



COUNCIL AGENDA: 6-22-10
ITEM: 3.8

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Debra Figone

SUBJECT: 2010 RETIREE
HEALTHCARE RATES

DATE: June 8, 2010

COUNCIL DISTRICT: N/A
SNI AREA: N/A

RECOMMENDATION

It is recommended that the City Council direct the City Attorney to prepare an ordinance for Council consideration in early August that would temporarily define the lowest-cost plans for retiree healthcare for the remainder of calendar year 2010 to be the Kaiser \$10 co-pay plan. It is further recommended that this temporary change be retroactive to July 1, 2010.

OUTCOME

As a result of this action, an alternate, temporary determination of the lowest-cost healthcare plan to set retiree healthcare rates for the remainder of calendar year 2010, would be implemented, using the Kaiser \$10 co-pay plan. The recommendation would provide retirees additional time to plan for the healthcare plan design changes. However, it would result in the retirement plans using a different, more costly health plan for the lowest-cost plan than that currently specified in the Municipal Code to determine the appropriate level of funding for retiree healthcare for the remainder of 2010.

BACKGROUND

The City and the health insurance providers recently negotiated changes in the plan design, specifically the co-pay provisions for the Kaiser Plan and the Blue Shield HMO Plans to be effective July 1, 2010, for certain employee groups.¹ These changes resulted in lower premiums for the Kaiser Plan as well as both Blue Shield Plans. The monthly premiums for the healthcare plans offered by the City will be as follows effective July 1, 2010:

¹ The affected employee groups are unrepresented employees including Unit 99, 81 & 82, and those employees represented by the Association of Building, Mechanical and Electrical Inspectors.

MONTHLY HEALTHCARE PREMIUMS						
	Kaiser Single	Kaiser Family	Blue Shield HMO Single	Blue Shield HMO Family	Blue Shield PPO/POS Single	Blue Shield PPO/POS Family
Current Rate	\$484.06	\$1,205.20	\$540.20	\$1,387.72	\$750.02	\$1927.48
New Rate	\$460.66	\$1,145.58	\$509.86	\$1,309.76	\$707.72	\$1,818.80
% Decrease	4.8%	4.8%	5.6%	5.6%	5.6%	5.6%

The premium costs are split between the City and active employees in various ratios, depending on the employee group and/or the weekly hours worked by an employee.

Both the Federated City Employees Retirement System and the Police and Fire Department Retirement Plan include provisions for retirees and survivors who meet certain eligibility requirements to elect medical insurance coverage in an "eligible medical plan." An "eligible medical plan" is defined as a plan with which the City has entered into a contract for the provision of hospital, medical, surgical and related benefits as part of the City's benefits to City employees. (San Jose Municipal Code §3.28.1990 for Federated, §3.36.1940 for Police and Fire.) The premiums for medical insurance coverage are divided between the retiree (or survivor) and the Medical Benefits Account that is part of the retirement fund.

In the Federated System, the portion of the premium that is paid from the retirement plan is "the portion that represents an amount equivalent to the lowest of the premiums for single or family medical insurance coverage, for which the member or survivor is eligible and in which the member or survivor enrolls under the provisions of this [Plan], which is available to an employee of the City at such time as said premium is due and owing." (SJMC §3.28.1980 B.1.) The retiree or survivor pays "that portion of the premiums which represents the difference between the cost of the premium for the medical plan selected by the member or the survivors and the portion paid from the Medical Benefits Account." (SJMC §3.28.1980 B.2.)

In the Police and Fire Plan, the portion of the premium paid from the retirement plan is "the lesser of (a) an amount which is equivalent to the premium for the 'lowest-cost medical plan' or (b) the actual premium for the eligible medical plan" in which the retiree enrolls. (SJMC §3.36.1930 C.2.) "Lowest-cost medical plan" is defined as "that medical plan (single or family coverage) as applicable to the coverage selected" by the retiree or survivor which is an eligible medical plan and which "has the lowest monthly premium of all eligible medical plans then in effect, determined as of the time the premium is due and owing." (SJMC §3.36.1930 D.)

Based upon the provisions of the Municipal Code and the healthcare plan premiums for the plans offered by the City, effective July 1, 2010, the lowest-cost plan for single coverage will be the Kaiser \$25 co-pay plan with Single coverage at \$460.66 per month and the lowest-cost plan for family coverage will be the Kaiser Family coverage at \$1,145.58 per month. If a retiree or survivor elects coverage other than a Kaiser Plan, the retiree or survivor would have to pay the difference between the Kaiser Plan coverage and the coverage selected.

ANALYSIS

Although it is clear which is the lowest cost plan applicable to retirees after July 1, 2010, given the timing of these changes in co-pays coinciding with the Fiscal Year rather than the calendar year as normally occurs, retirees and Retirement Services did not have sufficient time to plan for this change. The recommendation in this memorandum would provide retirees additional time to plan for the healthcare plan design changes which will take effect January 1, 2011. In addition, this recommendation allows retirees and survivors to make any changes to their elections for coverage during the normal Annual Open Enrollment conducted by Retirement Services in November 2010, prior to the changes going into effect.

EVALUATION AND FOLLOW-UP

Staff does not anticipate any follow-up actions necessary at this time.

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 2. This memorandum will be posted on the City's website for the June 22, 2010, Council Agenda.

The City Administration reached out to both retiree associations and a meeting was held on June 7, 2010, with the Police & Fire Retiree Association.

COORDINATION

This memorandum was coordinated with the City Attorney's Office, the Budget Office and the Human Resources Department.

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COST IMPLICATIONS

The recommendations in this memorandum would assume no change in the lowest-cost plan for single and family coverage effective July 1, 2010, for retirees and would temporarily define the lowest-cost plan for the remainder of calendar year 2010 as the current Kaiser \$10 co-pay plan.

When the retirement plans change to the lowest-cost plan for single and family coverage beginning January 1, 2011, it is anticipated that the retirement funds will realize savings for providing health care to the City's retirees for the remainder of the fiscal year. However, it should be noted that the contribution rates for both retirement systems have already been approved by the respective Retirement Boards for Fiscal Year 2010-2011. The temporary deferral of this change would have no impact to the retiree healthcare contribution rates. Upon implementation of this change the Boards' Actuaries would review, along with all other assumptions to determine if there would be any impact on future contribution rates.



DEBRA FIGONE
City Manager

For questions please contact Mark Danaj, at (408) 535-1285.