



## STAFF REPORT

**DATE:** June 23, 2020

**TO:** Kent Cagle, City Manager

**FROM:** Eva Bark, Executive Director of Human Resources

**SUBJECT:** RECOMMENDATION TO EMPLOYEE BENEFITS TRUST FOR APPROVAL OF GROUP EMPLOYEE MEDICAL/RX & DENTAL INSURANCE BENEFITS

### **BACKGROUND AND FINDINGS:**

The City of Killeen offers medical and dental insurance as part of its employee benefits package. Currently, approximately 927 employees elect the City's medical insurance plans, and approximately 1,157 employees elect the City's dental insurance plans. The City currently pays 100% of the medical and dental care premiums for employee only on the lowest plan options. Employees may purchase additional medical and dental care coverage for eligible family members or dependents at their added expense. Current carriers for medical and dental insurances are United Health Care (UHC) and Lincoln Financial Group (Lincoln), respectively.

All benefits are reviewed annually to ensure that both the City and employees are receiving the best product for the best price. Due to anticipated increases based upon claims performance, the City requested renewal quotes from UHC and Lincoln in order to determine its vulnerability in the market, and to determine if renewing with UHC and Lincoln would be more advantageous than going out for bid inside a rapidly changing environment.

The medical renewal proposals included the City continuing to offer employees two healthcare plans, Plan 1: which is a High Deductible Healthcare Plan (HDHP) with a Health Savings Account (HSA) contribution, and Plan 2: which is Preferred Provider Organization (PPO) healthcare plan. With the following selection, the cost for healthcare would increase by 9.60%.

Plan 1 (HDHP) will not have any plan design changes. Plan 2: (PPO) will have the following plan changes:

- The Individual Annual Deductible will increase from \$2,500 to \$3,500;
- The Family Annual Deductible will increase from \$5,000 to \$10,500;
- The Individual Out of Pocket Maximum will increase from \$6,600 to \$8,150;
- The Family Out of Pocket Maximum will increase from \$13,200 to \$16,300;
- The Primary Care Physician (PCP) copay cost will increase from \$20 to \$25;
- The Specialist copay cost will increase from \$35 to \$50; and
- The Emergency Room copay cost will increase from \$200 +30% to \$650.

In order to minimize the financial impact to the employee, the City will vary its contribution to each plan. Employees will not incur a premium increase of more than \$17 per month.

The dental renewal proposed by Lincoln will increase dental premiums by 7.5%, with the City continuing to pay 100% of the employee only premium on the lowest plan offering. The City will also continue to offer two dental plans with Lincoln.

After a thorough analysis of the renewal options provided by UHC and Lincoln, it is requested that the City Council make a recommendation to the City of Killeen Employee Benefit Trust to renew with UHC and Lincoln for the medical and dental plans, respectively.

**THE ALTERNATIVES CONSIDERED:**

Alternatives considered:

(1) To consider renewing the contract with UHC with no changes to the HDHP or PPO offerings for a medical premium increase of 14.80%, renewing the contract with Lincoln for a dental premium increase of 7.5%, with the City remaining in a defined contribution model.

(2) To consider renewing the contract with UHC with no changes to the HDHP offering but with significant changes to the PPO offering for a medical premium increase of 9.60%, renewing the contract with Lincoln for a dental premium increase of 7.5%, with the City remaining in a defined contribution model.

(3) To consider renewing the contract with UHC with no changes to the HDHP offering but with significant changes to the PPO offering for a medical premium increase of 9.60%, renewing the contract with Lincoln for a dental premium increase of 7.5%, with the City changing to a variable contribution model.

**Which alternative is recommended? Why?**

Staff recommends the third alternative; renewing with UHC medical plans with a premium increase of 9.60%, renewing Lincoln dental plans with a premium increase of 7.5%, and changing the City's contribution model to variable. This alternative offers the most advantageous products and reduces the premium increase impact to employees.

**CONFORMITY TO CITY POLICY:**

Yes

**FINANCIAL IMPACT:**

The medical insurance plan proposed reflects a 9.60% increase in premiums. The annual fiscal impact of this recommendation is an estimated total increase in cost of \$533,998 for FY 21. The new rates would be effective October 1, 2020.

Current healthcare cost: \$5,024,398

Proposed healthcare cost: \$5,558,395

Total increase: \$ 533,998

Current dental care cost: \$ 314,091

Proposed dental care cost: \$ 337,600

Total increase: \$ 23,509

Total net increase: \$ 557,507

The dental insurance plan proposal reflects a rate increase of 7.5% in premiums. The annual fiscal impact of this recommendation is an estimate total increase in cost of \$23,509 for FY21. The new rates would be effective October 1, 2020.

Costs for healthcare and dental insurance are included into the City's FY 21 proposed budget, which will be delivered to the City Council in August, 2020.

**What is the amount of the expenditure in the current fiscal year? For future years?**

In FY 20: \$5,024,3988 for healthcare and \$314,091 for dental.

In FY 21: \$5,558,395 for healthcare and \$337,600 for dental.

**Is this a one-time or recurring expenditure?**

This is an annually recurring expenditure.

**Is this expenditure budgeted?**

Yes

**If not, where will the money come from?**

N/A

**Is there a sufficient amount in the budgeted line-item for this expenditure?**

Yes, within each division's personnel service accounts.

**RECOMMENDATION:**

That City Council recommend to the Employee Benefits Trust the selection of the UHC for employee medical plans and Lincoln for employee dental plans with benefits effective October 1, 2020.

**DEPARTMENTAL CLEARANCES:**

Finance

Legal

**ATTACHED SUPPORTING DOCUMENTS:**

FY21 Proposed Rates