



Human Resources Department

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TO: Common Council

FROM: Bradley Wirtz—Human Resources Director
Greg Leifer—Employee and Labor Relations Manager

DATE: August 22, 2014

SUBJECT: Health Insurance

Resolution #35048 is being proposed to move most employees into a modified health insurance plan under the State of Wisconsin Group Health Insurance Program for Local Employers. Currently, employees participate in the plan and while employees share in the premium costs as dictated by Act 10, employees are not required to pay a deductible or co-insurance costs to use the plan. The modified plan is identical to the current plan with the exception of the inclusion of 90/10 coinsurance with maximum annual deductibles of \$500 for single plans and \$1000 for family plans. If the BOE would like to keep this option open it will need to be referred a special meeting of the BOE at 5:00pm on September 2nd as action must be taken by the Common Council at the meeting on September 2nd in order to enact this modification.

The right to make this change was negotiated through the collective bargaining process under pre Act 10 conditions. In 2013, the City entered into collective bargaining negotiations with the various unions representing employees. The agreements that were in place from 2011 thru March 2014 included the following language: "Benefits provided under the health insurance plans may not be changed by the City without agreement of the parties."¹ New contracts were negotiated and ratified by the union memberships and the City Council. Under the new contracts, the language states, "Beginning January 1, 2015, the City may also utilize alternative options for health insurance plan design. The City will meet and confer with the Union prior to utilization of alternative options." The City bargained the right to make this change in good faith and in exchange for other benefits including guaranteeing no reduction in wages. This language very clearly indicates that the City would be considering taking such measures in 2015, but it also provides a guarantee that we will meet and confer prior to *utilization*. The City, through Employee and Labor Relations Manager, Greg Leifer, began meeting with the Unions about this modification in July of this year. We would like to make it very clear that we feel we have followed the appropriate procedure in every way, first by collectively bargaining the right to make this modification and then by following the language of the collective bargaining agreement to the letter.

In early 2014, the HR Director and Finance Director recommended changing to the 90/10 coinsurance plan, as outlined in the resolution under consideration. The reasons for going into the 90/10 plan are as follows:

¹ This language is taken from the AFSCME Local 60 General Unit contract with the City, but the other agreements contained similar language.

- This plan provides the least disruptive change in terms of cost. While employees may be responsible for some out-of-pocket costs, it is at a percentage of the total cost, instead of a deductible where employees are responsible for 100% of the up-front costs until a certain dollar limit. For example, if an employee has a medical procedure that costs \$1000, under the deductible family plan, the employee would be responsible for the full \$1000, whereas under the plan being considered today, the employee would only be responsible for \$100, or 10% of the total cost. In addition, the premiums for this plan are approximately 5% lower than what employees (and the City) pay under the current plan.
- This allows the City to avoid potential penalties under the Affordable Care Act for having a “Cadillac” plan. While the Cadillac tax may not be in effect until 2018, we firmly believe that we must be proactive to avoid this liability. In order to avoid the liability we need to do more than just shift costs to the employee, we need to begin modifying the behaviors of our employees in order to bend the cost curve to be more in line with the cost of living. This is a difficult task that will require a number of years to fully address and it begins with employees recognizing that there are costs associated with health care and that behavior changes can allow them to avoid those costs and live a longer and healthier life. We also believe that if we avoid making these tough decisions now we are setting ourselves up to have to consider much more draconian modifications to health insurance in just a few years.
- The costs incurred under this plan can be offset by placing money in a flexible spending account. Employees save approximately \$0.30 in taxes for every \$1 placed in flex spending, reducing the overall amount of out-of-pocket costs.
- The premiums for the City and employees are approximately 5% less expensive. Given that our current health insurance costs have reached about 37 million dollars annually, this modification is projected to reduce overall costs by about 1.85 million dollars annually. We would like to use a portion of this money to increase opportunities for employees through an investment in employee wellness, which will continue to hold costs down while incentivizing healthier behaviors and improving the lives of employees. This includes increased biometric screenings for employees (which includes a \$150 payment from the HMO, which can be used to offset the additional cost of the deductible plan), potentially hiring a full-time wellness specialist, and other wellness efforts. Through the investment in wellness, it is hoped that employees would have less of a need to access the health insurance, thus limiting the out-of-pocket expense. Other incentives may be developed for employees to help offset the costs of insurance, by engaging in wellness activities.
- Preventative care including physicals, continue to be covered at 100%. A large portion of our employees will not see an increase in medical costs because they do not have reason to access the health insurance beyond routine preventative care.
- In 2014, the Group Insurance Program for all State Employees was modified in a similar fashion to require employees to either enroll in a deductible plan where the first \$500 (single) or \$1000 (family) of costs is paid out of pocket by the employee, or a coinsurance plan, where employees would be required to pay a percentage of care up to \$500 (single) or \$1000 (Family). This provides consistency with what State employees are expected to pay for health insurance thereby reducing the incentive for employees with spouses who work for the State to opt for City’s insurance.

If you have any questions regarding this memo, please feel free to contact Greg Leifer or Brad Wirtz at 266-4615.