

Healthcare Oversight Committee Meeting

June 13, 2011

We have been asked to review recommendations from the Administration and City Councilman Kemp Conrad. The following are the recommendations being considered:

1. Changing premium rates based on years of service

The following calculations demonstrate savings to begin with all retirees on January 1, 2012

Our analysis of implementing the service-based contribution schedule (based on the revised service tiers of 5-9 years, 10-14, 15-19, 20-24 and 25+) as of 1/1/2012 is as follows:

- Under the projected 2012 contribution schedule, retirees are projected to contribute \$10.55 million dollars for the health care plan in CY 2012 (29.6% of the total cost).
- If the revised service-based schedule were implemented for all retirees as of 1/1/2012, it is estimated that retirees would contribute approximately \$13.26 million dollars for the health care plan in CY 2012 (35.4% of the total cost).
- City cost would be reduced by approximately \$2.71 million dollars in CY2012.

The following calculation to begin with all retirees on July 1, 2011 for those hired after January 1, 2009

The analysis of implementing the service-based contribution schedule as of 1/1/2012 is as follows:

- Under the projected 2012 contribution schedule, retirees are projected to contribute \$10.55 million dollars for the health care plan in CY 2012 (29.6% of the total cost).
- If the service-based schedule were implemented for all retirees as of 1/1/2012, it is estimated that retirees would contribute approximately \$12.60 million dollars for the health care plan in CY 2012 (35.4% of the total cost).
- City cost would be reduced by approximately \$2.05 million dollars in CY2012.

Originally, the strategy was to phase in these contributions with service-based contributions being charged only to those employees hired on or after 1/1/2009. If the strategy were to be implemented as originally proposed, savings would also be phased in over time as new retirees come onto the new contribution schedule. Also, savings would not begin to be realized until 2014 when the first of those employees would be eligible for retirement.

2. Surcharge for spouses and Tobacco Users

This recommendation will increase approximately \$800,000, with little or no impact on premium rates but changes in claims.

Premiums will be increased to include the surcharge and none-tobacco users will be discounted by that amount. Also, employees whose spouses have access to healthcare through their employers or other sources will be given an option of enrolling their spouse on the City's plan and paying a surcharge or having the spouse elect coverage elsewhere.

3. Holiday Free Premium

The Administration is recommending "Premium Holidays" in which employees will be given four more paychecks where City health insurance premiums are not deducted.

Review of Potential Plan Changes Service-based Contribution Schedule

- These rates maintain contributions of approx. 30% for retirees with 25+ years of service.

Non-Medicare		Based on 2012 Rates	
	% contrib	Retiree	Total Rate
Basic			
Single			
25+	33%	\$ 325.00	\$ 985.56
20-24	37%	\$ 365.00	\$ 985.56
15-19	40%	\$ 394.00	\$ 985.56
10-14	43%	\$ 424.00	\$ 985.56
5-9	46%	\$ 453.00	\$ 985.56
Family			
25+	33%	\$ 781.00	\$ 2,365.34
20-24	37%	\$ 875.00	\$ 2,365.34
15-19	40%	\$ 946.00	\$ 2,365.34
10-14	43%	\$ 1,017.00	\$ 2,365.34
5-9	46%	\$ 1,088.00	\$ 2,365.34
Premier			
Single			
25+	37%	\$ 390.00	\$ 1,054.55
20-24	41%	\$ 432.00	\$ 1,054.55
15-19	44%	\$ 464.00	\$ 1,054.55
10-14	47%	\$ 496.00	\$ 1,054.55
5-9	50%	\$ 527.00	\$ 1,054.55
Family			
25+	37%	\$ 936.00	\$ 2,530.92
20-24	41%	\$ 1,038.00	\$ 2,530.92
15-19	44%	\$ 1,114.00	\$ 2,530.92
10-14	47%	\$ 1,190.00	\$ 2,530.92
5-9	50%	\$ 1,265.00	\$ 2,530.92

Medicare		Based on 2012 Rates	
	% contrib	Retiree	Total Rate
Basic			
Single			
25+	26%	\$ 182.00	\$ 700.77
20-24	31%	\$ 217.00	\$ 700.77
15-19	34%	\$ 238.00	\$ 700.77
10-14	37%	\$ 259.00	\$ 700.77
5-9	40%	\$ 280.00	\$ 700.77
Family			
25+	26%	\$ 328.00	\$ 1,261.39
20-24	31%	\$ 391.00	\$ 1,261.39
15-19	34%	\$ 429.00	\$ 1,261.39
10-14	37%	\$ 467.00	\$ 1,261.39
5-9	40%	\$ 505.00	\$ 1,261.39
Premier			
Single			
25+	30%	\$ 233.00	\$ 777.86
20-24	35%	\$ 272.00	\$ 777.86
15-19	38%	\$ 296.00	\$ 777.86
10-14	41%	\$ 319.00	\$ 777.86
5-9	44%	\$ 342.00	\$ 777.86
Family			
25+	30%	\$ 420.00	\$ 1,400.15
20-24	35%	\$ 490.00	\$ 1,400.15
15-19	38%	\$ 532.00	\$ 1,400.15
10-14	41%	\$ 574.00	\$ 1,400.15
5-9	44%	\$ 616.00	\$ 1,400.15

- Contributions at these rates are expected (based on current enrollment and rates) to generate an average contribution of 38% for Non-Medicare retirees, 30% for Medicare retirees and 35% overall.

Review of Potential Plan Changes Service-based Contribution Schedule

- With the adoption of Age & Service-based contributions:
 - The City of Memphis adopted separate contribution rates for Non-Medicare and Medicare retirees as of January 1, 2009.
 - The City of Memphis recognized that Medicare-eligible retirees gain primary health care coverage from Medicare
 - Projected total cost for post-65 retirees reflects Medicare coordination
 - Future employees will contribute different amounts for retiree coverage depending upon their length of service in active employment.
 - Retiree cost share will be based on the schedule following this page, effective for employees hired on or after January 1, 2009.

Pros

- Gives retirees credit for participating in Medicare
- Recognizes long-term employees with lower contributions

Cons

- May increase adverse selection in the retiree population as some retirees choose to drop the City's coverage
- Increases administration as it requires tracking different rates for age & service