

*City of Alexandria, Virginia*

MEMORANDUM

DATE: MAY 3, 2001

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER <sup>PS</sup>

SUBJECT: BUDGET MEMO # 44: RETIREE'S HEALTH INSURANCE COSTS

In response to questions that were raised by City Council at the last budget work session, the following information is provided about the City's program which provides a monthly health premium subsidy to eligible former City government employees who are now retired.

**City Program:** The City currently provides a maximum subsidy of up to \$106.83 per month (\$1,282 per year) to eligible City government retirees to cover a portion of the retiree's health premium costs for any of the three health insurance plans (with 30 options) the City offers, or for health insurance plans that the retiree may have obtained either through a spouse, subsequent post-City employment, or in the open market. Currently, there are 435 retirees who take advantage of this City program, with 241 retirees subsidized for a portion of the cost of their participation in City-sponsored health plans. The remaining 194 retirees are reimbursed for non-City sponsored health insurance premium costs. In the event that the retiree's premium costs are less than the maximum City subsidy, then the City reimburses up to the actual amount of the retiree's out-of-pocket premium expenses. The monthly health premium costs, of approximately 100 retirees, are currently less than the City maximum monthly subsidy of \$106.83.

In monthly and annual terms, the history of the City's health insurance subsidy for retirees is as follows:

<u>Fiscal Year</u>	<u>Monthly Subsidy</u>	<u>Annual Subsidy</u>
FY 1979 to FY 1989	\$ 5.00	\$ 60.00
FY 1990	55.11	661.32
FY 1991	58.00	696.00
FY 1992	75.00	900.00
FY 1993	86.25	1,035.00
FY 1994	94.88	1,138.56
FY 1995	99.62	1,195.44
FY 1996	99.62	1,195.44
FY 1997	99.62	1,195.44
FY 1998	99.62	1,195.44
FY 1999	99.62	1,195.44
FY 2000	100.00	1,200.00
FY 2001	106.83	1,281.96
FY 2002 (proposed)	120.00	1,440.00

In order to provide a comparison of how the monthly subsidy relates to total health premiums and retiree out-of-pocket premium costs, a comparison chart (Attachment I) has been developed that shows the City subsidy and retiree monthly premium costs, for FY 1992 and FY 2002, for a sample of the thirty City health insurance options that a retiree can choose from. It should be noted that health plans (plan designs, co-payments, etc.) have changed over the last eleven years so the comparisons in this chart reflect health plans that are similar but not identical. In addition to the cost comparisons, the City's percentage share of the premium costs has been calculated for both years.

The data indicate that in most, but not all, circumstances the City's share, expressed as a percentage of total premium costs, has not kept pace since FY 1992 with the increasing health insurance costs as represented by the premium rates. This is why in the FY 2002 proposed budget, I recommended the largest increase in the City's share of retiree health costs since FY 1993. This increase of 12%, to \$120 per month (\$1,440 per year), will start to compensate for the generally declining City share during the last ten years.

Attachment I shows that the changes in cost shares between the City and the retiree vary. In some cases, such as MAMSI Family coverage (an option that a younger retiring public safety employee with dependent children might choose), the City's share has decreased from 22% in FY 1992 to 16% in FY 2002. In other cases, such as Kaiser's Family Plan, the City's share has stayed at 21%. In the case of Kaiser's Individual Plan, the City's share has increased from 53% in 1992 to 62% in 2002. Also, for some programs, such as Kaiser's Senior Advantage Program for one person, the City share of the costs for FY 2002 at a \$120 per month subsidy would be 86%.

As might be expected, with a fixed City share regardless of plan chosen, the City's share is the highest for individual and two-person plans, and the lowest for family plans. Also, the City's share tends to be higher for those retirees over 65, as Medicare (towards which the City and the retiree contributed during the retiree's career with the City) helps reduce overall costs. Of the 241 retirees participating in the City's three health plans, 110 are over age 65. Of the 194 retirees who receive health care reimbursement who are not in a City health plan, 122 are over age 65.

Attachment II shows all three plans that the City offers its retirees, with the proposed rates for FY 2002. As noted in budget memo #28 (p. 259, question #9), starting in FY 2002, the monthly health subsidy will be continued (on a prospective basis and at the same rate) for spouses of City retirees upon the death of the retiree who was eligible for, and was receiving, the City health insurance subsidy at the time of death.

For each \$10 per month increase in the City's share beyond the \$120 per month (\$1,440 per year) funded in the FY 2002 proposed budget, the City cost would be \$40,600 per year. If the City share was increased to \$150 per month (\$1,800 per year), then the cost increase in FY 2002 would be \$121,800 per year.

It is my plan for the FY 2003 budget, that I will look at further improvements in the City's subsidy of retiree health insurance costs.

**School Retirees:** The Alexandria City Public Schools provides a similar subsidy to eligible School retirees who purchase health insurance through the Schools. The Schools do not reimburse retirees for their premium costs if they choose to be covered under a non-school plan (such as through their spouse's employer). Currently, the Schools provide a \$104.60 per month subsidy (\$1,255.20 per year). The School

Board approved budget includes a 10% increase in the subsidy to \$115 per month (\$1,380 per year). The Schools have budgeted \$258,000 in FY 2002 to cover the total costs of their program. While the City's and the School's programs do not work in lockstep, they are similar. As a result, if the City raised its subsidy rate significantly beyond \$120 per month, it is probable that the School Board (or the City) could be requested by School retirees to fund a similar increase for School retirees either in FY 2002 or FY 2003. If the School retiree subsidy were raised from \$115 to \$150 per month (\$1,800 per year), it is estimated the additional cost would be \$88,200 per year.

**Attachments:**

- I. Retiree health insurance costs (FY 1992 and FY 2002)
- II. Retiree health rates effective July 1, 2001 (FY 2002)

**CITY OF ALEXANDRIA  
RETIREE HEALTH INSURANCE MONTHLY COSTS (FY 1992 and FY 2002)**

HEALTH PLAN	TOTAL COST	FY 1992		FY 2002		
		CITY COST	RETIREE COST	TOTAL COST	CITY COST	RETIREE COST
<b><u>KAISER (HMO)</u></b>						
Individual	\$140	\$75	\$65	\$195	\$120	\$75
		53%	47%		62%	38%
Two	-	-	-	\$390	\$120	\$270
		-	-		31%	69%
Family	\$364	\$75	\$289	\$565	\$120	\$445
		21%	79%		21%	79%
Individual Medicare 65+ <sup>1,3</sup>	\$81	\$75	\$6	\$206	\$120	\$86
		92%	8%		58%	42%
Senior Advantage <sup>2,3</sup>	-	-	-	\$139	\$120	\$19
		-	-		86%	14%
<b><u>MAMSI (POS)</u></b>						
Individual	\$135	\$75	\$60	\$243	\$120	\$123
		55%	45%		49%	51%
Two	-	-	-	\$465	\$120	\$345
		-	-		26%	74%
Family	\$339	\$75	\$264	\$729	\$120	\$609
		22%	78%		16%	84%
Medicare 65+	\$109	\$75	\$34	\$207	\$120	\$87
		69%	31%		58%	42%

<sup>1</sup>Plan is closed to new employees and is likely to be discontinued in FY 2003 by Kaiser

<sup>2</sup>Plan enrollment limited by Kaiser

<sup>3</sup>Example is a plan for one person

**CITY OF ALEXANDRIA FY 2002  
RETIREE HEALTH RATES EFFECTIVE JULY 1, 2001**

PLAN	HMO (IN-PLAN COVERAGE ONLY)						POS (IN-PLAN & OUT OF PLAN COVERAGE)					
	FY 2001 TOTAL COST	FY 2001 CITY COST	FY 2001 RETIREE COST	FY 2002 TOTAL COST	FY 2002 CITY COST	FY 2002 RETIREE COST	FY 2001 TOTAL COST	FY 2001 CITY COST	FY 2001 RETIREE COST	FY 2002 TOTAL COST	FY 2002 CITY COST	FY 2002 RETIREE COST
<b>KAISER</b>												
Individual	\$182.27	\$106.83	\$75.44	\$194.78	\$120.00	\$74.78	\$230.84	\$106.83	\$124.01	\$260.06	\$120.00	\$140.06
Two	\$364.54	\$106.83	\$257.71	\$389.57	\$120.00	\$269.57	\$461.69	\$106.83	\$354.86	\$520.13	\$120.00	\$400.13
Family	\$528.58	\$106.83	\$421.75	\$564.87	\$120.00	\$444.87	\$669.45	\$106.83	\$562.62	\$754.18	\$120.00	\$634.18
<b>*Medicare 65+</b>												
*Individual	\$159.22	\$106.83	\$52.39	\$206.18	\$120.00	\$86.18	NA			NA		
*Two	\$317.99	\$106.83	\$211.16	\$412.35	\$120.00	\$292.35	NA			NA		
*One Med/One Not	\$341.31	\$106.83	\$234.48	\$411.78	\$120.00	\$291.78	NA			NA		
<b>KAISER- SR ADVG*</b>												
*Individual	\$82.52	\$82.52	\$0.00	\$138.73	\$120.00	\$18.73	NA			NA		
*Two	\$165.04	\$82.52	\$82.52	\$277.46	\$120.00	\$157.46	NA			NA		
*One Med/One Not	\$264.79	\$82.52	\$182.27	\$344.33	\$120.00	\$224.33	NA			NA		
<b>GWUHP**</b>												
Individual	\$202.62	\$106.83	\$95.79	\$227.00	\$120.00	\$107.00	\$252.75	\$106.83	\$145.92	\$282.00	\$120.00	\$162.00
Two	\$397.04	\$106.83	\$290.21	\$445.01	\$120.00	\$325.01	\$495.50	\$106.83	\$388.67	\$553.02	\$120.00	\$433.02
Family	\$509.65	\$106.83	\$402.82	\$575.74	\$120.00	\$455.74	\$635.98	\$106.83	\$529.15	\$714.32	\$120.00	\$594.32
<b>MAMSI</b>												
<b>Under 65</b>												
Individual	\$198.11	\$106.83	\$91.28	\$213.05	\$120.00	\$93.05	\$226.16	\$106.83	\$119.33	\$243.21	\$120.00	\$123.21
Two	\$379.13	\$106.83	\$272.30	\$407.72	\$120.00	\$287.72	\$432.80	\$106.83	\$325.97	\$465.43	\$120.00	\$345.43
Family	\$594.33	\$106.83	\$487.50	\$639.14	\$120.00	\$519.14	\$678.47	\$106.83	\$571.64	\$729.63	\$120.00	\$609.63
<b>Medicare 65+</b>												
Individual	\$168.39	\$106.83	\$61.56	\$181.09	\$120.00	\$61.09	\$192.24	\$106.83	\$85.41	\$206.73	\$120.00	\$86.73
Two	\$349.41	\$106.83	\$242.58	\$375.76	\$120.00	\$255.76	\$398.88	\$106.83	\$292.05	\$428.96	\$120.00	\$308.96
Family	\$564.61	\$106.83	\$457.78	\$607.18	\$120.00	\$487.18	\$644.55	\$106.83	\$537.72	\$693.15	\$120.00	\$573.15

\* Rates apply to existing participants only. Closed to New Enrollments.

\*\* Assumes adoption of new co pays \$20 PCP/\$20 Specialist, plus changes in mental health/substance abuse services.

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ATTACHMENT II