



**CITY OF SALINAS
FINANCE COMMITTEE**

DATE: JULY 1, 2019

DEPARTMENT: HUMAN RESOURCES DEPARTMENT

FROM: MARINA HORTA-GALLEGOS, HUMAN RESOURCES DIRECTOR

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 implementation of this Salinas Plan initiative is requested.

DISCUSSION:

Each month, staff has planned to bring at least one item from the Salinas Plan as an update on implementation of the Salinas Plan. The Salinas Plan was developed to help the City resolve its structural budget deficit by identifying cost savings, additional revenues, and efficiencies to help the City close its structural budget gap, avoid layoffs, and continue to provide needed public services.

The Salinas Plan has 32 recommendations, four of which are categorized as “Workforce” strategies. These Workforce strategies are initiatives that, “allow the City to develop a more affordable compensation package while increasing the City’s long-term competitiveness and ability to recruit and retain the public employees critical to delivering quality services.” 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. It is recommended that the City develop more affordable, market-level health and welfare benefits program to be phased in over several years as current Memoranda of Understanding expire, including employee cost sharing of premiums.

As we already know, health care costs are one of the primary cost drivers of the general fund budget with an expected cost of approximately \$10,000,000 in FY 19-20. The Salinas Plan notes that the City has historically provided a “generous” health care benefits package. Currently, the City pays 100% of the premium for the level and type of coverage selected by an employee, up to the California Public Employees’ Retirement System (CalPERS) Choice plan premium for miscellaneous employees, and the Peace Officers Research Association of California (PORAC) plan for SPOA, PMA, and IAFF and FSA employees.

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.

The City contracts with CalPERS for medical benefits. Health plan availability, covered benefits, premiums, and co-payments are determined by CalPERS. Final rates are set annually in June for the following calendar year. On June 18, 2019, the CalPERS Pension and Benefits Committee approved the rates for calendar year 2020 which provide an overall average increase of 3.28% for Preferred Provider Organization (PPO) plans such as the City base plan, PERS Choice.

CalPERS offers various health plans by region. This year, CalPERS realigned counties into one of three state regions and set rates by region. Employees can select a health plan offered within their region (by zip code). Although various health plans are available, a large percentage of City miscellaneous employees are enrolled in the Choice plan, while most public safety employees are enrolled in the PORAC plan.

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. While the City currently pays 100% of the premium up to the Choice plan rate with employees paying the difference for higher cost health plans, the City and employees have negotiated modest employee contributions of 3 – 5% of total healthcare costs (with variations by employee units) by December 2019.

The Salinas Plan recommends a greater cost share in a phased in approach with employees sharing up to 20% of the premium by year 2026. As an alternative, the Salinas Plan recommends adopting the CalPERS Select plan as the base plan instead of the CalPERS Choice plan with employees paying the difference between premium costs. An example of the difference in plan premiums for calendar year 2020 between the Choice and Select family coverage is approximately \$10,600 per year. These recommendations, however, require negotiation with employee bargaining units as Memoranda of Understanding expire.

FISCAL AND SUSTAINABILITY IMPACT:

With employee contributions commencing in December 2019 for most employee units, it is anticipated that approximately \$434,000 of savings will be achieved in contributions in FY 19-20. The Salinas Plan recommends that the City and employee units work together to establish a phased in approach to ultimately achieve a 20% employee contribution by 2026 with anticipated savings of over \$3,000,000 annually by 2026.

ATTACHMENTS:

1. 2020 Regional Health Premiums for Public Agencies (PPO Plans)
2. 2020 Regional Health Premiums for Public Agencies (HMO Plans)
3. 2020 Association Health Plan Premiums (PORAC)