

TRUCKEE TAHOE AIRPORT DISTRICT
BOARD OF DIRECTORS AGENDA ITEM SUMMARY

Topic: Employee Benefit Program Review

Purpose	Information:	Guidance:	Decision: X
Recommendation	<p>Accept the recommendations of the Ad-hoc Employee Benefits Subcommittee as follows:</p> <p>The employee health insurance coverage will be changed to an Anthem Elements Hospital Preferred Plan and the District will self-insure to cover the gap between that “less beneficial” plan and the level of coverage the District wishes to offer its employees. Staff will contract with Employee Benefits Administration & Management (EBA&B) to provide third party administration of the self-insurance “gap.” The level of coverage experienced by the employees will not decrease. Direct Staff to make the necessary changes to coverages and broker.</p> <p>Approve the Resolution of Intent to Amend the CalPERS contract to add a second tier of retirement benefits for employees hired after July 29, 2012. The second tier offers a retirement benefit of 2%@60. Existing employees retain their current benefit.</p> <p>Expand the Educational Assistance program offered to employees to permit aviation related training expenses to be eligible for reimbursement – subject to the same limitations as the existing program.</p>		
Last Action	<p>At the August 25, 2011 Board of Directors meeting the Ad-hoc Employee Benefits Subcommittee reported on their review of the employee benefit program and suggested the following changes, which were approved by the board:</p> <ul style="list-style-type: none"> • Increase the life insurance coverage offered by the District from \$25,000 per employee to \$50,000. • The District will make the alterations necessary to the 457 deferred compensation plan to allow employee contributions to be designated as Roth accounts if desired by the employee. 		
Discussion	<p>Employee Health Coverage</p> <p>The largest element of the employee benefit package is the health insurance coverage (renewal quote cost is \$429,492/year – of which the employees pay 7%). The employees have been insured by Blue Shield of California since May 2006. Due to the dramatic increase in premiums over that time, staff began discussion with Paychex Insurance services regarding possible methods to decrease the District’s expense. The Paychex representative put forth a plan whereby the District would contract for a lower level of</p>		

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insurance using a plan that could be “wrapped” by a secondary form of insurance. There are not a lot of plans that fit this category, however an Anthem Blue Cross hospital-only plan was proposed. (The plan is considered a “preferred” hospital-only plan as it also offers some coverage for office visits, diagnostic X-rays and labs – however, it will be called the “hospital-only” plan for this discussion.) The District would self-insure for the gap between the hospital-only coverage and the level of coverage the District wants to offer the employees using the savings generated by the lower premiums on the hospital-only plan. The self-insurance is administered by a third party (EBA&M - Employee Benefits Administration & Management) at a cost of \$5,100/year + a one-time setup fee of \$500.

The premium savings to the District by switching to the lesser plan is \$210,946 per year (net of the employee contribution). The employee would also see savings in their 7% contribution towards the premium of approximately \$15,000 per year (on an individual basis the savings range from \$40 - \$100 per month).

The District’s savings would be used to pay the EBA&M fee and the medical expenses that employees would incur in the gap between the coverage levels the District sets and the levels at which the hospital-only plan starts to pay. The District does not know what those medical expenses would amount to; however, various estimates have been made (all include the fees of EBA&M):

- The most conservative estimate (greatest payout) made by the insurance broker, based on general claims history data, was \$62,123 – making the net savings to the District \$143,223.
- If all employees were to reach their out-of-pocket maximums (in-network) and every covered party had 12 medical visits in a year, the amount of liability to the District could be \$126,500 – making the net savings to the District \$78,846.
- If all employees were to reach their out-of-pocket maximums at out-of-network providers and every covered party had 12 medical visits in a year, the amount of liability to the District could be \$194,500 – making the net savings to the District \$10,846.

The Ad-hoc Employee Benefits Subcommittee met on June 11th to consider this proposal and determined that the flexibility it allows the District in setting the deductible, copay and out-of-pocket maximums – in addition to the savings available to the District make it an appealing option. The subcommittee acknowledged that it is impossible to know the level of savings the District will experience, but that it is worthwhile to try the program out for a year. The Paychex rep stated that if the program does not meet our

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expectations, thirty day notice is required to cancel the plan and select different coverage. We could apply for a more traditional plan with Anthem, although if we want to return to Blue Shield, we would have to wait 12 months before applying with them again.

Regarding the change in carriers, Staff is very sensitive to any potential disruption in care that could be experienced by employees or their dependents due to the change in the preferred provider network. Fortunately, doctors who were “in-network” for the District’s Blue Shield coverage appear to be included in Anthem Blue Cross’ network as well. Some issues could present themselves, and there could be concerns as employees and providers become accustomed to the use of EBA&M as a claims processor. There will certainly be an adjustment period, and Staff will monitor the situation closely.

There are other benefits to the District in having Paychex serve as the broker for employee benefit insurance. Because they have access to payroll data, they would be able to take responsibility for adding new hires to the plan upon eligibility, calculating the employee portion of the premium and the related payroll deduction and handling the COBRA requirements.

The “Employee Benefit Insurance” line in the budget was flagged – requiring Board approval prior to any contract commitment. The amount proposed represents significant savings compared to the amount budgeted, and the ad-hoc subcommittee recommends that the Board direct Staff to make the changes discussed.

Second Tier of Retirement Program

The ad-hoc subcommittee discussed the CalPERS pension plan and related expenses. In an effort to reduce the District’s pension costs in the future, it was determined that a less expensive plan be adopted for employees hired after a certain date. The subcommittee discussed their desire to have a defined contribution plan available, as opposed to the defined benefit plans offered by CalPERS. However, there is no option for that at the current time.

Please see detailed discussion in the attached agenda item summary from the May meeting. The report has been modified to show that the effective date for the second tier will be (employees hired after) July 29, 2012.

Expanded Educational Assistance Program

The District offers an Educational Assistance Program that will reimburse employees for successful completion of educational courses. The program does not currently allow reimbursement of aviation related training. As aviation training has the potential to

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improve an employee's performance; applicable aviation training courses should be included in the program. Reimbursement would be subject to the same restrictions as currently exist: formal letter of request must be made, prior approval obtained, passing grade must be earned, minimum employment requirements must be met, and maximum reimbursed is \$1,000 per year, per employee.

Fiscal Impact

The fiscal impact of the change to the employee health insurance program is not possible to quantify, although there is a certain decrease in expense. The savings could range anywhere from \$10,000 to \$143,000.

The fiscal impact of adding the second tier to the pension benefit will not be recognized until future periods. Over time, as the balance of employees switches to the lower plan, the District's pension expense will be less.

The addition of aviation related training to the Educational Assistance Program would increase District expense dependent upon utilization. The maximum anticipated is \$5,000 per year.

Communication Strategy

Staff has been informed of the subcommittee's recommendations. Payments made on the employees' behalf for health, dental and vision premiums are reported on the State Controller's website. Future hirings will clearly state the pension program for which the employee will be eligible.

Attachments

Agenda Item Summary from May 24, 2012 meeting regarding CalPERS contract amendment (marked to show changes) – complete with related attachments
