

CITY OF LONG BEACH

DEPARTMENT OF HUMAN RESOURCES

R-39

333 West Ocean Boulevard 13th Floor • Long Beach, CA 90802

September 6, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute the renewal of contracts with Great-West Life, the City's Third Party Administrator for the Preferred Provider Organization (PPO) and the Point of Service (POS) group health plans; Aetna for term life insurance coverage; PacifiCare for the Health Maintenance Organization (HMO) group health plan; Delta Dental for the fee-for-service dental plan; PacifiCare Dental for the closed-panel dental plan; and Union Mutual Life Insurance Company (UNUM) through Larry Lambert & Associates Insurance Services for the long-term care benefits; and to continue the City's self-funded, in-hospital indemnity program administered by Great-West Life.

Authorize the City Manager to execute any subsequent amendments necessary to maintain current benefit levels and remain in compliance with state and federal laws on all plans. (Citywide)

DISCUSSION

As set forth in the various Memoranda of Understanding (MOU) between the City of Long Beach and its employee organizations, the City Employees' Health Insurance Advisory Committee, composed of representatives from each of the employee organizations, has met and submitted its advisory recommendations (attached) for health, dental and Life insurance programs. These recommendations are for the 2005-2006 benefit year, from December 1, 2005, to November 30, 2006, for active employees; and for the period February 1, 2006, to January 31, 2007, for retired employees.

The Committee recommends that the contracts be renewed with: Great-West Life, the City's Third Party Administrator for the Preferred Provider Organization (PPO) and Point of Service (POS) Plans; with PacifiCare for the Health Maintenance Organization (HMO) Plan; with Delta Dental for the Fee-for-Service Dental Plan; and with PacifiCare for the Closed-Panel Dental Plan. The Committee further recommends continuing the City's In-hospital indemnity program at the rates proposed in the attached report and renewing the long-term care benefits with Union Mutual Life Insurance Company (UNUM) through Larry Lambert & Associates Insurance Services at the current rates.

The health insurance industry has seen dramatic rate increases during the past several years. Statewide, most employers have faced double digit increases. The City, however, has taken decisive steps to mitigate this trend. As a result of the

changes, the City's self-funded program expenses rose only one percent for the coming fiscal year. Based on the industry average, this represents a cost avoidance savings of nearly \$3.4 million. Nonetheless, total program costs are anticipated to increase approximately \$1.8 million for the coming year. However, based upon the cost sharing language being negotiated in current labor agreements, the total increased City costs are anticipated to be \$1.2 million.

In addition, the City retained the services of Driver Alliant, a health insurance consultant, to conduct an optimization review of our healthcare and employee benefits programs. It is anticipated that significant savings can be achieved through renegotiations of existing agreements or agreements with new providers, as well as by placing a greater focus on preventive health, without compromising the level of benefits currently enjoyed by City employees. A savings target of \$4.9 million has been estimated in this area for FY 06, (approximately 10% of the total program costs) and is a key component of the Financial Strategic Plan. Any cost savings identified by the study will be implemented as soon as possible, as the subject contracts can be cancelled with 45 days written notice.

This letter was reviewed by Deputy City Attorney Christina Checel and Budget Management Officer David Wodynski on August 29, 2005.

TIMING CONSIDERATIONS

Open enrollment for the health plan year 2005-2006 is conducted in October 2005. Therefore, City Council action is requested on September 6, 2005, so the Department of Human Resources will have adequate time to prepare information for distribution to employees in early September 2005.

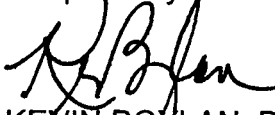
FISCAL IMPACT

The net cost of these programs is estimated to be \$41.3 million annually for all covered employees and retirees. This represents an increase of \$1.2 million over FY 05, most of which is related to escalating health and dental costs. These charges have been included in the Proposed Fiscal Year 2006 Budget in the Employee Benefits Fund (IS 391) in the Department of Financial Management Citywide (XC).

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,


KEVIN BOYLAN, DIRECTOR
DEPARTMENT OF HUMAN RESOURCES

APPROVED:


for GERALD R. MILLER
CITY MANAGER