

OFFICE OF THE CITY MANAGER  
DES MOINES, IOWA

ITEM 76

CITY COUNCIL COMMUNICATION 97-451  
SEPTEMBER 8, 1997 AGENDA

SUBJECT:	TYPE:	SUBMITTED BY:
RETIREE HEALTH INSURANCE PREMIUMS	◆ RESOLUTION ORDINANCE RECEIVE/FILE	MARK SCHULTZ RISK MANAGEMENT COORDINATOR

**SYNOPSIS —**

Every year the City reviews the past year's health insurance costs for retired personnel to establish the next year's premium. Based on actual costs incurred, it is proposed that for the period October 1, 1997 through September 30, 1998, the premiums be adjusted as per the attached premium schedule. This schedule includes a four-year comparison of retiree health insurance premiums, including the proposed premiums. The level of benefits would remain the same.

**FISCAL IMPACT —**

The costs are paid from the Trust and Agency Fund and are included in the FY 1997-98 Operating Budget, page 542.

**RECOMMENDATION —**

Approval of the proposed premium rates.

**BACKGROUND —**

On November 4, 1996, Roll Call No. 96-3774, the City Council approved retiree health insurance premiums for the period January 1, 1997 through September 30, 1997. This was an abbreviated year due to the extended research and discussion that was required to develop a methodology for calculating premiums that most closely reflected the actual cost of the retiree plans. The City's policy is that retiree health insurance premiums should be structured to recover the City's cost in providing the benefits. The City Council Employee Health Benefits Subcommittee suggested, and Council agreed, that there would be less questioning as to whether the monthly rates truly represented the cost of retirees to the City if the rates reflected only the actual claims paid in the prior fiscal year without an inflation factor, but including current-year administrative expenses.

This "actual cost" methodology has now been used by staff in calculating the health insurance premium rates proposed for the period October 1, 1997 through September 30, 1998. The City Manager and staff have met with representatives of the City's retired employee association, Force One, to discuss the proposed rates. Both staff and representatives of Force One agree the costs used to calculate the premiums are accurate. Because the actual claims paid for FY 1996-97 were significantly greater than those in FY 1995-96 and represent a significant increase in retiree monthly premiums, Force One representatives desired to know what caused the increase.

Staff researched this question and found that the most significant increase occurred with retirees enrolled in the City's Under 65 - Traditional Plan. If this subgroup's experience is subtracted from the entire retiree group's experience, the annual increase in total claims paid decreases from 30 percent to 9 percent. Staff concluded the increase in claim charges for this subgroup was due to the following:

(1) an increase from eight to 16 in the number of claims exceeding \$10,000 experienced in medical services between FY 95/96 and FY 96/97, (2) annual medical service cost inflation of about 11 percent, (3) an increase of about 17 percent in the number of prescription drug claims filed representing a 22 percent increase in prescription drug costs, and (4) an apparent increase in usage of health benefit services due to illness or injury.

As a result of the City's meetings with representatives of Force One, staff and Force One representatives have formed a committee to explore avenues for keeping annual cost increases to a minimum. These avenues will include reviewing plan design, minimizing the possibility that non-health insurance costs such as disability related expenses are being included, and educating employees and retirees in good consumer practices such as prudent use of medical services and reviewing itemized bills to ensure that services or supplies not provided are not inadvertently included.

Attached is a four-year comparison of retiree health insurance premiums, including the proposed rates for the period October 1, 1997 through September 30, 1998.

Attachment .....

RETIREE HEALTH INSURANCE PROGRAM: FOUR-YEAR COMPARISON

ANNUAL DOLLAR INCREASE: 1994-95 TO 1997-98

GROUP	# OF MEMBERS		1997-98		1996-97		1995-96		1994-95	
	TRAD.	COMP.	TRAD.	COMP.	TRAD.	COMP.	TRAD.	COMP.	TRAD.	COMP.
RETIRED > 65										
SINGLE	197	120	215.00	187.00	192.00	165.00	150.00	130.00	150.00	130.00
FAMILY	92	142	382.00	332.00	291.00	248.00	310.00	225.00	310.00	225.00
RETIRED < 65										
SINGLE	39	66	283.00	242.00	224.00	193.00	270.00	210.00	270.00	210.00
FAMILY	89	92	583.00	498.00	477.00	407.00	550.00	415.00	550.00	415.00
RETIRED < > 65 *										
FAMILY	56	34	498.00	429.00	416.00	358.00	420.00	340.00	420.00	340.00
TOTAL MEMBERS	473	454								

NOTE: \* One spouse is over age 65 and the other is under age 65.

ANNUAL PERCENTAGE INCREASES: 1994-95 TO 1997-98

GROUP	AVG ANNUAL %		1997-98		1996-97		1995-96		1994-95	
	TRAD.	COMP.	TRAD.	COMP.	TRAD.	COMP.	TRAD.	COMP.	TRAD.	COMP.
RETIRED > 65										
SINGLE	16%	26%	12%	13%	28%	27%	0%	0%	25%	63%
FAMILY	19%	26%	31%	34%	-6%	10%	0%	0%	51%	61%
RETIRED < 65										
SINGLE	13%	16%	26%	25%	-17%	-8%	0%	0%	42%	45%
FAMILY	14%	16%	22%	22%	-13%	-2%	0%	0%	47%	43%
RETIRED < > 65 *										
FAMILY	14%	19%	20%	20%	-1%	5%	0%	0%	35%	51%

NOTE: \* One spouse is over age 65 and the other is under age 65.