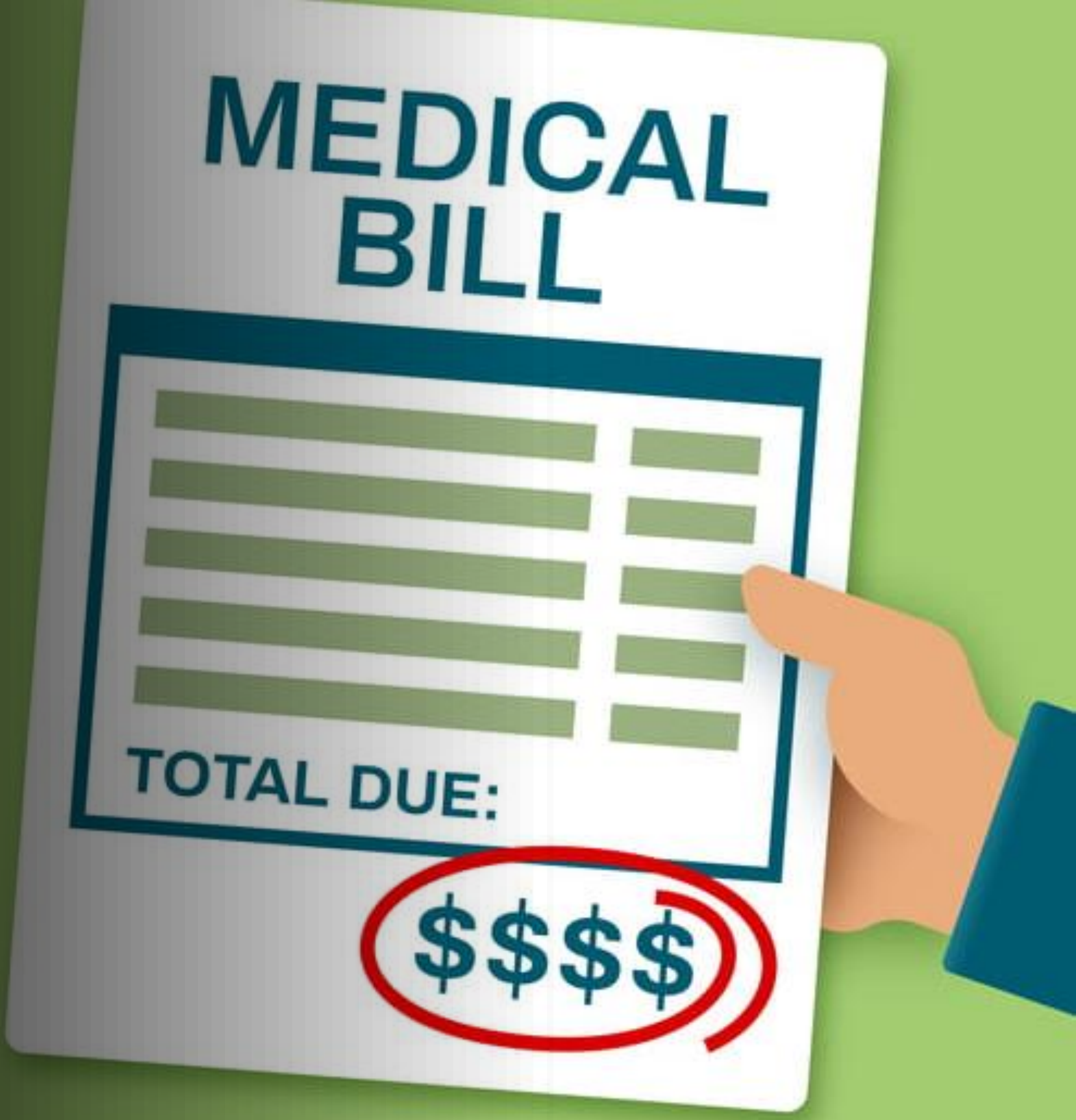
# Article 7: Employee Benefits Overview

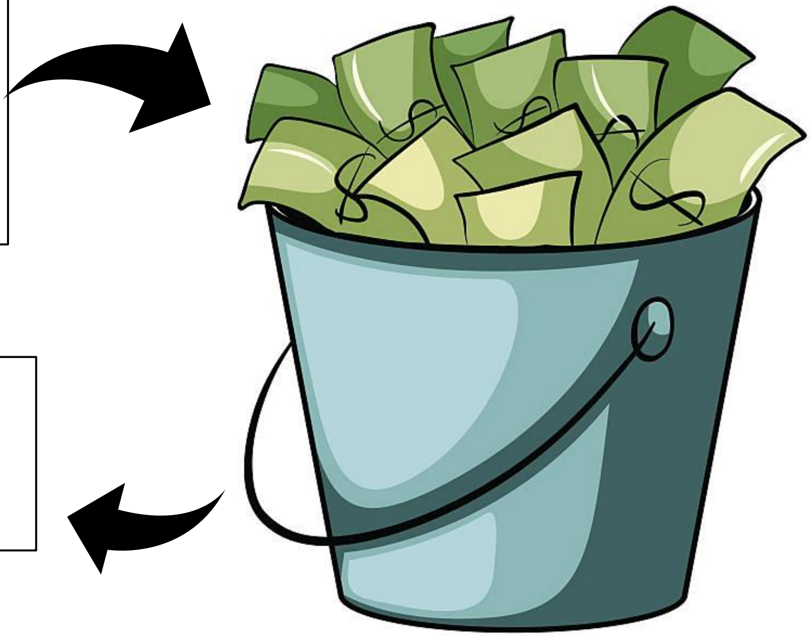
Annual Town Meeting
May 2024



# Medical Trust Overview

- The Medical Trust is a bucket of money
  - Every month money goes into the bucket through premiums paid by the town and employees
  - Every month the employees go to the doctor, and the bill goes to the insurance, and money comes out of the bucket
- We want the money going into and out of the bucket to be approximately the same over the medium-term, eg a year

Health Insurance Premiums – from Town and Employees



Health Insurance Claims

- This bucket is like your **checking account**
  - You don't want it to be **too empty** – you need to cover your mortgage payment when it comes in
  - It also shouldn't be **too full** – money in your checking account can be better used elsewhere

Note: we cannot take money out of the healthcare trust. Any mention – written or verbal – of "taking money out of the trust" should be understood as shorthand for "put less money into the trust"

# Where are we now?

- ❖Our advisors say our money bucket should contain about 20-30% of annual claims
  - ❖Remember, like our checking account, we don't want too little or too much
- ❖We currently have ~40% of annual claims in the trust
  - ❖Claims during the covid year of FY21 were small, meaning the amount paid into the bucket was more than needed
  - ❖We've got $6M, we should have between $3M - 4.6M
  - ❖24% of that is employee money, 76% is town money
- ❖That's $1.4M - $3.0M of excess town and employee money in the "checking account"

| **Trust Balance 6/30/23** | **$6M** | |
|---|---|---|
| Desired Trust Balance as % of Claims | 20% | 30% |
| Desired Trust Balance | $3.0M | $4.6M |
| Excess Trust Balance | $3.0M | $1.4M |
| Town / Employee Split of excess (76%/24%) | $2.2M / 700k | $1.1M / 350k |

# Low Premium Increases vs Premium Holiday

**Option A: Flat premium increase until the trust excess decreases to a reasonable level**

- Pro:
  - Predictable budgeting
- Con:
  - Leaves money tied up for years;
  - 24% of this money was paid by the employees

**Option B: A "premium holiday" with neither the town nor employees paying health insurance premiums for one or more pay periods**

- Pro:
  - This was done in FY18 and FY19, so the town is prepared to implement;
  - Closer match in timing to employees paying in and benefiting
- Con:
  - The town's budget will pop back up the following year.

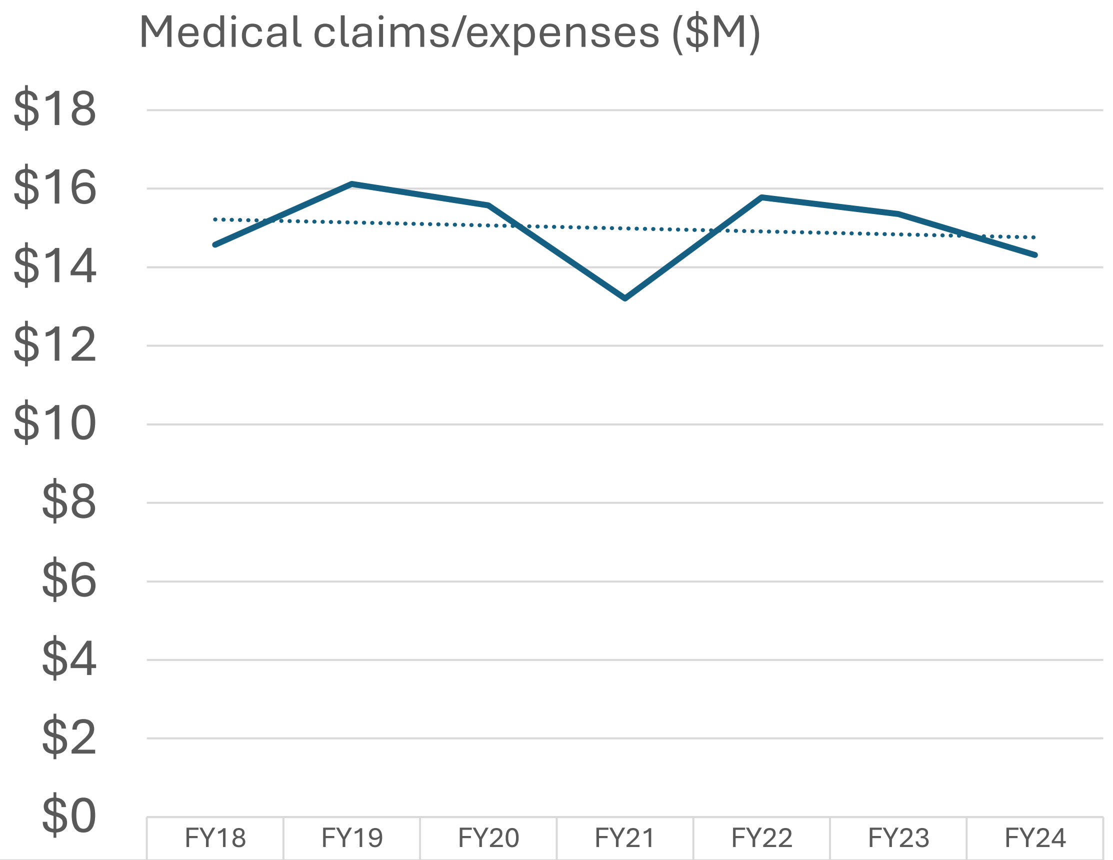
## Fundamental Rule: Pay Me Now or Pay Me Later

Nothing here will decrease the need for the town and employees to pay for the medical claims, the main effect of anything discussed here is the timing of when it is paid

# The current budget has a 1 pay period premium holiday

## How will this 1 period premium holiday affect the trust going forward?

➢ Forecasting future performance in the trust depends on expectations of future claims growth




| | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 |
|---|---|---|---|---|---|---|---|
| Medical claims/expenses | $14.6 | $16.1 | $15.6 | $13.2 | $15.8 | $15.4 | $14.3 |

Health Care expenses from the trust have stayed fairly flat over the past several years – not counting the dip due to COVID in FY21

The trust carries medical stop-loss insurance that covers medical claims over $175k for any one person in a year. This prevents large unexpected expenses from draining the trust

Note: this is just a crude look at total expenses from the trust, not a sophisticated analysis of per person claims

# What do we expect to see?

- ❖Health insurance experts expect medical claims to go up 5-9% next year nationwide
  - ❖Our carrier wants us to be prepared for a 13% increase next year
- ❖Suppose claims do go up 13% next year and claims and premiums go up 8% the year after that

*We are at the top of the desired range at the end of FY25 and right in the middle the following year*

- ❖If claims do not rise this much, we will be in better shape and can consider another premium holiday or low premium increases

| | FY25 | FY26 |
|---|---|---|
| Claims Increase | 13.3% | 8% |
| Premium Increase | 3% | 8% |
| Claims | $16.2M | $17.5M |
| Premium | $14.9M | $16.7M |
| Change in Trust Balance | -$1.3M | -0.8M |
| End of Year Trust Balance | $5.0M | $4.3M |
| Trust as % of claims | 31% | 24% |

# Questions about Health Care before we talk about Retirement?

# Pension Contribution Last Year

| | Pension Contribution FY24 |
|---|---|
| $3.3M | "Normal Cost" – What the employees earn this year towards their future retirement benefits |
| $5.0M | Additional contribution to get us to full funding |
| $8.3M | Total |

- In recent years our pension contribution has included an excess contribution to bring us up to full funding
- We are expected to be at full funding 1/1/2025 due to these extra contributions
- Now that we are fully funded, what's the plan?

# Now what?

We could only contribute the Normal Cost (what the employees earn this year)

But asset values go up and down.  If things go down, we need money in our budget to put in the pension plan

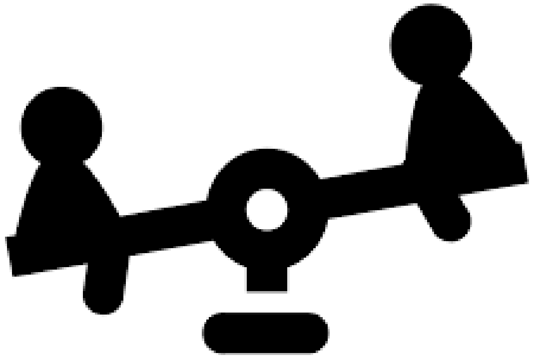
We could keep putting significant money into the Pension Plan

But we have the Retiree Medial liability to be concerned about: $125M liability we had planned to fund after pension was fully funded

Plus, we can never take money out of the Pension.  If assets go up after overfunding, they are no use to the town – at least two other towns are in this situation.

Solution

One pool of money dedicated to the two retirement needs.
The Pension Plan gets what it needs each year, and the rest goes to the Retiree Medical plan



# This dedicated pool of money starts at $2.5M, and grows by 2.5% each year

| | FY25 | FY26 | FY27 |
|---|---|---|---|
| Pension Contribution, beyond Normal Cost | $1.0M | $1.0M | TBD by Milton Retirement Board |
| Retiree Medical (OPEB) Contribution | $1.5M | $1.56M | Balance |
| Total | $2.5M | $2.56M | $2.63M |

**This Solution**

- Ensures the Pension Plan has funds available if/when needed in coming years
- Makes a significant start to funding our Retiree Medical Obligation
- Frees approx. $2.5M from the retirement contribution last year to be used in the ongoing budget this year and going forward

## Net effect on this year's budget: $2.5M improvement

$5.0M FY24 additional contrib - $2.5M contrib this year