

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 21, 2006
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: JAMES K. HARTMANN, CITY MANAGER
SUBJECT: BUDGET MEMO # 133 : HEALTHCARE COSTS- EMPLOYEE COST SHARING OPTIONS

This memo responds to Council's request for information on costs to employees of options to increase City employee cost sharing of healthcare premiums.

The following table depicts the 3.3% cost sharing by health insurance option chosen on a cost per year and per month basis (as well as twice per month basis, which is how it would actually be deducted). These costs are rounded to the nearest dollar.

Table with 7 columns: Individual HMO (Year, Month, Twice/Month) and Family HMO (Year, Month, Twice/Month). Rows include Kaiser and Optimum Choice.

Previously, in Budget Memo #51, we estimated the cost savings to the City of the 3.3% employee premium cost sharing (for HMO plans¹) in FY 2007 to be approximately \$500,000. Staff calculated the impact of exempting all current full-time regular employees who were making less than \$40,000 a year from this cost sharing. The estimated impact in City expenditures would be \$85,000 in total. In other words, the savings to the City would be \$415,000 instead of \$500,000.

¹Employees are currently expected to pay the additional costs of "point-of-service" plans and would continue to do so.

The proposed rate for employees to share in premium costs is 3.3% for HMO plans. The following chart shows the percentage of total salary that employees in various lower levels of salary would pay towards their premium.

<u>Salary</u>	<u>Total # Employees</u>	<u>Monthly Avg Salary</u>	<u>Indiv HMO % of Salary</u>	<u>Family HMO % of Salary</u>
< \$40,000	371	\$2,858	0.4%	0.9%
\$40,001-\$50,000	534	\$3,745	0.3%	0.7%
\$50,001-\$60,000	433	\$4,591	0.2%	0.5%

Other options could be established. The following chart shows the number and percent of employees in the lower salary ranges that were on-board the City's payroll as of the time of this calculation. It then calculates the total approximate cost of exempting all employees in those salary ranges from sharing healthcare premiums.

<u>Salary</u>	<u>Total # Employees</u>	<u>% of all Employees</u>	<u>Total \$ Impact to Employees</u>
< \$40,000	371	16.6%	(\$85,323)
< \$50,000	905	40.5%	(\$208,133)
< \$60,000	1,338	59.9%	(\$307,715)

Graduated Cost Sharing:

Council requested additional information about the impact of a graduated schedule for healthcare premium sharing. If the percent of the premium to be paid were graduated so that those employees making below \$40,000 paid 0% of the premium, those making from \$40,001 to \$50,000 paid 1% of the premium, and those making from \$50,001 to \$60,000 paid the entire 3.3%, then the cost impacts would change as follows:

<u>Salary</u>	<u>Total # Employees</u>	<u>% of Premium</u>	<u>Total \$ Impact to Employees</u>
< \$40,000	371	0%	(\$85,323)
\$40,001-\$50,000	534	1%	(\$85,545)
\$50,001-\$60,000	433	2%	(\$39,207)
Total Impact			(\$210,075)

The following chart shows the percentage of total salary that employees would pay towards their premium with the graduated rates.

Salary	Total # Employees	Monthly Avg Salary	Indiv HMO % of Salary	Family HMO % of Salary
< \$40,000	371	\$2,858	0.0%	0.0%
\$40,000-\$50,000	534	\$3,745	0.1%	0.2%
\$50,001-\$60,000	433	\$4,591	0.1%	0.3%

While the “notch” issue raised at the Council meeting does occur (i.e., when an employee goes over the \$40,000 salary limit due to merit or promotional salary increases), the amount of the increase in the merit or promotional pay at a 3.3% cost sharing would always be more than the health insurance premium cost sharing that would then kick in due to the salary increase. While the 3.3% does not create a serious “notch” problem, as the City moves to a 10% cost sharing, the issue will become more problematic. Therefore, this is something that should be studied before FY 2008.

Options:

There are four basic options costed below for Council to consider in establishing higher employee cost sharing of health insurance premiums.

1. Decide to support an across-the-board 3.3% employee healthcare premium sharing (with new employees hired after July 1, 2006 paying 10%); cost savings ≈ \$500,000.
2. Decide to support 3.3% employee healthcare premium sharing except for those employees making approximately \$40,000 or less (with new employees earning more than \$40,000 paying 10%); cost savings ≈ \$415,000.
3. Decide to institute a simpler 3.3% across-the-board percentage for use in FY 2007 for current staff (with new employees hired after July 1, 2006 paying 10%) and instruct staff to develop a more graduated approach for use in FY 2008 and FY 2009 when, as indicated in Budget Memorandum #89, my intent is to reach an employee share of 10 percent in some form. With this instruction, working with our employee healthcare advisory group, I would construct a proposal for sharing healthcare premium costs that considered income levels as well as premium costs; cost savings ≈ \$500,000.
4. Decide to institute in FY 2007 a graduated approach that considers income based on the above information; cost savings ≈ \$290,000.

Alexandria City Public Schools Health Insurance

It should be noted that as far as City staff knows, the Schools do not intend to raise co-pays for their employees. Also, under current premium cost sharing provisions, School administrators make no contribution to their Health Insurance premium.