FORM GEN. 160

0410-05095-0000

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: October 15, 2010

To: The City Council

From: Miguel A. Santana, City Administrative Officer
Margaret M. Whelan, General Manager, Personnel Department

Subject: **CIVILIAN MODIFIED FLEXIBLE BENEFITS PROGRAM**

The City faces an estimated budget deficit for the coming fiscal year of at least $320 million. In addition to declining revenues, increasing pension costs, and negotiated cost of living adjustment commitments, analysis indicates that escalating health care costs will substantially add to the City's future deficit. In FY2001-02, the City spent $102.7 million to provide health care coverage for 24,666 civilian employees, an average of $4,165 per employee. By FY2009-10, health care coverage costs increased by 78%; the City spent $212 million to cover 28,584 civilian employees, an average of $7,419 per employee. (See Attachment I)

In accordance with instruction from the Executive Employee Relations Committee (EERC), it is requested that the City Council direct the Personnel Department to make the following changes to the health care plans offered through the Civilian Modified Flexible Benefits (Flex) Program as soon as possible:

Proposed Plan Design Change	Estimated Annual Savings (in millions)
Increase the doctor's office visit co-pay from $10 to $20 for HMO plans	$3.5
Increase the emergency room co-pay from $50 to $100	$1.3
Eliminate the $7.50 per pay period Flex credit	$2.9
Adjust the co-pay for prescription drugs to a three-tier plan with $10 for generic drugs, $20 for brand name drugs, and $40 for off-formulary prescription drugs, and standardize the benefit at a 30-day supply.	$5.3
Total Estimated Savings	**$13.0**

As outlined in the chart above, we estimate that the City would save approximately $13 million during a 12-month period. Because the Personnel Department

would need to open a new enrollment period for employees, we estimate that the changes could not be implemented until April 1, 2011. The City would also realize a savings by virtue of a reduction in future premium costs. In addition, recently ratified Memoranda of Understanding between the City and bargaining units represented by the Engineers and Architects Association include the increased doctor's office visit co-pay, which will trigger the loss of the City's "grandfathered" status under the Health Care Reform law. As a result, the benefit to City employees is the elimination of a doctor's office visit co-pay for preventative care. Examples of preventative care include immunizations, mammograms, Pap smears, and prostate screenings. On a cost basis, the plan design changes that were implemented with the EAA agreements, alone, more than covered the costs of losing the City's "grandfathered" status. From the employee's perspective, it can be argued that the benefit of free preventative care outweighs the increase in co-pay amounts for office visits, emergency rooms and generic drugs.

During the last 21 years, changes to the City's health care benefits for active employees have occurred through the motions passed in the Joint Labor-Management Benefits Committee (JLMBC). The JLMBC was established to recommend, monitor and review the administration of benefits, including health care benefits, provided to employees. It consists of five management representatives and five labor representatives. In order for a motion to pass, three management and three labor representatives must vote to pass the motion.

Motions to adopt the savings measures (in the table above) failed to achieve the required number of votes in the JLMBC. Therefore, in accordance with EERC instructions, the City filed a *Notice of Impasse* with the Employee Relations Board (ERB) on August 10, 2010. On August 23, 2010, the City Attorney's Office presented the City's argument for impasse to the ERB. This argument was based on the City's position that changes to the Flex Program are subject to negotiations under the various Memoranda of Understanding, and since agreement could not be reached, it was appropriate to invoke impasse procedures pursuant to the Employee Relations Ordinance. At that same meeting, representatives for the employee organizations argued that the JLMBC does not engage in the meet-and-confer process so it is analytically impossible for an impasse to occur. Union representatives also argued that the scope of the JLMBC is "advisory only", which we many only conclude means that it does not involve any formal bargaining and implies the City Council has the sole authority to enact health care plan design changes. Following the discussion, the ERB denied the City's request for impasse and refused to send the parties to fact-finding.

In light of the ERB decision, and the concurrence of the representatives for the employee organizations that the JLMBC is an advisory body only, it is within the right of the City Council to direct the Personnel Department to make the necessary changes to the design of the Flex Program to ensure that health care for civilian City employees remains sustainable.

Recommendation

Approve the four modifications to the civilian FLEX benefit program discussed above with an implementation date of April 1, 2011.

Fiscal Impact Statement

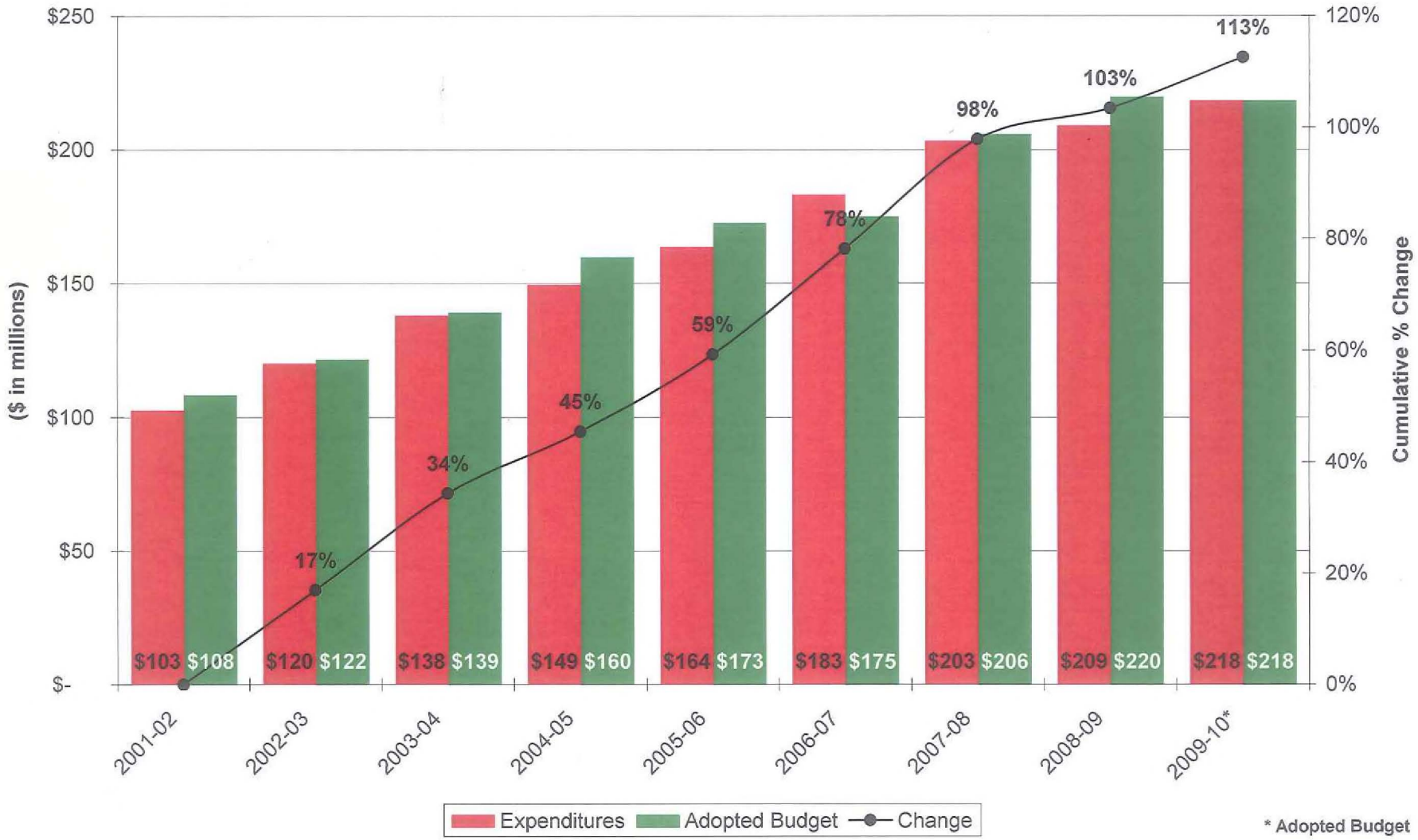
The estimated annual savings to the City for a 12-month period is approximately $13 million. Implementation of the four modifications to the civilian FLEX benefit program on April 1, 2011, as discussed above would reduce the City's medical subsidy for the 2011 plan year by approximately $9.75 million. Of this amount, approximately $3.25 million in savings would be attributable to FY2010-11.

There will be additional nominal costs to conduct another open enrollment including consulting costs, printing costs and staff costs. The Personnel Department will report back with an estimate of these costs, and the need for any additional funds, in the Mid-Year FSR.

MAS:MHA:07110006

ATTACHMENT I

CIVILIAN HEALTH CARE
EXPENDITURES v. ADOPTED BUDGET



* Adopted Budget