

FY10 Budget - Benefits

The Benefits section of the budget applies to Municipal Government, School Department, and Light Department (RMLD) active and retired employees. In the case of RMLD and the water, sewer and storm water enterprise funds, each entity pays the full actuarially determined cost (if available) or an estimated cost for these benefits. All other employees and retirees are covered by the General Fund.

Many employee benefits are a matter of state or federal law. In some cases, they reflect decisions made by the Town over 50 years ago. Total benefit costs in FY10 are expected to be \$11,126,082 – a 2.7% increase versus the budget in FY09. This cost reflects a combination of payments made on behalf of retired, current and future employees.

	FY10	Change
Retirement	\$2,805,032	+2.7%
Worker Comp.	246,050	-5.0%
Unemployment	\$55,000	+10.0%
Health & Life	\$7,400,000	+2.0%
Medicare	\$565,000	+15.0%
Indemnification	\$55,000	+10.0%
TOTAL	\$11,126,082	+2.7%

Retirement & Pension (\$2.8 million; +2.7%): The pension assessment for the FY10 budget is \$2,716,532, an increase of 2.4% from last year. The Town invests in the Pension Reserves Investment Trust ("PRIT") Fund, a pooled investment fund

established to invest the assets of the Massachusetts State Teachers' and Employees' Retirement Systems, and the assets of county, authority, district, and municipal retirement systems.

The Town is on a long-term funding schedule designed to meet all past, current and projected future pension costs, according to actuarial studies conducted every two years. The impact of the recent global financial turmoil on this funding schedule will be known within the next year. Because of conservative accounting practices the impact should be muted. It is however possible that there may be a need for larger than 2.5% annual pension funding increases in the future.

Since the Town does not pay volunteers (including elected officials and Boards, Committees, and Commissions), there are no Town pension issues as have been making headlines in other communities.

Non-contributory pension costs decreased to \$73,500 for FY10. This is a small pool of retired Town employees that the Town 'self-insured' over twenty years ago. No further retirees or active employees are eligible to join this pool.

The Town pays the annual fee (OBRA) for seasonal and part-time workers that use 457 plans instead of Social Security.

Workers Compensation (\$246k; -5.0%): The Town is obligated by law to provide workers compensation for job related injuries. We do so through an insurance policy currently

FY10 Budget - Benefits

provided by the Massachusetts Interlocal Insurance Association (MIIA), a group of municipalities and other government entities in the Commonwealth that have pooled together for various insurance coverage. The budget for FY10 is down 5%, reflecting a flat premium renewal cost coupled with lower expected other payments. This coverage does not include Police or Fire, which is discussed below in Indemnification.

Unemployment Compensation (\$55k; +10%): The Town is obligated by law to provide unemployment compensation. Reading provides coverage on a “reimbursement” basis, rather than insurance. The obligation varies with turnover, and the ease of re-employment. We have increased funding by 10% in FY 10 to \$55,000 because of the challenging job market.

Health and Life Insurance (\$7.4 million; +2.0%); The town is obligated to offer health insurance, and currently offers a Blue Cross/Blue Shield HMO and PPO product as well as a Medex-II product for retirees, all through MIIA. The rates for MIIA communities across the Commonwealth for FY10 ranged from a +2.0% to +9.0% for FY10. The Town’s renewal rate came in at +2.1% - reflecting a combination of employee health education; participation in wellness programs; sharing of health care costs between employee and employer in the form of increased co-payments over the past few years; and some good luck.

The health & life insurance budgets show two line items: the first for professional/technical services (\$15,000) consists of an

Employee Assistance Program (EAP) as well as a small budget for outside consulting services. Previously the EAP was considered part of the overall premium. The second line item shows the premiums.

Benefits are negotiated by the Public Employee Committee – a group of all municipal government, school and light department union representatives plus a retiree representative – and Town administration. A long and successful history of negotiations has led to proactive and collaborative decisions, including frequent changes in plan design to mitigate annual premium increases, which reflect back as a direct savings both for employees and for the Town. This past year, the Town hired an independent consultant to study the State’s Group Insurance Commission (GIC) as an option. The study concluded that the option would not be a savings for the Town at present. This was due to a combination of factors: HMO coverage under the GIC was very low in the Reading area, and many (if not all) current HMO subscribers would shift to a more expensive PPO coverage; current Reading plan design was actually more employer-friendly in areas such as copayments.

Medicare/Social Security (\$565k; +15%): Employees hired after April 1, 1986 require an employer match payment. Recently we changed seasonal and part-time employees from coverage under this section to use self-directed 457 plans instead. This change is consistent with virtually every other municipality in the Commonwealth. The 15% increase reflects the fact that new employees are covered by Medicare, but

FY10 Budget - Benefits

former employees they may have replaced were not. At some point, when all current employees are covered by Medicare, the annual budget costs will simply rise or fall with payroll costs (absent any changes in required employer contributions).

Police/Fire Indemnification (\$55k; +10%): Under M.G.L. Chapter 41, Section 111F, the Town is required to cover injuries sustained by Police and Fire employees in the line of duty. For this category, the Town is self-insured. Because of this, annual costs are expected to vary more than if insurance were purchased. However, the actual costs cannot be known when the budgets are established. Insurance for Section 111F is available but does not cover all the expenses involved.

(Note: Due to increased capabilities of our new accounting system, many enterprise funds will be billed directly for benefit costs, as opposed to reimbursing the Town. The appearance of some budget details will change, but the bottom line costs to the general fund will not be impacted by any of these changes).