

SALT LAKE CITY COUNCIL STAFF REPORT

BUDGET ANALYSIS – FISCAL YEAR 2006-07

DATE: May 23, 2006

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				
	Adopted 2005-06	Proposed 2006-07	Difference	Percent Change
Revenue & other sources				
Premiums	\$29,272,575	\$31,719,493	\$2,426,918	8.4%*
Reimbursements (subrogation)	20,000	20,000		
Interest	20,000	54,276	34,276	171.4%
Bus pass transfer from other funds	102,024	105,160	3,136	3.1%
Rental Income		18,000	18,000	
Total revenue & other sources	\$29,414,599	31,897,477	2,482,878	8.5%
Expenses				
Health insurance costs	\$22,091,480	\$24,061,416	\$1,969,936	8.9%
Dental insurance costs	1,765,008	1,884,780	119,772	6.8%
Life/accidental death costs	1,131,968	1,065,000	(66,968)	(5.9%)
Long-term disability	605,608	612,216	6,608	1.1%
Workers compensation	1,693,816	1,835,266	141,450	8.4%
Unemployment compensation	206,400	237,900	31,500	15.3
Property insurance/surety bonds	987,548	1,313,641	326,093	33.0%
Bus passes	102,024	105,708	3,684	3.6%
Loss Control/Safety Program	20,000	20,000		
Administration – Mgt Services	614,707	562,694	(52,013)	(8.5%)
Administration – Attorney	196,040	198,856	2,816	1.4%
Total Expenses	\$29,414,599	31,897,477	2,482,878	8.4%

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 – major change in premium structure – The City is self-insured for employee health coverage. The City's health insurance costs have increased an average of 8.1% per year over the past eleven years (less than the national average). In order to reduce this cost trend, the Administration is proposing some major changes to the City's health insurance program.

The Administration's health insurance proposal continues to allow employees the option of three health insurance plans. Currently, the City pays 100% of the employee's premium in any of the three plans. One plan, Summit Care, costs the City 20% to 30% less than the other plans due to higher discounts that have been negotiated with providers and facilities. Under the new premium structure, the Administration is proposing to pay 100% of each employee's premium in the Summit Care plan and require employees to pay the additional cost if they select one of the more expensive plans. This will help control future claims costs and premium increases. The Administration also proposes to implement a \$150 annual deductible. (The employee clinic use and prescriptions are not subject to this deductible.) Those enrolled in Summit Care will have the option to use any medical provider, but if an out-of-network provider is used, the plan pays 70% of the Summit Care schedule of benefits and a \$250 deductible applies in addition to the standard co-pay. This out-of-network option is new to the Summit Care plan, and seems to be key to the City's justification for providing payment for this program only, rather than allowing for all three options.

In order to encourage movement from the higher cost plans to the more cost effective plan, the Administration is proposing to pay 100% of the cost to add spouse/double coverage or family/more-than-two coverage in the Summit Care plan. Employees can pay the additional cost for one of the more expensive plans. These changes were recommended by a majority vote of the City's Benefits Committee. The Human Resource Management Division briefed union membership and the professional employees' council. According to the Administration, the changes received support from a majority of those attending these briefings. Additional meetings are scheduled for all employees during the month of May. Under past practice, the specific implementation of benefits is largely an administrative matter, while the funding is legislative.

****The Council may wish to note that the Mayor's budget was prepared prior to the proposed policy changes to the medical insurance program. According to the Administration, an adjustment needs to be made to reflect that the insurance premiums are increasing by 4.0% as opposed to the 8.4% figure listed on page one of this staff report. This information was not available from the Administration at the time this report was written. The Administration said they would be getting back to Council staff on this issue.***

- Dental insurance (increase of 6.8%) – The increase in dental insurance can be attributed to a 4.0% increase in premium costs, as well as an increase in the number of employees and their dependants participating in the dental plan. The cost of this optional insurance is entirely the responsibility of employees desiring dental coverage.
- Life & accidental death insurance – There is a 5.9% decrease to the cost of life insurance due to actual costs being less than the prior year budget. 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.
- Rental Income Revenue – The Insurance and Risk Fund is budgeted to receive \$18,000 of rental income from the old vacant building where the PEHP clinic used to be housed. The City leases out the front of the clinic and receives this rental income. *The Council may wish to clarify whether it is typical for building rental funds to be allocated to this fund, or whether those funds should be allocated to a fund related to city property.*
- Workers compensation – The cost of workers compensation medical payments has increased by 8.4%, which, according to the Administration, is a result of an increase in the City's self-insurance fee of nearly \$100,000. The State charges a fee for the privilege of handling workers compensation claims outside of the Workers Compensation Fund of Utah.
- Unemployment compensation (increase of 15.3%) The budget proposes \$237,900 for unemployment compensation, which is an increase of 15.3%. The proposed budget is based on actual usage. Actual costs for fiscal year 2004-05 were \$135,203, and actual costs for the first ten months of fiscal year 2005-06 were \$162,405. *The Council may wish to ask the Administration to account for the projected increase in unemployment compensation, and whether unemployment compensation is available to part-time/seasonal employees as well as full-time employees. Further, the Council may wish to ask whether any of this projected increase is a result of the proposed changes to the golf program, and whether the costs will be covered by that fund.*
- Property Insurance (increase of 33.0%) – 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. According to the Administration, this year's increase can be attributed to an increase in the City's property insurance premiums of 7.0% due to Hurricane Katrina, as well as the fact that last year's actual costs exceeded what was budgeted.

- Loss control/safety program – Funding for the loss prevention program is from money collected from third party insurance companies relating to prior year General Fund claims. 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 2004-05 was \$106,386, and actual subrogation revenue for the first ten months of fiscal year 2005-06 was \$65,281. 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 \$62,130 and the proposed charge to enterprise funds is \$43,578.
- Administration – Administration costs in the Attorney's Office are proposed to increase by 1.4%. Projected costs for Management Services administration are decreasing by 8.5%. Actual usage has decreased as compared to what was budgeted. These costs include services such as accounting, payroll, purchasing, human resource management, etc.
- Interest Income – The budget estimates \$54,276 for interest income. For the first ten months of fiscal year 2005-06, the Insurance & Risk Management Fund received \$141,000 of interest. Therefore, the forecasted revenue budget appears to be low. *The Council may wish to ask whether the Administration would like to reconsider the forecast for interest income.*

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.