



CITY COUNCIL AGENDA ITEM

Date: May 15, 2013

TO: Brian Kischnick, City Manager

FROM: Tom Darling, Director of Financial Services
Peggy Sears, Human Resources Director *PS*

SUBJECT: Publically Funded Health Insurance Contributions Act
("Public Act 152 of 2011")

HISTORY

On September 28, 2011, Public Act 152 was enacted prohibiting state and local governments, public schools, colleges and universities from paying more for employee health insurance benefits than the annual cost or illustrative rate (individually or in aggregate) of \$5,500 for a single person, \$11,000 for 2-person and \$15,000 for a family plan, times the number of employees in these plans. Beginning January 1, 2013, these limits were adjusted for the CPI to \$5,692.50, \$11,385.00 and \$15,525.00 respectively. This total cost is referred to as the "Hard-cap". Alternatively, the employer could elect annually the 80/20 Option to require employees (individually or in aggregate) to contribute at least 20 percent of the total cost of healthcare. Only local governments can elect the third option, called the Local Unit Opt-Out, to waive the requirements annually with a two-thirds vote of their governing body. The decision to elect either option would have to be made annually, but the default method is the Hard Cap. Further, the option must be made by June 1st in order to have no adverse effect on the Economic Vitality Incentive Program (EVIP) Cat III. (If approved by the June 1st deadline, the City's EVIP incentive payment is estimated to be \$114,000. If approved after June 1st, the payment is estimated to be \$57,000.)

Whichever method is utilized (Hard Cap, 80/20 or opt-out), it must be applied city-wide as each collective bargaining agreement expires. This year, five employee groups will be impacted: the Classified and Exempt employee groups, and three union groups whose contracts will expire on June 30, 2013 (AFSCME - American Federation of State, County and Municipal Employees; MAP - Michigan Association of Police Clerical and Non-Sworn Personnel; and TCSA - Troy Communications Supervisors Association). Together these represent 65% of our workforce. (Note that the 3 remaining contracts expire in 2014 [Command Officers and Fire Staff Officers], and 2015 [Police Officers].)

PA 152 was in reality the state's way of providing a tool to help communities whose collective bargaining units were resisting negotiating cost concessions. By offering the "opt-out" option, the state provided a way for communities whose employees were working with management to reduce health care costs to continue to do so, rather than implement a state-imposed "one size fits all" approach to health care cost containment. As you know, Troy employees had already partnered with administration in achieving significant concessions. PA 152 came into effect after those contracts were ratified, and thus the only groups that were going to be immediately impacted by this legislation were the Classified and Exempt employees. Last April, City Council approved the opt-out option for Classified and Exempt employees in order to avoid the cost of increased insurance rates being born inequitably by the non-union employee

group. The intent was that the issue would be revisited a year later in conjunction with union contract expirations.

Over the past six months we have been working with City Council to develop a plan that will help us attract and retain employees, encourage employees to continue to help us reduce costs, and to improve employee morale. Improving employee morale is a high priority if we are going to continue to excel as a leading community and employer; our business is our employees. They have demonstrated through their concessions that they are dedicated to the success of Troy, and we continue to look for avenues to control costs, including health insurance.

ANALYSIS

Our intention is to offer an optimal plan to employees at the lowest cost to the City. With that in mind, for all but two union groups we replaced the Blue Cross PPO with Blue Cross Community Blue Plan I Modified⁽¹⁾; this resulted in over 30% savings in premiums for those employee groups. Additionally, we applied the cost-saving deductibles, copays and drug rider features of the Community Blue Plan to both HMO plans.

Both the Hard Cap and the 80/20 option could have a catastrophic impact on the employees. However, for the employees who agreed to reduce their health benefit (56% of the workforce), the analysis below shows that the Hard Cap has the least financial impact on employees overall, short of opting out. (The exception is for 2-person coverage. With health reform legislation, family continuation coverage was eliminated, and those dependents are now covered under 2-person plans. Insurance companies increased the premium rates to compensate, but the hard caps were not adjusted to account for the increase. Thus, an employee with 2-person coverage pays more than for family coverage.)

Plans w/Community Blue Features	Annual Employee Cost		
	Current	Hard Cap	80/20
BCN 1 person	352.54	1,358.22	1,410.14
2 person	811.08	4,836.60	3,244.32
Family	917.57	2,826.48	3,670.30
HAP 1 person	326.78	843.06	1,307.11
2 person	751.60	3,646.92	3,006.38
Family	849.62	1,467.48	3,398.50
CB 1 person	282.70	(38.46)	1,130.81
2 person	678.49	2,184.72	2,713.94
Family	848.11	1,437.12	3,392.42

Two union groups (AFSCME and TPOA) retained the (more expensive) PPO Plan instead of the Community Blue Plan features. For these employees the 80/20 option has the least financial impact as shown below:

Plan/Option w/o Community Blue Features	Annual Employee Cost		
	Current	Hard Cap	80/20
BCN 1 person	433.66	2,980.74	1,734.65
2 person	997.67	8,568.36	3,990.67

Family	1,128.50	7,044.96	4,513.99
HAP 1 person	415.31	2,613.66	1,661.23
2 person	955.22	7,719.36	3820.87
Family	1,079.80	6,071.04	4,319.21
PPO 1 person	439.40	3,095.58	1,757.62
2 person	1,054.57	9,706.32	4,218.26
Family	1,318.21	10,839.24	5,272.85

The analysis of the Hard Cap and 80/20 options for current plan costs demonstrate that either method would have an inequitable, and significant financial impact on employees. However, it also demonstrates the need to encourage employees to migrate to the more cost effective plans, with the idea of continuing to evaluate cost containment measures. With the significant concessions these employees have taken, some of them since 2008, this would seem punitive and employee morale would suffer significantly. By looking at another option we can further our interest in attracting and retaining employees, and hopefully improve morale by choosing to lessen the financial impact on these employees. This effort can be tied to other cost containment efforts.

FINANCIAL CONSIDERATIONS

1. The 2013/14 proposed budget was prepared using the “current” assumptions.
2. Using the Hard Cap option and the assumption that employees remain in their current plans, the decreased cost to the City and increased cost to the employees is estimated at \$445,000 for 2013-14. Using the Hard Cap option and the assumption that all employees affected elect the Community Blue Plan, the decreased cost to the City is \$445,000, and the increased cost to employees is \$78,200.
3. Using the 80/20 option and the assumption that employees remain in their current plans, the decreased cost to the City and increased cost to the employees is \$387,000. Using the 80/20 option and the assumption that all employees affected elect the Community Blue Plan, the decreased cost to the City is \$387,000, and the increased cost to employees is \$313,806.
4. Using the Opt-Out option and requiring all eligible employees to elect the Community Blue PPO plan would decrease the cost to the City by \$348,000, reduce premium costs to the employees by \$18,300. This however, does not consider the additional costs to employees for co-pay and drug coverage that may be different than the employee’s original healthcare plan.

RECOMMENDATION

City management recommends the Local Unit Opt Out option, but with the added feature to incentivize employees to migrate to the Community Blue Plan. If, after 6 months at least 80% of the employees have not migrated, the City will implement the Hard Cap Option. At that time we would also begin discussions for years 2 and 3, based on that experience and what is happening in the insurance industry.

Under this option we are in compliance with PA 152, and there would be no adverse effect on the EVIP.

- (1) With Community Blue Plan 1 Modified, our strategy was to increase deductibles and co-pays so as to put the cost on employees at the time of service. These changes included increasing employee premium contributions; increasing the prescription drug plan to \$10/\$40 with mandatory generic, prior authorization and step therapy; increased co-pays for office visits (\$30) and emergency room visits (\$50); increasing the basic deductible to \$250/\$500; reducing the frequency of covered vision exams to once every two years, and reducing the cost of mail order prescription drugs.