S. Tahoe overhauls employee benefits package

By Kathryn Reed

While South Lake Tahoe employees will have more in their paychecks, it's going to cost many of them more to retire. This is because retiree health care coverage is going away for almost all current workers.

The South Lake Tahoe City Council at a special meeting this morning at 8 is expected to approve agreements with five of the six bargaining units. A tentative agreement has been reached with the 11-member Police Employees Association that will come back to the council at a later date.

"Transformative" is the word City Manager Nancy Kerry and Mayor Hal Cole used during an exclusive interview with *Lake Tahoe News* this week when describing the changes that are about to unfold.

By changing the health care plan, eliminating retiree health benefits for employees not yet retired, and modifying coverage the city will see a cost savings of $1.5 million a year for each of the next three years. This starts with the fiscal year that began Oct. 1. The city is taking that savings and reinvesting it in the employees.

So, while there are raises and the introduction of deferred compensation programs that are similar to the private sector's 401(k), the money for these benefits has already been allocated and nothing is being taken away from the public to make it happen.

"The most important element of the overall financing strategy for the restructuring of wages and benefits is that it is funded from current and anticipated available resources, not additional taxes from the taxpayers, and in fact, it will reduce the city's and therefore the taxpayers' contribution payments to the other post-employment benefits trust over the next many years," Kerry told *Lake Tahoe News*.

When Kerry was hired the unfunded liability for health care was $47 million. With getting retirees onto Medicare, that figure dropped to $25 million. Today's changes should bring that amount to $15 million. An actuarial study will be completed after the first of the year that will provide a detailed analysis of the unfunded liability.

"We could never have set enough aside," Kerry said of the promises previous councils and city managers made to employees.

Kerry has been working to resolve the health care and other unfunded liability issues for nearly three years. Cole said he tried to address the issue with previous city managers but they never wanted to deal with it or said nothing could be done.

"Pressure forces you to be innovative," Kerry said. She said it took a strong council and knowing the community would not tax themselves to deal with the debt or raises.

While in years past each employee group usually got the same percentage of raise, that is not happening now. The pot of money has been split equitably, which means fairly by dollar amount and not percentage. Each group decided if they wanted the money in the form of raises, deferred compensation, health care or other benefits.

Salaries will increase between 2.5 and 4 percent this year and next, and from zero to 4 percent in 2016-17. It has been nearly five years since most employees received a raise.

The city was paying $19,000/year for a family health plan. Now it will be paying $12,000.

A change is that employees may opt out of the health plan – something that was not allowed before.

“We have to stay self-insured because we have so many retirees. They are the most expensive,” Kerry explained.

There are 800 people in the plan, though only 175 of them are employees. Without the change, that number could have grown to 1,200. When the current crop of retirees and their dependents are no longer covered by the city then officials can look at not being self-insured.

The city has created what it calls Plan A. That is a basic health plan that has a $5,500 deductible. The city picks up the cost for singles, couples and families. Vision and dental are no longer offered. If people want a better plan, they can pay the difference for it.

Changes in the first year will see a positive net fund balance of approximately $500,000. The recommendation is for that money to be set aside to pay for changes in the following two fiscal years.

For employees who are close to retiring and would not have been saving for post-retirement benefits there will be a transitional plan.

Council members and current retirees are also impacted by the changes. The latter have always been subjected to whatever current employees agree to. This means they will be on Plan A for health coverage, with the option to upgrade if they want.

Councilman Tom Davis is considered a retiree because when he left the council he took on retiree status – unlike Cole and Brooke Laine when they initially stepped down. Even though Davis is on Medicare, when he retirees again from the council this will allow him to tap the city’s supplemental health insurance for the rest of his life like all other current retirees. The other current council members are eligible for

Plan A and will receive no medical benefits when they leave the council.

South Lake Tahoe is the only public entity in the Lake Tahoe Basin that offers any retirees medical coverage. It’s also one of the only public agencies to have not given raises in the last five years.

It’s possible the changes South Lake Tahoe is making to its medical plan will be precedent setting. City officials have been asked to speak to other cities about what South Lake Tahoe has accomplished in overhauling its health care offerings.