

REPORT
FROM



THE PERSONNEL
DEPARTMENT

TO: City Council	DATE JULY 23, 2015
REFERENCE:	COUNCIL FILE _____
SUBJECT: Plan Year 2016 Civilian Flex Benefits Program	
<u>RECOMMENDATION:</u> That the City Council: (a) Receive and file this joint report from the Personnel Department General Manager and the Chair of the Joint Labor Management Benefits Committee (JLMBC) regarding the Civilian Flex Benefits Program; and (b) Approve the 2016 Flex Benefits Plan. <u>SUMMARY:</u> The Personnel Department administers the City's Flex Benefits Program for active City civilian employees and their qualified dependents in conjunction with the City's Joint Labor-Management Benefits Committee (JLMBC). The JLMBC is composed of five management and five labor representatives. The JLMBC was created in the 1990's by action of the City Council and Mayor for the purpose of determining what plans were to be included in the civilian employee benefits program, defining the structure of the plans, recommending providers/contractors to the Personnel Department's General Manager, and monitoring the administration of the employee benefit program by the Personnel Department. The mission of the Flex Benefits Program is to promote employee health/wellness with competitive benefits at a reasonable level relative to the City's financial capacity. The Flex Benefits Program covers approximately 24,000 employees and 32,000 dependents. Each year the JLMBC reviews information provided by the Personnel Department, benefits consultants, and service providers regarding Flex Benefits Program design and cost. At its meeting of June 18, 2015, the JLMBC recommended that certain proposed rate renewals be approved relative to implementing the adopted Flex Benefits Program for Plan Year 2016. Division 4, Chapter 7, Article 5, Sec. 4.303 provides that the City Council authorize suitable employee benefit programs as recommended by the JLMBC and maintained by the Personnel Department. The purpose of this transmittal is to request that the City Council approve the 2016 Flex Benefits Program.  _____ CHERYL PARISI, CHAIRPERSON JOINT LABOR-MANAGEMENT BENEFITS COMMITTEE  _____ WENDY G. MACY, VICE-CHAIRPERSON	

A. 2016 FLEX PLAN OVERVIEW

The Personnel Department administers a number of service provider contracts for the various benefit plans which comprise the Flex Benefits Program. These plans include the following:



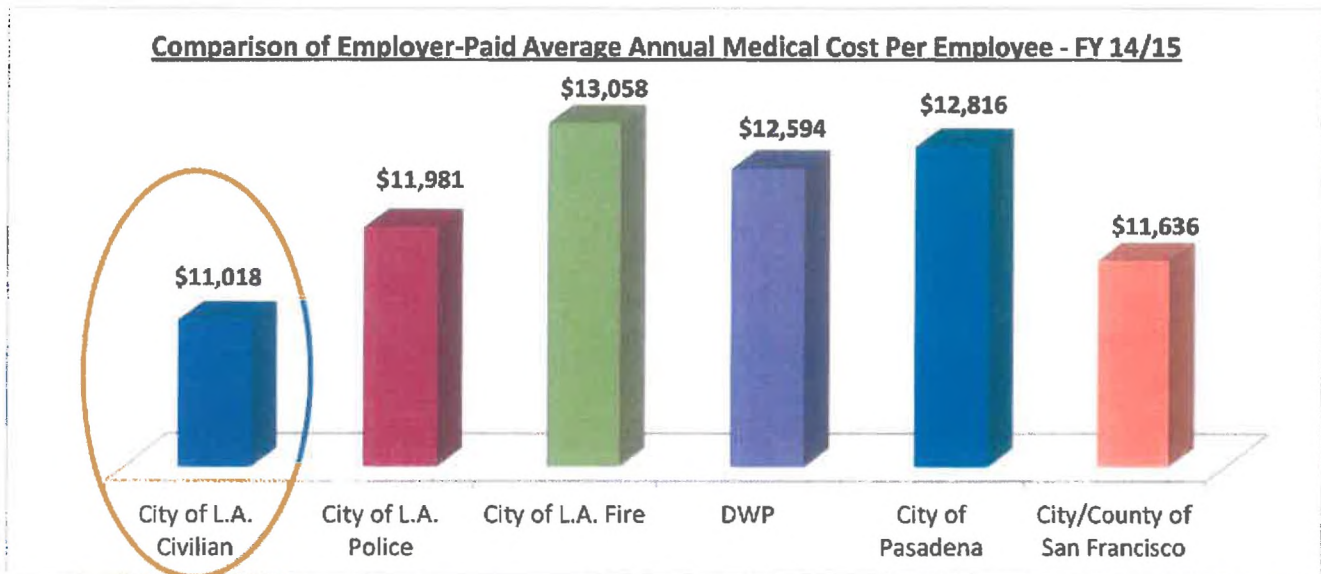
Collectively, these programs create opportunities for eligible City employees to maintain and improve their health and well-being, and to provide financial protections for themselves and their dependents.

Over the course of a series of meetings in May/June of each year, the JLMBC reviews the design of the Flex Benefits Program and evaluates rate renewal proposals from its benefit service providers. The purpose of this evaluation process is to determine whether plan design changes are warranted and whether rate changes are reasonable based on the experience of the Flex population. As part of this process, the JLMBC utilizes the help of Personnel Department staff and its consultants to review the sub-components of the renewal proposals, benchmark the City's plan design and costs against other governmental and non-governmental entities, and assess the budgetary impact of the changes.

For this year's review, the JLMBC reached several findings. First, the costs of the City's Flex Benefits Program compare favorably with other similar agencies. Second, the rate renewals were reasonable based on utilization trends within the City's workforce. And third, no plan design changes should be made this year in advance of certain service provider procurements which will launch mid-year 2015 in preparation for the 2017 Plan Year.

B. BENCHMARKING REVIEW

The JLMBC reviewed benchmarking data supplied by its consultant, Mercer Benefits Consulting ("Mercer") for a range of private and public sector benefit programs, with a particular focus on medical plan design and average annual medical costs. The data indicated that the City's plan design structure is largely consistent with other comparable entities. In terms of average medical cost, the benchmarking review indicated that the Flex Benefits Program compares well relative to other benefit plans within the City of Los Angeles and State of California (see below):



C. RATE RENEWALS

The JLMBC considered renewal proposals from each of its benefit service providers. The City's medical providers (Kaiser Permanente and Blue Shield) both proposed rate increases, while all of the Flex Benefits Program's other service providers (Delta Dental, Standard Insurance, Wageworks and Managed Health Network) proposed no rate increases. Following are highlights from each provider relative to its status and proposal for Plan Year 2016:

Health Plans

Service Provider: Kaiser

- The current Flex staff-model medical insurance provider is Kaiser; staff-model means that Kaiser's services are provided for by its own employees and using its own facilities.
- Kaiser proposed a **4.65%** rate increase for 2016, approximately half the increase projected earlier in 2015 based on prior utilization trends. The increase is in line with Kaiser's average increase of 4.5% in the State of California.

Service Provider: Blue Shield

- The current Flex non-staff-model medical insurance provider is Blue Shield; non-staff-model means that Blue Shield is using contracted physicians and provider groups for its in-network services, and/or providing reimbursements to physicians and provider groups outside of its networks for its PPO plan.
- Blue Shield is proposing an **11.9%** increase for the PPO Plan, and **10.68%** increases for both of the HMO plans. The 11.9% increase for the PPO Plan is the maximum increase available under the current contract, which provides for a rate cap equivalent to that amount, and consistent with current utilization trends.

Dental Plans**Service Provider: Delta Dental**

- The current Flex dental insurance provider is Delta Dental, which offers a PPO, HMO, and Preventive Only plan. Delta uses contracted dentists and provider groups for its in-network services, and/or provides reimbursements to physicians and provider groups outside of its networks for its PPO plan.
- In 2014 Delta Dental agreed to **0%** rate increases for two consecutive plan years (2015 and 2016), so there will be no increase in 2016.

Life/Disability/AD&D Plans**Service Provider: The Standard**

- The current Flex life insurance provider is The Standard, which provides the City's Life Insurance (base benefit and optional supplemental); Short-Term Disability (base benefit) and Long-Term Disability (optional supplemental); and Accidental Death & Dismemberment (AD&D) programs.
- The Standard is proposing a **0%** rate increase for 2016 for all of these programs.

Tax-Advantaged Savings Plans**Service Provider: Wageworks**

- The current Flex tax-advantaged saving plan provider is Wageworks, which provides the City's Dependent Care Reimbursement, Healthcare Flexible Spending, Transportation Savings, and Parking Spending Accounts, which allow employees to set aside pre-tax dollar amounts up to applicable Federal contribution limits to pay for certain qualified expenses.
- Wageworks is proposing a **0%** rate increase for 2016 for these programs.

Employee Assistance Program (EAP)**Service Provider: Managed Health Network**

- The current EAP provider is Managed Health Network (MHN), which provides individual and group counseling services to employees to help them manage a range of personal life challenges and crises, including those related to relationships, finances, addiction, workplace trauma, and other issues.
- MHN is proposing a **0%** rate increase for 2016 for this program.

A summary of all of the 2016 rate renewal proposals as adopted by the JLMBC is summarized as follows:

Benefit Program	Provider	2016 Rate Increase
Health Insurance	Kaiser	4.65%
	Blue Shield	
	- PPO	11.90%
	- HMO (narrow network)	10.68%
	- HMO (full network)	10.68%
Dental Insurance	Delta Dental	0.0%
Life/Disability Insurance	The Standard	0.0%
Accidental Death & Dismemberment Insurance	The Standard	0.0%
Tax-Advantaged Savings	Wage Works	0.0%
Employee Assistance Program	Managed Health Network	0.0%

The City's Flex Benefits Program includes three health plan design structures with different premium-sharing: **Flex Plan** (0% premium-sharing), **Flex Pay 1** (5% premium-sharing), and **Flex Pay 2** (10% premium-sharing). A summary of proposed 2016 health plan premiums and employer/employee contributions for each of the three Flex designs is provided in Attachment A

D. PLAN DESIGN

In recent years the JLMBC has been cognizant of the City's fiscal pressures and the degree to which escalating healthcare costs have contributed to the City's financial problems. The JLMBC has made significant progress in slowing the pace of Flex Benefits Program cost increases through prior changes to plan design (including adjustments to various member co-pays, introduction of a Narrow Network HMO option, and other changes). Most recently, in FY 14/15, the JLMBC and Personnel Department implemented a Dependent Eligibility Verification (DEV) audit for the purpose of removing ineligible dependents from Flex coverage. The audit generated approximately \$5 million in savings in FY 14/15.

Looking forward, the JLMBC will review Flex Benefits Program benefit design in connection with its procurement processes. On June 24, 2015, the City Council adopted a recommendation from the JLMBC to grant authority within the Los Angeles Administrative Code (LAAC) for the Personnel Department to enter into contracts with terms up to five years for Flex Benefits Program service providers. The Council further approved and authorized the Personnel Department General Manager to execute contracts or amendments as applicable, subject to the approval of the City Attorney, for certain Flex Benefits Program service providers in order to conform to a Master Procurements and Contracting Schedule as developed by the JLMBC.

The intent of the JLMBC in requesting these authorities and creating its Master Procurements and Contracting Schedule was to provide for greater efficiency, transparency and utilization of

best practices in its procurements and contracting processes. These efforts will begin with the launch of procurements for medical and dental service providers in 2015, with final selections to be made in 2016 for the 2017 Plan Year. Given the proximity of these procurements, and given the considerable plan design and cost-saving changes the JLMBC has implemented in prior years, the JLMBC is not proposing any benefit design changes in Plan Year 2016, with one exception: progress towards development and implementation of a robust Wellness Program.

Wellness Program - The JLMBC is actively focused on developing a Wellness Program for the City's Flex Benefits population. Well-designed Wellness Programs provide opportunities to encourage behaviors supportive of individual health, maintain a competitive benefits package, help foster a positive work environment. The JLMBC has created an Ad Hoc Wellness Subcommittee to consider Wellness strategies used by other employers and develop recommendations as to the design and funding of a sustainable Wellness Program. The Wellness Subcommittee has been meeting frequently and the JLMBC is expected to consider and adopt its proposals in 2015.

E. FLEX PLAN PROJECTED EXPENDITURES FY 15-16/FISCAL IMPACT

The City budgets for the Flex Benefits Program on a Fiscal Year basis. As a result, the projected expenditures for Fiscal Year 15-16 Flex Plan represent a combination of premiums for both Plan Years 2015 and 2016. Based on existing 2015 premiums and 2016 adjustments as indicated in this report, the total expected General Fund expenditure for FY 15-16 is expected to be approximately **\$236,879,831**. Actual expenditures will be impacted by net total enrollment (which is a function of the relationship between new participants and ongoing attrition) and individual benefit elections (which will change in January following open enrollment activities between October and December 2015). The budget may also be impacted by any adjustments required relative to implementation of the Employer Shared Responsibility provisions of the Affordable Care Act (ACA).

CONCLUSION

The recommended 2016 Flex Benefits Program balances the goals of promoting employee health/wellness and providing competitive benefits at a reasonable level relative to the City's financial capacity. The JLMBC respectfully requests that the City Council approve the 2016 Flex Benefits Program.

2016 CIVILIAN FLEX HEALTH PLAN MONTHLY PREMIUMS

		FLEX PLAN (0% Contribution)		FLEX PAY 1 (5% Contribution)		FLEX PAY 2 (10% Contribution)	
		City (Employer) Cost	Employee Cost	City (Employer) Cost	Employee Cost	City (Employer) Cost	Employee Cost
Medical Plan Options:							
2016 Total Monthly Premium							
Kaiser HMO							
EE Only	\$569.26	\$569.26	\$0.00	\$540.80	\$28.46	\$512.34	\$56.92
EE+Spouse	\$1,252.28	\$1,252.28	\$0.00	\$1,189.66	\$62.62	\$1,127.06	\$125.22
EE+Child(ren)	\$1,138.54	\$1,138.54	\$0.00	\$1,081.62	\$56.92	\$1,024.68	\$113.86
EE+Family	\$1,480.04	\$1,480.04	\$0.00	\$1,406.04	\$74.00	\$1,332.04	\$148.00
Blue Shield							
Narrow Network							
EE Only	\$531.32	\$531.32	\$0.00	\$504.76	\$26.56	\$478.18	\$53.14
EE+Spouse	\$1,167.46	\$1,167.46	\$0.00	\$1,109.08	\$58.38	\$1,050.72	\$116.74
EE+Child(ren)	\$1,057.78	\$1,057.78	\$0.00	\$1,004.90	\$52.88	\$952.00	\$105.78
EE+Family	\$1,452.04	\$1,452.04	\$0.00	\$1,379.44	\$72.60	\$1,306.84	\$145.20
Blue Shield Full							
Network HMO							
EE Only	\$810.00	\$531.32	\$278.68	\$504.76	\$305.24	\$478.18	\$331.82
EE+Spouse	\$1,780.84	\$1,167.46	\$613.38	\$1,109.08	\$671.76	\$1,050.72	\$730.12
EE+Child(ren)	\$1,612.74	\$1,057.78	\$554.96	\$1,004.90	\$607.84	\$952.00	\$660.74
EE+Family	\$2,213.42	\$1,452.04	\$761.38	\$1,379.44	\$833.98	\$1,306.84	\$906.58
Blue Shield PPO							
EE Only	\$808.20	\$808.20	\$0.00	\$767.78	\$40.42	\$727.38	\$80.82
EE+Spouse	\$1,785.60	\$1,480.04	\$305.56	\$1,406.04	\$379.56	\$1,332.04	\$453.56
EE+Child(ren)	\$1,549.14	\$1,480.04	\$69.10	\$1,406.04	\$143.10	\$1,332.04	\$217.10
EE+Family	\$2,025.02	\$1,480.04	\$544.98	\$1,406.04	\$618.98	\$1,332.04	\$692.98