

SALT LAKE CITY COUNCIL STAFF REPORT
BUDGET ANALYSIS – FISCAL YEAR 2007-08

DATE: May 23, 2007
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 2006-07	Proposed 2007-08	Difference	Percent Change
Revenue & other sources				
Premiums	\$31,699,493	\$31,400,060	\$(299,433)	-0.9 %
Reimbursements (subrogation)	20,000	20,000	0	0%
Interest	54,276	54,240	(36)	0%
Bus pass transfer from other funds	105,708	105,708	0	0%
Rental Income	18,000	0	(18,000)	-100%
Total revenue & other sources	\$31,897,477	\$31,580,008	\$(317,469)	-0.9%
Expenses				
Health insurance costs	\$24,061,416	\$23,411,784	\$(649,632)	-2.7 %
Dental insurance costs	1,884,780	1,917,804	33,024	1.7%
Life/accidental death costs	1,065,000	1,099,860	34,860	3.3%
Long-term disability	612,216	526,636	(85,580)	-13.9%
Workers compensation	1,835,266	1,978,362	143,096	7.8%
Unemployment compensation	237,900	237,900	0	0%
Property insurance/surety bonds	1,313,641	1,513,820	200,179	15.2%
Bus passes	105,708	105,708	0	0%
Loss Control/Safety Program	20,000	20,000	0	0%
One-time Transfer to General Fund	120,000	120,000	0	0%
Administration – Mgt Services	562,694	578,864	16,170	2.8%
Administration – Attorney	198,856	189,270	(9,586)	-4.8%

Total Expenses	\$32,017,477	\$31,700,008	\$(317,469)	-0.9%
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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 coverage. As the chart on Page 1 indicates, premiums make up the bulk of revenue for the Insurance and Risk Management Fund, and health care costs make up the bulk of the fund's expenses.

As the chart indicates, the Mayor's Recommended Budget projects a slight drop in the total amount of revenue from insurance premiums, and a slightly more significant decline in projected health care expenses. However, based on the following information, the Administration projects that the budget will increase by 10 percent when the proposed budget is compared to actual expenditures.

Employees have three plans to select from with the City paying 100% of the premium for the least expensive plan (Summit Care). The City's health insurance administrator, Public Employees Health Program (PEHP), is recommending a 13.5% cost increase based partially upon claims experience in all three medical plans and also the need to increase the City's medical plan reserves. To reduce the budget impact for the City, Administration is proposing the following plan changes:

- **Preferred Care:**

Increase the maximum out of pocket from \$2,000 to \$3,000 for an individual, and increase the maximum out of pocket for double or family coverage from \$4,000 to \$6000.

Change the co-insurance for anesthesia and surgeon from 90/10 to 80/20.

- **Advantage Care:**

Change the co-insurance for anesthesia and surgeon from 100% to 90/10.

- **Summit Care:**

Increase the out of pocket for out of network from \$1,500 to \$3,000 for an individual, and from \$3,000 to \$6,000 for double or family coverage.

Change the co-insurance for out of network for anesthesia and surgeon from 100% to 90/10.

Change the co-insurance for out of network outpatient services from 100% to 90/10.

Change the prescription drug co-payments for formulary and non-formulary prescriptions. Change the prescription drug co-payments for formulary and non-formulary prescriptions. The current co-payments are \$5 for generic, \$10 for formulary, and \$25 for non-formulary. The proposed co-payment will stay the same for generic but will change to a percentage for formulary (25% with

\$10 minimum/\$20 maximum) and non-formulary (35% with \$30 minimum/\$40 maximum).

If the City Council approves these changes, the City's medical costs will increase 10% rather than the 13.5% recommended by PEHP, according to the Administration.

According to the Administration, 81 percent of the City's employees are currently enrolled in the Summit Care health plan. The Administration projects that between 5 percent and 8 percent more employees will switch in the next fiscal year to the Summit Care plan.

The Administration plans to continue to emphasize the Summit Care plan as long as contracts with health-care providers keep savings in line. Like other entities in the public and private sectors, the Administration also plans to promote "wellness" programs to help control health costs.

According to the Administration, wellness programs do two things. First, effective programs allow employers to avoid requiring employees to pay continually higher costs for health care, so employers can remain competitive in attracting employees to work for them. Second, effective wellness programs statistically have had a major effect on the number of health claims filed by employees, the amount of time lost due to health problems, and the number of employees who said their morale improved.

It should be noted that the top two medications the City pays for are antidepressants and medications to treat stomach acid problems, according to the Administration. Both also are leading medications in county and state government, according to the Administration. Given that, an effective wellness program would include ways to relieve stress in the workplace.

Dental insurance – The cost of this optional insurance is entirely the responsibility of employees desiring dental coverage. The Administration is recommending that the dental premiums remain the same since the City's dental insurance reserves are above the recommended level.

Life & accidental death insurance – This category is projected to increase slightly due to hiring more employees and employees increasing life insurance coverage. 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 paid by the employee.

Long-term disability premiums – Expenses for this category are projected to drop. By state law the City must provide long-term disability coverage for police officers. However, other City employees have the option of obtaining long-term disability insurance by paying the full amount of the premium. The drop probably is a reflection of a fluctuation in the number of employees expected to enroll in the plan. The City is self insured for this coverage which is administered by a third party.

Workers compensation – Workers compensation medical payments are projected to increase by 7.8 percent and are based on market conditions, according to the City Attorney's Office.

Unemployment compensation – The budget projects no increase in unemployment compensation. It should be noted that the current year budget included a 15.3 percent increase.

Property Insurance – The Mayor’s Recommended Budget projects a 15.2 percent increase in this category. The increase is based on market conditions, according to the City Attorney’s Office. 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 prior year General Fund claims. When employees are injured or City property is damaged due to third party negligence, City departments pay for repairs, medical expenses and salaries while injured employees recover. 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 also is reimbursed to the respective enterprise funds. However, subrogation relating to a prior-year General Fund claim is retained to support the loss-control/safety program because budgets are closed out each year in the General Fund.

During last year’s budget discussions the Administration included using \$20,000 from prior-year subrogation payments to fund the loss-control/safety program. However, there were more funds available from prior-year subrogation payments, and the City Council transferred \$120,000 in payments to the General Fund. The recommended budget this year proposes to do the same thing at the same amounts. It should be noted that the \$120,000 transfer is considered a one-time funding source.

Bus pass program – The bus pass program traditionally is funded by the general fund through a transfer from the Non-departmental budget and by transfers from each enterprise and internal service fund. The budget is included in the Insurance and Risk Management Fund because bus passes are a benefit for employees. Traditionally, the proposed charge to the general fund has been \$62,130, and enterprise funds have been charged \$43,578.

At its March 20 meeting the City Council adopted a motion authorizing Mayor Ross C. Anderson to sign a franchise agreement with the Utah Transit Authority that allowed UTA to build tracks for its commuter rail line on and through City streets and property between 1800 North and 1700 South streets. One of the ways UTA agreed to compensate the City for the franchise was to provide free “Eco-passes” to Salt Lake City employees retroactive to January 1, 2007. The Administration estimated the total value of the passes over the three years at about \$520,000.

During research on the agreement, the Administration learned that UTA planned to increase the cost of Eco-passes, and that the City could pay roughly \$270,000 by 2009 for the program. Given that, the Insurance and Risk Management Fund includes a \$105,708 allocation for the bus pass program. The allocation is based on the idea that if the City set aside an allocation over the next three fiscal years, it would have money available to pay for Eco-passes when UTA’s obligation expires.

However, at a recent briefing on Non-departmental appropriations, City Council staff noted, “This year, the proposed budget includes a \$62,130 savings for the Non-departmental budget that would have been allocated for City employee UTA Eco-passes.” According to the Administration, it still plans to put the \$43,578 from enterprise and internal service funds into the bus pass line item to save for future expenses. *The City Council may wish to discuss whether it is good policy, financially feasible, or both to set aside the full \$105,708 to pay for Eco-passes after UTA’s obligation expires in three years.*

Administration – Administration costs in the Attorney’s Office are projected to increase by less than 3 percent. Costs for Management Services administration is projected to decline by about 5 percent. Administration costs also include indirect costs for services such as accounting, payroll, purchasing, and human resource management.

Interest Income – The budget projects that interest income – at \$54,240 – will remain largely unchanged from the current year’s budgeted amount.

Rental Income – The projected loss of \$18,000 in rental income is a projection of the Administration’s plan use a building that housed a medical clinic as the office where ground transportation vehicles will be inspected.

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.