

# Memorandum

## City of Lawrence

### Human Resources Division

**TO:** David L. Corliss, City Manager

**FROM:** Lori Carnahan, Human Resources Manager  
Michelle Spreer, Benefits Specialist, Human Resources  
On behalf of the Healthcare Committee

Diane Stoddard, Assistant City Manager  
Tammy Bennett, Assistant Director, Public Works  
Kim Brice, Administrative Support II, Police Department  
Craig Houfek, Recreation Center Programmer, Parks & Recreation  
Mike McAtee, Chairman, LPOA  
Heidi Nelson, Assistant Director, Finance Department  
Casey Toomay, Budget Manager, City Manager's Office  
Scott Wagner, Management Analyst, Legal Services  
Jimmy Wilkins, Senior Maintenance Worker, Public Works  
David Anderson, Retiree, Detective, Police Department  
David Cobb, Retiree, Captain, Police Department  
Judith McCartney, Admin Support II, Central Maintenance  
Micky Rantz, Police Officer  
Ryan Hornberger, Firefighter  
Bill Bradford, Police Officer

**CC:** Cynthia Boecker, Assistant City Manager

**Date:** May 3, 2010

**RE:** 2011 Healthcare Plan Funding

Annually the Healthcare Committee (HCC) meets to discuss funding of the healthcare plan which includes city contributions as well as employee and retiree contributions. Hays Companies, our benefits consultants, assist the HCC with funding strategies as well as plan design alternatives. Plan design recommendations with finalized employee/retiree contributions and wellness incentive programs will be discussed this summer and submitted for approval in September.

#### Executive Summary

- The (HCC) recommends modification of its goals and objectives (**Attachment A**) with regards to the level of Minimum Retained Earnings (MRE). Based on information provided by Hays Companies, the HCC recommends that the level be reduced to 16% of projected plan costs while continuing to project out for at least one year beyond the year for which the budget is being prepared.
- Hays Companies projects an overall 9.8% increase to the city's healthcare program for 2011 based on current plan design for a total of \$10,125,000.
- Hays Companies along with the Healthcare committee recommend an overall increase in funding to the Healthcare plan of \$437,000 for a total of \$9,185,000 in 2011.
- The HCC recommends increasing City funding in 2011 by 5% or \$366,260 from 2010 to \$7,691,464, with the understanding that it will also require a 5% increase to funding in 2012. This assumes underwriting projections remain relatively constant.

- The HCC recommends increasing the total employee/retiree contribution pool by 5% or \$71,000 to \$1,423,000 for 2011; with the understanding the same would be required in 2012. This could be attained in pay period and monthly premium contribution increases, plan design changes or a combination of both. The recommended breakdown for employee/retiree contributions and plan design changes will be established this summer. Retirees will likely see an increase that mirrors the overall increase to plan costs.

**Minimum Retained Earnings (MRE)**

Maintaining MRE at 16% of projected plan cost for two years out allows us to smooth out increases to city funding as well as employee contributions. Having a healthy MRE level allows us to fund current and future incentives related to wellness programs.

Retained Earnings also funds the cost of catastrophic claims, the amount determined by our stop loss contract each year. For 2010 the aggregate stop loss was set at 116% of projected claims and will remain at 116% for 2011. The 116% represents the amount of claims the city is responsible for paying over the projected costs before stop loss insurance begins paying claims.

The current wellness program which allowed employees to maintain their 2009 payroll contribution levels will reduce income into the plan by approximately \$17,500. This will be absorbed by the retained earnings. Future incentive programs and wellness programming currently in development by the CHAMP Committee in conjunction with the HCC will also be funded by retained earnings.

**Healthcare Expenditures**

Hays projects a 9.8% overall increase to health care expenditures for 2011. The chart below illustrates the projected increases and total plan cost for 2011. The figures in the chart reflect a projected savings in claims costs from CIGNA of approximately \$600,000. Factoring in the projected savings for CIGNA and maintaining MRE by making modest increases each year in funding, allows us to eliminate the peaks and valleys in funding levels.

<b>Cost increases due to trend:</b>	
Medical/Rx	10%
Dental	9%
Administrative	3%
Stop Loss	25%
<b>Expenses included in admin fees below:</b>	
Consulting fees	\$50,000
Wellness budget (HRA, biometric clinics)	\$13,255
Flu Shot program	\$6,560
Total	\$69,815
<b>Projected plan costs for 2011:</b>	
Claims (medical, dental & Rx)	\$8,933,000
Administrative fees	\$397,000
Stop Loss	\$795,000
<b>Total Plan Costs for 2011</b>	<b>\$10,125,000</b>

**Healthcare Reform**

Beginning as early as June, 2010, some provisions of the Healthcare Reform bill could potentially have a financial impact on the city's healthcare plan. **Attachment B** illustrates some of the more immediate effects of healthcare reform on the city's plan.

**Healthcare Revenues (Funding)**

Funding scenarios for 2011 were developed by Hays Companies. The HCC reviewed two scenarios:

- **Attachment C – Recommended Funding for 2011** reflects revised HCC objectives surrounding MRE and increases city funding as well as the Employee/Retiree pool by 5% each. This will allow us to preserve MRE through the end of 2012 as well as level out required increases in future years.
- **Attachment D** also reflects revised HCC objectives but does not apply increases to City contributions or to the Employee/Retiree pool. Without increases in funding, MRE will be below recommended level by end of year 2012. Furthermore it would require extensive funding (approximately 42%) in order to reestablish MRE in 2013.

Other things that could affect funding levels are national and statewide healthcare trends, plan design, extensive health and wellness programs where an ROI can be measured and utilization by our plan participants (unusually good plan years can lower claims costs).

**Employee/Retiree Pool Allocation Considerations**

The annual funding guidelines outlined in the HCC goals and objectives state that ideally revenues would be split 65/35 between the City and employees toward the cost of dependent coverage. Through analysis Hays presented to us, currently that split is out of balance.

**City of Lawrence - Plan Funding Modeling**

Coverage Type	2010		Target 2011		% Increase to Target
	\$ Contribution Per Pay Period	% Contribution for dependents	\$ Contribution Per Pay Period	% Contribution for Dependents	
Employee Only	\$0	0%	N/A	N/A	
Employee + Spouse	\$64	27%	\$91	35%	42.2%
Employee + Child(ren)	\$72	37%	\$75	35%	4.2%
Family	\$102	24%	\$166	35%	62.7%

Because of this inequity, our plan has the potential to attract families rather than individuals. By increasing employee contributions the same for each coverage level, the revenue split becomes more out of balance. Over the next several months the HCC will work toward balancing that cost share to be more in line with our objectives. To eliminate significant increases in certain coverage levels, this process may be spread out over several plan years.

In order to offer a wellness related financial incentive to all employees on the plan, implementing an employee only premium will be discussed by the HCC.

Funding guidelines for retirees is 20/80. To maintain this balance, increases to retiree contributions will likely match the projected increases to overall plan costs.

**Transfers to Healthcare Plan**

Each year Human Resources calculates the breakdown of city funding to the healthcare plan for each department to assist them in developing their budgets. **Attachment E** is the totals for 2011. Overall, the city will need to budget \$9,581.26 per current FTE and \$10,070.06 per new FTE approved for 2011.

**A Look Back**

**Attachment F** is a historical look at the city's healthcare plan up through 2009. The chart portrays how the plan has functioned from year to year in terms of revenues/expenses and MRE.

## Attachment A

### Health Care Committee Ongoing Goals and Objectives

Revised 4/29/2010

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 Human Resources Manager 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.

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#### 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.

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#### 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 **16% 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 each year **not to exceed 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.

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## 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

Through the Wellness Committee, offering intervention programs employees can use to individually examine and improve their overall lifestyle.

## Attachment B

### Healthcare Reform – Potential Financial Impacts

<b>Effective as soon as 6/23/10</b>	
<ul style="list-style-type: none"> <li>• Temporary reinsurance program for group plans that provide coverage to retirees ages 55-65 who aren't eligible for Medicare.</li> </ul>	<ul style="list-style-type: none"> <li>• Program to reimburse claims between \$15,000 and \$90,000 and remain in place until 2014. Supposed to take effect 90 days after law's effective date.</li> <li>• Based on historical data, this might result in \$200,000 to \$300,000 to the city for a plan year –reimbursement amounts dependent upon actual claims and further clarification of this program's details.</li> </ul>
<b>Effective 1/1/2011</b>	
<ul style="list-style-type: none"> <li>• Coverage for dependent children "up to age 26", regardless of student status, required by all plans.</li> <li>• Premium must be allowed on a pre-tax basis for any child who has not attained the age of 27.</li> </ul>	<ul style="list-style-type: none"> <li>• The City's plan currently allows for coverage of dependent children up to age 21, age 24 if full-time student.</li> <li>• Claim expense increase is highly dependent upon the extent that the expanded eligibility impacts the city's enrollment – Hays' estimates at this stage a range from 1 to 3% of claims expense (\$80,000 to \$250,000 in 2011).</li> <li>• Premium is allowed on a pre-tax basis currently.</li> </ul>
<ul style="list-style-type: none"> <li>• No lifetime limits on medical coverage allowed</li> </ul>	<ul style="list-style-type: none"> <li>• The city's medical plan currently is unlimited. However, stop loss markets are expected to be impacted causing a general increase in these rates.</li> </ul>

## Attachment C – Recommended Funding for 2011

### City of Lawrence - Plan Funding Modeling

Category	2010	2011	2012	2013
<b>Expenses</b>				
Medical	6,080,000	6,679,000	7,337,000	8,060,000
Rx	1,527,000	1,677,000	1,842,000	2,023,000
Dental	529,000	577,000	629,000	686,000
Administration	385,000	397,000	409,000	421,000
Stop-loss	636,000	795,000	994,000	1,243,000
<b>Total</b>	<b>9,157,000</b>	<b>10,125,000</b>	<b>11,211,000</b>	<b>12,433,000</b>
<b>Revenues</b>				
City	7,325,000	7,691,000	8,076,000	8,076,000
Employee	1,423,000	1,494,000	1,569,000	1,569,000
<b>Total</b>	<b>8,748,000</b>	<b>9,185,000</b>	<b>9,645,000</b>	<b>9,645,000</b>
Fund Balance BOY	6,315,000	5,906,000	4,966,000	3,400,000
Fund Balance EOY	5,906,000	4,966,000	3,400,000	612,000
Retained Earnings spent	(409,000)	(940,000)	(1,566,000)	(2,788,000)
Recommended MRE	1,879,000	2,081,000	2,308,000	2,564,000
% Increase to Cover Current Years Expenses		16%	22%	29%
% Increase to Maintain Minimum Funding		-17%	10%	49%

Apply Funding Increase			
Employees	Y	Y	N
City	Y	Y	N

Assumptions / Inputs	
Trend	
- Medical	10%
- Rx	10%
- Dental	9%
- Administration	3%
- Stoploss	25%
City Funding Increase	5%
Employee Funding Increase	5%
MRE Level	16%
Catastrophic Load	16%

## Attachment D

### City of Lawrence - Plan Funding Modeling

Category	2010	2011	2012	2013
<b>Expenses</b>				
Medical	6,080,000	6,679,000	7,337,000	8,060,000
Rx	1,527,000	1,677,000	1,842,000	2,023,000
Dental	529,000	577,000	629,000	686,000
Administration	385,000	397,000	409,000	421,000
Stop-loss	636,000	795,000	994,000	1,243,000
<b>Total</b>	<b>9,157,000</b>	<b>10,125,000</b>	<b>11,211,000</b>	<b>12,433,000</b>
<b>Revenues</b>				
City	7,325,000	7,325,000	7,325,000	7,325,000
Employee	1,423,000	1,423,000	1,423,000	1,423,000
<b>Total</b>	<b>8,748,000</b>	<b>8,748,000</b>	<b>8,748,000</b>	<b>8,748,000</b>
Fund Balance BOY	6,315,000	5,906,000	4,529,000	2,066,000
Fund Balance EOY	5,906,000	4,529,000	2,066,000	(1,619,000)
Retained Earnings Spent	(409,000)	(1,377,000)	(2,463,000)	(3,685,000)
Recommended MRE	1,879,000	2,081,000	2,308,000	2,564,000
% Increase to Cover Current Years Expenses		16%	28%	42%
% Increase to Maintain Minimum Funding		-12%	31%	90%

Apply Funding Increase			
Employees	N	N	N
City	N	N	N

Assumptions / Inputs	
Trend	
- Medical	10%
- Rx	10%
- Dental	9%
- Administration	3%
- Stoploss	25%
City Funding Increase	0%
Employee Funding Increase	0%
MRE Level	16%
Catastrophic Load	16%

**Attachment E**

**Transfers to fund health plan 2011**

Budget \$9,581.26 per current FTE and \$10,070.06 per new FTE approved for 2011.

<b>Fund</b>	<b>Description</b>	<b>Current FTE</b>	<b>Decreases</b>	<b>Additions</b>	<b>Total FTE</b>	<b>Rec. Xfers</b>	<b>% of Total Funding</b>
1068	General Fund 001 (Retirees)	65.00	0.00	0.00	65.00	\$58,360.13	0.8%
1068	General Fund 001	<b>453.74</b>	0.00	0.00	453.74	\$4,347,402	56.5%
210	Public Transportation	0.61	0.00	0.00	0.61	\$5,845	0.1%
211	Recreation	29.28	0.00	0.00	29.28	\$280,539	3.6%
213	Special Alcohol	3.00	0.00	0.00	3.00	\$28,744	0.4%
214	Special Gas Tax	25.50	0.00	0.00	25.50	\$244,322	3.2%
501	Finance-Utility Billing	22.26	0.00	0.00	22.26	\$213,279	2.8%
501	Utilities-Administration	13.00	0.00	0.00	13.00	\$124,556	1.6%
501	Utilities-Engineering	10.00	0.00	0.00	10.00	\$95,813	1.2%
501	Utilities-Clinton Plant	11.00	0.00	0.00	11.00	\$105,394	1.4%
501	Utilities-Kaw Plant	13.00	0.00	0.00	13.00	\$124,556	1.6%
501	Utilities-WWTP	19.00	0.00	0.00	19.00	\$182,044	2.4%
501	Utilities-Sanitary Sewer Coll Sys	15.00	0.00	0.00	15.00	\$143,719	1.9%
501	Utilities-Water Quality	4.00	0.00	0.00	4.00	\$38,325	0.5%
501	Utilities-Water Distribution	21.00	0.00	0.00	21.00	\$201,207	2.6%
502	Sanitation	100.84	0.00	0.00	100.84	\$966,174	12.6%
503	Public Parking	14.00	0.00	0.00	14.00	\$134,138	1.7%
504	Vehicle Maintenance	17.25	0.00	0.00	17.25	\$165,277	2.1%
505	Stormwater Utility	10.50	0.00	0.00	10.50	\$100,603	1.3%
506	Public Golf Course	5.75	0.00	0.00	5.75	\$55,092	0.7%
611	Outside Agency Grant-Transit	2.39	0.00	0.00	2.39	\$22,899	0.3%
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	0.00	0.00	0.00	0.00	\$0	0.0%
631	CDBG	3.55	0.00	0.00	3.55	\$34,013	0.4%
633		0.40	0.00	0.00	0.40	\$3,833	0.0%
641	Transportation Grant	1.60	0.00	0.00	1.60	\$15,330	0.2%
					<b>796.67</b>	<b>\$7,691,464.20</b>	<b>100.0%</b>

**Attachment F**

**Healthcare Plan Revenues/Expenses as of 12/31/2009**

		<i>Actual data from the AS/400 GMBA application 522-0000-345, 522-0000-361, 522-1055-545 accounts</i>								<b>YTD 12/31</b>	
		<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Revenues</b>											
<b>City</b>		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	6,369,977.36
<b>Employee</b>		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	1,052,992.01
<b>Retiree</b>		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	334,810.69
<b>Interest</b>		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	69,978.15
<b>Total Revenues</b>		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	7,827,758.21
<b>Expenses **</b>											
<b>Claims</b>		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	8,181,237.63
<b>Admin Charge</b>		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	282,454.24
<b>BCBS GOE,ASL,ISL</b>		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	498,719.93
<b>Other Contractual Expenses</b>		0.00	0.00	0.00	0.00	0.00	0.00	0.00	10,501.36	0.00	81,745.15
<b>Total Expenses</b>		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	9,044,156.95
<b>City Authorized FTEs</b>		692.05	713.05	742.23	756.76	758.89	767.89	798.25	827.67	820.92	809.17
<b>Net Income</b>		(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	-1,216,398.74
<b>Actual ending fund balance</b>		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	6,315,010.99
<b>**Expenses include \$414,636.18 in claims and \$23,582.65 in admin charges, paid in 2010, incurred in 2009</b>											
<b>Percent change</b>											
<b>Revenues</b>											
<b>City</b>			26.81%	1.69%	32.59%	20.59%	9.50%	7.39%	5.76%	5.26%	9.71%
<b>Employee</b>			20.13%	12.47%	23.55%	-0.52%	1.72%	5.15%	6.08%	-0.47%	0.76%
<b>Retiree</b>			15.14%	22.04%	12.94%	9.64%	-0.23%	12.98%	-7.04%	1.43%	24.43%
<b>Interest</b>			-18.94%	-43.46%	-24.44%	-8.76%	262.37%	106.65%	15.89%	-3.69%	-75.27%
<b>Total Revenues</b>			23.59%	3.28%	29.29%	16.37%	9.42%	9.17%	5.65%	4.05%	-0.08%
<b>Expenses</b>											
<b>Claims</b>			33.70%	-3.40%	-3.88%	26.64%	0.37%	14.78%	21.05%	10.42%	21.82%
<b>Admin Charge</b>			21.43%	57.99%	-33.35%	20.90%	-11.47%	-6.08%	18.20%	21.81%	20.46%
<b>BCBS GOE,ASL,ISL</b>			23.11%	-4.85%	42.62%	8.05%	-35.15%	0.37%	23.68%	9.86%	17.56%
<b>Other Contractual Expenses</b>											
<b>Total Expenses</b>			32.32%	-1.25%	-2.12%	24.37%	-3.47%	13.11%	21.31%	10.54%	22.64%
<b>Net Income</b>											
<b>Actual ending fund balance</b>			-24.38%	-15.83%	117.63%	46.63%	57.01%	35.47%	13.80%	6.49%	-16.15%