

City of Alexandria Executive Summary of COMPARISON Results

Report Overview and Methodology

Using our COMPARISON database and methodology, Watson Wyatt compared the benefits offered by City of Alexandria to five jurisdictions with which the City of Alexandria (“The City”) competes for talent. The five “peer” employers included in this study are:

- Arlington County Government
- Fairfax County Government
- Montgomery County Government
- Prince George’s County Government (General Employees only)
- Prince William County Government

Benefit programs offered by City and County Government entities sometimes vary by employee classification. For this reason, we prepared five separate COMPARISON reports for the City of Alexandria – one for each of the following employee groups:

- General Employees
- Sworn Sheriff
- Sworn Police
- Sworn Emergency Rescue Technician (ERT)
- Sworn Fire

The COMPARISON reports present results for all benefits combined, for related benefits combined (benefit groups) and for each benefit individually. Each report evaluates the following benefit groups:

- Retirement (Defined Benefit, Defined Contribution, Retiree Medical and Retiree Life)
- Health (Medical, including pharmacy, and Dental)
- Paid Time Off (Vacation, Holiday and Sick Leave)
- Security (Life Insurance and Disability)

Benefit groups were created to show the interaction of various related benefits because in certain areas different employers will provide one form of the benefit rather than another. For example in the Retirement benefit category, one employer may offer a defined contribution plan rather than a defined benefit plan. These values have been grouped under the Retirement heading to provide a better comparison of the retirement income benefit provided by each employer in the study.

The COMPARISON methodology generates *relative values* that represent the annual cost of each benefit program, without regard to the employer’s funding or experience. For each benefit subsidized by City of Alexandria, the employer-provided value of the benefit is set to 100. The comparative value of each other employer’s program is then established, using City of Alexandria as a baseline. These values reflect the cost of the benefit, not the value perceived by employees.

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It is important to keep in mind that employee benefits are multi-faceted and therefore comparing them in a meaningful way is a complex task. This executive summary report is intended to provide additional explanation and commentary to provide a context for the numerical “rankings” provided in the report and to facilitate a clearer understanding of the results.

Another key point is that the value of each benefit plan carries a different weight toward the ranking of its benefit group and total benefits overall. Therefore, the combined value may be influenced more by one benefit than another. For example, a medical benefit plan influences the total value of a benefit program more than life insurance. For this reason, you may find the individual benefit comparisons and the benefit group comparisons more informative for future decision making. Ultimately, benefit programs that rank below average among the peer group can create a disadvantage for attracting and retaining talented employees. The following observations identify the key highlights and shortfalls in the City of Alexandria benefit programs.

Benefit Plan Rankings

The table below summarizes the City of Alexandria’s benefit plan ranking results from each of the five reports. The remainder of this executive summary will discuss each benefit group in more detail.

	General				
	Employees	Sworn Sheriff	Sworn Police	Sworn ERT	Sworn Fire
Retirement	1st	Tied for 3rd	4th	4th	5th
Defined Benefit	1st	4th	4th	2nd	4th
Defined Contribution	Tied for 4th	Tied for 3rd	Tied for 3rd	Tied for 3rd	Tied for 3rd
Retiree Medical	4th	3rd	3rd	3rd	3rd
Retiree Life	1st	1st	1st	1st	1st
Health	Tied for 2nd	Tied for 2nd	3rd	3rd	Tied for 2nd
Medical	1st	1st	1st	Tied for 2nd	1st
Dental	Tied for 5th	5th	5th	5th	5th
Paid Time Off	6th	5th	5th	5th	5th
Vacation	6th	5th	5th	5th	5th
Holiday	6th	5th	5th	5th	5th
Sick	6th	5th	5th	5th	5th
Security	1st	1st	1st	1st	1st
Life Insurance	2nd	2nd	2nd	2nd	2nd
STD	6th	5th	5th	5th	5th
LTD	1st	1st	1st	1st	1st

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Retirement Benefits

The Retirement benefit group includes defined benefit, defined contribution, retiree medical and retiree life plans. The rankings for each of these benefits and the Retirement benefit group overall vary by employee group, as illustrated in the table below.

	General Employees	Sworn Sheriff	Sworn Police	Sworn ERT	Sworn Fire
Retirement	1st	Tied for 3rd	4th	4th	5th
Defined Benefit	1st	4th	4th	2nd	4th
Defined Contribution	Tied for 4th	Tied for 3rd	Tied for 3rd	Tied for 3rd	Tied for 3rd
Retiree Medical	4th	3rd	3rd	3rd	3rd
Retiree Life	1st	1st	1st	1st	1st

Of the retirement benefits evaluated, Defined Benefit (DB) plans, typically have the greatest value across all jurisdictions. Therefore DB plans are the biggest driver in the rankings for the Retirement benefit group. Comparing the value of DB plans among different jurisdictions is complicated due to the number of different factors that affect the cost of benefits, such as early retirement provisions, employee contributions, and temporary supplements. Pension plan features, in particular early retirement provisions, affect when employees retire. The values computed in this study reflect that some employees will elect to retire early if they are eligible for benefits.

Following are some observations on the DB plans valued in this study:

- The DB plan for ERT ranks high, in part, because other jurisdictions require employee contributions and City of Alexandria does not.
- The DB plans for Fire and Police rank low because other jurisdictions have somewhat better early retirement provisions. Some of the jurisdictions also have pre-Social Security age supplements, which City of Alexandria does not.
- The DB plan for Sheriffs essentially ranks in the middle of the other jurisdictions.
 - City of Alexandria has more value because it doesn't require employee contributions, while others do. However, the Sheriff plan benefit formula may not be quite as valuable as some jurisdictions. In addition, some jurisdictions have pre-Social Security age supplements which make those plans more valuable.
 - City of Alexandria is the only jurisdiction that does not have an unreduced early retirement provision at 25 years of service for the Sheriff plan. This makes the City's plan somewhat less valuable.
 - Other jurisdictions credit unused sick leave toward early retirement eligibility, whereas the City of Alexandria does not include sick leave. While this is not measured in the study, it is a more generous provision than the City's plan offers.

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- The City's DB plan for General Employees ranks first for two main reasons.
 - The City of Alexandria does not require employee contributions, whereas other jurisdictions do.
 - The City of Alexandria plan has a more generous pension formula, based on adding the State plan plus the City supplement (1.7% State plan, 0.8% City supplement).

In addition to defined benefit plans, the report values other types of benefits in the Retirement group. Following are some comments on these other retirement benefits:

- The City of Alexandria Defined Contribution (DC) plans, along with several other jurisdictions, have no employer match.
- In all City of Alexandria plans, Retiree Medical coverage ranks near the middle of the peer group. It does not comprise a large share of the total value of City of Alexandria benefits, mainly because retirees pay most of the cost.
- Retiree Life insurance is 100% employer-paid for all City of Alexandria plans, which is a factor in why it individually ranks first across all peers. However, since the cost of life insurance is a relatively small component of the overall retirement benefits program, it is not a big driver in the overall ranking for the Retirement benefit group.

Recommended enhancements to retirement benefits will represent additional cost to the City of Alexandria. The cost impact of plan changes for DB plans is hard to predict and should be evaluated by the City's actuary before finalizing any plan changes. Projections of cash funding needs and the potential volatility of future funding needs should be carefully examined. In contrast, the costs of changes in the DC plan will typically have better predictability and less volatility for City of Alexandria over time than changes in defined benefit and retiree medical plans. However, shifting benefit dollars from DB plans to DC plans also shifts investment risk from City of Alexandria to the employees.

Some ways in which the City of Alexandria could enhance the current retirement benefits are to review the early retirement provisions of the DB plans for Sheriff, Police, and Fire to determine if they need to be more competitive with other jurisdictions, and to consider offering a match on the 457 employee savings plan.

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Health Benefits

The Health benefit group of the report includes medical and dental plans. The rankings for each of these benefits and the Health benefit group overall are illustrated in the table below.

	General Employees	Sworn Sheriff	Sworn Police	Sworn ERT	Sworn Fire
Health	Tied for 2nd	Tied for 2nd	3rd	3rd	Tied for 2nd
Medical	1st	1st	1st	Tied for 2nd	1st
Dental	Tied for 5th	5th	5th	5th	5th

Medical (including Prescription Drug)

This report is designed to value the most prevalent medical plan for each jurisdiction, which is defined as the plan that has the highest percentage of enrollment. For City of Alexandria, the Kaiser HMO plan was valued. The most prevalent medical plan type of the five other jurisdictions in this study is as follows: two HMO plans, two POS plans, and one PPO plan. Arlington, Fairfax and Montgomery Counties offer a Kaiser HMO plan as well, but it was not valued in this study because it is not the most prevalent plan by enrollment. Each of the reports summarizes the provisions for these Kaiser HMO plans in a separate table, "Kaiser HMO - Table 2 (Not Valued)", but these additional Kaiser plans are not valued or ranked.

Based on our conversations with City of Alexandria, we understand that there are two medical plans in which a significant number of City employees are enrolled: Kaiser and United Healthcare. It is important to note that not all City of Alexandria employees are enrolled in the Kaiser HMO plan valued in this report. Therefore, the rankings and values are based on the Kaiser HMO and do not represent the benefit value for those employees enrolled in the United Healthcare plan.

Medical benefits rank 1st for all City of Alexandria groups except ERT, which ranks Tied for 2nd. Following are some of the highlights of the City’s Kaiser HMO medical plan features versus the peer group:

- City of Alexandria's office visit copays (\$15 Primary Care Physician (PCP)/\$25 Specialist) are slightly above the peer group average (\$13 PCP/\$19 Specialist). These copays are within the peer group range of \$10 to \$20 for PCP and \$10 to \$35 for Specialist.
- City of Alexandria's emergency room copay (\$75) is higher than the peer group average (\$65 for General Employees and \$69 for other employee groups), but is within the peer group range of emergency room copays offered (\$25 to \$100).
- All of the peer jurisdictions including City of Alexandria have 100% coinsurance and no deductible in-network. (HMO plans cover services that are in-network only.)

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- City of Alexandria's HMO plan design imposes stricter provider network rules on employees than the PPO or POS plan designs offered by Fairfax, Montgomery and Prince William Counties. For members that enroll in the Kaiser HMO, no benefits are payable for services received outside of the Kaiser network (except for emergency care, which is covered at 100% and prescription drug, where there is a benefit, at a slightly higher employee cost, for non-Kaiser retail pharmacies.).
- The City's three-tier prescription drug copay design and the price differential by tier compares favorably to what is currently considered "best practice" for prescription drug plans.
 - All but one jurisdiction in the study offer three-tier prescription drug copays for retail drugs.
 - The average drug copays for the peer group are \$9/\$20/\$32 for generic/brand formulary/brand non-formulary.
 - City of Alexandria's copays of \$10/\$20/\$35 for generic/brand formulary/brand non-formulary are very consistent with the group average.
 - Prince George's County Government (in the General Employees report only) offers a coinsurance benefit for brand name prescription drugs (tiers 2 and 3). This benefit is not factored into the average copay figures described above.

In summary, City of Alexandria's medical and prescription drug plan benefits are in line with the peer group, or in some cases, slightly lower. The medical benefit ratio ("percent of paid claims"), which represents the percent of covered expenses that are paid by the plan, is similar among the peer group, indicating that all of these medical plans pay a high percentage of the costs at the point of care. However, the ranking of medical plans incorporates several factors, including benefit ratio, plan design features, plan type, cost and employer contribution amount. The highest ranked jurisdiction will not necessarily have the highest score on all these factors.

The City of Alexandria is ranked 1st in the peer group for medical benefits, although some of the City's plan design features are less rich than the group average. The City's high ranking is driven by the relatively low percentage employee contribution towards the cost of medical benefits, as compared to the peer group. City of Alexandria charges 10% of the premium rate for single employees (vs. 15% to 36% for the others), and 10% for families (vs. 20% to 36% for the others). The ranking is based on the employer value, which is the total value of the plan, less the employee contribution towards cost. As a percent of the total medical plan value, the employer value is the largest for City of Alexandria.

Based on our review of the City's most prevalent medical plan, we do not recommend any changes to the City's medical benefits. The City may want to focus on promoting existing health-related programs and activities, which are perceived as valuable to both employers and employees, without adding additional plan cost. The City of Alexandria may want to talk with their current medical carriers about benefits that can improve employee health and productivity, such as chronic disease management, maternity management, health decision support and a healthy/supportive work environment. These programs are frequently part of employers'

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existing medical plans, and tend to be more highly utilized when the employer provides effective promotion and education around the services available. Health management programs can help improve employees' health and wellness, reduce absenteeism and increase productivity and work efficiency – results that represent a return on investment to employers.

Dental Benefits

Based on employer provided value, the City of Alexandria's Dental plan ranks at the bottom of the peer group in all five reports. Overall, the City's dental plan design is fairly competitive. However, the key driver of the low dental ranking is that City of Alexandria's dental plan is 100% employee paid. Following are some comments on dental plan design features:

- Plan paid coinsurance for Minor (Class 2) charges and Orthodontia is about 15% lower than the peer group average.
- City of Alexandria and Prince George's County (General Employees report only) are the only two comparators with no annual dental deductible (in-network).
- The City's \$10 copay per office visit is an unusual dental plan feature.
- Only one other comparator has a completely employee-paid dental plan (Prince George's County – included in the General Employees report only). All of the other employers contribute at least 50% of the Core dental plan cost.

The City of Alexandria may want to consider providing an employer contribution towards the cost of dental coverage, to be more in line with the peer group. One way this can be achieved affordably is by offering a high/low dental option. For example, the City pays 50% of the cost of a low dental plan, and employees have the option to “buy up” to a high dental plan.

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Paid Time Off Benefits

The Paid Time Off benefit group includes vacation, holiday and sick leave plans, as shown in the table below. Vacation and holiday plan values are calculated by multiplying each eligible employee's daily pay rate by the number of days that the employee receives under the plan. It is assumed that employees take all leave or receive cash for the current year's accrual. Holidays include fixed days, floating days or personal days. Values for all disability benefits (sick leave, STD and LTD) are calculated together and then allocated to the individual benefits based on the disability definition. (See the Disability section of this report for a further explanation of the definitions.)

	General Employees	Sworn Sheriff	Sworn Police	Sworn ERT	Sworn Fire
Paid Time Off	6th	5th	5th	5th	5th
Vacation	6th	5th	5th	5th	5th
Holiday	6th	5th	5th	5th	5th
Sick	6th	5th	5th	5th	5th

City of Alexandria ranked at the bottom of the peer group in all five reports for vacation, holiday and sick leave. Some observations on paid time off plans are as follows:

- The City offers 11.0 holidays per year, as compared the peer group average of 12.3 holidays for General Employees and 11.9 holidays for all other groups.
- All jurisdictions in the peer group offer more than the 11 holidays offered by City of Alexandria.
- All of the jurisdictions offer a vacation schedule that varies based on years of service. The plans range from 13 days minimum to 26 days maximum. City of Alexandria has the most years of service groupings in the schedule and ranks in last place.
- City of Alexandria offers 8 sick leave days, as compared to 13 to 15 days offered by the peer group.

The City of Alexandria has implemented a change to the paid time off policy since the data was collected for this report. The new policy includes one additional paid day of annual leave and is effective 7/1/2009.

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Security Benefits

City of Alexandria's Security plans – including life insurance, short term disability (STD) and long term disability (LTD) – rank in 1st place among the peer group. Security benefits are very valuable as they protect employees and their dependents by providing income benefits in the event of death or disability.

	General Employees	Sworn Sheriff	Sworn Police	Sworn ERT	Sworn Fire
Security	1st	1st	1st	1st	1st
Life Insurance	2nd	2nd	2nd	2nd	2nd
STD	6th	5th	5th	5th	5th
LTD	1st	1st	1st	1st	1st

Life Insurance

City of Alexandria's basic life insurance plan is ranked in 2nd place for all employee groups. The life insurance benefit level offered is competitive among the peer group and the premiums are 100% employer-paid.

- The City’s benefit is 2.0 x salary with a \$750,000 maximum.
- The peer group ranges from 1.0 to 2.0 times pay with a maximum benefit ranging from \$50,000 to unlimited.
- Only one employer (Montgomery County) requires employee contributions for basic life insurance.

We do not recommend any changes to the City of Alexandria’s life insurance benefits.

Disability

The COMPARISON methodology values disability programs by combining sick leave, short term disability (STD) and long term disability (LTD) under one calculation, and then allocating the “score” to these three benefit areas based on number of working days. The allocation of working days is as follows: Sick leave = first 10 days; STD = Day 11 through 6 months; LTD = after 6 months. Sick leave results are included in the Paid Time Off benefit group. This breakdown is used in order to eliminate differences in plan values that result from terminology. For example, Employer A might have up to six months of sick leave, but does not have an STD program. Employer B might have two weeks of sick leave, but offers an STD benefit after the expiration of sick leave. In application, the benefit that employees receive from Employer A and Employer B may be comparable even though the paid time off is provided under different benefit plans.

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Due to the COMPARISON methodology described above, the individual ranking of disability benefits often requires some additional explanation. The only peers with formal STD benefit plans are Prince George's County (included in the General Employees report only) and Arlington County. Although the City of Alexandria does not offer a formal STD plan, the report shows a value under the STD benefit category because the City's LTD coverage begins at 4 months. City of Alexandria's STD benefit value for ranking purposes is based on the LTD benefit duration between 4 months and 6 months.

STD ranks in last place for City of Alexandria, although other employers also do not offer a formal STD plan. This is due in part to the valuation of sick leave benefits for the first 10 days of leave. Some of the other jurisdictions provide more sick leave days than the City, which compensates in part for having no formal STD plan. City of Alexandria and others in the peer group offer carryover of unused sick days, which can be banked to use in case of a short term illness or disability. Sick leave carryover provisions are not valued in this report.

The City of Alexandria's LTD plan ranks 1st among the employers that offer LTD coverage. In the General Employees report, LTD is offered by City of Alexandria, Fairfax County and Prince George's County. In all other reports, LTD is offered by City of Alexandria, Fairfax County and Montgomery County. Although Arlington County does not have a formal LTD plan, the report shows a value under the LTD category because Arlington County's STD coverage continues for 52 weeks. Arlington County's LTD benefit value is based on the STD benefit duration from 26 weeks to 52 weeks. The City's LTD plan is ranked so high because:

- It is 100% employer-paid (vs. 100% employee paid for Fairfax and Prince George's County, and 20% employee paid for Montgomery County).
- The City's monthly LTD benefit is 60% of pay up to \$5,000 maximum (vs. 50% to 60% of pay up to a maximum ranging from \$2,500 to \$3,500 for the other jurisdictions offering LTD).

We recommend that the City evaluates the current disability program, to ensure that they are providing adequate income protection in the "gap" between sick leave (8 days) and long term disability coverage (4 months). Some approaches to consider are offering an employee-pay-all short term disability (STD) plan, or additional sick days to help with short term illnesses.

Work-Related Benefits

Of the various potential "Work Life" benefits included in our study, City of Alexandria's number of programs ranks in the top three of the six agencies, just slightly below Fairfax County and Arlington County. Although many of these benefits may not be applicable to City of Alexandria's population and work environment, some require little or no cost to the employer and are appreciated and perceived as valuable to employees.

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City of Alexandria may also consider offering certain other work life benefits, such as Long Term Care insurance. Long Term Care insurance premiums are paid entirely by the employees and the costs under a group plan are typically significantly less than purchasing this insurance individually. This also applies to miscellaneous “voluntary” group insurances such as group auto or homeowners insurance. Voluntary benefits are 100% employee-paid but are perceived as valuable to employees).

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Conclusion

Comparing a variety of employer benefits with those offered in the marketplace can help organizations attract and retain the caliber of employees needed to provide excellence in the workplace. The current City of Alexandria benefits program overall is ranked in 1st place for the General Employees, in 4th place for Sworn Sheriff, Sworn Police and Sworn ERT, and 5th place for Sworn Fire. With the exception of the General Employees, the benefits are below average in the competitive peer group represented in this study.

Overall, City of Alexandria's program is comparable to the bottom half of the jurisdiction benefit plans valued. In some benefit areas, including Paid Time Off (for all groups) and Retirement (except for General Employees), the City is significantly behind the other jurisdictions. Following are some recommendations that City of Alexandria may want to consider, to enhance benefits and bring the City's program more in line with its competitors:

- Review the early retirement provisions of the Sheriff, Police, and Fire defined benefit retirement plans to determine if they need to be more competitive with other jurisdictions.
- Consider offering a match on the 457 employee savings plan.
- Promote existing programs aimed at improving the health and productivity of employees (e.g. disease management and wellness programs).
- Provide an employer contribution towards the cost of dental coverage, perhaps by offering a high/low dental option.
- Provide one additional day of paid leave. (This change has been implemented since the data was collected for this report, and will be effective 7/1/2009).
- Evaluate the current disability program, to ensure that the City is providing adequate income protection in the "gap" between sick leave (8 days) and long term disability coverage (4 months).
- Consider voluntary benefits – they are 100% employee-paid but are perceived as valuable to employees.

As with any decision of this kind, it will be important for the City of Alexandria to assess the financial resources available for benefit enhancements, as well as the best "cultural fit" of the benefits package offered to the population of benefits-eligible employees. Since benefit improvements will result in additional costs to City of Alexandria, all benefit changes should be modeled in order to estimate the cost to the City. Watson Wyatt can assist City of Alexandria in exploring further or carrying out the recommendations outlined in this report.