Memorandum
City of Lawrence
Human Resources Division

TO: **David L. Corliss, City Manager**

FROM: **Lori Carnahan, Human Resources Manager**
Michelle Spreer, Benefits Specialist, Human Resources

CC: **Diane Stoddard, Assistant City Manager**
Cynthia Wagner, Assistant City Manager
Ed Mullins, Finance Director
Casey Toomay, Budget Manager
Healthcare Committee

Date: **June 28, 2011**

RE: **2012 Employee Healthcare Plan for City Manager Budget**

Following discussions at the June 21, 2011 City Commission Budget Study Session and subsequent discussions between City Manager and staff. The City Manager is submitting a proposed 2012 Employee Healthcare program which includes:

- The opportunity for employees to keep their pay period contributions level with 2011 ***or*** maintain their 2011 individual deductible through the use of incentive programs;
- The opportunity for employees the use of a health clinic when they are willing to participate in a health risk appraisal and attend follow up sessions (when requested) with a health provider to examine behaviors that affect their overall physical health;
- Maintaining our current plan providers (CIGNA, MedTrak and Delta Dental);
- Commitment of $250,000 to OPEB liabilities;
- Maintaining City funding at the 2011 level of $7,691,464;
- Spend down the healthcare plan fund balance approximately $1,250,000.

Details of the proposal are outlined below.

Employee and Retiree Contribution to Healthcare

A $5.00/pay period employee contribution will begin in 2012 for the employee's own coverage. By adding an employee contribution, each dependent tier would increase accordingly. Implementing an employee premium would require a change to the HCC Goals and Objectives (attached).

Retiree contributions will increase by approximately 8.8% over 2011 rates. The retiree rates reflect the actual required funding levels for the plan in total, offset by the change in plan design.

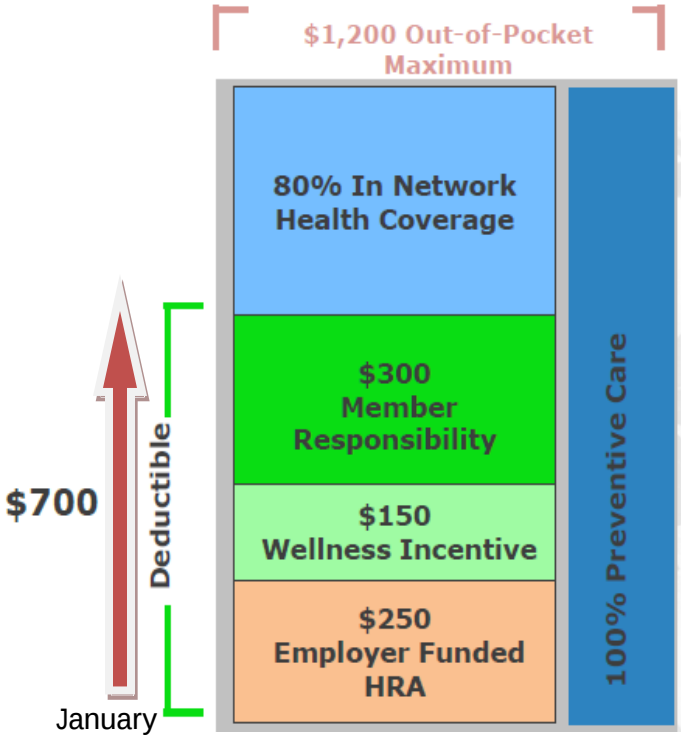
Health Reimbursement Account (HRA) Added to Current PPO Medical Plan Design

The first $250 for an individual ($500 for a family) of non-preventative medical care expenses would be funded by a Health Reimbursement Account (HRA). Once HRA funds have been exhausted, the member would begin paying for plan expenses until they meet the remainder of the deductible. After the deductible has been met, the member will continue to pay 20% of eligible claims until the out of pocket maximum of $1,200 has been reached.

Any unused HRA funds will roll over from year to year up to a maximum of two times the employer funded HRA + wellness incentive. This maximum will be re-examined following a year of utilization.

Employee and Retiree Incentive Program

The current wellness program gives employees a $5 per paycheck incentive for completing a Health Risk Assessment and signing a non-tobacco declaration ($10/month for retirees). For 2012 it is recommended that employees have the choice between the current $5 per paycheck incentive (allowing their net per pay period contribution to remain at 2011 level) ***or*** have the city add an additional $150 to their HRA account (allowing the employee's individual deductible to remain at 2011 level) as illustrated below.



Prescription Drug and Dental Coverage

Prescription plan design (copayments/coinsurance) would remain the same at 20% for generics and $25 + 20% for brand name prescriptions. The out of pocket maximum for prescriptions would go to $1,000 individual and $2,000 family; a $100 increase for individuals and $200 increase for family.

Dental would remain the same as in 2011.

Health Clinic

As proposed late in 2010, Human Resources staff believes that a Health clinic with services provided by Lawrence Memorial Hospital (LMH) would be an ideal offset to the higher out of pocket costs that are being shifted to our employees. The objective of the clinic is to reduce the health care plan claims dollars through promotion and facilitation of a healthier workforce and in turn cost avoidance. The Health Clinic would provide employees with disease prevention and health management resources without being subject to deductibles and coinsurance. The primary goal for the implementation of the Health Clinic is to provide accessible and demonstrated health and wellness activities to city staff and retirees in order to better maintain and/or enhance the health and wellness of our employees and retirees.

Late in 2010, LMH submitted a cost effective proposal that would give the city flexibility to be charged based on actual utilization of the clinic which would include number of hours needed and number of employees that utilize the clinic. Estimated annual costs to operate the clinic for 500 employees and 1,040 hours would be $163,820.

The city will require participation in the Health Risk Assessment and follow up visits as recommended based on overall health (high, medium, low risk factors) with the health clinic professional staff in order to have access to the health clinic.

The healthcare plan, to date, has received approximately $32,000 from the Early Retiree Reinsurance Program (ERRP) based on our 2010 claims from June – December. An additional $49,000 was requested on June 21, 2011. The city should expect to receive that reimbursement by July 5, 2011. Future reimbursements are dependent on claims utilization. These reimbursements can help offset the cost of the clinic in 2012.

Grandfather Status Under PPACA

By implementing these program changes, the plan will no longer have Grandfathered status under the Patient Protection and Affordable Care Act (PPACA). This may require additional minor plan changes; depending upon when and if the regulations are issued defining "essential benefits". Losing grandfathered status will also require that an external appeal process for denied claims be implemented. There may be an administrative charge for this external appeal process.

OPEB Liability

The City Manager recommends the City Commission commit, with the adoption of the 2012 Budget, $250,000 of the healthcare fund balance to pay future OPEB expenses. The Healthcare Committee (HCC) will include OPEB costs when determining future revenue requirements for the city's healthcare plan. The HCC will review options for future commitment of funds as well as consider whether to increase employee and employer payments to help pay for the costs that will be incurred after the employee retires. These additional payments would be added to the commitment of fund balance for OPEB expenses.

Details of Proposed 2012 Employee Healthcare Program-HRA Option C (contributions revised)

The City Manager recommends implementing a Health Reimbursement Account (HRA) based plan for 2012 as a full replacement of our traditional PPO plan. The updated chart below illustrates the plan design which matches Option C in the April 26, 2011 memo *2012 Employee Healthcare Plan-Budget and Plan Design.* Contribution levels for the city and employees have been revised.

As outlined in the April 26, 2011 memo:

- 100% replacement of the current PPO design to an account based plan with the establishment of a Health Reimbursement Account (HRA) in the amount of $250 for individual coverage and $500 for family coverages. Unused HRA funds roll over from year to year up to a maximum fund balance of two times the employer funded HRA + wellness incentive (maximum to be re-examined following a year of utilization).
- Increase medical deductible to $700/$1,400 (single/family).
- Increase in network medical out of pocket maximum to $1,200/$2,400 (single/family) and out of network out of pocket maximums to $3,650/$7,300 (single/family).
- Increase prescription drug out of pocket maximum to $1,000/$2,000 (single/family).
- No change in dental program.
- Implement a health clinic in order to help offset increases to employee out of pocket healthcare plan costs and to provide tools for improving overall employee health.
- Enhance the financial incentive program to encourage employees to examine their own lifestyles and commit to behavior changes that may improve their overall health.

Modified from the April 26, 2011 memo:

- No increase in City funding from 2011 to 2012. Currently the City funds a total of $7,691,464 toward the healthcare plan.
- Commit $250,000 to OPEB Liability.
- Establish an employee contribution of $5/pay period for their own coverage.
    - When adding an employee contribution, each dependent tier would increase accordingly.
- Spend down healthcare fund retained earnings approximately $1,250,000.
    - Spend down of retained earnings of $1 million is projected to show worst case scenario. It is early in the year and therefore we have limited claims data for 2011. Hays will adjust the spend down amount as we get updated claims data throughout the year.
    - Commitment to OPEB liability will spend down available fund balance by $250,000.

- Increase retiree monthly contributions by approximately 8.8% over 2011 rates. The retiree rates reflect the actual required funding levels for the plan in total, offset by the change in plan design. (no change from 4/26/11 memo)

2012 Plan Design

Medical Plan Information	Current Plan Design	2012 Proposed Plan HRA Option C Contributions Revised	2012 Proposed Plan HRA Option C Contributions Revised Plus Incentive
Employer Health Fund Contribution			
Individual/Family	n.a.	$250/$500	$250/$500
Wellness Incentive			$150
Deductible (Individual/Family)			
In-Network	$300 / $600	$700 / $1,400	$700 / $1,400
Out-of-Network	$300 / $600	$700 / $1,400	$700 / $1,400
Net Deductible with HRA funds applied	$300 / $600	$450 / $900	$300 / $750
Coinsurance Level			
In-Network	20%	20%	20%
Out-of-Network	40%	40%	40%
Out-of-Pocket (Individual/Family)			
In-Network	$1,000 / $2,000	$1,200/$2,400	$1,200/$2,400
Out-of-Network	$2,400 / $4,800	$3,650/$7,300	$3,650/$7,300
Net Out-of-pocket maximum (In network)	$1,000 / $2,000	$950 / $1,900	$800 / $1,750
Net Out-of-pocket maximum (out of network)	$2,400 / $4,800	$3,400 / $6,800	$3,250 / $6,650
Prescription Drug			
Generic	20%	20%	20%
Brand - 30 day supply	$25 + 20%	$25 + 20%	$25 + 20%
Brand - 90 day supply	$50 + 20%	$50 + 20%	$50 + 20%
Out of Pocket Maximum (Individual/Family)	$900/$1,800	$1,000/$2,000	$1,000/$2,000
Biweekly Contributions			
Employee	$0	$5	$5
Employee plus Spouse	$72	$77	$77
Employee plus Children	$64	$69	$69
Family	$113	$118	$118
Account Utilization			
	n.a.	89.0%	89.0%
Plan Funding Impact			
Increase in City Contributions	$1,215,000	$0	$0
Increase in Employee Contributions	$0	$104,000	$104,000
% Change in Projected Plan Cost	n.a.	-2.0%	-2.0%
Projected Retained Earnings Spend Down	$0	$1,000,000	$1,000,000
OPEB Commitment	$250,000	$250,000	$250,000
Total Retained Earnings Reductions	$250,000	$1,250,000	$1,250,000

Fund Balance (Retained Earnings) and Minimum Retained Earnings (MRE)
Maintaining MRE at 20% of projected plan cost for two years out allows us to smooth out increases to city funding as well as employee contributions. Having a healthy MRE level allows us to fund current and future incentives related to wellness programs.

Retained Earnings also funds the cost of catastrophic claims, the amount determined by our stop loss contract each year. In 2012 it will again likely be set at 120%. The 120% represents the amount of claims the city is responsible for paying over the projected costs before stop loss insurance begins paying claims.

The chart below projects future trend, to include claims, administrative expenses and stop loss insurance. It is desirable to have "Fund Balance EOY" equal to or greater than "Recommended MRE" for at least one year beyond the year for which the budget is being prepared. The chart below illustrates the impact on trend by implementing the program and funding listed above.

Trend by Implementing Health Reimbursement Account (HRA)

Category	2011	2012*	2012 - HRA Plan	2013 - HRA Plan	2014 - HRA Plan
Expenses					
Medical	6,143,000	6,748,000	6,637,000	7,167,960	7,741,397
Rx	1,507,000	1,655,000	1,655,000	1,818,018	1,997,092
Dental	509,000	555,000	555,000	604,950	659,396
Administration	507,000	542,000	542,000	579,940	620,536
Stop-loss	720,000	900,000	900,000	1,125,000	1,406,250
Total	9,386,000	10,400,000	10,289,000	11,295,868	12,424,670
Revenues					
City	7,691,000	7,691,000	7,691,000	7,691,000	7,691,000
Employee	1,494,000	1,494,000	1,598,000	1,598,000	1,598,000
Total	9,185,000	9,185,000	9,289,000	9,289,000	9,289,000
Fund Balance BOY	7,856,000	7,655,000	7,655,000	7,655,000	7,655,000
Fund Balance EOY	7,655,000	6,440,000	6,655,000	5,648,000	4,519,000
Recommended MRE	2,496,000	2,770,000	2,740,000	3,008,000	3,309,000
% Increase in Revenues needed to Cover Current Years' Expenses		13%	11%	22%	34%
% Increase in Revenues needed to Maintain Minimum Funding (per City's policy)		-27%	-31%	-7%	21%

Assumptions / Inputs for 2013 and 2014	
Trend	
- Medical	8%
- Rx	8%
- Dental	9%
- Administration	7%
- Stoploss	25%
City Funding Increase	0%
Employee Funding Increase	0%
MRE Level	20%
Catastrophic Load	20%

* Assumes no plan design or funding changes

Transfers to Healthcare Plan

Each year Human Resources calculate the breakdown of city funding to the healthcare plan for each department to assist them in developing their budgets. Below are the totals for 2012 using Authorized Positions which has the same total cost as 2011 with updated to reflect authorized positions rather than FTE. Overall, the city will need to budget $9,589.33 per current FTE and $10,070.06 per new FTE approved for 2012 to maintain 2011 funding.

Transfers to fund health plan 2012

Budget $9,589.33 per current authorized position and $10,070.06 per new authorized position approved for 2012.

Fund	Description	Authorized Positions	Decreases	Additions	Total Auth Posn	Rec. Xfers	% of Total Funding
1068	General Fund 001 (Retirees)	56.00	0.00	0.00	56.00	58,360.13	0.8%
1068	General Fund 001	453.51	0.00	0.00	453.51	4,348,855.56	56.5%
210	Public Transportation	3.00	0.00	0.00	3.00	28,767.98	0.4%
211	Recreation	30.50	0.00	0.00	30.50	292,474.46	3.8%
213	Special Alcohol	3.00	0.00	0.00	3.00	28,767.98	0.4%
214	Special Gas Tax	25.50	0.00	0.00	25.50	244,527.83	3.2%
501	Finance-Utility Billing	23.50	0.00	0.00	23.50	225,349.18	2.9%
501	Utilities-Administration	12.00	0.00	0.00	12.00	115,071.92	1.5%
501	Utilities-Engineering	9.00	0.00	0.00	9.00	86,303.94	1.1%
501	Utilities-Clinton Plant	11.40	0.00	0.00	11.40	109,318.32	1.4%
501	Utilities-Kaw Plant	13.40	0.00	0.00	13.40	128,496.98	1.7%
501	Utilities-WWTP	19.40	0.00	0.00	19.40	186,032.94	2.4%
501	Utilities-Sanitary Sewer Coll Sys	15.40	0.00	0.00	15.40	147,675.63	1.9%
501	Utilities-Water Quality	5.00	0.00	0.00	5.00	47,946.63	0.6%
501	Utilities-Water Distribution	21.40	0.00	0.00	21.40	205,211.59	2.7%
502	Sanitation	96.34	0.00	0.00	96.34	923,835.74	12.0%
503	Public Parking	15.00	0.00	0.00	15.00	143,839.90	1.9%
504	Vehicle Maintenance	17.25	0.00	0.00	17.25	165,415.89	2.2%
505	Stormwater Utility	10.00	0.00	0.00	10.00	95,893.27	1.2%
506	Public Golf Course	5.75	0.00	0.00	5.75	55,138.63	0.7%
611	Outside Agency Grant-Transit	0.00	0.00	0.00	0.00	-	0.0%
611	Outside Agency Grant-Cops in Schools	0.00	0.00	0.00	0.00	-	0.0%
611	Outside Agency Grant-Traffic	0.00	0.00	0.00	0.00	-	0.0%
621	Fair Housing Grant	0.10	0.00	0.00	0.10	958.93	0.0%
631	CDBG	3.95	0.00	0.00	3.95	37,877.84	0.5%
633		0.00	0.00	0.00	0.00	-	0.0%
641	Transportation Grant	1.60	0.00	0.00	1.60	15,342.92	0.2%
					796.00	7,691,464.20	100.0%

Health Care Committee Ongoing Goals and Objectives
Revised 1/1/2011

Mission

The City of Lawrence Health Care Committee is devoted to balancing the best interest of the City of Lawrence and the best interest of the City employees in order to establish and maintain a high quality, cost effective health care plan that offers meaningful benefits to its employees and retirees.

The largest component of the City of Lawrence employee benefit package is the health care plan. It serves as a recruitment and retention tool. To attract potential employees, and keep current ones, the health care plan must be market competitive in terms of employee cost (i.e. premiums, deductibles, coinsurance, and out of pocket maximums) and the level of benefit provided (scope of covered services).

Background

The City of Lawrence Health Care Committee was formed in 1998 to develop guidelines regarding annual funding and plan design. Since 1998, on an annual basis, the Health Care Committee has devoted time to review, revise, and refine those guidelines according to City Commission directives and input from City management and employees.

The City of Lawrence Health Care Committee is chaired by the Human Resources Manager and consists of City employees from each department. The objectives of the Health Care Committee are:

1. To submit annual budget recommendations to the City Commission regarding funding for the health care plan;
2. To review, evaluate, and determine plan design;
3. To identify, review, and address utilization trends;
4. To monitor current national health care trends;
5. Through partnership with the Wellness Committee (CHAMP), provide health education and wellness interventions to employees and their immediate family members so that they might fulfill their responsibilities as covered plan participants.

Statement of Plan Participant Responsibilities

While it is the right of plan participants to use the Plan to the fullest, and to take advantage of everything it offers, it is also their responsibility to maximize healthy habits, to become knowledgeable about his or her health plan coverage, and to consume health care services in a responsible manner in order to reduce his or her lifetime cost for health care coverage.

Annual Funding Guidelines

Annual budget recommendations will be submitted to City management in May for the next plan year using the most current national industry cost trend projections available at the time.

City funding means annual funding. Employee contributions mean payroll deductions for health care premiums. The City will fund health care for current employees on a per FTE basis and new positions on a per contract basis.

Recommended levels of 16% of projected costs will be maintained in retained earnings for at least one year beyond the year for which the budget is being prepared. 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 City will fully fund the monthly premium equivalent of a single membership for employee coverage. The City will fund an equal dollar amount toward the monthly premium equivalent for a family membership.

The cost to cover eligible dependents under the health care plan is the difference between the monthly premium equivalent for a family membership and the monthly premium equivalent for a single membership.

To keep revenues proportional between City funding and employee contributions, the City will contribute 55-75% of the funding necessary to generate revenue toward the cost of dependent coverage; the employee will contribute 25-45%. Ideally, revenues will be split 65/35 between the City and employees toward the cost of dependent coverage.

Eligible employees receiving a retirement or disability benefit through KPERS will pay 80% of the monthly premium equivalent for their health care membership. The City will fund the remaining 20%.

COBRA participants will pay 102% of the monthly premium equivalent for their health care membership.

The Health Care Committee will work to moderate increases in City funding and employee contributions in order to smooth out the peaks and valleys of actual health care consumption. When increases in health care utilization have depleted retained earnings for future years below recommended levels, changes regarding retained earnings funding parameters will be implemented. When decreases in health care utilization are maintained for multiple years, the health care committee will recommend plan design enhancements.

Plan Design Guidelines

Covered services under the health care plan should satisfy the needs of the majority of employees, which can be identified by annually collecting aggregate data through:

1. Wellness tools;
2. Health care plan utilization reports;
3. Disability and worker's compensation claims; and
4. Periodic employee surveys.

Ideally, the plan design should enable plan expenses to be at or below national industry cost trends. This will be accomplished in part by:

1. Maintaining a plan design that enables and encourages plan participants to make wise consumer choices;
2. Maintaining a plan design that enables and encourages plan participants to utilize preventative services;
3. Educating plan participants on how to be wise consumers of health care services; and
4. Through the Wellness Committee, utilizing intervention programs for employees to use in order to individually examine and improve their overall lifestyle.