

**LRB-FISCAL REVIEW SECTION ANALYSIS**

**FINANCE AND PERSONNEL COMMITTEE**

**ITEM 8, FILE # 020469**

**JULY 11, 2002**

**MARK A. RAMION**

File # 020469 is a resolution authorizing the Department of Employee Relations to establish a rate structure for all management employees that will allow the City of Milwaukee to close the gap between the low-cost HMO and the City of Milwaukee's Basic Health Plan by 50%.

**Background**

1. In the 2002 Proposed Budget, a monthly rate increase of \$181.72 (from \$60) for single coverage and \$320.73 (from \$120) for family coverage was put forward for management employees choosing the Basic Health Plan. This increase was the difference of the monthly estimated cost of Basic Plan coverage (**\$442.76 individual** and **\$1,058.01 family**) from the low-cost HMO, the monthly premium of the low-cost HMO paid in full by the city.
2. The Basic Plan premium rates eventually authorized by the Common Council for active management employees for 2002 were \$100, a \$40 increase from \$60 for individual coverage and \$190, a \$70 increase from \$120 for family coverage.
3. It is the understanding of the Department of Employee Relations that the Finance and Personnel Committee, during the 2002 budget hearings, instructed the Employee Benefits Manager to propose any premium rate changes for the Basic Plan outside of the budget process and in advance of the 2003 budget deliberations.

**Discussion**

1. This resolution proposes that the Department of Employee Relations be authorized to establish a premium rate structure for all management employees for 2003 that will close the gap between the low-cost HMO and the city's Basic Plan by 50%.
2. The following is an iteration of the 2002 monthly premium rates in effect for active employees enrolled in the Basic Plan:

**Monthly rates for Active Employees (Basic Plan):**

<b>City Group</b>	<b>Single</b>	<b>Family</b>
Management	\$100	\$190
DC #48/Others	\$50	\$100
Fire and Police	\$25	\$50

3. General, non-represented city employees share the same rates for the Basic Plan as DC #48.
4. The Department of Employee Relations maintains that it was the intent of some members of the Common Council, expressed during the 2002 budget deliberations, that the gap between the Basic Plan premium and the low-cost HMO for active management employees be closed over a three-year period with 2002 being Year 1. However, this “intent” was neither expressed nor approved by action of the Common Council.
5. The 2002 budget closed the gap between the active management enrollees’ Basic Plan premiums and the low-cost HMO by **33%** for individual coverage and by **35%** for family coverage.
6. As of July 1, 2002, there are approximately **156** active management employees in the Basic Plan with **50** having individual coverage and **106** having family coverage.
7. Active management employees represent approximately **9%** of total active enrollees (1,576) in the Basic Plan. General city management employees constitute **10%** of those enrolled in all city-sponsored health insurance plans.
8. Approximately 5,353 active city employees, management, represented and general city unrepresented, are enrolled in HMO plans.
9. The city’s projected share/monthly rate for the Basic Plan is usually determined in July of each year. This rate is determined by an actuarial study of projected costs and usage by members in the Basic Plan.

### **Fiscal Impact**

1. The fiscal impact of this resolution is predicated upon the number of active management employees who will choose Basic Plan coverage for 2003. This number will be determined during the open enrollment period in October of 2002. Pending Common Council budget action, management employees are customarily permitted to defer selection of a health care plan until the next year’s premium rates have been determined.
2. The fiscal impact of this resolution will also be determined by the cost of HMO coverage for 2003. The low-cost HMO and its ensuing monthly premium rate for 2003 have not yet been selected. Additionally, the low-cost HMO for individual and for family coverage may be from different companies. These payors and their rates are usually determined by contract in July.

3. An illustrative example of the fiscal impact of this resolution can be based upon the current 2002 gap between the Basic Plan premium and the low-cost HMO:
  - A 50% increase in **individual** Basic Plan coverage would raise the monthly premium from \$100 to \$140 based upon an \$82 gap.
  - A 50% increase in **family** Basic Plan coverage would raise the monthly premium from \$190 to \$255 based upon a \$130 gap.
4. Based upon the illustrative example cited with the current enrollment, the fiscal impact would be approximately \$102,000, that is, a collective annual increase for management employees choosing and paying a portion of Basic Plan premium rates.
5. All HMO contracts with the city are due to expire at the end of 2002. Council File # 011515 authorized the Department of Employee Relations to hire consultants to assist in preparing requests for proposals for HMO and other expiring benefit contracts for 2003.

#### **Further Information**

1. It is the intent of the Department of Employee Relations to use a new Basic Plan premium rate structure for active city management employees as a baseline for bargaining with city represented employees for similar health coverage premiums as contracts come due for negotiation.
2. In addition, this resolution authorizes DER to communicate that the rate structure for the Basic Plan for management employees in 2004 will close the gap with the monthly premium of the low-cost HMO completely.
3. If this resolution is adopted, Basic Health Plan revenue will increase by approximately \$100,000, depending upon the actual number of general city management employees who enroll in the Basic Plan.

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