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# City of Racine

## 2013 Benefits Proposal

**September 12, 2012**



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# The New Normal

During the 2012 budget process we emphasized that reductions in services and personnel would become the “new normal” and there are very few ways to avoid those reductions.

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# Budget Projections

- 16% projected increase in Healthcare claims costs: $1,915,000
- Projected increase in Prescription claims cost: $ 264,000
- Total Projected Shortfall with no healthcare plan changes: **$2,179,000**

Projected increased cost for WRS pension: $712,122

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# Baseline Information

- Estimated Costs and Projected Savings do **not** include:
  - Water and Wastewater employees and retirees
  - 118 City Retirees whose benefit plan designs cannot be changed per a settlement agreement

- All current retirees premiums cannot be changed

- Prescription Drug plan will not be changed

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# Health Care Benefit Plan Change History

- Last premium equivalent contribution change was in 2005. (0 to 5%)

- Last benefit plan changes were in made 2004 and 2005.
  - Out of pocket maximum increased
  - Deductible increased

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# Open Enrollment

- Currently no open enrollment period for the Health plan.
- Employees may enroll in the plan and add dependents any time with just 30 days notice.

❖ **<u>Recommendation:</u> A 30 day annual open enrollment period be established in 2013.**

- Employees only allowed to make changes during open enrollment or with major life changes.
- Major life changes (marriage, divorce, new baby, spouse loses insurance) would be the exceptions.

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# Recommended Modifications to Individual Flexible Spending Plans

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# Flexible Spending Accounts

## $200 Individual Flex Spending Account

- Account funded by the city
- $200 per year per employee and retiree covered under the Health plan.
  - Administrative Fee: $2.00 per employee per month
  - Total estimated cost for 2012: $35,184
  - Amount paid out in 2011 approximately: $140,000

❖ **Recommendation: The $200 Individual Flex Spending Account be discontinued.**

❖ **Projected Savings**: $35,184 admin fee + $140,000 paid out = **$175,184**

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# Flexible Spending Accounts (Continued)

## Cafeteria 125 Plan Flex Spending Account and Dependent Care Account

- Voluntary and is pre-tax
- AFLAC is the Administrator

➢ AFLAC Admin. fee: $3.60 per participating employee per month

➢ Total AFLAC Admin. cost for participating employees: $6,652.80

❖ **Recommendation: United Healthcare administrates the account as a consolidated service.**

Benefits of change:

- Health claims may be automatically reviewed and paid to employees with sufficient funds in their account.

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# Flexible Spending Accounts (Continued)

## Cafeteria 125 Plan Flex Spending Account and Dependent Care Account (continued)

- **Recommendation: The city pays the administration fee for those who participate.**

  UHC Administration fee is $4.80 per participating employee per month

  Current number of participants: AFLAC Flex Spending Account: 146
  AFLAC Dependent Care Account: 8

  Total cost for current participants with UHC: $8,870

- **Total Increase in Administrative Cost:**

  **$8,870 UHC - $6,652 AFLAC = $2,217**

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# Recommended Modifications to City Funded Life Insurance Policies

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# Life Insurance

**Consolidation from two plans to one**

## Hartford Life

- Provided to all full time General employees at no cost to employee
  - $9000 value while the employee is active.
  - Value reduces to $3000 for Local 67 DPW/Parks employees and $1000 for all other employees at retirement

❖ **Recommendation: Plan to be discontinued**

❖ **Projected Savings**: Approximately **$28,800** per year

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# Life Insurance (continued)

## Minnesota Life

- Basic coverage equals one times employees annual salary
- City pays for Basic coverage for all full-time employees except Local 67 DPW/Parks and Nurses who pay for their own coverage

**Recommendation: The City pays for the Basic coverage for all eligible full-time employees and retirees.**

❖ **Total projected Cost increase : $14,000** per year

❖ **Net Savings with Consolidation to one plan:**

**$28,800 savings - $14,000 cost = $14,800**

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# Recommended Modifications to Member Cost Share

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# Member Cost Share Changes

| | Current | Proposed |
|---|---|---|
| **In-Network:** | | |
| Individual Deductible | $300 | $400 |
| Family Deductible | $600 | $800 |
| Coinsurance | 85% | 80% |
| Individual Out-of-Pocket Maximum | $2000 | $3000 |
| Family Out-of Pocket Maximum | $4000 | $6000 |
| **Out of Network:** | | |
| Individual Deductible | $300 | $800 |
| Family Deductible | $600 | $1600 |
| Coinsurance | 70% | 60% |
| Individual Out-of Pocket Maximum | $2000 | $4000 |
| Family Out-of Pocket Maximum | $4000 | $8000 |

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# Member Cost Share Changes (Continued)

- **Estimated 2013 Total Claims with Current Plan : $13,276,488**

- **Projected Savings with Proposed Plan : <u>$947,941</u>**

  - 73% of plan participants currently meet annual deductible
  - Only 10% of plan participants meet annual out-of-pocket maximum
  - 97% of claims are in-network

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# Recommended Modifications to Employee Health Care Premium Equivalency Payments

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# Health Premium Equivalent Contributions

## General Employees- Active Only

| | Total Premium Equivalent Estimate 2013 | Employee Share Current 5% | Employee Share Proposed 7.5% | Annual Increase |
|---|---|---|---|---|
| Family | 18,950 | 947.50 | 1,421.25 | 473.75 |
| Single | 7,160 | 358.00 | 537.00 | 179.00 |

## Public Safety Employees – Active only

| | Total Premium Equivalent Estimate 2013 | Employee Share Current 5% | Employee Share Proposed 17.5% | Annual Increase |
|---|---|---|---|---|
| Family | 18,950 | 947.50 | 3,316.25 | 2,368.75 |
| Single | 7,160 | 358 .00 | 1,253.00 | 895.00 |

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# Health Premium Equivalent Contributions (Continued)

- General employees pay 7.5% of the premium equivalent
- Public Safety employees pay 17.5% of the premium equivalent

- All general employees hired on or after 1/1/2013 and public safety employees hired on or after 7/1/2011 would pay 10% premium equivalent.
  - Annual Family share $1,895
  - Annual Single share $716

- Premium contribution increases only apply to active employees

Note: Water and Wastewater employees pay 7.5% as of 1/1/2012(new 10%)

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# Health Premium Equivalent Contributions (Continued)

## General Employees - Active Only

| | General Employee Increase in Contributions |
|---|---|
| Family | 92,855 |
| Single | 12,351 |
| | **$105,206** |

## Public Safety Employees - Active Only

| | Public Safety Increase In Contributions |
|---|---|
| Family | 677,462.50 |
| Single | 61,755.00 |
| | **$739,217.50** |

**Total Increase in Employee Contributions: $844,423.50**

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# Estimated Effect of Changes on Employees

## Health premium Equivalent Contribution

### General Employees

| | Contribution Per Year | | Contribution Per Month | | Increase | |
|---|---|---|---|---|---|---|
| | 5% | 7.5% | 5% | 7.5% | Per Year | Per Month |
| Family | 947.50 | 1,421.25 | 78.96 | 118.44 | 473.75 | 39.48 |
| Single | 358.00 | 537.00 | 32.55 | 44.75 | 179.00 | 12.20 |

### Public Safety Employees

| | Contribution Per Year | | Contribution Per Month | | Increase | |
|---|---|---|---|---|---|---|
| | 5% | 17.5% | 5% | 17.5% | Per Year | Per Month |
| Family | 947.50 | 3,316.25 | 78.96 | 276.35 | 2,368.75 | 197.39 |
| Single | 358.00 | 1,253.00 | 32.55 | 104.42 | 895.00 | 71.87 |

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# Summary of All Changes for General Employees

## Typical Increase in Cost

| Single | Family | |
|---|---|---|
| $179 | $473 | for additional premium equivalent contribution |
| $200 | $200 | for loss of flex |
| $100 | $200 | for additional deductible |
| $479 | $873 | total per year* |
| $39.92 | $72.75 | per month* |

* Plus additional 5% coinsurance

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# Summary of All Changes for Public Safety Employees

## Typical Increase in Cost

| Single | Family | |
|---|---|---|
| $ 895 | $2,368 | for additional premium equivalent contribution |
| $ 200 | $ 200 | for loss of flex |
| $ 100 | $ 200 | for additional deductible |
| $1,195 | $2,768 | total per year* |
| $99.58 | $230.67 | per month* |

* Plus additional 5% coinsurance

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# Summary of Recommendations

| | |
|---|---|
| Discontinue $200 Individual Flex Spending | $175,184 |
| Change Cafeteria 125 Plan Administrator | (2,218) |
| Consolidate Life Insurance Plan | 14,800 |
| Member Cost Share Changes | 947,941 |
| Health Premium Equivalent Contributions | 844,423 |
| **Overall Total Projected Saving** | **$1,980,130** |

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# Bottom Line

| | |
|---|---|
| Total Projected Shortfall: | $ 2,179,000 |
| Total Projected Savings: | $ 1,980,130 |
| Remaining Shortfall | $ 198,870 |

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