

City Council Agenda Items  
and  
Contracts, Leases or Agreements

8/20/2013

City Council Meeting Date  
Agenda Items Only

Missy Leflar  
Submitted By

Human Resources  
Division

Chief of Staff  
Department

Action Required:

Staff recommends that Council approve the proposed benefits renewals for 2014.

\$ 4,125,600

Cost of this request

\$ -

Category / Project Budget

Citywide

Program Category / Project Name

xxxx.xxxx.51xx.xx

Account Number

\$ -

Funds Used to Date

Citywide

Program / Project Category Name

N/A

Project Number

\$ -

Remaining Balance

Citywide

Fund Name

Budgeted Item

Budget Adjustment Attached

Missy Leflar / AMW 8-2-13  
Department Director Date

Previous Ordinance or Resolution # \_\_\_\_\_

[Signature] 8-2-13  
City Attorney Date

Original Contract Date: \_\_\_\_\_

Original Contract Number: \_\_\_\_\_

Paul a. Baker 8-3-2013  
Finance and Internal Services Director Date

Received in City Clerk's Office  
**ENTERED**  
SL 8/2/13

[Signature] 8-6-13  
Chief of Staff Date

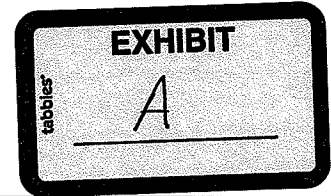
Received in Mayor's Office  
**ENTERED**  
8/5/13  
[Signature]

[Signature] 8/6/13  
Mayor Date

Comments:

## CITY COUNCIL AGENDA MEMO

**To:** Mayor Lioneld Jordan and City Council members  
**Thru:** Don Marr, Chief of Staff *DM*  
**From:** Missy Leflar, Human Resources Director *ML*  
**Date:** August 2, 2013  
**Subject:** Employee benefits renewals



### PROPOSAL:

It is proposed that the City Council renew the City's employee benefits for 2014, as more fully described below. The proposal is made now in order for the employee benefits enrollment process to proceed on time, and so that City employees may retain what many consider the most positive aspect of their employment with the City: their benefits.

There are three (3) City paid benefits contracts coming up for renewal for 2014. One is for health insurance. The other two are for City paid life insurance and City paid long term disability insurance. These are the three contracts requiring Council approval.

In addition, there are three employee paid benefits contract matters not requiring Council approval, since the employees pay for these benefits rather than the City. Just for Council's information, one is the Delta Dental insurance renewal. The two others are with a company known as "The Standard" for employee paid Short Term Disability and employee paid life insurance.

### CITY PAID LIFE AND DISABILITY INSURANCE

In addition to providing quality employee paid life and employee paid short term disability insurance for the City (accompanied by excellent customer service), "The Standard" has been providing good City paid life insurance and city paid Long Tern Disability insurance. These City paid products provide a one and a half times the base pay life insurance coverage, as well as income protection related to situations where a person becomes disabled from working for over six months.

Please note that it is advantageous to the employees for the same company to handle both the employee paid Short Term Disability and City paid Long Term Disability, because that way the same company already has the person's medical records in the event the disability extends into a Long Term disability situation. The transition between the two thereby becomes very seamless with little or no gaps in benefit checks arriving.

The City's benefits broker, Gallagher Benefits Services, recommends renewal with this company after competitively bidding the products and responding to the Administration's and Human Resources' inquiries. The price will go up due to these products being utilized (payouts of death benefits and disability benefits), but that evidences employee need for the products. Please refer to the attached price comparison chart.

The third City paid benefit contract coming for renewal for 2013 is the health insurance. For the last several years the City's health insurance companies have consistently paid out far more in claims than they have collected in premiums, resulting in annual losses to them of well over a million dollars each year. Against this background the City's Benefits Broker, Gallagher Benefits Services, Inc., solicited competitive bids from Arkansas Blue Cross Blue Shield and United Health Care. Other bids were not solicited due to the other major companies refusing to bid last year due to the City's high utilization rate.

### HISTORY

The City has experience with both insurance companies. It has a long history of having insurance with Blue Cross for the majority of the last 50+ years. United Health Care is the City's current health insurance carrier. The City has carried two types of plans with each company: PPO (Traditional) insurance and HDHP (High Deductible insurance, which is less expensive) from which employees make a choice. The City switched from Blue Cross to United Health Care as of January 1, 2012 for financial reasons. The coverage and networks are not identical but have been, generally speaking, comparable<sup>1</sup>.

Gallagher Benefits Services, the City's benefits broker, advises the Administration that the City's premiums increases are currently primarily driven by two things:

- The City's past history of excellent negotiating, which has kept it's insurance premiums artificially low (up until last year and this year)<sup>2</sup>; and
- High utilization of benefits by employees and employee spouses in the PPO (Traditional) Plan. The utilization rate for 2012 was 128%. This means that for every dollar paid in insurance premiums, the insurance company paid out \$1.28. As we all know, you can't run a household budget that way, with more spending than you've got income. The same holds true with health insurance premiums. The income (what we pay in premiums) simply has to go up to meet the expenditures.

### COMPETITIVE BIDDING

The Blue Cross plan has the advantage for employees of having one deductible to be met (regardless of whether the employee's medical expenses are incurred in-network or out-of-network. In addition, Blue Cross offered a High Deductible plan with three advantages to employees:

- First, there is no higher, separate deductible for the pharmacy benefit that employees have to reach before prescriptions are covered;
- Second, under Blue Cross' family High Deductible plan, once an individual reaches his/her individual deductible, that person's coverage begins (whereas with United Health Care the entire family deductible must first be met for any one person's coverage to being); and

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<sup>1</sup> There is anecdotal information from some individual employees that their physicians do not care for having to participate in the United Health Care network. There have never been any such comments from employees with regard to their physicians' attitudes toward being in the Blue Cross network.

<sup>2</sup> Please see attached spreadsheet with Arkansas Municipal League Benefits Survey and NOARK Benefits Survey, as well as prior spreadsheet comparing City's premiums with other government and quasi-government NWA and Central Arkansas employers.

- Third, under the Blue Cross High Deductible plan the coverage pays at 100% after the deductible is met (with United Health Care the plan pays 80% after the deductible is met).

### INCREASE IN EMPLOYEE CONTRIBUTIONS

Even with the best possible bids, the increase in premiums is such that the Administration has determined that there will have to be an increase in not only the dollars the City expends, but the dollars the employees have to expend as well. Even though the City will be paying more dollars per employee for health insurance, employee contributions will also be paying more dollars per employee. The employee will also be contributing a larger percentage overall to the PPO (Traditional) Plan and roughly the same percentage but a higher overall contribution to the HDHP (High Deductible) plan. This will bring the City more in line on the PPO with other Northwest Arkansas government and quasi-government employers<sup>3</sup> while ensuring the HDHP (High Deductible) coverage remains affordable. The City's new contribution will be:

- 80% of total plan cost for individual PPO (Traditional) coverage;
- 65% of total plan cost for family PPO (Traditional) coverage;
- 95% of total plan cost for both the individual and family HDHP (High Deductible) coverage.

The Administration's goal is to achieve balance between taking care of its employees and being fiscally responsible. It is hoped that the City's 95% contribution toward the HDHP (High Deductible) premium will cause most employees to be able to find it quite affordable –especially when compared with health insurance plans offered elsewhere in the marketplace. This is an effort to take care of employees. That said, the more expensive PPO (Traditional) plan will still be offered to those who desire it, although the employee who wishes that plan will have to assume more of the financial responsibility for carrying it. This is an effort to be good financial stewards of City resources, as well as be more realistic in offering what comparable employers offer in today's job marketplace.

### WHAT REMAINS THE SAME

Since employees will be shouldering more of the financial burden for the PPO (Traditional) Plan, it was thought best to keep deductibles and stop losses the same, as well as the City's contributions into Health Savings Accounts for employees on the High Deductible plan.

### WELLNESS EFFORT INCENTIVES

Last year the City decided to try a premium structure designed to provide incentives for employees to take responsibility for their own healthy practices. These efforts were met with mixed success. On the positive side, at least seven employees gave up tobacco in order to get the tobacco free health insurance premium, several lost weight, and many began pro-active efforts at exercising (including using the free City gym). On the negative side, there seemed to be as much negative feedback as positive feedback on the City's efforts to encourage employees toward healthier lifestyles. Although many people were excited about the Wellness opportunities, many others expressed much negativity. It was a mixed result.

The City had planned on enlisting the aid of a professional Wellness Vendor to make improvements to our internally developed, grass roots Wellness Program. It was hoped that more employees would be reached

<sup>3</sup> Please refer to the attached spreadsheet comparing the City of Fayetteville's health insurance premiums with those of other NWA and Central Arkansas government and quasi-government employers.

and that there would be more positive results. However, with the dramatic increase in the costs of the health insurance, the Administration determined that the new financial environment precluded the possibility of paying a Wellness Vendor. There will no longer be a Wellness Discount or Tobacco Premium for the health insurance in 2014.

The City will continue to offer, for interested employees, Wellness opportunities such as free use of the City Gym, monthly on site Wellness education meetings, free annual health screenings, and other wellness related opportunities that are on site and/or free. This will be offered as an employee benefit in the same sense that the City currently offers an Employee Assistance Program (a certain number free counseling sessions at Ozark Guidance for those in short term stressful situations) or membership eligibility for the U-ark Credit Union or Fayetteville Public Schools exercise facility. Instead of a wellness premium, the incentives to participate will be a) improvement in one's health; and b) eligibility for participants to receive awards for active participation. The City's wellness efforts will be focused on reduction of tobacco use for plan participant smokers, and weight loss & nutrition for plan participants.

**SUMMARY OF STAFF RECOMMENDATIONS:**

Staff recommends that Council approve renewal of City paid Life and Disability insurance contracts, as well as approve the new contract with Blue Cross Blue Shield at the proposed City/Employee Contribution levels outlined in the memo and the insurance offerings as described above.

**BUDGET IMPACT:**

These planned insurance/benefit items are being budgeted for in the City's 2014 budget. The 2013 total health insurance premiums cost is \$4,289,300 for employee and City contributions combined. In 2014 such total health insurance premiums will cost \$5,890,900 (an increase of over 1.6 million dollars). If it is presumed that the plan enrollments stay roughly the same they currently are, it is estimated that the City will spend over \$500,000 in additional insurance costs for 2014. City staff and staff from the City's Benefits Broker, Gallagher Benefits Services, Inc., will be available at the City Council Agenda Session and City Council meeting to answer any questions the City Council may have.

**RESOLUTION NO. \_\_\_\_\_**

**A RESOLUTION APPROVING A 2014 EMPLOYEE BENEFITS PACKAGE**

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF FAYETTEVILLE, ARKANSAS:**

Section 1: That the City Council of the City of Fayetteville, Arkansas hereby approves the 2014 employee benefits package as recommended in the staff memorandum attached as Exhibit "A".

**PASSED and APPROVED** this 20<sup>th</sup> day of August, 2013.

APPROVED:

ATTEST:

By: \_\_\_\_\_  
**LIONELD JORDAN, Mayor**

By: \_\_\_\_\_  
**SONDRA E. SMITH, City Clerk/Treasurer**

The Standard Insurance Company

**CITY PAID LIFE INSURANCE**

<b>Benefit Amount</b>	1.5 times annual salary, to a maximum of \$175,000	
<b>Age Reductions</b>		
Age 65	35%	
Age 70	60%	
Age 75	80%	
Age 80		
<b>Options</b>		
Conversion	Included	
Waiver of Premium	Included	
Accelerated Life Benefit	Included	
	<b>Current</b>	<b>Renewal</b>
Life rate per \$1,000	\$0.11	\$0.13
AD&D Rate per \$1,000	\$0.04	\$0.04
Total Volume for 695 employees	\$46,840,650.00	
<b>Rate Guarantee</b>	<b>2 years</b>	

**CITY PAID LONG TERM DISABILITY INSURANCE**

<b>Definition of Disability</b>	Own Occupation - 24 months	
Duration of Benefits	ADEA	
Elimination Period	180 Days	
Max. Monthly Benefit	\$6,000	
Min. Monthly Benefit	\$50	
Integration	Full Family	
Mental Illness/Substance Abuse Li	24 months	
Rehabilitation Services	Included	
Survivor Income	Included	
Pre-existing	three/twelve	
Participation Requirement	Current enrollment	
<b>Rate Guarantee</b>	<b>2 years</b>	
	<b>Rates</b>	<b>Current</b> <b>Renewal</b>
		\$0.28    \$0.35
<b>Estimated Monthly Premium</b>	\$7,300.85	\$9,647.55

Current 2013 Health Insurance Premiums

(Sorted by Employee Contribution from least amount of contribution to most contribution)

Employee Only	Total Premium	Employer Contribution (%)	Employer Contribution (\$)	Employee Contribution (%)	Employee Contribution (\$)	Insured Status	Plan Used	Notes
Benton County	\$465.00	100%	\$465.00	0%	\$0.00	Self-Insured	PPO	
Little Rock	\$397.80	100%	\$397.80	0%	\$0.00	Fully Insured	POS	Only has POS
North Little Rock	\$410.69	100%	\$410.69	0%	\$0.00	Fully Insured	Regular POS	Has regular POS and Enhanced POS. Premium includes Medical, COBRA, dental, vision, and life premiums; they're bundled
Fayetteville	\$281.40	88%	\$247.72	12%	\$33.68	Fully Insured	PPO	Has both PPO and HDHP
Rogers	\$375.13	86%	\$324.25	14%	\$50.88	Fully Insured	PPO	Medical, Dental, and Prescriptions are bundled
Bentonville	\$282.61	86%	\$243.03	14%	\$39.58	Fully Insured	PPO	Only has PPO
Fort Smith	\$402.78	83%	\$335.78	17%	\$67.00	Self-Insured	PPO	
Washington County	\$349.56	79%	\$275.00	21%	\$74.56	Self-Insured	PPO	Only has PPO
University of Arkansas	\$363.52	73%	\$264.43	27%	\$99.09	Fully Insured	Point of Service	Has Classic Plan and Point of Service Plan.
Springdale	\$416.78	70%	\$291.75	30%	\$125.03	Fully Insured	PPO	Only has the Traditional PPO Plan; Rate plan includes dental, and life insurance
Siloam Springs	\$126.24	68%	\$86.24	32%	\$40.00	Self-Insured	PPO	Has a low deductible and high deductible plan. Numbers are for the low deductible
Fayetteville Public Schools	\$469.68	52%	\$242.98	48%	\$226.70	Self-Insured	Gold - POS	Gold plan is equivalent to point of service. Bronze is equivalent to HDHP. Silver is a mix of two
<b>Average</b>	<b>\$361.77</b>	<b>82%</b>	<b>\$298.72</b>	<b>18%</b>	<b>\$63.04</b>			
<b>Minimum</b>	<b>\$126.24</b>	<b>52%</b>	<b>\$86.24</b>	<b>0%</b>	<b>\$0.00</b>			
<b>Maximum</b>	<b>\$469.68</b>	<b>100%</b>	<b>\$465.00</b>	<b>48%</b>	<b>\$226.70</b>			
<b>Fayetteville Proposed</b>								
Fayetteville	\$386.93	80%	\$309.54	20%	\$77.39	Fully Insured	PPO	
<b>Average</b>	<b>\$370.56</b>	<b>81%</b>	<b>\$303.87</b>	<b>19%</b>	<b>\$66.69</b>			
<b>Minimum</b>	<b>\$126.24</b>	<b>52%</b>	<b>\$86.24</b>	<b>0%</b>	<b>\$0.00</b>			
<b>Maximum</b>	<b>\$469.68</b>	<b>100%</b>	<b>\$465.00</b>	<b>48%</b>	<b>\$226.70</b>			

(Sorted by Employee Contribution from least amount of contribution to most contribution)

Employee + Family	Total Premium	Employer Contribution (%)	Employer Contribution (\$)	Employee Contribution (%)	Employee Contribution (\$)	Insured Status	Plan Used	Notes
Bentonville	\$758.45	86%	\$652.19	14%	\$106.26	Fully Insured	PPO	Only has PPO
Rogers	\$850.90	84%	\$712.18	16%	\$138.72	Fully Insured	PPO	Medical, Dental, and Prescriptions are combined
Fayetteville	\$745.70	82%	\$612.07	18%	\$133.63	Fully Insured	PPO	Has both PPO and HDHP
North Little Rock	\$927.81	75%	\$695.86	25%	\$231.95	Fully Insured	POS	Has regular POS and Enhanced POS. Premium includes Medical, COBRA, dental, vision, and life premiums; they're bundled
University of Arkansas	\$1,151.06	74%	\$852.23	26%	\$298.83	Fully Insured	POS	Has Classic Plan and Point of Service Plan
Springdale	\$1,147.78	70%	\$803.45	30%	\$344.33	Fully Insured	PPO	Only has the Traditional PPO Plan; Rate plan includes dental, and life insurance
Fort Smith	\$1,103.62	68%	\$753.60	32%	\$350.02	Self-Insured	PPO	
Benton County	\$755.00	62%	\$465.00	38%	\$290.00	Self-Insured		
Little Rock	\$1,094.38	61%	\$669.80	39%	\$424.58	Fully Insured	POS	Only has POS
Siloam Springs	\$345.54	42%	\$145.54	58%	\$200.00	Self-Insured	PPO	Has a low deductible and high deductible plan. Numbers are for the low deductible
Washington County	\$755.16	36%	\$275.00	64%	\$480.16	Self-Insured	PPO	Only has PPO
Fayetteville Public Schools	\$1,538.32	33%	\$508.36	67%	\$1,029.96	Self-Insured	Gold - POS	Gold plan is equivalent to point of service. Bronze is equivalent to HDHP. Silver is a mix of two
<b>Average</b>	<b>\$931.14</b>	<b>64%</b>	<b>\$595.44</b>	<b>36%</b>	<b>\$335.70</b>			
<b>Minimum</b>	<b>\$345.54</b>	<b>33%</b>	<b>\$145.54</b>	<b>14%</b>	<b>\$106.26</b>			
<b>Maximum</b>	<b>\$1,538.32</b>	<b>86%</b>	<b>\$852.23</b>	<b>67%</b>	<b>\$1,029.96</b>			
<b>Fayetteville Proposed</b>								
Fayetteville	\$1,025.34	65%	\$666.47	35%	\$358.87	Fully Insured	PPO	
<b>Average</b>	<b>\$954.45</b>	<b>63%</b>	<b>\$599.97</b>	<b>37%</b>	<b>\$354.47</b>			
<b>Minimum</b>	<b>\$345.54</b>	<b>33%</b>	<b>\$145.54</b>	<b>14%</b>	<b>\$106.26</b>			
<b>Maximum</b>	<b>\$1,538.32</b>	<b>86%</b>	<b>\$852.23</b>	<b>67%</b>	<b>\$1,029.96</b>			



NOARK 2012 Benefits Survey Highlights

Health Insurance Section

55 Northwest Arkansas Employers

EMPLOYEE ONLY COVERAGE

- ◆ Average Deductible: \$895 (Fayetteville's \$1,000)
- ◆ Average total employee only premium: \$405.61 (Fayetteville's \$281.40)
- ◆ Average employee share of premium: 19.4% (Fayetteville's 12%)
- ◆

FAMILY COVERAGE (DEFINED SAME AS FAYETTEVILLE)

- ◆ Average Deductible: \$1,844 (Fayetteville's \$2,000)
- ◆ Average total family premium: \$955.64 (Fayetteville's \$745.70)
- ◆ Average employee share of premium: 32.6% (Fayetteville's 18%)

Arkansas Municipal League 2012 Compensation and Benefits Survey

26 Arkansas Cities

Average employer contribution employee only health insurance 91% (Fayetteville's 88%)

Average employer contribution family health insurance: 57% (Fayetteville's 82%)

Average TOTAL monthly family premium in dollars: \$717.00 (Fayetteville's \$745.70)

Fayetteville's 2013 insurance rates were a 22% increase from the year before. However, Fayetteville's 2013 insurance rates are still lower than many private sector employers and are similar to other Arkansas City employers. This would tend to support the City's Benefits Broker's assertion that when compared to other employers Fayetteville's pre-2013 health insurance prices were unusually low - and now are "catching up" to what are more normal marketplace prices. The City's Benefits Broker is Gallagher Benefits Services. They have nationwide expertise in employee benefits matters and serve many employers in our region and beyond.

<i>PPO (Traditional)</i>								
	1/1/2013 - 12/31/2013 at Current Contribution Level				1/1/2014 - 12/31/2014 New rates at New Contribution Level			
Rate Tier	2013 Total Monthly Premiums	2013 Monthly Employee Contribution*	2013 Monthly Employer Contribution	2013 Employee Cost Share %	2014 Total Monthly Premiums	2014 Monthly Employee Contribution	2014 Monthly Employer Contribution	2014 Employee Cost Share %
Single	\$281.40	\$33.68	\$247.72	11.97%	\$386.93	\$77.39	\$309.54	20.00%
Family	\$745.70	\$133.64	\$612.06	17.92%	\$1,025.34	\$358.87	\$666.47	35.00%

<i>HDHP (High Deductible)</i>										
	1/1/2013 - 12/31/2013 at Current Contribution Level				1/1/2014 - 12/31/2014 New rates at New Contribution Level					
Rate Tier	2013 Total Monthly Premiums	2013 Monthly Employee Contribution*	2013 Monthly Employer Contribution	2013 Employee Cost Share %	2014 Total Monthly Premiums	2014 Monthly Employee Contribution	2014 Monthly Employer Contribution	2014 Employee Cost Share %	Employer's Monthly Health Savings Account Contribution (same for 2013 and 2014) **	Total 2014 Employer Monthly Contribution (Premium + Health Savings Account Contribution)
Single	\$150.07	\$8.28	\$141.79	5.52%	\$204.11	\$10.21	\$193.90	5.00%	\$70.80	\$264.70
Family	\$397.67	\$21.80	\$375.87	5.48%	\$540.86	\$27.04	\$513.82	5.00%	\$156.66	\$670.48

\* 2013 Contribution rates shown are for employees hired prior to 1/1/2013. Employees hired after that date are already paying higher percentages of 18% for individual coverage (either plan) and 24% for family coverage (either plan).

\*\* Note: Per IRS rules, to be eligible for a Health Savings Account an employee must only be covered by their High Deductible insurance coverage. The money may only be spent on qualified medical expenses not covered by insurance, such as medical or prescription payments made due to the deductible not yet being met. In addition to the employer making contributions, employees are free to also contribute to their Health Savings Account with pre-tax dollar deducted from payroll.