

Memorandum

City of Lawrence

Administrative Services

TO: David L. Corliss, City Manager

FROM: Lori Carnahan, Human Resources Manager, Administrative Services
Frank Reeb, Director, Administrative Services
Michelle Spreer, Human Resources Specialist/Benefits, Admin Svs
On behalf of the Healthcare Committee
Tammy Bennett, Assistant Director, Public Works
Kim Brice, Administrative Support II, Police Department
Russell Brickell, Fire Inspection Officer, Fire Department
Craig Houfek, Recreation Center Programmer, Parks & Recreation
Mike McAtee, Chairman, LPOA
Mike McMillen, President, IAFF Local 1596
Heidi Nelson, Assistant Director, Finance Department
Casey Toomay, Budget Manager, City Manager's Office
Dave Pentlin, Solid Waste Operator II, Public Works
Scott Wagner, Management Analyst, Legal Services
Jimmy Wilkins, Senior Maintenance Worker, Public Works

CC: Cynthia Boecker, Assistant City Manager
Diane Stoddard, Assistant City Manager
Jonathan Douglass, Assistant to the City Manager

Date: April 22, 2009

RE: 2010 Healthcare Plan Funding

Executive Summary

- In order to maintain current healthcare goals (attached), the Healthcare Committee (HCC) recommends a 2010 City funding increase of 23% or \$1,465,094 from 2009 to \$7,835,072.
- The Healthcare Committee (HCC) finds tolerable a 2010 City funding increase of 12% or \$764,397 from 2009 to \$7,134,374. The word tolerable is used because this option makes future funding and plan design much more dependant on 2009 actual claims utilization. A good claims year will make 2011 plan funding and/or plan design changes reasonable, a bad claims year will require high amounts of increased funding and/or significant plan design reductions for 2011.
This equates to \$8,553.44 per FTE for existing positions and \$9,280.54 for new positions in 2010 (the amounts that were distributed to departments for 2010 budget submissions were \$8,788.59 per FTE for existing positions and \$9,535.68 for new positions in 2010).
- The HCC recommends increasing total employee contributions 0% to 7% for 2010. The breakdown for individual employee contributions will be established following the plan design determinations this summer.
- The HCC recommends increasing total retiree contributions approximately 15% which is equivalent to projected plan increases for 2010. Again, this will be established after 2010 plan design determinations are complete.
- In addition to healthcare plan expenses, the HCC recommends using \$83,000 from the health care fund for other anticipated expenses in 2010:
 - Benefit Consultant Fees (\$50,000)

- Wellness Budget for HRA, screenings, educational sessions, coaching (\$13,000)
- Flu shot program (\$10,000)
- Wellness Administration, Part-time, temporary (\$10,000)
- Remaining 2009 HCC projects include marketing the group healthcare plan and making recommendations on all portions of the 2010 healthcare plan, finalizing 2010 plan design changes, establishing employee/retiree contribution rates and conducting a utilization review.

Renewal Information

We did not request an early renewal contract from BlueCross BlueShield of Kansas (BCBSKS). This will be submitted while responding to the May RFP for the group health plan for the 2010 benefit period.

Minimum Retained Earnings (MRE)

Minimum Retained Earnings are defined as 25% of the expected liability for claims which is depicted by the dark blue line in Charts C & D below. For 2010 MRE is projected to be \$2,123,037 at the 75% confidence level. Appropriate funding is established if year end fund balances remain above the line.

Fund Balance/Healthcare Plan Retained Earnings
(See Healthcare Plan Revenues/Expenses Attachment)

Year ending healthcare fund balance as of December 31, 2008 was \$7,531,410.

Prior to setting the 2009 beginning fund balance, the HCC anticipated using \$884,150 (detailed in Chart A) out of the fund balance giving a January 1, 2009 fund balance of \$6,647,260.

Chart A: 2009 Additional Expenses

Item	Amount of Fund Balance
Run-out claims	\$500,000
Overage for large dollar claims incurred prior to 2009	Up to \$300,000
GASB 45 Actuarial study	\$14,150
Consultant Fees (approved 4/21/09)	\$50,000
Flu shot program	\$10,000
Wellness Administration	\$10,000

Using median values from @RISK for 2009 expenses and projected plan revenues the plan is estimated to have an ending fund balance as of December 31, 2009 of approximately \$5,733,841 with a 75% confidence level that the 2009 ending fund balance will be no lower than \$4,877,060 (Chart C). The January 1, 2010 beginning fund balance is projected to be approximately \$5,650,841 or no lower than \$4,794,060 (75% confidence level) when taking into account the additional expenses (detailed in Chart B) of \$83,000.

Chart B: 2010 Additional Expenses

Item	Amount of Fund Balance
Consultant Fees	\$50,000
Wellness Budget	\$13,000
Flu shot program	\$10,000
Wellness Administration	\$10,000

Based on the actual fund balances listed above, @RISK values depicted the expected ending fund balance for 2010 and 2011 to differ dependent on the 2010 funding option selected and actual expenditures. The recommended option (Option 1 below) and 15% utilization/expense increases, the projected ending balance in 2010 will be approximately \$4,897,509 but no lower than \$3,685,995 (75% confidence level). Using tolerable funding increases (Option 2 below) and 15% utilization/expense increases, the projected ending balance in 2010 will be approximately

\$4,196,811 but no lower than \$2,985,298 (75% confidence level). All options, other than Option 1 below, make the fund balance below MRE by the end of 2011. Initially the HCC created scenarios with @RISK that planned for crossing MRE 5 years out but for the past two years the HCC has only projected 2 years out.

OPEB Obligations under GASB 45

The city's annual OPEB obligation for 2008 was \$379,900 minus expenses paid of \$120,500 leaving \$259,400 remaining on the "pay as you go" method for 2008. The City's long term liability is \$4,217,000 as of 2008. There will be a new valuation and OPEB obligation under GASB 45 for the 2009/2010 fiscal years. The long term liability will likely change with each valuation and while not required to reserve these funds, the city should " earmark " the remaining amounts of the "pay as you go method" of the fund balance to cover current and future retiree health care plan obligations.

Funding Options

Funding for the healthcare plan during the 2010 benefit period was developed using @RISK software which performs risk analysis through Microsoft Excel. City funding for the 2009 plan year remained unchanged from 2008. The goal of @RISK analysis is to determine a level of funding that will provide a 75%¹ confidence level that the December 31, 2011 health fund balance will be at or above the minimum retained earnings (MRE) level of 25% of expected claims. Once MRE is reached, the City will return to funding health care on a pay-as-you-go basis.

The Health Care Committee has prepared the following funding options for 2010 which are depicted in Chart C below.

Option 1: (green, small square marker) Increase the City funding in 2010 to \$7,835,072 which is a 23% or \$1,465,094 increase from 2009 funding. It also increases total employee contributions by 7%. At 75% confidence level if this option is utilized and actual plan expenses equal expected, the ending health plan fund balance in 2011 will be at or above MRE.

Option 1 is recommended based on current plan design and HCC approved goals. It mirrors the 2009 HCC annual recommendation. This would be the preference of the Healthcare Committee and what is needed in order to maintain stable funding for the plan. The decision not to use this option when budgeting for 2009 (i.e. funding increase of 12%) resulted in the increase becoming 23% in this year's scenario. Failure to use this option in 2010 could still result in significant plan design changes or increased funding in 2011; it will be dependent on 2009 claims utilization.

Option 2: (purple, solid triangle marker) Increases the City funding in 2010 to \$7,134,374, which is a 12% or \$764,397 increase from 2009 funding. It also increases total employee contributions by 7%. At 75% confidence level, if this option is utilized and actual plan expenses equal expected, the ending health plan fund balance in 2010 will be above MRE but below MRE in 2011.

Option 2 mirrors the effect of the 2009 City Commission approved budget and current plan design. It is tolerable for 2010 although not recommended from the HCC. Last year this option was picked (+0% to City funding) rather than the recommended full funding option (+12%) which has led to the 12% increase in 2010 just to keep up with the 2008 0% increase for 2009. Selection of this option will cause a similar effect in 2011 or in the alternative a significant reduction in benefits; again it is highly dependent on 2009 claims utilization.

¹ In risk analysis run 2005-2008, the confidence level was set at 95%. The Healthcare Committee has had enough experience with risk analysis to feel comfortable setting a lower level of confidence (i.e. 75%) for the 2009 and 2010 budget. 75% confidence level means 750 of 1000 times each scenario is run the ending balance will be at or above the level shown.

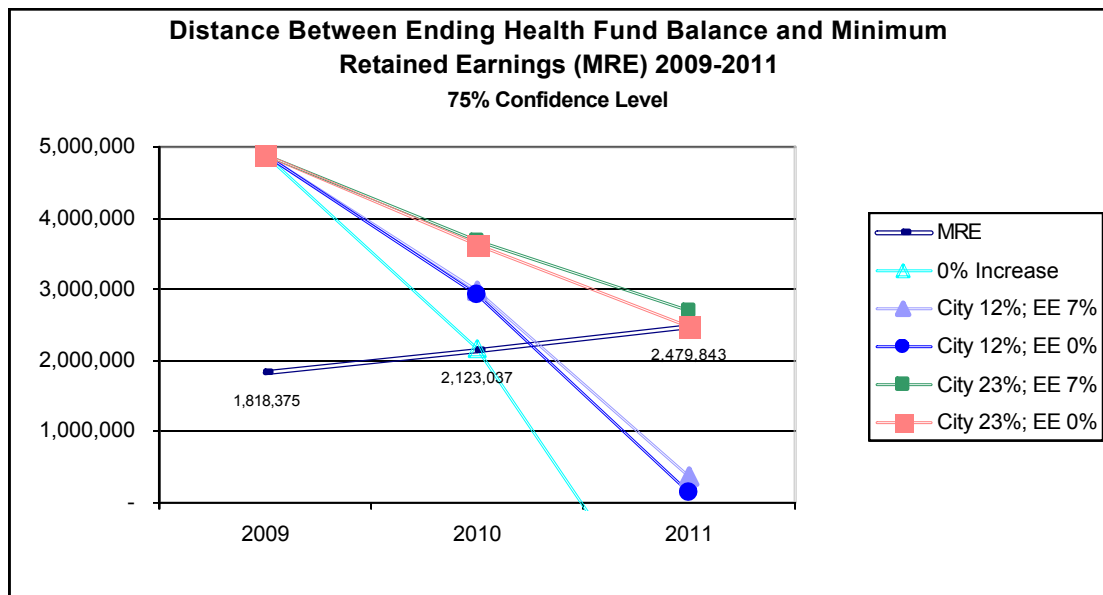
Option 3: (royal blue, solid circle marker) Increases the City funding by 12% but keeps total employee contributions flat for 2010 plan year. At 75% confidence level, if this option is utilized and actual plan expenses equal expected, the ending health plan fund balance for 2010 will be above MRE but below MRE in 2011.

Option 3 has the city increasing it's funding but maintaining the current level of overall employee contributions to the plan. This option was developed for two reasons: 1. The city portion of the funding is significantly more than total employee contributions and has the greatest effect on the solvency of the plan. 2. The HCC, in response to past practices, has noted that employees are comfortable in increasing their portion of contributions to the plan only to the extent that their annual wages increase. It is our impression that 2010 employee salary increases will likely be minimal. It is as tolerable from a funding standpoint as Option #2.

Option 4, Illustrative only, not recommended: (turquoise, clear triangle marker) keeps both the City funding and total employee contributions flat for 2010. At 75% confidence level, if this option is utilized and actual plan expenses equal expected, the ending health plan fund balance in 2010 would fall below MRE.

Option 4 holds all funding (other than retirees) at 2009 levels. This option was developed in response to employee tolerance for increased contributions as noted in option 3 and the City's tolerance for increased contributions as evidenced by two years of non-growth in contributions to the program. This is not recommended since it puts the 2010 year end fund balance at a level less than the MRE. This option will require the city to significantly change plan design or drastically increase funding of the plan in 2011; possibly close to 100% of projected expenses depending on claims experience in 2009-2010.

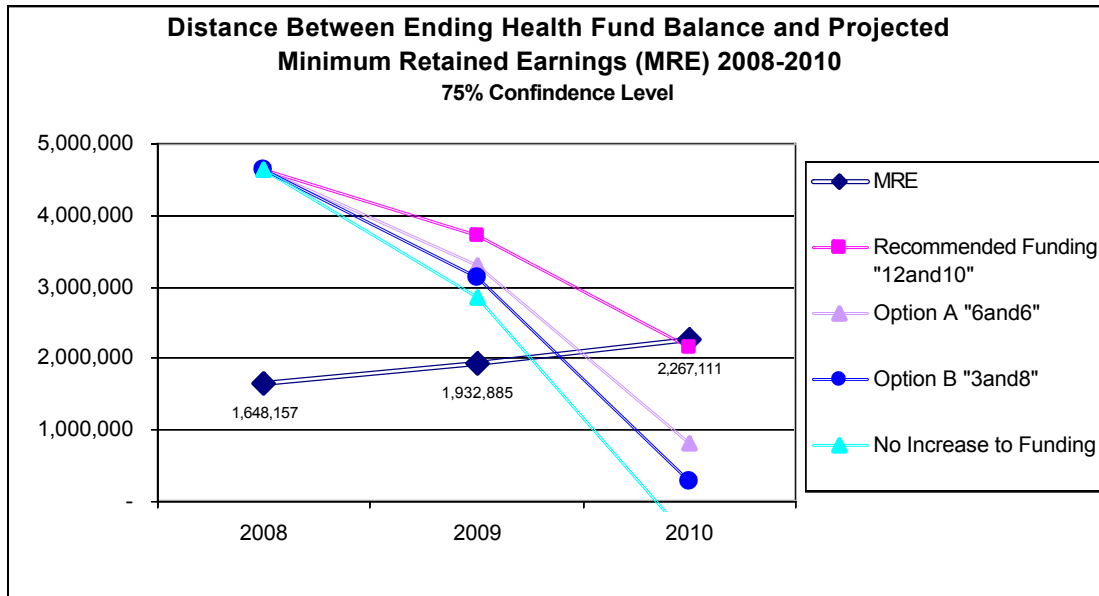
Chart C



2010 Healthcare Funding Scenarios

To further illustrate 2010 options compared to previous year budget reports, Chart D is the funding scenarios submitted for the 2009 budget. The 2010 Option 2 has the same affect on ending fund balance with respect to MRE as the utilized option of “No increase to funding” did in 2009.

Chart D



2009 Healthcare Funding Scenarios

Option 1 transfers to fund health plan 2010

Budget \$9,572.42 per current FTE and \$10,386.14 per new FTE approved for 2010.

Fund Description	Current				Total FTE	Rec. Xfers	% of Total Funding
	FTE	Decreases	Additions				
1068 General Fund 001 (Retirees)	59.00	0.00	0.00	59.00	55,851.08	0.7%	
1068 General Fund 001	463.99	0.00	0.00	463.99	\$4,441,509	56.7%	
210 Public Transportation	3.00	0.00	0.00	3.00	\$28,717	0.4%	
211 Recreation	28.78	0.00	0.00	28.78	\$275,494	3.5%	
213 Special Alcohol	3.00	0.00	0.00	3.00	\$28,717	0.4%	
214 Special Gas Tax	25.50	0.00	0.00	25.50	\$244,097	3.1%	
501 Finance-Utility Billing	22.26	0.00	0.00	22.26	\$213,082	2.7%	
501 Utilities-Administration	13.00	0.00	0.00	13.00	\$124,441	1.6%	
501 Utilities-Engineering	12.00	0.00	0.00	12.00	\$114,869	1.5%	
501 Utilities-Clinton Plant	11.00	0.00	0.00	11.00	\$105,297	1.3%	
501 Utilities-Kaw Plant	15.00	0.00	0.00	15.00	\$143,586	1.8%	
501 Utilities-WWTP	19.00	0.00	0.00	19.00	\$181,876	2.3%	
501 Utilities-Sanitary Sewer Coll Sys	15.00	0.00	0.00	15.00	\$143,586	1.8%	
501 Utilities-Water Quality	5.00	0.00	0.00	5.00	\$47,862	0.6%	
501 Utilities-Water Distribution	22.00	0.00	0.00	22.00	\$210,593	2.7%	
502 Sanitation	100.84	0.00	0.00	100.84	\$965,283	12.3%	
503 Public Parking	14.00	0.00	0.00	14.00	\$134,014	1.7%	
504 Vehicle Maintenance	17.25	0.00	0.00	17.25	\$165,124	2.1%	
505 Stormwater Utility	10.50	0.00	0.00	10.50	\$100,510	1.3%	
506 Public Golf Course	5.50	0.00	0.00	5.50	\$52,648	0.7%	
611 Outside Agency Grant-Transit	0.00	0.00	0.00	0.00	\$0	0.0%	
611 Outside Agency Grant-Cops in Schools	0.00	0.00	0.00	0.00	\$0	0.0%	
611 Outside Agency Grant-Traffic	0.00	0.00	0.00	0.00	\$0	0.0%	
621 Fair Housing Grant	0.50	0.00	0.00	0.50	\$4,786	0.1%	
631 CDBG	3.55	0.00	0.00	3.55	\$33,982	0.4%	
633	0.40	0.00	0.00	0.40	\$3,829	0.0%	
641 Transportation Grant	1.60	0.00	0.00	1.60	\$15,316	0.2%	
				812.67	7,835,072.00	100.0%	

Option 2 transfers to fund health plan 2010

Budget \$8,553.44 per current FTE and \$9,280.54 per new FTE approved for 2010.

Fund Description	Current				Total FTE	Rec. Xfers	% of Total Funding
	FTE	Decreases	Additions				
1068 General Fund 001 (Retirees)	59.00	0.00	0.00	59.00	55,851.08	0.8%	
1068 General Fund 001	463.99	0.00	0.00	463.99	\$4,041,449	56.6%	
210 Public Transportation	3.00	0.00	0.00	3.00	\$26,131	0.4%	
211 Recreation	28.78	0.00	0.00	28.78	\$250,680	3.5%	
213 Special Alcohol	3.00	0.00	0.00	3.00	\$26,131	0.4%	
214 Special Gas Tax	25.50	0.00	0.00	25.50	\$222,110	3.1%	
501 Finance-Utility Billing	22.26	0.00	0.00	22.26	\$193,889	2.7%	
501 Utilities-Administration	13.00	0.00	0.00	13.00	\$113,233	1.6%	
501 Utilities-Engineering	12.00	0.00	0.00	12.00	\$104,522	1.5%	
501 Utilities-Clinton Plant	11.00	0.00	0.00	11.00	\$95,812	1.3%	
501 Utilities-Kaw Plant	15.00	0.00	0.00	15.00	\$130,653	1.8%	
501 Utilities-WWTP	19.00	0.00	0.00	19.00	\$165,494	2.3%	
501 Utilities-Sanitary Sewer Coll Sys	15.00	0.00	0.00	15.00	\$130,653	1.8%	
501 Utilities-Water Quality	5.00	0.00	0.00	5.00	\$43,551	0.6%	
501 Utilities-Water Distribution	22.00	0.00	0.00	22.00	\$191,625	2.7%	
502 Sanitation	100.84	0.00	0.00	100.84	\$878,337	12.3%	
503 Public Parking	14.00	0.00	0.00	14.00	\$121,943	1.7%	
504 Vehicle Maintenance	17.25	0.00	0.00	17.25	\$150,251	2.1%	
505 Stormwater Utility	10.50	0.00	0.00	10.50	\$91,457	1.3%	
506 Public Golf Course	5.50	0.00	0.00	5.50	\$47,906	0.7%	
611 Outside Agency Grant-Transit	0.00	0.00	0.00	0.00	\$0	0.0%	
611 Outside Agency Grant-Cops in Schools	0.00	0.00	0.00	0.00	\$0	0.0%	
611 Outside Agency Grant-Traffic	0.00	0.00	0.00	0.00	\$0	0.0%	
621 Fair Housing Grant	0.50	0.00	0.00	0.50	\$4,355	0.1%	
631 CDBG	3.55	0.00	0.00	3.55	\$30,921	0.4%	
633	0.40	0.00	0.00	0.40	\$3,484	0.0%	
641 Transportation Grant	1.60	0.00	0.00	1.60	\$13,936	0.2%	
				812.67	7,134,374.82	100.0%	

Healthcare Plan Revenues/Expenses

		Actual data from the AS/400 GMBA application 522-0000-345, 522-0000-361, 522-1055-545 accounts									Projected	Projected	Projected
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 (Option 1)	2010 (Option 2)
Add'l anticipated expenses											-884,150.00	-83,000.00	-83,000.00
Revenues													
	City	2,342,100.00	2,970,044.00	3,020,163.00	4,004,360.00	4,829,019.00	5,287,932.00	5,678,536.00	6,005,611.00	6,321,793.00	6,369,977.52	7,835,072.00	7,134,374.00
	Employee	511,837.84	614,885.28	691,570.00	854,458.50	849,984.37	864,609.54	909,102.23	964,376.20	959,811.04	1,026,997.81	1,098,887.66	1,098,887.66
	Retiree	145,491.32	167,516.21	204,441.39	230,901.88	253,157.26	252,562.60	285,339.75	265,263.24	269,069.32	269,069.32	295,976.25	295,976.25
	Interest	107,162.43	86,861.93	49,115.16	37,111.04	33,859.27	122,696.12	253,552.79	293,838.00	283,002.59	0.00	0.00	0.00
	Total Revenues	3,106,591.59	3,839,307.42	3,965,289.55	5,126,831.42	5,966,019.90	6,527,800.26	7,126,530.77	7,529,088.44	7,833,675.95	7,666,044.65	9,229,935.91	8,529,237.91
Expenses													
	Claims	2,774,064.76	3,709,045.63	3,583,121.47	3,443,960.53	4,361,323.12	4,377,650.54	5,024,471.39	6,082,168.73	6,715,784.55	7,840,768.00	9,154,201.00	9,154,201.00
	Admin Charge	126,701.54	153,859.04	243,077.28	162,002.62	195,853.37	173,390.69	162,852.15	192,487.90	234,478.51	272,955.00	317,745.00	317,745.00
	BCBS GOE,ASL,ISL	265,707.39	327,125.31	311,266.44	443,914.88	479,655.46	311,057.25	312,202.02	386,141.05	424,221.55	465,740.00	511,322.00	511,322.00
	Other Contractual Expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10,501.36	0.00	0.00	0.00	0.00
	Total Expenses	3,166,473.69	4,190,029.98	4,137,465.19	4,049,878.03	5,036,831.95	4,862,098.48	5,499,525.56	6,671,299.04	7,374,484.61	8,579,463.00	9,983,268.00	9,983,268.00
Net Income		(59,882.10)	(350,722.56)	(172,175.64)	1,076,953.39	929,187.95	1,665,701.78	1,627,005.21	857,789.40	459,191.34	-913,418.35	-753,332.09	-1,454,030.09
Actual ending fund balance		1,438,479.00	1,087,757.00	915,581.00	1,992,534.00	2,921,722.00	4,587,423.78	6,214,428.99	7,072,218.39	7,531,409.73	5,733,841.38	4,897,509.29	4,196,811.29
Percent change													
Revenues													
	City		26.81%	1.69%	32.59%	20.59%	9.50%	7.39%	5.76%	5.26%			
	Employee		20.13%	12.47%	23.55%	-0.52%	1.72%	5.15%	6.08%	-0.47%			
	Retiree		15.14%	22.04%	12.94%	9.64%	-0.23%	12.98%	-7.04%	1.43%			
	Interest		-18.94%	-43.46%	-24.44%	-8.76%	262.37%	106.65%	15.89%	-3.69%			
	Total Revenues		23.59%	3.28%	29.29%	16.37%	9.42%	9.17%	5.65%	4.05%			
Expenses													
	Claims		33.70%	-3.40%	-3.88%	26.64%	0.37%	14.78%	21.05%	10.42%			
	Admin Charge		21.43%	57.99%	-33.35%	20.90%	-11.47%	-6.08%	18.20%	21.81%			
	BCBS GOE,ASL,ISL		23.11%	-4.85%	42.62%	8.05%	-35.15%	0.37%	23.68%	9.86%			
	Other Contractual Expenses												
	Total Expenses		32.32%	-1.25%	-2.12%	24.37%	-3.47%	13.11%	21.31%	10.54%			
Net Income													
Actual ending fund balance			-24.38%	-15.83%	117.63%	46.63%	57.01%	35.47%	13.80%	6.49%			

Health Care Committee Ongoing Goals and Objectives

The City of Lawrence Health Care Committee was formed in 1998 to develop guidelines regarding annual funding and plan design. Since 1998, on an annual basis, the Health Care Committee has devoted time to review, revise, and refine those guidelines according to City Commission directives and input from City management and employees.

The City of Lawrence Health Care Committee is chaired by the Personnel Manager, Administrative Services, and consists of City employees from each department. The objectives of the Health Care Committee are:

1. To submit annual budget recommendations to the City Commission regarding funding for the health care plan;
2. To review, evaluate, and determine plan design;
3. To identify, review, and address utilization trends;
4. To monitor current national health care trends;
5. Through partnership with the Wellness Committee (CHAMP), provide health education and wellness interventions to employees and their immediate family members so that they might fulfill their responsibilities as covered plan participants.

Statement of Plan Participant Responsibilities

While it is the right of plan participants to use the Plan to the fullest, and to take advantage of everything it offers, it is also their responsibility to maximize healthy habits, to become knowledgeable about his or her health plan coverage, and to consume health care services in a responsible manner in order to reduce his or her lifetime cost for health care coverage.

Annual Funding Guidelines

Annual budget recommendations will be submitted to City management in May for the next plan year using the most current national industry cost trend projections available at the time.

City funding means annual funding. Employee contributions mean payroll deductions for health care premiums.

The City will fund health care for current employees on a per FTE basis and new positions on a per contract basis.

Recommended levels of 25% of projected costs will be maintained in retained earnings for at least one year beyond the year for which the budget is being prepared. Retained earnings fund the cost of catastrophic claims, which is defined by the claims administrator as 120% of projected expenses. Interest earned on retained earnings will be used to offset the budget request to fund retained earnings.

The City will fully fund the monthly premium equivalent of a single membership for employee coverage. The City will fund an equal dollar amount toward the monthly premium equivalent for a family membership.

The cost to cover eligible dependents under the health care plan is the difference between the monthly premium equivalent for a family membership and the monthly premium equivalent for a single membership.

To keep revenues proportional between City funding and employee contributions, the City will contribute 55-75% of the funding necessary to generate revenue toward the cost of dependent coverage; the employee will contribute 25-45%. Ideally, revenues will be split 65/35 between the City and employees toward the cost of dependent coverage.

Eligible employees receiving a retirement or disability benefit through KPERS will pay 80% of the monthly premium equivalent for their health care membership. The City will fund the remaining 20%.

COBRA participants will pay 102% of the monthly premium equivalent for their health care membership.

The Health Care Committee will work to moderate increases in City funding and employee contributions in order to smooth out the peaks and valleys of actual health care consumption. When increases in health care utilization have depleted retained earnings for future years below recommended levels, changes regarding retained earnings funding parameters will be implemented. When decreases in health care utilization are maintained for multiple years, the health care committee will recommend plan design enhancements.

Plan Design Guidelines

The largest component of the City of Lawrence employee benefit package is the health care plan. It serves as a recruitment and retention tool. To attract potential employees, and keep current ones, the health care plan must be market competitive in terms of employee cost (i.e. insurance premiums, deductibles, coinsurance, and out of pocket maximums) and the level of benefit provided (scope of covered services).

Covered services under the health care plan should satisfy the needs of the majority of employees, which can be identified by annually collecting aggregate data through:

- 1. Wellness tools;**
- 2. Health care plan utilization reports;**
- 3. Disability and worker's compensation claims; and**
- 4. Periodic employee surveys.**

Ideally, the plan design should enable plan expenses to be at or below national industry cost trends. This will be accomplished in part by:

- 1. Maintaining a plan design that enables and encourages plan participants to make wise consumer choices;**
- 2. Maintaining a plan design that enables and encourages plan participants to utilize preventative services;**
- 3. Educating plan participants on how to be wise consumers of health care services; and**
- 4. Through the Wellness Committee, offering intervention programs employees can use to individually examine and improve their overall lifestyle.**