

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

99-360

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

AGENDA:

AUGUST 16, 1999

SYNOPSIS -

Approve the renewal rates for retired employee health, prescription and dental coverage for the plan year commencing October 1, 1999 and ending June 30, 2000.

SUBJECT:

RETIRE
EMPLOYEES'
HEALTH
INSURANCE
RENEWAL

FISCAL IMPACT -

None. All fees and costs to be borne by plan participants.

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

RECOMMENDATION -

Approval.

SUBMITTED BY:

WILLIAM STOWE
HUMAN
RESOURCES
DIRECTOR

BACKGROUND -

The City permits employees, who have retired from City service, to purchase health, prescription and dental insurance through City sponsored plans. Current state law requires the City to offer retired employees, under age 65, to purchase the same insurance plan available had they remained active as an employee. The State of Iowa Insurance Commission has also provided an interpretation indicating the rates charged to retired employees are to be the same as the cost for active employees. There is nothing in the current state law that forbids a city from offering other options to retired employees.

Over the course of the last year, representatives of the Federation of Retired City Employees (FORCE-1), City staff, and Council have met to discuss ways to mitigate against the large cost increases and continuing general escalation of this insurance coverage. With the assistance of Duane Litogot from Principal Financial Group and the flexibility and hard work of the FORCE-1 insurance committee chaired by Phil Chiamonte, a more flexible program has been developed.

Key points of the new program include:

- Three health care options: current traditional (Union), SPM plans, and a new, higher deductible comprehensive plan.
- Two prescription plans (current plan plus a new plan based on generic drug dispensing and mail order for maintenance drugs).
- Two dental plans (current plan plus an identical plan that excludes orthodontia coverage).
- Retirees may select from any of the health, prescription, or dental plans.
- Retirees may select no coverage for prescription and/or dental coverage and remain a plan member.
- Retirees may opt for single coverage if they have a spouse with other coverage and then, in the event the spouse's coverage is lost, enroll their spouse.
- The plan year is adjusted to match the union plan year. This will permit better coordination of pricing. Currently staff is studying a move of the SPM employee plan year to also coincide with the fiscal year.

Based on these changes and the good experience in 1998-1999 in the Traditional Plan (Union), retired employee coverage with the same benefits as last year **decreased** from \$667/mo for family coverage to \$615/mo and from \$312/mo for single coverage to \$306/mo. The primary reason this decrease occurred is the ratio of active employees to retired employees in this plan. The most recent enrollment data indicates we have 759 active employees and 426 retired employees in this plan.

The SPM Plan did not have a favorable experience. The cost for the same benefits as last year **increased** from \$564/mo for family coverage to \$840/mo. Similarly, single coverage increased from \$263/mo to \$417/mo. This is explained by the current enrollment figures. This plan has only 103 active employees and 443 retired employees.

Retired employees have higher claims, mostly in the area of prescription drugs. As an illustration, 44 percent of all insurance claims for our retired employees is represented by prescription charges versus 14 percent for active employees. Furthermore, 74 percent of the \$2.6 million of prescription drug charges incurred in the year ended June 30, 1999, were incurred by retired employees. Principal projects increases in prescription costs of more than 20 percent over the next year due to inflation and increased utilization. These concerns were

the impetus to develop the optional prescription plan for retirees with several cost containment features.

The options presented to retirees as a result of the work by FORCE-1 will permit retired employees to maintain coverage appropriate for their situation at a flexible cost. However, this will also require more explanation during the open enrollment period. To provide further assistance, staff has scheduled six meetings, including evening sessions, to provide guidance on the enrollment process. A brief description and costs of the benefits are attached to the Roll Call.