

City of Minneapolis

Benefits Analysis Report

January 4, 2008

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EXECUTIVE SUMMARY

In August 2006, the Executive Committee of the Minneapolis City Council directed the Finance and Human Resources Departments to conduct an analysis of the City's total compensation program. The Finance Department took the lead in analyzing direct compensation and presented its findings at a Council Study Session on February 16, 2007, which are documented in the *March 7, 2007, Compensation Analysis Report*.

This report is a follow-up to the Finance Department study and is intended to provide an analysis of the City's competitive position regarding indirect compensation plans, excluding those that are legally mandated.

Recent Healthcare Plan Changes for the City of Minneapolis

In January 2003, the Benefits sub-committee of the Citywide Labor Management Committee began to explore changes to the City's healthcare benefit offerings and funding methods. As a result, effective January 1, 2004, the City implemented major healthcare plan changes.

To better reflect the actual cost of healthcare services, the new plan designs replaced flat-dollar copayment amounts with deductibles and coinsurance amounts. The City also introduced a high-deductible plan option, which has attracted an increasingly larger share of enrollments (66% in 2004 and 85% in 2007).

The new plan designs also included an employer-funded Health Reimbursement Arrangement (HRA). The HRA provides both short- and long-term value-added benefits to employees and the City by:

- Helping to offset increased employee costs resulting from the other changes.
- Protecting a portion of the City's healthcare costs from medical inflation.
- Providing a vehicle for employees to fund current and future retiree medical expenses. Note: Eligible employees have accumulated approximately \$11 million in their HRA accounts.
- Providing flexibility in future plan design decisions.

Over time, the changes described above have **slowed increases** in healthcare costs for the City. From 2006 to 2007, the City's total healthcare cost per employee increased by only 9.4%, compared to an increase of almost 22% from 2002 to 2003.

Data Sources

To compare the City's indirect compensation program to those offered by private and public sector employers in the Twin Cities, this analysis used data from two surveys:

- A special *Health Plan Benchmark Report for City of Minneapolis* was prepared by Mercer from their *2006 National Survey of Employer-Sponsored Health Plans*. The survey group included in this report includes 95 cities nationwide plus 63 public and private Twin Cities area employers. Data from this report was used to analyze overall cost and prevalence.
- The *2006 State of Minnesota and Minnesota Law Enforcement Association (MLEA) Compensation and Benefits Survey of Twin Cities Area Public Employers* was used to analyze overall and individual cost and prevalence. The survey group includes the City of Minneapolis and 29 other Twin Cities area government entities.

The City spends more on healthcare than on any other voluntary or legally-mandated benefit. Therefore, the major focus of this analysis is on healthcare benefits. The analysis:

- Compares features of the City’s healthcare plans to the features of the healthcare plans offered by both public and private sector employers, and
- Calculates and compares total employee and employer costs of the healthcare plans offered by 30 public employers included in the 2006 MLEA survey.

The following tables provide a comparative summary of the City’s healthcare plans relative to the 2006 MLEA survey of public-sector employers. Please note that, when applicable, the Relative Cost columns provide the City’s rankings relative to the other cities included in the survey.

BENEFIT CATEGORY	PREVALENCE		RELATIVE COST TO CITY EMPLOYEE	RELATIVE COST TO CITY
	CITY	OTHER CITIES OFFERING (%)		
Health insurance				
Cafeteria Plan	N/A	42% offer	N/A	N/A
Single Premium Cost Sharing*	Yes	14% require	Ranking: 14 th	Ranking: 2 nd
Family Premium Cost Sharing**	Yes	100% require	Ranking: 1 st	Ranking: 26 th
Health reimbursement/savings accounts	Yes	7% offer (two employers)	(\$840) Single (\$1,860) Family	\$840 Single \$1,860 Family
Overall Healthcare	Yes – Competitive offerings	100% offer	Ranking*: 4 th	Ranking*: 18 th
Dental insurance	Yes	Yes, but most require employee premiums	Solely plan design cost-sharing, No premium cost sharing	\$596 per employee per year
Life insurance	Yes	100%, most provide higher levels if basic coverage	Cost of any supplemental and or dependent coverage;	\$9 per employee per year
<p><i>*City’s Medical Plan Option 4, based on employee premium plus estimated out-of-pocket costs and including the effect of an HRA contribution; rankings are based on lowest to highest costs.</i></p> <p><i>**City’s Medical Plan Option 4, weighted average based on Single/Family election.</i></p>				

Key Assumptions of the 2006 MLEA Survey

Because healthcare usage is unique to each person, the 2006 MLEA survey used a “typical” person/family for comparative analysis. A “typical” person was defined as one who utilizes mainly physician and pharmacy services at the average rates experienced per person for a very large and representative population (130,000+ members). The average per person utilization rates were adjusted to represent average family utilization. Sensitivity testing was performed to validate the reasonableness and potential impact of utilization profile estimates on overall conclusions.

Key Findings of the 2006 MLEA and Mercer Surveys

Key findings of the analysis are provided below:

- The City’s healthcare plan design, premium cost sharing and HRA contribution strategies provide employees with generous benefit coverage at a competitive cost to the City and to employees.
- Based on methodology developed for the 2006 MLEA survey that takes into account premiums, out-of-pocket expenses and cafeteria/HRA/HSA contributions:
 - On average, City employees with “typical” utilization profiles experience the fourth lowest annual healthcare cost of the 30 public employers included in the 2006 MLEA survey; \$203 per year vs. an average of \$1,924 per year for the 29 other surveyed employers.
 - A “typical” City employee who elects single coverage experiences the 14th lowest healthcare costs of all surveyed employers; (\$167) per year vs. an average of (\$814) per year for the 29 other surveyed employers.
 - A “typical” City employee who elects family coverage experiences the lowest healthcare costs of all surveyed employers; \$494 per year vs. an average of \$4,084 per year for the 29 other survey employers.
 - On average, City employees who reach the health plan’s out-of-pocket maximums experienced the second lowest total healthcare cost of the 30 employers surveyed; \$1,845 per year vs. an average of \$4,591 per year for the 29 other surveyed employers.
 - A City employee who elects single coverage experiences the 17th lowest healthcare costs of all surveyed employers; \$1,015 per year vs. an average of \$719 per year for the 29 other surveyed employers.
 - A City employee who elects family coverage experiences the lowest healthcare costs of all surveyed employers (\$2,501 per year vs. a group average of \$7,646 per year).
 - At \$8,020, the City’s share of annual healthcare cost was only 3.6% higher than the survey average of \$7,742.

The City was an early adopter of the relatively **new but growing trend** towards consumer driven healthcare plans (CDHPs).

- o According to narrative provided in the 2006 Mercer survey, from 2005 to 2006, "...CDHP offerings rose from 5% to 11% among all large employers and from 22% to 37% among employers with 20,000 or more employees..."
- o In 2006, only 10% of 2006 MLEA survey participants, 11% of Mercer Cities employers and 30% of Mercer Twin Cities employers reported adopting a CDHP.

- The **City's practice of sharing premium costs** with employees on a percentage basis differs from the practice of most other Twin Cities area public employers.
 - o 25 of the 29 other public employers included in the 2006 MLEA survey pay the full cost of single medical coverage.
 - o 11 of those employers utilize cafeteria plans and provide a fixed level of funding for each employee regardless of whether single coverage or family coverage is elected.

- The **City's dental plan cost** is approximately 25% lower than the dental plan cost of other 2006 MLEA survey participants.
 - o The City plan's annual deductible is higher (\$50 vs. \$25) and its annual maximum benefit is lower (\$750 or \$1,000 vs. \$1,500) than the median amounts reported by other 2006 Mercer and MLEA survey participants.
 - o The fact that City employees do not contribute toward dental coverage improves this competitive positioning.

- The **City-paid life insurance** coverage amount of \$10,000 is significantly lower than coverage amounts provided by most other public employers. The median amount reported in the 2006 MLEA survey was \$20,000.