



# OFFICE OF THE CLERK/TREASURER

## City of Burlington

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### MEMORANDUM

**TO:** Board of Finance and City Council

**FROM:** Bob Rusten, Chief Administrative Officer, Susan Leonard, Human Resource Director & Scott Schrader, ACAO for Administration

**DATE:** September 30, 2013

**RE:** Initial discussion of City of Burlington's Medical Self-Insurance

#### 1. Difference between typical insurance plan and self-insurance plan:

In a traditional health insurance plan a municipality will contract with a health insurance company to whom the City then pays premiums for health care coverage. These premium costs typically are based on whether the employee chooses a single-person, two-person or family plan. When an employee needs medical care, the approved costs for that care, aside from co-pays or other charges, is borne by the health insurance company. The premiums charged by the insurance company are partially based on the municipality's "experience rating" (claims payout) which will impact the charge for the premiums.

In a self-funded health insurance plan, such as the City of Burlington's, employees, covered former employees and the City contribute money that goes into a City Reserve Fund. From that Fund the City will pay the approved claims for medical service, aside from any co-pays or other charges paid by the recipient of the health care. If the claims paid out are less than the amount of money contributed by the City, that remaining money stays in the Fund. If more money is paid out than collected, the difference must be made up in the subsequent year so as to make the Reserve Fund whole. There is an additional reserve fund held by our Plan Administrator (currently BCBS) to cover this eventuality which must then be replenished (Cost Plus). Therefore, the City and its taxpayers bear the liability for any costs above what is received from employees and former employees.

The amount of City contribution to the Fund is based on the amount of claims paid out and all administrative costs minus whatever contribution amounts from current employees and former employees the City sets; for union members, this is a negotiated amount. If claims go up at a rate higher than the increased contribution from current and former employees, then City taxpayers must make up that difference. Also, if claims paid out exceed the amount of money contributed by current and former employees, again the taxpayers pay that difference.

#### 2. How System is Funded:

City has created a Special Reserve Fund for Medical Insurance. Five sources of revenue are placed into the Fund: City contribution (from General Fund, Special Revenue and Enterprise Funds) ; current employee contribution for medical insurance; early retiree contribution for medical insurance; Medicare-eligible

retiree contribution to City's Medcomp System; and COBRA-covered former employee contribution for medical insurance. The Enterprise and Special Revenue Funds' City contribution amount is determined using the Premium Equivalent (PE) process. PE is determined by taking the total amount of claims (for all employees not just within an Enterprise or Special Revenue Fund) estimated to be paid out in the fiscal year, divided by the total number of City employees covered under our insurance plan, with adjustments made for two-person and family coverage. In addition, an administrative charge is added to the PE's to reimburse the General Fund for GF staff who are administering the system.

### 3. How Money Is Paid Out:

Out of this Reserve Fund all approved health costs claims covered under our self-insurance policy are paid, with one exception. When the cost of a medical claim exceeds \$150,000 we have a secondary insurance plan (Stop Loss) to cover all additional costs to that claim. We also pay out of this Reserve Fund the: administrative costs for Blue Cross/Blue Shield; the cost for our Stop/Loss Insurance; and our Medcomp costs. In addition, Blue Cross/Blue Shield holds \$259,313 (Cost Plus) as a working fund to be used in the event the City is unable to pay incurred claims and/or for run-out at the end of a contract. Being self-insured, the City can decide what health conditions our plan will cover, other than what is required under State and Federal laws.

### 4. How Current City Employees Contributions are Calculated:

For current non-union employees the City Council approves a percentage rate that is applied against an employee's base wages. This percentage rate does not change whether the employee is on a single, two-person or family plan. The rate has not increased in at least the last three to four years.

For current unionized employees the yearly percentage rate is determined within the collective bargaining agreement, and the rate doesn't change whether the employee is on a single, two-person or family plan.

This percentage rate should be approved/determined prior to the start of a new fiscal year and should start on the first pay period of the new fiscal year.

The City's Personnel Manual allows coverage beyond the employee for partners in marriage, dependent children and domestic partners as defined in the Personnel Manual. If a current employee is in a domestic partnership, not a marriage, there is no additional payment from the employee to the Reserve Fund to cover that partner's approved medical claims.

There is little relationship within our current system as to the amount of money current employees contribute to the Reserve Fund and the amount of money paid out of the Fund for medical claims paid to cover approved costs for the employee or their married or domestic partners and dependent children.

The FY 2013 rate for non-union employees was 3%. The FY 2013 rates for the members of our four bargaining units were 3.5% for BPOA and BFA, 3.4% for AFSCME and 3.236% for IBEW. As an example, a non-union employee earning \$40,000 p/y will pay into the Reserve Fund \$1,200 p/y. Again, this does not change whether the employee has single, two-person or family coverage. There are additional co-pays that the employee must make, and these are paid directly to the medical provider. For current employees this percentage of wages covers health insurance, as well as dental insurance.

Currently, employees who are covered under another insurance plan (a spouse's, for example) and do not use the City's plan receive an annual payment in lieu of health insurance. Those employees are not covered by the plan and no deductions from their wages occur.

#### 5. How Retiree Contributions Are Calculated.

First we must note that under our current retirement systems employees have the ability to retire early. All class B employees are eligible for early retirement at age 55. The actuarial deduction for early retirement for Class B employee depends upon when the employee was hired. Class A employees can retire between the ages of 40 and 55 dependent upon date of hire, years of service, employment status and/or collective bargaining agreements. Prior to becoming Medicare eligible, the employee can remain on our medical insurance plan. If the retiree were to pass away prior to being Medicare eligible, his/her spouse or domestic partner can continue on our medical insurance plan for 36 months. Utilizing the formula in section 2 above, the City creates the Premium Equivalents, and the non-Medicare eligible retiree is required to pay that premium into the Reserve Fund. The FY 2013 per/month PE rates were:

Single - \$531.29

Two-Person - \$1,159.41

Family - \$1,556.89

In addition, if a person wished to have dental insurance in Fiscal 2013 they paid per month:

Single - \$28.04

Two-Person - \$51.37

Family - \$86.36

There is no direct relationship between the amount of money paid into the Fund by the retiree and the amount of money paid out of the Fund for that person's approved medical claims.

When a retired employee becomes Medicare-eligible, that employee no longer stays on our medical insurance plan. That employee can pay to our Fund a "Medicomp supplemental payment" to provide coverage that exceeds Medicare. In Fiscal 2013 the monthly charge for Medicomp was \$273.45. If the retiree's spouse or domestic partner also wants Medicomp, then for each additional person there was a monthly charge of \$273.45. There is also no relationship between the charge and the amount of claims paid out of the Reserve Fund.

#### 6. Employees who Leave City Employment and are not retired (COBRA):

Under Federal law we are required to offer for 18 months continued health insurance coverage (COBRA) for employees who leave the City employment for reasons other than retirement. Under our system these former employees pay Premium Equivalents plus a 2% administrative fee (the COBRA admin fee may not exceed 2% by law), and then the costs of the medical claims are paid out of the Reserve Fund. After 18 months the City no longer offers this COBRA coverage (36 months for spouse/dependents upon death or divorce of employee subscriber).

## 7. Legal Requirements:

There are no legal requirements that we include within our Medical Self-Insurance system:

- Domestic Partners, although we would have to negotiate any changes with our four unions
- Retirees prior to Medicare eligibility
- Medcomp supplemental Medicare coverage – Notably, this benefit is not currently included in the City's Retirement ordinance, Personnel Policy or union contracts.

## 8. **Future Financial Management**

There have been administrative issues regarding non-City funding of the Medical Self- Insurance Reserve Fund. For at least the last three to four years the base wage percentage rate for non-union employees has not increased. In FY 13 and FY 14 at least one union contract-approved increase was not made or not made at the beginning of the fiscal year. Premium Equivalents have also not been determined until after the start of the new fiscal year.

To prevent this, at a minimum, prior to the May 15th of each year the CAO office, in conjunction with Human Resources and Payroll, shall determine the base wage percentage rate for City non-unionized employees and seek Board of Finance and City Council approval so that the rate can be applied on the start of the new fiscal year. All wage rate changes for unionized employees will have been determined within the union contracts, and the City shall be prepared to apply the rate at the start of the new fiscal year. All Premium Equivalent and Medcomp rates shall also be determined, so that any rate changes shall be applied at the start of the new fiscal year.

The City should also determine if this current system, and who is covered under it, makes the best sense both for the long-term fiscal health of the City and its taxpayers as well as for current employees and current/future retirees.

## 9. Analysis of Self Insurance Reserve Fund Financials - FY 11 and 12 Actuals – FY 13 and 14 Budgeted

Total Self Insurance Expenses (health, dental, administration, etc.)

FY11	FY12	FY13	FY14
\$8,195,101	\$8,892,673	\$9,287,942	\$10,348,377

This means that over four years the total Self Insurance budget increased by:

\$2,153,276 = an approximate 26% increase

Total current employee contribution

FY11	FY12	FY13	FY14
\$800,608	\$850,000	\$883,555	\$965,251

This means that over four years the total yearly contribution for employees increased by:

\$164,643 = an approximate 21% increase

## General Fund Contribution

FY11	FY12	FY13	FY14
\$3,817,128,	\$4,132,500	\$3,992,702	\$4,471,338

This means that over four years the amount of contribution from the General Fund increased by:

\$654,210 = an approximate 17% increase

## 10. Comparison data.

### 2013 Vermont Employee Benefits Survey Data Provided by Hickok and Boardman

#### Monthly Medical Premium Rates, Self-Funded Plans

All Traditional Plans Combined	Average	Median	Highest	Lowest
Single	\$566	\$579	\$854	\$121
Two-Person	\$1,137	\$1,159	\$1,707	\$249
Family	\$1,565	\$1,570	\$2,219	\$362

#### Premium Cost Increases for Self-Funded Plans

COBRA Equivalent Rates	Average	Median	Highest	Lowest
	5.8%	6.2%	13.0%	0%

#### Employee Contributions as Percentage of Premium, Employers with 50+ Employees

All Traditional Plans Combined	Average	Median	Highest	Lowest
Single	16%	15%	40%	0%
Two-Person	26%	27%	55%	0%
Family	27%	25%	67%	0%

#### Employee Contributions Employers with 50+ Employees

All Traditional Plans Combined	Average	Median	Highest	Lowest
Single	\$92	\$94	\$259	0%
Two-Person	\$318	\$287	\$847	0%
Family	\$461	\$357	\$1,246	0%

11. Options to consider – in some cases these changes would have to be negotiated with our Unions.

- a. Change the “base” rate to total wages (including shift differentials, overtime, etc.)
- b. Have contributions based on total cost of plan, not just claims
- c. Modify benefits covered under plan
- d. Analyze whether self-insurance is the most cost effective plan
- e. Revamp basis upon which employees contribute – Premium Equivalents or modified wages based on single, two or family coverage
- f. Expand wellness programs to reduce health care needs and costs
- g. Analyze claims to assess trends so that we can then take proactive approach to prevent illness
- h. Look at all of the issues concerning offering/requiring employees yearly take a health screening and risk assessment that is only then used by the employee to identify and then address improving his/her health
- i. Have a nurse and/or other medical staff available on staff to help facilitate appropriate medical care for employees and thereby reducing claims
- j. Have increases in base wage rate approved just by CAO office or include in budget so it is automatic to new fiscal year
- k. Analyze our Stop/Loss insurance to see if there is a better approach
- l. Analyze our pharmaceutical coverage to see if there is a more cost effective plan
- m. Have employees pay additional separate rate for dental coverage
- n. Increase payment to employees if covered by other organization’s insurance
- o. End Medcomp, domestic partners and early retirement coverage
- p. Create another revenue stream for Medical Self- Insurance
- q. Analyze whether offering one time early retirement would help our claims cost
- r. Analyze new federal and state medical insurance plans to determine how these will impact our obligations and positively or negatively impact our costs
- s. Offer different benefits package for different charges; offer ancillary services as separate package
- t. Analyze how an aging workforce may produce more claims – create strategy to address
- u. Compare our benefits to package identified by the Green Mountain Care Board
- v. Meet with other large municipalities to see how they have reduced costs
- w. Set specific financial goal to reduce costs and create plan that is likely to meet goal
- x. Clarify who is in charge of \$10m department with authority and goals
- y. Discuss how our Medical Self- Insurance plan impacts retention and recruitment of staff and services provided to City
- z. Review the way part-time employees contribute towards the cost of medical insurance
- aa. Work with our four unions to draft ideas to address long-term fiscal stability of City’s medical self-insurance plan while providing appropriate medical insurance

# Budget Worksheet Report

Account Number	Description	2013 Amended Budget	2013 Actual Amount	2014 Department Requested	2014 Mayors Recommended
Fund	150	Self Insurance			
Revenue					
Department	08	Human Resources			
Division	035	Health and Dental Insurance			
Intergovernmental Revenues					
4800_100	Insurance Reimbursements Dental Insurance	\$0.00	\$0.00	\$0.00	\$0.00
4800_110	Insurance Reimbursements Health Insurance	\$0.00	\$225.69	\$0.00	\$0.00
4900_125	Participant Charges General Fund -Health (A)	\$0.00	\$0.00	\$0.00	\$0.00
4900_135	Participant Charges General Fund - Health	\$3,992,702.00	\$33,752.60	\$4,471,338.00	\$4,471,338.00
4900_140	Participant Charges Spec. Rev. & Enterprise - Health	\$3,550,243.00	\$3,806,555.17	\$4,060,379.00	\$4,060,379.00
4900_145	Participant Charges General Fund - Dental	\$296,442.00	\$172,711.10	\$298,116.00	\$298,116.00
4900_150	Participant Charges Spec. Rev. & Enterprise - Dental	\$210,000.00	\$209,029.09	\$223,293.00	\$223,293.00
Total: Intergovernmental Revenues		\$8,049,387.00	\$4,222,273.65	\$9,053,126.00	\$9,053,126.00
Charges for Services					
4935	Retiree Contributions	\$300,000.00	\$7,850.43	\$300,000.00	\$300,000.00
Total: Charges for Services		\$300,000.00	\$7,850.43	\$300,000.00	\$300,000.00
Other Revenue					
4900_165	Participant Charges Life Insurance	\$0.00	\$147,281.52	\$0.00	\$0.00
4930	Employee Contributions	\$883,555.00	\$0.00	\$965,251.00	\$965,251.00
4930_115	Employee Contributions Dental	\$0.00	\$1,057.67	\$0.00	\$0.00
4930_120	Employee Contributions Health Insurance	\$0.00	\$429,717.73	\$0.00	\$0.00
4930_125	Employee Contributions Supplemental Life Insurance	\$0.00	\$0.00	\$0.00	\$0.00
4950	Donations	\$30,000.00	\$30,000.00	\$30,000.00	\$30,000.00
Total: Other Revenue		\$913,555.00	\$608,056.92	\$995,251.00	\$995,251.00

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Account Number	Description	2013 Amended Budget	2013 Actual Amount	2014 Department Requested	2014 Mayors Recommended
Fund	150	Self Insurance			
Department	08	Human Resources			
Division	035	Health and Dental Insurance			
Miscellaneous					
4720	Carryover	\$0.00	\$0.00	\$0.00	\$0.00
Total: Miscellaneous		\$0.00	\$0.00	\$0.00	\$0.00
Division Total: Health and Dental Insurance		\$9,262,942.00	\$4,838,181.00	\$10,348,377.00	\$10,348,377.00
Department Total: Human Resources		\$9,262,942.00	\$4,838,181.00	\$10,348,377.00	\$10,348,377.00
Revenue Totals		\$9,262,942.00	\$4,838,181.00	\$10,348,377.00	\$10,348,377.00
Expenses					
Department	08	Human Resources			
Division	035	Health and Dental Insurance			
Personal Services					
5400_100	Employee Benefits FICA	\$0.00	\$110.51	\$0.00	\$0.00
5400_130	Employee Benefits Dental Insurance	\$0.00	\$23.55	\$0.00	\$0.00
5400_135	Employee Benefits Life Insurance	\$0.00	\$10.14	\$0.00	\$0.00
Total: Personal Services		\$0.00	\$144.20	\$0.00	\$0.00
General Operating					
6200	Medical Fees And Supplies	\$0.00	\$0.00	\$0.00	\$0.00
6500_104	Professional and Consultant Services Third Party Admin. - Health	\$350,000.00	\$379,204.68	\$460,000.00	\$460,000.00
6500_105	Professional and Consultant Services Third Party Admin. - Dental	\$34,360.00	\$26,229.50	\$28,225.00	\$28,225.00
6500_118	Professional and Consultant Services Contractual Services	\$0.00	\$0.00	\$0.00	\$0.00
6500_119	Professional and Consultant Services Health and Wellness	\$30,000.00	\$22,780.05	\$30,000.00	\$30,000.00



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Account Number	Description	2013 Amended Budget	2013 Actual Amount	2014 Department Requested	2014 Mayors Recommended
<b>Fund</b>	<b>150</b>	<b>Self Insurance</b>			
<b>Department</b>	<b>08</b>	<b>Human Resources</b>			
<b>Division</b>	<b>035</b>	<b>Health and Dental Insurance</b>			
6700_110	Travel & Training Travel Expense	\$500.00	\$0.00	\$500.00	\$500.00
6850	Health Insurance Buyout	\$27,500.00	\$0.00	\$27,500.00	\$27,500.00
6860	State Health Insurance Tax	\$70,000.00	\$58,270.96	\$70,000.00	\$70,000.00
6900_110	Claims and Benefits Health Insurance Claims	\$7,775,000.00	\$8,131,409.26	\$8,800,000.00	\$8,800,000.00
6900_130	Claims and Benefits Dental Claims	\$472,082.00	\$470,461.67	\$472,082.00	\$472,082.00
7230	Insurance	\$525,000.00	\$600,184.31	\$385,070.00	\$385,070.00
7303	Regulatory and Bank Fees	\$3,500.00	\$0.00	\$0.00	\$0.00
<b>Total: General Operating</b>		\$9,287,942.00	\$9,688,540.43	\$10,273,377.00	\$10,273,377.00
<b>Interfund</b>					
8015	Indirect Fees	\$0.00	\$157.00	\$0.00	\$75,000.00
<b>Total: Interfund</b>		\$0.00	\$157.00	\$0.00	\$75,000.00
<b>Division Total: Health and Dental Insurance</b>		<b>\$9,287,942.00</b>	<b>\$9,688,841.63</b>	<b>\$10,273,377.00</b>	<b>\$10,348,377.00</b>
<b>Department Total: Human Resources</b>		<b>\$9,287,942.00</b>	<b>\$9,688,841.63</b>	<b>\$10,273,377.00</b>	<b>\$10,348,377.00</b>
Revenue Totals:		\$9,262,942.00	\$4,838,181.00	\$10,348,377.00	\$10,348,377.00
Expense Totals		\$9,287,942.00	\$9,688,841.63	\$10,273,377.00	\$10,348,377.00
<b>Fund Total: Self Insurance</b>		<b>(\$25,000.00)</b>	<b>(\$4,850,660.63)</b>	<b>\$75,000.00</b>	<b>\$0.00</b>
<b>Revenue Grand Totals:</b>		<b>\$9,262,942.00</b>	<b>\$4,838,181.00</b>	<b>\$10,348,377.00</b>	<b>\$10,348,377.00</b>
<b>Expense Grand Totals:</b>		<b>\$9,287,942.00</b>	<b>\$9,688,841.63</b>	<b>\$10,273,377.00</b>	<b>\$10,348,377.00</b>
<b>Net Grand Totals:</b>		<b>(\$25,000.00)</b>	<b>(\$4,850,660.63)</b>	<b>\$75,000.00</b>	<b>\$0.00</b>