



# OFFICE OF THE INSPECTOR GENERAL

Montgomery County, Maryland



## MEMORANDUM OF INVESTIGATION

**TO:** Dr. Monifa McKnight  
Superintendent

**FROM:** Megan Davey Limarzi, Esq.  
Inspector General *ML*

**DATE:** June 9, 2022

**SUBJECT:** Retention of Employee Health Insurance Premiums by MCPS

The Office of the Inspector General (OIG) initiated an investigation pursuant to a complaint alleging that Montgomery County Public Schools (MCPS) is withholding prepaid health insurance premiums from retiring employees who are paid on a 10-month pay cycle and retire prior to their last month of health insurance coverage. Through investigation we substantiated the complainant's allegation and discovered that the issue affected not just retirees, but rather all 10-month employees who terminate their employment with MCPS.

We learned that this practice has persisted for at least 22 years and that it was brought to MCPS' attention approximately seven years ago. As a result, MCPS has collected between \$3 million and \$13.5 million in overpayments that were not refunded to eligible employees. Reportedly, the funds were retained by MCPS and not remitted to health insurance providers.

On March 22, 2022, MCPS sent a notice to employees and subsequently posted information on their website explaining that employees on a 10-month pay cycle who retire on July 1, 2022, or "resign on the last day of their work year" now have the option to extend their active employee health coverage through September 30, 2022. We were later told that those retiring from service may also choose to receive a refund of the prepaid amounts, but that information was not posted or made available to employees prior to initiating the retirement process. Neither the March 22, 2022, notice to employees nor information posted to MCPS' website speak to overpayments by employees that retired or terminated their employment with MCPS prior to June 2022, or those separating from employment prior to the last day of the work year. We encourage MCPS to aggressively work to identify the extent of the issue and devise a process to address overpayments by former employees. We also recommend MCPS develop policies to ensure that all employees paid on a 10-month pay cycle who separate from employment receive proper compensation for prepaid health insurance premiums.

### **Inquiry and Outcome**

On March 2, 2022, the OIG obtained the following relevant information from a complainant to the OIG hotline:

- MCPS teacher salaries are paid over 10 months with no option to spread the salary over 12 months. As such, health insurance premiums are prorated over the 10-month pay

cycle in order for coverage to continue through the entire year. This means teachers must pay a prorated portion of their insurance premiums each pay period to cover the months when they do not receive a paycheck.

- When a teacher retires, their health insurance coverage through the active employee health insurance plan is terminated and they must obtain coverage under a separate retiree plan. Upon retirement, the prepaid insurance premium is forfeited.
- The complainant provided an email from a relevant MCPS senior manager who wrote that the current process had been in place for at least 13 years but may have started in the late 1960s or early 1970s. The manager also provided that MCPS was considering numerous ideas to improve the process.
- The complainant provided that they knew an MCPS employee who is retiring at the end of the 2021-22 school year that raised the issue with MCPS and was offered a refund of prepaid premiums.

### Analysis and Impact

We interviewed numerous MCPS senior managers while conducting this investigation. In so doing, we substantiated the allegation that annual health insurance premiums are prorated for employees whose salary is paid over 10 months, and that coverage is canceled on the last day of employment without a refund of the prepaid premiums or an extension to cover the prepaid period. We were told that MCPS has administered employee premiums in the same manner since at least 2000, but the current administration only recently became aware of the issue with prepaid insurance premiums. A senior manager told us that MCPS had discussions with the Montgomery County Education Association about the issue roughly seven or eight years prior but could not provide any specifics other than to say that the matter was not pursued.

A senior manager estimated that refunds due to individual retirees would likely range from \$200 to \$900 depending on the insurance plan they selected. MCPS provided that an average of 683 employees who were on 10-month employment cycles terminated their employment with MCPS, either through retirement or resignation, in each of the last three years. We therefore estimate that MCPS retained between approximately \$136,000 and \$615,000 annually. We further estimate that the approximate amount of prepaid premiums retained by MCPS over the 22 years that they have been using the current payroll system is between \$3 million and \$13.5 million.

Understanding that MCPS also contributed to the cost of employee health insurance, we pursued the issue of whether MCPS' portion of employee health insurance premiums was also prorated, resulting in excess payments by MCPS to insurance providers. According to a senior manager, MCPS does not prorate their portion of insurance premiums and stops payments on behalf of employees when they end employment.

### MCPS' Actions to Date

A senior manager relayed that MCPS was contacted by the complainant in this matter in December of 2021 and informed of the issue with insurance premiums. The manager went on to explain that after learning about the issue, MCPS implemented changes impacting future retirees. The manager provided that the changes included the option for retirees to receive a refund of

prepaid premiums. On March 22, 2022, MCPS disseminated a bulletin to all MCPS employees that reads as follows:

*“Ten-month Employees Retiring July 1, 2022, Now Can Maintain Employee Benefits Coverage Through September 30, 2022—If retiring 10-month employees opt to enroll in the retiree benefits plan, that coverage will go into effect on October 1, 2022. The option to begin retiree benefits on July 1 remains available to those who prefer it. This does not change the rules for Medicare enrollment. Retirees or their dependents who are or become eligible for Medicare must begin the application process at least three months prior to their Medicare coverage effective date.”*

This bulletin however does not explain that 10-month employees who retire may choose to receive a refund. A senior manager provided that MCPS will notify retirees of this option during the separation process.

More recently, MCPS’ website was updated to include changes related to employees who terminate employment on the last day of the work year. The website explains that individuals who terminate employment on the last day of their work year maintain health insurance for the entire prepaid coverage period. A senior manager informed us that this was one of the changes implemented after discussions with the OIG. The posted guidance does not address overpayments by employees who previously separated from employment for reasons other than retirement or those who will leave employment in the future prior to the last day of the work year.

A senior manager advised that MCPS has not decided how to address overpayments by staff who terminated their employment, either through retirement or resignation, in years past. They informed us that premiums were paid pretax and therefore affected employees could be required to file amended tax returns if funds are reimbursed.

## **Conclusion and Recommendations**

Through this investigation we established that over the last 22 years MCPS retained the prorated health insurance premiums of employees on 10-month pay cycles who retired or separated from employment. MCPS has taken some steps to correct this issue for future retirees and employees who terminate their employment at the end of their work year. However, MCPS has not addressed the compensation of employees who previously retired or separated, or those who separate in the future prior to the end of their work year.

We recommend MCPS identify the extent of overpayments, including the period of time during which this occurred, the individuals impacted, and the specific amounts owed to each.

We further recommend that MCPS develop an equitable and effective plan to compensate affected individuals and develop policies to ensure that future employees who separate from MCPS receive proper compensation for prepaid health insurance premiums.

cc: Jimmy D’Andrea, Chief of Staff, MCPS  
Brenda Wolff, President, Montgomery County Board of Education

The OIG provided the MCPS Superintendent with a confidential advance version of this report to obtain an understanding of MCPS's intended actions to resolve the issues presented.

Maryland's Largest School District

## **MONTGOMERY COUNTY PUBLIC SCHOOLS**

*Expanding Opportunity and Unleashing Potential*

OFFICE OF THE SUPERINTENDENT OF SCHOOLS

June 9, 2022

Ms. Megan Davey Limarzi, Esquire, Inspector General  
Office of the Inspector General  
51 Monroe Street, Suite 600  
Rockville, Maryland 20850

Re: Healthcare Premiums

Dear Ms. Limarzi:

I acknowledge that Montgomery County Public Schools (MCPS) has had a long-standing practice of prorating 12-months of health insurance premiums over ten months for employees who work 10 months out of each year; so, these employees are able to receive health insurance benefits year round without interruption. In December 2021, my administration became aware that there has also been a long-standing practice of withholding the health insurance premiums paid for the months of July, August, and September for persons who retire effective June 30 of each year. Upon learning of this, and prior to the initiation of the investigation by your office, my staff took immediate action to change the practice. To ensure that the process was discontinued and persons retiring in June 2022 would not be similarly impacted, multiple steps were implemented, including:

- January 11, 2022, after a meeting with our Joint Employee Benefits Committee (which includes MCPS staff and representatives from our three employee associations) it was decided that 10-month employees retiring on June 30 would be afforded the option of extending coverage through September 30, or receive a refund.
- February 23, 2022, the two options previously noted were introduced to June 30 retirees during a Zoom Retiree Informational Session.
- March 11 and March 25, 2022, information was provided to all staff in our biweekly "ePaystub" email.
- April 26, 2022, MCPS updated our "Understanding Your Retirement and Retiree Benefit Summary" publication through an addendum.
- May 15, 2022, information was provided to staff in an article in our "For Your Benefit" publication.

In addition to the immediate steps listed, in order to provide a long-term solution to the process, my recently adopted Fiscal Year 2023 budget includes a multi-million dollar investment in cutting

Megan Davey Limarzi, Esquire

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edge human capital management software. This software will be in use by January 2023, and will enable MCPS the option to pay and collect insurance premiums for 10-month staff spanning a 12-month period, and prevent the need for prepayments.

I further acknowledge that additional action is necessary to address the impact this practice has had on persons who retired or resigned from MCPS prior to December 2021. My team will continue to collaborate with your office and our stakeholders to develop a fair and appropriate remedy in the coming weeks.

If you have any questions, please do not hesitate to contact me at 240-740-3020 or via email.

Sincerely,



Monifa B. McKnight, Ed.D.  
Interim Superintendent of Schools

MBM:SPW:krm

Copy to:  
Mr. D'Andrea  
Mrs. Williams