

The City of Homer Employee Committee



presents

**An Analysis of Employee Benefits,
Industry Standards, and Our
Recommendations for the Future.**

History



- December 2010, during the FY 2011 budget approval process, several City Council Members express their desire for City employees to take ownership of their health benefits in the form of out-of-pocket premiums.
- Proposed changes, including a reduction to quality of the schedule of benefits, are postponed in lieu of a parity study calling for the examination of wages and benefits provided by municipalities in the state of Alaska.
- June 2011, a parity study work session is held, during which several City Council Members express their interest in hearing from the employees.
- The City Manager & Personnel Director request the departments heads to dedicate at least one employee to represent his/her department in the creation of an Employee Committee.

City of Homer Employee Committee

Established August 2011

Members:

Zach Brown, Public Works
Matt Clarke, Port & Harbor
Jo Earls, Finance
Julie Engebretsen, Planning
Terry Felde, Administration
Katherine George, Library
Will Hutt, Police
Melissa Jacobsen, Clerk's
Stacy Luck, Police
Dan Miotke, Fire
Mike Riley, Public Works



Employee Committee's Rules of Operations



- **Committee operates under Robert's Rules**
- **Agendas developed & actions recorded**
- **A minimum of seven members must be present to form a quorum**
- **Motions introduced must pass with a majority vote**
- **Meetings conducted once per week, from 10:00-Noon in August & September. Intermittently in October & November**

Employee Committee's Objectives & Goals



1. Educate committee members on health care industry terminology
2. Review the employee's current schedule of benefits
3. Analyze the parity study & other pertinent information
4. Identify municipal industry standards within the state of Alaska relevant to the City of Homer
5. Determine what factors are driving the City of Homer's employees health care costs
6. Review COLA
7. Develop options in accordance with municipal industry averages designed to provide the City of Homer savings & achieve benefits package sustainability
8. Conduct an inclusive, employee-wide vote to determine a majority approved Proposal
9. Present the committee's findings and recommendations to the Homer City Council

Educating the Committee on Health Insurance Terminology

Health Insurance Terms

claim

A **claim** is a request by an individual (or his or her provider) to an individual's insurance company for the insurance company to pay for services obtained from a health care professional.

coinsurance

Coinsurance refers to money that an individual is required to pay for services, after a deductible has been paid. In some health care plans, co-insurance is called "copayment." Coinsurance is often specified by a percentage. For example, the employee pays 20 percent toward the charges for a service and the employer or insurance company pays 80 percent.

copayment

Copayment is a predetermined (flat) fee that an individual pays for health care services, in addition to what the insurance covers. For example, some insurance companies require a \$10 copayment for each office visit, regardless of the type or level of services provided during the visit. Copayments are not usually specified by percentages and never go towards the deductible or out of pocket max.

deductible

The **deductible** is the amount an individual must pay for health care expenses before insurance (or a self-insured company) covers the costs. Often, insurance plans are based on yearly deductible amounts.

dependent

A **dependent** is a person or persons relying on the policy holder for support may include the spouse and/or unmarried children (whether natural, adopted or step) of an insured.

exclusion

An **exclusion** is a provision within a health insurance policy that eliminates coverage for certain acts, property, types of damage or locations.

indemnity health plan

Indemnity health insurance plans are also called "fee-for-service." These are the types of plans that primarily existed before the rise of HMOs, IPAs, and PPOs. With indemnity plans, the individual pays a pre-determined percentage of the cost of health care services, and the insurance company (or self-insured employer) pays the other percentage. For example, an individual might pay 20 percent for services and the insurance company pays 80 percent. The fees for services are defined by the providers and vary from physician to physician. Indemnity health plans offer individuals the freedom to choose their health care professionals.

out-of-pocket maximum

A predetermined limited amount of money that an individual must pay out of their own savings, before an insurance company or (self-insured employer) will pay 100 percent for an individual's health care expenses.

preferred provider organization (ppo)

A preferred provider organization (PPO) is a managed care organization of health providers who contract with an insurer or third-party administrator (TPA) to provide health insurance coverage to policy holders represented by the insurer or TPA. Policy holders receive substantial discounts from health care providers who are partnered with the PPO. If policy holders use a physician outside the PPO plan, they typically pay more for the medical care.

reasonable and customary fees

The average fee charged by a particular type of health care practitioner within a geographic area. The term is often used by medical plans as the amount of money they will approve for a specific test or procedure. If the fees are higher than the approved amount, the individual receiving the service is responsible for paying the difference. Sometimes, however, if an individual questions his or her physician about the fee, the provider will reduce the charge to the amount that the insurance company has defined as reasonable and customary.

stop-loss

The dollar amount of claims filed for eligible expenses at which point you've paid 100 percent of your out-of-pocket and the insurance begins to pay at 100 percent. Stop-loss is reached when an insured individual has paid the deductible and reached the out-of-pocket maximum amount of co-insurance.

usual, customary and reasonable (ucr) or covered expenses

An amount customarily charged for or covered for similar services and supplies which are medically necessary, recommended by a doctor, or required for treatment.

Committee's Review of the Current Schedule of Benefits

City of Homer

Health Care Plan

Effective Date: September 1, 1994
Restatement Date: January 1, 2010

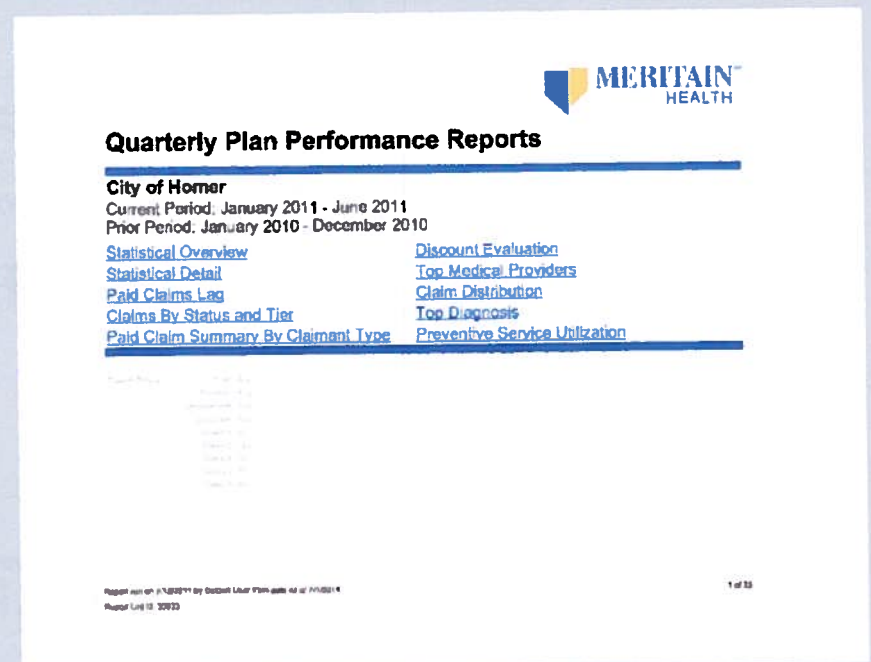
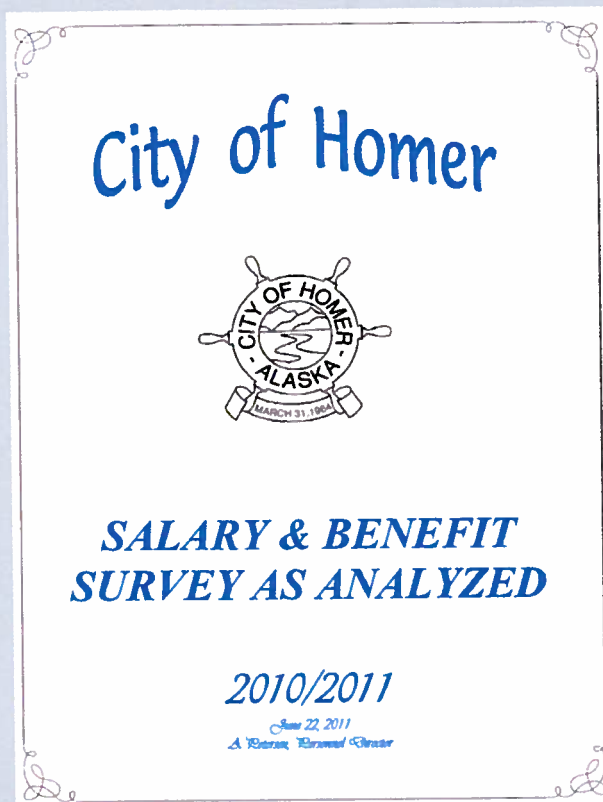


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Committee Analysis of Benefit Information

Parity Study of Municipalities

City of Homer's Claims Administrator's Statistical Overview



Health Benefits Cost Analysis

Reference Page 46 Salary & Benefit Survey

| City | Name of Insurance | Employee | Employee/Spouse | Employee/Child | Employee/Family |
|-----------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|
| Cordova | Premera | \$494.23 | \$1,115.30 | \$927.84 | \$1,550.35 |
| Fairbanks | Alaska Electrical | \$950.00 | \$950.00 | \$950.00 | \$950.00 |
| Homer | Meritain | \$1,300.00 | \$1,300.00 | \$1,300.00 | \$1,300.00 |
| Kenai | Aetna | \$407.76 | \$860.23 | \$711.76 | \$1,163.92 |
| Kodiak | Aetna | \$564.79 | \$1,291.38 | \$1,082.22 | \$1,808.51 |
| KP Borough | Rehn TPA | \$1,285.00 | \$1,285.00 | \$1,285.00 | \$1,285.00 |
| Palmer | Meritain | \$1,602.00 | \$1,602.00 | \$1,602.00 | \$1,602.00 |
| Seward | Meritain | \$1,325.26 | \$1,325.26 | \$1,325.26 | \$1,325.26 |
| Sitka | Premera | \$679.75 | \$1,274.70 | \$1,231.33 | \$1,826.25 |
| Soldotna | Aetna | \$367.04 | \$723.01 | \$628.88 | \$984.62 |
| Unalaska | CIGNA | \$1,474.64 | \$1,474.64 | \$1,474.64 | \$1,474.64 |
| Wasilla | Aetna | \$564.79 | \$1,218.72 | \$1,030.48 | \$1,684.15 |
| Industry Average/Month | | \$917.94 | \$1,201.69 | \$1,129.12 | \$1,412.89 |
| Industry Average/Year | | \$11,015.26 | \$14,420.24 | \$13,549.41 | \$16,954.70 |
| Homer's Cost/Year | | \$15,600.00 | \$15,600.00 | \$15,600.00 | \$15,600.00 |
| Cost Difference/Year | | \$ (4,584.74) | \$ (1,179.76) | \$ (2,050.59) | \$ 1,354.70 |
| Cost Difference/Year/97 Employees | | \$ (444,719.78) | \$ (114,436.72) | \$ (198,907.23) | \$ 131,405.90 |

Identifying Municipal Industry Averages for Employee/Dependant Ratio

| | Central Peninsula Hospital | City of Homer | Kenai Peninsula Borough | Kenai Peninsula Borough School District | South Peninsula Hospital |
|--|-------------------------------|--------------------------|----------------------------|--|-----------------------------|
| Population | | | | | |
| Employees | 514 | 96 | 299 | 1241 | 225 |
| Dependents | 772 | 181 | 566 | 2400 | 344 |
| Total Population | 1286 | 277 | 865 | 3641 | 569 |
| | | | | | |
| Municipal Industry Average Totals | Employees: 2,375 | Dependants: 4,263 | | | |

The ratio of dependants to employees is roughly 2 to 1.

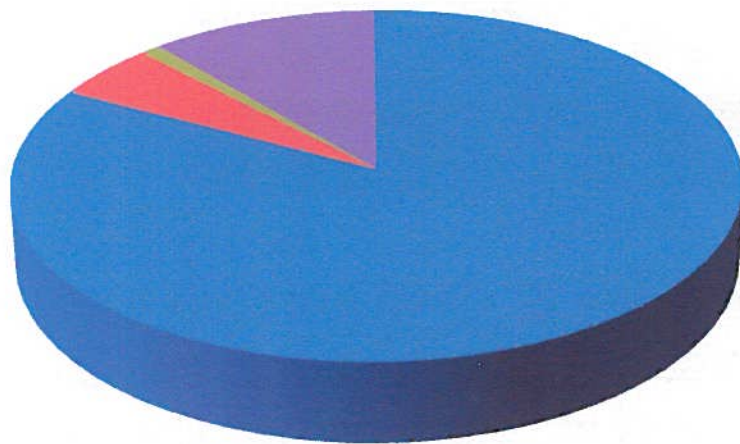
Determining the Amount of Savings Needed to Achieve Municipal industry Average

- To determine municipal industry average, we eliminated high and low values of the individual employee and family costs. We then averaged the costs of employee/spouse & employee/child.

| | |
|-------------------|---------------|
| Employee/ Spouse | \$ 114,436.00 |
| Employee/ Child | \$ 198,907.00 |
| Total | \$ 313,343.00 |
| Divided by 2 | |
| Average Cost/Year | \$ 156,671.50 |

The amount of savings needed to bring Homer into municipal industry average is stated above. The Employee Committee chose to round the figure to \$150,000 for simplicity.

What Type of Claims are Driving The City of Homer's Insurance Costs?

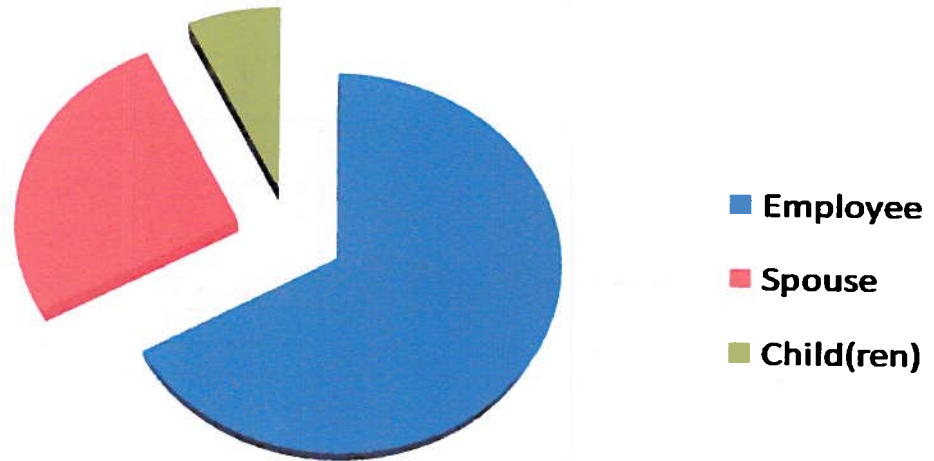


- Medical
- Dental
- Vision
- Rx

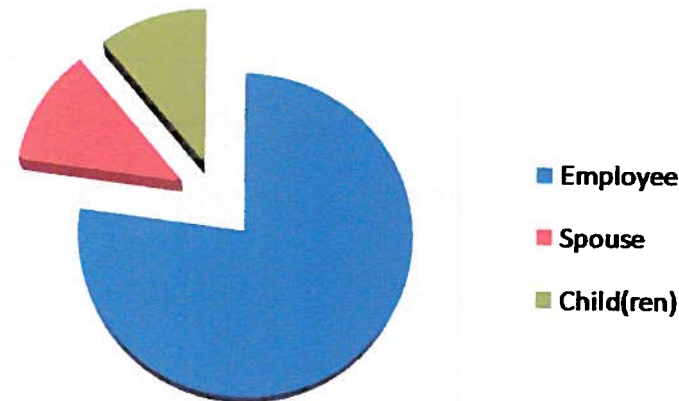
Medical Claims: 83%
Rx Claims: 11%
Dental Claims: 5%
Vision Claims: 1%.

Which Users Account for the Majority Claims?

Between 2007 - 2010,
City employees averaged
66% of the total claims
expense, while spouses
and children accounted for
26% & 7%.



1st & 2nd Quarters of 2011
Employees: 77%
Spouse: 12%
Children: 11%



Cost of Living Allowance

Salary & Benefit Survey as Analyzed page 50

| City | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Comments |
|--------------------------|------|------|------|------|----------|-----------|---|
| Cordova | 0% | 0% | 0% | 0% | 0% | 0% | Adjust Wage Scale |
| Fairbanks | 3% | 4% | 3% | 3% | 3% | ? | Yes annually |
| Homer | 2% | 3% | 4% | 2% | 0% | 0% | Adjusted when need |
| Kenai | 3% | 2% | 5% | 5% | 1% | ? | Negotiated w/Union |
| Kenai Peninsula Borough | 4% | 2% | 3% | 5% | 3% | 2% | Every July 1st. Voted during budget process |
| Kodiak | 0% | 0% | 0% | 0% | 0% | 0% | No. Adjust wage schedule when compensation study is performed every 4-6 years |
| Palmer | 0% | 0% | 3% | 0% | 0% | 0% | No |
| Seward | 2.6% | 3% | 2.5% | 4.6% | 0.0% | 1.2% | Negotiated w/budget process |
| Sitka | 0% | 0% | 2% | 0% | 0% | 0% | Negotiated w/Union |
| Soldotna | 0% | 2% | 4% | 4% | 1.8/2.5% | 1.5/3.5%? | Negotiated w/Union |
| South Peninsula Hospital | 2-3% | 2-3% | 2-3% | 2-3% | 2-3% | 2-3% | Negotiated w/Union |
| Unalaska | 0% | 0% | 0% | 3% | 0% | 0% | Negotiated w/Union |
| Wasilla | 0% | 0% | 0% | 3% | 3% | ? | Negotiated w/Union |

Although the Employee Committee reviewed COLA and its parity among employers. COLA is a discretionary budget item, not a benefit, and is available to the City Manager as budget allows. It should be noted that Homer's COLA awards are slightly behind the other Kenai Peninsula employers. The Employee Committee discussed developing a method of monitoring local factors driving cost of living in the community of Homer, rather than relying on the City of Anchorage's consumer price index.

Option I:

Adjustments to the Current Schedule of Benefits
Generate \$60,000 of Savings

City of Homer

Health Care Plan

Effective Date: September 1, 1994
Restatement Date: January 1, 2010



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Savings to the health care plan could be generated by increasing the amount of deductibles & out-of-pocket maximums, as well as, adjusting the co-insurance

Changes to the schedule of benefits maintain a quality healthcare plan, while adjusting closer to industry standards.

Option II:

Employee Premiums Generate \$150,000 of Savings

Employee Premium Option

Employee premium means a fee paid for coverage of health benefits. An employee premium can be deducted from paycheck on a pre-tax or after tax basis utilizing a Flexible Spending Account.

The employee premium option would not change your current schedule of benefits. Only your take home pay could be affected

| | Per Pay Period | Per Month | Annually |
|---------------|----------------|-----------|-------------|
| Employee Only | \$ 17.84 | \$ 38.65 | \$ 463.84 |
| Spouse | \$ 56.75 | \$ 122.96 | \$ 1,475.50 |
| Child (each) | \$ 4.81 | \$ 10.42 | \$ 125.06 |

| | | | |
|---------------|----------|----------|-----------|
| Employee Only | \$ 17.84 | \$ 38.65 | \$ 463.84 |
|---------------|----------|----------|-----------|

| | | | |
|------------|----------|-----------|-------------|
| Emp/Spouse | \$ 74.59 | \$ 161.61 | \$ 1,939.34 |
|------------|----------|-----------|-------------|

| | | | |
|------------------------|-----------|-----------|-------------|
| Emp/Spouse/Child | \$ 79.40 | \$ 172.03 | \$ 2,064.40 |
| Emp/Spouse/ 2 Children | \$ 84.21 | \$ 182.46 | \$ 2,189.46 |
| Emp/Spouse/ 3 Children | \$ 89.02 | \$ 192.88 | \$ 2,314.52 |
| Emp/Spouse/ 4 Children | \$ 93.83 | \$ 203.30 | \$ 2,439.58 |
| Emp/Spouse/ 5 Children | \$ 98.64 | \$ 213.72 | \$ 2,564.64 |
| Emp/Spouse/ 6 Children | \$ 103.45 | \$ 224.14 | \$ 2,689.70 |
| Emp/Spouse/ 7 Children | \$ 108.26 | \$ 234.56 | \$ 2,814.76 |
| Emp/Spouse/ 8 Children | \$ 113.07 | \$ 244.99 | \$ 2,939.82 |
| Emp/Spouse/ 9 Children | \$ 117.88 | \$ 255.41 | \$ 3,064.88 |

| | | | |
|-----------------|----------|-----------|-------------|
| Emp/Child | \$ 22.65 | \$ 49.08 | \$ 588.90 |
| Emp/ 2 Children | \$ 27.46 | \$ 59.50 | \$ 713.96 |
| Emp/ 3 Children | \$ 32.27 | \$ 69.92 | \$ 839.02 |
| Emp/ 4 Children | \$ 37.08 | \$ 80.34 | \$ 964.08 |
| Emp/ 5 Children | \$ 41.89 | \$ 90.76 | \$ 1,089.14 |
| Emp/ 6 Children | \$ 46.70 | \$ 101.18 | \$ 1,214.20 |
| Emp/ 7 Children | \$ 51.51 | \$ 111.61 | \$ 1,339.26 |
| Emp/ 8 Children | \$ 56.32 | \$ 122.03 | \$ 1,464.32 |
| Emp/ 9 Children | \$ 61.13 | \$ 132.45 | \$ 1,589.38 |

- The committee originally developed a 70-20-10, employee/spouse/child weighted average to equitably distribute the cost of employee premiums based on statistical information provided by Meritain's claims analysis.

- After receiving professional advice from Jeff Paxton, the City's Health Benefit Consultant with Mercer Administration, it was determined the averages should be re-allocated to 30-60-10, employee/spouse/child. This creates a deterrent for enrollment in the City's healthcare plan by spouses who are currently insured by another employer.

Option III

A Combination of Employee Premiums & Adjustments to the Schedule of Benefits Generate \$160,000 of Savings

Combination Health Insurance Plan Adjustments & Employee Premium Option

Employee premium means a fee paid for coverage of health benefits. An employee premium can be deducted from paycheck on a pre-tax or after tax basis utilizing a Flexible Spending Account.

The Combination Option would change your current schedule of benefits and your take home pay could be affected

| | Per Pay Period | Per Month | Annually |
|---------------|----------------|-----------|-----------|
| Employee Only | \$ 11.90 | \$ 25.78 | \$ 309.40 |
| Spouse | \$ 37.83 | \$ 81.97 | \$ 983.58 |
| Child (each) | \$ 3.21 | \$ 6.96 | \$ 83.46 |

Annual Employee Contribution to Health Plan: \$100,000.00
Estimated Annual Savings from Benefit Adjustments: \$60,000.00

| | | | |
|------------------------|----------|-----------|-------------|
| Emp/Spouse | \$ 49.73 | \$ 107.75 | \$ 1,292.98 |
| Emp/Spouse/Child | \$ 52.94 | \$ 114.70 | \$ 1,376.44 |
| Emp/Spouse/ 2 Children | \$ 56.15 | \$ 121.66 | \$ 1,459.90 |
| Emp/Spouse/ 3 Children | \$ 59.36 | \$ 128.61 | \$ 1,543.36 |
| Emp/Spouse/ 4 Children | \$ 62.57 | \$ 135.57 | \$ 1,626.82 |
| Emp/Spouse/ 5 Children | \$ 65.78 | \$ 142.52 | \$ 1,710.28 |
| Emp/Spouse/ 6 Children | \$ 68.99 | \$ 149.48 | \$ 1,793.74 |
| Emp/Spouse/ 7 Children | \$ 72.20 | \$ 156.43 | \$ 1,877.20 |
| Emp/Spouse/ 8 Children | \$ 75.41 | \$ 163.39 | \$ 1,960.66 |
| Emp/Spouse/ 9 Children | \$ 78.62 | \$ 170.34 | \$ 2,044.12 |
| Emp/Child | \$ 15.11 | \$ 32.74 | \$ 392.86 |
| Emp/ 2 Children | \$ 18.32 | \$ 39.69 | \$ 476.32 |
| Emp/ 3 Children | \$ 21.53 | \$ 46.65 | \$ 559.78 |
| Emp/ 4 Children | \$ 24.74 | \$ 53.60 | \$ 643.24 |
| Emp/ 5 Children | \$ 27.95 | \$ 60.56 | \$ 726.70 |
| Emp/ 6 Children | \$ 31.16 | \$ 67.51 | \$ 810.16 |
| Emp/ 7 Children | \$ 34.37 | \$ 74.47 | \$ 893.62 |
| Emp/ 8 Children | \$ 37.58 | \$ 81.42 | \$ 977.08 |
| Emp/ 9 Children | \$ 40.79 | \$ 88.38 | \$ 1,060.54 |

Annual employee premiums would account for \$100,000.

Estimated annual savings from adjustments to the schedule of benefits account for \$60,000.

The Ballot Containing Two Options Voted on by City of Homer's Employees. on December 6, 2011.

The Committee determined through early correspondence between its members and their departments that a no change option was preferred by the majority of the employees; however, the Committee chose to exclude a no change option.

Employee Benefit Proposals

Employee Premium Option: The employee premium option would not change your current schedule of benefits. Only your take home pay could be affected.

| Type of Coverage | Per Pay Period |
|------------------|----------------|
| -Employee Only | \$17.84 |
| -Spouse | +\$56.75 |
| -Child (each) | +\$4.81 |

**Employee premium means a fee paid for coverage of health benefits. An employee premium can be deducted from paycheck on a pre-tax or after tax basis utilizing a Flexible Spending Account.

OR

Combination of Health Plan Adjustments & Employee Premium Option: The Combination Option would change your current schedule of benefits and your take home pay could be affected.

| The Type of Coverage | Per Pay Period |
|----------------------|----------------|
| -Employee Only | \$11.90 |
| -Spouse | +\$37.83 |
| -Child (each) | +\$3.21 |

**Employee premium means a fee paid for coverage of health benefits. An employee premium can be deducted from paycheck on a pre-tax or after tax basis utilizing a Flexible Spending Account.

Employee Benefit Proposal Survey

1. Do you prefer the Employee Premium Option OR the Combination Health Insurance Plan Adjustments & Employee Premium Option?

☐ I prefer the Employee Premium Option

☐ I prefer the Combination Health Insurance Plan Adjustments & Employee Premium Option

The Elected Option

Employee Premiums Generate \$150,000 of Savings

- On December 6th, 77 of the 100 benefited employees voluntarily participated in a vote, of which 57 employees or 75% cast their ballot in preference for the premium only option and the fee structure described below.

| | Per Pay Period | Per Month | Annually |
|----------------------|----------------|-----------|-------------|
| Employee Only | \$ 17.84 | \$ 38.65 | \$ 463.84 |
| Spouse | \$ 56.75 | \$ 122.96 | \$ 1,475.50 |
| Child (each) | \$ 4.81 | \$ 10.42 | \$ 125.06 |

PERS Regulations & Additional Savings Generated by Changes to the Employee's Benefits Package



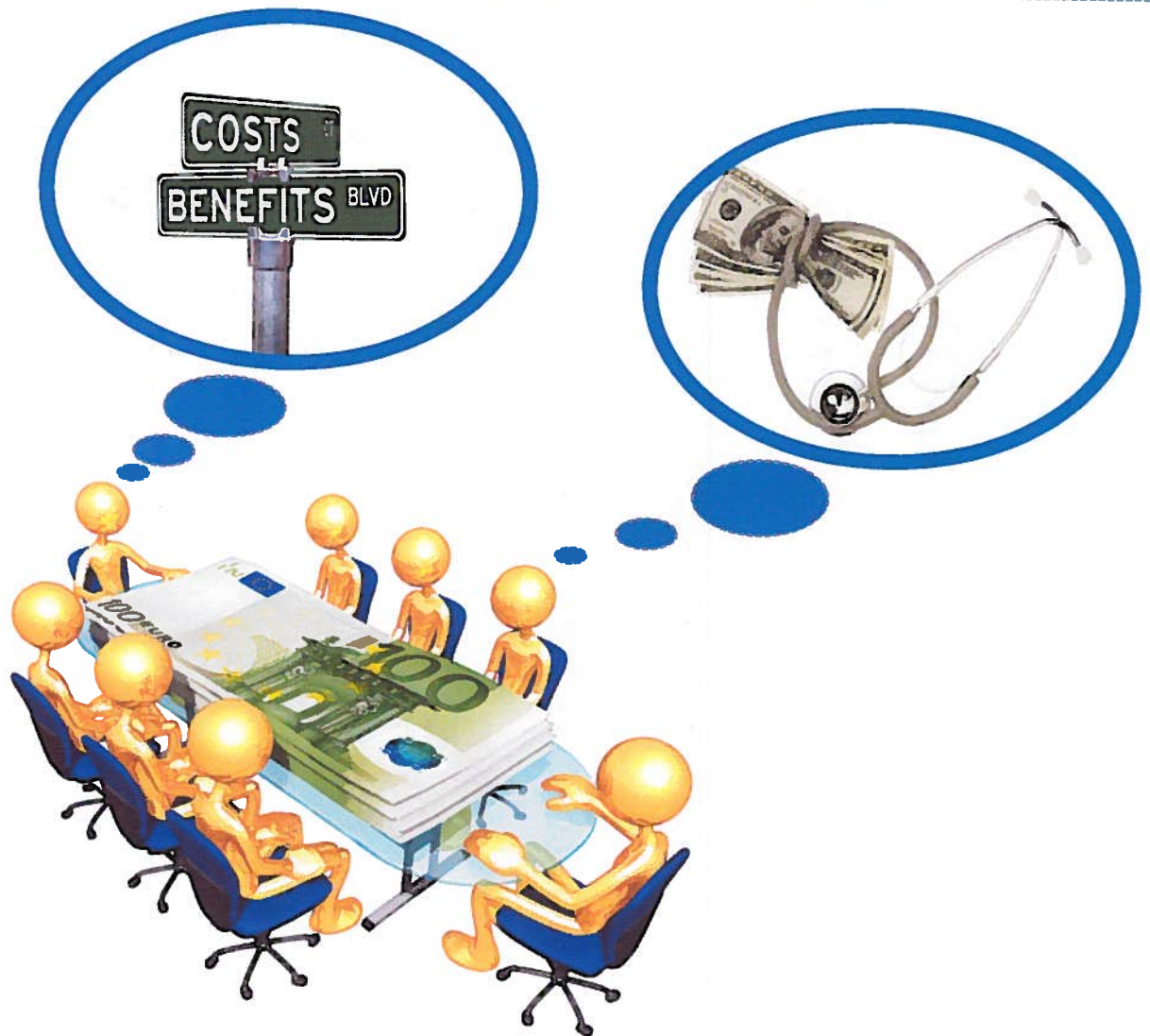
- The Employee Committee encouraged the City's Administration to amend our existing PERS agreement regarding new employees. Specifically, the City and the new employee will not be required to contribute to PERS until he/she has successfully passed their probationary term of employment or 6-months of service for public safety employees.
- Although it is impossible to predict 100% accurately, the duration of employees' tenure, recent hiring trends indicate a potential annual savings up to \$40,000.

The Committee's Comments on Council Member's Proposals

Councilman Hogan proposed employee premiums to generate \$117,600 but fails to provide detail for the requirements of spouses & children.

Councilwoman Robert's proposal generously increases the employees income by imposing a composite premium from each benefited employee.

Both proposals use the revenues generated by employee premiums to fund other budget items, non-profits, additional salary & vacancies. Neither address the projected 2012 health insurance budget.

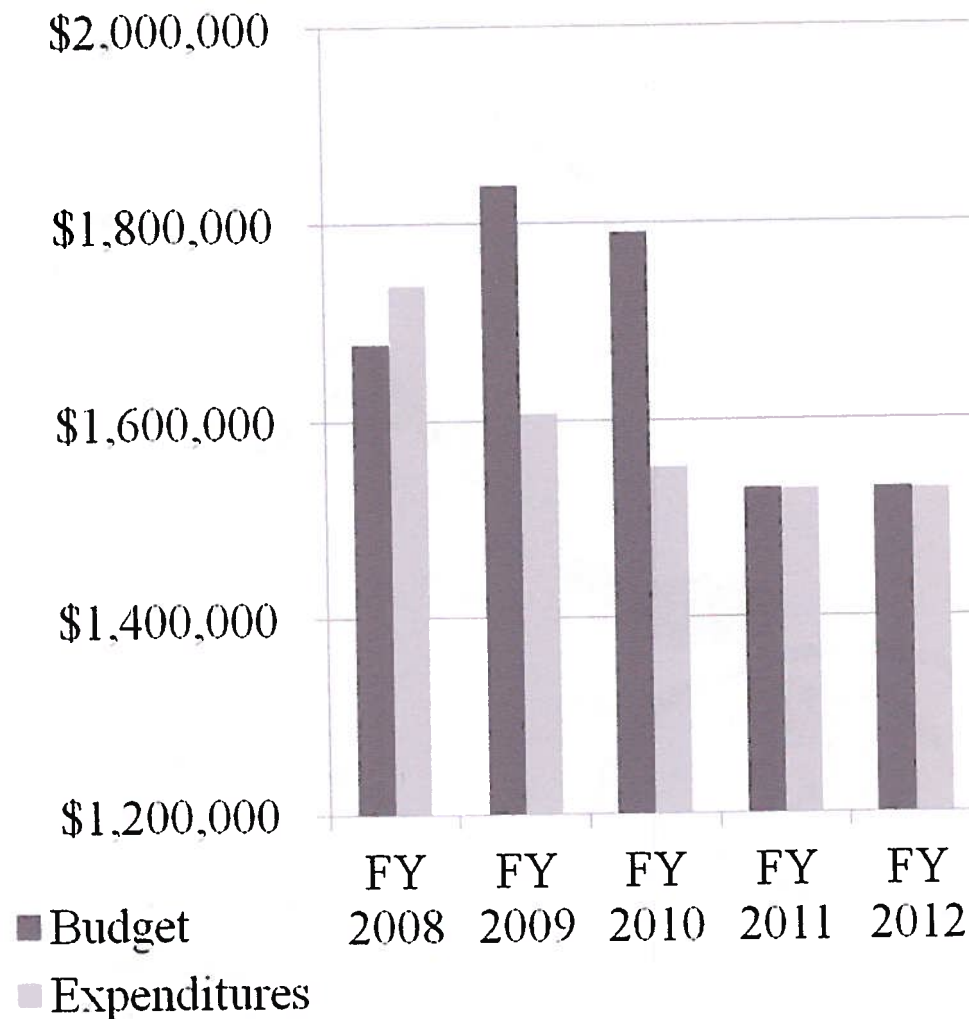


Self Insurance Health Fund

Page 216, City of Homer
Operating Budget

Information taken from the City of Homer's 2112 Operating Budget indicate the City Council's willingness to allocate additional funding in recent years.

If the City Council is unwilling to allocate additional funding, it is the Employee Committee's recommendation that the \$150,000 generated from proposal II be used to directly fund and supplement current FY 2012 proposed health insurance fund account, 600.



The Employee Committee's Recommendations to the Homer City Council

The Employee Committee would like the Council to be aware that this was a very difficult decision; one that effectively reduces every benefited employee's income. The employees offer this contribution without having received a COLA since 2009.

If the Council determines that it must amend the employee benefit package for budgetary reasons, we offer this proposal as an alternative to the existing proposed budget amendments drafted by Council members, Hogan and Roberts.



