



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

#22-0683

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

FROM: Greg Chavarria, City Manager

DATE: August 16, 2022

TITLE: Medical Plan Opt-Out Compensation Analysis

Medical Plan Opt-Out Compensation Analysis

Staff worked in tandem with the City's health actuary and benefits consultant/broker, The Gehring Group, to research the impact that an opt-out compensation benefit would have on the City's Health Plan. The Gehring Group will be discuss the analysis in detail at the meeting.

For the purposes of this analysis, an opt-out figure of \$2,600 per employee per year is being used, based on a median figure derived from a survey conducted of a number of South Florida governmental entities by The Gehring Group. This figure will be used for both parts of the first portion of this analysis, including the employees anticipated to leave the Plan as part of the proposed incentive, and for those employees who are eligible, but not currently enrolled in the Plan.

The City currently provides, to the Plan, a monthly benefit of \$1,089 per employee. An expected additional 8% as of the new year would increase that amount to \$1,176. Assuming the intent would be for proposed compensation to start at the beginning of the new Plan Year, January 2023, that monthly figure of \$1,176 would translate into an annual figure of \$14,112. Reducing the annual savings figure by the incentive documented above, \$2,600, the net annual savings to the City would total \$11,512 per employee.

The Gehring Group estimates that 100 employees migrating off the Plan is very likely. To forecast a total dollar savings based on this proposal, it is necessary to multiply the individual savings, \$11,512, by the number of employees migrating off the plan, 100, resulting in an estimated total savings to the City of \$1,151,200.

The second part of the equation would include those employees currently eligible for the Plan, but who have not opted in at this time. Presently, there are 279 employees who are not members of the Plan but would be eligible for the \$2,600 annual compensation. That total cost amounts to \$725,400, which subtracted from the migration figure mentioned above, \$1,151,200, provides a total net savings to the City of \$425,800.

The second portion of this analysis is further abstract and impacts anticipated savings. Health insurance is a mechanism where large numbers of members contribute to a pool of money that goes to pay claims for a proportionate few that incur those claims. Health plans are optimal when a significant portion of the membership is healthy, to help off-set the claims of the unhealthy. Currently, the City's plan incurs claims where 20% of the members drive 84% of the costs. There is also a portion of the membership that tend to be healthier and drive very little cost to the Plan.

Based on the past experience of the City's actuary and consultant, there is a very high likelihood that 100 employees that migrate off the Plan, as a result of the incentive, will be healthy members mentioned above. In other words, their revenue that currently goes to help offset the expense of members that are driving the costs, will no longer be revenue to the Plan, and in addition, due to their good health, there will be very little reduction of claims to the Plan. The anticipated decreased revenue will cause a need for additional revenue from some other source, which most likely increase employee premiums.

As an example, the reduction in revenue to the Plan (from the City), based on 100 employees migrating off the Plan, would total \$1,411,200 and the reduction in revenue to the Plan from those employees' premiums would total anywhere from \$111,046 to \$772,772, depending on which employees (tier coverage – single, family, etc.) left the Plan. This is a minimum of \$1.5 million in lost revenue that would have to be made up, assuming there were no correlating reduction in claim costs. Any associated reduction in claim costs would off-set the \$1.5 million in lost revenues, although that amount would very likely be well less than the lost revenue. As a result, it's very possible that there could be a \$1 million or more net loss to the Plan.

Offering compensation for opting out of the City's health care plan would be a change in the terms and conditions of employment. Such an offer would need to be negotiated with the bargaining units as part of the collective bargaining process.

Staff does not recommend pursuing this benefit as it could potentially increase premiums to health insurance participants.

Strategic Connections

This item supports the *Press Play Fort Lauderdale 2024* Strategic Plan, specifically advancing:

- The Internal Support Focus Area
- Goal 7: Build a values-based organization dedicated to developing and retaining qualified employees
- Objective: Establish an organizational culture that fosters rewarding, professional careers

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08/16/2022

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