

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Discussion of Ordinance No. 799 – Amending Shoreline Municipal Code Section 2.30.040 Establishing Maximum and Minimum Allotments for Employee Health Benefits		
DEPARTMENT:	Human Resources		
PRESENTED BY:	Paula Itaoka		
ACTION:	<input type="checkbox"/> Ordinance	<input type="checkbox"/> Resolution	<input type="checkbox"/> Motion
	<input checked="" type="checkbox"/> Discussion	<input type="checkbox"/> Public Hearing	

PROBLEM/ISSUE STATEMENT:

The City purchases its health insurance plans through the Association of Washington Cities Employee Benefit Trust (the Trust). The Trust allows employers to offer one core medical plan option from each of Regence and Kaiser Permanente (formerly Group Health). Since the City first started purchasing medical insurance through the Trust, the City has offered the following core medical plans to employees: Regence HealthFirst Plan and Group Health - \$10 Copay Plan. The Trust made the decision to terminate these plans effective January 1, 2018; consequently the City must offer new plans for 2018 medical coverage. The next best and recommended plans are Regence HealthFirst-250 deductible and Kaiser Permanente \$20 Copay \$200 deductible. Both of these plans continue to provide excellent medical coverage for City employees and will have lower premiums than the existing plans for 2018 and possibly for 2019. Although this is the case, the plans include greater cost-sharing between the insurance provider and employees and a transitional approach is recommended to assist employees with adjusting to the new levels of cost sharing.

Tonight, Council will be discussing proposed Ordinance No. 799. This ordinance amends Shoreline Municipal Code Chapter 2.30 to provide for the following:

- Freezing health benefit contributions at the 2017 levels until such time as the existing contribution formula results in an increased level of contribution, which will be a minimum of one year and could be as much as three years.
- Housekeeping changes to make it clear which benefits are, and are not, deducted from the monthly health benefit allotment, and to make it clear that a 457 contribution occurs when there is a remaining portion of the minimum health benefit allotment.

Proposed Ordinance No. 799 is scheduled to be brought back to Council for adoption on November 20, 2017.

RESOURCE/FINANCIAL IMPACT:

The City's 2017 budget includes \$2,481,437 for health benefits. Freezing the 2017 employee allocation for 2018 results in a projected 2018 health benefit cost of \$2.4

million – slightly lower than what staff expected to spend in 2017. Following the formula in Ordinance No. 343 results in a projected 2018 health benefits cost of \$2.375 million, approximately \$50,000 less than that projected for freezing the formula.

RECOMMENDATION

No action is required tonight; this item is for discussion purposes only. When this item is brought back for Council adoption on November 20, staff recommends that the Council adopt proposed Ordinance No. 799.

Approved By: City Manager **DT** City Attorney **MK**

BACKGROUND

In 1995, Council provided health insurance for employees through the Association of Washington Cities Employee Benefit Trust (the Trust) and established the level of contribution by adopting Ordinance No. 56. Over the years Council has adjusted the contribution towards health insurance to continue providing a fair and comparable employee benefit program by adopting Ordinances Nos. 106, 151, 185, 220 and 343.

These prior City Ordinances can be found at the following links:

- Ord. No. 56: <http://www.cityofshoreline.com/home/showdocument?id=6797>
- Ord. No. 106: <http://www.cityofshoreline.com/home/showdocument?id=6978>
- Ord. No. 151: <http://www.cityofshoreline.com/home/showdocument?id=7110>
- Ord. No. 185: <http://www.cityofshoreline.com/home/showdocument?id=7164>
- Ord. No. 220: <http://www.cityofshoreline.com/home/showdocument?id=7203>
- Ord. No. 343: <http://www.cityofshoreline.com/home/showdocument?id=7636>

These ordinances have been codified as Shoreline Municipal Code (SMC) Chapter 2.30, Public Employees Retirement System and Benefits, with SMC Section 2.30.040 providing the maximum and minimum monthly payments the City Manager is authorized to expend for employee health benefits.

DISCUSSION

In 2010 the Affordable Care Act (ACA) was signed into law which included a new tax (40%) on certain health plans, commonly referred to as “Cadillac” plans. The tax was to be effective January 1, 2018; therefore, the Trust made the decision to terminate plans that would incur the “Cadillac” tax effective January 1, 2018. Even though the original effective date for the Cadillac tax was delayed to 2020, the Trust Board of Trustees is still moving forward with terminating these plans. As such, the City must offer new plans to employees. Staff is recommending the next best plans available from the Trust; Regence HealthFirst-250 deductible and Kaiser Permanente \$20 Copay \$200 deductible.

Five years ago staff explored health insurance outside the Trust and were not able to find comparable plans at like coverage and cost to those provided by the Trust. This was primarily because Shoreline’s group size is very small independently and cannot generate enough premium revenue to buffer the risk for potential claims. Membership in the Trust provides a larger pool of participants to spread risk.

The recommended Trust plans continue to provide excellent medical coverage for City employees. Although this is the case, the plans include greater cost-sharing between the insurance provider and employees as the co-pays, deductibles, and out-of-pocket maximum per person/family on the new plans are greater than the existing plans. For example, the maximum out of pocket for Regence will increase from \$1,100 to \$3,000 per individual and from \$2,200 to \$6,000 per family. The maximum out of pocket for Group Health will increase from \$2,100 to \$2,500 per individual and from \$2,500 to \$5,000 per family. Even though the premium will decrease in 2018, an employee’s cost for certain services will increase.

Given this, a transition period is recommended so all employees can become familiar with the new plan costs and adjust accordingly. To lessen the degree of change and support the transition to the new plans, staff is recommending the Council adopt proposed Ordinance No. 799. Under this recommendation, all employees who receive health insurance from the City would receive support for the transition through lowered deductions for medical insurance or through additional contributions to a 457 deferred compensation plan. The transition support will end when the lowest cost health insurance for medical, dental and vision for an employee, spouse and two children exceeds the 2017 cost levels.

Proposed Ordinance No. 799 also provides for housekeeping changes to make it clear which benefits are, and are not, deducted from the monthly health benefit allotment, and to make it clear that a 457 contribution occurs when there is a remaining portion of the minimum health benefit allotment.

RESOURCE/FINANCIAL IMPACT

The City's 2017 budget includes \$2,481,437 for health benefits. Freezing the 2017 employee allocation for 2018 results in a projected 2018 health benefit cost of \$2.4 million – slightly lower than what staff expected to spend in 2017. Following the formula in Ordinance No. 343 results in a projected 2018 health benefits cost of \$2.375 million, approximately \$50,000 less than that projected for freezing the formula.

SUMMARY

The medical insurance plans that the City offers employees through the Trust will terminate effective January 1, 2018. Staff recommends that the City offer the following Trust medical plans: Regence HealthFirst-250 deductible and Kaiser Permanente \$20 Copay \$200 deductible plan. Staff further recommends freezing City contributions for health insurance at the 2017 levels; providing for a transition period until such time as the lowest cost health insurance for a medical, dental and vision for an employee, spouse and two children exceeds the 2017 levels.

RECOMMENDATION

No action is required tonight; this item is for discussion purposes only. When this item is brought back for Council adoption on November 20, staff recommends that the Council adopt proposed Ordinance No. 799.

ATTACHMENTS

Attachment A: Proposed Ordinance No. 799

ORDINANCE NO. 799

**AN ORDINANCE OF THE CITY OF SHORELINE,
WASHINGTON AMENDING SHORELINE MUNICIPAL
CODE SECTION 2.30.040 ESTABLISHING MAXIMUM AND
MINIMUM ALLOTMENTS FOR THE EMPLOYEE
BENEFITS PACKAGE.**

WHEREAS, on July 10, 1995, the Shoreline City Council passed Ordinance No. 26 authorizing participation in the Washington Public Employees' Retirement System and, on September 11, 1995, the Shoreline City Council passed Ordinance No. 56, amending Ordinance No. 26 so as to establish medical, dental, vision, life and disability insurance, and other benefits for City employees; and

WHEREAS, these founding ordinances have been amended on several occasions to reflect changes to employee benefits, specifically medical, dental, vision, life and disability insurance, and other benefits, including Ordinance Nos. 71, 106, 151, 185, 220, and 343, and has been codified as Shoreline Municipal Code (SMC) chapter 2.30 Public Employees Retirement System and Benefits; and

WHEREAS, amendments to these city employee benefits were last made by the Shoreline City Council when it passed Ordinance No. 684 on October 14, 2014, amending and repealing certain sections SMC chapter 2.30 Public Employees Retirement System and Benefits; and

WHEREAS, the City obtains medical plans through the Association of Washington Cities (AWC) and the AWC is terminating the medical plans the City offered in 2017 on January 1, 2018; and the next best available medical plans from the AWC will replace the 2017 medical plans January 1, 2018; and

WHEREAS, the City desires to maintain its contribution toward employee benefits;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SHORELINE DO ORDAIN AS FOLLOWS:

Section 1. Amendment. SMC 2.30.040 Authorizing expenditure of City funds to provide for an employee benefits package is hereby amended as follows:

The City Manager is authorized to expend such funds as may be necessary to carry out this section.

- A. ~~The maximum payment which may be made for the employee's benefit package offered for regular City employees shall be 95% of the cost for the least expensive city offered medical, dental and vision coverage for an employee, spouse and two children~~ Effective January 1, 2018, the City's allotment towards a regular employee's benefit package shall remain at the 2017 levels, which are a maximum of \$1,876 and a minimum of \$1,003 per

month, unless the formula in Section B results in an increase to the maximum and minimum allotment; and

- B. ~~The minimum monthly payment allotment for a full-time regular employee shall be \$739 for 2004 and 2005. Beginning in 2006, the minimum monthly amount will be increased annually by 50 percent of the increase of the maximum monthly payment from those of the previous year, but in no case more than five percent annually. The City's contribution shall be pro-rated for a part-time regular employee. Effective on the first day of the year in which the allotment in Section A would increase as a result of the following formula:~~
1. The maximum allotment toward the employee's benefit choices shall be 95 percent of the cost for the least expensive City-offered medical, dental and vision coverage for an employee, spouse or domestic partner, and two children; and
 2. The minimum monthly allotment for a full-time regular employee shall be increased annually by 50 percent of the percentage increase to the maximum monthly allotment from the previous year, but in no case more than five percent annually. The City's contribution shall be pro-rated for a part-time regular employee.
 3. Employee benefit choices for medical, dental, vision, supplemental life insurance and any other voluntary benefit election shall be deducted from the City's allotment.
 - i. If an employee's benefit choices don't use all of the *minimum* allotment, the remaining *minimum* allotment will be placed in a 457 deferred compensation plan for the employee.
 - ii. If an employee's benefit choices use more than the *maximum* allotment, the amount over the *maximum* will be paid by the employee through payroll deduction.
 4. Other mandatory insurance or benefits shall not be deducted from the allotment, such as Social Security replacement, Public Employees Retirement System, Term Life, Accidental Death and Disability, and Long Term Disability insurance.

Section 2. Severability. Should any section, subsection, paragraph, sentence, clause or phrase of this Ordinance or its application to any person or situation be declared unconstitutional or invalid for any reason by a court of competent jurisdiction, such decision shall not affect the validity or constitutionality of any other remaining portion of this Ordinance or its application to any person or situation.

Section 3. Corrections by City Clerk or Code Reviser. Upon approval of the City Attorney, the City Clerk and/or the Code Reviser are authorized to make necessary corrections to this Ordinance, including the corrections of scrivener or clerical errors; references to other local, state, or federal laws, codes, rules, or regulations; or ordinance numbering and section/subsection numbering and references.

Section 4. Effective Date. A summary of this Ordinance, consisting of its title, shall be published in the official newspaper of the City. This Ordinance shall take effect and be in full force January 1, 2018.

PASSED by the City Council on this 20th day of November, 2017.

APPROVED:

Christopher Roberts, Mayor

ATTEST:

Jessica Simulcik Smith
City Clerk

APPROVED AS TO FORM:

Margaret King
City Attorney

Date of Publication: _____

Effective Date: _____