

Audit of Employee Health and Pension Benefits

Office of the City Auditor
April 2011



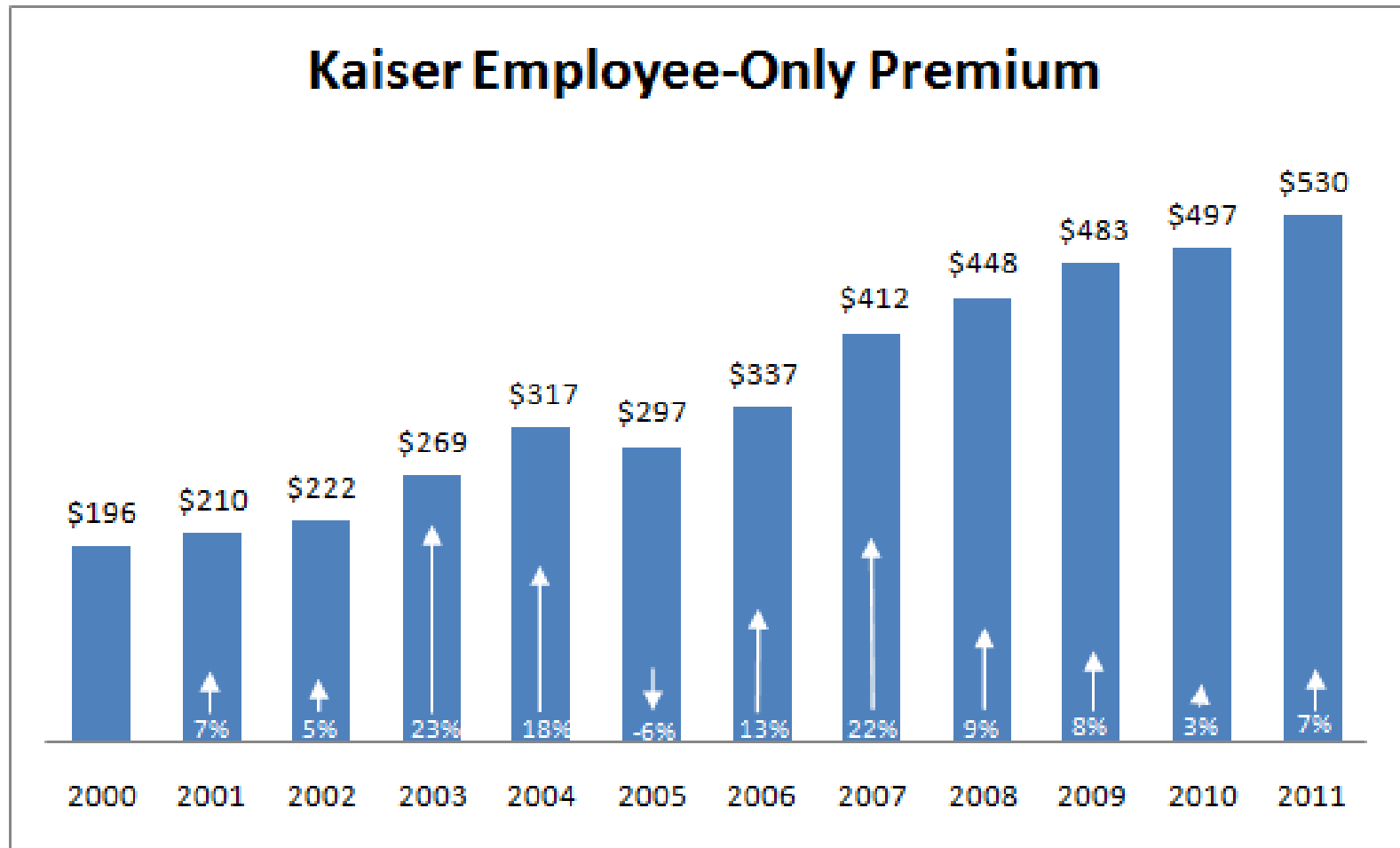
Background

- Audit completed under the City Auditor's 2010-11 Audit Plan
- Health and pension benefits cost about \$100 million per year and expenses are slated to increase
- Most costs covered by the City

Benefit Category	City Annual Costs (millions)	Employee Annual Costs (millions)	Total Annual Costs (millions)
Employee Health Premiums	\$30.3	\$3.7	\$34.0
Pension Contributions	\$61.4	\$4.8	\$66.2
Total	\$91.7	\$8.5	\$100.2

Source: Generated from eCaps reports, information provided by Finance Staff, and Auditors' analysis

Background: Health premiums have increased



Source: Generated from information provided by Human Resources Staff

Audit Objective, Scope, and Methodology

Audit mostly focused on 2009 and 2010

- We evaluated Human Resources'
 - Administration of health and pension benefits
- We examined
 - The share of benefit costs
 - Trends in retiree-health costs
 - Other governments' cost containment and best practices
- We compared Sacramento's health and pension benefits to area governments

Finding 1: The administration of health benefits has strengthened, but areas of concern remain

- The City overpaid providers in the past, and still lacks a reconciliation methodology
- Past letters of understanding (LOUs) lacked a formal approval process and transparency
- Controls need to be improved to ensure benefit related information is entered correctly in the system and communicated clearly to employees

Examples of overpayments with estimated City costs:

Why Coverage Should Have Ended	Type Covered	Excessive Months Of Coverage	Estimated City Cost
Transferred to Spouse's Coverage	e+2+	56	\$ 56,000
Transferred to Health Net	e	64	\$ 25,600
Left City Employment	e+1	30	\$ 24,000
Member Died	e+2+	19	\$ 19,000
Employee Did Not Show Up To Work	e	26	\$ 10,400

Source: Generated from information provided by Kaiser and Auditors' analysis

Finding 1: The administration of health benefits has strengthened, but areas of concern remain

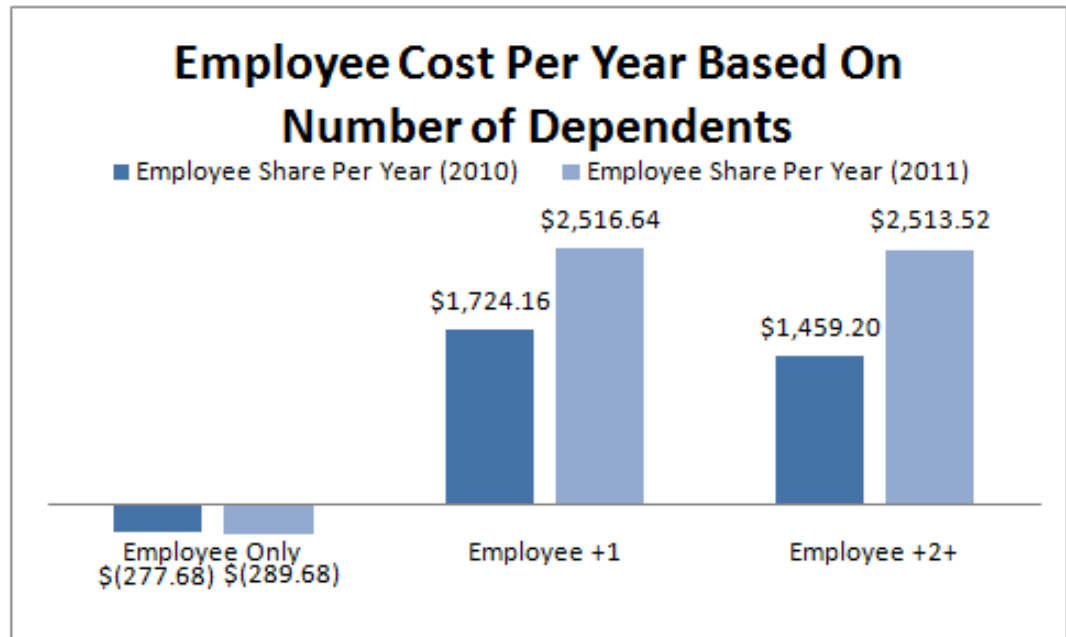
- Recommendation Summary:
 - Seek to recover overpayments
 - Develop a reconciliation system
 - Continue efforts to formalize and post all active labor agreements
 - Establish a controls to review accuracy of benefits information
 - Develop a method to clearly show employees how much they pay for benefits
 - Formalize the out of area plan
- Department Response:
 - The Department generally agrees with these recommendations

Finding 2: The City's current methods for determining premium amounts and shares need improvement

- The amount City employees pay towards health premiums varies significantly based on the number of dependents
- City employees' contributions are similar to what other area government employees pay, but differences exist
- Changing how the City determines cost sharing could yield savings

Employee costs for those enrolled in the least expensive plan varies based on the number of dependents covered

- Many employees with employee-only coverage do not contribute to the premiums
- Employees with one dependent pay more than employees with two or more dependents



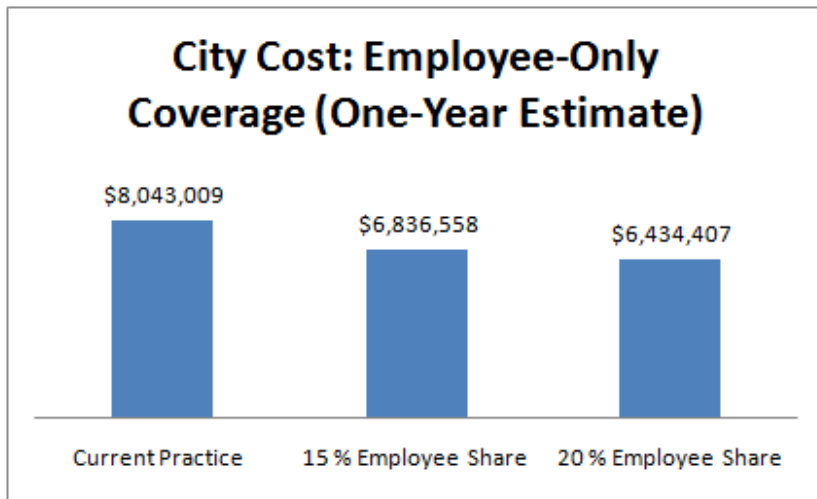
Source: Generated from rate sheets and Auditors' analysis

Employee cost of least-expensive Kaiser HMO Plans: Comparing Sacramento to six other governments

Area Governments	Employee Only			Employee+1			Employee +2+		
	Premium Cost	Employee Share		Premium Cost	Employee Share		Premium Cost	Employee Share	
City of Sacramento	\$529.86	(\$24.14)	-5%	\$1,059.72	\$209.72	20%	\$1,409.46	\$209.46	15%
Elk Grove	\$524.51	(\$125.49)	-24%	\$1,049.02	(\$132.98)	-13%	\$1,363.73	(\$192.27)	-14%
CalPERS State Employees	\$522.58	\$12.58	2%	\$1,045.16	\$59.16	6%	\$1,358.71	\$75.71	6%
Sacramento County	\$561.54	\$112.30	20%	\$1,436.00	\$287.20	20%	\$1,436.00	\$287.20	20%
San Francisco	\$481.70	\$0	0%	\$962.34	\$9	1%	\$1,361.28	\$228.74	17%
San Jose	\$496.04	\$74.40	15%	\$1,235.16	\$185.28	15%	\$1,235.16	\$185.28	15%
West Sacramento	\$466.12	(\$243.88)	-52%	\$932.24	\$222.24	24%	\$1,281.84	\$571.84	45%
Average		(\$28.35)			\$104.96			\$192.75	

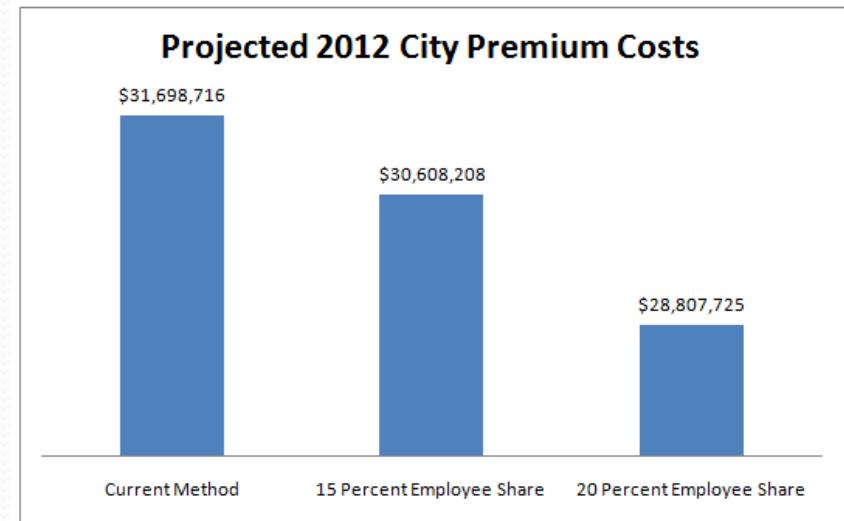
Premium share changes could reduce City expenses next year

Changing the share of employee-only coverage



Source: Based on eCaps information and Auditors' analysis

Standardizing the share of premiums



Source: Based on eCaps information and Auditors' analysis

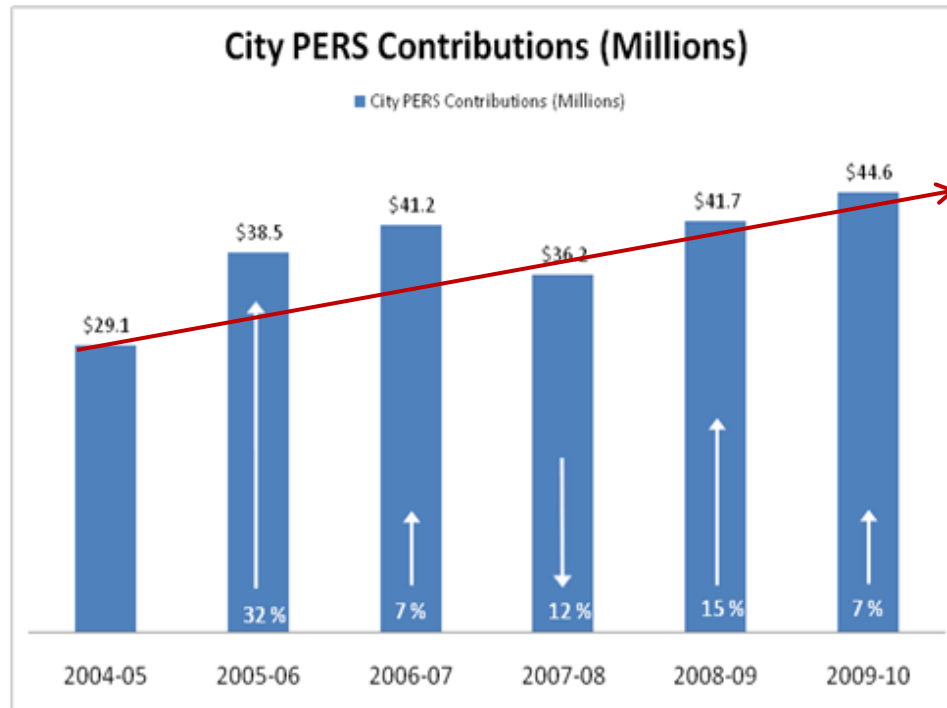
Finding 2: The City's current methods for determining premium amounts and shares need improvement

- Recommendation Summary:
 - Consider employee equity when negotiating the City's contributions to health benefits
 - Establish a process to obtain and review trends in area governments' contributions towards health premiums
 - Negotiate terms that require increasing employees' contributions to their benefits
- Department Response:
 - The Department generally agrees with these recommendations

Finding 3: Moderate changes could help rein in rising pension costs

- City contribution rates have increased as City revenues declined
- Changing the share of who pays could save the City millions each year
- Most employees who work in nearby governments contribute a greater share to pensions

City shares have increased



Source: Generated from Finance's comprehensive annual financial reports

Greater shares are projected

Classification	2009-10	2010-11	2011-12	2012-13 ^A	2013-14 ^A
Miscellaneous	11.222%	11.727%	12.659%	13.10%	14.60%
Safety	22.584%	23.187%	27.530%	29.30%	33.60%

Source: CalPERS' actuarial reports

A. CalPERS' projections

The City's Pension Contributions Vary

Employer Contribution	Designated Employee Contribution	City Paid Employee Contribution	Actual Employee Contribution	Total City Contribution
11.222%	7%	3%	4%	14.222%
11.222%	7%	5%	2%	16.222%
11.222%	7%	7%	0%	18.222%
22.584%	9%	9%	0%	31.584%

Sample Employee Earning \$60,000

Miscellaneous Worker

Safety Worker

Government Employer	Employee Share (Misc.)	Employee Pays Per Month
<i>Sacramento (Misc, No Share)</i>	0%	\$0
<i>Sacramento (Misc, 4% Share)</i>	4%	\$194.67
Elk Grove	0%	\$0
Sacramento County Administrative	4.87%	\$226.51
San Francisco	7.50%	\$375.00
San Jose	4.54%	\$227.00
State Of California	8%	\$358.96
West Sacramento	1%	\$50.00

Source: Generated from respective governments' pension and labor agreement information and Auditors' analysis

	Percent of Salary (Safety)	Employee Pays Per Month
Sacramento	0%	\$0
Elk Grove	0%	\$0
Sacramento County Safety	5.46%	\$253.95
San Francisco	7.50%	\$375.00
San Jose	9.81%	\$490.50
State of California	9 %	\$421.47
West Sacramento	0%	\$0

Source: Generated from respective governments' pension and labor agreement information and Auditors' analysis

Potential City Savings

City Savings if all contributed these percents

Employee Contribution	One-Year City Savings	Five-Year City Savings	10-Year City Savings
2%	\$1,164,806	\$6,215,099	\$13,507,966
3%	\$4,304,727	\$22,968,884	\$49,920,833
4%	\$7,444,648	\$39,722,669	\$86,333,701
5%	\$10,584,568	\$56,476,454	\$122,746,568

Source: Generated from CalPERS' actuarial reports and Auditors' analysis

Finding 3: Moderate changes could help rein in rising pension costs

- Recommendation Summary:
 - Negotiate a change in contributions to require that all employees pay some share of the employee contribution
 - Consider the employee contributions required by nearby government employees when negotiating pension share.
- Department Response:
 - The Department generally agrees with these recommendations

Finding 4: City payments towards retiree-health costs are growing and the way the City pays for these benefits could result in overpayments

- Annual retiree health contributions are projected to nearly double in the next eight years
- The City does not have a system in place to ensure it pays correct amounts towards retiree health benefits

Retiree health projections

- Annual City contributions are expected to increase from \$11.6 million in Fiscal Year 2010-11 to \$20.8 million in Fiscal Year 2018-19

Retiree health payments depend on employee position and years of service

Most Retirees	Percent	Retiree	Retiree+1	Fire Retirees ^A	Percent	Retiree
20+ Years	100%	\$300.00	\$365.00	20+ Years	100%	\$634.34
15-20 Years	75%	\$225.00	\$273.75	15-20 Years	75%	\$475.75
10-15 Years	50%	\$150.00	\$182.50	10-15 Years	50%	\$317.17
Under 10 Yrs	0%	\$0	\$0	Under 10 Yrs	0%	\$0

Source: Generated from information provided by Human Resources

A. Unlike Misc. retirees, Fire Retirees do not receive an additional City contribution towards dependent coverage.

Human Resources relies on providers for correct bill amounts

- Human Resources is switching to self billing for retiree health in May
- Similar problems that were discovered with the switch to self billing in July 2009 could be found

Finding 4: City payments towards retiree-health costs are growing and the way the City pays for these benefits could result in overpayments

- Recommendation Summary:
 - Work towards negotiating a change to the City's contribution for Fire retirees' benefits to bring them more in line with contributions made toward other City retirees.
 - Continue work to implement self billing for retiree health benefits
- Department Response:
 - The Department generally agrees with these recommendations

Finding 5: Rising benefit costs require the City to evaluate cost containment options like those that other governments employ and best practices recommend

- Changes to the type of benefits offered and share of who covers costs could reduce City spending
- Best practices in benefit cost containment focus on creating plans and evaluating performance

Cost containment options

Types of benefits offered

- Health plan designs
- High deductible plans
- Wellness program
- Alternative retiree-health plan
- Changing pension benefits for new employees

Create plans and track performance

- Strategic health care plan

Finding 5: Rising benefit costs require the City to evaluate cost containment options like those that other governments employ and best practices recommend

- Recommendation Summary:
 - Annually review health plans for possible cost savings
 - Consider changes to the retiree health benefits program
 - Consider changes to pension formulas and final compensation calculations for new employees
 - Create and manage a strategic health-care plan
- Department Response:
 - The Department generally agrees with these recommendations