



## AGENDA ITEM SUMMARY

City Council

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### STAFF

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Teresa Roche, Human Resources Executive  
Kelley Vodden, Director of Compensation, Benefits, and Wellbeing  
Chris Martinez, IES Financial Planning and Analysis Manager

### SUBJECT

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**First Reading of Ordinance No. 177, 2024, Making a Supplemental Appropriation of Additional Revenue Received in the Benefits Fund for the City's Medical, Dental, and Life Insurance Plans.**

### EXECUTIVE SUMMARY

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The purpose of this item is to appropriate \$1,137,041 from unanticipated revenue collected in the Benefits Fund to cover Medical/Dental claims and various Life Insurance premium expenses that could potentially exceed 2024 budgeted appropriations.

The City's Benefits Plan is a self-funded health plan in which premiums collected from both employees and employers are recorded as revenue in the Benefits Fund to pay for plan administration, medical/dental claims, and insurance premiums. As such, this is a self-funded appropriation request requiring no use of reserves.

### STAFF RECOMMENDATION

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Staff recommends adoption of the Ordinance on First Reading.

### BACKGROUND / DISCUSSION

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As the City operates under a self-funded health plan, the Benefits team must project and budget for all benefit plan expenditures based on market trends in medical, dental, and pharmaceutical expenses, insurance premiums, and the projected number of plan subscribers. Forecasting these variables is required to calculate the revenue the City will need to collect from the employer and employees to meet the budgeted plan expenditures. This is accomplished during the Budgeting for Outcomes (BFO) process.

For the 2023-2024 BFO, these projections took place in Q1 of 2022, where the variables and data used to project out anticipated '23-'24 enrollees and cost growth were influenced by the COVID pandemic. During that time, claims activity and costs were still below what would be considered normal in 2021. At the advisement of the City's benefits consultant, the Benefits team applied a level of increases based on industry recommendations, anticipating a bounce back in medical, dental, and insurance costs and subscribers. Those budget projections were enough to cover 2023 plan performance. However, higher subscribers and activity levels in 2024 are driving the potential for inadequate expenditure authority to cover 2024 costs even though the City has collected adequate premium revenues from employees, the organization, and the Poudre Fire Authority (PFA). Please see the breakdown below of the identified plan overages this request is addressing:

Benefit Plan Component	Unanticipated Expenses above Budget
<b>Medical Claims</b>	\$ 822,020
<b>Dental Claims &amp; Dental Plan Administration</b>	\$ 166,000
<b>Life, FPPA AD&amp;D, and FAMLI</b>	\$ 149,021
<b>Total YTD Benefit Expenses Above Budget</b>	<b>\$ 1,137,041</b>

The higher claims activity and premiums have a direct correlation to the number of subscribers in the benefits plan, which has increased by approximately 6% (140 subscribers) over the last 1.5 years as compared to a budgeted 2-3% subscriber growth as what was originally projected by the Benefits team. When this happens, the plan collects enough premium revenue to cover the number of subscribers; however, the plan is bound by the original expenditure appropriation based on 2-3% subscriber growth.

In evaluating both Medical and Dental plan performance through October 2024, the City is experiencing higher claims activity than projected for the 2024 Benefits budget. The Medical Plan is experiencing a 100% increase in the number of high-dollar claimants (>\$100k) with 23 active claimants when, in a typical year, the plan budgets for 10-13 high-dollar claimants. This has had a YTD impact of approximately \$822,020 in unanticipated medical claims expenses that is continuing through Q4 of 2024. On the Dental side of the plan, the plan saw a 9% increase in overall expenses, where dental administrative expenses are over by \$6,000, and claims are over by approximately \$160,000, attributed to higher claims activity driven by enrollment increases of 4.5% and the natural variability of plan utilization. Historically, both medical and dental plans experience higher claim expenses in Q4, resulting from participants reaching plan deductibles and scheduling procedures before year-end. The benefits team's budgets for this seasonal activity increase in the final quarter of each year.

The City carries ten (10) lines of Life Insurance and Accidental Death and Dismemberment (AD&D) on the insurance side. Each line has variabilities, considerations, and levels of insurance coverage based on what an employee may select during enrollment that the benefits team must evaluate when projecting out potential enrollees and premium costs growth. Below is a breakdown of each insurance line:

**City Paid Benefit**

- Basic Life Insurance
- Accidental Death & Dismemberment (AD&D)
- Fire & Police Pension AD&D (Police Only)

**Employee Paid Benefit**

- Spouse Life Insurance
- Child Life Insurance
- Supplemental Life Insurance
- Voluntary AD&D
- Voluntary AD&D – Spouse
- Voluntary AD&D – Chil

**PFA Paid Benefit**

- Fire & Police Pension AD&D (PFA Only)

The employee paid Voluntary AD&D lines' costs, and the Child Life Insurance was relatively flat and had no material effect on YTD 2024 overages, so the focus will be on the rest of the lines of coverage. Below is a table that reflects enrollee and cost changes from 2023 to 2024:

Insurance Line	2023 Enrollees	2024 Enrollees	Enrollee Growth	Cost % Increase	YTD Over Budget
AD&D *	2054	2188	7%	10%	\$ 5,352
Basic Life *	2054	2188	7%	11%	\$ 10,596
Dependent Life: Spouse	540	542	0%	10%	\$ 5,175
Supplemental Life	1059	1079	2%	6%	\$ 27,476
FPPA D&D - Police *	257	264	3%	8%	\$ 47,722
FPPA D&D - PFA	211	206	-2%	8%	\$ 51,699
<b>Total YTD Insurance Costs over Budget</b>					<b>\$ 148,021</b>

\* City Paid

The majority of the overages on the Basic Life and AD&D are attributed to higher enrollee growth than what was originally projected in the forecast cost model. Employee paid Dependent Life and Supplemental Life insurance line cost changes can be a result of employees selecting higher levels of coverage to which the employee pays those higher premiums to the City on their behalf. The FPPA D&D cost differential was also the delta between what industry standard was advising for budgeted increases compared to what has transpired through 2024. Insurance lines, in general, saw increases, which is consistent with inflation pressures. Insurance premium increases are being felt by all insurers, whether it's automobile, life, or home in both the private and public sectors. Again, the premium revenues for all these lines have already been collected throughout the year and are held in the Benefits revenue account.

Lastly, the City chose to participate in the Colorado Family and Medical Leave Insurance Program (FAMLI), which was not budgeted and has added over \$1,000 in unbudgeted administrative costs.

For the remainder of 2024, cost projections show the plan will still come very close to hitting initial budget projections; however, there is a very thin margin of error, and is also dependent upon the variability of claims activity. The YTD overages, as explained, represent just a 2% variance to the 2024 Benefits budget. Given the impact of the number of high-dollar claimants, growth of enrollees, and inflationary cost pressures, the Benefits team recommends appropriation of the excess \$1,137,041 in Benefit revenue as a protection provision to cover any potential expenditure overages and to avoid violating Article V, Section 8 of the City Charter.

### CITY FINANCIAL IMPACTS

Through September 2024, the City has collected excess Benefits Fund revenue of \$1,137,041, broken down as follows:

Benefit Plan Contributions	YTD 2024 Unanticipated Revenue
Contributions to PPO/HDHP Plans	\$ 854,480
Contributions to Dental Plans	\$ 112,705
Contributions to Life Insurance & FPPA	\$ 169,856
<b>Total Unanticipated Benefit Plan Revenue</b>	<b>\$ 1,137,041</b>

This is a self-funded appropriation request requiring no use of reserves.

### BOARD / COMMISSION / COMMITTEE RECOMMENDATION

None.

### PUBLIC OUTREACH

None.

## **ATTACHMENTS**

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1. Ordinance for Consideration