

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 7, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #89: ACPS HEALTH INSURANCE COSTS

This memorandum is in response to Council's various questions and information requests at the Joint School Board – City Council Budget Work Session on April 5, 2006, for more detailed information on the Schools Approved Budget for health insurance costs versus the City Manager's Proposed Budget for Schools health insurance costs.

Derivation of Schools Request

The Superintendent's Proposed Budget, which was presented to the School Board in December 2005, included \$1.9 million to fund estimated increases in health insurance costs. This figure was a preliminary estimate, based on information received from the City and Schools health insurance consultant in September 2005 and used to present initial estimates to City Council at its October 2005 Budget Retreat. Subsequently, in January the Schools obtained updated health insurance projections (in the later stages of their budget process) from the health insurance consultant that this increase would be much smaller - in fact near a zero increase. The Board was advised by School staff memorandum of January 23, 2006, that the amount set aside for health insurance increases in the proposed budget could be reduced by approximately \$1.7 million, resulting in a net increase of \$0.2 million for health insurance. At that time, School staff advised the Board that it was likely the City would want to reduce the Schools budget by the amount exceeding actual costs of the health insurance increase.

During budget deliberations, the School Board decided to leave the higher amount of \$1.9 million in their approved budget. Page B-12 of the Approved School Board budget describes the reason for this decision as follows:

“When the Superintendent's proposed budget was developed, ACPS' health insurance consultant indicated that the premiums for the FY 2006–07 would increase 15% for MAMSI and 12% for Kaiser. After the proposed budget was presented to the School Board, the consultant provided ACPS with new rate

increase information – 0% for MAMSI and 9.6% for Kaiser. Because these rates are still subject to change, the School Board decided to retain all of the \$1,892,760 budgeted for health insurance premium increases. The intent is to hold employees harmless against the premium rate increase for FY 2006-07. Also, included in this amount is an increase in the School Board’s contribution for retirees, from \$265 per month to \$280 per month, to be in line with the contribution provided by the City [of] Alexandria to its retirees.”

The School Board’s budget transmittal memorandum to Council (dated March 13, 2006 after the City Manager’s Proposed budget had been released and done after their budget was approved), provided a new and different explanation for setting aside the \$1.9 million:

“The amount budgeted for health insurance has increased by \$1,892,760 to bring the school system’s contribution more in line with the benefit offered to City employees and to pay for the projected premium increase.”

Derivation of City Manager Proposed Budget Recommendation

My budget, based on preliminary calculations by City staff in January, recommended that \$1.8 million not be included in the operating budget transfer to the Schools, as only \$0.1 million of the \$1.9 million would likely be needed for any increase in health insurance premiums. This recommendation was based on the rationale described by the School Board in their approved budget (the page B-12 quoted above). Since the City has had many years of dealing with the updating of projected health insurance costs during its budget process, City staff were more comfortable than School staff that the updated cost estimates provided by the health insurance carriers in January were going to be very close to the final health insurance costs which would need to be budgeted for FY 2007.

City staff did a calculation and determined that about \$0.1 million of the \$1.9 million might be needed. That \$0.1 million was left in the School budget, and the remaining \$1.8 million was set aside in fund balance and not used in the budget for either City or School purposes. By setting aside the monies in fund balance, if the City’s cost estimate of only \$0.1 million was too low then the \$1.8 million could be tapped for the Schools.

Given the more precise calculation by Schools staff, I am proposing that the transfer to the Schools be increased by \$0.1 million (\$73,840 precisely, which is the actual shortage talked about by the schools at the work session) and that the remaining \$1.7 million fund balance set aside for a possible higher rate of growth in health insurance premiums be eliminated in its entirety. Such a recommendation, however, would not provide funds to the Schools to use the \$1.7 million in “savings” to decrease the share of premiums paid by School staff (mainly teachers), as is now recommended by the School Board, as an alternative use of these funds since the \$1.7 million is no longer needed to meet premium increases.

I did not feel it was prudent to recommend to City Council more than the \$14.2 million for increased School staff compensation:

- a 3% COLA for School Staff (\$3.9 million),
- a general pay adjustment for teacher salaries (\$6.8 million),
- merit/step increases (\$3.5 million), with
- no increase in health care insurance premium costs for School staff, and
- no increase in health insurance co-pays for School staff

Comparison with City Employees Health Insurance Benefits

The Alexandria School Board proposes to use the \$1.7 million budgeted for increased premium costs originally estimated for the school system to lower the employee share for premiums if these funds are not needed for premium increases. The Schools are awaiting final confirmation of the premiums that will be charged after final negotiations with Kaiser and MAMSI/United Healthcare are completed. The Schools’ justification for this proposed policy change is that the Schools should move toward parity with City employees. A comparison of the City Manager proposed employee cost-sharing of health care premiums for City employees with the Schools current cost-sharing arrangements shows the following:

Employee Share of Health Care Premium (All Employees)

	HMO		POS	
	City	Schools /1	City	Schools
Individual	3.3% moving to 10% by FY 2009 (and increased co-pays)	0% to 28% (and no increase in co-pays)	14% to 32% (and increased co-pays)	0% to 34% (and no increase in co-pays)
Individual + 1	NA	0% to 23%	NA	0% to 30%
Family	3.3% moving to 10% by FY 2009, and increased co-pays	0% to 39% and no increase in co-pays	13% to 32%, and increased co-pays	0% to 44%, and no increase in co-pays

/1 Schools have 4 categories of employees: Administrators, Professional (teachers), Support below Step 25, and Support at Step 25 and above. Administrators pay 0% of health care premium costs. More detailed information on these percentages is presented below.

Comparison with Other School Districts

The Education Association of Alexandria (EAA) conducted a survey comparing Northern Virginia health insurance contribution rates for various school districts. The data are for teachers only. The complete survey is contained in Attachment A. The survey reported the following:

- For Alexandria teachers the employee shares of the less expensive individual and individual plus one plans are currently significantly less than those of the family plan in FY 2006.
- For HMO coverage the ACPS Kaiser HMO plan is as generous or more generous than the average HMO plan for Northern Virginia.
- For HMO coverage the ACPS Optimum Choice HMO plan was slightly less generous than the average HMO for Northern Virginia.

**Percent of Premium Paid by Employee (Teacher)
Under Various Plans
in FY 2006**

	HMO Plan			POS Plan	
	Metro Teacher Region Ave.	Alex. Teacher Kaiser	Alex. Teacher Optimum Choice	Alex. Teacher Kaiser	Alex. Teacher Optimum Choice
Individual	15%	16%	28%	33%	34%
Individual + 1	20 to 21%	11%	23%	27%	30%
Family	25%	29%	39%	42%	44%

Administrative Consolidation of City and School Health Insurance Programs

In the spring of 2005, the City and the Schools consolidated the administrative functions of our health plans. Under this arrangement, the Schools were able to offer a second option, Kaiser Permanente, to all of its employees, in addition to its existing Optimum Choice (MAMSI/United Healthcare) plan. The School Board estimated savings of \$485,000 in its FY 2006 budget from this consolidation (realized by the lower premium costs of Kaiser compared to Optimum Choice) and chose at that time to combine those savings with an additional \$1,256,570 in increased Schools funding to reduce the employee share of health insurance premiums significantly. Attachment B shows changes from FY 2005 to FY 2006 in the percentage of premiums paid for the most expensive family plan (as opposed to the less expensive individual and individual plus one plans).

To some extent, as described in Budget Memorandum #64, and as Councilwoman Woodson noted at the work session, the near zero increase in the costs of the Schools premiums (in total) for FY 2007 were restrained in part because of the administrative consolidation with the City in the prior year. However, this only indicates that the Schools were previously overpaying health insurance premiums because of their previous risk sharing with a number of other small local governments in the COG consortium. The City saved about \$146,000 annually starting in FY 2006 in premiums with Kaiser because of this administrative consolidation.

Budget Memorandum #64 also describes the benefits of additional consolidation of health care insurance benefits between the Schools and City. The options of self-funding and risk-pooling are being considered for FY 2008, but until these measures are implemented there is no additional savings for either the City or the Schools. If joint risk-pooling were done, City costs would go down and Schools costs would likely go up (largely due to the different employee demographics which drive health insurance plan usage). These changes would offset each other. Self-funding is not yet a viable or cost-effective option with either of the carriers serving the City and the Schools.

Complete Consolidation and Parity of City and School Health Care Benefit Programs

If City Council and the School Board wish for their respective staffs to begin discussions not only to pursue these administrative options to consolidate the health care benefit programs, but to provide parity in those benefits – reflecting both common plan design features and common percentages of employee sharing of health care premiums – the respective governing bodies should so advise their staffs. Parity in benefits (including co-pays) and complete plan integration through self-funding and joint risk-pooling may affect both the City and the Schools budgets in different ways as well as affect employees of both organizations in different ways. For example, currently City employees in the POS plans pay 100% of additional costs associated with that choice. The Schools, on the other hand, are paying 100% of POS costs for several categories of employees. With respect to co-pays, I have recommended that the City increase co-pays for all City employees. The Schools are not recommending that their co-pays be increased for their employees. We will need to discuss these, and many other issues, if there is to be health insurance parity between City and Schools employees.

cc: Rebecca Perry, Superintendent, ACPS

Alexandria City Public Schools
Percent of Premium Paid by Employee for Family Plans

	Optimum Choice HMO		Optimum Choice POS	
	FY 2005	FY 2006	FY 2005	FY 2006
Professional (Teachers)	46.1%	38.6%	51.9%	43.9%
Support Staff below SUP 25	6.6%	1.2%	16.6%	10.6%
Support Staff SUP 25 and above	17.7%	11.7%	26.5%	19.9%
Administrators	0%	0%	0%	0%

	Kaiser HMO		Kaiser POS	
	FY 2005	FY 2006	FY 2005	FY 2006
Professional (Teachers)	NA	28.8%	NA	41.7%
Support Staff below SUP 25	NA	0%	NA	7.1%
Support Staff SUP 25 and above	NA	0%	NA	16.8%
Administrators	NA	0%	NA	0%



**NORTHERN VIRGINIA
HEALTH INSURANCE CONTRIBUTION COMPARISON
2005-2006**

Attachment A 448

Employee Only

Locality	Total Cost	Employee Share Annual / Monthly	School Division Share	School Division %
<u>Alexandria</u>				
Kaiser HMO	\$3,837	\$618 / \$52	\$3,219	84%
Kaiser POS	\$4,797	\$1,508 / \$126	\$3,288	67%
MAMSI HMO	\$4,440	\$1,221 / \$102	\$3,219	72%
MAMSI POS	\$4,972	\$1,684 / \$140	\$3,288	66%
<u>Arlington</u>				
Care First/Blue Cross	\$5,228	\$1,202 / \$100	\$3,693	71%
Kaiser-Permanente	\$3,884	\$893 / \$74	\$2,990	77%
<u>Fairfax (10 month)</u>				
CareFirst BlueCard (PPO)	\$5,507	\$826 / \$82	\$4,680	85%
CareFirst BlueChoice (POS)	\$4,913	\$737 / \$73	\$4,176	85%
Aetna Elect Choice (EPO)	\$4,993	\$749 / \$74	\$4,244	85%
Kaiser Permanente	\$4,333	\$650 / \$65	\$3,683	85%
<u>Falls Church</u>				
Kaiser Permanente	\$4,074	\$996 / \$83	\$3,078	76%
MAMSI POS	\$4,787	\$1,152 / \$96	\$3,635	76%
MAMSI PPO	\$5,187	\$1,553 / \$129	\$3,635	70%
<u>Loudoun</u>				
POS – includes dental, vision	\$5,197	\$520 / \$43	\$4,677	90%
<u>Manassas City</u>				
Anthem KeyCare 10 Plus (includes dental)	\$5,870	\$2,348 / \$196	\$3,522	60%
Anthem Healthkeepers (HMO) (includes dental)	\$5,344	\$1,822 / \$152	\$3,522	66%
Anthem HDHP with HSA	\$4,294	\$771 / \$64	\$3,522	82%
<u>Manassas Park</u>				
KeyCare 10 Plan	\$4,105	\$728 / \$61	\$3,381	82%
KeyCare 20 Plan	\$3,678	\$297 / \$25	\$3,381	92%
<u>Prince William</u>				
PPO (KeyCare 15+)	\$4,749	\$829 / \$69	\$3,920	83%
PPO (KeyCare 20+)	\$4,349	\$429 / \$36	\$3,920	90%
HMO (HealthKeepers 20)	\$3,970	\$198 / \$17	\$3,920	95%

*Figures are rounded to the nearest dollar or percentage.

6/1/11

Employee + Child

Locality	Total Cost	Employee Share Annual / Monthly	School Division Share	School Division %
<u>Alexandria</u>				
Kaiser HMO	\$7,359	\$808 / \$67	\$6,551	89%
Kaiser POS	\$9,191	\$2,526 / \$211	\$6,672	73%
MAMSI HMO	\$8,526	\$1,975 / \$165	\$6,551	77%
MAMSI POS	\$9,549	\$2,877 / \$240	\$6,672	70%
<u>Arlington</u>				
Care First/Blue Cross	\$10,458	\$2,824 / \$235	\$3,693	71%
Kaiser-Permanente	\$7,767	\$2,097 / \$175	\$2,990	77%
<u>Fairfax (10 month)</u>				
CareFirst BlueCard (PPO)	\$11,000	\$2,750 / \$275	\$8,250	75%
CareFirst BlueChoice (POS)	\$ 9,800	\$2,450 / \$245	\$7,350	75%
Aetna Elect Choice (EPO)	\$ 9,988	\$2,497 / \$249	\$7,491	75%
Kaiser Permanente	\$ 8,640	\$2,160 / \$217	\$6,480	75%
<u>Falls Church</u>				
Kaiser Permanente	\$8,148	\$1,992 / \$166	\$6,156	76%
MAMSI POS	\$9,193	\$2,304 / \$192	\$6,889	75%
MAMSI PPO	\$9,963	\$3,074 / \$256	\$6,889	69%
<u>Loudoun</u>				
POS – includes dental, vision	\$7,380	\$923 / \$77	\$6,458	88%
<u>Manassas City</u>				
Anthem KeyCare 10 Plus (includes dental)	\$10,358	\$4,143 / \$345	\$6,215	60%
Anthem Healthkeepers (HMO) (includes dental)	\$9,427	\$3,212 / \$268	\$6,215	66%
Anthem HDHP with HSA	\$7,567	\$1,352 / \$113	\$6,215	82%
<u>Manassas Park</u>				
KeyCare 10 Plan	\$7,800	\$2,229 / \$186	\$5,571	71%
KeyCare 20 Plan	\$6,988	\$1,410 / \$118	\$5,579	80%
<u>Prince William</u>				
PPO (KeyCare 15+)	\$8,609	\$3,368 / \$281	\$5,241	61%
PPO (KeyCare 20+)	\$7,888	\$2,647 / \$221	\$5,241	66%
HMO (HealthKeepers 20)	\$7,487	\$2,246 / \$187	\$5,241	70%

*Figures are rounded to the nearest dollar or percentage.

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Employee + Spouse

Locality	Total Cost	Employee Share Annual / Monthly	School Division Share	School Division %
<u>Alexandria</u>				
Kaiser HMO	\$7,359	\$808 / \$67	\$6,551	89%
Kaiser POS	\$9,191	\$2,526 / \$211	\$6,672	73%
MAMSI HMO	\$8,526	\$1,975 / \$165	\$6,551	77%
MAMSI POS	\$9,549	\$2,877 / \$240	\$6,672	70%
<u>Arlington</u>				
Care First/Blue Cross	\$10,458	\$2,824 / \$235	\$7,004	73%
Kaiser-Permanente	\$7,767	\$2,097 / \$175	\$4,942	73%
<u>Fairfax (10 month)</u>				
CareFirst BlueCard (PPO)	\$11,000	\$2,750 / \$275	\$8,250	75%
CareFirst BlueChoice (POS)	\$ 9,800	\$2,450 / \$245	\$7,350	75%
Aetna Elect Choice (EPO)	\$ 9,988	\$2,497 / \$249	\$7,491	75%
Kaiser Permanente	\$ 8,640	\$2,160 / \$217	\$6,480	75%
<u>Falls Church</u>				
Kaiser Permanente	\$8,148	\$1,992 / \$166	\$6,156	76%
MAMSI POS	\$9,193	\$2,304 / \$192	\$6,889	75%
MAMSI PPO	\$9,963	\$3,074 / \$256	\$6,889	69%
<u>Loudoun</u>				
POS – includes dental, vision	\$10,394	\$1,559 / \$130	\$8,835	85%
<u>Manassas City</u>				
Anthem KeyCare 10 Plus (includes dental)	\$12,265	\$4,906 / \$409	\$7,359	60%
Anthem Healthkeepers (HMO) (includes dental)	\$11,160	\$3,801 / \$317	\$7,359	66%
Anthem HDHP with HSA	\$8,954	\$1,595 / \$133	\$7,359	82%
<u>Manassas Park</u>				
KeyCare 10 Plan	\$7,800	\$2,229 / \$186	\$5,571	71%
KeyCare 20 Plan	\$6,988	\$1,410 / \$118	\$5,579	80%
<u>Prince William</u>				
PPO (KeyCare 15+)	\$9,917	\$3,891 / \$324	\$6,026	61%
PPO (KeyCare 20+)	\$9,076	\$3,050 / \$254	\$6,026	66%
HMO (HealthKeepers 20)	\$8,608	\$2,582 / \$215	\$6,026	70%

*Figures are rounded to the nearest dollar or percentage.

Family

Locality	Total Cost	Employee Share Annual / Monthly	School Division Share	School Division %
<u>Alexandria</u>				
Kaiser HMO	\$10,220	\$2,941 / \$245	\$7,279	71%
Kaiser POS	\$12,775	\$5,285 / \$444	\$7,442	58%
MAMSI HMO	\$11,864	\$4,567 / \$381	\$7,279	61%
MAMSI POS	\$13,267	\$5,825 / \$485	\$7,442	56%
<u>Arlington</u>				
Care First/Blue Cross	\$16,981	\$5,434 / \$453	\$11,547	68%
Kaiser-Permanente	\$11,262	\$3,604 / \$300	\$7,658	68%
<u>Fairfax (10 month)</u>				
CareFirst BlueCard (PPO)	\$13,760	\$3,440 / \$344	\$10,320	75%
CareFirst BlueChoice (POS)	\$12,280	\$3,070 / \$307	\$9,210	75%
Aetna Elect Choice (EPO)	\$12,480	\$3,120 / \$312	\$9,360	75%
Kaiser Permanente	\$10,827	\$2,700 / \$270	\$8,127	75%
<u>Falls Church</u>				
Kaiser Permanente	\$11,813	\$2,988 / \$249	\$8,825	75%
MAMSI POS	\$12,772	\$3,456 / \$288	\$9,316	73%
MAMSI PPO	\$13,842	\$4,526 / \$377	\$9,316	67%
<u>Loudoun</u>				
POS - includes dental, vision	\$12,993	\$2,923 / \$244	\$10,070	78%
<u>Manassas City</u>				
Anthem KeyCare 10 Plus (includes dental)	\$17,552	\$7,021 / \$585	\$10,531	60%
Anthem Healthkeepers (HMO) (includes dental)	\$15,974	\$5,443 / \$454	\$10,531	66%
Anthem HDHP with HSA	\$12,822	\$2,291 / \$191	\$10,531	82%
<u>Manassas Park</u>				
KeyCare 10 Plan	\$12,398	\$3,878 / \$323	\$8,520	69%
KeyCare 20 Plan	\$11,102	\$2,577 / \$215	\$8,525	77%
<u>Prince William</u>				
PPO (KeyCare 15+)	\$14,231	\$5,578 / \$465	\$8,653	61%
PPO (KeyCare 20+)	\$13,029	\$4,376 / \$365	\$8,653	66%
HMO (HealthKeepers 20)	\$12,362	\$3,708 / \$309	\$8,653	70%

*Figures are rounded to the nearest dollar or percentage.

Summary of Employer Contribution

	*Metro Average	ACPS Kaiser HMO	ACPS MAMSI HMO
Employee Only	85%	84%	72%
Employee + Child	80%	89%	77%
Employee + Spouse	79%	89%	77%
Family	75%	71%	61%
		Kaiser HMO	MAMSI HMO
ACPS Participants	Individual	114 63%	500 58%
	Two-Party	39 22%	200 23%
	Family	<u>28</u> 15%	<u>164</u> 19%
		181	864

*Percentages represent the average school board contribution towards the lowest-cost plan offered.

**Alexandria City Public Schools
Percent of Premium Paid by Employee for Family Plans**

	Optimum Choice HMO		Optimum Choice POS	
	FY 2005	FY 2006	FY 2005	FY 2006
Professional (Teachers)	46.1%	38.6%	51.9%	43.9%
Support Staff below SUP 25	6.6%	1.2%	16.6%	10.6%
Support Staff SUP 25 and above	17.7%	11.7%	26.5%	19.9%
Administrators	0%	0%	0%	0%

	Kaiser HMO		Kaiser POS	
	FY 2005	FY 2006	FY 2005	FY 2006
Professional (Teachers)	NA	28.8%	NA	41.7%
Support Staff below SUP 25	NA	0%	NA	7.1%
Support Staff SUP 25 and above	NA	0%	NA	16.8%
Administrators	NA	0%	NA	0%