City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 27, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 50: THE LEGAL AND FISCAL IMPACTS OF CHARGING A GREATER POTION OF HEALTHCARE PREMIUMS TO EMPLOYEES WHO CHOOSE TO SMOKE AND DO NOT PARTICIPATE IN THE CITY'S SMOKING CESSATION PROGRAMS

This memo is in response to a request from Councilman Wilson that City Council be provided information on the potential legal and fiscal impacts of charging a greater portion of healthcare premiums to employees who choose to smoke. We have found that the City could legally charge smokers a higher portion of healthcare premium costs, but the City would have to implement this policy very carefully. We cannot provide a detailed fiscal impact for this budget savings option but have provided hypothetical savings using national smoking data and current City healthcare enrollment figures.

Based on current national trends, approximately 19.8% of the total adult population within the United States are cigarette smokers. If the same ratio is true of Alexandria City employees who are enrolled in a City-provided health plan, then approximately 398 employees are cigarette smokers. Distributing the ratio evenly across all health plan options and assuming a 5% increase in the share of the monthly premium for smokers would result in a savings to the City of approximately $195,000.

The City Attorney's Office did not find any State law that would prohibit the City from requiring that employees who smoke bear higher health care costs. Our health insurance consultant did warn that federal law requires employers to take great care when charging employees different health plan premiums based on certain health criteria. The consultant also noted that charging employees different premiums based on smoking may be viewed as discriminatory because it would reward the individual behavior of those employees who do not smoke. Additionally, there are several ongoing lawsuits involving employers and employees with smoking habits. The City may want to wait and learn what the outcomes of these cases are before implementing such a policy.