

MEMO

To: Members of Committee on Employee Relations

From: City of Madison General Employees Associations - Local 6000, Local 236, MPSEA and MCAA

Re: Health Insurance Plan Design, CER Agenda item # 39320

We are writing to provide information regarding resolution #39320.

Since our last meeting, the employee associations and the administration have conferred to jointly develop this resolution that was introduced on Tuesday of this week. It calls for: a transition to the \$500/\$1000 deductible health care plan effective 1/1/2016, the annual prospective funding of legally established VEBA plans at an amount equal to 1.25% of wages commencing in December of 2016; a floor for wage increases of 2.25%, 1%, 1%, and 1% for each of the next four years respectively; a 1.15% increase, implemented at some point over the next four years; and a promise to maintain pay equity between the affected groups and others. We support this resolution and ask the Committee on Employee Relations to recommend it to the Common Council.

However, since the introduction of this resolution, the parties have become aware of a significant increase in the cost of healthcare for the City's employees that concomitantly provides a significant reduction in the cost of healthcare for the City. Whereas for the past several years the Unity UW Health HMO plan has been offered without any premium share requirement on the part of employees who chose that lowest-cost option, effective 1/1/2016 the roughly 65% of the City's employees who opt for the low-cost Unity plan will be required to pay about 5% of the premiums and the City will pay 5% less of those premiums. The dollar amount of this cost shift from employer to employee, as a result of the complicated averaging formula, is \$354 for a single plan holders and \$842 for family plan holders.

We are concerned that this new cost to employees creates a new and unanticipated burden, that is different from when the above framework was developed, and that must be addressed. Although we continue to support this resolution, we ask that the Committee on Employee Relations recommend to the City's elected officials the assignment of, at a minimum, the unassigned 1.15% wage increase to a payment date no later than July 1, 2016.

Thank you for your careful consideration of this important matter.

Example of the Effect of Wage and Health Care Changes on Employee Take-Home Compensation in Calendar Year 2016

Using a \$45,000 annual salary as an example, a change to the \$500s/\$1000 health care plan on top of the prescription drug change and premium share changes will leave the employee with a significant potential permanent take-home pay cut. Although the use of a flexible spending plan to shelter these new expenditures from taxes will help, the employee's tax savings are typically in the lower 20%.

2.25% Wage Increase Based on Annual Salary of \$45,000	\$1,012.50
New Deductible Costs	-\$1,000.00
New Prescription Drug Costs	-\$380.00
New 5% Premium Contribution	-\$842.00
Total Wage Impact on Average Employee	(\$1,210)

December 2015 2.25% Wage Increase Based on Annual Salary of \$45,000	\$1,012.50
December 2015 1.15% Wage Increase Based on Annual Salary of \$45,000	\$517.50
New Deductible Costs	-\$1,000.00
New Prescription Drug Costs	-\$380.00
New 5% Premium Contribution	-\$842.00
Total Wage Impact on Average Employee	(\$692)

December 2015 2.25% Wage Increase Based on Annual Salary of \$45,000	\$1,012.50
July 2016 1.15% Wage Increase Based on Annual Salary of \$45,000	\$258.75
New Deductible Costs	-\$1,000.00
New Prescription Drug Costs	-\$380.00
New 5% Premium Contribution	-\$842.00
Total Wage Impact on Average Employee	(\$951)