



January 12, 2005

City Council  
Sacramento, California

Honorable Members in Session:

**SUBJECT: MEDICAL INSURANCE WORKSHOP**

**LOCATION AND COUNCIL DISTRICT:** Citywide

**RECOMMENDATION:**

This report is for information only.

**CONTACT PERSON:** Terrence L. Woods, Director of Human Resources, 808-7243

**FOR COUNCIL MEETING OF:** January 18, 2005 (Afternoon Session)

**SUMMARY:**

This workshop is designed to provide the City Council information regarding the City employee and retiree medical insurance program. The workshop focuses on key aspects of a national health care crisis and challenges facing the City in the future. The discussion will cover background information, comparative data, legislative issues, current practices, and plan alternatives. The workshop also provides the City Council an opportunity to engage staff and the City's benefits insurance consultant in discussions regarding the City's medical insurance program.

**COMMITTEE/COMMISSION ACTION:** None

**BACKGROUND INFORMATION:**

In this country, employers are facing a healthcare crisis that is of national magnitude. The crisis presents itself in a variety of ways, but none is more critical than the cost of medical insurance premiums. In 2005, the City of Sacramento and its eligible insurance subscribers will pay a total annual insurance premium of almost \$10,000 for family coverage. Conservative projections predict a continuation of the double digit cost increases with the potential for a 200% increase in medical insurance premiums by 2013. Working with the



City's health insurance consultant, staff developed an educational presentation for the City Council that addresses several of the major topics arising from the healthcare crisis. A copy of the presentation material is provided at Attachment 1 to this report.

The topics covered in this workshop will surely surface as negotiation issues in bargaining during 2005. The workshop provides an open forum for exploring the issues as they impact the City of Sacramento and participants in its medical benefit program. During the workshop, the presenter(s) will examine issues surrounding current practices, plan alternatives, current trends and legislative impacts. The presentation also includes data that compares the City with some other Northern California employers. Ultimately, the workshop provides information on ways to keep medical insurance benefits affordable. The workshop is informational only; there is no action requested of the City Council.

#### **FINANCIAL CONSIDERATIONS:**

None. This report and the workshop are for the City Council's information only.

#### **ENVIRONMENTAL CONSIDERATIONS:**

This report covers personnel issues. There are no proposals or projects that would potentially effect the environment as stated in related provisions of the California Environmental Quality Act.

#### **POLICY CONSIDERATIONS**

This report and the information to be presented in the workshop promote the City Council's intent as stated in our Strategic Plan. Specifically, the guiding principals include a commitment to attract, retain, and develop a highly qualified and diverse workforce.

#### **ESBD CONSIDERATIONS**

None applicable

Respectfully Submitted,



TERRENCE L. WOODS  
Director of Human Resources

FOR INFORMATION ONLY:



ROBERT P. THOMAS  
City Manager

Attachment

TABLE OF CONTENTS (Page numbers refer to handwritten page numbers)

- 1) City Health Benefits Workshop Presentation, Pg 3 through Pg 29

---

# City of Sacramento City Council Meeting

*January 18, 2005*

*City of Sacramento: City Council Meeting  
January 18, 2005*

*Driver Alliant Insurance Services  
License #OC36861*

3

# Outline

---

- ◆ Background
- ◆ Benchmarks
- ◆ Legislation
- ◆ Retirees
- ◆ Practices
- ◆ Alternatives
- ◆ Forecast
- ◆ Next Steps

# Background

---

- ◆ **Who Is Eligible for Health Insurance?**
  - Employees and Retirees and their dependents
- ◆ **Eligibility For Out-of-area Plan**
  - Must reside in neither HMO service area
  - Dependents living outside the HMO service area

# Background

---

- ◆ **Enrollment Demographics**
  - Of those enrolled
    - » 61% are employees
    - » 39% are retirees
  - Many eligible employees waive coverage
    - » 27% of actives
    - » 28% of retirees
  - There are just 3 actives for every 2 retirees



# Background

---

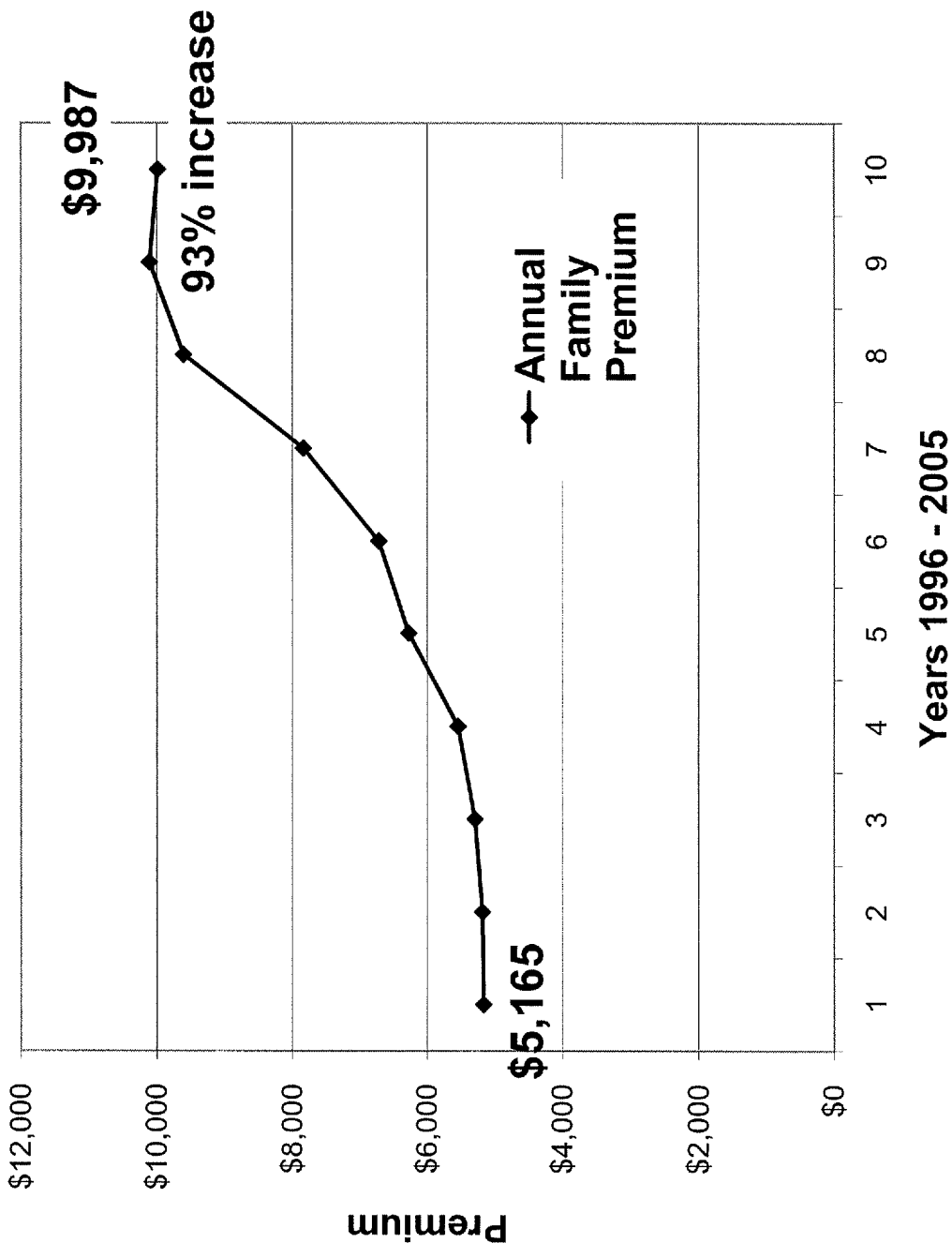
## ◆ Average Age

- Waivers (no insurance) – 42.7 Years Old
- Actives - 44 Years Old
- Retirees – 67 Years Old

# Background: Premium Rate Change 1996 - 2005

---

6





## **Background: Annual Premium Data**

- ◆ **Per Family**
  - 1996----\$5,165
  - 2005----\$9,987
  - 93% Cost Increase
- ◆ **Total Premiums**
  - 2004: \$27.5M: City's paid \$19.5M and the insured \$8M.
  - By 2013: conservative projection: premium cost could reach \$68.6M

# Background

---

- ◆ **City Contribution (Actives)**
  - Bargained with each unit
  - If employees waive City coverage, they receive cash in lieu of benefits
  - Cash back amounts do not pay for health insurance

# Background

---

## ◆ Cost of Cash Back for Waivers

Annual Amount of Cash Back	#	Amount
Employees Waving Health Insurance	1,058	\$5,399,367
Employees with Single Coverage	<u>521</u>	<u>\$1,800,000</u>
<b>Total</b>	<b>1,579</b>	<b>\$7,199,367</b>

Source: April 2003 City of Sacramento Records

# Background

---

- ◆ **Joint Labor-Management (JLM) Process**
  - Annual plan review and discussion with REOs about benefits
- ◆ **Collective Bargaining: Meyers-Milius-Brown**
  - 12 Bargaining units + 2 Un-represented units
  - 10 Memorandums of Understanding (MOU's)
- ◆ **City Ultimately Responsible for Benefit Plan Design and Vendor Selection**

# Background: Recent Benefit Changes

---

11

- ◆ **January 2001**
  - Healthnet Rx changed to \$5/\$10/\$35 from \$7
  - OOA Fee expanded to all employee/retirees
- ◆ **January 2002**
  - Kaiser office visit co-pay increased to \$10
  - Kaiser Rx changed to \$5/\$10 from \$5
- ◆ **January 2005**
  - Employee choose \$15 or \$25 OV co-pay
  - Rx Changed to \$10/\$20/\$50
  - E.R. co-pay changed to \$50 from \$35

# Benchmark: Sacramento's Market Position

---

12

## ◆ Highest Fringe Pay for Any Bargaining Unit

Oakland	\$922.00
Stockton	\$895.00
Santa Ana	\$871.42
Sacramento County	\$831.78
Anaheim	\$801.93
<b>City of Sacramento</b>	<b>\$790.00</b>
Roseville	\$784.00
State of California	\$768.00
Long Beach	\$690.00
Fresno	\$541.50
San Francisco	\$479.49

# Benchmark: Cash Back Comparison

---

13

## ◆ Amounts of Cash Back for Various Jurisdictions

City of Sacramento	\$500/\$435*
State of California	\$155.00
Santa Ana	\$153.00
Sacramento County	\$150.00
Oakland	\$145.00
Anaheim	\$125.00
Stockton	\$0.00
Roseville	\$0.00
Long Beach	\$0.00
Fresno	\$0.00
San Francisco	\$0.00

# Legislation

---

- ◆ **Medicare Part D**
  - Effective in 2006
  - Subsidy of Medicare-eligible retiree prescription drug costs
  - Will pay up to \$611 per retiree
  - Regulations under review



# Legislation

---

## ◆ GASB 45

- Requires disclosure of unfunded future City cost of retiree health insurance
- Would create large balance sheet liability
- Sunset provision in MOU may limit the City's liability
- Preliminary actuarial estimates (June 2003) of this future liability exceed \$100,000,000

# Retirees

---

- ◆ **What Is Offered to Retirees Under 65?**
  - Treated the same as active employees
  - Rates heavily subsidized by active employees
- ◆ **What Is Provided to Retirees Over 65?**
  - Enriched benefit level as supplement to Medicare
  - City provides more than Medicare
- ◆ **All retirees may choose PPO coverage if they live outside the HMO service area**

# Retirees

---

- ◆ **City Contribution**
  - Included in bargaining process
  - Retirees who waive coverage get no cash back

Retirees	2003	2004
Fire	\$323.56	\$363.48
All Others	\$225.00	\$225.00

# Retirees

---

- ◆ **Under-Age-65 Retirees Are Subsidized**
  - By active employees: older retirees have same rate as younger actives
  - By all HMO enrollees: if they have out-of-area coverage

# Retirees

---

- ◆ **The Cost of Out-of-Area Coverage**
  - Enrollment
    - » 146 retirees
    - » 15 employees
    - » 161 total employees and retirees
  - Cost
    - » Annual cost of out-of-area plan is about \$858,000 (Health Net, Nov. 2004)

# Retirees

---

- ◆ **Some Over-65 Retirees Do Not Have Medicare**
  - Result of pre-1986 statutes
  - Very costly to City health plans
- ◆ **Investigating Method of Providing Medicare to these retirees**
  - Buy-in
  - Cost

# Practices

---

- ◆ **Employees**
  - May Waive City Coverage
    - » Anyone who can prove they have another group plan
  - Re-entry to Plan
    - » Within 30 days of loss of other coverage
    - » At annual open enrollment
  - Results in higher rates for those who do not waive

# Practices

---

- ◆ **Retirees - Coverage Is Not Mandatory**
  - May join the plan at any time
  - No minimum length of City service required for enrollment
  - May Re-enroll in Plan
    - » Within 30 days of loss of other coverage
    - » Proof of loss of other coverage required
  - Adverse selection results in higher rates for those who do elect coverage



# **Alternatives to Consider**

---

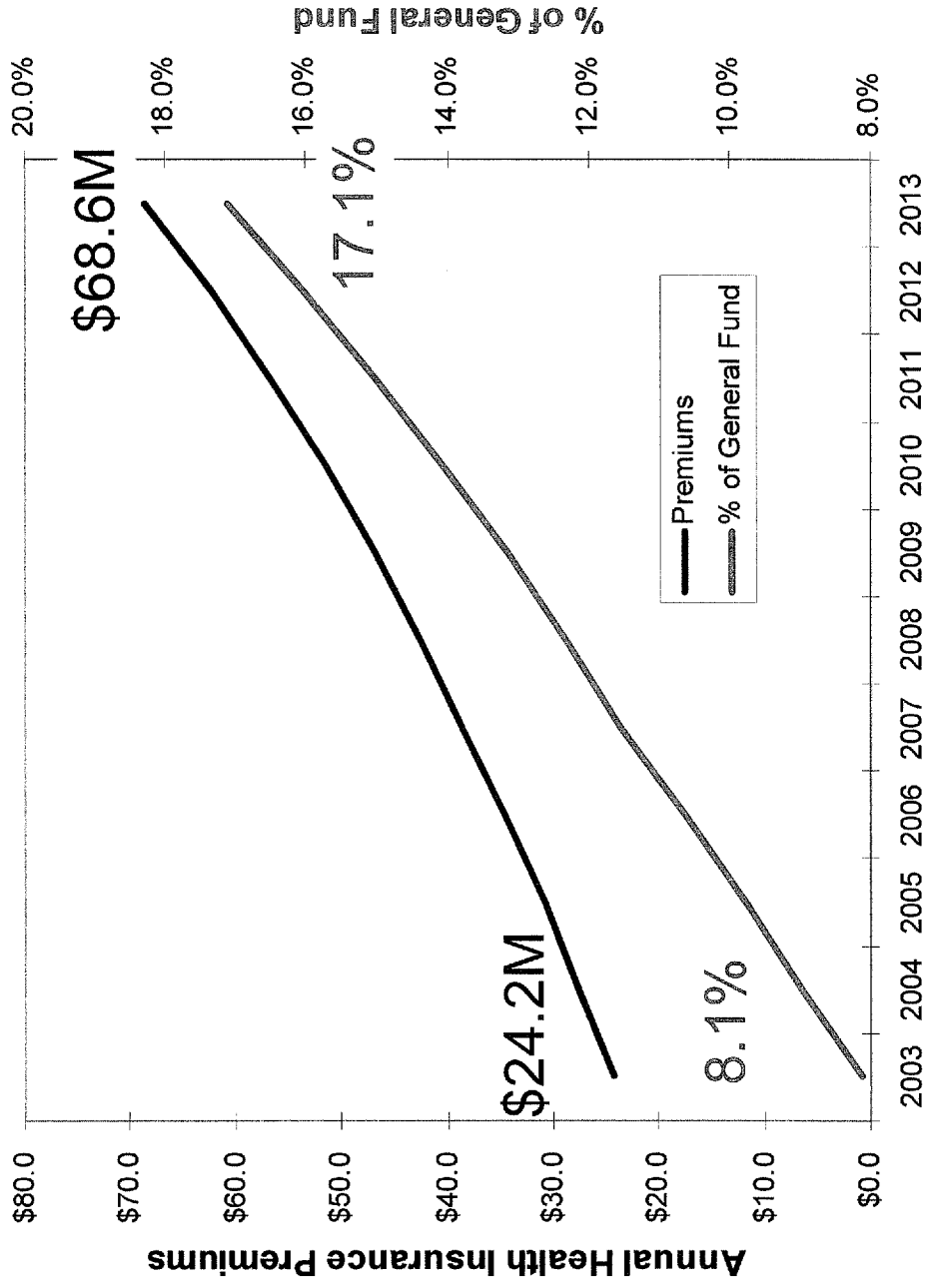
- ◆ **Re-Think Out-of-Area Plan**
- ◆ **Examine Cash Back**
- ◆ **Enroll All Employees in City-Sponsored Health Insurance**
- ◆ **Examine Medicare for Retirees Over 65**

## **Alternatives to Consider**

- ◆ **Examine a Different Plan For Retirees Under Age 65**
- ◆ **Explore Medicare for over-65 Retirees not Covered by Medicare**
- ◆ **Re-Focus Joint Labor- Management Process**
  - Past practice makes it difficult to respond to changes in market
  - JLM perceived as negotiating committee
  - Need more flexibility

# Forecast: Over Next Ten Years If Nothing Changes

25



## **Next Steps**

---

- ◆ **Continue Council Health and Welfare Discussions**
- ◆ **Involve REO's in discussions on long term plan**
- ◆ **Decide strategic direction for Healthcare Insurance Program**

## Next Steps

---

- ◆ **Recommended Goals**
  - Take steps to ensure comprehensive health insurance coverage at rates to active employees can afford
  - Develop solutions to maintain benefit levels and affordability of retiree coverage
  - Provide coverage to employees and help cover employees' dependents
  - Spend health benefit dollars on health insurance