



"...meeting community needs...enhancing quality of life."

TO: Finance Committee
FROM: Tony Saucerman, Finance Director *TS*
DATE: January 5, 2017
RE: 2016 Medical Claim Costs

The City is self-insured for employee health care costs. In general, this means rather than paying health insurance premiums to a health insurance company, the City pays the cost of employee's health care (after applicable deductibles and discounts provided by United Health Care have been applied) directly to the providers. This arrangement has served the City well over the past several years and kept annual employee health care costs to a very manageable level. Unfortunately, 2016 saw a jump in costs caused mainly by five large claims. The City does purchase commercial stop-loss insurance which protects the City for individual claims exceeding \$225,000 annually. One such claim did exceed this limit in 2016 and the City was reimbursed approximately \$500,000. Additionally, originators of two of the other large claims have since left the City's health plan. So we do not see this increase as a trend but rather as an anomaly. The chart below shows the amount of health care costs paid (after stop-loss reimbursements) for 2016 as well as the previous five years for comparison purposes.

<u>Est. 2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$8,094,542	\$6,657,800	\$6,333,841	\$6,851,646	\$7,310,112	\$7,428,650

As can be seen, the 2016 costs were noticeably higher than any of the past five years. In terms of the budget, health care costs are grouped with other fringe benefit costs (WRS, FICA, dental insurance, life insurance, etc.) and allocated to each of the individual department budgets each payroll, with a final allocation done once all fringe benefit costs have been recorded for the year. This final allocation will be done in late January or early February, 2017.

If this final allocation causes any departments to be over-budget overall, we will look to two reserve funds to make up the difference. First, is the Wage Reserve which we anticipate to have a balance of approximately \$350,000 on December 31, 2016. This reserve is part of the 2016 Budget and was established to fund unanticipated employee labor costs. The second funding source is a reservation of general fund balance for health cost stabilization which has a projected balance of approximately \$700,000 as of December 31, 2016. If either of these funding sources is required, the budget request will be presented to the Finance Committee for approval in February once final 2016 operating results are recorded.

As always, if you have any questions on this matter or would like further clarification, feel free to contact me.