



## Memorandum

**TO: HONORABLE MAYOR AND  
CITY COUNCIL**

**FROM: Debra Figone  
Richard Doyle**

**SUBJECT: 2008 RETIREE HEALTH  
CARE RATES**

**DATE: 12-17-07**

---

### **RECOMMENDATION**

It is recommended that the City Council direct the City Attorney to prepare an ordinance for Council consideration in early January that would define the lowest-cost plans for retiree health care in calendar year 2008 to be the Kaiser plans without new co-payments. It is further recommended that this one-year change be retroactive to January 1, 2008.

### **OUTCOME**

As a result of this action, an alternate, temporary determination of the lowest-cost health plan to set 2008 retiree health care rates would be implemented for calendar year 2008 only, using the Kaiser plan that does not include new co-payments. It would result in the retirement plans using a different, more costly health plan for the lowest-cost plan than that currently specified in the Municipal Code to determine the appropriate level of funding for retiree health care in 2008.

### **EXECUTIVE SUMMARY**

While we believe the recent opinion of the City Attorney is clear on the issue, this action would allow retirees to better plan for plan design changes. In addition, this action would avoid conflicting interpretations of lowest cost medical plan among the Retirement Boards, the City and other stakeholders while providing an opportunity to work towards a resolution of the issues.

**BACKGROUND**

The City and the health insurance companies recently negotiated changes in the co-pay provisions for the Kaiser Plan and the Blue Shield HMO Plan to be effective January 1, 2008, for certain employee groups.<sup>1</sup> These changes resulted in lower premiums for the Kaiser Co-Pay Plan and the Blue Shield HMO Co-Pay Plan.<sup>2</sup> The monthly premiums for the health plans offered by the City will be as follows effective January 1, 2008:

Kaiser Co-Pay Single	Kaiser Single	Kaiser Co-Pay Family	Kaiser Family
\$411.66	\$434.20	\$1025.06	\$1081.16

B/S HMO Co-Pay Single	B/S HMO Single	B/S HMO Co-Pay Family	B/S HMO Family	B/S POS/PPO Single	B/S POS/PPO Family
\$438.96	\$447.01	\$1127.65	\$1148.17	\$641.52	\$1648.64

The premium costs are split between the City and the active employees in various ratios, depending on the employee's bargaining group and on how many hours per week the employee works.

Both the Federated City Employees Retirement System and the Police and Fire Department Retirement Plan include provisions for retirees and survivors who meet certain eligibility requirements to elect medical insurance coverage in an "eligible medical plan." An "eligible medical plan" is defined as a plan with which the City has entered into a contract for the provision of hospital, medical, surgical and related benefits as part of the City's benefits to City employees. (San José Municipal Code §3.28.1990 for Federated, §3.36.1940 for Police and Fire.) The premiums for medical insurance coverage are divided between the retiree (or survivor) and the Medical Benefits Account that is part of the retirement fund.

In the Federated System, the portion of the premium that is paid from the retirement plan is "the portion that represents an amount equivalent to the lowest of the premiums for single or family medical insurance coverage, for which the member or survivor is eligible and in which the

<sup>1</sup> The affected employee groups are unrepresented employees including Unit 99; and those employees represented by the Association of Engineers and Architects, the International Association of Fire Fighters Local 230, the Association of Building, Mechanical and Electrical Inspectors and the Association of Maintenance Supervisory Personnel.

<sup>2</sup> Although the existing Kaiser Plan has a \$5 co-pay for prescription drugs and the existing Blue Shield HMO has co-pays for office visits, emergency room visits and prescription drugs, these new co-pay plans are referred to in this memorandum as the Kaiser Co-Pay Plan and the Blue Shield HMO Co-Pay Plan to distinguish them from the existing plans.

member or survivor enrolls under the provisions of this [Plan], which is available to an employee of the City at such time as said premium is due and owing.” (SJMC § 3.28.1980 B.1.) The retiree or the survivor pays “that portion of the premium which represents the difference between the cost of the premium for the medical plan selected by the member or the survivors and the portion paid from the Medical Benefits Account.” (SJMC §3.28.1980 B.2.)

In the Police and Fire Plan, the portion of the premium paid from the retirement plan is “the lesser of (a) an amount which is equivalent to the premium for the ‘lowest-cost medical plan’ or (b) the actual premium for the eligible medical plan” in which the retiree enrolls. (SJMC §3.36.1930 C.2.) “Lowest-cost medical plan” is defined as “that medical plan (single or family coverage as applicable to the coverage selected” by the retiree or survivor which is an eligible medical plan and which “has the lowest monthly premium of all eligible medical plans then in effect, determined as of the time the premium is due and owing.” (SJMC §3.36.1930 D.)

Based upon the provisions of the Municipal Code and the health plan premium rates for the plans offered by the City, effective January 1, 2008, the lowest-cost plan for single coverage will be the Kaiser Co-Pay Single coverage at \$413.06 per month and the lowest-cost plan for family coverage will be the Kaiser Co-Pay Family coverage at \$1028.52 per month. If a retiree or survivor elects coverage that is different from those coverages, the retiree or survivor will pay the difference between the Kaiser Co-Pay coverage and the coverage selected.

Although the Municipal Code provisions are clear and the annual open enrollment period is the traditional method to communicate plan design changes (such as co-pays), given the timing of the changes in co-pays, retirees and the Retirement Boards did not have much time to plan for this change. The recommendation in this memorandum would provide retirees an additional year to plan for health plan changes. In addition, it would provide an opportunity to reach a resolution of conflicting opinions about the meaning of lowest cost medical plan.

### **ANALYSIS AND COST IMPLICATIONS**

The cost to the retirement plans of using the Kaiser Co-Pay plan as the lowest-cost plan for single and family coverage for 2008 per the Municipal Code is approximately \$30,116,000. Temporarily defining the lowest-cost plan for 2008 to be the Kaiser plan without co-pays for single and family coverage is \$31,238,000, resulting in an increase of approximately \$1,121,000.

### **PUBLIC OUTREACH/INTEREST**

The purpose of this section is to describe discussions that have occurred with the public, stakeholders, community groups and/or other governmental agencies. Staff will be asked to use the following checklist to determine if items are to be considered items of “Significant Public Interest”, thus requiring additional notification per the matrix below. Please note the outreach that was done.

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This memorandum will be shared with the Federated City Employees Retirement System and the Police and Fire Department Retirement Plan Boards, the Joint Boards Committee on Solutions to Retiree Health Care, the retirees' associations, and City labor groups prior to Council consideration of the recommendation.

### COORDINATION


This memorandum was coordinated with the City Attorney's Office.

### EVALUATION AND FOLLOW-UP

#### CEQA

Not a project.

  
DEBRA FIGONE  
City Manager

  
RICHARD DOYLE  
City Attorney

If you have questions, please call Mark Danaj, Director of Human Resources, at 975-1475.

