



**CITY COUNCIL
COMMUNICATION:**

ITEM _____

02-381

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

AGENDA:

JULY 22, 2002

SYNOPSIS -

Recommendation: (1) reduce reserve charges to retired employees and implement a multi-year plan to remedy deficits in the benefit funds; (2) change the timetable for health insurance budget estimations; and (3) conduct an annual audit and review of health insurance performance and funding.

SUBJECT:

RECOMMENDATION
TO REDUCE
RETIRED
EMPLOYEES
RESERVE
ASSESSMENT

FISCAL IMPACT -

Transfers up to \$3,500,000 from the General Fund, identifies the use of anticipated receipts for Airport PILOT charges, and decreases planned health insurance reserves by \$2,200,000.

TYPE:

RECOMMENDATION -

RESOLUTION
ORDINANCE
RECEIVE/FILE

Approval.

BACKGROUND -

SUBMITTED BY:

ERIC A. ANDERSON
CITY MANAGER

On June 17, 2002, the City Council approved new rates for retired employees for the current fiscal year (FY). Part of the monthly premium approved included a charge to fund a health insurance reserve fund required under Chapter 509A of the Iowa Code. This included both run out and claims fluctuation reserves. Since this action, City staff has continued to investigate various alternatives to reduce the impact on our retired employees, enterprise-funded operations, and tax-funded operations.

The City's health plan has been hit hard by a combination of factors. In the last three years (FY2001, FY2002 and FY2003), medical rates have increased greatly by approximately 15 percent per year. This is significantly greater than what we had experienced prior to FY2001. Additionally, our plan members have had a dramatic increase in large claims. The attached chart demonstrates an increase of over

\$2,000,000 in large claims in the last two years. At this point in time, we have to assume this is the "normal" condition as we project future costs.

It has been the City's practice that the cost and rate projection be predicated largely on the previous year's cost. This methodology works well if claims remain stable (no large increase in large claims) and if rates increase at a more moderate rate. It does not work well in our current environment of increasing usage and rates.

To address this issue, the current rate structure for active and retired employees is based on fully trended total costs provided by Principal. The very early budget projections for FY2004 also continue to assume large claims in the \$3,000,000 range and overall trend of 15 percent.

The following actions are recommended for FY2003:

1. Transfer up to \$3,500,000 from General Fund-Fund Balance to fund group health insurance.
2. Budget the receipt of \$2,000,000 of Airport PILOT fees to fund group health insurance.
3. Reduce 48 General Fund positions by January 1, 2003, in addition to the ten positions previously identified as part of the adopted budget to fund group health insurance.
4. Reduce the health reserve assessment from \$4,700,000 to \$2,500,000 and adjust the associated premium charge accordingly.
5. Rely upon a portion of the remaining General Fund-Fund Balance to serve as the run out claims reserve.

After these steps are taken in FY2003, our preliminary projections indicate a need for a Trust and Agency Fund tax increase related to health insurance benefits of approximately \$0.74 in FY2004. This will cover the anticipated increase in health insurance costs in FY2004.

Recommended Rates

The recommended rates for the health care plan are provided in the following chart. If the Council approves these recommendations, the rates will be implemented effective August 1, 2002. Retired employees that reduced or dropped coverage will be given a two-week special open enrollment period to revise their elections.

**RETIREE HEALTH INSURANCE
PROPOSED RATES
EFFECTIVE AUGUST 1, 2002**

UNDER 65 MONTHLY RATE		
Explanation of Charges	SINGLE	FAMILY
Medical	\$ 247.65	\$ 495.31
Prescription	\$ 103.55	\$ 207.10
Dental	\$ 31.67	\$ 58.64
TPA Admin	\$ 35.25	\$ 35.25
509A Reserve Assessment	\$ 47.40	\$ 94.81
2% City Admin Fee	\$ 8.36	\$ 15.93
TOTAL MONTHLY PREMIUM	\$ 473.88	\$ 907.04
OVER 65 (Medicare Eligible) MONTHLY RATE		
Explanation of Charges	SINGLE	FAMILY
Medical	\$ 111.43	\$ 222.85
Prescription	\$ 186.61	\$ 373.23
Dental	\$ 31.67	\$ 58.64
TPA Admin	\$ 24.45	\$ 24.45
509A Reserve Assessment	\$ 36.46	\$ 72.92
2% City Admin Fee	\$ 7.08	\$ 13.58
TOTAL MONTHLY PREMIUM	\$ 397.70	\$ 765.67
COMBINED (One with Medicare/One Without) MONTHLY RATE		
Explanation of Charges		Family
Medical		\$ 359.08
Prescription		\$ 290.16
Dental		\$ 63.34
TPA Admin		\$ 35.25
509A Reserve Assessment		\$ 83.86
2% City Admin Fee		\$ 14.96
		FAMILY
TOTAL MONTHLY PREMIUM		\$ 846.65

The reduction in the reserve charge to retired employees is:

<u>Coverage Type</u>	<u>Previous Charge</u>	<u>Recommended Charge</u>
Family	\$175.20/mo.	\$94.81/mo.

Under 65		
Single Under 65	\$ 87.60/mo.	\$47.40/mo.
Family Over 65	\$134.75/mo.	\$72.92/mo.
Single Over 65	\$ 67.38/mo.	\$36.46/mo.
Over/Under 65	\$154.98/mo.	\$83.86/mo.

Response to Council Questions from June 17, 2002 Meeting

1. Could retired employees participate in the various insurance plans offered by the State of Iowa for their employees?

The State of Iowa Acting Insurance Administrator in the Department of Personnel was contacted by telephone in mid-June and a letter was sent to determine whether the State would permit City retired employees to participate in their insurance program. The State has indicated they would anticipate a response to this request on or about Friday, July 19, 2002.

2. Could the reserve charge for retired employees be spread over two years rather than assessed in a single year?

The question required an examination of the Iowa Attorney General's opinion issued earlier this year. Bruce Bergman has provided a legal opinion (attached) that indicates if the retired employees under age 65 are charged less this year than the full reserves charged to active employees, they cannot be charged to make up that difference in a subsequent year. That opinion is based on the requirement to charge retired employees under age 65 not more than 2 percent over the active employee rate. There is no such limitation on retired employees over age 65.

3. Would a change in the plan year assist in providing better predictions of future fiscal year costs?

Staff has reviewed this and has talked to Principal representatives

regarding the impact of a change in the plan year from the current July 1 through June 30 to other possibilities such as a March or April date. Staff is of the opinion the same benefits can be achieved by providing a budget estimate in December rather than August or September for preparation of the Operating Budget. Claim projections will be based on two years of history plus projections used by Principal for rate forecasting. The time range of the projection will be reduced to about 18 months from the current 22 months.

4. Can a different prescription plan be presented for retired employees?

Staff indicated in the Council Communication presented on June 17, 2002 regarding retired employees health insurance rates, of the willingness to work with Force 1 to develop an alternate prescription plan to replace the current plan for over age 65 employees. Staff has talked to Force 1 of this possibility. No activity has occurred to date, however. There have been some recent changes on the Force 1 insurance committee and new leadership is being appointed. Staff stands ready to discuss options.

Other Questions

One Council member has asked about the authority for the assessment for the reserve fund. The reserves are required by State Code. The City is required to fund the reserves. The reserve fee is being charged to all departments and enterprise funds to recover the fee. The charge is applied to all that participate in the insurance plan. If this were a fully insured plan, an insurance company would calculate and charge a premium to pay claims and to fund reserves. The City, in this case, is operating as the insurance company.

In regard to issues of a complete review, evaluation, and analysis of the management of the health plan by an independent expert in the field of insurance, Holmes Murphy has conducted an analysis of the plan, its benefits and relative costs. This study should be reviewed as part of a further analysis of the benefit plan. This review should be undertaken in time to have information and results by December 2002.

The HMO option available for members of the police and fire bargaining unit is a fully insured plan. Coventry has been approached about offering this coverage to retired employees. They will not do so on an insured basis. City staff has asked Coventry to permit employees who are HMO plan participants at the time of their retirement to be able to continue in the HMO plan. Coventry has agreed to this, provided the number of retirees under age 65 does not

exceed 10 percent of the entire insured pool.

The Police Burial Association request for information was handled in the same manner as any other group without regard to their employment status. Materials were presented prior to their requested date and made available in the City Clerk's Office. A representative of the Police Burial Association reviewed the materials and requested copies of the material they desired. They were charged the same rate under the City's policy as any citizen would be charged.

Attachments
