

SALT LAKE CITY COUNCIL STAFF REPORT

BUDGET ANALYSIS – FISCAL YEAR 2005-06

DATE: May 17, 2005

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 AND RISK MANAGEMENT FUND PROPOSED BUDGET				
	2004-05	2005-06	Change	% Change
Revenue & other sources				
Premiums	\$27,642,271	\$29,272,575	\$1,630,304	5.9%
Reimbursements (subrogation)	20,376	20,000	(376)	(1.8%)
Interest	20,376	20,000	(376)	(1.8%)
Bus pass transfer from other funds	93,576	102,024	8,448	9.0%
Appropriation of reserves	2,661		(2,661)	(100.0%)
Total revenue & other sources	\$27,779,260	\$29,414,599	\$1,635,339	5.9%
Expenses				
Health insurance costs	\$20,787,336	\$22,091,480	\$1,304,144	6.3%
Dental insurance costs	1,765,008	1,765,008		
Life/accidental death costs	1,026,492	1,131,968	105,476	10.3%
Long-term disability	534,372	605,608	71,236	13.3%
Workers compensation	1,618,243	1,693,816	75,573	4.7%
Unemployment compensation	141,780	206,400	64,620	45.6%
Property insurance/surety bonds	993,435	987,548	(5,887)	(0.6%)
Bus passes	93,576	102,024	8,448	9.0%
Loss Control/Safety Program	20,376	20,000	(376)	(1.8%)
Administration – Mgt Services	621,153	614,707	(6,446)	(1.0%)
Administration – Attorney	177,489	196,040	18,551	10.5%
Total Expenses	\$27,779,260	\$29,414,599	\$1,635,339	5.9%

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 9.0% 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. The above table shows an increase of 6.3% when comparing adopted budget for fiscal year 2004-05 to the proposed budget for fiscal year 2005-06. The proposed budget was based on the current enrollment (one pay period snapshot) and increased by 9%. There are several factors that impact the actual percentage increase such as changes in enrollment during the year (e.g., newly hired employees, employees leaving the city, active employees retiring). PEHP provides a reinsurance policy for catastrophic claims in excess of \$75,000 per individual. The cost of this reinsurance is included in the medical premiums.
- Dental insurance – Dental premium costs are remaining the same as last year. The cost of this optional insurance is entirely the responsibility of employees desiring dental coverage.
- Life & accidental death insurance – There is a 10% increase to the cost of life insurance due to new hires enrollment. 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. There will be no change to the accidental death and disability insurance. The City's portion and the additional optional life are available to employees.
- 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 increased by 4.7 %.
- Unemployment compensation – The budget proposes \$206,400 for unemployment compensation, which is an increase of 45.6%. The proposed budget is based on actual usage. Actual costs for fiscal year 2003-04 were \$293,308, and actual costs for the first ten months of fiscal year 2004-05 were \$135,203. The Council may wish to ask the Administration about layoff trends and whether the actual cost for fiscal year 2003-04 was an abnormality.
- Property Insurance – The City carries a \$100,000 per loss deductible. A major portion of property insurance relates to the Airport and is reimbursed by the Department of Airports.

- Loss control/safety program – 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 2003-04 was \$75,101, and actual subrogation revenue for the first ten months of fiscal year 2004-05 was \$103,397. It seems that the Administration estimates low for subrogation reimbursements. The Council may wish to ask if there are any accumulated funds available for other one-time use.
- 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 \$66,000 and the proposed charge to enterprise funds is \$36,024.
- Administration – Administration costs in the Attorney's Office are increasing due to an additional 0.3 FTE allocation to the Insurance & Risk Management Fund.
- Interest income – The budget estimates \$20,000 for interest income. For the first ten months of fiscal year 2004-05, the Insurance & Risk Management Fund received \$74,970 of interest. It seems that the Administration estimates low for interest revenue. The Council may wish to ask if there are any accumulated funds available for other one-time use.

LEGISLATIVE INTENT STATEMENT

No legislative intent statements are outstanding relating to the Insurance & Risk Management Fund.

During the briefing on the proposed budget, the Council may wish to identify legislative intents relating to the Insurance & Risk Management Fund.

During the briefing, the Council may wish to identify potential programs or functions to be added to the Council's list for future audits.