

RECEIVED  
San Jose City Clerk

City Council Agenda: 11-14-06  
Item: 3.8

2006 NOV -9 P 4: 17



# Memorandum

To: City Council

From: Councilmember Linda J. LeZotte

Subject: Health Benefit Changes for Councilmembers and Mayor Date: November 9, 2006

Approved: \_\_\_\_\_

11-09-06

## Recommendation

1. Refer the question of whether to provide the Mayor and Councilmembers with healthcare as a retirement benefit to the 2007 City Council Salary Setting Commission, for review and recommendation in light of new information that has come to light.
2. Staff should provide the commission with the appropriate background (actuarial calculations, coverage options) and coverage alternatives.
3. Defer discussion of allowing the Mayor and Councilmembers to choose Medical and Dental coverage through PERS until the City Council receives the next Salary Setting Commission Report.

## Background

On April 16, 2003 the City Council Salary Setting Commission recommended that the City explore retirement health and dental benefits for elected officials. The City's current health and dental carriers would not agree to the recommendations. However, the option of providing this benefit through PERS was never considered. Recently, I became aware of this option and that it was never presented to the Salary Setting Commission or the City Council. It is possible that this new information may provide a cost-effective vehicle for providing this benefit that the 2003 Salary Setting Commission recommended in order to provide the Mayor and City Councilmembers with a retirement benefit that is available to every other city employee.



The requested recommendations require staff and Council action immediately. There are 4 council meetings before January, 2007. If an Ordinance is required it must be heard at the Council meeting on November 14<sup>th</sup>, so that the second reading is December 12<sup>th</sup>. Additionally Open Enrollment for the City medical program is November 1-17.

CC Mayor and City Council



Forwarded on:

MAY 21 2004

# Memorandum

TO: Honorable Mayor and City Council

FROM: Mark Danaj, Director  
Employee ServicesSUBJECT: CONTINUED HEALTH & DENTAL  
FOR MAYOR & CITY COUNCIL

DATE: May 19, 2004

Approved:

*Ray Winer*

Date:

*5/20/04*

## INFORMATION

### SUMMARY

Health and dental insurance providers will not provide continued health and dental insurance coverage for the Mayor and City Council members who leave City service beyond COBRA unless there is a City contribution to the premium cost. Alternative proposals have been developed and are presented for consideration in this memorandum.

### BACKGROUND

On April 16, 2003, the City Council Salary Setting Commission recommended that the City explore continued health and dental benefits for elected officials after five years of service on the City Council. The Mayor and City Council members would purchase the continued coverage at no cost to the City for an indefinite period after leaving City service.

Currently, elected officials have the same opportunity as City employees (not otherwise eligible for retirement benefits) to purchase continued group health coverage by paying both the City and employee's portion of the costs plus a 2% administrative fee for a period of up to 36 months (in accordance with COBRA (Comprehensive Omnibus Budget Reconciliation Act) and Cal-COBRA).

### ANALYSIS

The response of the City's health and dental carriers is that they cannot agree to the Salary Setting Commission's recommendation as it would be contrary to industry standards. The group insurance agreement with the City and the carriers' eligibility requirements are predicated on a bona fide employer-employee relationship. Specifically, this is defined as an employer contribution to the cost of premiums. The logic behind this requirement is that without an employer contribution there is likely to be "adverse selection" (i.e., high utilizers probably will enroll in the plans and low utilizers probably will opt out). Adverse selection typically has the effect of increasing premiums for the entire covered population. As proposed by the Salary Setting Commission, former elected officials would pay the entire cost of the premiums, creating the risk associated with adverse selection.

Alternatives

The Salary Setting Commission's recommendation of continued health and dental coverage could be implemented only if the City contributed to the cost of the premiums in a manner consistent with the cost-sharing formula used with employees and retirees. Assuming single-level coverage and current premiums, the cost to the City would be \$4,290 per person per year. At family-level coverage, the cost would be \$9,426 per person per year. Our discussions with the providers is that they are unwilling to consider a different cost sharing formula for elected officials, i.e., a proportionately smaller contribution by the City than the current rate to meet the industry standard of a bona fide employer-employee relationship.

As alternatives to City-paid continuation of coverage, individually-paid health and dental plan options that are available to former elected officials include the following. Attached is a detailed summary.

- ◆ Cal-COBRA—This program allows federal COBRA participants in California to extend their health and dental COBRA rights to 36 months. That is, former officials/employees have federal COBRA rights for 18 months, and Cal COBRA provides another 18 months. The cost of COBRA plans is the full premium plus 2%.
- ◆ Guaranteed-Issue Plans—Kaiser, Blue Shield and Delta Dental offer guaranteed-issue plans that do not require medical review. Kaiser and Delta Dental participants may enroll directly into a guaranteed-issue plan, and Blue Shield participants must exhaust their COBRA rights before enrolling into a guaranteed-issue plan. As individual plans, the copayment schedule is generally higher than the group plan, and enrollees' premiums vary by age, family size and geographic location.
- ◆ Individual Plans—Kaiser also offers an individual Personal Advantage plan. It is not a guaranteed-issue plan; it requires a medical review. The copayment schedule is higher than the group plan's, but the premiums are generally lower than the guaranteed-issue plans because of the medical review.
- ◆ Dental Benefit Providers does not offer a dental plan option beyond COBRA.

If you have any questions or require additional information, please contact me at x4380.

  
MARK DANA  
Director, Employee Service

**CONTINUED HEALTH & DENTAL COVERAGE  
 SUMMARY OF OPTIONS & COSTS**

	Cost
Kaiser ♦ City's Current Rate ♦ COBRA ♦ Guaranteed-Issue Plan ♦ Personal Advantage	Single \$287/mo; Family \$715/mo Single \$288/mo; Family \$715/mo Single \$490/mo; Family \$955/mo <sup>A1</sup> Single \$344/mo; Family \$666/mo <sup>A1</sup>
Blue Shield HMO ♦ City's Current Rate ♦ COBRA ♦ Guaranteed-Issue Plan 2000	Single \$289/mo; Family \$743/mo Single \$295/mo; Family \$758/mo Single \$585/mo; Family \$1,086/mo <sup>A2</sup>
Blue Shield POS/PPO ♦ City's Current Rate ♦ COBRA ♦ Guaranteed-Issue Plan 1500	Single \$416/mo; Family \$1,069/mo Single \$424/mo; Family \$1,090/mo Single \$616/mo; Family \$1,143/mo <sup>A2</sup>
Delta Dental ♦ City's Current Rate ♦ COBRA ♦ Guaranteed-Issue Plan	Single or Family \$95/mo Single or Family \$97/mo Single \$97/yr; Family \$225/yr <sup>A3</sup>
Dental Benefit Providers ♦ City's Current Rate ♦ COBRA ♦ No other options are available	Single or Family \$45/mo Single or Family \$46/mo

<sup>A</sup> This sample premium rate assumes a 60-year-old retiree living in the San Jose. Family rates assume only one spouse; no children.

<sup>1</sup> Varies by age, family size and location. Call Kaiser's Member Services at 800.464.4000 for details.

<sup>2</sup> Varies by age, family size and location. Call Blue Shield's Member Services at 800.837.4481 for details.

<sup>3</sup> Call Delta Dental's Member Services at 800.423.8154 for details.



RECEIVED  
CITY MANAGER

2006 OCT 20 P 3:58

# Memorandum

**TO:** Les White  
City Manager

**FROM:** Edward F. Overton

**SUBJECT:** Retiree Medical Benefits for  
Council Members

**DATE:** 20 October 2006

In October 1998, the City Council adopted Ordinance No. 25688 authorizing a contract between the City of San José and the Board of Administration of the California Public Employees Retirement System (PERS) to provide retirement benefits for the Mayor and Members of the City Council. The ordinance, however, did not provide for medical benefits following retirement of the Mayor or Members of the Council. At your request, I have looked into this matter and this report will give you the salient points related to providing post-retirement medical for the Mayor and City Council.

Currently, the Mayor and Members of the Council receive the same benefits as other management employees; therefore, they are entitled to, and most enroll, in the City's active employee's health benefits. The City makes the same contributions toward the councilmembers' health benefits as it does toward other active employees. Currently the cost sharing arrangement is the City pays 90% of the lowest priced plans with a cap to the employee of \$50; effective January 2007 the employee cap will move to \$100.

The PERS' medical program is very similar to the City's. For Santa Clara County they provide Blue Shield, Kaiser, PERS Choice, PERS Care and PORAC. PERS also breaks their health rates into single, 2-party and family. Other than that, the programs are very similar.

I contacted the health representative for Santa Clara County and was informed that the City would be able to include councilmembers in the PERS health program. To do this, councilmembers must be members of the PERS medical program as active employees (thereby dropping out of the City's plans) and the City must make contributions toward their health benefits. For 2007, the minimum contribution is \$80.08 and for 2008 the minimum contribution is \$97.00. The chart below shows the comparison of the City's current rate with PERS current and future rate.

	City Rate - 2006	PERS - 2006	PERS - 2007
Single	\$377.40	\$389.38	\$431.17
2-Party	n/a	\$778.76	\$862.34
Family	\$939.72	\$1,012.39	\$1,121.04

20 October 2006

For most of the councilmembers the City would be saving money; however, the City would incur greater costs after retirement, because Councilmembers currently do not have medical coverage. In addition, the City would be required to include all former councilmembers and mayors if they are PERS retirees. That number would be limited because we only entered in the agreement in 1999.

The City can do this at any time by passing a resolution indicating their desire to include the Mayor and Councilmembers under the PERS medical program and agreeing to pay at least the minimum contribution. Any switch-over outside of open enrollment for 2006 will need to be coordinated with the existing health plan providers

If you have further questions do not hesitate to let me know.

A handwritten signature in black ink, appearing to read "Edward F. Overton", is written over a horizontal line.

Edward F. Overton, Director  
Retirement Services.