TRUCKEE TAHOE AIRPORT DISTRICT
BOARD OF DIRECTORS AGENDA ITEM SUMMARY

Topic:	Medical Insurance Coverage for Directors and Employees

Purpose	Information:		Guidance:	X	Decision:

Recommendation

Staff is requesting guidance on the revision of Policy Instruction 135.1.

Last Action

Policy Instruction 135.1 was last revised March 27, 2003. The following record appeared in the minutes:

POLICY INSTRUCTION NUMBER 135.1

Regarding PI-135.1, discussion ensued regarding: the requirement that no individual director's insurance provide more benefits than employees receive; the yearly budget; and a possible monetary cap per director. MOTION #09-MAR-2003: Director Stevens moved and President Starbard seconded the motion to accept Policy Instruction 135.1, "Insurance benefits for directors", as modified today. President Starbard and Directors Golden and Stevens voted in favor of the motion; Directors Foster and Swigard voted against the motion. The motion carried.

At the February 12, 2004 meeting the topic also appeared on the agenda, but no change was made to the actual policy. The following excerpt is from those minutes:

DIRECTORS INSURANCE

Regarding PI-135.1, "Insurance benefits for Directors", counsel reiterated that no director may submit for payment, any insurance policy that has greater benefits than airport employees receive…. It was agreed that in the future, individual policies need not be brought before the entire Board; rather, the president and airport manager will discuss the matter if necessary after receiving an opinion from the insurance expert. Public comments were received from Mr. Ted Langan.

Discussion

The District currently provides medical insurance to its directors. The discussion at hand has the potential of financial impact of at least $420/year to any of the directors, and District Counsel advises that all directors present should identify the potential conflict and recuse themselves from the discussion. The names of three of the directors will be drawn from a hat, and they will preside over the discussion. Any director may make comment during the public comment section for this agenda item. The purpose of this agenda item is to obtain guidance as staff revises the Policy Instruction.

The Government Code section (53208.5) referred to in the above actions reads as follows*: "…the health and welfare benefits of any member of a legislative body of any…special district…shall be no greater than that received by nonsafety employees of that public agency."*

The concept of "greater benefit" could be measured in various ways. Staff feels each of the possible measures must be explored

to ensure the District policy remains within California law. Three possible measures are:

1. The provision of a policy.
2. The cost expended by the District to provide the directors' medical coverage.
3. The actual benefits being received by the directors (the level of medical coverage they receive).

PROVISION OF A POLICY

The directors are not eligible to be covered on the District's Blue Shield policy because they do not qualify as full-time employees (stated as working 30 hours per week). So, the directors obtain their own qualifying medical insurance coverage, and the District pays 100% of their premiums.

The District offers one medical insurance plan to employees, and they can take the coverage – or not, if they have coverage from another source – although if they don't elect to join the District's policy they do not receive any benefit. It could be interpreted that the fact that directors don't receive our Blue Shield coverage – and yet, they obtain other coverage and have it paid for by the District – is offering a greater benefit to the directors than that which is afforded to employees.

To address this issue, staff proposes the attached revision to PI 135.1, which would allow employees to be covered under the District's policy – or allow them to show proof of sufficient coverage through a plan provided by a spouse's employer – and be reimbursed their actual out-of-pocket cost of premiums.

The District's current medical policy has a participation clause: at least 50% of those employees eligible to participate must be enrolled in the plan. The ability to opt out of the District's coverage and receive reimbursement for premiums paid to be covered under a spouse's policy would only be available as long as the District is still meeting its participation requirement.

COST TO THE DISTRICT TO PROVIDE THE COVERAGE

The issue of cost to provide the coverage can be addressed by establishing a cap. The District's current small group status results in our employees' premiums being age-rated. A younger employee's coverage costs less than an older employee's coverage. When determining the amount that can be paid for a director's insurance, the amount that would be paid by the District for coverage of the director on the District's medical policy would

become the cap. Currently that would be 93% of the age-rated premium applicable to the individual director. So the revised policy states that a director's actual premium costs can be paid – to be capped by the amount that it would cost to have the coverage under the District's current medical.

This same cap will be applied to an employee who is receiving coverage through a spouse's policy.

ACTUAL BENEFITS RECEIVED – LEVEL OF COVERAGE

Consistent with the statement in the February 2004 minutes above, the directors' policies are reviewed by Linda Hanson, with Azimuth Insurance Agency, to ensure they do not provide a greater benefit than the medical coverage offered to the employees.

The determination of "no greater benefit than" is very difficult due to the myriad of elements in a medical insurance policy: co-pays, coinsurance, annual out-of-pocket maximums and availability of preferred providers (to name a few). Recently, with some of the directors receiving Medicare and purchasing Medi-gap type plans to supplement that coverage, the determination of what coverage is "greater" has been more difficult, according to Ms. Hanson. For example, a director who receives Medicare may purchase a separate prescription drug policy and a supplemental plan. The supplemental plan can cover all the deductibles, co-pays and coinsurance related to the Medicare coverage and cover all of the "excess charges," (meaning that if Medicare only covers a certain amount for a procedure, the supplemental policy would pick up the difference). It is possible that a director on this type of policy combination could have $0 out-of-pocket in a year – with the premiums all covered at 100% by the District. While there is an argument that such an arrangement could be seen as "greater" than the coverage afforded to the employees (especially since the directors pay none of the premium), there are other elements that are less quantifiable that need to be evaluated. Some doctors may not accept Medicare, some procedures may not be covered, etc.

As Staff does not have the benefit of experience with Medicare coverage and the use of the supplemental policies, Staff would like input from the directors regarding measuring the level of benefit being received by directors with this type of coverage. Do directors feel this is an issue that possibly violates the code section? What weight should be given to the out-of-pocket expenses versus ease of finding required caregivers? Do any directors have experience with procedures not being covered by Medicare, which maybe would be covered by a group policy? Guidance is required to

ensure the District is within the law.

EFFECT OF POLICY REVISION

The District currently has one employee who does not receive coverage under the Blue Shield policy. Under the revised Policy Instruction 135.1, he would be eligible to receive reimbursement for any premium payments he has to pay for coverage for him and his dependents – up to the cap of what it would be for them to be covered under the District's policy. If the other coverage is at no cost to him (e.g. if covered 100% by his spouse's employer) he would not receive any benefit. He would need to provide proof of coverage through the other insurer, and that coverage would also have to be satisfactory to the District (the District would not want to pay for a policy that wouldn't provide an adequate level of coverage). The District's participation clause will be monitored as the policy is rolled out in the event that other employees who have coverage through a spouse elect to drop our policy, go on their spouse's policy and be reimbursed for any out-of-pocket premiums they must pay. The fact that the District requires employees to pay 7% of their premium means that some employees may make this choice.

If the District were to obtain a new medical insurance policy, any decrease in premiums paid for employees could potentially affect the payment of premiums for director policies, as some may exceed the revised cap. In addition to the renewal quotes from Blue Shield, staff has requested a review from the underwriters of the SDRMA health insurance plan. If the District is accepted, it would be a member of a larger group, premiums would not be age-rated, and could potentially decrease. There are directors in that scenario whose monthly premiums exceed the cap, and they would then be responsible for a portion of their monthly premiums.

TAXABILITY OF PREMIUMS

We have advice from our certified public accountant that payment directly to the insurer for a policy in the name of the employee can be excluded from income. The District would prefer to pay the policies directly to keep the record keeping transparent. In the case of payments made through payroll withholding or withheld from social security payments, the District can reimburse the employee upon presentation of evidence of the premium amount and payment of the premium. In the event that the insurance is being paid by another employer, the reimbursement cannot be excluded from income if the insurance benefit is being provided on a pre-tax basis by the other employer.

Fiscal Impact	Cost for the policies the directors currently have in effect is approximately $74,000/year. As all of their current policies are under the proposed cap there would be no additional fiscal impact related to the directors – at this time. If the District's premiums decrease, the cap would decrease, and it is possible that the District's expense related to the directors' premiums would decrease. If it is determined that some of the policies currently being paid (specifically, the Medicare supplemental plans) provide a greater level of coverage than the employees receive, those could be eliminated, and the District's costs would decrease. By adding the option for employees to obtain coverage elsewhere, there may be reimbursement for the employee who currently isn't covered under our policy. If additional employees opt to decline our coverage, they would be reimbursed for out-of-pocket premiums – but that amount would be capped by the amount the District pays currently, so there would not be an increase in expense, and could possibly be a decrease.
Communication Strategy	Policy Instruction 135.1 is public record and is available as requested.
Attachments	Current Policy Instruction 135.1 Draft of Revision to Policy Instruction 135.1