

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 31, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #51: EMPLOYEE HEALTH CARE BENEFITS

At the March 6, 2006 Budget Work Session with City Council on Employee Compensation Issues there was extensive discussion of health care benefits offered to City employees and their role in offering a competitive compensation package to attract and maintain a competent and effective workforce. There also was extensive discussion of the rapid increase in the cost to the City of providing employee health care benefits. There was additional discussion of pay and benefits at the March 20, 2006 Budget Work Session.

During those discussions it became evident that City Council wished to have options to consider that would lower the rate of growth in those benefits, yet still provide a competitive compensation package overall.

Also, the Budget and Fiscal Affairs Advisory Committee has recommended various changes be considered in employee health care benefits for both current and retired employees, "but take a balanced approach change over time." Their report has been presented to you in its entirety in Budget Memorandum #49.

I initiated an Employee Health Care Advisory Group to discuss possible changes in health care benefits and that group has met twice. The focus of those discussions, given the timing of the budget schedule, has been on health care benefits for current employees and possible changes that might affect the FY 2007 budget under consideration by City Council. In general, employees on that group would prefer that there be no change in the current level of health care benefits provided to City employees, and that there be more time to discuss these issues. They are concerned, as I am, about the potential effects on employee retention, recruitment, morale and health and welfare. Nevertheless, if there are to be changes in employee health benefits, there seemed to be clear themes that emerged:

1. Benefits are a very important part of the total compensation package offered to City employees.
2. Comparisons to private sector compensation packages that can emphasize pay over benefits tend to overlook the generally different mix of pay and benefits offered to public employees in the region.
3. The City should consider the possibility of different health care premium cost sharing for new as opposed to current employees.
4. The co-pay increases discussed at the March 6th Work Session were preferable to premium sharing.
5. Premium cost sharing, if done at all, should be done as a percent of premiums and not as a percent of salary.

6. A minimal percent of premium cost sharing was preferable to a significant percent of premium sharing, and any such changes should be phased in gradually.

I am proposing three changes in employee compensation to the options I have previously presented to Council to lower the budget:

1. I am proposing that the Council maintain the Cost of Living Adjustment (COLA) for both City and School staff at the originally proposed 3.0 percent level instead of reducing it to 2.5 percent to meet lower budget targets. The value of 0.5 percent of the COLA is approximately \$0.95 million for City employees and \$0.65 million for School employees for a total of \$1.6 million.
2. I am proposing that the health care plans provided to City employees increase the co-pays in the following manner:
 - a. Specialist physician visit co-pays from \$15 to \$25 (with no change in primary care physician visit co-pays)
 - b. Emergency room visits (when not admitted) from \$50 to \$75
 - c. Out-patient hospital services from \$50 to \$100
 - d. Prescription drugs from \$10/\$20/\$35 to \$10/\$25/\$40

The estimated cost savings of these co-pay changes for the City would be approximately \$0.6 million. If the schools were to implement these co-pays the savings would be higher.

3. I am proposing the cost of basic Health Maintenance Organization (HMO) plan premiums, which is now completely paid by the City, be changed by:
 - a. Having new employees hired after July 1, 2006 share those premiums on a 90% City – 10% employee basis.
 - b. Having current employees pay the equivalent of 3.3% of HMO plan premiums beginning July 1, 2006.
 - c. Planning for future increases in the current employee share of premium costs now borne by the City for health care benefits over the next two years so that in three years the equivalent of 10% of this cost will be shared by current employees as well. The exact manner in which these costs would be shared could vary.
 - d. Employees would continue to pay 100% of the difference between the cost of an HMO plan and the higher cost Point of Service (POS) plan.

The estimated cost savings to the City of this premium cost sharing in FY 2007 would be approximately \$0.5 million.

Separately, I will prepare an additional budget memo that discusses the result of our investigation into various administrative ways to reduce the cost of the employee health care benefit program such as self-funding and further consolidation with the Schools employee health care benefit

program. Unfortunately, there are no significant savings that can be realized in the near term through those efforts, although we will continue to look into them in the future.

I also will continue to have discussions with the City employee group about how to best control the future growth in employee health care costs, share those costs, and still maintain a competent and effective workforce.

cc: Members of the Employee Health Care Advisory Group
Department Heads
Rebecca Perry, Superintendent of the Alexandria City Public Schools