



**CITY OF SALINAS
FINANCE COMMITTEE**

DATE: SEPTEMBER 10, 2024

DEPARTMENT: HUMAN RESOURCES

FROM: MARINA HORTA-GALLEGOS, HUMAN RESOURCES DIRECTOR

BY: PATRICIA PEÑALOZA, HUMAN RESOURCES MANAGER

TITLE: SALINAS PLAN – HEALTH CARE COST CONTAINMENT

RECOMMENDED MOTION:

No motion is required for this item. Comments and feedback from the Finance Committee on the ongoing implementation of this Salinas Plan initiative is requested.

DISCUSSION:

The Salinas Plan has 32 recommendations, four of which are categorized as “Workforce” strategies. Healthcare Cost Containment is one of four workforce recommendations that aims at achieving flat healthcare cost growth while still maintaining competitive benefits in the labor market. The Salinas Plan recommends an approach to health care cost containment that involves creativity and collaboration between the City and employee units to achieve sharing in benefits funding and promoting increased costs awareness. Consistent with this recommendation, over the past couple years, the City negotiated modest employee contributions with all employee units.

The City contracts with the California Public Employees’ Retirement System (CalPERS) for health care benefits. Health plan availability, covered benefits, premiums, and co-payments are determined by CalPERS, not the City.

Historically, health care costs have been one of the primary cost drivers of the general funds budget with an expected cost of approximately \$14.3 million in FY 24-25, inclusive of the increase in premiums. Currently, the City pays 95% of the premium for the level and type of coverage selected by an employee, up to the CalPERS Platinum plan premium with some variations. Approximately 40% of the City’s workforce is covered under the PPO plans and a majority of the public safety members, approximately 34% of the City’s workforce, are in the Peace Officers Research Association of California (PORAC) plan with 26% of the workforce in various other plans or declining coverage.

On July 16, 2024, the CalPERS Board of Administration approved the rates for calendar year 2025, attached. The final basic PPO rates provide an overall increase of 9.82%, including a 12.31% increase in the Platinum plan and 10.81% increase in the Gold plan. Basic HMO rates provide an

overall increase of 8.72%, including an 8.96% increase in the Kaiser Permanente plan, a 10.34% increase in the Anthem Blue Cross Select plan, and a 19.85% increase in the Blue Shield Trio plan. PORAC plan premiums will increase by 4.7%. CalPERS attributes the increase in rates to medical inflation, continued high pharmacy cost, and Inflation Reduction Act impacts. The Platinum and Blue Shield Trio HMO plans experienced the highest increases.

In 2023, the CalPERS Board of Administration adopted a new risk-pooling policy that combined risk-pools for the different health plans over a three-year period to minimize the impact on the 2024 basic HMO premiums. However, in an effort to expedite the path back to single-digit PPO increases, CalPERS is transitioning to a single risk pool in 2025. A single risk pool allows higher costs of high-risk individuals to be offset by lower costs of low-risk individuals, potentially resulting in lower premiums.

Additionally, CalPERS awarded a 5-year contract to Blue Shield of California as the new Third Party Administrator for administration of benefits (formerly Anthem Blue Cross for more than two decades) and Included Health as a partner to lead all administrative services and provide virtual primary care to members in basic PPO plans. There are no changes to the pharmacy benefit manager, co-pays, co-insurance, or deductibles with this transition. Although the provider network is not identical, Blue Shield is making targeted efforts to minimize disruption for members and options will be available to ensure continuity of care.

CalPERS selected Blue Shield because of its commitment to expanding access to high-quality care, controlling costs through innovation, and addressing health equity. Blue Shield has agreed to performance guarantees for controlling costs and improving quality or face financial penalties of \$464 million over the 5-year contract. Blue Shield has also committed to reducing the annual medical cost trend from greater than 5.5% to 3% by 2029.

FISCAL AND SUSTAINABILITY IMPACT:

The City budgeted the increase in premiums at 8% for the entire year and does not anticipate impacts to the budget as a results of the new rates for calendar year 2025.

ATTACHMENTS:

1. 2025 Regional Health Premiums