City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 26, 2010

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 28 : CONTAINING THE COST OF HEALTH CARE PREMIUMS

This memorandum is a response to a request from Councilman Smedberg for an explanation of the options discussed by City staff related to health care premium cost containment in FY 2011. Overall City staff considered two main options when discussing how to deal with the anticipated premium increases. This memo will discuss the options City staff considered and explain the recommendations we made in the FY 2011 proposed budget. The memo will also provide updated information on the health care premium increase for Kaiser Permanente health plans in FY 2011.

Health Care Premium Cost Containment Options

In a presentation to City Council at the FY 2011 Budget Retreat on November 7, 2009 City staff assumed a rate increase of 5% in the base budget for health care premiums. In the weeks following the retreat, our health care consultant estimated that premiums could increase as much as 8-12% for plans under Kaiser Permanente and 13-15% for those under United Healthcare. Realizing the burden such increases would place on the City's already strained operating budget, staff began to discuss options that would contain premium costs on the city-side to a moderate growth rate of around 5% in FY 2011 and for the next several years.

By early January we received refined estimates which anticipated health care premium rates to increase in FY 2011 by 6% for Kaiser plans and 12% for those under United Healthcare. Based on these estimates and enrollment in the two plans, we determined that the health care premium costs would increase by 9.1% overall if we made no adjustments to our current FY 2010 policies. Furthermore, if our current policies were not adjusted we anticipated that costs in future years would rise to levels that were unsustainable for the City. With "no change to our current policy" not being a realistic option, we began to explore two strategies that would help us maintain an annual growth rate in premium costs of about 5%.

The first option we considered (and eventually proposed) was to increase employees' minimum share of premium costs above the current minimum of 10%. From FY 2007 – 2009 employees' share of premium costs increased from 0% to a minimum cost sharing rate of 10%. We have proposed a 10% cost sharing increase for current employees over the next three years to 20% (3%

in FY 2011, 3% in FY 2012 and 4% in FY 2013) and an immediate 20% cost sharing rate for new employees starting in FY 2011. These changes will save the City approximately $0.75 million in FY 2011 and help us reach our goal of maintaining premium costs to a rate of about 5% per year over the next three years. By phasing in this change we can moderate the growth in premium costs and avoid large swings in costs to both the City and our employees. We believe this type of change is also transparent and familiar, since most employees have experienced adjustments to cost sharing rates in prior years.

Adjustments to health care plan design were also seriously considered during our budget discussions. The table in Attachment 1 shows plan design change options for both Kaiser Permanente and United Healthcare that were reviewed by staff. We found that changes to plan design would decrease the annual rate of growth in health care premium costs by 0.5-1.5% depending on the option. These decreases would yield budget savings ranging from approximately $100,000-$200,000. We decided not to make adjustments to our health care plan designs for FY 2011 because we feel that the multi-year strategy we have proposed, allows us to contain costs at levels we can maintain in the City's FY 2011 budget and we hope in future years. In addition, in order to yield substantial budget savings (on the level generated by our cost sharing proposal) dramatic changes to current health care plan designs would be required. We feel that our plan designs, in particular the co-payments within our plans, help us maintain our competitiveness in the market place, and that dramatic changes to plan designs could negatively impact future recruitment efforts. Finally, we are also concerned that increasing the cost of some features within our plans has the potential to adversely impact use by employees who may be sick.

However, in future years we will examine these assumptions and recommend actions to City Council accordingly. In particular, one of the uncertainties that exist is the affect if any of the national health care reforms on the City health care plans and insurance providers, as well as on other employers with whom we compete for staff. We will carefully monitor the effects of this new legislation on the City's health care plans.

Revised Premium Increase Percentage for Kaiser Permanente

Since the presentation of the FY 2011 Proposed Operating Budget, the City has received a revised health care premium rate increase for Kaiser Permanente. Instead of increasing by 6% as was budgeted for in the proposed budget, health care premiums for Kaiser Permanente will only increase by 4.4% in FY 2011. The 1.6% adjustment to the premium increase allows for a $142,000 reduction to the FY 2011 proposed budget, which will be accounted for in the Technical Adjustments budget memo.

Attachment 1: Plan Design Change Options for Kaiser Permanente and United Healthcare

Attachment 1

Plan Design Changes Considered but Not Proposed for FY 2011

	United Health Care Current 2009-10 Base Plan	United Health Care Option 1	United Health Care Option 2	Kaiser Permanente Current 2009-10 Base Plan	Kaiser Permanente Option 1
Primary Care Physician (PCP) Co-payment	$15	$15	$15	$15	$15
Specialist Co-payment	$25	$30	$30	$25	$30
Hospital Co-payment/Coinsurance	100%	100%	100%	100%	100%
Annual Deductible	None	None	None	None	None
Coinsurance	100%	100%	100%	100%	100%
Emergency Room	$75	$100	$100	$75	$100
Major Diagnostic Copayment	$100	$100	$100	$100	$100
Out-of-Pocket Maximum	Individual - $2,200 Family - $6,400	Individual - $2,200 Family - $6,400	Individual - $2,200 Family - $6,400	Individual - $3,500 Family - $9,400	Individual - $3,500 Family - $9,400
Lifetime Maximum	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
Perscription Drug Co-payment					
Retail					
Generic	$10	$10	$5	$10	$10
Brand	$25	$25	$25	$20	$20
Non-Formulary	$40	$40	$45	$35	$35
Injectable	$40	$40	$45	$35	$35
Mail Order					
Generic	$20	$10	$10	$8	$8
Brand	$50	$50	$50	$18	$18
Non-Formulary	$80	$90	$90	$33	$33
Injectable	$80	$90	$90	$33	$33
Net Benefit Value Compared to Current (Base Only) Expressed as % Change in Premiums	0.0%	-0.5%	-1.5%	0.0%	-0.5%