Memorandum

CITY OF DALLAS

DATE August 27, 2021

TO Honorable Mayor and Members of the City Council

SUBJECT **Responses to Questions Raised During the August 10 Retiree Benefits Briefing**

On August 10, I briefed the City Council on Retiree Benefits and our recommendation that the City Council adopt a comeback option to address retiree concerns about the premiums associated with the City's pre-65 health plan. Currently, the City subsidizes about 50 percent of pre-65 retiree premiums for those hired prior to 2010. The City's liability for this other postemployment benefit (OPEB) is $226 million and is expected to decrease over time since only retirees hired prior to 2010 are eligible to receive the subsidized benefit. Council Members asked about the cost to provide additional subsidies for pre-65 retiree benefits.

We ran several scenarios to provide a range of the financial impact of changing the City's policy:

- Scenario 1: In FY22 only, cover the full cost of the pre-65 retiree premiums, not including spouse or family, for all retirees in the pre-65 plan. The one-time cost would be approximately $9.5 million. This would potentially set an expectation among retirees that the City should continue to pay the full premium. If the City were to continue this practice in FY23, we would need to factor it into the long-term liability, adding hundreds of millions of dollars to that figure.

- Scenario 2: Increase the subsidy from 50 percent to 60 percent for pre-65 retirees hired prior to 2010. The long-term liability will increase $45 million, or 20 percent, from $226 million to $271 million.

- Scenario 3: Increase the subsidy from 50 percent to 100 percent for pre-65 retirees hired prior to 2010. The long-term liability will double to $452 million.

- Scenario 4: Expand the 50 percent subsidy for pre-65 retirees to all retirees, regardless of hire date. The liability will immediately increase by $100 million to $326 million, and will continue to increase by 10-15 percent annually as additional participants join the plan. The plan would change from closed to open, meaning that the long-term liability and the number of participants would grow since the subsidy would no longer be restricted to retirees hired prior to 2010.

As I shared during the briefing, I do not recommend making changes to the City's policy and practice, other than approving the comeback option. The above scenarios increase the unfunded OPEB liability, a cost that taxpayers and ratepayers would ultimately bear. Further, the credit rating agencies would view such a decision as credit negative.

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I recommend the City Council adopt the comeback option, which addresses retiree concerns about premiums in the City's pre-65 plan, allows participants to shop for other insurance with lower premiums, and allows them to return to the City's post-65 plan. This provides choice for retirees and is financially prudent.

Thank you for your commitment to City retirees and to strong financial management. Should you have any additional questions or concerns please feel free to contact me.

M. Elizabeth Reich

M. Elizabeth Reich
Chief Financial Officer

c: T.C. Broadnax, City Manager
Chris Caso, City Attorney
Mark Swann, City Auditor
Bilierae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizor Tolbert, Chief of Staff to the City Manager
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Jon Fortune, Assistant City Manager
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Directors and Assistant Directors