



Office of the City Manager

CONSENT CALENDAR  
December 18, 2007

To: PK Honorable Mayor and Members of the City Council

From: PK Phil Kamlarz, City Manager

Submitted by: David W. Hodgkins, Director of Human Resources

Subject: Health Plan Rate Increases

RECOMMENDATION

Rescind Resolution No. 63-549-N.S. and adopt Resolutions effective January 1, 2008 through December 31, 2008:

- 1) Approving a 4% rate increase for the Kaiser Foundation Health Maintenance Organization (HMO) health plan for Active Employees, an 11.0% rate increase for Pre-Medicare Eligible Retirees, and a rate reduction of 4.18% for Senior Advantage (Medicare Supplement) Retirees; and
- 2) Approving a 24.05% rate increase for the Health Net HMO health plan for Active Employees, a 24.05% rate increase for Pre-Medicare Eligible Retirees, a 13.3% rate increase for Seniority Plus (Medicare Supplement) Retirees, a 0% change for the Health Net Point of Service (POS) for Active Employees and Pre-Medicare Eligible Retirees, and a 10.2% increase for Health Net POS Post-65 Retirees

FISCAL IMPACTS OF RECOMMENDATION

Health plan premium rates are adjusted on a calendar year basis. Total estimated health insurance premium costs for fiscal year 2008 is \$14,720,000, which includes \$7,854,000 for Kaiser and \$6,866,000 for Health Net (fiscal year 2008 includes the final six months of calendar year 2007 and the first six months of calendar year 2008). This represents an increase of \$1,632,000 or approximately 12.47% in premium costs over fiscal year 2007.

Funding for the health premium increases for Active Employees from January 1 to June 30, 2008 is included in the fiscal year 2008 budget. Funding for July 1, 2008 to December 31, 2008 will be included in the fiscal year 2009 budget. The Payroll Deduction Trust Fund, budget code 930-9701-410-2011, provides for this premium increase.

Original contract amount	\$13,088,000
Proposed increase	\$1,632,000
Total new contracts amount	\$14,720,000
Budget codes:	
930-9701-410-2011	\$13,088,000
Proposed increase - 930-9701-410-2011	\$1,632,000

Total expense budget for contracts \$14,720,000

Funding for the health premium increases for Pre-Medicare Eligible Retirees and Post-65 Retirees comes from the Retiree Health Premium Assistance Plan Trust, and is capped at a 4.5% increase annually. Any amount above the funding from the Trust will be provided by the Pre-Medicare Eligible Retirees and Post-65 Retirees as an out-of-pocket expense.

**CURRENT SITUATION AND ITS EFFECTS**

The City currently has contracts with Health Net and Kaiser to provide health benefits for all benefited employees. Kaiser and Health Net quoted the City in late October Health Insurance Premium Rates for 2008. Kaiser quoted a 4.0% increase for active employees, an 11.0% increase for the Pre-Medicare retiree group, and a rate reduction of 4.18% for the Post-65 Senior Advantage retiree group. Health Net quoted a 25.4% increase for the Active Employee and Pre-Medicare retiree groups, a 13.3% increase for the Post-65 Seniority Plus group, no change for the Active Employee and Pre-Medicare retiree POS group, and a 10.2% increase for the Post-65 retiree POS group.

Staff tried to renegotiate with Health Net to reduce the increase, but in the end Health Net would not go any lower than a 24.05% increase. Health Net justified the rate increase based on data that the City's HMO group and Post-65 Seniority Plus group have been operating at a loss for a significant period of time. Health Net was unable to match or even come close to the Kaiser rate and acknowledged that given the significant rate increase, an exodus of membership would likely result since the City pays only up to the Kaiser premium in full and employees must pay any difference in premiums out-of-pocket.

The 2008 rates for Active Employees will be:

<b>Active Employees</b>	<b>Coverage Level</b>	<b>2007 Monthly Premium Rate</b>	<b>2008 Monthly Premium Rate</b>
Kaiser HMO	Single	\$405.08	\$421.28
	Two Party	\$810.15	\$842.56
	Family	\$1,077.50	\$1,120.60
Health Net HMO	Single	\$436.39	\$541.34
	Two Party	\$869.74	\$1,078.91
	Family	\$1,155.61	\$1,433.53
Health Net POS	Single	\$755.59	\$755.59
	Two Party	\$1,586.70	\$1,586.70
	Family	\$2,266.91	\$2,266.91

Employees enrolled in a health plan with premiums higher than Kaiser's rates must pay the difference in cost of the premium. Because the Kaiser premiums only increased 4% while the Health Net premiums increased 24.05%, the net effect is an almost 400% increase to the employee's out-of-pocket expense:

Health Net HMO Coverage Level	2007 Monthly Premium Rate	City Contracted Payment Amount	Employee Out-of-pocket Expense	2008 Monthly Premium Rate	City Contracted Payment Amount	Employee Out-of-pocket Expense
Single	\$436.39	\$405.08	\$31.31	\$541.34	\$421.28	\$120.06
Two Party	\$869.74	\$810.15	\$59.59	\$1,078.91	\$842.56	\$236.35
Family	\$1,155.61	\$1,077.50	\$78.11	\$1,433.53	\$1,120.60	\$312.93

The 2008 rates for Pre-Medicare Retirees will be:

Pre-Medicare Retirees	Coverage Level	2007 Monthly Premium Rate	2008 Monthly Premium Rate
Kaiser HMO	Single	\$510.73	\$566.91
	Two Party	\$1,021.46	\$1,133.82
	Family	\$1,445.37	\$1,604.36
Health Net HMO	Single	\$621.76	\$771.29
	Two Party	\$1,239.19	\$1,537.22
	Family	\$1,646.49	\$2,024.47
Health Net POS	Single	\$983.78	\$983.78
	Two Party	\$2,065.90	\$2,065.90

And the 2008 rates for Post-65 Retirees will be:

Post 65 Retirees	Coverage Level	2007 Monthly Premium Rate	2008 Monthly Premium Rate
Kaiser Senior Advantage	Single	\$368.76	\$353.34
	Two Party	\$737.52	\$706.68
	Family	\$1,161.43	\$1,112.87
Health Net Seniority Plus	Single	\$227.00	\$257.20
	Two Party	\$454.00	\$514.40
	Family	\$848.76	\$966.56
Health Net POS	Single	\$330.44	\$364.14
	Two Party	\$660.88	\$728.29

### BACKGROUND

The City has three (3) group health plans for employees: 1) Kaiser HMO, 2) Health Net HMO and 3) Health Net POS plans. The City has a contractual obligation to pay the equivalent of the basic Kaiser rates, including eligible dependents, for all benefited employees. Employees enrolled in a health plan with premiums higher than Kaiser's rates must pay the difference in cost of the premium. For example, the difference between the Kaiser HMO family rate and the Health Net HMO family rate is \$312.93.

The exception to this rule is the City pays the full premium for employees represented by SEIU Local 790 and IBEW Local 1245 who were enrolled in a health plan with premiums higher than Kaiser's rates prior to January 1, 2003. All employees represented by either SEIU Local 790 or IBEW Local 1245 hired after January 1, 2003, are required to pay the difference between the Kaiser HMO and the Health Net rates.

Separately, the City offers three group health plans for retirees (Kaiser, Health Net HMO, and Health Net POS). Employees who retired prior to July 1, 1998, pay the full cost of the health insurance premium. Employees who retired after July 1, 1998, who meet certain eligibility criteria, are eligible for benefits under the City's Retiree Health Premium Assistance Plan.

Under the City's Retiree Health Premium Assistance Plan, the City pays a portion of the employee's health insurance premiums, the amount prorated based on the employee's years of service. The City's contribution is also limited to the Kaiser rate in effect in 1998, increased by 4.5% each year. The retiree pays the difference between the City's monthly contribution and the actual monthly insurance premium charged by the health plan he or she has elected for retiree medical coverage.

### RATIONALE FOR RECOMMENDATION

Health insurance is an employee benefit required under various collective bargaining agreements with the City.

### ALTERNATIVE ACTIONS CONSIDERED

Staff and representatives from each of the unions formed the Medical Cost Containment Committee and have been meeting over the past 6 months to examine the issues around the recent rise in medical costs in an effort to come up with recommendations for the City. Other health plan carriers are not prepared to offer all of the options needed to cover our vast retiree group, so we must come up with other creative alternatives.

### CONTACT PERSON

David W. Hodgkins, Director of Human Resources, Human Resources, (510) 981-6805

Attachments:

- 1 Resolution Kaiser
2. Resolution - HealthNet

RESOLUTION NO. -N.S.

AUTHORIZING RATE INCREASES FOR THE KAISER FOUNDATION HEALTH PLAN EFFECTIVE JANUARY 1, 2008, THROUGH DECEMBER 31, 2008

WHEREAS, the City pays for the full health insurance premiums for all employees enrolled under the Kaiser Health Maintenance Organization (HMO) health plan.

NOW THEREFORE, BE IT RESOLVED that the Council of the City of Berkeley hereby approves a rate increase of 4% for all Active Employees enrolled under the Kaiser Foundation HMO Health Plan, an 11.0% rate increase for all Pre-Medicare Retirees, and a -4.18% rate decrease for all Post-65 Retirees effective January 1, 2008, through December 31, 2008, as follows:

Active Employees Kaiser HMO Group - \$0 office visits, \$5 RX	City Pays	Employee Pays	Total
Single	\$ 412.28	-0-	\$ 421.28
Two Party	\$ 842.56	-0-	\$ 842.56
Family	\$ 1,120.60	-0-	\$1,120.60
Kaiser Pre-Medicare Retiree Group - \$5 office visits, \$5 RX			
Single	\$247.07	\$319.84	\$566.91
Two Party	\$494.14	\$639.68	\$1,133.82
Family	\$494.14	\$1,110.22	\$1,604.36
Kaiser Post-65 Retirees Senior Advantage - \$5 office visits, \$5 RX			
Single	varies	varies	\$343.34
Two Party			\$706.68
Family			\$1,112.87

BE IT FURTHER RESOLVED that a record signature copy of said contract and any amendments reflecting these rate increases to be on file in the Office of the City Clerk.

RESOLUTION NO. -N.S.

AUTHORIZING RATE INCREASES FOR HEALTH NET HEALTH PLANS EFFECTIVE JANUARY 1, 2008 THROUGH DECEMBER 31, 2008

WHEREAS, the City pays for the health insurance premiums for the Health Net Health Maintenance Organization (HMO) and Health Net Select Point Of Service (POS) plans up to the equivalent of the Kaiser HMO plan rate for all employees except employees under SEIU Local 790 and IBEW Local 1245 enrolled prior to January 1, 2003; and

WHEREAS, the City pays the full premium for the Health Net HMO and Health Net Select POS plans for SEIU Local 790 and IBEW Local 1245 enrolled prior to January 1, 2003.

NOW THEREFORE, BE IT RESOLVED that the Council of the City of Berkeley hereby approves a rate increase of 24.05% for the Health Net HMO plan for Active Employees, a rate increase of 24.05% for Pre-Medicare Retirees, a 13.3% rate increase for Post-65 Retirees, and a 0% rate change for Health Net Select POS Plan for both groups effective January 1, 2008 through December 31, 2008.

Health Net HMO Group # 70077 \$15 office visit, \$10/\$20/\$35 RX	City Pays	Employee* Pays	Total
Single	\$ 421.28	\$120.06	\$ 541.34
Two Party	\$ 842.56	\$236.35	\$1,078.91
Family	\$ 1,120.60	\$312.93	\$ 1,433.53

Health Net Select Point of Service Group # 40618 \$15 office visit, \$10/\$20/\$35 RX	City Pays	Employee* Pays	Total
Single	\$ 421.28	\$ 334.31	\$ 755.59
Two Party	\$ 842.56	\$ 744.14	\$1,586.70
Family	\$ 1,120.60	\$1,146.31	\$2,266.91

Pre-Medicare Retiree Health Net HMO Group # 70077 \$15 office visit, \$10/\$20/\$35 RX	City Pays	Employee* Pays	Total
Single	\$ 247.07	\$524.22	\$771.29
Two Party	\$ 494.14	\$1,043.08	\$1,537.22
Family	\$ 494.14	\$1,548.33	\$2,042.47

Pre-Medicare Retiree Health Net Select POS Group #  
40618

\$15 office visit, \$10/\$20/\$35 RX

Single	\$ 247.07	\$736.71	\$ 983.78
Two Party	\$ 494.14	\$1,571.76	\$2,065.90
Family	494.14	\$2,457.40	\$2,951.54

Post-65 Retirees Seniority Plus Group \$15 office  
visit, \$10/\$20/\$35 RX

Single	varies	varies	\$257.20
Two Party	varies	varies	\$514.40

Post-65 Retirees POS Group #40618 \$15 office  
visit, \$10/\$20/\$35 RX

Single	varies	varies	\$364.14
Two Party	varies	varies	728.29

\* all employees except Locals 790 & 1245 enrolled prior to 1/1/03

BE IT FURTHER RESOLVED that a record signature copy of said contract and any amendments reflecting these rate increases to be on file in the Office of the City Clerk.

