



June 5, 2002

**To: Mayor Maxwell & Personnel Committee Members**

**From: Emily Schuh, Human Resource Administrator**

**Subject: Waiver of Insurance Benefits for Employees with Family Members who have "Double Coverage"**

**Background:** The City of Anacortes joined the Association of Washington Cities (AWC) Insurance Benefit Trust in June 2000. Our insurance rates are based on the size of the family. For example, the monthly premium for an employee with no dependents is \$267 and the monthly premium for a family of four is \$755. The average cost of our insurance premiums is \$560 per employee.

**Discussion:** Many employees have dual insurance benefits. In some cases, dual coverage is provided by the City when both husband and wife are employed by us. Currently there are 5 couples employed at the City of Anacortes. In other cases, the employee's spouse and/or children have insurance coverage through another organization. It is unknown how many other employees currently have dual coverage. Allowing employees to remove dual covered employees would result in a cost savings to the City of Anacortes. To achieve a "win-win" outcome for the City and our employees a benefit should exist for both parties.

Looking at employees with double coverage is becoming a widespread approach to cost savings in health care costs. In 2002, the State of Washington Public Employees Benefit Board (PEBB) as part of a legislative budget cut eliminated the allowance of double coverage for employees where both spouses were covered by the State program. The State canceled the dual coverage, but provided no incentive for employees. This approach is not possible in the City due to language in the current bargaining agreements regarding health and welfare benefits.

A dual insurance incentive program could begin at any time. According to AWC, it is not necessary to wait until an open enrollment period. Employees would be eligible to remove dual covered spouses and dependents. All employees would continue to retain coverage through the City. To avoid future liabilities,

employees will be required to sign a waiver certifying that their dependents have other medical insurance and acknowledging that proof of continuous, comprehensive medical coverage will be required to re-enroll family members in a City of Anacortes plan outside of an open enrollment period.

If a dependent or spouse later loses their (non-City) medical coverage, they are eligible to rejoin the 1<sup>st</sup> day of the following month.

**Incentive Amount (based on 2002 rates):**

- Spouse rates are \$205/month. It is proposed that the cost savings be shared 50/50 with the employee. The employee and the City would both benefit. The City would save \$102.50/month and the employee would gain \$102.50/month. The incentive would be added to the employee's taxable wages. Utilizing a formula system would allow the cost savings to continue without having to revisit (and bargain) the rates annually. These rates are all ready captured in EDEN and would be simple to adjust as rate changes occur.
- Dependent rates are based on the number of dependents, but capped at two dependents. We pay the same amount for a family with 2 dependents as a family with 8 dependents. As a result, the incentive would be capped at two dependents. Dependent rates are \$99.10/ month for 1<sup>st</sup> dependent and \$81.85/month for 2<sup>nd</sup> dependent. The City would save \$49.55/month for the 1<sup>st</sup> dependent and \$40.93/month for the 2<sup>nd+</sup> dependents. The employee would gain \$49.55/month for the 1<sup>st</sup> dependent and \$40.93/month for the 2<sup>nd+</sup> dependent.

**Financial Implications:**

*A family of 4 who chooses to remove spouse, and 2+ children's dual coverage.*

- Annual cost savings to the City of Anacortes : **\$2316.90**
- Annual benefit to the employee by increasing wages: **\$2316.90**

*A family of 3 who chooses to remove spouse and 1 child's dual coverage.*

- Annual cost savings to the City of Anacortes : **\$1825.80**
- Annual benefit to the employee by increasing wages: **\$1825.80**

*A family of 2 (adults) who chooses to remove spouses' dual coverage.*

- Annual cost savings to the City of Anacortes : **\$1231.20**
- Annual benefit to the employee by increasing wages: **\$1231.20**

Notes:

If through bargaining, employees become responsible for a portion of the medical premium the incentive amount will be determined to be 50% of the City's portion of the premium.

Employee benefit is taxable income, unless the money is allocated to a deferred compensation plan.

**Scope:**

- Voluntary program.
- Limited to employees who have insurance benefits through the City of Anacortes. Employees are required to remain on the insurance plan. Only spouses and dependents are eligible to be removed from the insurance program.
- Only medical coverage can be waived.
- Dental, vision, and life insurance will remain in effect for all eligible dependents per AWC requirements for 100% participation.
- The City of Anacortes retains the right to revoke, modify, or cancel the policy at any time and as it sees appropriate.
- This benefit is a mandatory subject of bargaining and will be negotiated during union negotiations.

**Implementation of Program:** A letter and “fact sheet” will be provided to eligible employees. Interested employees will be instructed to contact the Human Resource department for more information. The change in insurance coverage would go into effect the 1<sup>st</sup> of the following month. Details will need to be worked out with finance about when the premium reimbursement will occur on the paycheck. Program will remain in effect until employee informs the City of Anacortes of a change or the dependent is no longer eligible for medical insurance, or the City modifies or cancels the program.

If adopted, it is recommended that non-union employees be offered this benefit immediately.

**Impact if Action Not Taken:** Status quo.