



**CITY OF FORT LAUDERDALE  
City Commission Agenda Memo  
CONFERENCE MEETING**

**#24-0367**

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**TO:** Honorable Mayor & Members of the  
Fort Lauderdale City Commission

**FROM:** Susan Grant, Acting City Manager

**DATE:** June 4, 2024

**TITLE:** Medical Plan Opt-Out Compensation Analysis - **(Commission Districts 1,  
2, 3 and 4)**

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A health insurance opt-out arrangement is intended to be financial compensation offered to employees who decline group health coverage. Employers utilize these arrangements to reduce overall health expenses, with the assumption that the employer would pay less for the opt-out compensation than they would for their share of the benefit premium. However, the financial benefit to the employer has a corresponding negative financial impact on the health plan.

At the request of the City Manager's Office, Risk Management worked with the City's health plan actuary, Gallagher Benefit Services, and benefits consultant, The Gehring Group (the City's experts), to assess the financial implications to the City's budget and the Self-Insured Health Plan (Plan) that would result from offering an opt-out arrangement.

### **Conclusion**

An opt-out arrangement would initially create a loss to the City's budget because 305 employees not enrolled in the Plan for calendar year 2024 would be eligible for the opt-out compensation. Depending on the number of additional employees enrolled in the Plan that would opt-out, and how much compensation would be provided, there may eventually be a savings to the City's budget (see Exhibit 4).

However, according to the City's experts, those opting out of the Plan are more likely to be the healthy, low-cost employees. This then leads to decreased funding (City contributions and employee premiums) and almost the same expenditure of health claims, resulting in a more costly plan for the remaining employees. Additional information and details to support this conclusion are provided below.

### **Benchmarking**

The Gehring Group conducted a benchmark study of 25 South Florida governmental entities in 2024, which included medical plan opt-out compensation. Of those respondents, 19 did not provide opt-out compensation and 6 did as of January 1, 2024. All the entities offering opt-out compensation required employees to provide documentation of alternate health insurance coverage on an annual basis.

## **Impact to the City's Budget and Health Plan**

The City currently provides a \$1,305 monthly contribution to the Plan per enrolled employee. A projected increased monthly contribution of 11% as of January 1, 2025, will raise the City's estimated contribution amount to \$1,449, or \$17,388.

The City's Budget will incur an additional \$793,000 in expenses to pay the opt-out compensation of \$2,600 to the 305 employees currently not enrolled in the Plan. This would likely be partially offset by an estimated savings of \$369,700 if 25 enrolled employees opt out of the Plan. Therefore, the overall estimated impact would be \$423,300 in additional costs to the City's budget in 2025.

The impact to the Plan, if 25 employees opt out, is estimated to be a net loss of \$354,700. This is calculated by a decrease in revenue of \$479,700 (City contributions and employee premiums), which is slightly offset by a reduction in claims paid of \$125,000. This claims reduction is based on an estimated \$5,000 per employee. If additional employees opt out of the Plan, the negative impact would be further exacerbated.

### **Strategic Connections**

This item supports the *Press Play Fort Lauderdale 2029 Strategic Plan*, specifically advancing:

- Guiding Principles, Fiscal Responsibility

This item advances the *Fast Forward Fort Lauderdale 2035 Vision Plan: We Are United*.

This item supports the *Advance Fort Lauderdale 2040 Comprehensive Plan*, specifically advancing:

- The Internal Support Focus Area
- Implementation Element
- Goal 1: The Fort Lauderdale Comprehensive Plan shall accomplish the City's Fast Forward Fort Lauderdale 2035 Vision Plan regarding the City's future growth and the six Cylinders of Excellence and shall be the City's primary policy document to guide all of its activities and development.

### **Attachments**

Exhibit 1 - 2024 Actuarial Opt-Out Analysis

Exhibit 2 - 2024 Benchmark Study Opt-Out Comparison

Exhibit 3 - 2024 Coconut Creek Benchmark Study

Exhibit 4 - Opt-Out Cost/Loss Projections

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