
M E M O R A N D U M

DATE: January 10, 2006
TO: Council Member Love, Council Member Jergensen, and Council Member Buhler
FROM: Jennifer Bruno, Policy Analyst
RE: Benefits – Household/Adult Designee Proposal

This memo details options relating to the Council’s plan to provide benefits to a wider array of households – whether they are made up of a City employee living with and supporting/depending on another non-related adult, their sibling, or their parent.

OVERALL CITY COSTS

If the Council decides to accept these additional people on the plan, the following charts show the amount of premiums that these additional people would pay into the system, if they paid the same premiums as the current City structure dictates. These premiums are not sufficient to cover the “true” costs of these actual people. The City would either need to make up this deficit from one time money, or by raising the premiums for this particular group of people, or for the City as a whole, in order to cover the costs. The “extra” money needed to cover the actual cost could range from **\$139,624 - \$224,862**.

	Employee- paid Amount (per pay period)	# of Employees enrolling	Premiums Generated (per year)	Actual Medical Cost (Claims)	Difference
<u>Higher Range Utilization (3.3% of all employees enroll)</u>					
Double Coverage	\$ 85.02	29	\$ 58,439	\$ 151,840	\$ (93,400.65)
Family Coverage	\$ 101.51	<u>67</u>	<u>\$ 163,379</u>	<u>\$ 294,840</u>	<u>\$ (131,461)</u>
Total		96	\$ 221,818	\$ 446,680	\$ (224,862)
<u>Lower Range Utilization (2.0% of all employees enroll)</u>					
Double Coverage	\$ 85.02	17	\$ 35,504	\$ 113,360	\$ (77,855.65)
Family Coverage	\$ 101.51	<u>41</u>	<u>\$ 98,911</u>	<u>\$ 160,680</u>	<u>\$ (61,769)</u>
Total		58	\$ 134,416	\$ 274,040	\$ (139,624)

DEFINITION OF ADULT DESIGNEE

The plan is triggered by the employee signing an affidavit declaring an “adult designee.” The employee and this person must attest to and provide documentation for their financial dependence or interdependence and their cohabitation. The Adult Designee’s dependents will also be covered. A dependent, as currently defined by the City is any child (adopted or biological) that is under age 26 and unmarried. An employee who is currently married may not add an adult designee to the City’s insurance plan. An “Adult Designee” is a person who meets the following criteria:

Adult Designees Under 65:

- (a) has resided in the same domicile with the eligible employee for at least the past consecutive 12 months and intends to remain so indefinitely;
- (b) is at least 18 years of age and has the capacity to enter into a contract;
- (c) is directly dependent upon, or interdependent with the employee, sharing a common financial obligation. Acceptable documentation is:
 - a. IRS form defining Adult Designee as a dependent;
 - OR
 - b. THREE of the following must be documented:
 - i. Joint loan obligation, mortgage, lease, or joint ownership of a vehicle,
 - ii. Designated as beneficiary under the employee’s life insurance policy, retirement benefits account, or will or executor of each other’s will,
 - iii. Mutually granted power of attorney (health care or financial management)
 - iv. Status as authorized signatory on bank or credit accounts,
 - v. Joint bank or credit accounts,
- (d) Agrees to sign a notarized statement with attached documentation to be filed with the Human Resources Division attesting to the above statements.

This series of criteria was developed over a period of time and many meetings of the sub-committee. The sub-committee considered many “situations” that an employee could be in (living with and caring for one parent while the other is in a nursing home, living with a sibling or friend to cut living expenses, long-term roommates, etc). This list is “tailored” in order to accommodate the many ways in which people choose to comprise their household.

The sub-committee is recommending that employees who are legally married, regardless if their spouse is included on their City health plan, NOT be eligible to declare an adult designee. This is an effort to reduce costs, as well as to avoid health care “shopping” (i.e. deciding to purchase non-city insurance for the spouse because it’s cheaper than purchasing it for a sick relative).

Adult Designees Over 65:

Due to the cost of providing medical coverage for those over 65, and due to the fact that those individuals are already covered by Medicare, Council Staff recommends that any adult designee over 65 would automatically be covered by a Medicare supplement policy, instead of by the City’s general insurance policy. The City could contract with an insurance carrier (not PEHP) to provide this coverage at a reduced rate (similar to the City’s available automobile insurance), for the employee to elect to purchase for their over-65 adult designee. This would help keep costs manageable for the rest of the City insurance subscribers, ensuring that they would not see a dramatic increase in premiums to cover the cost of elderly subscribers.

- Option - The Council’s subcommittee recommends that the City’s policy could be that if an employee has an adult designee that is over 65, but has no other

adult dependents on the City plan, the City would contribute \$50 per month towards the purchase of that Medicare supplement policy. The underlying policy issue is that since we are currently partially subsidizing health insurance for families, it would be equitable to partially subsidize families with an adult supporting and living with their elderly parent.

- o If the “likely” scenario were to occur (according to PEHP’s estimates listed below), approximately 29 employees would enroll a parent. It is safe to assume that the majority of these parents are over 65. The following shows what the City’s contribution would be towards this scenario. PEHP estimated that 1-2% of all City employees would enroll a parent over 65.

# of Employees enrolling	Contribution per month	Total City Contribution per year
29	\$50	\$17,400

Adult Designees over 65 would still have to fit the same criteria list as those under 65 (see above).

ENROLLMENT

The following chart shows the rates at which PEHP assumed people would enroll an adult designee, separated out by category of who could be considered an adult designee:

Adult Designee Category	Percent Enrollment	# of Employees enrolling
Parent	0.75% - 1.5% of all subscribers	21 - 43
Sibling	1% - 2.5% of all subscribers	29 - 72
Domestic Partner	.75% - 4% of single subscribers	8 - 41

The following chart shows the likely scenario (upper end) in terms of enrollment:

Adult Designee Category	Percent Enrollment	# of Employees enrolling
Parent	1% of all subscribers	29
Sibling	1.8% of all subscribers	52
Domestic Partner	1.5% of single subscribers	16
Total	3.3% of all employees	96 (figures may not add due to rounding)

COST – CLAIMS

PEHP has estimated a range of the increase in claims that are likely to be experienced as a result of each group. (Note: in this table, the “Parent” column refers only to parents

between the ages of 50 and 65. Parents over the age of 65 will be handled with a different City program.)

Increase in Claims per year - Siblings and Domestic Partners w/ .5 dependents					
	Parent	Sibling	Domestic Partner	Dependents	Total (including 4% admin cost)
High (5.4%)	\$218,000	\$201,000	\$116,000	\$158,500	\$721,240
Likely Scenario (3.3%)	\$146,000	\$145,000	\$44,000	\$94,500	\$446,680
Underutilization (2.0%)	\$109,000	\$81,000	\$22,000	\$51,500	\$274,040

PEHP provided the following reasoning behind .5 dependents for siblings and Domestic Partners:

Rationale behind the 0.5 multiplier for dependents is based on a similar scenario as the analysis of the Mayor's proposal. The options provided there are based on a 20% and 50% utilization of family coverage and the family coverage used a 2.5 multiplier. In this analysis, the primary adult designee is accounted for with the sibling and domestic partner line item. So, the dependent would equate to a 1.5 multiplier. Applied to the 20% and 50% as used in the Mayor's proposal analysis, this equates to 0.3 to 0.75. Therefore, a common factor of 0.5 will be applied.

The likely scenario as indicated by PEHP (2.5% of all subscribers will partake), is based on numbers from the US Census Bureau, about the number of people living with a family member that is not a spouse or a child, and the number of people living in unmarried households. The low range (1.5% of all subscribers), is assuming underutilization of the plan, and that not every employee who is living in one of these situations would enroll an adult designee. The high range (4% of all subscribers) is a "worst case" scenario - contemplating abuse/exploitation of the system.

COST – PREMIUMS

Premium Structure A - partial taxpayer subsidy

This premium structure would simply add these adult designees into the existing City insurance structure - their premiums would be determined by the overall City claims experience. Because the City's current insurance structure does to some extent subsidize dependents, these new households would also be subsidized to some extent.

In this past fiscal year, because of an increase in claims costs, an extra \$1.7 million (9%) in premiums was needed to cover the City's insurance claims. The City elected to cover 75% of this increase (\$1.3 million) by "raising" the City-paid employee premiums by \$19.25. The remaining 25% (\$445,000) was covered by a distributed increase in *employee-paid* premiums for spouses and dependents. For example, in the Preferred Care plan, Double coverage increased by \$9.32 and Family coverage increased by \$10.68.

The following table shows the previous example of 96 employees enrolling an adult designee and their possible dependents. These employees would themselves be

generating “extra” premiums collections, which would offset the true increase in claims cost. Therefore, the true increase to the overall group is **\$224,862** (or a 1% overall increase in City claims costs).

	Current Charge (per pay period)	# of Employees enrolling	"Extra" Premiums Generated (per year)	Actual Cost	Difference
Double Coverage	\$ 85.02	29	\$ 58,439	\$ 151,840	\$ (93,400.65)
Family Coverage	\$ 101.51	67	\$ 163,379	\$ 294,840	\$ (131,461)
Total		96	\$ 221,818	\$ 446,680	\$ (224,862)

<u>Pros</u>	<u>Cons</u>
<ul style="list-style-type: none"> - Any increase in claims would be absorbed by a larger pool of premiums; therefore, increases would be smaller/less dramatic - Premiums would be the same as they are for current families 	<ul style="list-style-type: none"> - Partial taxpayer subsidy (to the extent that the current City structure subsidizes <i>any</i> dependent) - If the “Adult Designee” idea is abused all subscribers would bear the cost - Current subscribers may object to having the pool expanded if it has the ultimate effect of increasing their out-of-pocket costs

Premium Structure B - no taxpayer subsidy

This structure would keep the subscribers that use the “Adult Designee” classification separate, in terms of premiums paid, from the City subscribers that use the “spouse/dependent” classification (the current City insurance plan). The Adult Designees (and their dependents) would be part of the overall City “group” (to receive insurance at an overall lower cost than in the market), but they would pay premiums on a separate structure, designed to pay 100% of the claims increases as a result of this group.

For example, if 96 employees signed up “adult designees” (including .5 dependents for siblings and domestic partners) resulting in an increase in costs of \$446,680, their premiums would be structured so that they would cover that increase in claims completely.

<u>Pros</u>	<u>Cons</u>
<ul style="list-style-type: none"> - Part of the City group insurance - lower rates - No taxpayer subsidy 	<ul style="list-style-type: none"> - Any increase in claims resulting in more premiums needed will be “absorbed” by fewer people - increases will be more dramatic - Premiums would be higher for the “Adult Designee” group than for the rest of the City plan, thus not providing equal coverage for all household types.

The following shows a calculation of what would need to be the premiums to cover their claims costs. (note: this is Council Staff's calculations of the premium structure)

Total "new people"	129
Per Member Per Month Cost	\$ 234.48
<i>x months</i>	<u>12</u>
Total Yearly Cost - per person	\$ 2,813.76
Multiplied by the number of "new people"	129
Total Yearly Cost - Overall (including inflation and admin fee)	\$ 415,993
<i>Total Monthly Cost</i>	\$ 34,666
Total Monthly Cost Per Person (premium)	\$ 268.25

COMPARISON – MAYOR’S EXECUTIVE ORDER

The Mayor’s Executive Order was intended to provide benefits to “Domestic Partners” and their dependents. The key difference between the Mayor’s Executive Order and the Council’s proposal is that the Council’s proposal extends benefits beyond domestic partners, to include the myriad of ways people choose to comprise their households (i.e. siblings living together, an employee caring for their parent, long-term roommates who have become joined financially, etc). This will expand the availability of benefits for people who have decided to form a “household” with an adult other than a “domestic partner.” The following table shows other key differences between the Council’s proposal and the Mayor’s Executive Order:

	Council Proposal	Mayor’s Executive Order
Enrollment	58-96 employees	10-22 employees
Increased Claims Costs	\$274,000 - \$447,000	\$38,000 - \$113,000
Increased <u>Real</u> Cost (after employee premiums are collected)	\$140,000 - \$225,000	\$17,000 - \$63,400
Criteria	Cohabitation for one year, 3 out of 5 interdependence documents, or an IRS defined dependent	Cohabitation for 6 months, 2 out of 3 interdependence documents

The following chart breaks down costs associated with the Mayor’s Executive Order (similar to the Chart on page 1 of this memo detailing costs relating to the Council’s proposal).

Costs associated with Mayors Executive Order (from previous PEHP analysis)

	Employee-paid Amount (per pay period)	# of Employees enrolling	Premiums Generated (per year)	Actual Medical Cost (Claims)	Difference
Higher Range Utilization					
Double Coverage	\$ 85.02	11	\$ 22,445	\$ 32,189	\$ (9,744)
Family Coverage	\$ 101.51	<u>11</u>	<u>\$ 26,799</u>	<u>\$ 80,473</u>	<u>\$ (53,674)</u>
		22	\$ 49,244	\$ 112,662	\$ (63,418)
Lower Range Utilization					
Double Coverage	\$ 85.02	8	\$ 16,324	\$ 23,410	\$ (7,087)
Family Coverage	\$ 101.51	<u>2</u>	<u>\$ 4,872</u>	<u>\$ 14,632</u>	<u>\$ (9,759)</u>
		10	\$ 21,196	\$ 38,042	\$ (16,846)

OPTIONS

The following are the next steps for the Council to take in order to enact this policy:

1. Decide premium structure A or B (how to handle the increased costs).
 - **The Council’s subcommittee recommends option A. The subcommittee recommends that the Council offset the true increased costs (after premiums are collected) with fund balance (\$140,000-\$225,000 depending on utilization).**
2. The subcommittee recommends re-writing the bereavement/ dependent leave ordinances to include adult designees and their immediate family.
 - After it is amended, the subcommittee then recommends that the bereavement/ dependent leave ordinances be referred to the Citizens Compensation Advisory Committee, for an over-all evaluation of the City’s bereavement / dependent leave approach. The sub-committee recommends that the Council ask the CCAC to compare Salt Lake City’s ordinance with other standards from around the country and best practices.

The Council could also elect to have an additional briefing before advancing this issue.