

SALT LAKE CITY COUNCIL STAFF REPORT

BUDGET ANALYSIS – FISCAL YEAR 2004-05

DATE: May 12, 2004

SUBJECT: **INSURANCE AND RISK MANAGEMENT FUND**

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The budget for the Insurance and Risk Management Fund accounts for costs associated with employee health insurance, dental insurance, disability insurance, life insurance, unemployment compensation, property and casualty insurance, and workers compensation.

The Human Resource Division of the Department of Management Services oversees employee participation in health, dental, life, accidental death & dismemberment, and disability insurance programs. The City Attorney's Office coordinates with a contract third-party administrator on workers' compensation claims; places and monitors property insurance; performs risk assessments; handles third-party subrogation claims, and coordinates citywide safety activities.

| INSURANCE & RISK MANAGEMENT FUND PROPOSED BUDGETS | | | | |
|--|--------------------|---------------------|-------------|-------------------|
| | Adopted 2003-04 | Proposed 2004-05 | Difference | Percent Change |
| Revenue & other sources | | | | |
| Premiums | \$25,890,357 | \$27,736,415 | \$1,846,058 | 7.1% |
| Interest | - | 20,376 | 20,376 | |
| Subrogation | 50,000 | 20,376 | (29,624) | (59.0%) |
| Total revenue & other sources | \$25,940,357 | \$27,777,167 | \$1,836,810 | 7.1% |
| Expenses | | | | |
| Health insurance costs | \$18,600,000 | \$20,787,336 | \$2,187,336 | 11.8% |
| Dental insurance costs | 1,850,004 | 1,765,008 | (84,996) | (4.6%) |
| Life/accidental death costs | 1,148,544 | 1,026,492 | (122,052) | (10.6%) |
| Long-term disability | 501,000 | 534,372 | 33,372 | 6.7% |
| Workers compensation | 1,665,063 | 1,618,312 | (46,751) | (2.8%) |
| Unemployment compensation | 141,780 | 141,780 | - | |
| Property insurance/surety bonds | 1,031,652 | 993,435 | (38,217) | 3.7% |
| Bus passes | 90,000 | 93,576 | 3,576 | 4.0% |
| Loss Control/Safety Program | 50,000 | 20,376 | (29,624) | (59.2%) |
| Administration – Mgt Services | 595,919 | 619,888 | 23,969 | 4.0% |
| Administration – Attorney | 166,413 | 176,592 | 10,179 | 6.1% |

| | | | | |
|-------------------|--------------|---------------------|-------------|----------|
| Increase reserves | 46,300 | - | (46,300) | (100.0%) |
| Total Expenses | \$25,940,357 | \$27,777,167 | \$1,836,810 | 7.1% |

General liability claims are not paid from the Insurance & Risk Management Fund. The City's general liability claims are budgeted and paid from a separate Governmental Immunity Fund.

POTENTIAL MATTERS AT ISSUE

- Health insurance – The City is self-insured for employee health insurance. The actuary is recommending a 10% increase to premiums to cover estimated insurance costs. The City pays the cost for the employee's health insurance, and the employee pays 100% of the cost of coverage for optional health insurance for spouse and family.
- Dental insurance – Dental premium costs are decreasing 2%. The cost of this optional insurance is entirely the responsibility of employees desiring dental coverage.
- Life & accidental death insurance – There is no change to the cost of life insurance. The City provides employees with basic life insurance (\$50,000) at no cost to employees. Additional optional life insurance (self, spouse or family coverage) is available to an employee with the entire premium being paid by the employee.
- Long-term disability premiums – By state law the City must provide long-term disability coverage for police officers. Other city employees have the option of obtaining long-term disability insurance by paying the full amount of the premium. The City is self insured for this coverage, which is administered by a third party.
- Workers compensation – The cost of workers compensation medical payments has decreased recently allowing for a 2.8% budget reduction for workers compensation.
- Property Insurance – The City will receive a credit from its insurance carrier based on the length of time with the carrier, the City's building standards, and the City's actual experience. This credit will allow for a slight reduction in property insurance costs. A major portion of property insurance relates to the Airport and is reimbursed by the Department of Airports. The City carries a \$100,000 per loss deductible.
- Loss control/safety program – The proposed budget continues the loss prevention program that began in 1999. This program provides a loss control team with resources to make safety inspections and provide training. Funding for the loss prevention program is from money collected from third party insurance companies relating to a prior year General Fund claim.

When employees are injured or City property is damaged due to third party negligence, the City departments pay for repairs, medical expenses and salaries while injured employees are recovering. The Attorney's Office collects from third parties and their insurance companies (subrogation reimbursements) and then reimburses the departments. Subrogation payments collected in the same fiscal year are reimbursed to the departments. Subrogation relating to enterprise funds is also reimbursed to the enterprise funds. However, subrogation relating to a prior-year General Fund claim is retained to support the program because budgets are closed out each year in the General Fund. This approach has been taken to fund the loss prevention program since 1999. Actual subrogation revenue for fiscal year 2002-03 was \$57,472, and actual subrogation revenue for the first ten months of fiscal year 2003-04 was \$61,240. The proposed revenue budget for subrogation appears to be low compared to actual amounts received.

- Bus pass program – The bus pass program is funded by the general fund through a transfer from the Nondepartmental budget and by transfers from each enterprise and internal service fund. This budget is included in the Insurance & Risk Management Fund because bus passes are a benefit for employees. The proposed charge to the general fund is \$66,984 and the proposed charge to enterprise funds is \$27,016. *The Council may wish to ask whether there is any benefit to combining the City program and the Library program. This would only be beneficial if the program is structured with a base fee and then a per employee fee on top of that. There would be no benefit if the fee is strictly based upon the number of employees.*
- Administration – Administration costs are increasing because of increased pension fees and health insurance premiums for employees administering the fund. The budget for microcomputer maintenance and telephone costs is increasing about \$18,000 and the administrative service fee is increasing \$25,000 for services provided by the general fund.
- Interest income – The proposed budget for interest income may have resulted from an input error since it is exactly the same amount as the projected subrogation receipts (\$20,376). For the first ten months of fiscal year 2003-04, the Insurance & Risk Management Fund received \$71,455 of interest.
- Reinsurance – *The Council may wish to ask representatives of the Administration whether reinsurance for health insurance claims (such as over \$100,000) has been considered.*

LEGISLATIVE INTENT STATEMENT

The Council issued the following legislative intent statements in June 2003 that relate to the Insurance & Risk Management Fund.

City Employee Benefit Plan Review - It is the intent of the City Council that the Administration and the Citizens Compensation Advisory Committee review the City's Employee Benefit Plans and transmit to the City Council by February 3, 2004 information, comparisons and recommendations for options relating to the benefit package; the Council is particularly interested in options that would reduce the amount of the vacation and personal time payout upon employee retirement or resignation

The Citizen Compensation Advisory Committee provided comparison and other information in its annual report provided to the City Council in February. The Human Resource Division is research additional leave information and formulating options.