

May 19, 2005

**Internal Audit Report 2005-8
Police and Fire Retiree Medical Trust
Five-Year Review
Employee Relations**

Introduction.

- **Purpose:** Anchorage Municipal Code (AMC) Chapter 3.87 establishes the Retiree Medical Funding Program for Police Officers and Firefighters (Program). The purpose of the Program is to provide those retirees receiving retirement benefits under the Police and Fire Retirement System, and who qualify as members of the Program, with a health reimbursement arrangement (HRA) to cover the eligible medical expenses of the members, their spouses and eligible dependents.
- **Municipal Contributions:** Contributions to the Program are made solely by the Municipality of Anchorage. The Municipality's responsibilities under this funding program are limited to the following: the initial prefunding contribution of \$2 million; the monthly contributions for the benefit of a member of \$490.00 starting January 1, 1995, adjusted annually based on a set percentage of the National Medical Consumer Price Index (MCPI); an amount equal to 50percent of the Medicare Part A Premium that the member is required to pay for part A coverage if, upon reaching the age of Medicare eligibility, a member is not eligible to participate in Medicare without paying the Medicare Part A Premium; a balloon payment in 2006 of \$9.8 million; and, providing funding for a professional administrative generalist to assist in the administration of the police and fire retiree medical funding program.

- **Health Reimbursement Arrangement:** The Board of Trustees reimburses members (and, as applicable, surviving spouses and dependents) for medical expenses eligible under Section 213 of the Internal Revenue Code and the Program, including eligible health insurance costs, the cost of COBRA coverage and long-term care premiums. According to AMC 3.87.060.J, “The Program will not reimburse an expense incurred before the date the HRA is in existence, nor reimburse an expense that is incurred before the date an employee first becomes enrolled in the HRA. The maximum dollar amount reimbursable for a plan year shall not exceed \$5,000.00. Members may request additional amounts on a case-by-case basis.” In addition, AMC 3.87.050.A states that, “Within 31 days of appointment to retirement, a member may elect to continue participation in the active police or fire health insurance plan. . . . The required active insurance premium for such coverage must be paid from the member’s HRA account as a qualified payment.” To the extent that the amount credited to the member’s premium account is not sufficient to pay the full insurance premium, the member shall be required to contribute the balance of the insurance premium from their retirement benefit from the Police and Fire Retirement System.
- **Prefunding Program:** AMC Chapter 3.88, Prefunding of Police and Fire Retiree Medical Program (investment program), was established to manage the funding necessary to meet the obligations of the Municipality for the Police and Fire Retiree Medical Funding Program, and make contributions to the retiree medical funding program trust on behalf of eligible members. The purpose of the investment program is to accumulate Municipal assets through a 20-year prefunding program of regular annual deposits by the Municipality and accumulated interest earnings so that the Municipal obligation is fully funded, requiring no further deposits. An annual Municipal deposit to the investment program was established and has been adjusted as necessary to ensure full funding at the end of the year 2014. The prefunding includes a balloon payment by the Municipality of \$9.8 million in 2006 paid for with proceeds from certain Certificates of Participation. This amount is based on the results of actuarial valuations and recommendations of the investment board. An actuarial valuation

of the Municipality's obligations to the funding program and the funding status of the investment program must be completed at a minimum, every three years.

- **Municipal Assembly Review:** Every five years from January 1, 1995, the Municipal Assembly is required to review the operation of the program including the amount of the initial monthly contribution established in Section 3.87.060 to be made by the Municipality. The Municipal Assembly may prospectively change the amount of the initial monthly contribution to the funding program; provided, however, that such reduction can be no lower than:
 1. The then current monthly active insurance premium for public safety employees under the active Municipal police and fire health insurance plan;
 2. The average monthly active insurance premium for public safety employees when measured over the previous three-year period; or
 3. Four hundred ninety dollars, whichever is greater.

Objective and Scope. The objective of this audit was to perform the second five-year (January 1, 2000, through December 31, 2004) review of the operation of the Police and Fire Retiree Medical Trust Program as required by AMC 3.87. Specifically, we reviewed the operation of the Program to determine whether it was being operated in compliance with AMC 3.87, including the accuracy of monthly trust contributions and participant transactions. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of February through March 2005. The audit was requested by the Assembly.

Overall Evaluation. The Police and Fire Retiree Medical Trust Program was being operated in compliance with AMC 3.87. Trust contributions had been properly adjusted annually for the MCPI. However, Employee Relations Records and Benefits Section personnel had not ensured that medical premiums were accurately paid for participants enrolled in the Municipal health insurance plans.

According to the Plan Administrator, as of December 31, 2004, there were 225 participants in the Police and Fire Retiree Medical Program with another 193 active members that will be eligible for the program upon retirement.

Starting in 2004, program participants became eligible to enroll in the Municipality's flexible insurance plans. This allowed the participants to pick from a variety of active insurance plans ranging in cost from \$780.33 to \$1,022.21 a month.

During the last five years, the Municipality contributed a total of \$7.5 million to the prefunding program as required by AMC 3.88.020.C. The 2004 contribution was \$1.8 million. During 2004, program participants received into their HRA accounts a monthly trust contribution of \$534.19, \$582.48 or \$633.96, as appropriate. These monthly contributions were adjusted each year for the MCPI, as required. Additionally, on May 27, 2004, the Board of Trustees adopted Resolution 2004-1 stating, "Effective July 1, 2004, through December 31, 2004, the Trust will allocate up to \$200.00 per month to the premium account of those individuals that are paying out of pocket for their health insurance premiums." As a result, 76 participants received a total of \$73,100.11 during 2004.

FINDING AND RECOMMENDATION

1. Required Insurance Premiums not Reconciled with Payments.

- a. Finding.** The Records and Benefits Section staff in the Employee Relations Department have not adequately tracked payments from the Police and Fire Retiree Medical Trust for the health insurance premiums for participants who were enrolled

in the Municipal health insurance plans. A reconciliation of premiums and payments during 2004 revealed that a net of approximately \$21,700 may be owed to the Municipality for the applicable insurance premiums. The exact amount was difficult to compute due to incomplete documentation in the insurance enrollment files. This amount included both overpayments and underpayments and involved 51 percent of the participants. According to AMC 3.87.050, members who elect to participate in the active Municipal police and fire health insurance plan are required to pay the active insurance premium amount from the member's HRA account. If the amount credited to the member's premium account is not sufficient to pay the full required active insurance premium, the member will be required to contribute the balance of the required active insurance premium to the active Municipal police or fire health insurance plan by assignment or other instrument from the member's retirement benefit from the police and fire retirement system. It is the responsibility of the Records and Benefits Section staff to ensure that the proper payment amount is billed and payment is received from the Medical Trust and the police and fire retirement system, as appropriate.

- b. **Recommendation.** Records and Benefits Section staff should ensure that all required health insurance premiums are collected monthly from Police and Fire Retiree Medical Trust participants who have enrolled in the Municipal health insurance program. In addition, enrollment forms and other documentation supporting the health insurance election should be maintained for each participant enrolled in the Municipal health insurance programs. Periodically, a reconciliation should be performed to determine if all required premiums have been paid for each participant.
- c. **Management Comments.** Management stated, "Employee Relations Records and Benefits Division agree with the recommendation of Internal Audit. A working group of the various divisions who are involved in providing information and

premium for the Police and Fire Retiree health plan will meet regularly to establish better reporting methodology. The Benefits Accountant will perform periodic reconciliation of the money received from the Medical Trust, Police and Fire Retirement and the retirees to assure that it balances.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on April 12, 2005.

Audit Staff:
Ellen Luellen