

CITY OF MINNETRISTA



CITY COUNCIL AGENDA ITEM

Subject: Health Insurance Opt-Out Program

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Meeting Date: October 5, 2026

Issue: The proposed health insurance opt-out program would allow benefits-eligible employees who have health insurance coverage through another source, such as a spouse's employer plan, to decline the City's health insurance and receive an opt-out payment instead. A formal policy implementing the program is attached for City Council adoption.

Overview: The Personnel Committee is recommending the following program terms:

1. **Proof of alternate coverage.** To participate, the employee must provide documentation confirming enrollment in health insurance coverage outside of the City's plan, such as a spouse's plan or an individual market plan.
2. **Use of opt-out funds.** The employee may direct opt-out funds toward other open enrollment offerings, including dental insurance, a flexible spending account (FSA), and long-term disability coverage.
3. **Remaining funds.** Any portion of the opt-out payment not directed toward other benefit elections will be paid to the employee as taxable income.
4. **Opt-out amount.** The opt-out payment is set at 80% of the City's Single coverage contribution, regardless of which coverage tier the employee is opting out of. At the current Single contribution of \$900 per month, the opt-out payment would be \$720 per month.

This structure benefits both employees and the City. Employees gain the flexibility to use a health insurance plan available through a spouse's employer that may better fit their needs, while still receiving compensation they can direct toward other benefits or take as income. The City benefits financially in every opt-out scenario, because the payment is fixed at 80% of the Single rate rather than 80% of the tier the employee previously held. As a result, opt-outs from Family coverage generate substantially greater savings than opt-outs from Single coverage.

Fiscal Impact: Because the opt-out payment is anchored to the Single rate, each employee opting out of Family coverage generates more than four times the annual savings of an employee opting out of Single coverage, as shown below.

Mission Statement:

The City of Minnetrista will deliver quality services in a cost effective and innovative manner and provide opportunities for a high quality of life while protecting natural resources and maintaining a rural character.

Coverage Tier	City Contribution (Monthly)	Opt-Out Payment (Monthly)	City Savings (Monthly)	City Savings (Annual)
Single	\$900	\$720	\$180	\$2,160
Family	\$2,000	\$720	\$1,280	\$15,360

Aggregate savings will scale directly with participation. For example, five Family-tier opt-outs would save the City approximately \$76,800 annually, while five Single-tier opt-outs would save approximately \$10,800 annually. Actual savings will depend on the number of eligible employees who elect to participate and the coverage tier they currently hold. The opt-out amount would be recalculated each plan year based on the City's Single contribution in effect for that year.

Implementation: If approved, the program would be offered during the open enrollment period for the 2027 plan year and to new employees at the time of hire. Participating employees would be required to provide proof of alternate coverage each year, and an employee who loses alternate coverage could enroll in the City's plan in accordance with the plan's special enrollment rules.

Next Steps: Staff are seeking City Council approval of the Health Insurance Opt-Out Program and adoption of the attached Health Insurance Opt-Out Program Policy, effective January 1, 2027.

Attachment: Health Insurance Opt-Out Program Policy

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PERSONNEL POLICY

Subject: Health Insurance Opt-Out Program Policy

Effective Date: January 1, 2027

Adopted by City Council: October 5, 2026

Section 1. Purpose

The purpose of this policy is to establish a Health Insurance Opt-Out Program for eligible employees of the City of Minnetrista ("City") who have health insurance coverage available through another source. The program provides employees with flexibility in their benefit elections while reducing the City's overall health insurance costs.

Section 2. Eligibility

- A. An employee who is eligible to enroll in the City's group health insurance plan ("benefits-eligible employee") may participate in the program, subject to the requirements of this policy.
- B. An employee whose alternate coverage is provided through the City's own group health insurance plan, including coverage as the dependent of another City employee, is not eligible to receive an opt-out payment.
- C. Employees covered by a collective bargaining agreement are eligible to participate only to the extent provided for in, or not in conflict with, the applicable collective bargaining agreement.

Section 3. Proof of Alternate Coverage

- A. As a condition of participation, the employee must provide documentation, in a form acceptable to the City, confirming that the employee is enrolled in health insurance coverage outside of the City's plan, such as a spouse's employer-sponsored plan or an individual market plan. The employee must also sign an attestation that the employee is enrolled in such coverage.
- B. Documentation and the signed attestation must be provided at the time of initial election and at each annual open enrollment period. No opt-out payment will be made until the required documentation has been received.

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- C. The employee must notify the City in writing within thirty (30) days if the employee's alternate coverage ends or changes.

Section 4. Opt-Out Payment Amount

- A. The monthly opt-out payment shall equal eighty percent (80%) of the City's monthly contribution toward Single health insurance coverage in effect for the applicable plan year, regardless of the coverage tier the employee would otherwise be eligible to elect.
- B. For example, at a City Single coverage contribution of \$900 per month, the opt-out payment would be \$720 per month.
- C. The opt-out payment amount shall be recalculated each plan year based on the City's Single coverage contribution as established by the City Council.

Section 5. Use of Opt-Out Funds

- A. A participating employee may direct all or a portion of the opt-out payment toward other benefits offered by the City during open enrollment, including dental insurance, a flexible spending account (FSA), and long-term disability coverage.
- B. Elections are made through the City's Section 125 cafeteria plan and remain in effect for the entire plan year, except as otherwise permitted by the plan and applicable Internal Revenue Service rules. Contributions to a flexible spending account are subject to the annual limits established by the Internal Revenue Service.

Section 6. Payment of Remaining Funds

- A. Any portion of the opt-out payment not directed toward other benefit elections shall be paid to the employee as taxable income, subject to all applicable tax withholding.
- B. Remaining funds shall be paid in equal installments through the City's regular payroll.
- C. Opt-out payments shall be treated for retirement contribution, overtime, and other payroll purposes as required by applicable law.

Section 7. Enrollment and Changes

- A. An employee may elect to participate in the program at the time of initial eligibility as a new employee or during the City's annual open enrollment period. An election made during open enrollment takes effect on the first day of the following plan year.

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- B. An employee who experiences a qualifying event, such as the involuntary loss of alternate coverage, may enroll in the City's group health insurance plan in accordance with the plan's special enrollment rules. Opt-out payments, and the application of opt-out credits to offset the cost of other benefits, shall end on the date the employee's coverage under the City's plan begins.
- C. An employee may not otherwise change an opt-out election during the plan year, except as permitted by the City's Section 125 cafeteria plan and applicable law.

Section 8. Termination of Payments

Opt-out payments shall end upon the earliest of: (1) the employee's separation from City employment; (2) the employee no longer being a benefits-eligible employee; (3) the end of the employee's alternate coverage; or (4) the employee's enrollment in the City's group health insurance plan. Payments for a partial month shall be prorated.

Section 9. Administration

The City Administrator or designee is responsible for administering this policy, including establishing enrollment forms, documentation requirements, and procedures consistent with this policy, the City's Section 125 cafeteria plan, and applicable law.

Section 10. Amendment or Termination

The City Council may amend or terminate this policy at any time. Participation in the program does not create a contract or a vested right to future opt-out payments. Any amendment or termination will generally take effect at the start of a plan year.

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