

Memorandum

City of Lawrence

TO: David L. Corliss, City Manager

FROM: Lori Carnahan, Human Resources Manager

CC: Diane Stoddard, Assistant City Manager
Cynthia Wagner, Assistant City Manager
Casey Toomey, Budget Manager
Michelle Spreer, Benefits Specialist
Ryann Pem, Recruiter/Wellness Coordinator

Date: May 10, 2012

RE: 2013 Employee Healthcare Plan Budget Memo

Executive Summary

- Staff recommends a 0% increase in city funding for 2013. Funding would remain at \$7,691,464. Staff also recommends investing approximately \$192,160 of the healthcare fund balance to enhance wellness programming.
- Results of 2011 Cigna claims and WellCare Clinic biometric data demonstrate that we need to invest in the health of our plan members. Implementing environmental and policy changes as well as incentive and wellness programming can modify behaviors and hold plan members accountable for their own health. Improving both nutritional behavior and physical activity could make our plan members significantly healthier and over time, reduce claims costs.
- Given the substantial changes made for 2012 (HRA plan and WellCare Clinic) Staff and Hays Companies (Hays) recommend no changes in plan design for 2013. Maintaining the plan as it is today will allow us to review claims data year over year in order to determine if the HRA (Health Reimbursement Account) plan and wellness programming are having an effect on claims dollars.
- Staff recommends employee contributions remain flat for 2013. While this is the recommendation for employee funding, the requirements to receive wellness incentives and/or rewards will be more stringent.
- Retiree contributions are projected to increase approximately 9% in order to maintain the 80% contribution to premium equivalent. This projected increase will be finalized in the fall 2012 when COBRA rates are established.

Healthcare Plan Trend

The long term goal of Staff, Hays and the Healthcare Committee is to make strategic changes to the healthcare plan that will reduce the upward trend of healthcare costs while providing a comprehensive healthcare program for plan members.

The HRA plan design was implemented in 2012 as part of a bigger initiative to help reduce future trend on the healthcare plan. **Attachment A** – Plan Funding Modeling, includes anticipated affects of the HRA plan. These projections do not include reductions in trend due to the WellCare Clinic, also implemented in 2012. It is projected that the WellCare Clinic will produce at least a 1:1 return on investment (ROI). 18 months to 2 years of clinic utilization data will be needed to determine if it's affecting our cost trend equivalent to 1:1 ROI or greater.

The City has averaged a 4.4% per year increase in claims over a 3-year period (2009 through 2011). 2011 plan costs came in under projected and below trend (8% increase). This has allowed the City to add to

retained earnings in 2010 and 2011 rather than spend down reserves as originally projected (**Attachment B** – Healthcare Plan Internal Financial Summary).

With the updated claims data from 2011, Hays projects the City will use approximately \$147,000 of retained earnings by the end of 2012. It was originally projected to spend down retained earnings by approximately \$1.2 million (as stated in the budget memo dated June 28, 2011).

CHAMP Wellness Programming

First quarter reports from the WellCare Clinic and annual utilization reports from Hays and CIGNA indicate that members of the healthcare plan are typical of the general population in the United States in that we would benefit both personally and in savings to the healthcare plan if members improved their habits in nutrition, exercise and tobacco usage. Staff is currently developing specific recommendations that include activities that have a history of positive outcomes to address identified gaps to be submitted later this summer for approval to implement with the fall open enrollment cycle. Any costs related to these recommendations would come from the healthcare fund retained earnings.

ROI of the additional wellness programming will be measured through annual biometric data (glucose and cholesterol levels, blood pressure, height/weight measurements); self reported information (nutrition, smoking, alcohol utilization, physical activity levels and prescription drug compliance), percent of preventative care utilization and number of risk factors per person.

Health promotion strategies also result in “cost avoidance”. While improvement in measurable data points can be tracked, it is not possible to measure claims that never occur. While it will likely be two to three years before the effects of the wellness programming will be apparent in claims dollars, studies have shown that for every dollar spent on health promotion at work, healthcare savings range from \$1.49 to over \$5. Additionally, health promotion programs improve the work climate, improve recruitment and retention of employees, reduce absenteeism and increase productivity.

Fund Balance (Retained Earnings) and Minimum Retained Earnings (MRE)

Maintaining MRE at 20% of projected plan cost for two years out allows the City to smooth out increases to city funding as well as employee contributions. Having a healthy MRE level allows funding of 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 2013 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.

Attachment A – Plan Funding Modeling 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 illustrates the impact on our fund balance at the end of 2013, 2014 and 2015 for zero increase in funding.

While making no changes (in funding or plan design) for 2013 still allows us to maintain a healthy fund balance, this is not something that the plan can withstand for a long period of time. MRE will be jeopardized at the end of 2015.

Other Post-Employment Benefits (OPEB) Obligations under GASB 45

In 2004 the Governmental Accounting Standards Board (GASB) released Statement 45 (GASB 45) which issued a new set of accounting rules concerning health and other non-pension benefits for retired public employees. These benefits, also referred to as “other post-employment benefits” (OPEB), include non-pension benefits such as life insurance, dental coverage and long-term care, as well as retiree health benefits. GASB 45 strongly encourages public sector employers to set aside funds for OPEB benefits, instead of a “pay as you go” funding method. Employers are strongly encouraged to fully fund OPEB benefits in order to show a more favorable financial statement.

The intent of GASB 45 was to bring governmental accounting standards more in line with private company standards. GASB 45 requires that an actuarial valuation be conducted every two years to determine the annual OPEB liability.

The city's net OPEB obligation as of December 31, 2011 was \$2,079,000. The annual required contribution to fully fund its obligation was \$1,605,000 in 2011. The city's actual contribution in 2011 was \$657,000. Retiree contributions in 2011 were \$400,402. There will be a valuation and OPEB obligation under GASB 45 for the 2013/2014 fiscal years required in 2013. The net OPEB obligation will change with each valuation. In 2011 the city has assigned \$250,000 in the Health Insurance Fund to cover a portion of the current and future retiree health care plan obligations which is reflected in **Attachment A** under "Retiree Fund Balance BOY".

Beginning with 2012, Hays has divided out the retiree revenues and expenses from the active employees, also shown in **Attachment A**. This will allow the City to better track the liabilities under OPEB and assist us in determining where the fund balance for OPEB should be set.

Transfers to Healthcare Plan

Each year Staff calculates the breakdown of city funding to the healthcare plan for each department to assist them in developing their budgets. Beginning in 2013 the HCC has begun allocating and tracking retiree healthcare expenses separately from active employees. With this change the projected actual retiree expense for healthcare has been allocated to each fund based on where the retiree worked while employed (**Attachment C – Transfers to Fund Health Plan**).

A 0% increase in city funding translates to \$8,756.49 per current FTE, \$9,300.88 per new FTE approved and \$11,186.44 per retiree.

Attachments:

- A – City of Lawrence-Plan Funding Modeling
- B – Healthcare Plan Internal Financial Summary
- C – Transfers to Health Plan 2013

Attachment A

City of Lawrence - Plan Funding Modeling

No Increase in Budgeted Revenues

Category	2012 Budget	2012 Updated*	2013	2014	2015
Active Expenses					
Medical	n.a.	5,535,000	5,978,000	6,456,000	6,972,000
Rx	n.a.	1,486,000	1,627,000	1,782,000	1,951,000
Dental	n.a.	543,000	570,000	599,000	629,000
Administration	n.a.	475,000	494,000	514,000	535,000
Stop-loss	n.a.	764,000	955,000	1,194,000	1,493,000
Total	n.a.	8,803,000	9,624,000	10,545,000	11,580,000
Active Revenues					
City	n.a.	7,034,000	7,034,000	7,034,000	7,034,000
Employee	n.a.	1,350,000	1,350,000	1,350,000	1,350,000
Total	n.a.	8,384,000	8,384,000	8,384,000	8,384,000
Fund Balance BOY	n.a.	8,144,000	7,475,000	6,235,000	4,074,000
Retiree Allocation	n.a.	250,000			
Active Fund Balance EOY	n.a.	7,475,000	6,235,000	4,074,000	878,000
Retiree Expenses					
Medical	n.a.	518,000	559,000	604,000	652,000
Rx	n.a.	169,000	185,000	203,000	222,000
Dental	n.a.	47,000	49,000	51,000	54,000
Administration	n.a.	33,000	34,000	35,000	36,000
Stop-loss	n.a.	55,000	69,000	86,000	108,000
Total	n.a.	822,000	896,000	979,000	1,072,000
Retiree Revenues					
City	n.a.	657,000	657,000	657,000	657,000
Retiree	n.a.	437,000	437,000	437,000	437,000
Total	n.a.	1,094,000	1,094,000	1,094,000	1,094,000
Fund Balance BOY	n.a.	250,000	522,000	820,000	997,000
Fund Balance EOY	n.a.	522,000	820,000	997,000	1,036,000
Total Expenses					
Medical	6,637,000	6,053,000	6,537,000	7,060,000	7,624,000
Rx	1,655,000	1,655,000	1,812,000	1,985,000	2,173,000
Dental	555,000	590,000	619,000	650,000	683,000
Administration	542,000	508,000	528,000	549,000	571,000
Additional Wellness Expenses	n.a.	n.a.	192,000	200,000	208,000
Stop-loss	900,000	819,000	1,024,000	1,280,000	1,601,000
Total	10,289,000	9,625,000	10,712,000	11,724,000	12,860,000
Total Revenues					
City	7,691,000	7,691,000	7,691,000	7,691,000	7,691,000
Employee/Retirees	1,494,000	1,787,000	1,787,000	1,787,000	1,787,000
Total	9,185,000	9,478,000	9,478,000	9,478,000	9,478,000
Fund Balance BOY	8,144,000	8,144,000	7,040,000	5,806,000	3,560,000
Fund Balance EOY	7,040,000	7,997,000	5,806,000	3,560,000	178,000
Recommended MRE	2,740,000	2,571,000	2,814,000	3,086,000	3,342,000
% Increase in Revenues needed to Cover Current Years' Expenses			13%	24%	38%
% Increase in Revenues needed to Maintain Minimum Funding (per City's policy)			-19%	19%	69%
* Updated to Reflect 2011 Claims					
Funding Increase					
City			0%	0%	0%
Employees			0%	0%	0%

Assumptions / Inputs	
Trend	
- Medical	8%
- Rx	9.5%
- Dental	5%
- Administration	4%
- Stoploss	25%
MRE Level	20%
Catastrophic Load	20%

* Updated to Reflect 2011 Claims

Attachment B

Healthcare Plan Internal Financial Summary

	Actual						2011	Projected 2012 (done June 2011)	Projected 2012 (done March 2012)
	2005	2006	2007	2008	2009	2010			
Revenues									
City	5,287,932.00	5,678,536.00	6,005,611.00	6,321,793.00	6,369,977.36	7,246,945.96	7,571,408.56	7,691,464.00	7,691,464.00
Employee	864,609.54	909,102.23	964,376.20	959,811.04	1,052,992.01	1,090,287.58	1,212,037.98	1,182,383.00	1,350,000.00
Retiree	252,562.60	285,339.75	265,263.24	269,069.32	334,810.69	390,394.58	400,402.27	415,617.00	437,000.00
Interest	122,696.12	253,552.79	293,838.00	283,002.59	69,978.15	17,593.28	9,476.62		
ERRP							129,713.14		
Total Revenues	6,527,800.26	7,126,530.77	7,529,088.44	7,833,675.95	7,827,758.21	8,745,221.40	9,323,038.57	9,289,464.00	9,478,464.00
Expenses									
Claims (from financials)	4,377,650.54	5,024,471.39	6,082,168.73	6,715,784.55	7,371,877.61	7,099,333.91	7,606,495.67	8,847,000.00	8,298,000.00
Admin Charge	173,390.69	162,852.15	192,487.90	234,478.51	254,926.83	391,106.95	482,331.17	542,000.00	508,000.00
Stop Loss Premium	311,057.25	312,202.02	386,141.05	424,221.55	499,666.96	631,270.00	696,000.00	900,000.00	819,000.00
Other Contractual Expenses	0.00	0.00	10,501.36	0.00	81,745.12	46,020.50	60,842.90		
Total Expenses	4,862,098.48	5,499,525.56	6,671,299.04	7,374,484.61	8,208,216.52	8,167,731.36	8,845,669.74	10,289,000.00	9,625,000.00
City Authorized FTEs	767.89	798.25	827.67	818.92	809.17	796.67	796.67	796.00	796.00
Net Income	1,665,701.78	1,627,005.21	857,789.40	459,191.34	-380,458.31	577,490.04	477,368.83	-999,536.00	-146,536.00
Actual ending fund balance	4,587,423.78	6,214,428.99	7,072,218.39	7,531,409.73	7,095,910.06	7,666,700.53	8,144,069.36	7,144,533.36	7,997,533.36

2011 Claims totals include \$394,751 incurred in 2011, paid thru Feb. 2012

Percent change									
	2005	2006	2007	2008	2009	2010	2011	Projected 2012 (done June 2011)	Projected 2012 (done March 2012)
Revenues									
City	9.50%	7.39%	5.76%	5.26%	0.76%	13.77%	4.48%	1.59%	1.59%
Employee	1.72%	5.15%	6.08%	-0.47%	9.71%	3.54%	11.17%	-2.45%	11.38%
Retiree	-0.23%	12.98%	-7.04%	1.43%	24.43%	16.60%	2.56%	3.80%	9.14%
Interest	262.37%	106.65%	15.89%	-3.69%	-75.27%	-74.86%	-46.14%		
ERRP									
Total Revenues	9.42%	9.17%	5.65%	4.05%	-0.08%	11.72%	6.61%	-0.36%	1.67%
Expenses									
Claims (from financials)	0.37%	14.78%	21.05%	10.42%	9.77%	-3.70%	7.14%	16.31%	9.09%
Admin Charge	-11.47%	-6.08%	18.20%	21.81%	8.72%	53.42%	23.32%	12.37%	5.32%
Stop Loss Premium	-35.15%	0.37%	23.68%	9.86%	17.78%	26.34%	10.25%	29.31%	17.67%
Other Contractual Expenses						-43.70%	32.21%		
Total Expenses	-3.47%	13.11%	21.31%	10.54%	11.31%	-0.49%	8.30%	16.32%	8.81%
Actual ending fund balance	57.01%	35.47%	13.80%	6.49%	-5.78%	8.04%	6.23%	-12.27%	-1.80%

City Budget Request (May year prior)	5,387,408.00	5,549,030.00	5,848,892.00	6,365,947.00	6,556,925.00	7,325,474.00	7,691,464.00		
Difference- Actual from Request	(99,476.00)	129,506.00	156,719.00	(44,154.00)	(186,947.64)	(78,528.04)	(120,055.44)		
Expected Plan Costs (May year prior)	6,436,803.00	5,910,973.00	6,073,399.00	7,671,993.90	7,222,676.00	9,983,268.00	10,125,000.00		
Difference- Actual from Projected	(1,574,704.52)	(411,447.44)	597,900.04	(297,509.29)	985,540.52	(1,815,536.64)	(1,279,330.26)		
Claims by by Stop Loss outside Innoprise	215,918.00	244,800.00	77,886.00	224,623.59	282,701.00	687,489.00	764,039.00		

Attachment C

Transfers to fund health plan 2013 - No Increase

Budget \$8,756.49 per current FTE, \$9,300.88 per new FTE and \$11,186.44 per new retiree for 2013.

Fund	Description	Authorized Positions	Increases/D decreases	Retirees	Total	Rec. Xfers	% of Total Funding
1068	General Fund 001 (Retirees)	0.00	0.00	47.00	47.00	\$525,762.71	6.8%
1068	General Fund 001	460.01	0.00	0.00	460.01	\$4,028,074.41	52.4%
1068	Special Alcohol Fund 213	3.00	0.00	0.00	3.00	\$26,269.48	0.3%
210	Public Transportation	0.61	0.00	0.00	0.61	\$5,341.46	0.1%
211	Recreation	30.50	0.00	1.00	31.50	\$278,259.48	3.6%
214	Special Gas Tax	25.50	0.00	2.00	27.50	\$245,663.46	3.2%
501	Finance-Utility Billing	23.50	0.00	0.00	23.50	\$205,777.59	2.7%
501	Utilities-Administration	12.00	0.00	1.00	13.00	\$116,264.36	1.5%
501	Utilities-Engineering	9.00	0.00	1.00	10.00	\$89,994.88	1.2%
501	Utilities-Clinton Plant	10.60	0.00	0.00	10.60	\$92,818.83	1.2%
501	Utilities-Kaw Plant	12.60	0.00	1.00	13.60	\$121,518.25	1.6%
501	Utilities-WWTP	19.60	0.00	0.00	19.60	\$171,627.27	2.2%
501	Utilities-Sanitary Sewer Coll Sys	15.60	0.00	0.00	15.60	\$136,601.29	1.8%
501	Utilities-Water Quality	5.00	0.00	0.00	5.00	\$43,782.47	0.6%
501	Utilities-Water Distribution	22.60	0.00	0.00	22.60	\$197,896.75	2.6%
502	Sanitation	96.34	1.00	4.00	99.34	\$879,589.82	11.4%
503	Public Parking	15.00	0.00	0.00	15.00	\$131,347.40	1.7%
504	Vehicle Maintenance	17.25	0.00	2.00	19.25	\$173,422.39	2.3%
505	Stormwater Utility	10.50	0.00	0.00	10.50	\$91,943.18	1.2%
506	Public Golf Course	5.75	0.00	0.00	5.75	\$50,349.84	0.7%
604	Farmland	1.00	0.00	0.00	1.00	\$8,756.49	0.1%
611	Outside Agency Grant-Transit	2.39	0.00	0.00	2.39	\$20,928.02	0.3%
611	Outside Agency Grant-Cops in Schools	0.00	0.00	0.00	0.00	\$0.00	0.0%
611	Outside Agency Grant-Traffic	0.00	0.00	0.00	0.00	\$0.00	0.0%
621	Fair Housing Grant	0.10	0.00	0.00	0.10	\$875.65	0.0%
631	CDBG	3.55	0.00	0.00	3.55	\$31,085.55	0.4%
633		0.40	0.00	0.00	0.40	\$3,502.60	0.0%
641	Transportation Grant	1.60	0.00	0.00	1.60	\$14,010.39	0.2%
		804.00	1.00	59.00	862.00	\$7,691,464.00	100.0%