



To: The Douglas City Council

From: Lisa Nocerini, City Manager
Laura Kasper, City Clerk/Human Resources Director

RE: City of Douglas Healthcare Benefit Structure

Date: June 2nd, 2025

This memo outlines the City's current healthcare benefit structure, provides an update on insurance cost increases, and presents staff recommendations for the upcoming fiscal year. It also explains the implications of Public Act 152 and why certain options are not operationally feasible for Douglas.

Background

The City of Douglas currently employs 20 full-time staff members, 18 of whom are enrolled in the City's health plan and 19 of whom are enrolled in the dental insurance plan.

Each year, the City must determine its approach to employee healthcare contributions under Public Act 152 of 2011, which limits how much public employers can contribute toward employee premiums. The Act offers three compliance options:

1. Cover no more than 80% of the cost of employee healthcare premiums;
2. Follow the state's annual hard cap—a fixed dollar amount by coverage type (single, two-person, family);
3. Opt out (by a two-thirds vote of the governing body) and establish the City's own contribution method.

Historically, Douglas has elected to opt out, allowing flexibility to tailor a contribution model that balances costs and employee needs.

Current Year Challenges

This year, the City received notice of a 15.6% increase in healthcare premiums. In response, the administration and staff have spent significant time reviewing options that maintain competitive benefits while being fiscally responsible.

We are proposing offering two new health plans and adopting a cost-sharing model that distributes the increase thoughtfully across coverage tiers—single, two-person, and

family—rather than continuing a flat-rate approach. The model aims to ensure that the health plan offering remains competitive, costs are shared equitably and remains sustainable for both the City and its employees. The changes will result in an overall expected gross increase of +7.52%, or +\$ 21,840 in premium (versus 15.6%, or \$43,500). Employees will contribute an additional \$7,000 per year towards the cost of coverage. With the updated cost share arrangement, the net impact to the City will be +5.32%, or +\$ 14,900. Employees will now contribute 5.7%, or \$17,300 of the cost of coverage (versus 3.25%, or \$10,800).

Why the Hard Cap Is Not Practical for Douglas

While the hard cap option may appear financially appealing at first glance, its application for a small employer like Douglas presents significant administrative and logistical challenges:

- **Individualized Accounting:** Under the hard cap, the City would be required to track and reconcile contributions for each of the 18 insured employees separately. Since our healthcare rates are age-banded (because we have under 50 employees), premium costs vary by individual, not by usage or tier. This results in 18 different plan costs that would all need to be manually reviewed and adjusted against the state's hard cap thresholds.
- **Administrative Burden:** This would create a paperwork and compliance burden for both City Hall and payroll staff. Monthly calculations, audits, and employee communication would become far more complex and error-prone.
- **Unintended Equity Issues:** The hard cap often disproportionately affects employees with family coverage or older employees whose premiums are higher under the age-rated model, potentially undermining morale and recruitment/retention efforts.

For these reasons, we recommend continuing the opt-out approach, which has historically allowed Douglas to craft a balanced, consistent, and administratively feasible healthcare benefit strategy.

Proposed Premium Limits (Effective July 1, 2025)

Based on our review, the proposed annual premium limits by coverage type (based on blended anticipated monthly premiums) are:

- \$628.79 for single coverage – HMO Plan
- \$757.54 for single coverage – PPO Plan
- \$1,359.57 for two-person coverage – HMO Plan
- \$1,637.75 for two-person coverage – PPO Plan
- \$1,780.39 for family coverage – HMO Plan
- \$2,581.68 for family coverage – PPO Plan

These amounts reflect a balanced distribution of the gross 7.52% increase and provide cost certainty for both the City and employees over the next fiscal year. The intent moving forward is to share any future health plan cost increases ratably between the City and employees (i.e., the City will absorb the same dollar amount increase as employees do in future years).

Conclusion

We believe this approach represents a fair and responsible plan that acknowledges rising healthcare costs while maintaining quality benefits and manageable administration. Staff and leadership have worked collaboratively to develop a structure that is both equitable and sustainable.