



**R-39**

**Date:** August 15, 2005  
**To:** Gerald R. Miller, City Manager  
**From:** City Employees' Health Insurance Advisory Committee  
**Subject:** RECOMMENDATION FOR CITY EMPLOYEES' HEALTH, DENTAL AND LIFE PROGRAMS FOR FISCAL YEAR 2005-06

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During the past several months, the City's Health Insurance Advisory Committee and City staff from the Department of Human Resources have been evaluating the existing benefit plans, plan rates, costs, and related employee benefit matters. The following programs have been reviewed:

- Point of Service plans (POS 100 and POS 90 plan options)
- Preferred Provider Organization plans (PPO and High Deductible PPO plan options)
- HMO plan (PacifiCare HMO);
- Dental plans (Delta Dental and PacifiCare Dental plan options); and
- In-Hospital Indemnity Plan.

This process is required each year to ensure that the City's benefit programs remain competitive, meet employee needs, and are provided on the most tax- and cost-effective basis for employees and the City.

#### **RECOMMENDATIONS**

Last year due to continued rising costs in healthcare and the depletion of the MOU Trust fund, the Committee recommended significant changes to the employee benefit program. This included introducing new plans with lower benefit levels and requiring greater cost-sharing from employees in terms of payroll deductions.

The changes we made last year appear to have made a significant impact on the claims costs of our health insurance benefit program, resulting in a remarkably low increase of roughly 1% to the City's self-funded medical program for next year. Even the 10.5% increase to the PacifiCare HMO plan, though higher than that for the self-funded program, was relatively modest in comparison to overall industry trends.

As such, our recommendation is to continue the medical program plan options as presently constituted. The committee is recommending several enhancements to the City's Flexible Spending Account (FSA) plans. Specifically, the committee is recommending the following:

- That the City extend the FSA plan year to 14.5 months as allowed under the new IRS regulations applicable to these plans. This would allow the City to add a grace period of an additional 2.5 months after the end of the

plan year when plan participants may incur expenses and be reimbursed from account balances unused at the end of the preceding plan year. This would apply to both Health Care FSA accounts and Dependent Care FSA accounts, though health care expenses cannot be reimbursed from dependent care account funds and vice versa.

- That the City increase the annual maximum employee contribution amount for the health care FSA plan from the present \$3,600 to \$5,000. This change has no fiscal impact upon City costs. Given the higher level of cost-sharing within the plans based on the plan design changes implemented last year, the committee feels that raising the dollar limit would create greater cost-saving opportunities for employees. Current IRS rules do not limit the dollar amount that may be set aside for health care expenses under an FSA plan; there is a separate additional \$5,000 limit (employee and spouse combined) on dependent care FSA contributions.
- Finally, that the City continue to provide for an extended enrollment period for the FSA plans and heightened plan communications/education to encourage greater enrollment in those plans.

The Committee recommends that the group benefits program outlined below be adopted and that the carrier contracts be renewed or initiated at the rates listed in Exhibit A for the period December 1, 2005 to November 30, 2006 for active employees and for the period of February 1, 2006 to January 31, 2007 for retired employees.

#### Dental Plans

Continue the prepaid dental plan with PacifiCare Dental at the current rate with no change in benefit levels.

Also continue the fee-for-service dental plan with Delta Dental at the new proposed rate with no change in benefit levels. This represents a 3.2% increase from the previous year.

#### PacifiCare HMO Medical Plan

Continue the PacifiCare plans with no change in benefit levels for active plans at the new proposed rates, which represent an overall 10.5% increase.

#### Great-West Health Care Plans

The Health Insurance Advisory Committee recommends continuing the current plan options under the Great West Healthcare self-funded program.

In-Hospital Indemnity Plan

The In-Hospital Indemnity Plan is a voluntary supplemental benefit plan that is self-insured by the City. The plan pays money directly to the employee when the covered individual is hospitalized. The rates remain unchanged from last year. Because a reserve has accumulated for this program, the Committee recommends continuing the premium waiver for all City employees who were self-paying and covered through this plan on March 1, 1994. This premium waiver will remain in effect until such time as the reserve is depleted to an actuarially prudent amount. This will be the eighth year of the premium waiver. All new enrollees will self-pay the premiums shown in Exhibit A.


**PLAN COSTS/EMPLOYEE COST SHARING**

Health plans across the country continue to experience double-digit rate increases due to rising medical care costs, increased utilization, as well as escalating prescription drug costs. This trend is expected to continue. As a result of the plan design changes implemented last year, the overall costs of the City's plans are increasing at a rate well below national trends.


As part of the rating process each year, an actuarial adjustment is made to the negotiated medical plan rates to reflect the impact upon the self-funded plan's costs that is a result of offering an HMO option to the City's employees and retirees. The resulting restructured plan rates then serve as the basis for the development of the payroll deductions payable by employees, along with the governing MOU language regarding health insurance cost-sharing between the City and employees. The Committee recommends the payroll deductions shown on Exhibit B for the plan year beginning December 1, 2005.

This concludes the Committee's report of findings and recommendations for the City's group benefits program for plan year December 1, 2005 to November 30, 2006 for active City employees and for the period of February 1, 2006 to January 31, 2007 for retired employees.


The Committee requests endorsement of this report and its recommendations by the City Manager and subsequent approval by the City Council.

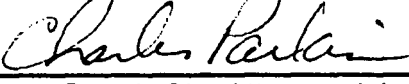
  
International Association of Machinists & Aerospace Workers, District 947

  
Long Beach Association of Engineering Employees

  
Long Beach Lifeguards' Association


  
Long Beach Firefighters' Association


  
Long Beach Police Officers' Association

  
Long Beach City Attorneys' Association

  
Long Beach City Prosecutors' Association

  
Long Beach Association of Confidential Employees

  
Long Beach Management Association

  
Department of Human Resources

## Exhibit A

### Comparison of 2004/2005 Rates to 2005/2006 Rates

LIFE INSURANCE	Current Rates	Proposed Rates
Aetna (\$20,000 Life Benefit)	\$3.80	\$2.48

DENTAL	Current Rates	Proposed Rates
Delta Dental	\$85.32	\$88.01
PacifiCare Dental	\$42.60	\$42.60

HEALTH	Current Rates	Proposed Rates
<b>Great-West Health Care</b>		
<b>POS 100</b>		
<i>Active &amp; Retiree With Dependent(s)</i>	\$870.06	\$884.69
<i>Single Retiree or Widow</i>	\$694.39	\$709.33
<b>POS 90</b>		
<i>Active &amp; Retiree with Dependent(s)</i>	\$720.07	\$728.13
<i>Single Retiree or Widow</i>	\$576.15	\$584.06
<b>PPO</b>		
<i>Active &amp; Retiree with Dependent(s)</i>	\$773.54	\$802.67
<i>Single Retiree or Widow</i>	\$606.56	\$630.99
<b>High Deductible PPO</b>		
<i>Active &amp; Retirees with Dependent(s)</i>	\$473.19	\$474.78
<i>Single Retiree or Widow</i>	\$376.81	\$379.57
<b>Medicare Supplement</b>		
One Medicare	\$425.09	\$425.09
Two Medicare	\$850.17	\$850.17

## Exhibit A

### Comparison of 2004/2005 Rates to 2005/2006 Rates

HEALTH	Current Rates	Proposed Rates
<b>PacifiCare</b>		
<b>High Plan</b>		
Active & Retiree with Dependent(s)	\$645.66	\$713.45
Single Retiree or Widow	\$443.01	\$489.52
<b>Low Plan</b>		
Retiree with Dependent(s)	\$475.18	\$525.05
Single Retiree or Widow	\$322.27	\$356.09
<b>Secure Horizons</b>		
One Medicare & Two/More Non-Medicare Companions	\$1,008.39	\$1,109.69
One Medicare & One Non-Medicare Companion	\$569.89	\$608.53
Two Medicare & One Non-Medicare Companion	\$847.42	\$882.84
One Medicare Risk	\$204.46	\$190.81
Two Medicare Risk	\$408.92	\$381.62

2004/2005 Rates

IN-HOSPITAL INDEMNITY PLAN

Age	Employee	Employee & Spouse	Employee & Child	Full Family
0 - 34	3.62	6.90	7.29	10.58
35 - 44	4.38	8.39	8.06	12.07
45 - 54	5.92	11.30	9.59	14.97
55 - 59	7.45	14.25	11.12	17.92
60 - 64	7.68	14.63	10.42	17.37
65 - 69*	4.38	8.39	6.58	10.59
Age 70	Benefit Terminates			

\* 1/2 benefit from age 65 to 69

## Exhibit B

### Comparison of 2004/2005 Payroll Deductions to 2005/2006 Payroll Deductions

2004/2005 Plan Year

2005/2006 Plan Year

Plan Combinations	Single Monthly Payroll Deduction	Two-Party Monthly Payroll Deduction	Family Monthly Payroll Deduction		Single Monthly Payroll Deduction	Two-Party Monthly Payroll Deduction	Family Monthly Payroll Deduction
PPO Delta Dental Life Total	\$ 55.00	\$ 80.00	\$ 105.00		\$ 57.56	\$ 82.56	\$ 107.56
HDP PPO Delta Dental Life Total	\$ -	\$ 25.00	\$ 50.00		\$ -	\$ 10.00	\$ 35.00
POS 100 Delta Dental Life Total	\$ 150.00	\$ 175.00	\$ 200.00		\$ 147.60	\$ 172.60	\$ 197.60
POS 90 Delta Dental Life Total	\$ -	\$ 25.00	\$ 50.00		\$ -	\$ 22.00	\$ 47.00



## Exhibit B

### Comparison of 2004/2005 Payroll Deductions to 2005/2006 Payroll Deductions

2004/2005 Plan Year

2005/2006 Plan Year

Plan Combinations	Single Monthly Payroll Deduction	Two-Party Monthly Payroll Deduction	Family Monthly Payroll Deduction		Single Monthly Payroll Deduction	Two-Party Monthly Payroll Deduction	Family Monthly Payroll Deduction
PPO PacifiCare Dental Life <b>Total</b>	\$ 10.00	\$ 35.00	\$ 60.00		\$ 11.76	\$ 36.76	\$ 61.76
HDP PPO PacifiCare Dental Life <b>Total</b>	\$ -	\$ 25.00	\$ 50.00		\$ -	\$ 10.00	\$ 35.00
POS 100 PacifiCare Dental Life <b>Total</b>	\$ 105.00	\$ 130.00	\$ 155.00		\$ 101.80	\$ 126.80	\$ 151.80
POS 90 PacifiCare Dental Life <b>Total</b>	\$ -	\$ 25.00	\$ 50.00		\$ -	\$ 21.18	\$ 46.18

## Exhibit B

### Comparison of 2004/2005 Payroll Deductions to 2005/2006 Payroll Deductions

2004/2005 Plan Year

2005/2006 Plan Year

Plan Combinations	Single Monthly Payroll Deduction	Two-Party Monthly Payroll Deduction	Family Monthly Payroll Deduction		Single Monthly Payroll Deduction	Two-Party Monthly Payroll Deduction	Family Monthly Payroll Deduction
PacifiCare Delta Dental Life Total	\$ 65.00	\$ 90.00	\$ 115.00		\$ 80.00	\$ 105.00	\$ 130.00
PacifiCare PacifiCare Dental Life Total	\$ 20.00	\$ 45.00	\$ 70.00		\$ 35.00	\$ 60.00	\$ 85.00