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City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 3, 2006  
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL  
FROM: JAMES K. HARTMANN, CITY MANAGER   
SUBJECT: BUDGET MEMO #9: INFORMATION ON HEALTH BENEFITS PROVIDED TO CITY EMPLOYEES

In preparation for the work session to be held Monday, March 6, 2006, the following information is provided to City Council in advance on health benefits provided to City employees.

**Health Insurance Options for Active Employees**

- Two Companies – Kaiser and Optimum Choice (MAMSI/United Health Care)
- Individual or Family Plan
- Health Maintenance Organization (HMO) or Point of Service (POS) plans

Number of Enrollees (Active Employees)\*

	KAISER			OPTIMUM CHOICE		
	HMO	POS	Total	HMO	POS	Total
Individual	375	9	384	317	124	441
Family	666	3	669	527	182	709
Total	1,041	12	1,053	844	306	1,150

\* 172 Full-Time/Regular employees not enrolled in health insurance plan

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**Health Insurance Premium Cost Sharing (\$ per month)\***

	Kaiser				Optimum Choice			
	HMO		POS		HMO		POS	
	Ind.	Fam.	Ind.	Fam.	Ind.	Fam.	Ind.	Fam.
<b>Employee Share</b>	\$ 0	\$ 0	\$152	\$358	\$ 0	\$ 0	\$ 49	\$ 109
<b>% of Total</b>	0%	0%	32%	32%	0%	0%	14%	13%
<b>City Share</b>	\$323	\$762	\$323	\$762	\$314	\$740	\$314	\$740
<b>% of Total</b>	100%	100%	68%	68%	100%	100%	86%	87%

\* Part-time employees pay between 43% and 66% of premium costs

**Current Health Insurance Co-Pays for Both Kaiser and Optimum Choice**

- Physician Visit – \$15
- Emergency Room Visit (waived if admitted) – \$50
- Prescription Drugs - \$10 to \$35
- Out-patient Hospital Visits – \$50

**History of Health Insurance Plan Design Changes Implemented to Reduce City Health Insurance Costs**

- July 1, 2000 Increased physician co-pays to \$10 per month for Kaiser and GWU health HMO Plans; implemented HMO option for Optimum Choice with \$15 physician co-pays (previously Optimum Choice was point-of-service POS only).
- July 1, 2001 Implemented \$20 physician co-pay with GWU health plan; changed the prescription drug co-pays under Optimum Choice to \$10 generic, \$20 preferred/brand, and \$35 brand.
- Jan. 2002 GWU Health Plan went out of business; went out to bid for health insurance and Kaiser and Optimum Choice reselected as most cost effective alternatives.
- July 1, 2002 Increased physician co-pay with Kaiser from \$10 to \$15 to be consistent with Optimum Choice plan for active employees.

- Jan. 2005 Implemented changes to Kaiser Medicare program for retirees (including \$10 physician co-pays.
- July 1, 2005 Initiated combined City Government and School program for health insurance, allowing Schools to offer Kaiser to school employees and reducing overall City and School costs.
- Jan. 2006 Implemented Medicare Part D for retirees. Kaiser retiree Medicare rates reduced January 1, 2006. Optimum Choice benefits still to be determined based on Medicare D prescription rebates.

**Comparison with Neighboring Jurisdictions of Health Benefits for Active Employees**

	Alexandria	Fairfax	Arlington	Montgomery	Prince Georges
<b>% of Premium Paid by Govt.</b>					
Full-time Employee	68% to 100%	75% to 85%	80%	76% to 80%	75% to 80%
Part-time Employee	43% to 66%	75% to 85%	80%	76% to 80%	75% to 80%
<b>Co-Pays</b>					
Physician Visits	\$15 for in plan services	\$10	\$10 to \$20	\$5 to \$20	\$15 to \$20
Prescriptions	\$10 to \$35	\$10 to \$40	\$13 to \$40	\$4 to \$35 with CareMark	\$6 to \$100 (with \$50 annual deductible)
Emergency Room (waived if admitted)	\$50	\$50	\$50	\$30	NA

**Projected Health Benefit Premium Increase for FY 2007**  
**(Assuming No Change in Plan Design)**

- Optimum Choice – 22.1%
- Kaiser – 12.8%
- Combined – 17.6%
- Additional cost budgeted for active employees due to premium increase – \$2.7 million
- Additional cost budgeted for retired employees due to premium increase – \$0.3 million

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**Possible Plan Design Changes Through Increased Co-Pays**

- 2.9% savings (about \$635,000)
  - Physician Specialist visit from \$15 to \$25
  - Emergency Room from \$50 to \$75
  - Out-patient hospital services from \$50 to \$100
  - Prescription drugs from \$10 (generic) /\$20 (formulary) /\$35 (brand) to \$25 (formulary) / \$40 (brand) – with no change to generic

**Other Potential Options to Reduce Costs**

- Shared Risk Rating with Schools
- Self-Funding
- More Employee Premium Cost Sharing

**Current Retiree Health Insurance benefits**

- Maximum contribution currently \$260 a month or \$3,120 a year
- Applied to health plan or reimbursed
- 803 retirees currently served
  - 581 in City health plans
  - 222 in non-City plans but reimbursed
- average cost \$2,728 a year

**History of Maximum City Contributions Per Month for Retiree Health Coverage**

July 1, 1995-98	July 1, 1999	July 1, 2000	July 1, 2001	July 1, 2002	July 1, 2003	July 1, 2004	July 1, 2005	July 1, 2006
\$99.62	\$100	\$106.83	\$170	\$197	\$215	\$240	\$260	TBD