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December 1, 2009

REPORT OF THE COMMITTEE ON FINANCE
MEETING AS A COMMITTEE OF THE WHOLE

The Committee on Finance convened on December 1, 2009, as a Committee of the Whole with Chairman Maryann Heuston presiding and Committee Members Aldermen Bruce Desmond, Rebekah Gewirtz, Sean O'Donovan, John Connolly, Dennis Sullivan, Thomas Taylor, Robert Trane and William White also present and voting. Also present were Administrative Assistant Matt Dias, Director of Personnel Jessie Baker, Pat Kelly from Personnel, City Solicitor John Gannon, Assistant City Solicitor Robert Collins, Insurance Broker Ginger Hastings, City Treasurer Elizabeth Craviero, DPW Commissioner Stan Koty, Chief Financial Officer Ed Bean, Project Manager Gerry Boyle and interested members of the public.

187264 - retiree health coverage under Medicare and municipal Medicare extension plans:

Ms. Baker made a presentation regarding the adoption of Section 18 and explained that it is an optional section of MGL Ch. 32B that was added to the legislation in 1991. Once it is adopted by a city or town, it may not be revoked. The legislation mandates that retirees who are Medicare eligible must join the City's Medicare supplement plan(s), "...provided that benefits under said plan and Medicare Part A and Part B together shall be of comparable actuarial value to those under the retiree's existing coverage."

The goals of the legislation are to shift costs that belong to Medicare to Medicare and reduce the city's expenditures, reduce claims in the active plans which will result in savings to the city, continue to provide excellent health benefits to retirees and their dependents and to implement recommendations of the Financial Advisory Committee. In a worst case scenario, where all retirees enroll in the most expensive Medicare Supplement plan (Medex 3), the net estimated city savings for FY-11 would be \$1,373,557.67.

Medicare Part A is automatic and free starting the first day of the month a retiree turns 65 and covers, with various limitations, inpatient hospital, psychiatric hospitalization, skilled nursing facility care, home health care and hospice care. Medicare Part B covers, with various limitations, physicians' services, outpatient services and therapy, durable medical equipment, prosthetic devices, ambulance services, home health services not covered under Part A, some pap smear and mammography screens, flu shots, and some therapeutic shoes. The standard premium for Part B coverage is \$110.50 or \$154.70 per month, based on income, with a deductible of \$155 per year.

The city has an incentive to adopt this legislation now, since the Medicare Part B penalty for late enrollment imposed by the legislation increases each year that there is a delay. The penalty is 10% for each year in which the retiree was eligible for Part B but did not enroll in Part B. This penalty is paid going forward as long as the retiree is enrolled in Part B and receives benefits through the city. The penalty is calculated as follows:

For each 12-month period a retiree delays enrollment in Medicare Part B, the penalty is 10% of the Part B premium. Penalties range from 10% to 430% (or \$585.70 per month.) 30% is the average penalty for retirees over age 65 enrolled in BCBS plans. As an example, if a retiree turned 65 in 2002 and does not move to Part B until 2010, the penalty would be 10% x 8 years = 80% of the Part B premium for as long as the retiree remained on the plan. In 2010, the Medicare Part B premium is \$110.50, so the monthly penalty is \$88.40 paid by the City.

Adoption of Section 18 allows the city to:

1. continue to provide appropriate medical coverage to retirees at an affordable price,
2. shift the costs that belong to Medicare to Medicare, thereby reducing the city's costs,
3. reduce costs of active employee plans,
4. apply for the Medicare Part D Retiree Drug Subsidy and
5. implement the recommendation of the Financial Advisory Committee and deliver on discussions in past budget presentations.

If the City decides to move to the GIC (Group Insurance Commission), all Medicare eligible retirees will have to enroll in Medicare Part B and move to a Medicare Supplement plan. At the present time, 443 plans and 611 individuals would be impacted by adoption of Section 18. Assuming that retirees keep the plans they have now and move to Medex, 206 retirees would realize a savings between \$15.94 to \$401.74 per month and 237 retirees would have an increase between \$14 and \$47.94 per month. Assuming that retirees move to less expensive plans, 334 retirees would realize a savings between \$1.48 to \$463.09 per month and 109 retirees would have an increase between \$10.62 and \$14.00 per month. Retirees will be made aware of the changes through a series of letters, workshops and phone calls over the next six months and the Personnel Department has already done some outreach thru Cindy Hickey.

Mr. Bean told the members that the city should have moved forward on this years ago, when it was adopted in 1991. It is projected that beginning in FY-11, the city's health insurance cost increase will exceed the increase in the property tax levy.

FISCAL YEAR	HEALTH INSURANCE COSTS	HEALTH INSURANCE \$ INCREASE	% INCREASE	PROPERTY TAX LEVY	PROPERTY TAX \$ INCREASE/LEVY	HEALTH INSURANCE INCREASE % OF LEVY INCREASE
2007	26,433,593					
2008	27,889,875	1,456,282	5.51%	88,230,602		
2009	31,151,436	3,261,561	11.69%	92,534,464	4,303,862	75.78%
2010	33,378,721	2,227,285	7.15%	96,510,127	3,975,663	56.02%
2011	36,049,019	2,670,298	8.00%	98,922,880	2,412,753	110.67%
2012	38,932,940	2,883,921	8.00%	101,395,952	2,473,072	116.61%
2013	42,047,575	3,114,635	8.00%	103,930,851	2,534,899	122.87%
2013	45,411,381	3,363,806	8.00%	106,529,122	2,598,271	129.46%

Chairman Heuston stated that there are other plans offered in Massachusetts that might be lower than those offered by the city. Alderman Trane expressed his concern about giving the appearance that this was rushed through without getting input from retirees. Alderman White asked why anyone should be paying more after the change and Ms. Hastings explained that plans are comprised of medical and prescription portions and that with retirees, the prescription portion is higher. Ms. Kelly said that there may be some minimal change in some of the doctor visit co-pay amounts. She also noted that a 90 day supply of medication is \$3 under MEDEX and a covered individual may go to any doctor anywhere in the country with MEDEX. Ms. Kelly said that many retirees are paying more than they need to for coverage so it is important to explain the options available to them. There are 145 individuals paying for active plans at a higher cost when they could be saving money under the proposal.

Chairman Heuston requested that a side by side comparison, or chart of the various plans and co-pays be provided in time for the next meeting on December 9th, giving some examples of spouses on individual plans, etc., and also requested that the committee be provided an estimate of what the penalty would be for every month of delay. Alderman White requested additional information on the above chart.

188402 - architectural services at 42 Cross Street

188403 - architectural services at Conway Park

Mr. Boyle spoke about these items and explained the need for extending the contracts.

188482 – funding for the Washington Street project design and construction

Mr. Koty explained that state told city who the contractor would be on the project and the work was unimpressive. The state said city has to pay for the design.

The committee discussed matters before it and took action on the following 7 items:

188402: Communication from Mayor - Requesting approval to extend a contract with TBA Architects Inc. for House Doctor architectural services at 42 Cross St., to August 31, 2010.

RECOMMENDATION: Should be approved

VOTE: Unanimous, 6 - 0 in favor

188403: Communication from Mayor - Requesting approval to extend a contract with Johnson Roberts Associates Inc. for House Doctor architectural services at Conway Park, to August 31, 2010.

RECOMMENDATION: Should be approved

VOTE: Unanimous, 6 - 0 in favor

188406: Communication from Mayor - Requesting the transfer of \$9,050 from the Treasury Certificate of Notes and Bonds Acct. to the Building Insurance Acct. to cover the cost of a recent tax possession and vacant property insurance.

RECOMMENDATION: Should be approved

VOTE: Unanimous, 6 - 0 in favor

188407: Communication from Mayor - Requesting the transfer of \$6,333 from the Treasury Salaries Acct. to the Treasury Office Equipment Acct. to cover the cost of a photocopier.

RECOMMENDATION: Should be approved

VOTE: Unanimous, 6 - 0 in favor

188408: Communication from Mayor - Requesting the use of \$101.61 in current year funds to pay a prior year invoice from Gate House Media for a legal advertisement in the Weights and Measures Dept.

RECOMMENDATION: Should be approved

VOTE: Unanimous, 6 - 0 in favor

188482: Communication from Mayor - Requesting a transfer of \$150,000 from the DPW Sanitation Prof. & Tech. Svcs. Acct. to the DPW Administration Capital Outlay Engineering/Architectural Svcs. Acct., to fund the Washington St. project design and construction.

RECOMMENDATION: Should be approved

VOTE: Unanimous, 6 - 0 in favor

188485: Communication from Mayor - Requesting approval to expend a grant of \$2,000 from the Harvard School of Public Health for the Health Dept.'s Shape Up Somerville initiative.

RECOMMENDATION: Should be approved

VOTE: Unanimous, 6 - 0 in favor

Alderman Maryann Heuston, Chairman
Committee on Finance