

LRB-Research & Analysis Section

Finance & Personnel Committee
File: 110300

July 20, 2011
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Title: Substitute resolution authorizing the Department of Employee Relations to change the plan design of the City's health insurance benefits program, and to set health insurance premium contribution rates for City employees and retirees.

Introduction

This resolution authorizes the Department of Employee Relations (DER) to:

- 1) Change the City's health insurance benefits plan design for employees and retirees. Highlights are provided below:
 - A. Self-insured EPO – Replaces insured HMO:
 - 1) \$500/deductible
 - 2) 10% employee/retiree co-pay
 - 3) \$1,000 max. out-of-pocket (\$2,000 per family)
 - 4) \$150/ Emergency Room visit after deductible
 - 5) Prescriptions - \$5/\$25/\$50
 - 6) No coverage out-of-network
 - B. Self-insured Basic Plan
 - 1) \$750/deductible
 - 2) 10% employee/retiree co-pay
 - 3) \$1,500 max. out-of-pocket (\$3,000 per family)
 - 4) \$150/ Emergency Room visit after deductible
 - 5) Prescriptions – 20% employee/retiree co-pay
 - 6) 30% employee/retiree co-pay out-of-network
- 2) Require all active general City employees, excluding Police and Fire except civilian employees of these departments, to pay 12% of their total 2012 health premium cost.
- 3) Stipulate general City employees, including civilian employees of the Police and Fire departments, retiring after December 31, 2011, will make the same health insurance premium contribution as active general City employees.

These plan design changes will affect approximately 4,300 retirees plus 6,000 active employees including Police and Fire personnel.

Plan Design Change Process

The following ad hoc committee was convened to consider health insurance benefit plan design changes:

Mike Brady	DER – Benefits
Maria Monteagudo	DER
Troy Hamblin	DER – Labor Relations
Mark Nicolini	Budget Office
Dennis Yaccarino	Budget Office
Renee Joos	Budget Office

The Mayor’s Office provided regular input to this committee.

This committee asked UnitedHealthcare, the City’s current insured HMO provider, to calculate the potential savings for the City as a percentage of 2011 HMO costs for 24 plan design alternatives if the City continued to offer its insured HMO plan. A list of these alternative plan designs, and a summary of changes and the associated cost savings is attached to this analysis.

The general range of alternatives reviewed was as follows:

	<u>From:</u>	<u>To:</u>
Deductibles		
Individual	\$ 350	\$1,000
Family	\$ 700	\$2,000
Participant Co-pays	0%	20%
Out-of-Pocket Caps		
Individual	\$ 500	\$3,000
Family	\$1,000	\$6,000
Potential Savings	7.4%	22.22%

Based on the 2011 insured HMO rates for the 2011 plan design and current enrollment, HMO premium costs would total \$120,880,322, so for each percentage point of potential savings resulting in plan design

changes, the City might expect to save \$1,208,803 – a savings of 7.4% could potentially save the City \$8,945,144 while a 22.22% savings would mean a \$26,859,608 savings. These savings are from plan design changes alone, and do not include City savings from health insurance premium contributions made by active employees and retirees.

UnitedHealthcare estimated the plan design recommended by DER would have saved the City 15.6%, or \$18,857,327 using the above formula, if the City had chosen to continue to offer its insured HMO.

It is unknown what process the ad hoc committee used in arriving at the plan design recommended.

Premium Contributions – Employees & Retirees

The ad hoc committee recommends that non-safety employees be required to pay 12% of their health insurance premiums even though, in the opinion of the City Attorney, state law limiting to 88% the amount public entities can contribute to employee health insurance premium benefits, do not apply to the City.

The State maintains this limitation was designed to allow local public entities to recoup state aid cuts – \$10 million cut from shared revenue plus cuts in street repair and recycling funding to total approximately \$14 million in cuts for the City – although the logical link between general aid cuts and employee benefits is not clear.

DER is projecting the City will save \$4 million by charging employees 12% for their health insurance premium. This falls short of the \$14 million in state aid cuts in part because only 3,774 of the City's 6,040 active employees are required to make contributions. The City's 2,266 Police and Fire, non-civilian personnel are exempted by union contract.

Projected Savings – Recommended Plan Design

DER projects the following savings:

Projected Savings	
Plan Design Changes	\$15,000,000
Switch to Self-insured HMO	\$ 6,000,000
Employee Contribution to Premiums	\$ 4,000,000
Total	\$25,000,000

These projected savings exceed the \$14 million cut in state aid by 79% or \$11,000,000. DER indicates its goal was never to simply cut costs. DER believes the total package of changes – the plan design changes, the switch to a self-insured HMO-style program and premium contributions – create a “sustainable” and “logical” healthcare benefit package that will stabilize the City’s healthcare benefit costs in the future.

DER suggests this additional \$11,000,000 in savings might somehow help address the need for pension contributions in the future. It is unknown whether is savings would be reserved for future pension contributions or any other purpose, used to fund other City programs or ratchet down overall City spending in 2012.

List of Plan Design Alternatives, Summary of Changes & Associated Potential Savings Provided by UnitedHealthcare as Requested by the Ad Hoc Committee Reviewing Health Insurance Plan Design Options:

	Deductible		Co-Pay	Out-of-Pocket		Potential
	Individual	Family		Individual	Family	Savings
Alt. 1	\$ 500	\$ 1,000	0.00%	\$ 500	\$ 1,000	7.40%
Alt. 2	\$ 500	\$ 1,000	10.00%	\$ 2,000	\$ 4,000	12.06%
Alt. 3	\$ 500	\$ 1,000	20.00%	\$ 3,000	\$ 6,000	15.86%
Alt. 4	\$ 500	\$ 1,000	0.00%	\$ 500	\$ 1,000	10.04%
Alt. 5	\$ 625	\$ 1,250	0.00%	\$ 625	\$ 1,250	9.37%
Alt. 6	\$ 625	\$ 1,250	0.00%	\$ 625	\$ 1,250	10.04%
Alt. 7	\$ 650	\$ 1,300	0.00%	\$ 650	\$ 1,300	9.66%
Alt. 8	\$ 675	\$ 1,350	0.00%	\$ 675	\$ 1,350	9.94%
Alt. 9	\$ 350	\$ 700	10.00%	\$ 2,000	\$ 4,000	10.33%
Alt. 10	\$ 500	\$ 1,000	10.00%	\$ 2,000	\$ 4,000	13.19%
Alt. 11	\$ 1,000	\$ 2,000	10.00%	\$ 2,000	\$ 4,000	16.57%
Alt. 12	\$ -	\$ -	0.00%	\$ -	\$ -	1.89%
Alt. 13	\$ 500	\$ 1,000	0.00%	\$ 500	\$ 1,000	9.80%
Alt. 14	\$ 500	\$ 1,000	10.00%	\$ 1,000	\$ 2,000	13.08%
Alt. 15	\$ 500	\$ 1,000	10.00%	\$ 2,000	\$ 4,000	14.45%
Alt. 16	\$ 500	\$ 1,000	10.00%	\$ 3,000	\$ 6,000	14.98%
Alt. 17	\$ 500	\$ 1,000	20.00%	\$ 1,000	\$ 2,000	14.03%
Alt. 18	\$ 500	\$ 1,000	20.00%	\$ 2,000	\$ 4,000	17.04%
Alt. 19	\$ 500	\$ 1,000	20.00%	\$ 3,000	\$ 6,000	18.26%
Alt. 20	\$ 1,000	\$ 2,000	0.00%	\$ 1,000	\$ 2,000	15.31%
Alt. 21	\$ 1,000	\$ 2,000	10.00%	\$ 2,000	\$ 4,000	18.96%
Alt. 22	\$ 1,000	\$ 2,000	10.00%	\$ 3,000	\$ 6,000	19.20%
Alt. 23	\$ 1,000	\$ 2,000	20.00%	\$ 2,000	\$ 4,000	20.54%
Alt. 24	\$ 1,000	\$ 2,000	20.00%	\$ 3,000	\$ 6,000	22.22%