



Town of Thompson

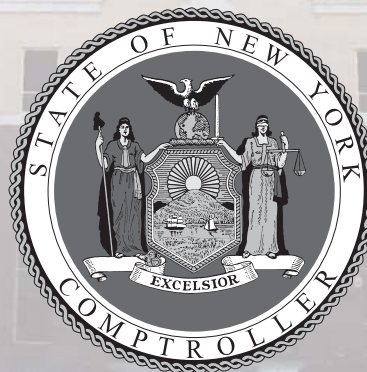
Health Insurance Buyout Incentive

Report of Examination

Period Covered:

January 1, 2007 — June 6, 2008

2008M-148



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2008

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of Town of Thompson, entitled Health Insurance Buyout Incentive. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Town of Thompson (Town) is located in Sullivan County and has a population of 14,800¹ residents. The Town provides various services to its residents including general government support services, street maintenance and improvements, snow removal, water and sewer, recreation, and animal control services. Town operations are financed by real property taxes, water and sewer user charges, other user fees, sales tax, and State aid.

An elected five member Town Board (Board), which consists of the Town Supervisor (Supervisor) and four council members, is the legislative body responsible for overseeing the Town's operations and finances. The Supervisor is both chief executive officer and chief fiscal officer of the Town and is responsible for the Town's daily operations, including reporting to the Board. The Town Comptroller is responsible for monitoring the receipts and expenditures of the Town and carries out the fiscal policies of the Board.

An important responsibility of Town officials is to take advantage of opportunities to help reduce costs. Health insurance premiums are one of the fastest-rising local government expenditures. The increasing cost of providing health insurance coverage to employees contributes substantially to the financial challenges confronting local officials. Town officials provided health insurance coverage to all full-time employees and paid 100 percent of the costs. The cost for providing this benefit has increased yearly from \$627,592 in 2003 to \$978,181 in 2007. It is expected that the Town will pay approximately \$1.16 million for health insurance costs in 2008. At the time of our review, there were 93 employees and former employees receiving health insurance coverage from the Town, for which Town officials paid monthly premiums varying from \$592 to \$1,259 depending on the type of coverage.

Objective

The objective of our audit was to determine if Town officials adequately controlled health insurance costs. Our audit addressed the following related question:

- Did Town officials take the necessary steps to control rising health insurance costs by implementing a cost-savings health insurance buyout incentive program?

Scope and Methodology

We examined health insurance costs incurred by the Town for the period January 1, 2007, to June 6, 2008.

¹ 2006 estimate, U.S. Census Bureau

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of District
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

Health Insurance Buyout Incentive

Many local governments offer their employees an annual payment in lieu of health insurance coverage, or a “buyout” incentive, to reduce health insurance costs. Employees who would be eligible to receive such a buyout would be those who acquire health insurance through another source, such as their spouse. This type of incentive is advantageous to both the Town and its employees because the Town realizes savings by paying an employee an amount less than the cost of health insurance premiums and, at the same time, the employee increases their income. This incentive is voluntary on the part of the employee and does not involve any additional costs to the Town.

In 1998, our review of Town operations identified that the Town could save money by offering its employees a health insurance buyout incentive. However, we found that Town officials did not implement our recommendation in 1998 and still do not offer their employees a health insurance buyout incentive. As a result, Town officials have lost the opportunity to save taxpayer dollars.

We surveyed officials of seven surrounding local governments² and found that all were offering a health insurance buyout incentive to their employees. Three offered a health insurance buyout incentive amount of either 23 or 50 percent of the local governments’ costs to provide health insurance to the individual. One municipality offered a fixed annual incentive of \$650 for individual plans and \$1,300 for family plans. The remaining three local governments offered a fixed annual incentive ranging from \$1,000 to \$2,750.

We also surveyed 59 active Town of Thompson employees who were receiving health insurance benefits to determine how many would be interested in participating in a health insurance buyout incentive, if the Town was to offer such an incentive. Of the 46 who responded to the survey, five expressed that they would be interested in participating in a buyout incentive program if it was offered to them. Town officials paid \$56,700 in health insurance premiums in 2007 for these five employees and we project they will spend approximately \$59,500 in 2008³ to provide health insurance coverage to these same employees. If Town officials offered a health insurance buyout incentive program and these five employees had participated, we calculated that by using a buyout incentive of

² Sullivan County; the towns of Bethel, Fallsburg, Forestburgh, Liberty, and Mamakating; and the Village of Monticello

³ We based this projection on actual total employee health care costs to the Town through June 30, 2008.

\$1,600⁴ for each employee, the Town could have saved \$48,700 in 2007 and \$51,500 in 2008 for a total of \$100,200.

Town officials told us that they have considered implementing a health insurance buyout incentive but have not done so because they believed that a buyout incentive would not be applicable to enough employees to make a significant difference in cost. However, as shown by our calculations, the buyout incentive could present a viable cost savings to the Town. When we reviewed our calculations with the Town Comptroller, she concluded that more people are interested in the buyout incentive now than were when the Town initially considered offering a buyout. The failure to implement a health insurance buyout incentive may have resulted in significant health insurance costs to the Town that could have otherwise been avoided.

Recommendation

1. Town officials should work together with officials of the employee collective bargaining units to implement an employee health insurance buyout incentive program to help control rising health care costs.

⁴ We calculated the \$1,600 buyout payment by averaging the surrounding local governments' health insurance buyout incentive amounts of \$650, \$1,000, \$1,300, \$1,500, \$2,500, and \$2,750.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following page.



TOWN OF THOMPSON

COUNTY OF SULLIVAN

ANTHONY P. CELLINI, Supervisor

4052 Route 42
Monticello, New York 12701-3221

(845) 794-2500
Fax (845) 794-8600

September 22, 2008

[REDACTED]
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Re: Exit audit of New York State Health Insurance Costs

Dear [REDACTED]:

The Town of Thompson would like to say Thank you for time spent on a most informative audit of the Health Insurance Costs in the Town of Thompson.

We agree with the auditors findings of a cost savings to the Town if we had afforded a buy out to our employees for health insurance before this time. The audit gave us at least five individuals who would possible be interested in the buy out if we offered it. We will once again make an informal offer to ALL of our employees.

The Town is planning for the 2009 budget and is putting together a Health Insurance buy out package for our employees to be included in that budget.

Sincerely,

Anthony P. Cellini, Supervisor
Town of Thompson



APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We reviewed the Town's health insurance program for the period January 1, 2007, through June 6, 2008, to determine if offering a health insurance buyout incentive to employees would reduce the Town's cost of providing health insurance to its employees. To accomplish the objective of this audit and to obtain valid audit evidence, our procedures included the following steps:

- We interviewed Town officials and employees to learn how health insurance coverage is provided to Town employees.
- We reviewed the Town's pertinent local laws and employee collective bargaining agreements to determine the feasibility of providing a health insurance buyout incentive.
- We collected and reviewed relevant financial data and health insurance invoices to determine the total annual cost of providing health insurance benefits to Town employees and the number of employees who received health insurance coverage during the audit period.
- We surveyed 59 employees who were receiving health insurance benefits and interviewed several of these employees to determine how many would be interested in participating in a health insurance buyout incentive program.
- We reviewed health insurance invoices for five employees who expressed interest in participating in a health insurance buyout incentive program to determine the Town's costs associated with each employee and to calculate possible cost savings.
- We surveyed officials of seven surrounding local governments that offered a health insurance buyout incentive program to their employees to ascertain incentive amounts offered. We then determined potential cost savings based on computing an average of these fixed annual buyout amounts.

We conducted this audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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