Memorandum
City of Lawrence
Human Resources Division/City Manager's Office

TO: David L. Corliss, City Manager
Diane Stoddard, Assistant City Manager
Cynthia Wagner, Assistant City Manager

FROM: Lori Carnahan, Human Resources Manager

CC: Casey Toomey, Budget Manager
Michelle Spreer, Benefits Manager

DATE: May 26, 2011

RE: City Commission May 17, 2011 Study Session Follow Up

The following is information requested at the May 17, 2011 City Commission Budget Study Session.

Retirement Eligible
KPERS covers all non-public safety full time and part time regular employees with 1000 hours per year or more. KP&F is the retirement plan for all sworn fire and police staff. There are 33 KPERS employees currently eligible to retire, 65 more will be eligible to retire in the next five years. There are 15 KP&F employees currently eligible to retire and 36 more will be eligible to retire in the next five years. This represents nearly 20% of our current workforce.

It is important to note that employees are not required to stay until they are eligible for full retirement benefits (there are early retirement components of the program) nor are they required to retire when eligible. Of the numbers listed above, three have signed paperwork to retire this year.

Healthcare Plan Deductible
33% of all 2010 plan participants met the annual deductible of $300. 61% of those participants covered under by a family plan also met the family deductible of $600. The City does not have historical data for meeting plan deductibles as we changed providers in 2010. Deductibles were not part of the regular utilization data provided by the previous claims administrator.

The Human Resources office has reviewed comprehensive plan utilization data from both Hays and CIGNA. It is regularly used in determining recommended coverage levels and plan design components.

Healthcare Plan Fund Balance

Human Recourses staff does not believe we should use fund balance to create one year savings. There is a planned spend down of at least $780,000 in the current proposals.

The current funding guideline related to fund balance from the Healthcare Committee's Ongoing Goals and Objectives is:

> *Recommended levels of 16% of projected costs will be maintained in retained earnings <u>for at least one year beyond the year for which the budget is being prepared</u>. Retained earnings fund the cost of catastrophic claims, which is defined by the claims administrator each year not to exceed 120% of projected expenses. Interest earned on retained earnings will be used to offset the budget request to fund retained earnings.*

The funding guideline was revised in 2004 for the 2005 plan year following a city commission request to smooth out the significant peaks and valleys in requests for new money into the healthcare program. The guideline was revised to:

> *Recommended levels of 25% of projected costs will be maintained in retained earnings <u>for at least one year beyond the year for which the budget is being prepared</u>. Retained earnings fund the cost of catastrophic claims, which is defined by the claims administrator as 120% of projected expenses. Interest earned on retained earnings will be used to offset the budget request to fund retained earnings.*

Prior to that request, the guideline read as follows:

> *To have a balanced plan (revenues vs. expenses) and maintain an average of 25% of projected plan expenses in retained earnings. A balanced plan would project revenues and expenses in balance for the next year. (rev. 2002)*

The first chart attached illustrates City "new money" requested by the healthcare committee from year to year beginning with 1999 to present. Prior to 2005 the requests for new money varied greatly. With the establishment of a longer period of time for which the plan projected fund balance there was less fluctuation in new money requests. In 2009, the City did not fund the recommended new money. The following are excerpts from budget memos:

> 2009 budget memo: *In Option A, the recommended City Funding is $7,129,861, which is a 12% or $763,913 increase from 2008 funding….In Option C, City funding would increase 3% or $190,978 from 2008 funding to $6,556,925 …Under normal economic conditions the HC would recommend Option A. However, given recent economic challenges, both Option B and C are viable for one year….The Healthcare Committee (HC) recommends that 2009 City funding increase at least 3% or $190,978 from 2008 to $6,556,925.*

> 2010 budget memo: *Option 1 is recommended based on current plan design and HCC approved goals. It mirrors the 2009 HCC annual recommendation. This would be the preference of the Healthcare Committee and what is needed in order to maintain stable funding for the plan. The decision not to use this option when budgeting for 2009 (i.e. funding increase of 12%) resulted in the increase becoming 15% in this year's scenario. Failure to use this option in 2010 could still result in significant plan design changes or increased funding in 2011; it will be dependent on 2009 claims utilization.*

The "New Money Requested for Healthcare Plan" chart illustrates that departure from this guideline again created the valley and spike in new money requests into the plan. The chart titled "Total Healthcare Plan Revenues and Expenses" shows that with our current objective matrix, which includes a longer term funding strategy, we have been able to provide for a gently increasing flow of funds into the plan. While this may not be sustainable for the long run, we will rely on those fund balances in future years to fund a plan that is continually increasing at a rapid rate.

The plan design changes recommended for 2012 will likely help mitigate the upward spike in requests in new money for 2013 (first chart) as well as lower the "total expenses" line in the second chart.

Hays companies indicated that in their book of business private employers have a greater ability to quickly adjust other business factors, such as simply reducing profit, raising revenues or cutting products/services. Private employers can have a shorter term funding approach to fund balance.

Public employers need to have a more conservative approach to fund balance levels. The inability to quickly grow revenues, cut back or reduce services along with low turnover which brings increased claim exposure gives a municipality more exposure than the typical employer. **Hays defines our current guideline as a disciplined approach to funding the health care program.** There are more cons than pros to modifying this approach to pre-2005 guidelines. If the City manages the fund balance to minimum retained earnings more aggressively it exposes the City to extensive cost increases in the future. Projections are based on current claims, but if claim patterns change significantly the City would be unable to meet future expenses without significant increases in cash. If the City continues to manage the plan conservatively it will allow the City to not have to add money to the plan beyond the amount budgeted for if claims increase more than expected.

Hays recommended an alternative approach for public employers. Rather than changing the funding approach if an organization believes the fund balance is too large, develop a policy on granting an ad hoc premium holiday for either the organization or the plan members. Premium holidays are applied "after the fact" at the end of a plan year after the amount of paid claims is known rather than projected. Spending down reserves artificially lowers total funding levels, whereas premium holidays maintain recommended funding levels but give a one-time reduction in contributions.

For their public employers who use a shorter term funding approach, Hays recommends having enough to cover run out claims, one year reserve and take premium holidays if fund balance meets these objectives near the end of the year.

Wellness Programming

Human Resources staff believes that a robust wellness program that is a priority to the organization will provide a guide to developing personal health habits that will ultimately benefit not only the person themselves but also the organization in both productivity and reduction in healthcare claims. In 2010 the CHAMP Wellness committee did an inventory of current programming, organizational readiness and funding realities. The committee along with Hays and CIGNA developed and submitted to the City Manager a multiyear strategy for the city that will encourage the City, its management and its employees to recognize the most effective way to improve individual health.

Many of the programs were currently in place. The following is an example of current programming:

- Flu shots
- Biometric clinics
- Health Risk Appraisals
- Participation incentive program ($5/pay period in 2011, $150 to HRA in 2012)
- CIGNA's Well Aware for Better Health® Disease Management Programs (i.e. Diabetes, COPD)
- CIGNA's Online and Telephonic Coaching Programs (Quit Today™ Tobacco Cessation, Stress Management, Health Steps to Weight Loss™)
- Monthly education programming (including incentives) such as walking and stretching programs, Walk Kansas challenge, lunch-n-learn and educational materials on targeted subjects
- Weight Watchers at work incentive program

- Parks and Recreation fitness program discounts
- Discounted health club memberships through payroll deduction.

There are also some department specific wellness initiatives underway in the Fire and Police departments.

We have the following proposals currently in the approval process to enhance the wellness programming:

- The implementation of an off-site health and wellness clinic by January 2012.
    - The clinic would be open no less than 20 hours per week
    - It would serve both City employees and retirees that are participating in the health care plan
    - Services will not be offered to spouses and dependents but the City may decide to extend clinic services in the future
    - Clinic would primarily focus on providing wellness related services
    - Secondary focus is to provide employees and retirees with minor medical care and treatment, and write them prescriptions when needed.

- CHAMP Wellness Committee reorganization that has departments assign a Program Coordinator to the committee. The primary role of the coordinator is to will be to develop and implement wellness activities for employees, serve as a communication liaison between employees and CHAMP Wellness, and promote CHAMP wellness programs.

Human Resources office, the Healthcare Committee, the CHAMP Wellness Committee, Hays, CIGNA and MedTrak are continually evaluating incentive programs, educational programs and plan design options that will promote good health.

Special Contractual Arrangement with Lawrence Memorial Hospital

Hays is checking to ensure that we have the ability to enter into a separate and contractual arrangement for pricing given our current contract with CIGNA network.

CIGNA also indicated they have the ability to design a Client Specific Network. It takes a significant amount of programming in order for claims to pay correctly and consequently there is a substantial fee. Cost to develop the network payment system frequently outweighs the savings for the separate and presumably deeper discounted network.

Other considerations for receiving better pricing outside these two issues would be:

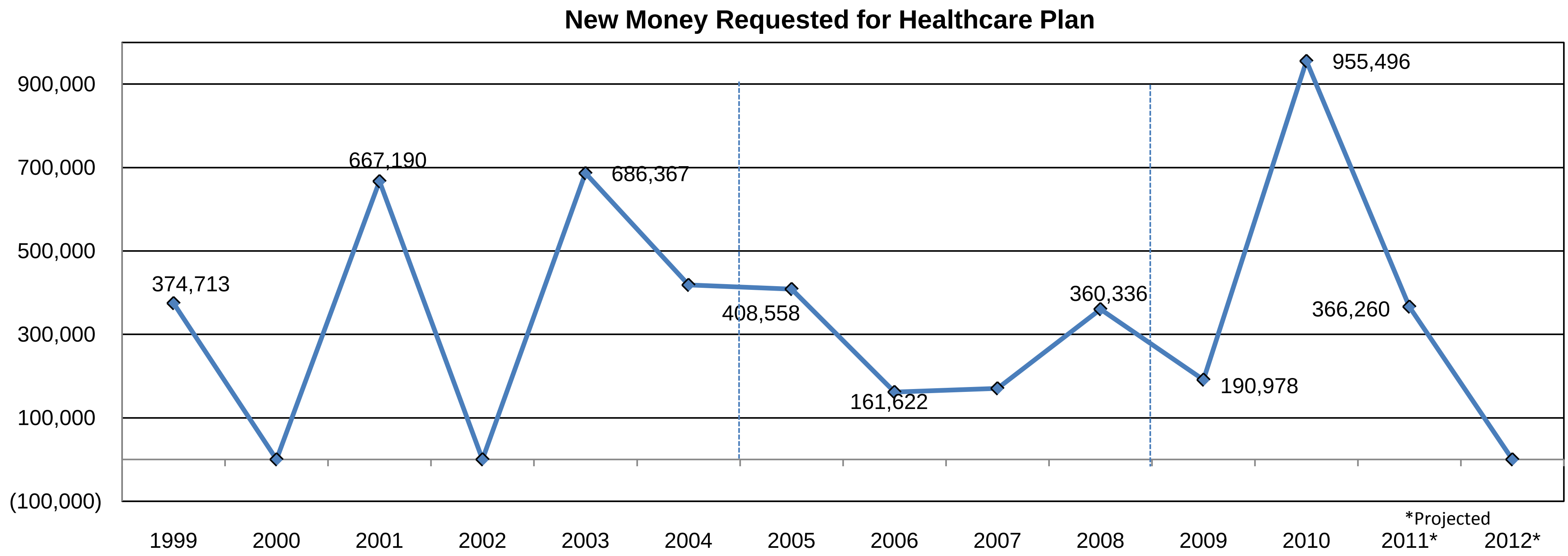
- what areas would discounts be given,
- would they be given prior to billing for payment by our administrator,
- would they be written off after processing by our administrator,
- would they not be charged at all?

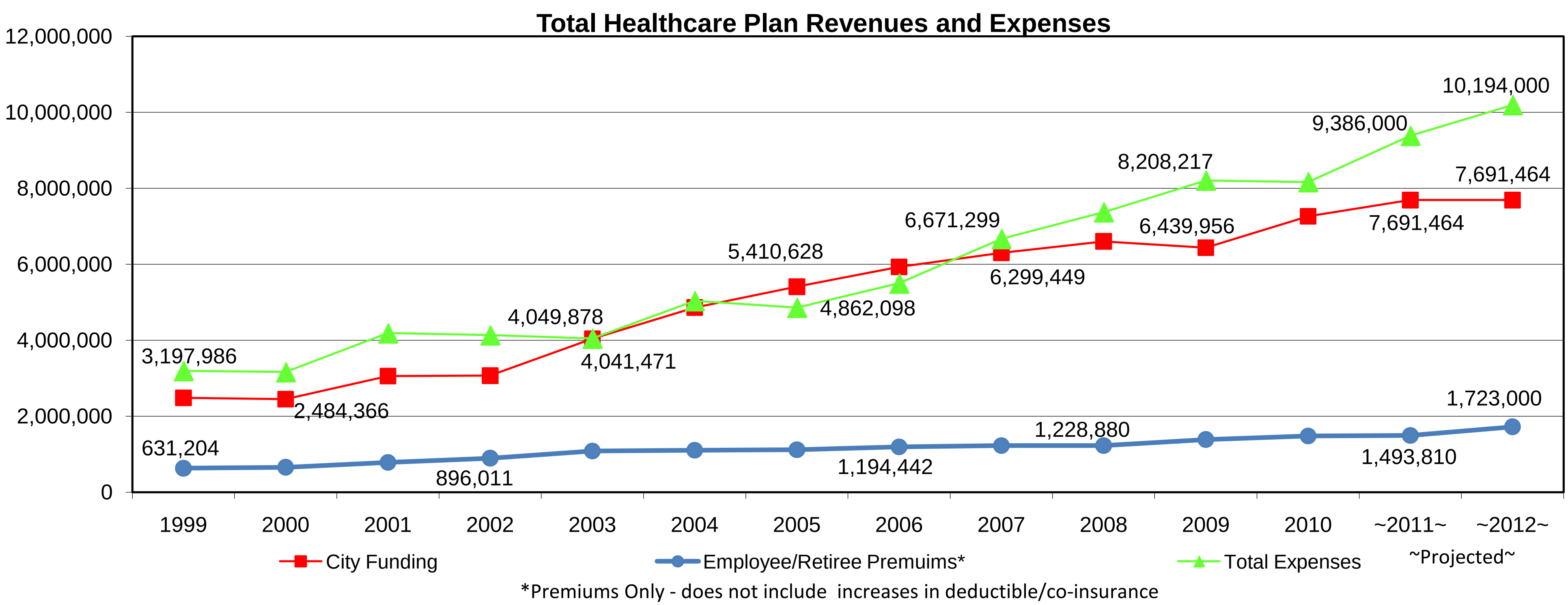
2010 claims data shows for Lawrence Memorial Hospital (LMH):

- 23.4% of the claimants and 47.5% of payments processed through the plan for facility charges for inpatient and outpatient services. (CIGNA)
- 62.22% of the members who accessed and 24.97% of the payments made for inpatient services totaling $802,345. (Hays)
- 65.48% of the members who accessed and 58.95% of the payments made for outpatient services totaling $841,491. (Hays)
- The plan was billed $2,996,962 and paid $1,574,226 for all services. (Hays)

All services averaged a 42.78% network discount (not just LMH) totaling $4,879,070 of $11,405,413 gross billed charges. The plan paid $5,362,705 with $1,163,637 left as the member's responsibility. (Hays)

Human Resources staff will await guidance from the City Manager prior to contacting the hospital directly.


New Money Requested for Healthcare Plan
900,000
700,000
500,000
300,000
100,000
(100,000)
374,713
667,190
686,367
408,558
161,622
360,336
190,978
955,496
366,260
*Projected
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011*
2012*


Total Healthcare Plan Revenues and Expenses
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
3,197,986
2,484,366
4,049,878
4,041,471
5,410,628
4,862,098
6,671,299
6,299,449
8,208,217
6,439,956
9,386,000
7,691,464
10,194,000
7,691,464
631,204
896,011
1,194,442
1,228,880
1,493,810
1,723,000
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
~2011~
~2012~
City Funding
Employee/Retiree Premuims*
Total Expenses
~Projected~
*Premiums Only - does not include increases in deductible/co-insurance