

City of Fayetteville Staff Review Form



2014-0336

Legistar File ID

8/5/2014

City Council Meeting Date - Agenda Item Only
N/A for Non-Agenda Item

Missy Leflar

7/18/2014

Human Resources /
Chief of Staff

Submitted By

Submitted Date

Division / Department

Action Recommendation:

Staff recommends that Council approve the proposed 2015 employee benefits renewals, as discussed in the memo.

Budget Impact:

xxxx.xxxx.51xx.xx	Citywide
Account Number	Fund
N/A	N/A
Project Number	Project Title
Budgeted Item? <u>Yes</u>	Current Budget \$ 4,642,000.00
	Funds Obligated \$ -
	Current Balance \$ 4,642,000.00
Does item have a cost? <u>Yes</u>	Item Cost \$ 4,642,000.00
Budget Adjustment Attached? <u>No</u>	Budget Adjustment
	Remaining Budget \$ -

V20140710

Previous Ordinance or Resolution # _____



Original Contract Number: _____

Approval Date: _____

Comments: Since the health insurance is an insurance policy application for renewal to be submitted when/if Council approves such a submission, there is no contract to be signed. The same goes with the Health Savings Account administration, which if approved would require no new paperwork.

Paul A. Decker 7-21-2014

Don Ma 7-22-14



CITY COUNCIL AGENDA MEMO

To: Mayor Lioneld Jordan and City Council members

Thru: Don Marr, Chief of Staff

From: Missy Leflar, Human Resources Director *ML*

Date: July 18, 2014

Subject: Employee benefits renewals

PROPOSAL:

It is proposed that the City Council renew the City's employee benefits for 2015, 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 two (2) City paid benefits items coming up for renewal for 2014. One is for health insurance. The other is for Health Savings Account administration. These are the two items requiring Council approval.

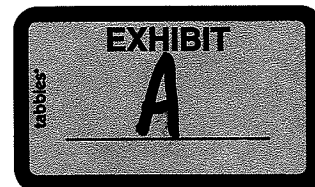
In addition, there is one employee paid benefits contract matters not requiring Council approval, since the employees pay for these benefits rather than the City. Just for Council's information, it is for the Delta Dental insurance renewal.

HEALTH SAVINGS ACCOUNTS

The City has for years used the services of Delta Bank & Trust for the administration of its employee Health Savings Accounts. Its customer service has been good. Delta Bank & Trust is in the process of being bought out by Simmons Bank. Simmons Bank has agreed to continue administration of the employee Health Savings Accounts in 2014 and 2015 with no new charges or price increases, while providing the same level of customer service.

The City's benefits broker, Gallagher Benefits Services, took competitive bids from other sources and each of the two other best bidders would charge an additional \$17,000+ and \$18,000+ if the City were to switch from its present provider to one of them.

Staff therefore recommends remaining with Delta Bank & Trust for the administration of employee Health Savings Accounts. This should maintain the same level of service with no price increase.



HEALTH INSURANCE

Last year the City had large health insurance premium increases due to high employee utilization of the insurance (112.67 %, meaning for every dollar paid in premiums, \$1.12 was spent by the insurance company on medical claims and prescriptions). The high premium increases caused a significant shift in employee enrollment away from the traditional PPO insurance into the High Deductible insurance. This shift has lowered the utilization rate thus far in 2014 (49.6% through April – although that would be anticipated to rise some as people meet their deductibles). This lower utilization rate has kept the premium increases for 2015 at a relatively low 7.2% (the City's benefits brokers estimate that 3% of this 7.2% increase is caused by Health Care Reform fee requirements). To put this in perspective, the national trend for health insurance premium increases being caused by medical inflation, Health Care Reform fees, and other factors independent of utilization itself is 8 ½ - 9 %. Thus a 7.2% increase in health insurance premiums is, when put in perspective, a relatively low increase.

It is proposed for the 7.2% increase to be handled in the following manner:

- Employees who have Employee Only coverage (regardless of Plan) will pick up 20% of the cost of the increase. This would be consistent with the fact that employees with Employee Only PPO coverage currently pay for 20% of their total premium cost, and it treats employees with Employee Only coverage the same regardless of which Plan they selected. The City will pick up the remaining 80% of the cost of the increase.
- Employees who have Family coverage (regardless of Plan) will pick up 35% of the cost of the increase. This would be consistent with the fact that employees with Family PPO coverage currently pay for 35% of their total premium cost, and it treats employees with Family coverage the same regardless of which Plan they selected. The City will pick up the remaining 65% of the cost of the increase.
- Please refer to the attached spreadsheets for details.

One of the realities that employers face when it comes to health insurance is that if the employer switches insurance companies too frequently then they will stop wanting to bid for that employer's business. Insurance companies know there will be "good years" and "bad years" for them with the same employer's claims, as far as whether and to what extent the insurance company makes a profit. They are more tolerant of the "bad years" if they have reason to believe that future "good years" are a possibility. Otherwise one "bad year" with an employer can be quite costly, especially if the employer switches companies the following year with no "good year" to balance out the year with the loss. For this reason, if an employer develops a reputation for changing insurance companies on a regular basis, the companies tend to lose interest in bidding for the account – or if they do, they may tend to bid extra high to cover any losses in case the employer switches again immediately the following year. An employer thus hurts itself in the long run if it switches health insurance companies too frequently.

The City has switched health insurance companies four times in the past eight years, including last year. Due to concerns about how insurance companies may develop a negative perception of the City as a potential health insurance client were it to switch again so soon, as well as the fact of the relatively low premium increase and the inherent disruption to employees anytime their health insurance coverage changes (some have to change doctors and/or can't get familiar prescriptions covered under a new policy), the City and its brokers deemed it the best course of action to not take competitive bids for health insurance for 2015.

Staff recommends a renewal with Arkansas Blue Cross Blue Shield for the 2015 employee health insurance, per the above.

SUMMARY OF STAFF RECOMMENDATIONS:

Staff recommends that Council approve renewal of its Blue Cross Blue Shield health insurance at the proposed City/Employee Contribution levels outlined in the memo and attached spreadsheets. Staff also recommends that Council approve the City renewing with Delta Bank & Trust for the administration of employee Health Savings Accounts, with the understanding that Delta Bank & Trust is in the process of being bought out by Simmons Bank.

BUDGET IMPACT:

These planned insurance/benefit items are being budgeted for in the City's 2015 budget.

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 that Council may have.

RESOLUTION NO. _____

A RESOLUTION TO APPROVE THE 2015 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 2015 employee benefits package as recommended in the staff memorandum attached as Exhibit "A".

PASSED and APPROVED this 5th day of August, 2014.

APPROVED:

ATTEST:

By:


LIONELD JORDAN, Mayor

By:

SONDRA E. SMITH, City Clerk/Treasurer

MONTHLY CALCULATIONS				
PPO Rate Tier	Total Monthly Premiums	Monthly Employee Contribution	Monthly Employer Contribution	Employee Cost Share %
2014 Single	\$386.93	\$77.39	\$309.54	20.00%
2014 Family	\$1,025.34	\$358.87	\$666.47	35.00%
2015 Single	\$414.79	\$82.96	\$331.83	20.00%
2015 Family	\$1,099.16	\$384.71	\$714.45	35.00%

HDHP (High Deductible)

MONTHLY CALCULATIONS						
HDHP Rate Tier	Total Monthly Premiums	Monthly Employee Contribution	Monthly Employer Contribution	Total Employee Cost Share % (for 2015 means prior 5% cost share plus assuming 20% of the increase for individual and 35% of the increase for family)	Employer's Monthly Health Savings Account Contribution (assumes same for 2014 & 2015)	Total Employer Monthly Contribution (Premium + Health Savings Account Contribution)
2014 Single	\$204.11	\$10.21	\$193.90	5.00%	\$70.80	\$264.70
2014 Family	\$540.86	\$27.04	\$513.82	5.00%	\$156.66	\$670.48
2015 Single	\$218.81	\$13.15	\$205.66	6.01%	\$70.80	\$276.46
2015 Family	\$579.80	\$40.67	\$539.13	7.01%	\$156.66	\$695.79

ANNUALIZED CALCULATIONS			
	Current Employee Participants (Excludes COBRA and Statutory Insureds, since they pay 100% for their coverage)	Current ANNUAL Cost to City at 2014 rates (Excluding Health Savings Account Contributions, which would not increase in 2015)	ANNUAL Cost to City if employees pay 20% of the individual increase and 35% of the family increase regardless of which Plan they are in (Excluding Health Savings Account Contributions)
PPO Individual	99	\$367,733.52	\$394,214.04
PPO Family	56	\$447,867.84	\$480,110.40
HDHP Individual	123	\$286,196.40	\$303,554.16
HDHP Family	339	\$2,090,219.76	\$2,193,180.84
TOTAL	617	\$3,192,017.52	\$3,371,059.44
Additional Cost to City for 2015			\$179,041.92

HDHP Rate Tier	2015 Total HDHP Monthly Premiums	DIFFERENCE	20% of 2015 Increase	35% of 2015 Increase	City's Portion of Increase	Employee 2014 premium plus 2015 Increase	TOTAL City 2015 Premium
Single	\$218.81	\$14.70	\$2.94		\$11.76	\$13.15	\$205.66
Family	\$579.80	\$38.94		\$13.63	\$25.31	\$40.67	\$539.13

