REPORT FROM		THE PERSONNEL DEPARTMENT

TO: Personnel and Animal Welfare Committee	DATE January 29, 2015
REFERENCE:	COUNCIL FILE 14-0814
SUBJECT: **Civilian Flex Benefits Dependent Eligibility Verification (DEV) Program Results**	

RECOMMENDATION:

That the City Council receive and file the following report providing the results of the 2014 Dependent Eligibility Verification (DEV) program for the City of Los Angeles Civilian Flexible Benefits Program.

SUMMARY:

On August 5, 2014, the Personnel and Animal Welfare Committee considered a Personnel Department and CAO report recommending the extension of the contract with Mercer for third party administrative services of the Flex Benefit Program. At the meeting the Personnel and Animal Welfare Committee instructed the Personnel Department to report back on the results of dependent eligibility audit conducted by Mercer.

In October 2012 the City Council approved a recommendation from the JLMBC to initiate a Dependent Audit that would require Civilian employees to provide documentation of dependents listed on their health plans in order to maintain coverage under those plans (CF #10-1627). In March 2014, the City Council further approved waivers for employees removing ineligible dependents(s) from the Civilian Flex Benefits plan during the Dependent Audit (CF#14-0255).

In April 2014, the "Dependent Eligibility Verification" (DEV) program was launched. The program was broken into two phases. The first and larger phase concluded on June 18, 2014; the second phase concluded September 12, 2014. This transmittal provides the initial results of the DEV process and projected savings to the City.

WENDY G. MACY, General Manager

BACKGROUND

A. Program Authority

The Personnel Department's Employee Benefits Division administers the City's Civilian Modified Flexible Benefits (Flex) Program for active City civilian employees and their qualified dependents in conjunction with the Joint Labor-Management Benefits Committee (JLMBC). The JLMBC is composed of five management and five labor representatives. Over the last four years the Personnel Department and JLMBC have implemented a series of Plan design changes to mitigate increases in the cost of civilian employee benefits, principally with respect to medical cost inflation. Included among the JLMBC's cost-saving measures is the Dependent Eligibility Verification (DEV) program. The purpose of the DEV program is ensuring that only eligible dependents are covered by employees under the Civilian Flex health plans. Periodic campaigns to verify dependent eligibility are considered a best practice for employers offering health plans.

The City Council approved the proposed DEV program on October 2, 2012 (CF #10-1627). Originally scheduled to be launched in 2013, the program was delayed pending conclusion of procurement for health plan providers. On March 18, 2014, upon a recommendation from the Personnel Department and JLMBC, the City Council (CF #14-0255) authorized waivers for employees removing ineligible dependents(s) from the Civilian Flex Benefits plan during the DEV program (excluding cases involving fraud or intentional misrepresentation).

B. Program Launch and Communications

The City used its Civilian Flex Plan Third Party Administrator, Mercer HR Services ("Mercer"), to perform the administrative and recordkeeping functions of the DEV process. Personnel Department staff was responsible for overseeing these functions and for developing and coordinating the communication campaign to subject employees.

On April 11, 2014, the DEV program officially launched. The program required that employees:

(a) Submit appropriate indicative documentation (e.g. birth certificate, marriage certificate, etc.) verifying the relationship/status of the dependent; and
(b) Provide a signed acknowledgment (the "DEV form") including certain representations and written acknowledgments regarding dependent eligibility.

A total of **15,095** Civilian employees and **34,887** dependents were included in the DEV program. The program was broken into two phases, the first of which involved 13,967 City employees with 31,933 dependents, and the second of which involved 1,128 employees with 2,954 dependents.

Upon conclusion, a total of **14,538** employees (**96%**) had responded to the program. Mercer indicated that the City's response rate was exceptionally high, given their experience performing similar audits for other employers.

Given the size of the population participating in the DEV Program, it would not have been possible for one agency or contracted entity to achieve this kind of response rate on its own. The success of these efforts was attributable to the extensive communication and outreach efforts conducted by the Personnel Department with substantial and enthusiastic support from employee labor organizations and City department human resource and management liaisons.

These efforts included multiple and varied points of contact, a tactic that is increasingly vital to achieving successful outcomes in communication campaigns. These multiple points of contact included the following:

- Direct mailings to the homes of affected employees
- Newsletter articles
- Citywide emails
- Flex Plan website articles and advisories
- Citywide webinars
- Personalized outreach from employee labor organizations
- Personalized outreach from departmental human resource liaisons

C. DEV Program Results

The following table summarizes the combined results of the first and second phases of the DEV program as of September, 2014. This table incorporates the net result of appeals granted after the close of the first and second phases of the program. Some appeals are continuing to be received and may result in adjustments to these numbers going forward.

AUDIT SUMMARY	
Starting Number of Dependents	**34,887**
Dependents Removed	**2,381**
Projected Ending Number of Verified Dependents	**32,506**

The overall result is that approximately **7%** of the Flex Program's pre-audit dependent population has been removed from Flex program coverage as a result of this audit. Most of these removed dependents resulted from situations wherein a change in dependent status had not been previously communicated to the Flex program. Examples include divorce or dissolution of a domestic partnership; and dependents (grandchild, disabled child, legal ward, stepchild, etc.) that no longer meet other Flex eligibility criteria.

D. DEV Program Tentative Projected Savings & Fiscal Impact

Civilian Flex benefit program costs will be reduced by the removal of dependents in two ways: (a) reduced premiums when the removal of dependents results in a reduction of the coverage tier level; and (b) reduced claims experience going forward as fewer covered lives incur fewer services. The former category is relatively simple to quantify as the Flex Plan finalizes the number of removed dependents resulting in a reduction in coverage tier level, then calculates the extent to which this will reduce overall premium expenditures. The latter category is more difficult to quantify, as the results will not become apparent until health/dental rate renewal data is reviewed in mid-2015.

The Personnel Department is projecting the savings from reductions in coverage tier levels in Fiscal Year 14/15 will be approximately $5.0 million.

Relative to the Fiscal Year 14/15 budget for the Civilian Flex Program, these savings contributed significantly to eliminating the shortfall with which the Fiscal Year began. Following is a brief chronology of development of the FY 14/15 Flex Program budget request and estimated expenditures:

- **December 2013** - The Personnel Department prepared its initial budget request and projected expenditures of **$241,667,476**.
- **March 2014** – The Personnel Department updated its initial budget request and projected revised expenditures of **$239,217,389**.
- **April 2014** – The Personnel Department was advised the Mayor's recommended funding for the Civilian Flex Program would be **$231,217,389** (representing a budgetary gap of $8 million from the projected vs. the March 2014 estimated expenditure).
- **May 2014** – Following notification of a lower than anticipated rate increase from one of the Flex Program's health plan providers (Kaiser) and projections this would reduce Flex program expenditures by approximately $4 million, the Chief Legislative Analyst recommended the City Council reduce the Flex program budget to **$227,017,389** (maintaining the budgetary gap of $8 million). The Council subsequently adopted this amount at its meeting on May 21, 2014.
- **June 2014** – Following further rate clarification from the City's second health plan provider (Blue Shield), and including adjustments for other variables in the Flex Program budget, the Personnel Department's projected Civilian Flex Program expenditure was revised to **$232,567,75.** This reduced the budgetary gap to $5.5 million.
- **January 2015** – After incorporating the estimated $5.0 million savings from the DEV program and including ongoing adjustments for other variables in the Flex Program budget, the budgetary gap has been eliminated and Civilian Flex expenditures are expected to be in line with the adopted budget amount.

Looking beyond this fiscal year, to the extent that dependents removed as a result of this audit are not reinstated in subsequent years, additional savings of up to $5.4 million in Fiscal Year 15/16, and $5.8 million in Fiscal Year 16/17, may also be realized. However, these latter numbers are more speculative because future employee activity regarding removed dependents becomes more challenging to predict as time moves forward.

The City's costs in conducting the DEV program are approximately $341,300, which represents a 1,365% return on investment.

E. Conclusion

The Personnel Department and JLMBC view the DEV program to be successful relative to the mission and administration of the City's Civilian Flex program. The keys to success included a well-defined mission, an effective and coordinated communications campaign, and the collaboration of the City Council, Personnel Department, employee labor organizations, and departmental human resource liaisons in implementing the program. These combined efforts produced exemplary results that can provide a model for other benefit plan administrators (both within and outside of the City) for efficient administration of their programs. The Personnel Department will propose that the City conduct periodic dependent eligibility verification process as part of the benefits administration cost containment efforts.