Meeting Agendas/Info

CITY COUNCIL COMMUNICATION:

01-359

AGENDA:

JULY 9, 2001

SUBJECT:

2002 RATES FOR ACTIVE AND RETIRED EMPLOYEES' HEALTH INSURANCE RENEWAL

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

TOM TURNER
HUMAN RESOURCES DIRECTOR

ITEM ____

OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA

SYNOPSIS -

Approval of the renewal rates for active and retired employee health, prescription, and dental coverage for the plan year commencing July 1, 2001 and ending June 30, 2002 for active employees and August 1, 2001 through June 30, 2002 for retired employees.

FISCAL IMPACT -

Total anticipated costs are $19,261,236. Retired employees will contribute $5,115,984 in premiums, and active employees will account for $14,145,252 in costs. The current budget anticipates $3,914,402 in contributions from retired employees and a cost of $12,556,331 for active employees. The net result is an increase of $1,588,921 over previous budget projections. Nearly ¼ of City employees are funded from enterprise activities that will pay for the cost of these benefits. The balance, or ¾ of the excess over budget projections ($1,191,690), results in an increase in the Trust and Agency levy of approximately $0.24 per $1,000 assessed value.

RECOMMENDATION -

Approval.

BACKGROUND -

As part of the collective bargaining process in 2000, the City agreed to provide the current plan of health, prescription, and dental benefits to substantially all employees. This change increased the number of plan participants by nearly 1,000 active employees providing a bigger risk pool.

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 that the rates charged to retired employees under age 65 are to be the same as the cost for active employees. For example, if our retired employees under age 65 paid the full cost of their expected claims, the charge would be nearly $1,100 per month for family coverage. The required form of calculating their payment results in an actual rate for family coverage of $718 per month. This difference, caused by pooling their claims with active employees, results in a subsidy of $550,000 per year to their projected cost.

In 2000-2001, the plan did not have a good claims year. Total costs were $18,384,257 versus expected costs of $15,780,205. This is an overrun of $2,604,052 or 16.75 percent. Large claims (those in excess of $50,000) increased from a total of just $350,000 in the previous year to nearly $3,000,000 in the last plan year. Additionally, the use of prescription drugs and their procurement costs have increased dramatically. These two factors are the impetus for the significant rate increase required this year. The cost of the medical claims were $11,199,900 versus expected $10,006,069 ($1,193,831 or 12 percent over projected). Dental claims were $1,181,157 versus expected $1,160,488 ($20,669 or 2 percent over projected). Prescription costs were $4,987,332 versus expected $3,628,358 ($1,358,974 or 37 percent over projected). Aggregate and specific stop loss insurance was $30,578 higher than expected due to a tight reinsurance market. This is a total cost in excess of projections of $2,573,474 in claims and $30,578 in administration for a total overrun of $2,604,052. Retirees' claims and expenses exceeded contributions by $1,989,085 or 60 percent of expected claims. Active employees exceeded expected claims and expenses by $584,389 or 4.6 percent. If active employees were rated alone, their cost would be approximately $670 per month for family coverage. This compares to nearly $600 per month for active employees selecting HMO and dental coverage.

Staff and members of FORCE-1 have met on several occasions to discuss means in which to reduce the economic impact of these costs. FORCE-1 does not support any further plan changes or additional options. The key emphasis will be to reduce the rate of increase in our prescription costs by urging the use of mail order procurement for maintenance drugs. This has the potential of reducing the costs to the plan for prescription drugs by as much as 10 percent based upon the current type and number of prescriptions purchased under the plan.

The result is the attached charge for the various medical options available to our retired employees. The lowest increase is in the

	traditional plan for employees under age 65 at 16 percent and the highest is in Comp Plan 2 for retired employees over age 65 at 60 percent. The employees over age 65 are seeing the dramatic effect of higher prescription drug charges and utilization coupled with the lack of Medicare coverage for prescriptions. Attachment