

CITY OF GAINESVILLE STAFF ANALYSIS

Legistar No: 170070

Title: Health Insurance Rates

Sponsor: Risk Management & Budget & Finance

City Staff Contact: April Shuping, Finance Director

Summary of Issue

The City's self-insured Health Insurance fund is experiencing negative financial trends. Options for correcting the trend include increasing rates, reducing benefits and/or a significant cash infusion to the fund.

History/Background Information

As part of the five year financial forecast, staff works with Risk Management to determine the rates required for the General Insurance fund and Employee Health Insurance fund. Both funds are self-insured by the City. The Health Insurance fund pays for claims from employees, beneficiaries and retirees.

While the General Insurance fund has a fund balance well in excess of required levels, the Health Insurance fund has seen its fund balance eroded quickly by an unexpected increase in claims expense.

	Health Insurance Fund		General Insurance Fund	
	Gain/(Loss)	Unrestricted Net Assets	Gain/(Loss)	Unrestricted Net Assets
FY2010	(873,890)	2,578,964	(138,673)	4,623,305
FY2011	3,581,906	6,162,051	339,035	4,964,621
FY2012	(783,654)	5,378,813	782,936	5,739,749
FY2013	(1,218,887)	4,160,230	(178,571)	5,560,237
FY2014	(1,157,289)	3,002,941	(182,782)	5,389,951
FY2015	(508,502)	2,395,317 *	(623,492)	3,767,055 *
FY2016	(1,314,459)	1,188,801	39,619	3,322,484

* Unrestricted Net Assets had a one-time adjustment for implementation of GASB 67/68.

While rates have increased by at least 5% for six of the last seven years, claims have increased at a higher and less predictable pace.

	Health Insurance Fund		Annual Change	
	Premiums	Claims	Premiums	Claims
FY2010	17,771,455	17,320,626	7.79%	24.59%
FY2011	19,340,913	14,692,609	8.83%	-15.17%
FY2012	18,965,422	19,219,917	-1.94%	30.81%
FY2013	20,329,236	20,657,769	7.19%	7.48%
FY2014	21,229,195	22,466,739	4.43%	8.76%
FY2015	22,321,730	22,027,528	5.15%	-1.95%
FY2016	23,378,654	24,243,565	4.73%	10.06%

If the Health Insurance fund experiences a similar loss in FY2016, unrestricted net assets will be completely depleted. Without an alternate approach, to ensure the continued fiscal stability of this fund will require a 20% increase to rates in FY 2018, followed by 10% annual rate increases over the remainder of the forecast period.

In addition to the impact on the City and Utility's expenses for the employer share (estimated at almost \$1 million to the General Fund in FY 2018), a 20% rate increase would result in increases to employees between \$40 and \$147 per month. The \$147 per month rate change for family coverage would reduce take home pay (assuming a 2.5% raise) for all employees making below \$71,000 per year.

Options

- Rate increases shared between City and employees/retirees
- Rate increases covered fully (or in a higher share) by the City
- Reduction in benefits
- One-time funding infusion shared by General Government and GRU

Staff Recommendation

- Continue to make incremental changes to benefits based on Risk Management analysis of claims and industry trends.
- Continue to educate employees and retirees on efficient use of benefits to control claims costs.
- Implement 10% premium increases for forecast period beginning in FY 2018.
- Approve one-time cash infusion of \$2 million to the Health Insurance fund shared between General Government and GRU based on pro rata premiums paid in FY 2016.
 - \$833,000 GRU
 - \$1,167,000 GG
 - GG share to be paid from the General Insurance fund which has excess fund balance generated from amounts paid in by General Government funds (GRU only contributes based on claims and does not share in the gain/loss for that fund).
- Continue to monitor both funds for fiscal health and trends and adjust rates and benefits annually as necessary.

Cc: Steve Varvel, Risk Management Director
Betty Baker, Executive Chief of Staff
Ed Bielarski, General Manager GRU
Justin Locke, Chief Financial Officer GRU