DEPARTMENT OF FINANCE

CITY OF CHICAGO

Amer Ahmad
33 N. LaSalle Street
Chicago, Illinois 60602

January 11, 2013

The Honorable Rahm Emanuel
121 N. LaSalle Street
Chicago, Illinois 60602

Dear Mr. Mayor:

Per the *Korshak Settlement Agreement* please find enclosed the Retiree Healthcare Benefits Commission's (RHBC) report to the Mayor's Office on the state of retiree healthcare benefits, their related cost trends, and issues affecting the offering of retiree benefits after July 1, 2013.

Through a very thoughtful and careful process, the commissioners of the RHBC and I have examined industry trends, market conditions, retiree demographics, and financial information to formulate this report. Throughout this deliberative process and in the development of this report the Commission has considered the following set of principles and factors:

- The importance of including stakeholders in the process, such as retirees, pension funds, and their representatives;
- The value of data-driven analysis to facilitate fact-based decisions;
- Demographic shifts since 1987, including changes in longevity, longevity relative to working life, and spousal work force participation;
- The City's ability to fund retiree and/or dependent healthcare benefits into the future; and,
- The RHBC's obligations as defined by the Settlement Agreement.

As the Commission assessed the impact of changing health care benefits on various populations within the annuitant group, it became clear to me that certain subclasses including the Jacobson/Korshak sub class should continue to receive benefits and any changes in their benefits should be cautiously considered. You will note that several options offered in the report provide for continuation of their coverage.

Lastly, I must raise the very serious question of whether the City can continue to fund retiree healthcare benefits at the current levels given its current financial condition. Particular weight must be given to the financial data presented in this report. It is of the utmost importance that the City take a course of action that will safeguard its fiscal well-being.

I believe the report will provide you with the information necessary to support your decision making process. Should you require the RHBC to examine this issue further, please do not hesitate to ask. Thank you for the opportunity to help lead this very important conversation.

Sincerely,

Amer Ahmad
Comptroller
Retiree Healthcare Benefits Commission, Chair

Report to the Mayor's Office on the State of Retiree Healthcare

Retiree Healthcare Benefits Commission

January 11, 2013

Table of Contents

I. Executive Summary

The Retiree Health Benefits Commission's charge under the Settlement Agreement is to make recommendations to the City concerning the state of retiree healthcare benefits, their related cost trends, and issues affecting the offering of any retiree benefits after this date June 30, 2013. In order to do so, the RHBC:

- Reviewed the history of litigation related to Annuitant healthcare and the related Settlement Agreement;
- Evaluated current and projected enrollment and spending for Annuitant healthcare coverage if no changes are made;
- Considered the financial circumstances of the city along with the needs of the retired population;
- Developed a menu of choices with different associated price tags and identified the dimensions along which tradeoffs must occur, assuming spending growth needs to be constrained.
- These dimensions include: plan generosity/benefit design; eligibility rules; changes in the city's contributions to retiree health premiums.
- Performed an analysis to project the effects of ceasing coverage for non-Medicare eligible annuitants once the Illinois health insurance exchange is operating (for calendar year 2014).

This report does not endorse any particular option as it is the prerogative of the Mayor to determine the City's future course of action on annuitant healthcare benefits.

II. Background

A. The History of the *City of Chicago v. Korshak*

In 1987, the case of *City of Chicago v. Korshak* was filed in the Circuit Court of Cook County to resolve the issue of whether the City had an obligation to provide health care benefits to retired City employees. The City claimed that its expenditures for health benefits for annuitants who participated in the City's self-funded health benefit plan, had not been expressly authorized by the City Council. The City also alleged that State law specified the monthly amounts that the City was to contribute to the cost of the annuitants' health care, and the remaining cost was to be covered by the annuitant.

The City sought both an order declaring how much the City was required to pay, as well as recovery of the alleged overpayments already made. The pension funds' trustees filed counterclaims arguing that the City had orally promised that health benefits would be provided to retirees at low cost, implying the city was obligated to continue absorbing the increasing costs of health care.

Certain annuitants who participated in the health benefit plan sought leave to intervene, instead seeking a continuation of the existing plan at the then existing rates for the annuitants' lifetimes.

The trial court dismissed the City's suit with regard to a refund of alleged overpayments, but the court proceeded to adjudicate the City's prospective obligations, if any. In June 1988, the City and the Trustees reached a settlement. The settlement provided that the City and the Trustees agreed to sponsor legislation requiring the City to absorb at least 50% of the health care costs of the annuitants. The pension funds agreed to increase their subsidies to $45 per month for Medicare annuitants and $75 per month for non-Medicare annuitants as of January 1, 1993. The settlement and the then pending legislation required the City to bear this obligation through 1997. At that time, if the parties had not reached a permanent agreement, the settlement would terminate. The settlement was approved over the objections of the intervenors. On December 12, 1989, overruling the intervenors' objections, the Court held that the settlement was fair and equitable.

As the original 10-year Korshak settlement agreement was expiring, the City and the Pension Funds worked together to reach what they believed was a "permanent solution," resulting in the Illinois Pension Code being amended IN 1997 and creating a new structure for annuitant healthcare extending the provision of annuitant health care until June 30, 2002. Under that new structure, the City again was required to cover 50% of the health care costs of annuitants.

However, at the same time, the intervenors challenged the City and Pension Funds' 1997 agreement claiming that the parties did not reach a "permanent solution" as required by the original Korshak Agreement. In 2000, the Appellate Court ruled in favor of the intervenors and remanded the case back to the circuit court stating that the 1997 agreement reached by the parties did not satisfy the original Korshak Agreement. Following this ruling, the parties and the intervenors extensively negotiated and finally entered the 2003 Settlement Agreement, with the Court's approval, under which the City continues to provide annuitant health care until June 30, 2013 and the Korshak case was dismissed with prejudice. For more information see exhibits A-1 and A-4 in Appendix A.

B. The Korshak Settlement Agreement

In the Settlement Agreement the City agreed to provide various support levels for health care coverage to certain annuitants through June 30, 2013. Annuitants contribute their share of the costs through payment of monthly amounts that are deducted from their pension checks. The Settlement Agreement provides for those rates to be set prospectively based on cost estimates performed by an independent actuary. Each year the rates are re-set.

The City is responsible to pay at least 55% of health care costs for those annuitants who have retired before June 30, 2005. For those annuitants who retire after June 30, 2005, the City's share of costs is determined by the number of years of City service the annuitant had worked. Specifically:

II. Background

B. The Korshak Settlement Agreement
(Continued)

- Annuitants who retire with 20 or more years of City Service, the City is to pay 50%;
- Annuitants who retire with 15 to 19 years of City Service, the City is to pay 45%;
- Annuitants who retire with 10 to 14 years of City Service, the City is to pay 40%; and
- Annuitants with less than 10 years of City Service, the City will not pay any share of costs, but will allow those annuitants to participate in the plan.

Some groups qualify for exceptions to this structure, such as pre-1989 retirees who are non-Medicare.

Per the settlement agreement the Pension Funds contribute fixed monthly dollar amounts for each annuitant as required by the state statute. The Funds' contributions are as follows:

- July 1, 2003-July 1, 2008. $85.00 for each annuitant who is ineligible for Medicare, and $55.00 for each annuitant who is eligible for Medicare.
- July 1, 2008-June 30, 2013. $95.00 for each annuitant who is ineligible for Medicare, and $65.00 for each annuitant who is eligible for Medicare.

The Settlement Agreement allows the City to offer additional healthcare plans at its own discretion and modify, amend, or terminate any such additional healthcare plans. The agreement also created an independent commission, the Retiree Health Benefits Commission (RHBC), of unpaid, volunteer members who serve at the request of the City.

The City retained the right to terminate or amend the Settlement Healthcare Plans or to make reasonable plan design changes in response to certain changes in federal or state law.

In addition, the City may amend the Settlement Healthcare Plans for reasons other than changes in federal or state law for annuitants retiring after August 23, 1989 with the following restrictions: (1) The City will make no plan design changes which do not arise out of changes in the law for a period of 5 years from July 1, 2003. (2) After July 1, 2008, the city may seek approval of the RHBC to make plan design changes solely under the following circumstances:

- In response to material changes in medicine or technology;
- in response to court rulings or the settlement of other litigation;
- in response to material changes in the structure or methods by which health benefits are contracted for or provided;
- in response to material changes in market conditions that would render the provision of any benefit unreasonably expensive under the circumstances.

For more information see exhibit A-2 in Appendix A.

C. Special Benefits for Police and Fire

Early Retiree Free Coverage

Under the terms of the collective bargaining agreements for the Fraternal Order of Police (FOP) and the International Association of Fire Fighters (IAFF), certain employees who retire after attaining age 55 with the required years of service are permitted to enroll in the healthcare benefit program offered to actively employed members. These retirees may enroll their dependents under the same terms as active employees and may keep coverage until they reach the age of Medicare eligibility. They do not pay anything towards the cost of coverage. The Police Pension Fund contributes $95 per month towards coverage for police officers; the Fire Pension Fund does not contribute. When these early retirees reach the age of Medicare eligibility, their healthcare benefits are provided by the Annuitant Settlement Health Care Plan. There are approximately 1450 early retirees and 1500 dependents who receive free coverage.

II. Background

C. Special Benefits for Police and Fire (Continued)

Duty Death Continuation of Coverage Benefits
If a Police Officer or Fire Fighter is killed in the line of duty, the surviving spouse and any dependent children are provided with free health care until the spouse remarries or the children reach the limiting age for coverage. The surviving spouse and children are covered by the active employee plan until the surviving spouse attains age 65 at which time the spouse's coverage is provided by the Annuitant Settlement Health Care Plan. There are approximately 110 duty death surviving spouses in the active benefit plan and an additional 104 in the Annuitant Settlement Plan.

Public Safety Employee Benefits Act (PSEBA)
PSEBA requires that an Illinois municipality pay the full cost of the healthcare coverage for a public safety employee (Police Officer or Fire Fighter) and his/her family members if the employee is catastrophically injured in the line of duty while responding to an emergency situation. There are approximately 17 PSEBA approved persons in the Annuitant Settlement Plan

D. Retiree Healthcare Benefits Commission

The RHBC is tasked with the responsibility to make decisions based upon recommendations from the City concerning any modifications to Settlement Healthcare Plans and to make recommendations to the City concerning any continued health care benefits provided to annuitants after the expiration of the agreement on June 30, 2012. Before July 1, 2013 the RHBC must make recommendations concerning the state of retiree healthcare benefits, their related cost trends, and issues affecting the offering of any retiree benefits after this date.

The RHBC must take into account industry trends and market conditions existing at the time of it recommendations.

As required by the Korshak Settlement Agreement, members of the RHBC, with the exception of one City representative and one representative of the Pension Funds, have been drawn from various fields of expertise, including municipal finance, business, health care, health insurance, and academia.

Members Include: [1]

Amer Ahmad, Comptroller, City of Chicago;

Leemore Dafny, Associate Professor of Management and Strategy, and the Herman Smith Research Professor in Hospital and Health Services, Kellogg School of Management at Northwestern University;

William L. Irving, President-Secretary/Treasurer, LiUNA Local 1001 and LABF Trustee;

Michael Knitter, Executive Director of Compensation and Benefits, University of Chicago.

To prepare this report, the RHBC met regularly between June and December 2012. Appendix A-8 lists our meetings, along with key agenda items. Meetings were public, in accordance with the Open Meetings Act (5 ILCS 120/2) (from Ch. 102, par. 42). We also reviewed correspondence from the Pension Funds and their representatives (included as Exhibit A-7). In addition to the analyses described in this report, we compared sister agency and private sector retiree healthcare benefit practices before arriving at our recommendations. For RHBC meeting topics see exhibit A-8 in Appendix A.

[1] In 2011, several of the members of the RHBC voiced concerns regarding potential liability for their participation in the Commission and sought assurances from the City that they would be provided indemnification. In order to resolve any issues concerning potential liability for decisions and recommendations made by RHBC members, the City passed an ordinance to protect certain members.

The City will indemnify and keep harmless the members of the RHBC, with the exception of any member of the RHBC serving as the representative of the Pension Funds, against all liabilities, judgments, costs, and expenses, with the exception of exemplary or punitive damages, which may in any way accrue against them for any act or omission occurring within the scope of their duties as members of the RHBC. For the Indemnification ordinance see exhibit A-5 in Appendix A.

III. Current Enrollment and Spending on Retiree Health Benefits

In order to gain an appreciation for the landscape of retiree health care costs, the RHBC examined past, present, and future projections. In this section, we discuss enrollment and estimated spending for calendar year 2012.In the section that follows, we discuss future enrollment and spending, should the city continue its current plan with no material changes.

A. Enrollment

Table 1 below presents enrollment for 2012, along with associated total city spending.

Table 1. Enrollment and City Spending

Non-Medicare				
	Annuitants	**Spouses***	**Children**	**Total**
Number	7495	3470	877	11842
City Support Monthly	$476	$476	$140	N/A
City Support Yearly	$5,715	$5,715	$1,679	N/A
Annual City Expense	$42,835,454	$19,831,758	$1,472,229	$64,139,441

Medicare			
	Annuitants	**Spouses***	**Total**
Number	16754	5284	22,038
City Support Monthly	$169	$169	N/A
City Support Yearly	$2,025	$2,025	N/A
Annual City Expense	$33,933,686	$10,702,002	$44,635,688

Totals				
Annuitants	**Spouses***	**Children**	**People**	**Total Spending**
$76,769,140	$30,533,760	$1,472,229	33,880	$108,775,128

*Includes Domestic Partnerships

Source: City of Chicago Department of Finance—Benefits Management

B. Total Monthly Cost of Coverage and Annuitants' Monthly Cost

Table 2 shows the annuitants' current monthly cost for coverage and the total monthly cost.

III. Current Enrollment and Spending on Retiree Health Benefits

Table 2. Annuitant Contribution Rates *

Selected Annuitant Premium Rates for 2012				Annuitant Premium Amounts	
Annuitant	Spouse	Children	Unit Cost	Retired On or After 8/23/89 at 55% City Support	Retired On or After 7/1/05 City Support at 50% with 20 years of service
MED			$307	$73	$89
			Number	6,935	753
			Percent of Total	28%	3%
NON			$866	$295	$338
			Number	2,122	1,531
			Percent of Total	9%	6%
MED	MED		$600	$205	$235
			Number	3,666	375
			Percent of Total	15%	2%
MED	NON		$1,159	$457	$515
			Number	898	323
			Percent of Total	4%	1%
NON	MED		$1,159	$427	$485
			Number	191	78
			Percent of Total	1%	0%
NON	NON		$1,695	$668	$753
			Number	930	816
			Percent of Total	4%	3%
MED	MED	CHILD	$841	$313	$356
			Number	43	9
			Percent of Total	0%	0%
MED	NON	CHILD	$1,377	$555	$624
			Number	47	34
			Percent of Total	0%	0%
NON	MED	CHILD	$1,377	$525	$594
			Number	7	5
			Percent of Total	0%	0%
NON	NON	CHILD	$1,920	$769	$865
			Number	110	259
			Percent of Total	0%	1%
MED		CHILD	$548	$182	$209
			Number	64	15
			Percent of Total	0%	0%
NON		CHILD	$1,084	$393	$447
			Number	82	135
			Percent of Total	0%	0%
		CHILD	$254	$19	$32
			Number	17	4
			Percent of Total	0%	0%

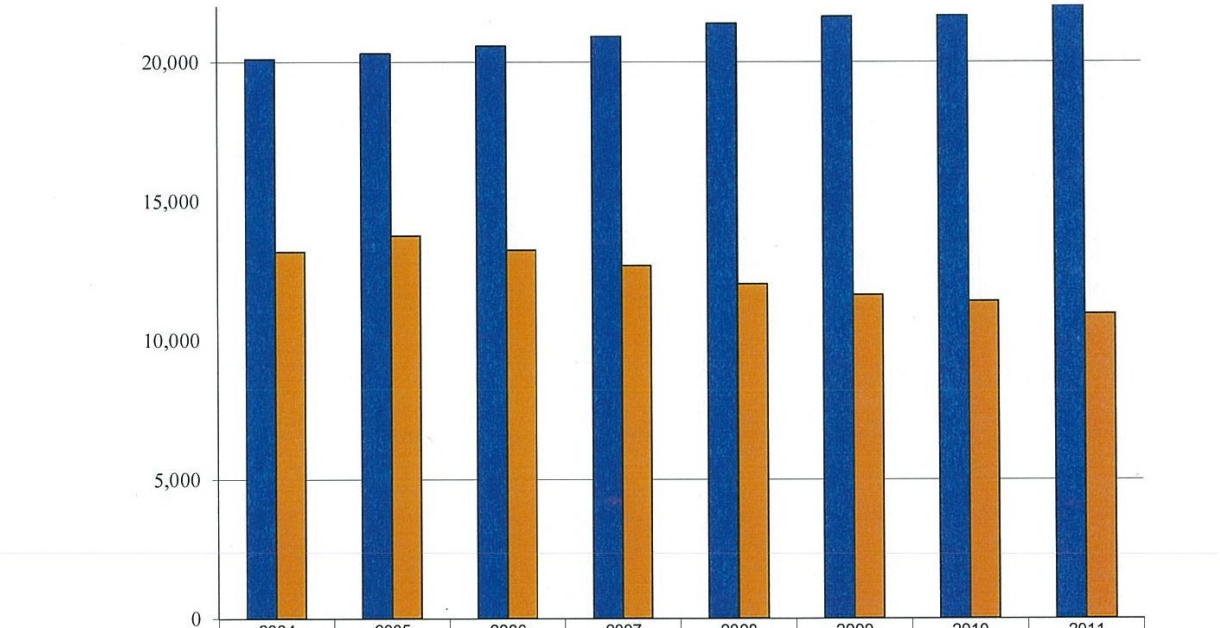
*Includes Pension Fund Contributions.

Source: City of Chicago Department of Finance—Benefits Management

III. **Current Enrollment and Spending on Retiree Health Benefits**

The RHBC also examined past trends in the settlement group to assess changing retiree demographics, as well as medical and drug cost. Graphs 1-3 are taken from a 2012 report prepared by The Segal Company, an actuarial firm that develops rates for the annuitant settlement plan. The graphs detail the growth in plan membership, medical unit cost and prescription drug unit cost from 2004 through 2011. For the full Segal Report see exhibit B-1 in Appendix B.

Graph 1. Average Eligibility by Plan 2004-2011*



	2004	2005	2006	2007	2008	2009	2010	2011
Medicare - Sett. Plan	20,115	20,318	20,579	20,929	21,394	21,638	21,674	22,038
Non-Medicare - Sett. Plan	13,195	13,772	13,254	12,692	12,031	11,634	11,417	10,965

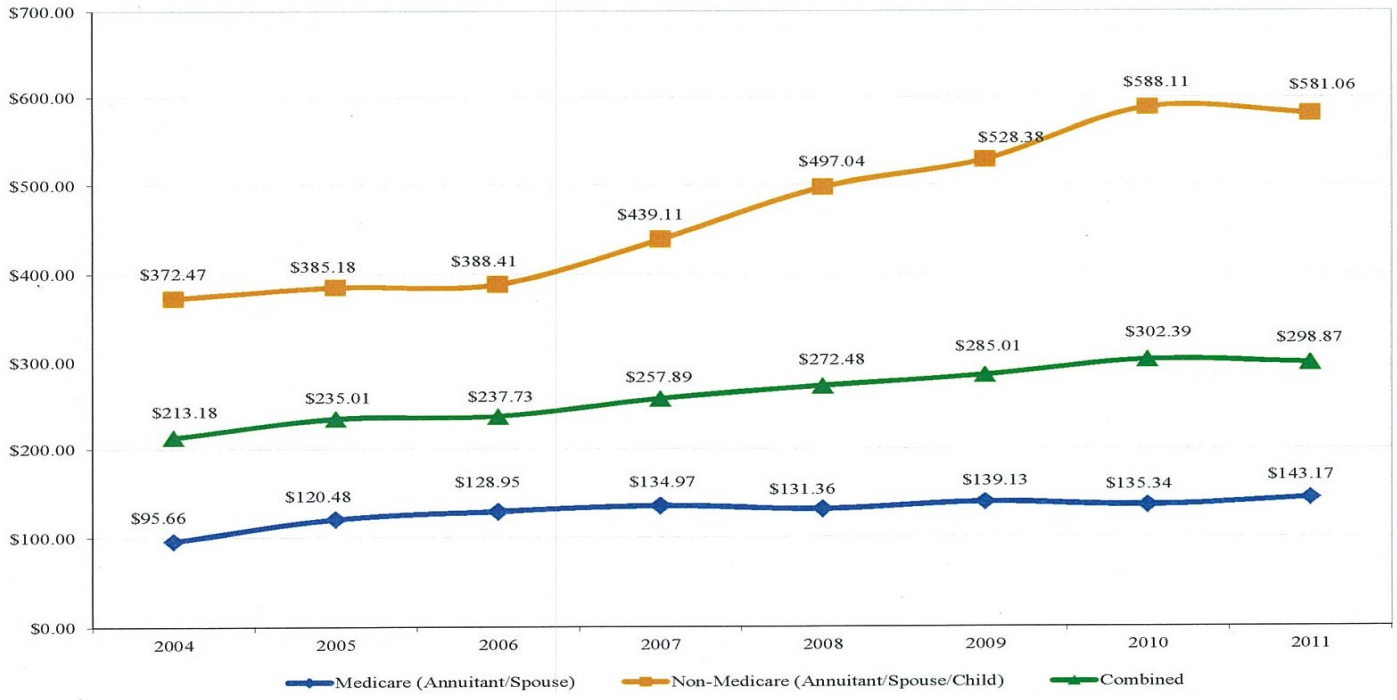
Source: Segal Report on Projected Annuitant Plan Costs for July 1, 2012-June 30, 2013

*Note: These totals do not include police officers, firefighters, and their dependents who are eligible for free coverage under the City Active Employee Benefit Plan.

III. **Current Enrollment and Spending on Retiree Health Benefits**

Graph 2 illustrates the average monthly medical claims per participant for Medicare, Non-Medicare, and an average composite cost 2004-2011. It shows that medical cost continues to increase although the cost for the Medicare-eligible members for medical care is substantially lower because Medicare is the primary payer for these persons, and Medicare costs have been growing at a slower pace than private insurance.

Graph 2. Average Monthly Medical Claims



Source: Segal Report on Projected Annuitant Plan Costs for July 1, 2012-June 30, 2013

III. Current Enrollment and Spending on Retiree Health Benefits

Graph 3 illustrates the average monthly prescription drug claims per participant for Medicare, Non-Medicare, and an average composite cost 2004-2011. It shows that prescription drug expenses continue to increase, as well. For the period 2004 through 2011, Medical cost per unit has increased 56% for the non-Medicare eligible and 50% for the Medicare eligible. For the same period, prescription drug cost has increased by 19% for Medicare eligible individuals and 37% for non-Medicare individuals. For the combined groups (Medicare and Non-Medicare eligible) the medical cost increase during the period is 40% and drug cost increase is 27%.

Graph 3. Average Monthly Prescription Drug Claims

Source: Segal Report on Projected Annuitant Plan Costs for July 1, 2012-June 30, 2013

Note: Per capita prescription drug claims exclude all prescription drug fees for CustomerCare Rx and Medicare Part D processing. Prescription claims are net of rebates. Due to the change in pricing terms effective January 1, 2009, the Plan receives higher discounts at the point-of-sale in lieu of rebate payments.

III. Current Enrollment and Spending on Retiree Health Benefits

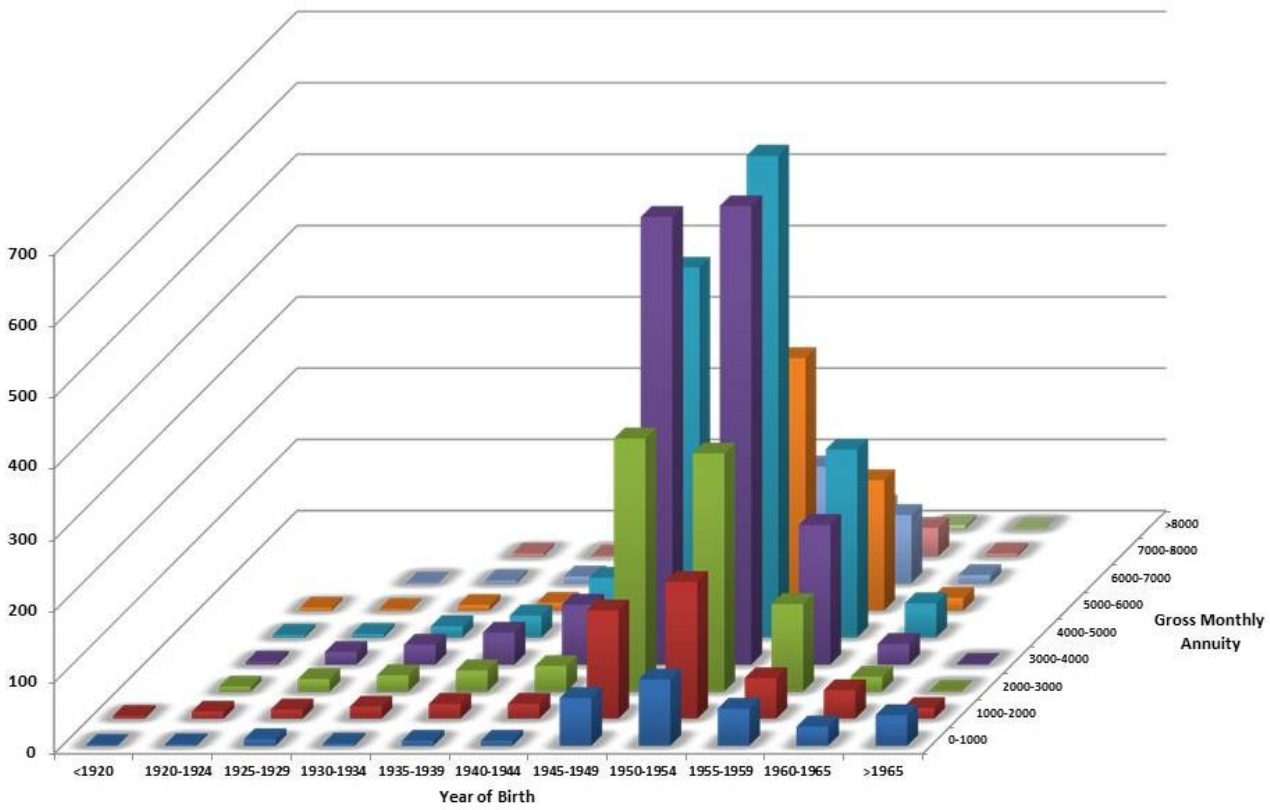
C. Active Employees by Age and Service

If the City were to continue to offer coverage on the same basis as today, there is a large cohort of persons who meet the current service requirement for eligibility for a retiree medical contribution by the City. The current minimum service requirement is 10 years. Approximately 24,000 employees have attained ten years of service; of the 24,000 there are 11,525 who have attained age 50; 2,503 have attained age 60. Of that same group (>/=50 and 10 years of service), 7172 have at least 20 years of service.

D. Annuity Amounts

Graph 4 below depicts the annuity payments to the non-Medicare-eligible set of retirees. As we discuss in Section VIII, some of these annuitants may benefit from subsidies to purchase insurance through the Illinois insurance exchange, beginning in 2014.

Graph 4. Non-Medicare Annuitants by Annuity Size



Source: City of Chicago Department of Finance—Benefits Management

IV. Projected Enrollment and Spending on Retiree Health Benefits

A. Enrollment

The commission requested and evaluated projections regarding the number of annuitants and dependents expected to participate in the city's plan if the City continues to offer coverage on approximately the same basis as it does today. We also requested estimates of City spending in future years. The results of these analyses are summarized below.

Table 3. Projected Emerging Annuitants and Dependents

Date 1/1	Police			Municipal			Laborer			Fire			Total		
	Initial Inactives	Emerging Inactives	Total	Initial Inactives	Emerging Inactives	Total	Initial Inactives	Emerging Inactives	Total	Initial Inactives	Emerging Inactives	Total	Initial Inactives	Emerging Inactives	Total
2012	15,558	-	15,558	12,403	-	12,403	3,798	-	3,798	5,240	-	5,240	6,999	-	36,999
2013	15,189	560	15,749	11,961	1,252	13,213	3,684	270	3,954	5,065	358	5,423	5,899	2,440	38,339
2014	14,805	1,188	15,993	11,515	1,968	13,483	3,568	476	4,044	4,886	726	5,612	4,775	4,357	39,132
2015	14,409	1,877	16,286	11,067	2,733	13,800	3,452	671	4,123	4,704	1,164	5,868	3,631	6,445	40,076
2016	14,001	2,455	16,456	10,617	3,368	13,985	3,334	869	4,203	4,519	1,571	6,090	2,471	8,264	40,735
2017	13,581	3,157	16,738	10,167	4,281	14,448	3,215	1,051	4,266	4,332	2,047	6,379	1,296	10,535	41,831
2018	13,151	3,723	16,874	9,719	4,959	14,678	3,097	1,224	4,321	4,143	2,438	6,581	0,110	12,345	42,455
2019	12,712	4,385	17,097	9,274	5,911	15,185	2,978	1,390	4,368	3,954	2,925	6,879	8,917	14,610	43,527
2020	12,264	5,022	17,286	8,832	6,705	15,537	2,859	1,560	4,419	3,764	3,345	7,109	7,719	16,632	44,351
2021	11,809	5,724	17,533	8,394	7,682	16,076	2,740	1,717	4,457	3,575	3,866	7,441	6,518	18,990	45,508
2022	11,347	6,399	17,746	7,962	8,471	16,433	2,622	1,873	4,495	3,386	4,244	7,630	5,317	20,988	46,305
2023	10,879	7,099	7,978	7,537	9,389	16,926	2,504	2,019	4,523	3,200	4,718	7,918	4,120	23,225	47,345

Source: MWM Consulting

Table 3 shows that the number of covered lives is projected to increase from the current monthly census of 36,712 to 47,345 by 2023, a cumulative increase of 29%.[2] The great majority of new covered lives will be adults as very few retirees cover any children. The current ratio of active employees to retiree lives, assuming a base of 34,000 employees, is approximately 1 to 1.08. Within ten years the ratio will fall to 1 to 1.39 assuming the same sized-workforce. For simplicity, Table 3 presents projections based on one possible set of assumptions, and hence does not reflect the range of possible outcomes. Any change in retirement rates will substantially affect the degree to which this illustration reflects the actual changes in census for retiree healthcare.

[2] This count includes the Police and Fire Fighters and their dependents who are receiving the Free Early Retiree Coverage described on Page 6.

IV. Projected Enrollment and Spending on Retiree Health Benefits

B. Spending

Table 4 below portrays the projected pattern of growth in annual payouts (cash flow) for retiree health benefits payable by the City assuming full continuation of the Settlement Plan provisions (including early retirements under the Police and Fire agreements) according to one of the illustrations excerpted from study results presented to the RBHC. The results below were based upon assumptions consistent with those presented in other tables presented in this report (11.5% health care trend graded to 7% in 2030). As noted previously, these projections are based upon one possible set of assumptions, and hence do not reflect the entire range of possible outcomes. In particular, the degree to which actual experience differs from the assumed retirement rates and assumed trend rates will substantially affect changes in retiree healthcare payouts.

Table 4. Projected Spending

Year	Annual Cash Flow	Year	Annual Cash Flow
2014	194,413,105	2019	357,849,171
2015	227,315,102	2020	381,576,846
2016	246,984,431	2021	444,633,856
2017	286,559,852	2022	464,952,433
2018	307,492,671	2023	540,744,773

Source: MWM Consulting

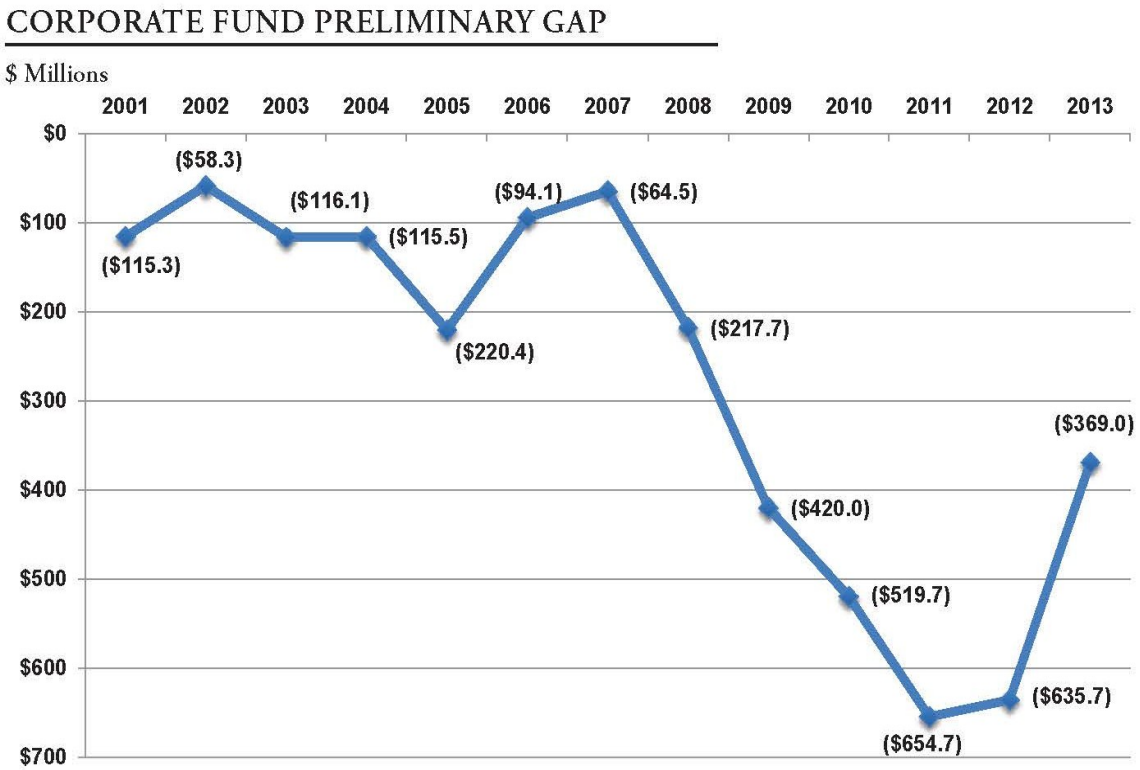
V. Financial Circumstances of the City of Chicago Present a Challenge to Continued Retiree Health Funding

A. Financial Assessment

As part of its work, the RHBC considered current and projected city budgets. The City's share of retiree healthcare expense comes solely from the City's Corporate Fund. As such, the City's ability to continue to support retiree healthcare is dependent on the financial well-being of that fund. Below we excerpt the assessment of the Corporate Fund which appeared in the *City of Chicago Annual Financial Analysis 2012*. This assessment heavily influenced the set of options we are presenting to the Mayor. Given the financial circumstances of the Corporate Fund, none of the options proposes an increase in eligibility or city contribution rates to retiree health benefits (although increases in total spending are nonetheless predicted under a number of the options, in part because of rising healthcare costs and aging of the presently insured population).

The difference between revenues and expenditures estimated by the City in its preliminary corporate fund budget estimates each year, has been steadily increasing over time. While the large recession- driven budget shortfalls began in 2008 with an estimated gap of $217.7 million, the City has been experiencing significant preliminary budget gaps for most of the last decade. The earlier gaps were largely closed by expenditure reductions and tax and fee increases. However, in more recent years, the City relied heavily on one-time revenue sources, the majority of which came from the long-term lease of the City's Skyway and parking meter system, to balance its annual budget. The use of these one-time revenue sources masked the City's structural deficit – each year, the City was spending more than it brought in, and this habit was built into the way City government functioned.

The 2013 corporate fund gap is estimated at $369 million, approximately half of what it was during the worst recession years, but still a significant shortfall. The decreasing size of this shortfall is representative of the real and lasting changes made as part of the 2012 budget to bring spending in line with revenues. However, the persistent existence of a substantial corporate fund gap makes clear that many of the challeng-



Source: City of Chicago Annual Financial Analysis 2012.

V. Financial Circumstances of the City of Chicago Present a Challenge to Continued Retiree Health Funding

B. Financial Statement Impact

Since 2007, the City of Chicago, along with other governmental entities, has been required to report on their Comprehensive Annual Financial Report (CAFR) their liability for Other Post Employment Benefits (OPEB) such as retiree health benefits.

The measurement and reporting of these OPEB obligations is promulgated by the Governmental Accounting Standards Board (GASB) under GASB Statement Number 45. The City of Chicago has complied with reporting the liability for the Settlement Plan each year and has reflected the "sunset" termination of the obligation as of June 30, 2013. As of December 31, 2011, the net obligation for the Settlement Plan on the City's financial statement was reported as $254,345,241. This value assumed that all obligations under the Settlement Plan would end on June 30, 2013 as specified in the Settlement document. GASB 45 requires that an amount be determined to represent the annual cost for the year attributable to the program (Net OPEB Cost) and an amount to represent the accrued accounting liability as of yearend (Net OPEB Liability). In addition to these two OPEB balance sheet accounting values, supplemental disclosure items are required, such as the Entry Age Liability.

As part of the RBHC review, estimates and projections under various actuarial assumptions were developed to illustrate what impact extensions or modifications in the Settlement Plan would have upon the City's financial statements. The projections were meant to illustrate general trends and relative values and not intended to represent exact values. The illustrations also reflected the current GASB accounting standards, although expectations are that the GASB 45 standard which applies to retiree health plans will likely be modified to mirror the new GASB pension accounting standards.

Of particular importance are two facts:

- The 2011 financial statements reflected the provisions of the Settlement Plan only and not the additional financial support provided by the City under the Special Benefit for Police and Fire. The projections provided to the RBHC in September of 2012 included the cost of these Special Benefits for Police and Fire, to the degree they would be integrated with modifications to the provisions of the Settlement Plan.
- Caution must be taken in evaluating the accounting values of some of the suggested alternative programs which reflected an "extension" of the sunset to a later date, such as ending the program in 2023, rather than 2013.
- Accounting standards require that the actual program as stated in the plan documents and as communicated to the employees and participants be valued. However, if the current sunset of June 2013 is extended significantly, to say 2023, the auditors may not recognize the postponed sunset as operative and require that the program be valued without recognition of the sunset provisions.

V. Financial Circumstances of the City of Chicago Present a Challenge to Continued Retiree Health Funding

B. Financial Statement Impact (Continued)

Table 5. Illustrative Impact

Scenario	Accounting Item for 2013 Fiscal Year		
	Net OPEB Cost	End of Year OPEB Obligation	Entry Age Liability (Supplemental Disclosure Item)
Full Continuation of Settlement Plan	1,115,618,692	2,068,919,272	10,884,888,217
Extend Sunset to 2023 (Police and Fire Special Benefits Continue)	595,819,195	1,102,011,001	4,059,977,366
End all coverage in 2023	286,988,991	490,306,006	2,389,712,071
Full Continuation of Settlement Plan at 40% support (Police and Fire Special Benefits at 100%)	983,710,060	1,865,365,588	9,493,027,652
Extend Sunset to 2023 at 40%. Police and Fire Special Benefits Continue at 100%	556,350,275	1,073,215,439	3,738,113,646
End all coverage in 2023. Coverage until 2023 at 40% support. Police and Fire Special Benefits at 100% until 2023	247,345,034	463,822,127	2,067,848,352

Source: MWM Consulting
5% Discount Rate
11.5% health care trend graded to 7% in 2030
(excerpted – one of several actuarial assumption sets)
Preliminary Estimates assuming plan changes first recognized in fiscal year 2012

Net OPEB Cost is the amount which is to be expensed for the year.

End of Year OPEB Obligation: Amount to be accrued on the financial statement representing the accumulated OPEB costs which remain unfunded as of the reporting date

Entry Age Liability is the actuarial liability calculated as of the valuation date under the entry age actuarial funding method. This is a method under which the Actuarial Present Value of the Projected Benefits of each individual included in the Actuarial Valuation is allocated on a level basis over the service of the individual between his/her age at date of hire and his/her assumed age at termination or retirement.

VI. Comparison of Local Government Agencies' Retiree Healthcare Policies

In order to consider how other local government entities fund and make available retiree medical benefits, the Commission reviewed data from the Chicago Public Schools, Cook County, Chicago Transit Authority, City Colleges of Chicago and the Chicago Park District. Table 6 summarizes key features of those employers' policies as compared to the City of Chicago's policies.

Table 6. Local Government Comparison

	City of Chicago	Chicago Teachers	Chicago Park District	Chicago City Colleges	Cook County Pension
Offer Retiree Coverage	Yes	Yes	Yes	Yes	Yes
Provide financial support to Non-Medicare Retiree	Yes	Yes	Yes	Yes	Yes
Provide financial support to Medicare eligible retiree	Yes	Yes*	No	Yes	Yes
Require Purchase of Part A and Part B if no free Part A	No	Yes**	No	No	No
Provide financial support for dependent coverage	Yes	No	Yes	Yes	Yes
Provide financial support for surviving spouse annuitant	Yes	Yes	Yes	Yes	Yes
Financial Arrangement	Self-Insured	Insured except for EGWP wrap	Insured	Self-Insured PPO; Insured HMO	Self-Insured PPO; Insured HMO
Eligibility	Annuity receipt	Annuity receipt	Annuity receipt	Annuity receipt	Annuity receipt
Nature of Support	Pension fund and City; amount per settlement	60% of premium in 2012; aggregate cap of $65M	Support determined annually by CFO.	10 years post retirement.	Support determined by Board on annual basis.

Source: City of Chicago Department of Finance—Benefits Management

*See also Exhibit B-5 in the Appendix with additional data provided by Pension Fund representative.

**Chicago Teachers pension also provides support for the purchase of Part A and Part B

VII. Commission Recommendations to Achieve Various Spending Levels

A. Benefit Level Options

The Commission recognized at the outset that there are many possible ways to respond to the expiration of the Korshak Settlement Agreement. However, the variations essentially can be summarized as: (1) continue current practices and support levels; (2) revise current practices and support levels to reduce the City's expense for retiree benefits; or, (3) eliminate City funding for retiree medical care. The foregoing sections have discussed option (1), and Section VIII. considers option (3) as it relates to non-Medicare-eligible retirees. In this section we discuss some alternative strategies pertaining to option (2). In order to present a manageable number of scenarios, we describe a few alternative methods to reduce the current spending level of $108 million (this amount does not include Police and Fire early retirees who receive free health care under the active employee benefit plan) to amounts from approximately $90.5 million to $12.5 million. All spending options use current enrollment figures and current premium figures.

We note at the outset that some of the plan design changes we considered would reduce financial liability without increasing retiree spending. For example, smaller networks of lower-cost providers would reduce liability and likely decrease retiree cost as well (through reduced copayments and coinsurance); similarly, moving from a Medicare Supplement plan to a more managed type of plan could decrease both City and retiree cost. In addition to plan design changes, the RHBC discussed that reductions in both current expense and future liability could occur through changes in eligibility rules, length of service requirements, and terms of coverage including different support levels for annuitants and their spouses/dependents.

Once a spending level has been selected, there can be a fuller analysis of possible plan design, eligibility and support levels. These recommendations are intended to serve as a framework for that decision rather than as a plan of action. See tables 7-11.

VII. Commission Recommendations to Achieve Various Spending Levels

B. Spending Frameworks

Table 7. Reduce Spending to $90.5 Million*

Savings Required: Approximately $17.5 Million

Options	Method to Achieve Savings
To achieve savings the City could modify the plan value for non-Medicare by 20% and Medicare eligible by 10% .	Plan Modification—$17.5 Million in Savings

Table 8. Reduce Spending to $80 Million*

Savings Required: Approximately $29 Million

Options	Method to Achieve Savings
Reduce city support to 40%.	Reduction of City Support
Maintain settlement class support at 55% and modify other annuitants' to support to 38%.	Reduction of City Support
Increase support for annuitant to 57% and modify plan to eliminate city support for dependents.	Reduction of City Support
Maintain settlement class support at 55% with dependents and eliminate dependents support for all others with annuitant support at 55%.	Reduce City Support
Leave settlement class at 55% of reduced plan value with dependents; all others (with dependents) supported at 47% of reduced plan value. Non-Medicare plan cost reduced by 20%; Medicare plan reduce by 10%.	Reduction of City Support and Plan Modification
Reduce spending to $84 million by increasing annuitant premiums to the same amount paid by Chicago Teachers plan for Non-Medicare ($496 per person) and to the same amount paid by the Cook County plan for Medicare eligible annuitants ($172).	Reduction of City Support

*As previously stated, the above options are possible ways to achieve designated savings. The same savings can also be reached through various permutations of the methods described.

VII. Commission Recommendations to Achieve Various Spending Levels

B. Spending Frameworks (Continued)

Table 9. Reduce Spending to $60 Million*

Options	Method to Achieve Savings
Reduce city support levels to 30%.	Reduction of City Support
Maintain settlement class coverage at 55% and modify other annuitants to support at 27%.	Reduction of City Support
Decrease support for annuitant to 43% and eliminate support for dependents.	Reduction of City Support
Leave Settlement class at 55% with dependents; Eliminate dependent support for all others; Annuitant only support for all others at 38%.	Reduction of City Support
Leave Settlement class at 55% of reduced plan values with dependents; all others (with dependents) supported at 34% Non-Medicare plan cost reduced by 20%; Medicare plan reduced by 10%.	Reduction of City Support and Plan Modification

Table 10. Reduce Spending to $40 Million*

Savings Required: Approximately $69 Million

Options	Method to Achieve Savings
Reduce city support levels to 20%.	Reduction of City Support
Leave Settlement Class at 55%; reduce all others to 16%.	Reduction of City Support
Eliminate support for Dependents; decrease support level for Annuitants to 28%.	Reduction of City Support
Maintain settlement class support at 55% with dependents and eliminate dependent support for all others with annuitant support at 22%.	Reduction of City Support
Leave settlement class at 55% of reduced plan value with dependents; all others (with dependents) supported at 20% of reduced plan value. Non-Medicare plan cost reduced by 20%; Medicare plan reduce by 10%.	Reduction of City Support and Plan Modification
Maintain settlement class support at 55% with dependents and eliminate support for Medicare coverage for all others. Modify non-Medicare support to 38% .	Reduction of City Support

*As previously stated, the above options are possible ways to achieve designated savings. The same savings can also be reached through various permutations of the methods described.

VII. Commission Recommendations to Achieve Various Spending Levels

B. Spending Frameworks (Continued)

Table 11. Reduce Spending to $12.5*

Options	
End coverage for Medicare eligible persons at 6-30-2013 (not including the Settlement Class) and arrange for these annuitants to transition to insurers in the Medicare market. When exchanges under the Affordable Care Act are available in 2014, end coverage for non-Medicare eligible persons (not included in the Settlement Class). Continue to offer coverage until the Settlement group is completed. Maintain coverage levels for public safety workers as required by law.	Reduction of City Support Year One City Cost: $86.4 Million Year Two City Cost: $12.5 Million

***As previously stated, the above options are possible ways to achieve designated savings. The same savings can also be reached through various permutations of the methods described.**

VII. Commission Recommendations to Achieve Various Spending Levels

C. Changes in Annuitant Premiums under Various Support Levels

If the City reduces its support levels for annuitant healthcare coverage, then Annuitants would typically be required to pay more. Tables 12 and 13 illustrate how much more annuitants would have to pay for the current plan of benefits under varying City support levels. Table 12 shows prospective rates if the City continued to provide financial support for both the annuitant and any covered dependents. Table 13 shows the prospective rates if the City stopped providing support for dependents and only provided support for the annuitant.

Currently the City provides additional premium support for annuitants whose total household adjusted gross income is less than 200% of the federal poverty level (FPL) for their family size. Monthly contribution rates are capped at 10% of the total household adjusted gross income (income less than or equal to 100% of FPL); 15% (income greater than 100% up to 150% of FPL); or, 20% (greater than 150% up to 200% of FPL). 119 annuitants have been approved for additional premium support. As we discuss in Section VIII, the Affordable Care Act provides much more generous subsidies to qualified low-income individuals and families who purchase private coverage through the new state insurance exchanges.

Table 12. Premiums at Listed City Support Level for Annuitants and Dependents

				City Support for Annuitants and Dependents							
Annuitant	Spouse	Children	Unit Cost	55%	50%	40%	38%	30%	27%	20%	16%
MED			$307	$73	$89	$119	$125	$150	$159	$181	$193
NON			$866	$295	$338	$425	$442	$511	$537	$598	$632
MED	MED		$600	$205	$235	$295	$307	$355	$373	$415	$439
MED	NON		$1,159	$457	$515	$630	$654	$746	$781	$862	$909
NON	MED		$1,159	$427	$485	$600	$624	$716	$751	$832	$879
NON	NON		$1,695	$668	$753	$922	$956	$1,092	$1,142	$1,261	$1,329
MED	MED	CHILD	$841	$313	$356	$440	$456	$524	$549	$608	$641
MED	NON	CHILD	$1,377	$555	$624	$761	$789	$899	$940	$1,037	$1,092
NON	MED	CHILD	$1,377	$525	$594	$731	$759	$869	$910	$1,007	$1,062
NON	NON	CHILD	$1,920	$769	$865	$1,057	$1,095	$1,249	$1,307	$1,441	$1,518
MED		CHILD	$548	$182	$209	$264	$275	$319	$335	$373	$395
NON		CHILD	$1,084	$393	$447	$555	$577	$664	$696	$772	$816
		CHILD	$254	$19	$32	$57	$62	$83	$90	$108	$118

Source: City of Chicago Department of Finance—Benefits Management

NOTES:

1. Fund support: $65 for Medicare; $95 for Non-Medicare; Annuitant Only
2. 2012-2013 Unit Costs (Current Rates as of 11/9/2012)
3. Annuitants and dependents supported at same rate by City

VII. Commission Recommendations to Achieve Various Spending Levels

C. **Changes in Annuitant Premiums under Various Support Levels (Continued)**

Table 13. Annuitant Premiums at Listed City Support Level for Annuitants Only

(No City Support for Dependents)

				City Support for Annuitant Only							
Annuitant	Spouse	Children	Unit	55%	50%	40%	38%	30%	27%	20%	16%
MED			$307	$73	$89	$119	$125	$150	$159	$181	$193
NON			$866	$295	$338	$425	$442	$511	$537	$598	$632
MED	MED		$600	$366	$382	$412	$418	$443	$452	$474	$486
MED	NON		$1,159	$923	$941	$971	$977	$1,002	$1,011	$1,033	$1,045
NON	MED		$1,159	$588	$631	$718	$735	$804	$830	$891	$925
NON	NON		$1,695	$1,147	$1,190	$1,277	$1,294	$1,363	$1,389	$1,450	$1,484
MED	MED	CHILD	$841	$607	$623	$653	$659	$684	$693	$715	$727
MED	NON	CHILD	$1,377	$1,143	$1,159	$1,189	$1,195	$1,220	$1,229	$1,251	$1,263
NON	MED	CHILD	$1,377	$806	$849	$936	$953	$1,022	$1,048	$1,109	$1,143
NON	NON	CHILD	$1,920	$1,349	$1,392	$1,479	$1,496	$1,565	$1,591	$1,652	$1,686
MED		CHILD	$548	$314	$330	$360	$366	$391	$400	$422	$434
NON		CHILD	$1,084	$513	$556	$643	$660	$729	$755	$816	$850
		CHILD	$254	$19	$32	$57	$62	$83	$90	$108	$118

Source: City of Chicago Department of Finance—Benefits Management

NOTES:

1. Fund support: $65 for Medicare; $95 for Non-Medicare; Annuitant Only
2. 2012-2013 Unit Costs (Current Rates as of 11/9/2012)
3. Annuitant only receives City financial support

VIII. Opportunities Under the Affordable Healthcare Act

When the Korshak settlement was negotiated, city employees retiring prior to age 65 (when Medicare coverage ordinarily begins), or who did not qualify for Medicare, faced significant challenges in obtaining high-quality, affordable insurance. Historically, insurers have not been required to offer policies to all comers, and have routinely withheld coverage for "pre-existing conditions" among those offered insurance. In addition, pricing reflected age and health conditions, yielding policies that would have been particularly expensive for Annuitants. The federal Patient Protection and Affordable Care Act (known as the ACA) passed in March 2010 addresses these issues by ensuring that all policies are available to all comers irrespective of their health status ("guaranteed issue"), that these policies cover "essential health benefits" in ten categories specified in the legislation, and that pricing vary only by age (with at most a 3:1 ratio in premiums for the oldest: youngest age categories). The ACA also legislated the creation of insurance exchanges – regulated electronic marketplaces for the purchase of health insurance – in every state. Like all state exchanges, Illinois' exchange is scheduled to be in place in time to facilitate enrollment in health plans for calendar year 2014. Finally, the ACA provides substantial federal subsidies to certain households purchasing insurance on the exchange using a sliding scale based on household income. To qualify for subsidies, these households must not be offered a health plan with at least 60% actuarial value at an affordable price through an employer, and must not be eligible for any public insurance program (e.g., Medicare or Medicaid).[3] The subsidies are pegged to the "silver" plan on the exchange (which corresponds to a plan with 80% actuarial value), and ensure that out-of-pocket premium payments for a silver plan do not exceed a maximum percent of income. This maximum ranges between 2% (for those under 133% FPL), all the way up to 9.5% (for those between 300 and 400% FPL, the highest income eligible for subsidies).

In light of these developments, we conducted an analysis of the financial implications of ending the city's plan for comprehensive medical insurance for non-Medicare-eligible retirees. (Because Medicare-eligible persons do not qualify for exchange subsidies, we did not explore cancellation of supplemental medical insurance for Medicare-eligible persons.) We considered the effects on three stakeholder groups: retirees, the pension funds, and the City. In the case of the latter two groups, annual savings are obviously quite substantial, amounting to total spending for this class of retirees. For retirees, the simulations are more complex, owing to limited information about non-pension sources of household income, as well as uncertainty regarding how the U.S. Department of Health and Human Services (which is tasked with implementing the relevant provisions of the ACA) will calculate household income for households in which one or more members (but not all) are eligible for public or employment-based insurance. Appendix A-9 describes how we address the latter set of issues, and includes other technical details of our analysis. The core conceptual assumptions underpinning our analysis are:

[3] See "Explaining Health Care Reform: Questions About Health Insurance Subsidies," by the Kaiser Family Foundation, for an excellent summary of these provisions. Available for download at http://www.kff.org/healthreform/upload/7962-02.pdf.

VIII. Opportunities Under the Affordable Healthcare Act

- All annuitants currently enrolled in the city's comprehensive medical insurance plan will choose to purchase plans (for themselves and their spouses and dependents who are currently insured under the city's plan) on the Illinois state exchange. (To the extent they do not – perhaps because they are able to find cheaper coverage outside of the exchange or through a spouse – the costs to annuitants will be lower than those we project.)
- Annuitants will purchase a "silver" plan on the exchange, which has an actuarial value of 80% of covered benefits. This corresponds roughly to the plan that is associated with the $90.5 million price tag in the preceding section. Premiums, which vary by age and family structure, are estimated using the Kaiser Family Foundation's online calculator.
- In the "least conservative" scenario presented below, we assume that household income consists solely of annuity income from the city. In the "most conservative" scenario, we predict non-annuity income for each retiree using data on a large sample of early retirees from a national survey called the Current Population Survey. Our methodology is described in Appendix A-9. For reasons described in the Appendix, we believe the predictions of total household income to be on the high side, hence the title for this scenario.
- If an annuitant has a Medicare-eligible spouse or dependent, those dependents are excluded from our analysis (i.e. we attribute no gains or losses to these individuals). [4]

Table 14 below presents the results of our analysis expressed on a "per-policyholder" basis. For example, the table reveals that under the least conservative scenario, 92 percent of married annuitants with dependents would qualify for insurance subsidies. On average, married annuitants with dependents are projected to contribute $9,159 toward the city plan in 2014, if it is offered, as compared to $4,862 if the plan is terminated and they enroll for coverage through the Exchange. By contrast, under the most conservative scenario, only 19 percent of these annuitants would qualify for subsidies, and their annual contributions to premiums for plans purchased through the Exchange would average $15,488.

Table 15 presents the results of our analysis in terms of total figures. Total savings for 2014 are projected to be $61.5 million for the city and $8.6 million for the pension funds. [5]

[4] In addition, some 1.2% of annuitants are dropped from the analysis owing to incomplete or inconsistent data.

[5] These figures are obtained by applying a cost growth factor to the 2012 city costs for the annuitants included in this analysis. We used the annual compound growth rate of 5.5 percent for non-Medicare annuitants and 2.7% for non-Medicare annuitants; these rates reflect the actual annual compound growth rates for these groups over the period 2009-2011.

VIII. Opportunities Under the Affordable Healthcare Act

These savings are generated from three distinct sources: additional payments by annuitants, federal subsidies, and lower costs of exchange plans. Under the least conservative scenario, additional annuitant payments amount to $4.6 million, while federal subsidies total $44.1 million. Under the most conservative scenario, additional annuitant payments amount to $49.5 million, and federal subsidies are $8 million. Lower costs of exchange plans contribute roughly $18 million of savings (in both scenarios). This figure reflects at least three distinct forces: purchasing efficiencies (or inefficiencies) associated with the switch from the City to the exchange, limitations imposed by the ACA on age and health-based pricing, and reductions in benefits to enrollees relative to what the City plan offers.

Notably, the total subsidy amounts do not illustrate the progressivity of the federal subsidies. As compared to the city's current subsidy structure, the exchange subsidies are far more progressive, providing greater assistance to annuitants with the greatest need. For example, under the most conservative scenario, 14 percent of annuitants will pay less if the city plan is terminated than if the city plan is continued. This figure increases to 85 percent for those who receive subsidies, and further jumps to 95 percent for those with household incomes under 200 percent of the federal poverty line. Under the least conservative scenario, 58 percent of annuitants will pay less if the city plan is terminated than if the city plan is continued. This figure increases to 93.5 percent for those who receive subsidies, and further jumps to 98.3 percent for those with household incomes under 200 percent of the federal poverty line.

We caution that this analysis is preliminary and based on our collective understanding of exchange regulations. Our main takeaway is that eliminating healthcare benefits for early retirees is likely significantly less onerous on those retirees than was the case prior to the passage of the ACA.

VIII. Opportunities Under the Affordable Healthcare Act

Table 14: Projected Outlays per Non-Medicare Annuitant under 65 in 2014: Status Quo vs. Plan Termination

Least Conservative Estimate (assumes policyholder income = annuity income).

			Status Quo Projected 2014 Contributions (avg. per policyholder)			Plan Termination Projected 2014 Contributions (avg. per policyholder)		
	Number of Policyholders	Number of Lives	Annuitant Contribution	Pension Fund Contribution	City Contribution	Annuitant Contribution	Federal Subsidy	% Annuitants with Subsidy
Single, no	3968	3968	$4,246	$1,140	$6,159	$6,696	$3,087	42%
Married, no	3258	6516	$7,206	$1,005	$9,288	$6,344	$8,509	78%
Single, with	308	636	$4,479	$1,034	$5,617	$3,534	$5,974	84%
Married, with	470	1582	$9,159	$1,043	$10,793	$4,862	$12,046	92%
Total	**8,004**	**16,978**	**$5,749**	**$1,075**	**$7,684**	**$6,323**	**$5,931**	**61%**

Most Conservative Estimate (assumes policyholder income = annuity income + estimated income from other sources, including other household members).

			Status Quo Projected 2014 Contributions (avg. per policyholder)			Plan Termination Projected 2014 Contributions (avg. per policyholder)		
	Number of Policyholders	Number of Lives	Annuitant Contribution	Pension Fund Contribution	City Contribution	Annuitant Contribution	Federal Subsidy	% Annuitants with Subsidy
Single, no Dependents	3968	3968	$4,246	$1,140	$6,159	$8,621	$1,162	18%
Married, no Dependents	3258	6516	$7,206	$1,005	$9,288	$14,313	$540	9%
Single, with Dependent(s)	308	636	$4,479	$1,034	$5,617	$6,456	$3,074	53%
Married, with Dependent(s)	470	1582	$9,159	$1,043	$10,793	$15,488	$1,420	19%
Total	**8,004**	**16,978**	**$5,749**	**$1,075**	**$7,684**	**$11,258**	**$997**	**16%**

Analysis by RHBC Commission, with support from Molloy Consulting and Professor Christopher Ody of Northwestern University.

VIII. Opportunities Under the Affordable Healthcare Act

Table 15: Projected Total Outlays for Non-Medicare Annuitants under 65 in 2014: Status Quo vs. Plan Termination

Least Conservative Estimate (assumes policyholder income = annuity income).*

	Savings		Sources of Savings		
	Savings to City	Savings to Pension Fund	Federal Subsidies	Additional Annuitant Contributions	Lower Cost of Exchange plan
Single, no Dependents	$24,437,158	$4,523,520	$12,248,788	$9,720,854	$6,991,036
Married, no Dependents	$30,259,888	$3,273,480	$27,720,864	-$2,809,559	$8,622,063
Single, with Dependent(s)	$1,729,911	$318,360	$1,839,998	-$291,167	$499,440
Married, with Dependent(s)	$5,072,795	$490,080	$5,661,520	-$2,019,580	$1,920,935
Total	**$61,499,756**	**$8,605,440**	**$47,471,172**	**$4,600,549**	**$18,033,476**

Most Conservative Estimate (assumes policyholder income = annuity income + estimated income from other sources, including other household members).

	Savings		Sources of Savings		
	Savings to City	Savings to Pension Fund	Federal Subsidies	Additional Annuitant Contributions	Lower Cost of Exchange Plan
Single, no Dependents	$24,437,158	$4,523,520	$4,610,258	$17,359,384	$6,991,036
Married, no Dependents	$30,259,888	$3,273,480	$1,758,184	$23,153,124	$8,622,060
Single, with Dependent(s)	$1,729,911	$318,360	$946,712	$608,901	$492,658
Married, with Dependent(s)	$5,072,795	$490,080	$667,277	$2,974,663	$1,920,935
Total	**$61,499,756**	**$8,605,440**	**$7,982,431**	**$44,096,068**	**$18,026,698**

Analysis by RHBC Commission, with support from Molloy Consulting and Professor Christopher Ody of Northwestern University.

*A negative number indicates lower total annuitant contributions than currently projected for 2014.

IX. Conclusion

The RHBC believes that at the expiration of the *Korshak Settlement Agreement* the City has three options: 1) continue current practices and support levels; 2) revise current practices and support levels to reduce the City's expense for retiree benefits; or, 3) eliminate City funding for retiree medical care. We believe that the data and analytics in this report very strongly suggest that continuing the existing financial arrangement is not a viable course of action. With an increasing retiree population, early retirement ages, and longer life spans, the ability of the City to provide benefits to its retirees on the same basis that they are provided today would appear to be untenable. Continued funding on the same basis would also likely result in other financial consequences as the significant change in long-term liability will likely affect both the City's bond rating and its creditworthiness.

We recommend that the Mayor strongly consider this report when evaluating options (2) and (3). The benefit level options presented in Section VII. are designed to be flexible and provide a range of options to reduce spending while maintaining retiree health benefits. Our analysis in Section VIII. on the effect of ceasing coverage for non-Medicare-eligible retirees after 1/2014 discusses the tradeoffs associated with this course of action. Should the city be inclined toward this option, we believe it may be beneficial for the City to consider extending healthcare coverage for a period of time until the exchanges are fully operational.

The RHBC respects the City's retirees and values the many years of service they have provided to the City. It is regrettable that the City's financial situation may not permit continued coverage on the current basis; we understand that this will cause distress to retirees. We urge the Mayor to carefully consider the most financially vulnerable populations within the retirees for whom the elimination or drastic reduction in subsidized healthcare coverage could be particularly difficult.

X. Acknowledgements

The RHBC would like to thank all the individuals who participated in this process and provided data, feedback, and commentary. We especially thank those who provided informational sessions including, Joe Gagliardo, Alex Holt, John Kallianis, Kathleen Manning and Lois Scott.

We are equally grateful to the retirees who attended many meetings, as well as the Executive Directors of the City's pension funds: James Capasso, John Gallagher, Kenneth Kaczmarz, James Mohler, Aileen Pecora, and Gina Tuczak. Their perspective and feedback was vital for our discussions.

We would also like to thank Professor Christopher Ody of Northwestern University for his support in data analysis. Additionally, this report would not have been possible without the guidance of Barb Molloy whose expertise was critical throughout this process. Lastly, we would like to thank the staff at the Department of Finance, as well as Jennifer Naber for their work and support.

XI. Appendices

Appendix A: Supporting Information

Exhibit A-1: City of Chicago vs. Korshak vs. Ryan

Exhibit A-2: Second Amended Order of the Korshak Settlement Agreement

Exhibit A-3: City of Chicago vs. Korshak vs. Ryan Reconciliation Order

Exhibit A-4: Relevant Pension Codes

Exhibit A-5: RHBC Indemnification Ordinance

Exhibit A-6: Department of Treasury Regulations: Final Rule on Premium Credits

Exhibit A-7: Correspondence from Pension Funds and Representatives

Exhibit A-8: RHBC Meeting Listing

Exhibit A-9: Details on the Analysis of Terminating City Benefits for non-Medicare Eligibles under the Affordable Healthcare Act

Appendix B: Tables and Figures

Exhibit B-1: Segal Report: City of Chicago Projected Annuitant Plan Costs 12-Month Rates Effective July 1, 2012—June 30, 2013

Exhibit B-2: 2012 Segal Health Plan Cost Trend Survey

Exhibit B-3: Patient Cost Sharing Under the Affordable Healthcare Act

Exhibit B-4: City of Chicago Retiree Health Plan Review Preliminary Projections– 5/13/11

Exhibit B-5: OPEB Comparable for Parity