

*City of Alexandria, Virginia*

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MEMORANDUM

DATE: APRIL 21, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #133: HEALTHCARE COSTS- EMPLOYEE COST SHARING OPTIONS

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This memo responds to Council's request for information on costs to employees of options to increase City employee cost sharing of healthcare premiums.

The following table depicts the 3.3% cost sharing by health insurance option chosen on a cost per year and per month basis (as well as twice per month basis, which is how it would actually be deducted). These costs are rounded to the nearest dollar.

| <b>FY 2007</b> |                       |              |                    |                   |              |                    |
|----------------|-----------------------|--------------|--------------------|-------------------|--------------|--------------------|
|                | <b>Individual HMO</b> |              |                    | <b>Family HMO</b> |              |                    |
|                | <b>Year</b>           | <b>Month</b> | <b>Twice/Month</b> | <b>Year</b>       | <b>Month</b> | <b>Twice/Month</b> |
| Kaiser         | \$139                 | \$12         | \$6                | \$327             | \$27         | \$14               |
| Optimum Choice | \$144                 | \$12         | \$6                | \$339             | \$28         | \$14               |

Previously, in Budget Memo #51, we estimated the cost savings to the City of the 3.3% employee premium cost sharing (for HMO plans<sup>1</sup>) in FY 2007 to be approximately \$500,000. Staff calculated the impact of exempting all current full-time regular employees who were making less than \$40,000 a year from this cost sharing. The estimated impact in City expenditures would be \$85,000 in total. In other words, the savings to the City would be \$415,000 instead of \$500,000.

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<sup>1</sup>Employees are currently expected to pay the additional costs of "point-of-service" plans and would continue to do so.

The proposed rate for employees to share in premium costs is 3.3% for HMO plans. The following chart shows the percentage of total salary that employees in various lower levels of salary would pay towards their premium.

| <b>Salary</b>     | <b>Total # Employees</b> | <b>Monthly Avg Salary</b> | <b>Indiv HMO % of Salary</b> | <b>Family HMO % of Salary</b> |
|-------------------|--------------------------|---------------------------|------------------------------|-------------------------------|
| < \$40,000        | 371                      | \$2,858                   | 0.4%                         | 0.9%                          |
| \$40,001-\$50,000 | 534                      | \$3,745                   | 0.3%                         | 0.7%                          |
| \$50,001-\$60,000 | 433                      | \$4,591                   | 0.2%                         | 0.5%                          |

Other options could be established. The following chart shows the number and percent of employees in the lower salary ranges that were on-board the City’s payroll as of the time of this calculation. It then calculates the total approximate cost of exempting all employees in those salary ranges from sharing healthcare premiums.

| <b>Salary</b> | <b>Total # Employees</b> | <b>% of all Employees</b> | <b>Total \$ Impact to Employees</b> |
|---------------|--------------------------|---------------------------|-------------------------------------|
| < \$40,000    | 371                      | 16.6%                     | (\$85,323)                          |
| < \$50,000    | 905                      | 40.5%                     | (\$208,133)                         |
| < \$60,000    | 1,338                    | 59.9%                     | (\$307,715)                         |

**Graduated Cost Sharing:**

Council requested additional information about the impact of a graduated schedule for healthcare premium sharing. If the percent of the premium to be paid were graduated so that those employees making below \$40,000 paid 0% of the premium, those making from \$40,001 to \$50,000 paid 1% of the premium, and those making from \$50,001 to \$60,000 paid the entire 3.3%, then the cost impacts would change as follows:

| <b>Salary</b>       | <b>Total # Employees</b> | <b>% of Premium</b> | <b>Total \$ Impact to Employees</b> |
|---------------------|--------------------------|---------------------|-------------------------------------|
| < \$40,000          | 371                      | 0%                  | (\$85,323)                          |
| \$40,001-\$50,000   | 534                      | 1%                  | (\$85,545)                          |
| \$50,001-\$60,000   | 433                      | 2%                  | (\$39,207)                          |
| <b>Total Impact</b> |                          |                     | <b>(\$210,075)</b>                  |

The following chart shows the percentage of total salary that employees would pay towards their premium with the graduated rates.

| <u>Salary</u>     | <u>Total # Employees</u> | <u>Monthly Avg Salary</u> | <u>Indiv HMO % of Salary</u> | <u>Family HMO % of Salary</u> |
|-------------------|--------------------------|---------------------------|------------------------------|-------------------------------|
| < \$40,000        | 371                      | \$2,858                   | 0.0%                         | 0.0%                          |
| \$40,000-\$50,000 | 534                      | \$3,745                   | 0.1%                         | 0.2%                          |
| \$50,001-\$60,000 | 433                      | \$4,591                   | 0.1%                         | 0.3%                          |

While the “notch” issue raised at the Council meeting does occur (i.e., when an employee goes over the \$40,000 salary limit due to merit or promotional salary increases), the amount of the increase in the merit or promotional pay at a 3.3% cost sharing would always be more than the health insurance premium cost sharing that would then kick in due to the salary increase. While the 3.3% does not create a serious “notch” problem, as the City moves to a 10% cost sharing, the issue will become more problematic. Therefore, this is something that should be studied before FY 2008.

**Options:**

There are four basic options costed below for Council to consider in establishing higher employee cost sharing of health insurance premiums.

1. Decide to support an across-the-board 3.3% employee healthcare premium sharing (with new employees hired after July 1, 2006 paying 10%); cost savings ≈ \$500,000.
2. Decide to support 3.3% employee healthcare premium sharing except for those employees making approximately \$40,000 or less (with new employees earning more than \$40,000 paying 10%); cost savings ≈ \$415,000.
3. Decide to institute a simpler 3.3% across-the-board percentage for use in FY 2007 for current staff (with new employees hired after July 1, 2006 paying 10%) and instruct staff to develop a more graduated approach for use in FY 2008 and FY 2009 when, as indicated in Budget Memorandum #89, my intent is to reach an employee share of 10 percent in some form. With this instruction, working with our employee healthcare advisory group, I would construct a proposal for sharing healthcare premium costs that considered income levels as well as premium costs; cost savings ≈ \$500,000.
4. Decide to institute in FY 2007 a graduated approach that considers income based on the above information; cost savings ≈ \$290,000.

**Alexandria City Public Schools Health Insurance**

It should be noted that as far as City staff knows, the Schools do not intend to raise co-pays for their employees. Also, under current premium cost sharing provisions, School administrators make no contribution to their Health Insurance premium.