompass an entire department or portions thereof. Detailed budget presentations on each of these organizational units and funds are displayed, organized by function, in the following sections of this document.

### Government Functions

The County Government functions organize departments, offices, boards, and commissions by related activity. The functions of the Montgomery County Government are:

- General Government
- Public Safety
- Transportation
- Health and Human Services
- Libraries, Culture and Recreation
- Community Development and Housing
- Environment
- Other County Functions

### Government Funds

County government funds are typically categorized by tax supported and non-tax supported funds. Tax supported funds are financed through Countywide taxes or special tax rates assessed on a geographic area encompassing the users of the respective services. In addition to taxes, these funds are also supported by inter-governmental aid, user fees, and other resources. Non-tax supported funds include enterprise funds and grants. Enterprise funds are operations that are financed and operated in a manner similar to private enterprise. The cost of providing these functions is primarily recovered through user charges.

## PROGRAM CONTACTS

Contact Alex Espinosa of the Office of Management and Budget at 240.777.2767 for more information regarding this agency's operating budget.

# Montgomery County Public Schools

## MISSION STATEMENT

The Montgomery County Public Schools (MCPS) operates a countywide system of public schools for students from pre-kindergarten through high school. For the 2010-11 school year (FY11), 144,064 students in pre-kindergarten classes through grades 12 attend 200 separate public educational facilities. For the 2011-12 school year (FY12), enrollment is estimated at 146,649 students.

## BUDGET OVERVIEW

The total approved FY12 Operating Budget for Montgomery County Public Schools is \$2,086.8 million, a decrease of \$17.4 million or 0.8 percent from the FY11 approved budget of \$2,104.2 million.

### ***Tax Supported Funding for the Public Schools***

For FY12, the total tax supported portion of the approved Operating Budget (excluding grants and enterprise funds) is \$1,950.9 million, an increase of \$31.1 million or 1.6 percent over the FY11 approved Operating Budget. In FY12, County revenue will provide 66.5 percent of the public schools' operating budget.

Additional information regarding the Montgomery County Public Schools' budget request is available in the FY12 MCPS Operating Budget adopted by the Board of Education on June 16, 2011. Copies of the budget are available at Montgomery County libraries, on the MCPS web site, and, upon request, from the school system.

## PROGRAM CONTACTS

Contact Dr. Marshall Spatz of the Montgomery County Public Schools at 301.279.3547 or Blaise DeFazio of the Office of Management and Budget at 240.777.2763 for more information regarding this agency's operating budget.



# Montgomery College

## MISSION STATEMENT

Montgomery Community College provides postsecondary educational programs from campuses located in Takoma Park/Silver Spring, Rockville, and Germantown. It serves four broad groups of students:

- Those who want the first two years of a university education, either for an associate's degree or preparatory to another program;
- Those who want to prepare for a career not requiring a bachelor's degree;
- Highly capable high school juniors and seniors who participate in special programs; and
- Adults who want to continue their education, either to improve job skills or for personal enrichment.

## BUDGET OVERVIEW

The total approved FY12 Operating Budget for Montgomery College is \$268.0 million, an increase of \$2.1 million or 0.8 percent from the FY11 approved budget of \$265.9 million. Related revenues, not including the County contribution, are approximately \$160.2 million, an increase of 2.4 percent from the approved FY11 budget.

Montgomery College's approved budget is not detailed in this document. That budget may be found on the College's web site at [www.montgomerycollege.edu/Departments/budget](http://www.montgomerycollege.edu/Departments/budget) or obtained by contacting the Office of Budget and Management Studies, Montgomery College, 900 Hungerford Drive, Room 345, Rockville, Maryland, 20850, phone 240.567.7290.

## PROGRAM CONTACTS

Contact Donna Dimon of the Montgomery College at 240.567.7294 or Bruce R. Meier of the Office of Management and Budget at 240.777.2785 for more information regarding this agency's operating budget.

# Maryland-National Capital Park and Planning Commission

## MISSION STATEMENT

The Maryland-National Capital Park and Planning Commission (M-NCPPC) in Montgomery County manages physical growth and plans communities, protects and stewards natural, cultural and historical resources, and provides leisure and recreational experiences.

## BUDGET OVERVIEW

### Park Fund

The FY12 Approved Budget is \$75,913,030 including debt service of \$4,351,900, with an associated real property tax rate of \$0.048 per \$100 of assessed value and a personal property tax rate of \$0.120 per \$100 of assessed value for the Park Fund.

### Administration Fund

The FY12 Approved Budget is \$25,342,950 with an associated real property tax rate of \$0.017 per \$100 of assessed value and a personal property tax rate of \$0.043 per \$100 of assessed value for the Administration Fund.

### ALA Debt Service

The FY12 Approved Budget for ALA debt service funding is \$320,900, with an associated real property tax rate of \$0.001 per \$100 of assessed value and a personal property tax rate of \$0.003 per \$100 of assessed value for ALA debt service.

### Grant Fund

The FY12 Approved Budget is \$550,000; \$400,000 of which is associated with the Park Fund and \$150,000 of which is associated with the Administration Fund.

### Enterprise Fund

The FY12 Approved Budget is \$9,522,300.

### Property Management Fund

The FY12 Approved Budget is \$938,000.

### Special Revenue Funds

The FY12 Approved Budget is \$5,670,140.

### CIP Current Revenue

In addition, this department's Capital Improvements Program (CIP) requires Current Revenue Funding.

## PROGRAM CONTACTS

Contact Darin Conforti of the M-NCPPC at 301.454.1741 or Amy Wilson of the Office of Management and Budget at 240.777.2775 for more information regarding this agency's operating budget.



# Washington Suburban Sanitary Commission

## MISSION STATEMENT

The Washington Suburban Sanitary Commission (WSSC) is a bi-county governmental agency established in 1918 by an act of the Maryland General Assembly. It is charged with the responsibility of providing water and sanitary sewer service within the Washington Suburban Sanitary District, which includes most of Montgomery and Prince George's counties. In Montgomery County, the Town of Poolesville and portions of the City of Rockville are outside of the District.

## BUDGET OVERVIEW

The total adopted FY12 Operating Budget for the Washington Suburban Sanitary Commission is \$626,145,000, an increase of \$20,595,000 or 3.4% from the FY11 approved budget of \$605,550,000. The total adopted FY12 Capital Budget is \$565,922,000, an increase of \$71,222,000 or 14.4% from the FY11 approved budget of \$494,700,000.

The WSSC approved budget is not detailed in this document. The WSSC budget may be obtained from WSSC's Budget Group at the Headquarters Building, 14501 Sweitzer Lane, Laurel, Maryland 20707, phone 301.206.8110 or from their website at [www.wsscwater.com](http://www.wsscwater.com).

## PROGRAM CONTACTS

Contact Sheila Cohen of the Washington Suburban Sanitary Commission at 301.206.8167 or John Greiner of the Office of Management and Budget at 240.777.2765 for more information regarding this agency's capital and operating budgets.

## Synopsis of State Open Meetings Law

The central purpose of the State Open Meetings Law is that public business must be performed in an open and public manner. As a general rule, every meeting is open unless the Council or a Committee has a specific, legally recognized reason to close it.

The Open Meetings Law applies to any meeting of a quorum of a public body at which public business is considered or transacted. The conduct of public business includes any part of an active deliberative process, not just the final decision. A public body includes Committees, as established in the Council Rules. In our context, a quorum is:

5 members of the Council; or  
2 members of a Committee (assuming a 3-member Committee).

When 2 members of a Committee are present outside of a "convened meeting," the Open Meetings Law requirements apply only when matters that have or could come before that Committee are discussed.

When a quorum is present outside of an official meeting of the Council or a Committee for the sole purpose of receiving information, that situation would generally not be subject to the Open Meetings Law. However, the Open Meetings Law could apply if the session:

deals with a proposed or pending matter; AND  
was convened by the Chair or a majority of the body.

The Open Meetings Law does not apply to "a chance encounter, social gathering, or other occasion not intended to circumvent" the law.

The Open Meetings Law requires:

public notice; and  
minutes.

The Law permits a public body to meet in a closed session for any of fourteen reasons enumerated in Maryland Annotated Code, State Government Article, Section 10-508(a). A public body may meet in closed session or adjourn an open session to a closed session only to:

- discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction; or any other personnel matter that affects one or more specific individuals;
- protect the privacy or reputation of individuals with respect to a matter that is not related to public business;
- consider the acquisition of real property for a public purpose;

- consider a matter that concerns the proposal for a business or industrial organization to locate, expand, or remain in the State;
- consider the investment of public funds;
- consider the marketing of public securities;
- consult with counsel to obtain legal advice;
- consult with staff, consultants, or other individuals about pending or potential litigation;
- conduct collective bargaining negotiations or consider matters that relate to the negotiations;
- discuss public security - if the Council determines that public discussion would constitute a risk to the public, including the deployment of fire and police services and the development and implementation of emergency plans;
- prepare, administer, or grade a scholastic, licensing, or qualifying examination;
- conduct or discuss an investigative proceeding on actual or possible criminal conduct;
- comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter; or
- before a contract is awarded or bids are opened, discuss a matter directly related to a negotiating strategy or the contents of a bid or proposal, if public discussion or disclosure would adversely impact the ability of the public body to participate in the competitive bidding or proposal process.

The requirements for a closed session are:

public notice, including the reason for closing the session; and  
a list of the topics to be discussed; and  
minutes.

A recorded vote must be taken before convening any closed session or closing an open session.



## GROUP INSURANCE COSTS FOR COUNTY AGENCIES

This fact sheet presents some overview information about the costs of group insurance for active and retired employees of the four tax-supported County agencies: Montgomery County Government, Montgomery County Public Schools (MCPS), the Montgomery County portion of the Maryland-National Capital Park and Planning Commission (M-NCPPC), and Montgomery College.<sup>1</sup>

### Agency Spending for Group Insurance Benefits

In Fiscal Year 2011 (FY11), County agencies spent an estimated \$392 million for group insurance benefits (medical, prescription, dental, vision, non-optional life insurance). Of this total, \$315 million paid for group insurance for active employees; the remaining \$77 million covered agency group insurance cost for retirees. Agency expenditures for employee and retiree group insurance benefits increased by about 140% over the past decade.

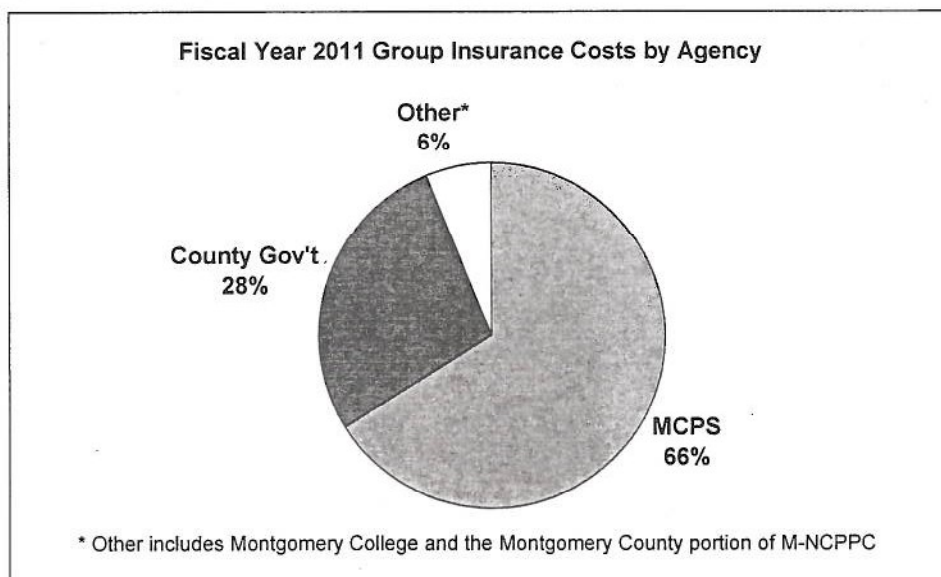
Note that these totals exclude group insurance premium payments made by active employees and retirees. In addition, note that the cost for retiree group insurance includes only "pay as you go" (that is, current year) claims but does not include funding for future year liabilities.

### Group Insurance as a Percentage of Agency Budgets

In FY11, group insurance costs for active employees and retirees comprised 12% of total tax supported agency spending.

### Allocation of Group Insurance Costs by Agency

MCPS and the County Government account for about 94% of all agency group insurance spending. These two agencies employ 92% of the tax supported workforce.



<sup>1</sup> All cost estimates cited in this document represent Fiscal Year 2011 totals for the "tax supported" portion of agency budgets. Tax supported spending is funded by taxes and other revenue sources that are not dedicated for a specific use. Cost estimates do not include non-tax supported spending, that is, spending funded by non-tax sources (e.g. user fees) that are dedicated for a specific use. Estimates of tax supported costs include the vast majority of spending by the County Government, MCPS, the Montgomery County portion of M-NCPPC, and Montgomery College but exclude spending by WSSC.



## **GROUP INSURANCE COSTS FOR COUNTY AGENCIES (continued)**

### **Projected Group Insurance Inflation Rate**

Agency actuaries project that group insurance costs for active employees and retirees will experience an inflation rate of about 9% for the next five years.

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### **Changes to Group Insurance Benefits for Fiscal Year 2012**

County agencies made changes to employee and retiree group insurance benefits for Fiscal Year 2012. For example, MCPS changed the eligibility and cost share for retiree health benefits (see ©13-14.) The County Government also changed the eligibility and cost share for retiree health benefits. In addition, the County Government increased the employee share of group insurance premium costs from 20% to 25% (except for HMO medical coverage which remains at 20%, see ©15-17.)

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### **Comparison of Agency Group Insurances Plans and Costs**

Staff is working to prepare a task order for Aon Consulting, the group insurance actuary for all four tax-supported agencies, to prepare for the Task Force a report that compares active employee and retiree medical and prescription plans offered by County agencies. The report will describe the differences and similarities of agency plan offerings. In addition, the report will identify the factors that explain the differences in cost between County Government and MCPS offerings. Staff has asked Aon to complete the report in September.



www.montgomeryschoolsmd.org

Montgomery County Public Schools  
ROCKVILLE, MARYLAND



## Employee and Retiree Service Center

### Cost Changes to Future Retiree Health Benefits

MCPS has redesigned the cost-sharing structure of future retiree health benefits to better recognize and reward employee longevity. In order to minimize the impact of these changes on employees who are least able to shift their long-term plans, you will be affected differently based on the year you were hired and the length of time you have been employed by MCPS when you retire. These changes will ensure the ability of MCPS to continue to provide health benefits to our retirees, while at the same time proactively addressing the increases in health benefit costs.

The new cost-sharing rules for retiree health benefits will affect all employees **hired after July 1, 2006, who are less than 55 years old and all new employees hired after July 1, 2011, of any age**. You are receiving this e-mail because you fall into this group.

### Health Benefit Cost-Sharing

For all employees who are subject to the new cost-sharing structure, future retiree health benefits will be granted only after 10 years of eligible service. In addition, the cost of your health benefits will be determined on a service-based scale, rewarding those employees with the most longevity.

Affected employees will pay the following percentage of retiree health benefits cost:

- **10 up to 15 years** eligible service: **You pay 60 percent.** (MCPS will pay 40 percent of the cost.)
- **15 up to 20 years** eligible service: **You pay 50 percent.** (MCPS will pay 50 percent of the cost.)
- **20 or more years** eligible service: **You pay 36 percent.** (MCPS will pay 64 percent of the cost.)

The new cost-sharing structure for retiree health benefits will be effective July 1, 2011, and will apply to all affected employees who retire after that date.

### Retirement Planning Assistance

We understand that the new retiree health benefit cost structure may change your existing retirement strategy. For more information about retirement planning, visit the [Retirement Planning](#) webpage.

In addition, as an MCPS employee, you are eligible for a free consultation with the Certified Financial Advisors from Montgomery County Teacher's Federal Credit Union (MCTFCU) to get a complete analysis of your retirement cash flow. Please call 240-599-7490 to schedule a complimentary appointment. You do not have to be a member of MCTFCU to take advantage of this complimentary consultation.

## **Learn More**

Additional information is available on the [ERSC website](#). Here you will find the following helpful information—

- Frequently Asked Questions regarding these changes
- A chart to help you understand who is most affected by these changes
- Definitions of common terms such as "eligible service"

In addition, the Employee and Retiree Service Center (ERSC) will be offering two information sessions to assist you in understanding the changes to employee pensions and future retiree health benefits. During these sessions, ERSC staff members will present information about the changes and will be available to answer your questions. Each session will be held from 4:30 to 5:30 p.m. at the Carver Educational Services Center (CESC) auditorium, located at 850 Hungerford Dr, Rockville, MD 20850.

You may choose to attend either of the following dates—

- Tuesday, May 31
- Thursday, June 16

If you require additional assistance in understanding this change, you may contact ERSC Monday through Friday between the hours of 8:00 a.m. and 4:30 p.m. at 301-517-8100 or [ERSC@mcpsmd.org](mailto:ERSC@mcpsmd.org).





## Frequently Asked Questions (FAQs) Regarding Upcoming Changes to Group Insurance

➤➤➤ Effective January 1, 2012 for active employees <<<

On May 18, 2011, the Montgomery County Council announced changes to the group insurance program as part of their approved Fiscal Year 2012 (FY12) budget. The information contained in this flyer is designed to help answer questions you may have about the changes. Please read the following carefully.

### GROUP INSURANCE PLAN DESIGN CHANGES

#### Caremark Prescription Drug High Option and Standard Option Plans



**Q. What is the new benefit regarding 90-day prescription drug maintenance medications?**

A. Currently, you are required to use only CVS/Caremark's Mail Order facility for purchasing maintenance medications. Beginning January 1, 2012, you will also be able to use CVS/Caremark retail pharmacies to purchase maintenance medications at mail order pricing, which is one copayment for up to a 90-day supply.

**Q. What are the new rules regarding generic drugs?**

A. Participants are required to use generic medications when available. If you purchase a brand name drug that has a generic equivalent, you pay the generic drug copayment plus the difference between the brand name and generic drug cost. However, if your doctor certifies in a letter to CVS/Caremark attached to your prescription that it is medically necessary to prescribe a brand name drug instead of its generic equivalent, there is no penalty for purchasing that brand name drug. Simply stating that, in his or her medical opinion, brand name drugs are better than generic drugs is not sufficient medical documentation. Note that CVS/Caremark will require yearly updates of medical necessity.

**Q. Will the Plan cover drugs prescribed to treat Erectile Dysfunction?**

A. Yes, but there will be a limit of 6 pills per month. Any amount above this limit will be paid in full by you.

#### Basic Life Insurance Coverage



**Q. What are the life insurance plan design changes?**

A. Basic Life Insurance will be set at "1 times annual salary" for all covered full-time and part-time employees. (Currently, employees in the Choice Plan are covered for "2 times salary.") During this year's Fall Open Enrollment, you will be able to elect additional Optional Life Insurance with no medical underwriting requirement.

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## GROUP INSURANCE COST-SHARING CHANGES

**Q. When will the new 2012 group insurance rates be available?**

A. During this Fall's Open Enrollment (dates to be announced once available).

**Q. What are the changes to the employer/employee premium cost-sharing arrangement for health insurance?**

A. The following changes will be made:

Plan type/name	Beginning January 1, 2012, the employee premium will be:
<i>Health Maintenance Organizations (HMOs)</i>	
• Kaiser Permanente (Kaiser plan includes prescription coverage)	20% of the total premium
• United Healthcare HMO	20% of the total premium
<i>Point of Service (POS) Plans</i>	
• CareFirst BCBS High Option POS	25% of the total premium
• CareFirst BCBS Standard Option POS	25% of the total premium
<i>Prescription Drug Coverage</i>	
• Caremark Prescription Drug Standard Option	25% of the total premium
<p><i>Note: In 2009, the employer cost share for the High Option Plan was limited to the amount contributed to the Standard Option Plan. Employees enrolled in the High Option Plan pay the difference between the amount the County contributes toward the Standard Option Plan and the total cost of the High Option Plan. This means that, for the High Option Plan, the employer premium will be 75% of the Standard Option Plan cost; employees will pay the remainder of the High Option Plan premium.</i></p>	
<i>Dental</i>	
• Traditional PPO	25% of the total premium
• DHMO	25% of the total premium
<i>Vision</i>	
• Vision Plan	25% of the total premium
<i>Life Insurance</i>	
• Basic Life	25% of the total premium
• Accidental Death and Dismemberment (AD&D)	
• BTA	
• Pre-Fund	
• Dependent Life Insurance	25% of the total premium
• Optional Life Insurance	25% of the total premium
<i>Disability Insurance</i>	
• Long Term Disability (LTD)	25% of the total premium

## GENERAL INFORMATION

**Q. When do the group insurance changes announced by County Council take effect?**

A. January 1, 2012.

**Q. Who do the group insurance changes affect?**

A. The changes outlined in this flyer apply to active County employees who are eligible for group insurance. This includes employees of participating agencies. (Depending on your employer, the cost-sharing changes outlined in this flyer may not apply to you.)

**Q. When will I be able to make changes to my group insurance coverage?**

A. During Open Enrollment, you will be able to enroll in, change or cancel selections for yourself and your dependents for group insurance, which includes:

- medical coverage
- prescription drug coverage
- dental coverage
- vision coverage
- optional life insurance
- dependent life insurance

In addition, you will be able to enroll or re-enroll in a flexible spending account (FSA):

- Health Care FSA
- Dependent Care FSA

*Note:* If you have a qualified status change during the year (such as if you marry, divorce or have a child), you may be eligible to make certain changes to some of your benefits outside of the Open Enrollment Period. You must notify the Office of Human Resources and make your changes within 60 days of the date of your qualified status change.

**Q. When is Open Enrollment for 2012?**

A. Open Enrollment is typically held in the Fall. Once this year's Open Enrollment dates are set, they will be announced.

**Q. If I make changes during Open Enrollment, when will they take effect?**

A. January 1, 2012.



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## MEMORANDUM

March 22, 2011

TO: Councilmembers

FROM: Craig Howard, Legislative Analyst  
Sarah Downie, Research Assistant  
Office of Legislative Oversight

SUBJECT: **Follow-up to OLO Report on Achieving a Structurally Balanced Budget:  
Consolidation of Agency Group Insurance Programs**

This memorandum responds to a request from Councilmembers Leventhal and Elrich for information on options for consolidating group insurance administration across County Government, Montgomery County Public Schools, and Montgomery College. Specifically, it describes the current group insurance administrative structure; explains the three types of consolidation identified by the Cross-Agency Resource-Sharing Committee for potential cost savings; and discusses issues that would need to be worked through by the agencies as part of implementing any or all of the consolidation options.

**Background.** Over the past 10 years (FY02-FY11), total agency expenditures on group insurance for active and retired employees (medical, prescription drug, dental, vision, and life insurance) more than doubled. In FY11, County Government, Montgomery County Public Schools (MCPS), and Montgomery College budgeted a combined \$383.8 million for active and retiree group insurance expenditures. Projections for the next five years show agency health care costs continuing to increase at an estimated 10% per year.<sup>1</sup>

To date, while the agencies have joined together in competitive bid efforts to choose plan vendors, each agency continues to structure and administer its own group insurance plans for active and retired employees. In December 2010, the Cross-Agency Resource-Sharing Committee (CARS) identified three potential options for achieving cost savings and/or operational efficiencies through consolidating agency group insurance functions.<sup>2</sup>

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<sup>1</sup> OLO Report 2011-2, *Achieving a Structurally Balanced Budget in Montgomery County – Part II: Option for Long-Term Fiscal Balance*, December 7, 2010. FY11 budgeted agency expenditures for group insurance do not include OPEB pre-funding, as none of the agencies made OPEB contribution in FY11.

<sup>2</sup> The CARS Committee consists of the heads of six County agencies (County Government, MCPS, Montgomery College, M-NCPPC, WSSC, and the Housing Opportunities Commission) and the Staff Director of the County Council. The purpose of CARS is to “provide a forum for coordination among Montgomery County agencies that seeks to share ideas/best practices, develop resource-sharing strategies to achieve operational efficiencies, reduce costs and improve the quality of services offered to our residents and businesses.”

The rest of this memorandum is organized as follows:

**Part A, Current Administrative Structure**, reviews the staffing arrangements, costs, and other key components associated with providing group insurance benefits to employees and retirees of County Government, MCPS, and Montgomery College.

**Part B, Consolidation Options**, defines the three types of group insurance consolidation proposed for review by CARS and explains how each has the potential to produce cost savings and/or operational efficiencies.

**Part C, Implementation Considerations**, discusses issues identified by CARS or agency staff that would need to be addressed as part of implementing any or all of the consolidation options.

#### **A. Current Administrative Structure**

Under current practice, County Government, MCPS, and Montgomery College separately structure and administer the group insurance benefits offered to each agency's respective employees and retirees. This section reviews the following components of the group insurance administrative structure in each agency, all of which are relevant to understanding the potential advantages as well as challenges to the different options for consolidation:

- In-house vs. contracted functions;
- FY11 agency staffing and personnel costs; and
- The number and type of group insurance plans offered.

**In-House vs. Contracted Functions.** Offering group insurance plans to employees requires agencies to provide numerous "administrative" functions. Agencies can choose to provide these functions in-house, through contracts with plan vendors, or a combination of both.

County Government, MCPS, and Montgomery College have similar approaches to dividing the group insurance administrative functions between agency staff and contractors. Table 1 (on the next page) lists the major group insurance administrative functions, and indicates whether it is performed primarily by agency staff or a contractor.

While the overall breakdown of how the agencies provide the administrative functions related to group insurance are similar, agency staff note that each agency has separate administrative management systems. For example, each agency has different financial management, budgeting, payroll, human resource, procurement, information technology, etc. systems. As a result, the process of enrolling an employee in their selected health plan and coordinating the appropriate deductions from that employee's biweekly paycheck are different in each agency.

In addition, agency staff note that contractors are sometimes hired to provide specialized assistance as needed for functions typically performed by agency staff.



**Table 1. Summary of Group Insurance Administrative Functions Performed by Agency Staff vs. Contractors in County Government, MCPS, and Montgomery College**

Function	Performed by...	
	Agency Staff	Contractors
<b>Employee eligibility and enrollment</b> – determining eligibility of employees to receive benefits, processing enrollment of employees into selected plans, processing changes to employee enrollment status, etc.	✓	
<b>Employee education, communication, and technical assistance</b> – answering employee questions, preparing and disseminating information on plan provisions, etc.	✓	
<b>Administrative systems management</b> – processing and coordinating employee plan selections with the appropriate human resource, financial, budget, etc. systems	✓	
<b>Data collection and management</b> – collecting, maintaining, analyzing, and reporting statistical and demographic data	✓	
<b>Vendor relations and oversight</b> – managing competitive bid process to select vendors, evaluating vendor performance and overseeing contracts, etc.	✓	
<b>Regulatory compliance</b> – ensuring plan compliance with applicable federal, state, or local laws and/or regulations	✓	
<b>Claims processing</b> – managing and administering the payment/reimbursement process to employees and/or providers		✓
<b>Provider networks</b> – building and maintaining a network of providers under each plan, negotiating reimbursement rates with providers, etc.		✓
<b>Drug formularies</b> – developing and maintaining the list of prescription drugs (generic and brand) covered under each prescription drug plan		✓
<b>Related program administration</b> – administering COBRA and Flexible Spending Accounts		✓
<b>Other</b> – miscellaneous tasks and special projects	✓	✓

**FY11 Staffing and Personnel Costs.** At OLO's request, each agency provided an estimate of the FY11 staff effort (measured in workyears) dedicated to performing group insurance administrative functions and FY11 total personnel costs associated with those workyears. As shown in Table 2, in FY11, County Government, MCPS, and Montgomery College combined:

- Allocate an estimated 24 workyears to perform group insurance plan administration for over 41,000 plan enrollees; and
- Spent an estimated \$2.3 million in agency personnel costs related to group insurance plan administration.

**Table 2. FY11 Workyears and Personnel Costs for Agency Group Insurance Administration**

Agency and Office/Department	2011 Enrollment* (Medical Plans)	FY11 Budgeted	
		Workyears	Personnel Costs
MCPS, Department of Financial Services	27,115	15.0	\$1,320,000
County Government, Office of Human Resources	12,346	7.2	\$785,000
Montgomery College, Office of Human Resources	1,824	2.0	\$190,000
<b>Total</b>	<b>41,285</b>	<b>24.2</b>	<b>\$2,295,000</b>

\*Medical plan enrollment for both active and retired employees as of January 1, 2011.

The total number of workyears for each agency do not represent individual positions as some staff perform group insurance administrative functions as one component of their overall duties. For example, the 7.2 workyears of staff effort in County Government come from 12 full-time and 2 part-time positions. Additionally, each agency's workyear total in Table 2 does not include staff from other offices or departments that spend a portion of their time on group insurance-related issues (e.g., budget staff, legal staff).

**FY11 Group Insurance Plans.** OLO's Part II report on *Long-Term Options for Achieving Fiscal Balance* identified several key components related to each agency's group insurance plans, including plan design, annual plan premiums, and premium cost share arrangements. An additional factor from a group insurance administration perspective is whether agency group insurance plans are self-insured or fully-insured. The distinction between self-insured and fully-insured plans is described below.

- **A self-insured plan** is one where the agency sets aside funding and pays all claims under the plan out of a self-insurance fund. Each year, the agencies (with the assistance of actuaries) calculate the total premiums needed to cover the cost of anticipated claims. The agencies contract with vendors (also referred to as third-party administrators) to administer the self-insured plans, and pay the vendors an administrative fee. The vendor provides access to its network of care providers and processes claims payments on behalf of the agency. For self-insured plans, the agencies are responsible for determining the plan design.



- A **fully-insured plan** is one where a contracted insurance vendor establishes the total premiums each year and the vendor is responsible for paying all claims under the plan. There is no additional administrative fee apart from the premiums paid to vendors under a fully-insured plan. For a fully insured plan, the insurance vendor has products with pre-determined plan designs that it offers to the agencies.

Under both self-insured and fully-insured plans, the agency (and not the vendor) determines the cost share for employees; that is, how much of the annual premium is paid by the employee and how much is paid by the agency.

For each agency and type of group insurance in FY11, Table 4 (on the next page) lists the number of contracted vendors, the specific plans offered, whether or not the plan is self-insured. Each plan is offered to both active employees and retirees unless otherwise noted.

As detailed above, for self-insured plans, each agency pays a fee to each vendor that is selected to administer a group insurance plan. The administrative fee charged by each vendor of a self-insured plan is established through the competitive bid process, and generally equates to a specific monthly fee paid by the agency per plan enrollee.

Table 3 details that the three agencies will pay an estimated \$19.4 for vendors to administer self-insured plans in FY11 for over 41,000 plan enrollees. The majority of the administrative fees (\$17.1 million or 88%) are associated with medical plans.

The \$19.4 million spent on administrative fees for self-insured plans represents about 5% of the agencies combined total cost of providing group insurance to employees in FY11 (\$383.8 million).

**Table 3. FY11 Administrative Fees for Vendors of Self-Insured Group Insurance Plans**

Agency	2011 Enrollment* (Medical Plan)	FY11 Administrative Fees for:		Total
		Medical Plans	Rx, Dental, and Vision Plans	
MCPS	27,115	\$11,400,000	\$1,412,000	\$12,812,000
County Government	12,346	\$5,058,000	\$822,000	\$5,880,000
Montgomery College**	1,824	\$646,000	\$58,000	\$704,000
<b>Total</b>	<b>41,285</b>	<b>\$17,104,000</b>	<b>\$2,292,000</b>	<b>\$19,396,000</b>

\*Medical plan enrollment for active and retired employees as of January 1, 2011.

\*\*Montgomery College staff report that the College does not pay administrative fees for its prescription plan under the current contract. Instead, the vendor receives the differences between the retail cost of prescription drugs and the price the vendor is able to negotiate with participating pharmacies.



Table 4. FY11 Group Insurance Plans Offered by County Government, MCPS, and Montgomery College

Agency	Vendors/Plans Offered	Self-Insured	Fully-Insured
<b>Medical Plans</b>			
County Government	Carefirst POS (high and standard option)	✓	
	Carefirst Indemnity (retirees only)	✓	
	United Healthcare HMO	✓	
	Kaiser Permanente HMO		✓
MCPS	Carefirst POS (actives only)	✓	
	Carefirst HMO	✓	
	United Healthcare POS (open)	✓	
	United Healthcare POS (closed)	✓	
	United Healthcare HMO	✓	
	Kaiser Permanente HMO		✓
Montgomery College	CIGNA PPO	✓	
	CIGNA POS	✓	
	Kaiser Permanente HMO		✓
<b>Prescription Plans</b>			
County Government	Caremark (high and standard option)	✓	
	Kaiser Permanente		✓
MCPS	Caremark	✓	
	Kaiser Permanente		✓
Montgomery College	Caremark	✓	
	Kaiser Permanente		✓
<b>Dental Plans</b>			
County Government	UCCI PPO	✓	
	UCCI DMO (actives only)		✓
MCPS	Aetna PPO	✓	
	Aetna DMO		✓
Montgomery College	CIGNA PPO	✓	
	CIGNA DMO		✓
<b>Vision Plans</b>			
County Government	National Vision Administrators	✓	
MCPS	National Vision Administrators	✓	
Montgomery College	Vision Service Plan		✓

## B. Consolidation Options

The Cross-Agency Resource-Sharing Committee identified three potential options for achieving cost savings and/or operational efficiencies through "consolidation and streamlining" of agency group insurance programs for County Government, MCPS, and Montgomery College:

1. Consolidate the employee medical, dental, and vision benefit plan offerings of County agencies under fewer vendor arrangements;
2. Consolidate the employee benefit plan offerings of County agencies under one administrative unit that supports all agencies; and
3. Establish a uniform plan design for employee benefits across the agencies.

Each of these consolidation options is further explained below, including how the option could lead to cost savings and efficiencies and a summary of CARS' latest recommendations. Part C of this memo (on page 11) identifies potential issues associated with implementing any or all of these options.

### **OPTION #1: Consolidate the health benefit plan offerings for medical, dental, and vision benefits under fewer vendor arrangements.**

As reviewed earlier, most of the agencies' health plans are self-insured, which means that the County pays for the cost of claims but contracts with vendors to administer the health plans by performing functions such as managing the provider network. The only fully insured plans are each agencies' Kaiser Permanente medical and prescription plans and each agencies' dental HMO plan. With these fully insured plans, the County pays insurance premiums and the insurer is financially responsible for enrollees' claims.

In the past, the County agencies have joined in competitive bid efforts to choose plan vendors, but requests for proposals have always included a provision that decisions could vary from agency to agency. At present, there are four different vendors managing 12 medical plans across the three agencies (as shown in on page 6), as well as three different vendors managing dental plans, and two different vendors managing vision plans.

Under this consolidation option, the agencies would jointly agree to select a common vendor (or vendors) for each type of benefit (medical, dental, vision) to achieve savings through the competitive bid process. This approach would also likely reduce the number of plan offerings to two or three per agency; however, plan design could still be different across the agencies.

This option would model the vendor consolidation strategy taken by the agencies for prescription drug coverage, where all three agencies have uniform vendor arrangements despite having different prescription drug plan designs.



**Potential Cost Savings and Efficiencies.** The CARS group estimated that this option could save between \$2-4 million annually combined across the three agencies. The CARS report does not detail how the cost estimate was developed, but notes that "discussions with vendors and analysis of data provided in recent plan bids suggests that lower costs could be achieved."<sup>3</sup>

Savings under this option would occur through the competitive bid process with vendors charging lower administrative fees since they know that a successful bid would result in a contract with all three agencies. Agency staff believe that this approach has likely achieved savings in the administrative costs for prescription drug plans.

As noted on page 5, in FY11, the agencies spend a combined \$19.4 million on fees to vendors for administering the various self-insured plans. The \$2-4 million in savings estimated by CARS would correspond to a 10-20% reduction in administrative fees over FY11 levels.

**CARS' Recommendation.** The CARS December report recommended adopting this vendor consolidation option, but with a deferred implementation date of FY13. Specifically, the final report stated: "This is a FY13 initiative that will require some longer term planning and studying. The Benefits Workgroup will begin meeting regularly to jointly address this and other cost savings and resources sharing opportunities."<sup>4</sup>

**OPTION #2: Consolidate the health benefit plan offerings of county agencies under one administrative unit that supports all county agencies.**

County Government, MCPS, and Montgomery College each assign staff to administer group insurance functions. Currently, an estimated 24 workyears perform these functions across the three agencies for personnel costs totaling about \$2.3 million.

As described on page 3, the agencies have similar approaches to dividing the group insurance administrative functions between agency staff and contractors. Agency staff perform functions such as managing employee eligibility and enrollment, overseeing vendor contracts, and responding to employee questions, while contract staff perform functions such as processing claims and maintain provider networks.

Option #2 would create a centralized office that would perform these in-house functions for all agencies. The office could be located within one of the three agencies, within an existing outside entity, or within a new outside entity established for this purpose.

<sup>3</sup> Cross-Agency Resource Sharing Committee, First Quarterly Report of Employee and Retiree Benefits Subcommittee, September 15, 2010.

<sup>4</sup> [http://www.montgomerycountymd.gov/content/EXEC/CAOs/CARS/xls/cars\\_all\\_responses\\_12-08-2010a.xls](http://www.montgomerycountymd.gov/content/EXEC/CAOs/CARS/xls/cars_all_responses_12-08-2010a.xls)



**Potential Cost Savings and Efficiencies.** CARS did not provide an estimated cost savings for this option, but did note four possible efficiencies that could be achieved from a single administrative unit:

- Streamlined administration – currently, each agency had one or more director/division chief/manager positions overseeing group insurance functions.
- Streamlined staff – each agency has benefit staff responsible for vendor relations, enrollment and eligibility, paying carriers, tracking plan experience, rate setting, communicating to plan participants, and liaison with Medicare.
- Improved reporting – broad experience data could stabilize rate and plan experience.
- Consolidated communication of benefits and benefit levels.

As indicated by two of the possible efficiencies noted by CARS – streamlining administration and staff – realizing cost savings from this option would occur if the agencies are able to eliminate redundant positions. Given that the staff would still have to serve the same number of clients (i.e., the employees of all three agencies) and perform the same administrative functions, it is not clear how many positions could be eliminated under this option. The workload for some positions may not be affected by the consolidation, such as positions responsible for responding to phone calls from employees or processing plan enrollment. Additionally, absent a uniform plan design (see Option #3), the staff would still need to be able to provide agency-specific information and services to the enrollees from each agency.

Using the FY11 staffing and personnel cost data to provide a sense of the potential savings under this option, OLO estimates that for every 10% reduction in workyears the agencies combined would achieve approximately \$230,000 in savings. This estimate assumes that workyears are eliminated, and not shifted to perform other functions.

As discussed by agency staff, in the short-term, creating a combined administrative unit could require additional operating funds for items such as creating a common record-keeping system, etc. that may offset some of the cost savings. In the long-term, however, a single administrative unit could create opportunities for better levels of service and/or greater cost savings than each agency would be capable of achieving on its own. Examples include:

- Automating plan enrollment
- Providing more information for enrollees online
- Hiring staff with more specialized skills (e.g., speakers of other languages)
- Single contracts for group insurance consultation, underwriting, and OPEB valuation

**CARS Recommendation.** The CARS December 2010 report recommended that the Employee and Retiree Benefits Subcommittee should continue to research and study this option. Specifically, the report notes that “this is a longer term initiative that should be studied in detail before pursuing” and listed an implementation date of “post FY12.”<sup>5</sup>

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<sup>5</sup> [http://www.montgomerycountymd.gov/content/EXEC/CAOs/CARS/xls/cars\\_all\\_responses\\_12-08-2010a.xls](http://www.montgomerycountymd.gov/content/EXEC/CAOs/CARS/xls/cars_all_responses_12-08-2010a.xls)

**OPTION #3: Establish a uniform plan design across the agencies**

Currently, County Government, MCPS, and Montgomery College offer multiple group insurance plans and structure those plans differently. As a result of plan design differences, health plans with similar names in different agencies are not the same plan.

Under this option, the agencies would offer employees identical health plans in terms of plan design (e.g., annual deductibles, copays for services). This approach would likely reduce the number of plan offerings to two or three per agency. This option could also include, but would not necessarily require, moving to the same cost share arrangements across agencies.

**Potential Cost Savings and Efficiencies.** The CARS group did not provide an estimated cost savings for this option. However, agency staff note that this option has the potential for the largest amount of savings. While the first two options are intended to create savings within administrative fees (costing a total of \$19.4 million in FY11) and staffing (\$2.3 million in FY11), this option could achieve savings within the largest component of group insurance costs, the cost of care utilized by plan enrollees (approximately \$363 million in FY11).

The savings from this option would primarily result from changing plan designs to encourage more efficient use of care and/or shifting costs onto employees (e.g., higher copays, limitations on coverage). If this option included a uniform cost share arrangement, savings would be realized if agencies (especially MCPS) paid a smaller share of employees' health benefit premiums than they currently do. Currently, Montgomery College has the lowest employer cost share for active employees, 75%, while MCPS pays 90%-95% and the County Government pays 80% for most employees.

Having a uniform plan design would not provide significant additional administrative savings over and above what could be achieved by consolidating vendor arrangements and agency administration under Options #1 and #2. However, it would likely be easier for vendor and agency staff to provide information to employees if all the plans were identical. Another benefit of this option is that there would be equity among the employees of all the agencies, especially if cost share is included.

**CARS Recommendation.** The CARS December report recommended that the Employee and Retiree Benefits Subcommittee should continue to research and study this option. Specifically, the report notes that "this is a longer term initiative" that should be discussed in conjunction with Option #2 and listed an implementation date of "post FY12."<sup>6</sup>

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<sup>6</sup> [http://www.montgomerycountymd.gov/content/EXEC/CAOs/CARS/xls/cars\\_all\\_responses\\_12-08-2010a.xls](http://www.montgomerycountymd.gov/content/EXEC/CAOs/CARS/xls/cars_all_responses_12-08-2010a.xls)



### C. Implementation Considerations

As summarized above, these three consolidation options have the potential to achieve cost savings and operational efficiencies. If adopted, CARS (and agency staff) identified several implementation issues with these options, detailed below, that would need to be worked through.

**Collective bargaining.** All three agencies negotiate over aspects of health benefits as part of the collective bargaining process with their represented employee groups. The collective bargaining agreements between the County Government and MCPS and their respective employee groups contain information on the cost share arrangements between the employer and employee and many aspects of health plan design. Montgomery College's agreements with employee groups include health benefit cost share arrangements, but not aspects of health plan design.

In order to implement a uniform plan design, the agencies would first have to reach a consensus about what the benefits plan design should look like. Then, each agency (in particular County Government and MCPS) could be required to discuss some or all components of the uniform plan with employee groups as part of the collective bargaining process.

**Timing of group insurance bid cycles.** The agencies recently completed a bid process for medical, dental, vision, and life insurance plans with new three-year pricing agreements and/or contracts that took effect on January 1, 2011. Implementing Options #1 or #3 before the next scheduled bid cycle would require the agencies to end all current agreements with vendors and re-bid contracts under a revised structure.

**Disruption for plan participants.** Each vendor offers its own network of providers, so contracting with fewer or different vendors means that some employees and retirees would have to switch to a new network of health care providers. This change could be particularly disruptive to employees who are currently undergoing long-term treatment with a provider that may no longer be a part of their available network. On the other hand, if a smaller number of vendors have a larger portion of business from county agencies, they might have additional leverage to recruit providers to participate in their plans and could potentially minimize service disruption.

**Organizational location of a central administrative unit.** With Option #2, which would consolidate all in-house administrative functions into one unit that serves all agencies, a decision would need to be made on where this centralized administrative unit would be located and who it would report to. The agencies (and associated stakeholders) may not agree on the appropriate location for this administrative function.

**Differences in administrative management systems across the agencies.** Each agency maintains different management systems for human resources, finance, budget, payroll, information technology, etc. Maintaining unique administrative systems, even with a centralized office, could reduce or eliminate the potential for efficiencies and/or savings.

If you have any questions about information in this memo, please contact Craig Howard in OLO at x77985 or [craig.howard@montgomerycountymd.gov](mailto:craig.howard@montgomerycountymd.gov).

c: Steve Farber



**EXECUTIVE SUMMARY**  
**PART I, REVENUE AND EXPENDITURE TRENDS IN MONTGOMERY COUNTY**

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At the request of the Montgomery County Council, the Office of Legislative Oversight examined the tax supported revenue and spending trends over the past ten years and projected for the next six years. The purpose of the review, which included Montgomery County Government, Montgomery County Public Schools, Montgomery College, and the Maryland-National Capital Park and Planning Commission, was to:

- Quantify patterns of revenue and spending, and analyze how agency budget growth compared to changes in factors such as inflation and population, and increases in school enrollment.
- Identify past and emerging “cost drivers,” and improve understanding of how previous decisions regarding revenue and spending affect current and future budgets.
- Compile data on the County’s spending “commitments,” defined as items that the County is obligated by law and/or policy to fund; these commitments include debt service, health insurance for active and retired employees, pension plan payments, and contributions to the County’s fund reserves.
- Based on the revenue assumptions contained in the most-recently adopted Fiscal Plan, describe the parameters of the County’s future challenge to achieve a structurally balanced budget.

**A. THE STRUCTURAL BUDGET CHALLENGE DEFINED**

The cost pressures and difficult trade-offs facing Montgomery County are by no means unique. Vigorous debates are taking place across the country about how to recover from the most serious recession since the Great Depression. With few exceptions, state and local governments are grappling with how to address fiscal projections that show a massive imbalance between expected revenues and desired expenditures.

**The imbalance today between projected revenues and desired expenditures in Montgomery County, similar to the imbalance in other places, contains both cyclical and structural components.** A “cyclical budget gap” is a short-term imbalance between projected revenues and desired expenditures that reflects the ups and downs of the business cycle. In contrast, a “structural budget gap” exists when projections of expenditures exceed projections of ongoing revenues on a persistent and recurring basis. The distinction between the two is that a structural budget gap continues to exist even when revenue growth resumes.

A common ingredient of the budget challenge facing jurisdictions across the country is the increasing portion of tax supported budgets that must be allocated to fixed spending commitments. In Montgomery County, these commitments include debt service, health insurance for active and retired employees, pension plan payments, current revenue contributions to the capital budget (PAYGO), and contributions to the County’s fund reserves. A structural budget problem becomes increasingly evident when the projected cost increases of a government’s commitments exceed its projected revenue growth. This is precisely the situation facing Montgomery County for the foreseeable future.

**The traditional scenario for making annual budget decisions no longer works when a jurisdiction faces a structural budget problem.** Under the traditional scenario, projected revenue for the upcoming fiscal year is sufficient to: fully fund the current year’s budget (again), absorb growth in the cost of commitments, and pay for new initiatives, such as program expansions and pay increases for employees. In the current climate, revenue growth for the foreseeable future is unlikely to keep pace with the steadily rising costs of the public sector’s spending commitments. **Montgomery County, like many other governments, now faces the extraordinary challenge of bringing projected revenues and spending into alignment, which can only be accomplished by raising more revenue or making reforms that bend the future cost curves downward.**



## EXECUTIVE SUMMARY

### PART I, REVENUE AND EXPENDITURE TRENDS IN MONTGOMERY COUNTY

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#### B. OVERVIEW OF REVENUE AND SPENDING FY02-FY11

1. From FY02 to FY11, the tax supported agency budgets in Montgomery County collectively increased 59% from \$2.1 billion to \$3.4 billion. The macro-cost curve shows annual increases of 7-9% between FY02 and FY08. Total tax supported spending leveled off in FY09 and posted actual declines in FY10 and FY11. During the same ten year period, inflation was 29%, the County's population grew 12%, median household income increased 21%, and the County's assessable property tax base increased 114%.
2. The County's increased budgets supported some notable expansions in agency services, including:

<u>Montgomery County Public Schools</u> <ul style="list-style-type: none"><li>• Reduction in class size</li><li>• Expansion of full-day Kindergarten</li><li>• Enhanced staff development programs</li></ul> <u>County Government</u> <ul style="list-style-type: none"><li>• Additional public safety personnel</li><li>• Expanded Ride-On service hours</li><li>• More resources for health &amp; housing programs</li></ul>	<u>Montgomery College</u> <ul style="list-style-type: none"><li>• Expanded services to meet 32% enrollment increase</li><li>• Opening of new facilities</li></ul> <u>M-NCPPC (Montgomery County portion)</u> <ul style="list-style-type: none"><li>• 12% increase in park land</li><li>• Creation of the Legacy Open Space Program</li></ul>
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3. The County's budget growth was funded by a combination of more property tax revenue, higher income and excise tax rates, and substantial growth in State aid (mostly to MCPS). Over the ten years, revenue growth in the County outpaced inflation and population increases by about 20%. The ten year average annual revenue growth rate of 6% (FY02-FY11) is twice the forecast for the next six years, which is for an average annual growth rate of 3%.
4. In FY11, MCPS received 57% of total tax supported agency allocations and County Government received 34%; the balance went to Montgomery College (6%) and M-NCPPC (3%). The allocation among the four tax supported agencies remained largely unchanged during the past decade, although how money is spent within each agency evidenced some shifts. Notable trends included a higher portion of agency budgets spent on employee benefits and a higher portion of County Government resources dedicated to public safety services.
5. Conceptually, debt service can be considered a fifth agency because it must be paid from the same pot of tax supported dollars. During the past decade, debt service payments increased 47% from \$177 million in FY02 to \$260 million in FY11. If the County issues General Obligation bonds at the rate projected in the most recent CIP (\$325 million/year), the cost of debt service will increase to \$391 million in FY16, a 50% increase from FY11. By FY16, debt service is projected to cost more than the combined tax supported budgets of the College and M-NCPPC.

#### C. TRENDS IN COSTS OF THE WORKFORCE (EMPLOYEE PAY AND BENEFITS)

1. Personnel costs (pay and benefits) account for 82% of all tax supported spending. Between FY02 and FY11, personnel costs increased 64% while the total number of workyears increased 10%. The workforces at all four agencies fluctuated during the past decade, but only MCPS and the College workforces are measurably larger today compared to ten years ago. Specifically, from FY02-FY11, MCPS' workyears increased 14% while MCPS enrollment increased 6%; Montgomery College's workyear growth of 30% paralleled the College's enrollment growth of 32%.



EXECUTIVE SUMMARY  
PART I, REVENUE AND EXPENDITURE TRENDS IN MONTGOMERY COUNTY

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2. **Between FY02 and FY11, the primary driver behind higher personnel costs was not an increase in the size of the workforce but rather the increase in average costs per employee.** Across the four agencies, employee salaries grew by 50% in the aggregate and by higher amounts (up to 80%) for individual employees, while the costs of health and retirement/pension benefits increased upwards of 120%. **In FY11, the combined agency cost of employee benefits is almost \$740 million, or 22% of all spending.** (This total would be higher had the agencies made FY11 payments to their OPEB trust funds.)
3. **Another way to track the rise in spending on employee benefits is to calculate their cost as a percent of salary.** As one example, for County Government, the aggregate cost of employee benefits as a percent of salary increased from 35% in FY02 to 52% in FY11. This means that for every \$1 the County spends on salary, it now pays 52 cents for benefits. The drivers behind these rising costs are the overall rise in health care costs, and major increases in annual pension/retirement plan contributions. Especially noteworthy is that during the past decade, the per employee cost of a defined benefit pension increased at more than twice the rate of a defined contribution retirement plan.

#### **D. LOOKING FORWARD**

1. **The balanced six-year Fiscal Plan adopted by the Council shows tax supported revenues (within the Charter limit) steadily increasing at about 3% per year.** Although these projections show FY16 tax supported revenue that is 16% higher than current year (FY11) revenue, it is important to recognize that the County's revenue is projected to grow at half the rate it did during the past decade.
2. **Looking ahead to FY12-FY16, the County's budget allocation decisions will increasingly be dominated by costs that are resistant to change.** The most striking trend contained in agency cost projections is the steady growth in the total costs of the County's legal and policy commitments, which by FY16 will sum to about \$1.6 billion, or about one-third of all available resources. The calculation of these commitments includes the costs of debt service, health insurance for active and retired employees, retirement/pension benefits, and contributions to the OPEB trust, PAYGO, and County fund reserves.

**OLO concludes that the County faces a structural budget problem.** The steadily rising costs of the County's legal and policy commitments, many of which are resistant to change, are projected to exceed the growth in anticipated revenues for the foreseeable future. The magnitude and recurring nature of these costs means that one-time solutions are insufficient to resolve the problem. In order to achieve long-term fiscal sustainability, the County must consider reforms that either raise more revenue or lower the projected cost curves associated with ongoing government operations and future promises.

#### **E. OPTIONS FOR LONG-TERM FISCAL BALANCE**

OLO's Part II report (scheduled for Council release on 12/7/10) will contain options for changes that could help achieve long-term fiscal balance in the County. The report will consist of a series of issue papers on the topics listed below. Part II will also contain some comparative information about reforms being considered by other state and local governments, and a County Attorney's opinion on the legal issues related to changing employee pay and benefits.

- |  |                      |
|--|----------------------|
| • Salaries and wages                   | • Workforce size     |
| • Pension/retirement benefits          | • Operating expenses |
| • Health benefits for active employees | • Debt               |
| • Health benefits for retirees         | • Revenue            |



## Part 2

### EXECUTIVE SUMMARY

This report is the second part of the Office of Legislative Oversight's two-part assignment on achieving a structurally balanced budget in Montgomery County.

**As requested by the County Council, the purpose of Part II is to inform a discussion of options to help the County navigate toward long-term fiscal sustainability.** As with the many other jurisdictions that face similar budget pressures, the County's fiscal picture for the foreseeable future requires decisions that will inevitably require some to pay more and others to receive less. Marginal, short-term, and one-time fixes will not produce a sustainable solution for the County.

The options outlined in OLO's Part II report offer an array of potential budget savings and revenue raising choices. Some would yield substantial savings in the short term, and others would yield even greater savings but only in the longer term. Many of the options are not mutually exclusive and could be combined to achieve some savings in the short term and more over time.

The cost containment and/or revenue raising options that the Council decides to consider will be influenced by some key information that is not yet in hand. This includes updated revenue projections, updated estimates of the County's pension and OPEB (retiree health trust) liabilities, and the agencies' and County Executive's future budget requests, which will reflect the collective bargaining agreements reached between the County Executive and the County Government unions and the Board of Education and the school unions.

The rest of this executive summary provides a general background and roadmap to the contents of OLO's Part II report, which consists of eight issue papers and an appendix of related information. This executive summary concludes with some recommended next steps for the Council's consideration of the report's contents.

#### BACKGROUND

**OLO's Part I analysis concluded that Montgomery County faces a structural budget problem.<sup>1</sup>** By FY16, the combined cost of the County's legal and policy commitments (i.e., employee pensions, health insurance for active and retired employees, debt service, and current revenue contributions to the capital budget, retiree health trust fund, and County's fund reserves) is projected to total \$1.6 billion, or roughly one-third of all available tax revenue.

In the current climate, revenue growth for the foreseeable future is unlikely to keep pace with the steadily rising costs of our public sector's spending commitments. Consequently, the approach of previous years - where projected revenue for the upcoming fiscal year was sufficient to fully fund the current year's budget, absorb the increased cost of commitments, and support new initiatives (e.g., program expansions, salary increases) - no longer works.

**As a result, Montgomery County, like many other state and local governments across the nation, faces the extraordinary challenge of making decisions that will result in long-term fiscal sustainability, a task that can only be accomplished by permanently raising more revenue or making reforms that reduce future government costs.**

<sup>1</sup> OLO's Part I findings, presented to the Montgomery County Council on 11/23/10, are available at: <http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/2011-2.pdf>

## WHAT GUIDED OLO'S SELECTION OF OPTIONS TO INCLUDE?

The options that OLO selected to examine flow directly from our Part I analysis, which identified the major cost drivers of the tax supported budgets for the four agencies: County Government, Montgomery County Public Schools, Montgomery College, and M-NCPPC.

In order to deliver a useful product to the Council, OLO selected a finite number of cost savings and revenue raising options to assess and present. The Appendix (©4) contains a list of additional options worthy of mention, any of which are potential candidates for further development.

OLO's selection of specific cost containment and budget reduction options is based on the following factors:

- 1. The experience of other jurisdictions.** The cost pressures and difficult trade-offs facing Montgomery County are by no means unique. OLO was guided by research into how other state and local governments are addressing their own structural revenue and expenditure imbalances. The Appendix (©119) contains examples of cost containment strategies for retirement benefits and health insurance costs undertaken in other places.
- 2. The advice of subject matter experts.** Throughout the study period, OLO's work was guided by the advice of subject matter experts, particularly on the technically complex issues of public sector finance and employee benefits. OLO consulted extensively with the many knowledgeable professionals in the agencies' respective budget, finance, and human resources offices. OLO also reviewed a plethora of articles, reports, and research briefs written in recent years about balancing public sector budgets and ongoing fiscal sustainability.
- 3. The potential for substantial and recurring agency savings.** OLO placed priority on options that, if implemented, could result in substantial and recurring reductions in tax supported agency costs. Because employee pay and benefits constitutes 82% of tax supported spending, this is where we concentrated our effort. The first five issue papers address options to reduce agency spending on the building blocks of personnel costs: employee salaries, retirement/pension benefits, health benefits for active employees, health benefits for retirees, and workforce size.
- 4. The legal feasibility of structural changes to employee pay and benefits.** Shortly after being assigned this project, OLO requested an opinion from the County Attorney on the legal issues related to changing employee pay and benefits. All of the options included in OLO's issue papers adhere to the guidance outlined in the memo from the County Attorney, which is included in its entirety in the Appendix (©8).
- 5. Reforms that would reduce per employee costs.** OLO's Part I analysis showed that the primary driver of agency personnel expenditure growth is not a larger workforce, but rather higher per employee costs. Based on this finding, the papers that deal with personnel cost issues focus on changes to the structure of employee salaries and benefits that either lower or reduce the growth rate of the agencies' per employee costs.



6. **The need to address the issues of workforce size, but without duplicating work of the Organizational Reform Commission and Cross-Agency Resource-Sharing Committee.** One way to lower personnel costs is to reduce the workforce. Concurrent to this OLO project, two efforts underway are expected to identify potential budget savings based on functional reorganizations or consolidations and increased efficiency of government operations. Specifically:

- The Organizational Reform Commission was established jointly by the Council and County Executive earlier this year. The Commission was created to make recommendations for potential reorganization or consolidation of functions performed by the County-funded agencies. The Commission was tasked with submitting a final report to the Council and Executive by January 31, 2011.
- The Cross-Agency Resource-Sharing Committee (CARS) is a major inter-agency effort launched earlier this year by the County Government's Chief Administrative Officer, for the stated purpose to provide a "forum among County agencies to share ideas/best practices, develop potential resource-sharing strategies to achieve operational efficiencies, reduce costs, and improve the quality of services offered to our residents." CARS is on schedule to submit its first round of recommendations to the CARS Executive Committee later this month.

The Appendix (©48-67) contains more information about both groups and the status of their work to date. In order to supplement and not duplicate the efforts of these two initiatives, OLO's issue paper on workforce size provides a macro-perspective on the number of positions (measured in workyears) that would need to be abolished in each agency in order to lower personnel costs, calculated in increments of \$10 million.

7. **The role of debt service in the competition for tax supported revenue.** OLO's Part I analysis highlighted the rising cost of debt service over the past ten years, and its projected growth going forward. Because dollars spent on paying back debt are not available to fund the annual agency operating costs, OLO includes several options that show how reducing debt issuance frees up more resources for agency operating budgets.

8. **The inclusion of options to raise more revenues.** While the bulk of OLO's Part II report provides options that would reduce spending, the final issue paper addresses options to raise more revenue. Should there be interest in seeking additional tax supported revenue to pay for existing spending commitments and emerging budget priorities, the choices are either to:

- Adjust the rates for current revenue sources; or
- Identify new revenue sources.

In selecting options for raising revenue, OLO included one for each of the major sources of local revenue: property tax, income tax, excise taxes, and user fees.

#### **OVERVIEW OF THE EIGHT ISSUE PAPERS.**

The next three pages contain brief overviews of the eight issue papers. Details on the sources of data and methodology used to calculate potential costs savings are included in the Appendix (©68).



## OVERVIEW OF THE EIGHT ISSUE PAPERS

### A. Employee Salaries

Salaries represent the largest component of personnel costs. Between FY02 and FY11, employee salaries across the four agencies grew by 50% in the aggregate and by higher amounts (up to 80%) for individual employees. Issue Paper A includes one approach that would actually reduce the total cost of salaries and a series of options to slow the rate of salary growth:

- The first option presents cost savings associated with three different levels of an across-the-board salary rollback (1%, 3%, and 5%) for all agency employees. A salary rollback is a permanent reduction in an employee's base salary. A 1% salary rollback implemented in FY12 across the four agencies would save about \$23 million.
- The other salary-related options explore a range of alternatives for modifying the current structure of general wage adjustments and step increases. Modifying the structure of pay increases could substantially lower the growth rate of personnel costs going forward, compared to their growth rates over the past decade.

### B. Retirement/Pension Benefits

From FY02 to FY11, tax supported costs of pension and retirement benefits for employees across the four agencies increased by 226%, from \$59 million to \$193 million. By FY16, annual agency retirement costs are projected to cost more than \$264 million. (This estimated amount does not include any costs related to a potential shift of pension liability from the State to the County for MCPS, Montgomery College, and library employees.)

Issue Paper B presents options to lower the projected increases in locally paid annual pension and retirement benefit costs for County Government and MCPS, including approaches to:

- Replace defined benefit retirement plans with lower cost defined contribution or hybrid plans;
- Increase the share of retirement costs paid by employees; and
- Reduce benefit levels.

Changes to retirement/pension plans hold the potential for saving hundreds of millions of dollars in the long-term. However, if changes are restricted to new hires, the savings will not be large in the immediate term. Actuarial analysis is necessary to determine the specific dollar savings that is achievable for any options related to retirement benefit changes.

### C. Health Benefits for Active Employees

Over the past decade, total tax supported agency spending on group insurance (primarily health insurance and prescription drug coverage) for active employees increased 134%, from \$134 million to \$315 million. The costs of group insurance (assuming no change to the current structure) are estimated to increase another 55% to \$487 million by FY16.

Issue Paper C presents options to reduce the cost of health benefits through restructuring how the premium is split between the employer and the employee. Specific options included are to:

- Set a uniform employer cost share of 70% for all plans;
- Charge employees who enroll dependents a higher cost share; and
- Set a uniform employer cost share of 60% for part-time employees.

Implementing the options outlined in this paper (as of January 2012) could produce savings for the four agencies that range from \$7 million to \$46 million in FY12, and from \$19 million to \$123 million by FY16. Phasing in changes over several years also provides cost savings, but at a slower rate.



## **D. Health Benefits for Retirees**

Over the past ten years, total pay-as-you-go agency spending on group insurance for retired employees more than doubled from \$31 million to \$79 million. Absent changes to the current structure, these costs are estimated to increase another 57% to nearly \$124 million by FY16. According to the latest actuarial estimates, the County's total future liability for retiree group insurance costs is estimated at \$2.7 billion.

Issue Paper D presents options to lower the projected increases in agency retiree health insurance by:

- Eliminating retiree group insurance benefits for new employees;
- Reducing the employer's share of premium costs; or
- Changing current eligibility criteria and/or benefit levels for retiree health insurance.

Actuarial analysis is necessary to determine the potential savings that could be achieved by implementing any of these options. Changing the structure of retiree health benefits holds the potential to save tens of millions of dollars every year; however, if the changes are only applied to new hires, then the savings in the near term will be relatively modest.

## **E. Workforce Size**

OLO's Part I analysis found that the primary cost driver behind increased personnel costs over the past decade has been higher costs per employee as opposed to substantial growth in the workforce. Nonetheless, reducing positions, measured in workyears, represents one way to reduce personnel costs.

The content of the issue paper on workforce size was designed to supplement and not duplicate the work of the Organizational Reform Commission and Cross-Agency Resource-Sharing Committee. Both of these groups have been tasked with recommending potential budget savings that would result from functional reorganizations/consolidations and increased efficiency of government operations.

Issue Paper E provides an overview of the allocation of workyears across the agencies, and calculates the number of workyears (for each agency) that must be eliminated in order to yield increments of \$10 million in savings. To provide some additional perspective, Issue Paper E also includes illustrative examples of what \$10 million in workyears "buys" in each agency.

## **F. Operating Expenses**

"Operating expenses" consist of everything in an agency's operating budget other than personnel costs. Examples include spending for contractual support, utility payments, facility and vehicle maintenance, office and program supplies, and technology. In FY11, budgeted operating expenses represent about 9% of MCPS' tax supported spending and 32% of County Government's tax supported spending.

Issue Paper F summarizes the major components of tax supported operating expenses for County Government and Montgomery County Public Schools, and discusses two approaches to reduce FY12 operating costs in order to achieve increments of \$10 million in savings. One approach is an "across-the-board" reduction that decreases operating expenses in all departments by a uniform percent. Another approach is for targeted reductions in operating expenses using priority-based criteria.

## G. Debt Service

During the past decade, debt service payments increased 47% from \$177 million in FY02 to \$260 million in FY11. If the County issues General Obligation bonds at the rate projected in the most recent CIP (\$325 million/year), debt service will increase to \$391 million in FY16, an amount that is projected to exceed the combined tax supported budgets of Montgomery College and M-NCPPC.

Issue Paper G calculates the projected savings in annual debt service that would result from reducing annual general obligation bond issuance. In addition, this paper identifies the potential consequences of reducing the amount of debt issued.

## H. Revenue

Issue Paper H presents four options to generate additional revenue for tax supported expenditures. One option is presented for each of the major locally generated sources of revenue:

- Property taxes,
- Income taxes,
- Excise taxes, and
- Fees/charges.

Three of the four options would generate revenue that would be available for unrestricted use. The fourth option would raise revenue for transportation projects that add new capacity. The paper provides estimates of potential additional revenue associated with each option, which ranges from \$3-\$20 million in FY12 to more than \$150 million by FY16.

## Appendix

The Appendix contains additional background and reference materials, including:

- A primer on the State's Maintenance of Effort law;
- Memoranda from the County Attorney on the Council's authority to modify employee salaries and benefits, and the Council's role in collective bargaining;
- Regional comparative data on health and retirement benefits; and
- Case studies of changes to employee retirement and health benefits in other jurisdictions across the country.

In addition, the Appendix includes a glossary of terms, copies of Council resolutions related to fiscal and debt policies, and additional information on the charges and work to date of the Organizational Reform Commission and the Cross-Agency Resource-Sharing Committee.



## RECOMMENDED NEXT STEPS

County leaders face a large and complex challenge of bringing projected revenue and spending into long-term alignment. To assist in this effort, the Council requested the Office of Legislative Oversight to develop options that can form the basis for an informed discussion about various ways to raise revenue and/or bend the agencies' future cost curves downward.

As stated earlier, the number and choice of specific cost containment and/or revenue raising options that the Council will need to consider will depend, at least in part, on some key information that is not yet in hand. This includes: updated revenue projections, updated estimates of the County's pension and OPEB (retiree health trust) liabilities, and the agencies' and County Executive's future budget requests, which will reflect the collective bargaining agreements reached between the County Executive and the County Government unions and the Board of Education and the school unions.

Although the exact size of the FY12 and future year structural budget "gaps" that the Council needs to close is not yet known, OLO recommends that the Council prepare for the upcoming budget deliberations by adopting an explicit time line for discussion of this Part II report that includes the following steps:

1. An initial period designated for the Council to ask questions and for staff to prepare answers, with the overall purpose of enabling a common understanding of the options presented.
2. A step for seeking feedback from the general public as well as known stakeholders. The Council should consider coordinating the timing of such input with any outreach efforts that the Council holds on the recommendations of the Organizational Reform Commission and the Cross-Agency Resource-Sharing Committee.
3. A date by which the Council selects a short list of options for further research and analysis that might involve, for example, more refined estimates of cost savings, more detailed analysis of the potential impact on employees, a proposed implementation schedule, and the gathering of more specific comparative data. Included in this step would be any Council requests for additional legal advice or cost estimates related to options that require retaining actuarial services.
4. A decision and action phase, during which the Council decides which, if any, of the options to support, and then takes the legislative, policy, and/or budget actions necessary to move forward with implementation.

As the Council works its way through this next phase of gathering more information, soliciting feedback, weighing alternatives, and making decisions, OLO offers some closing observations on key facts to keep in mind:

- Government is a people-intensive business, so it is no surprise that the great majority of the County's resources is allocated to human capital. Unfortunately, the corollary to this reality is that achieving substantial budget savings requires the County to reduce spending on personnel. There are two ways to reduce personnel costs: shrink the workforce and/or lower costs per employee.
- The County Government and Montgomery County Public Schools (MCPS) together account for 91% of all tax supported spending. MCPS accounts for two-thirds of all tax supported workyears. In order to yield substantial savings, any cost containment option that involves reducing personnel costs must extend to both County Government and MCPS.

- Structural changes to pay or benefits that reduce per employee costs but only apply to newly hired employees will not yield large savings in the near term. There are some options, however, such as changing the structure of pension benefits and retiree health benefits, that hold the potential for substantial dollar savings in the longer term even if only applied to new hires.

For the many governments currently struggling to align revenues and desired expenditures, it certainly would be desirable if some options existed that magically provided win-win solutions. However, as with so many other jurisdictions, the reality of the County's fiscal picture, at least for the foreseeable future, requires decisions that involve asking some to pay more and/or others to make do with less. In other words, the reality is that none of the options promise an outcome where everyone wins.

Montgomery County Council  
Office of Legislative Oversight

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Teri Busch	Sue Richards
Sarah Downie	Leslie Rubin
Craig Howard	Aron Trombka
Kristen Latham	Amanda Albert, Intern

The Office of Legislative Oversight appreciates the cooperation received from the leadership and staff of the County Government, Montgomery County Public Schools, Montgomery College, and Maryland-National Capital Park and Planning Commission. This assignment was a major undertaking during a compressed time period. OLO's work was greatly facilitated by the reliable and constructive assistance of the four agencies involved. Special thanks are also owed to the Council Staff Director and the many other Council staff members with whom we consulted regularly.



**Minutes**

Task Force on Employee Wellness and Consolidation of Agency Group Insurance

**Thursday, July 21, 2011**

Council Office Building 5<sup>th</sup> Floor Front Conference Room

**The meeting was called to order by Task Force Chair William (Bill) Mooney at 4:05 p.m.**

**Comments from Council President Valerie Ervin**

The Task Force received comments from Council President Valerie Ervin. Ms. Ervin thanked everyone for taking time from their schedules to attend the meetings and assist the Council with this effort. Ms. Ervin noted that Councilmember George Leventhal brought the idea of this Task Force to the Council. The issues of employee wellness and how to consolidate health care plans are very important to the Council. The Council was told that it needs to begin talking about the difference between containing costs and shifting costs. The Council wants answers about how to promote healthy employees. We want to save and contain costs so that employees are not burdened with paying for the rising cost of health care. The Council is very committed to the work of the Task Force

**Comments from Councilmember George Leventhal**

Councilmember Leventhal thanked the members of the Task Force and Council President Ervin for laying out the charge to the group. He said that from his point of view it is fairly easy to shift costs to employees or restrict health care choices. We don't need the expertise of the Task Force if all we want to do is shift costs. It is harder to find ways to reduce cost by having healthier employees. There are ways to do this and there are best practices to accomplish this. He said that the Council is not trying to hurt anyone and that what is needed is a real spirit of cooperation. Clearly, some of the best information on these issues is from healthcare providers and the Task Force will need to decide how it wants to hear from vendors. He hopes the Task Force will first report on the wellness issue. Once the Task Force gets into the issue of consolidating health plans there will be issues of turf but we need to get past this. The school system has made a lot of progress in terms of wellness. Consolidating to a single health plan for all employees could help the county in the direction it needs to go and all agencies should resolve to work together. This issue could not be more important and many people will be interested in the work of the Task Force.

## **Introduction of Task Force Members**

Members of the Task Force introduced themselves. Task Force members were asked to briefly give some comments on why they are interested in this subject, what perspective they have, and their expertise.

## **Introduction of Visitors**

Judith Ann and Joe Pauley introduced themselves and shared that they have a book on persuading people to lead healthy lifestyles and provide training to hospitals.

## **Introduction of Staff**

Office of Legislative Oversight and Council central staff introduced themselves and gave some background on their duties.

## **Comments from Chair/Discussion**

The Chair provided some response to the issues raised by Task Force members during the introduction.

Shifting costs is not a productive area for the Task Force to talk about. This is something the Council will deal with if they choose to.

The issue was raised about whether the Task Force would somehow impact the collective bargaining process. The Task Force is here to explore the issues, find out what other people are doing, what are best practices, and describe some places the County might go. But, how the County gets there is not the purview of the Task Force

There is a lot of expertise at this table and people who know other experts in this field. Please let Linda McMillan know if there are people you think we should hear from or material we should have.

At some point, to be productive, the Task Force will have to split into two committees, one on wellness and one on consolidation. In response, Mr. Renne noted that wellness drives utilization and utilization drives costs. Council President Ervin said that the school system has told the Council that the reason they have been able to hold down health care costs is because they have improved wellness.

Mr. Lutes noted that if you look at the diseases that impact populations of employees you can have some short-term impacts. The Task Force needs to understand what analytics have been done in the agencies to see what percent of the budget might have opportunities by impacting certain diseases. No one has fully solved this problem



Mr. McNutt noted that the way to do consolidation is through an RFP process. The UFCW was able to save millions of dollars a couple of years ago this way. But he is concerned that in-house disease management is like the fox guarding the hen-house.

There was a discussion of what data is available to the Task Force. Mr. Girling discussed the last RFP process used by the agencies and noted that most of the big plans in the agencies are self-insured so the savings come from what the vendors pay the doctors. There was discussion of what “consolidation” might mean. There was also discussion of whether there needs to be unbundling of plan components. Mr. Johnstone noted that MCPS has looked at wellness and still 30% of our population is costing 70% of the budget. You have to look at education, compliance, are people taking their medications. We have to look at incentives to find a way to get people to take care of their health. Mr. Rodich agreed that one of the things that must be looked at is incentives to get people to take care of themselves. Mr. Renne further emphasized the need to look at where the money is being spent in each of the agencies and to look at issues such as the use of brand-names and generics and we all need to look at this together is we are going to find savings for employees.

Mr. Mooney shared that this discussion shows how the Task Force might proceed on issues and recommendations. The Task Force might conclude that if the county were to successfully implement X change they could accomplish this..... The Task Force would have identified the issue and the potential outcome and savings. The agencies would implement through their bargaining process.

### **Housekeeping Items**

The following items that were included in the information packet were addressed:

Open meetings rules

Alternates – The Task Force agreed that alternates are welcome but would not be able to vote on recommendations.

Requested preferences on meeting dates and times

There will be a public comment period at each meeting

OLO staff briefly described the information provided in the background packet.

Staff will work to have information posted to a web site.

**Meeting adjourned at 5:30 p.m.**

**Attendees:**

#### **Task Force Members:**

Sue DeGraba	Montgomery County Public Schools (MCPS)
Karen DeLong	AFSCME Local 2380

Erick Genser	IAFF Local 1664
Wes Girling	Montgomery County Government
Rick Johnstone	MCPS
Paul Heylman	Public Member
Jan Lahr-Prock	Maryland-National Capital Park and Planning Commission
Mark Lutes	Public Member
Thomas McNutt	Public Member
Edye Miller	MCAAP
William Mooney	Public Member (Chair)
Gino Renne	MCGEO Local 1994
David Rodich	SEIU Local 500
Carole Silberhorn	Washington Suburban Sanitary Commission
Arthur Spengler	Public Member
Ulder Tillman	Montgomery County Government
Lynda von Bargaen	Montgomery College

**Guests:**

Council President Valerie Ervin  
 Councilmember George Leventhal  
 Sonya Healy, Chief of Staff to Council President Ervin  
 Judith Ann Pauley  
 Joe Pauley

**Staff:**

Craig Howard, Office of Legislative Oversight  
 Kristen Latham, Office of Legislative Oversight  
 Linda McMillan, Council Staff  
 Karen Orlansky, Office of Legislative Oversight  
 Aron Trombka, Office of Legislative Oversight