



**EXECUTIVE MANAGEMENT & AUDIT COMMITTEE**

**August 17, 2006**

**SUBJECT: GROUP INSURANCE PLANS FOR NON-CONTRACT, AFSCME  
AND EXPO EMPLOYEES**

**ACTION: RENEW GROUP INSURANCE POLICIES**

**RECOMMENDATION**

Authorize the Chief Executive Officer to renew group insurance policies covering Non-Contract, AFSCME, and EXPO employees for a one-year period beginning January 1, 2007. The new monthly premium amounts are shown on Attachment 1.

**RATIONALE**

A comprehensive flexible benefits package is necessary to attract, motivate, and retain qualified employees. To that end, Metro, including the Public Transportation Services Corporation, seeks to offer benefit plans that are both cost effective for the company and our employees, as well as being competitive with other local public agencies.

**BACKGROUND**

The Non-Contract Group Insurance Plan, a flexible benefits program, was implemented in August 1994. Roughly 95% of the employees covered by the medical, dental, and vision benefits are PTSC employees and the funding for the benefits is budgeted in the PTSC budget for FY07. On an annual basis, employees may choose the medical, dental, vision, life, accidental death and dismemberment, and long-term disability plans that meet their needs. Alternatively employees may opt to waive medical and/or dental coverage and receive a taxable cash benefit.

Generally, each element of the plan contains provisions for the insurers to update premiums annually based on our loss experience and current market conditions. Mercer Health and Benefits is responsible for marketing the group insurance contracts with qualified insurance carriers and negotiating annual renewal premium proposals. Based on those negotiations, under staff oversight, the original premiums quoted were reduced considerably to an average increase of 3.9%, a savings of \$216,000 for the medical plans.

In order to establish parity with the Blue Cross (HMO), the Kaiser Plan's Prescription Drug coverage will change from \$5.00 for any prescription to \$5.00 for generic drugs and \$10.00 for brand name drugs.

Life Insurance, which was in the final year of a rate guarantee, was placed out to bid. Sun Life Financial was the successful bidder with estimated annual savings of \$346,000 for basic life coverage and \$440,000 for voluntary life. The new rates are effective January 1, 2007 with a 3- year rate guarantee.

Additionally, Benefits staff has met with their peers at the City of Los Angeles and Los Angeles County to discuss group benefits and explore opportunities to jointly address common concerns. The issues identified include: poor correlation of price and quality on the part of some providers; the need for greater transparency from the carriers; engaging employees to improve their behavior and lifestyle; and working with Kaiser to better understand the impact of their new rating model.

### **ALTERNATIVES CONSIDERED**

All medical and dental plans were reviewed to assess potential cost savings that could be derived from decreasing plan benefit levels. Reducing plan benefit levels is not recommended since overall premium increases for calendar year 2007 are lower than anticipated and projected expenses are within the FY 2007 budget.

Metro could self-fund and/or self-administer health benefits. This alternative is not recommended because of the resources required to establish the medical expertise and operational infrastructure necessary to review and process claims, as well as the fiduciary liability Metro would assume.

### **FINANCIAL IMPACT**

Funding for the Non-Contract and AFSCME group insurance plans is included in each department's FY 2007 budget and on the balance sheet for accrued retiree medical liabilities. Increases in medical and dental premiums are consistent with the assumptions used to develop the FY 2007 budget. Based on the current employee participation by plan, costs are expected to be within the adopted budget. All full-time regular Non-Contract and AFSCME employees will contribute 10% of the actual premium, for each medical and dental plan selected as previously established by the Chief Executive Officer. EXPO employees pay a maximum \$50 per month for medical and dental coverage as established by the EXPO Board.

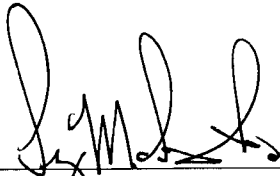
The average monthly company cost for medical/dental coverage per Non-Contract and AFSCME employee was \$744 for FY 2006. For FY 2007, the average monthly company cost is estimated at \$781 per employee.

The current labor agreements provide for FY 2007 monthly contributions of \$867 for UTU actives, \$956 for the ATU actives and \$883 for the TCU active employees. Union employees contribute less than 10% of the premium for the coverage they select.

## **ATTACHMENTS**

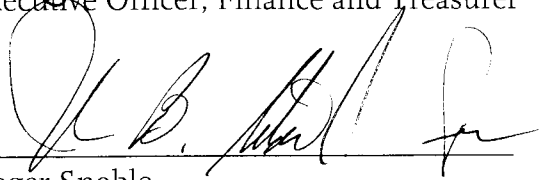
1. Monthly Premium Rates
2. Monthly Employee Contributions

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ATTACHMENT 1

MONTHLY PREMIUM RATES

PROVIDER		CY2006	CY2007	Avg. PCT. INC.	EST. # EMP 1/01/07
Blue Cross (PPO) (Includes Vision)	Single	\$499.73	\$473.32	(5.3%)	243
	Couple	\$1,000.95	\$947.78	(5.3%)	307
	Family	\$1,348.32	\$1,277.00	(5.3%)	275
Blue Cross (HMO) (Includes Vision)	Single	\$332.76	\$372.80	12.1%	96
	Couple	\$693.01	\$777.09	12.1%	115
	Family	\$994.60	\$1,114.70	12.1%	153
Kaiser (HMO)	Single	\$335.27	\$381.03	13.6%	176
	Couple	\$670.54	\$762.06	13.6%	239
	Family	\$948.81	\$1,078.31	13.6%	317
Delta Dental (PPO)	Single	\$46.53	\$46.53	0.0%	383
	Couple	\$80.87	\$80.87	0.0%	523
	Family	\$121.53	\$121.53	0.0%	530
Dental Health Services (DHMO)	Single	\$15.69	\$15.69	0.0%	74
	Couple	\$29.04	\$29.04	0.0%	97
	Family	\$43.73	\$43.73	0.0%	114
Deltacare (DHMO)	Single	\$18.31	\$18.31	0.0%	55
	Couple	\$33.24	\$33.24	0.0%	58
	Family	\$49.20	\$49.20	0.0%	133

Waive Medical \$116.00 month (121 employees)

Waive Dental \$17.00 month (75 employees)

ATTACHMENT 2

MONTHLY EMPLOYEE CONTRIBUTIONS

PROVIDER		CURRENT N/C & AFSCME	PROPOSED N/C & AFSCME (a)
Blue Cross (PPO) (Includes Vision)	Single	\$50.00	\$47.00
	Two Party	\$100.00	\$95.00
	Family	\$135.00	\$128.00
Blue Cross (HMO) (Includes Vision)	Single	\$33.00	\$37.00
	Two Party	\$69.00	\$78.00
	Family	\$99.00	\$111.00
Kaiser (HMO)	Single	\$34.00	\$38.00
	Two Party	\$67.00	\$76.00
	Family	\$95.00	\$108.00
Delta Dental (PPO)	Single	\$5.00	\$5.00
	Two Party	\$8.00	\$8.00
	Family	\$12.00	\$12.00
Dental Health Services (DHMO)	Single	\$2.00	\$2.00
	Two Party	\$3.00	\$3.00
	Family	\$4.00	\$4.00
Deltacare (DHMO)	Single	\$2.00	\$2.00
	Two Party	\$3.00	\$3.00
	Family	\$5.00	\$5.00

(a) Non-Contract and AFSCME employees contribute 10% of actual medical and dental costs.