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MEMORANDUM

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: JOSHUA TETZLAFF, CITY ADMINISTRATOR

SUBJECT: 2026 EMPLOYEE HEALTH INSURANCE BENEFITS

DATE: SEPTEMBER 23, 2025

As the budget process continues to evolve, one of the questions to answer is health insurance that will be offered to employees in 2026. In 2025, the City changed the deductible/out-of-pocket maximum from $2,250 for a single person to $3,300 for a single person. This was done to limit the premium increase the City was offered. It should be noted, at the same time, the City increased the HSA contribution from $500 for single employee coverage to $1,125. Family insurance plans are double those amounts. By raising the deductible/out-of-pocket maximum, the City was able to save enough on premiums that raising the HSA contribution for employees helped offset part of the employees' increased costs while still saving the City on overall benefit expenditures from just keeping the same insurance and HSA contributions as 2024.

Going into 2026, the City was informed that it had a 17% cap on total premium increases if it maintained its existing plan. As I stated at a previous meeting, the City has now been quoted at a 16.9% premium increase from 2025 and that this number is included in the current budget drafts that have been reviewed by the Council. This is primarily due to high claims in 2024, which also drove up the 2025 rates. Of note, federal guidelines are moving the deductible/out-of-pocket maximums automatically for 2026, which means that if the City were to keep the existing plan, the deductible $3,300 for a single employee coverage would move to $3,400 for in-network coverage. Out-of-network coverage also sees an automatic increase. These coverage changes are due to IRS mandates. Because the City contributes 80% to the overall cost of employee health insurance premiums, with the employees contributing the other 20%, both the City and the employee share the increase in premium costs, with the employee also having higher deductible/out-of-pocket maximum costs. I have included a summary sheet showing these changes (Health Insurance Renewal, SHSA3 Aware).

During discussions, Gallagher shared two other plans for the City to consider that would result in lower premiums paid by the City/Employees but would raise the employees' deductible and out-of-pocket costs.

Alternate #1 (Health Insurance Alternate #1, SHSA4 Aware) would keep the same deductible as the renewal plan, but would raise the total out-of-pocket maximums for employees. For single coverage, the out-of-pocket maximum would rise to $5,400 for in-network coverage. To get to that maximum, all costs above the deductible would be covered with a 20% copay by employees until that maximum amount is paid. This is different from the existing plan where employees pay full costs up to the deductible, and then all costs are covered by the plan. This is still considered a high-deductible plan, which means that employees pay more out-of-pocket, but are allowed to save into an HSA account. For non-HSA eligible plans, deductibles are much lower, as are potential out-of-pocket costs, but premiums are higher and employees would not be able to save into an HSA account. This plan would have a 7.7% increase in total premium costs over 2025.

Alternate #2 (Health Insurance Alternate #2, SHSA5 Aware) would increase the deductible/out-of-pocket maximum to $4,400 for single coverage. The rest of the plan would remain identical to the existing plan. This would be an additional $1,000 above renewal. Family coverage would see double these numbers. The quote for cost on this plan would be 9.5% higher premiums than 2025.

As a summary, stated for single coverage. Family coverage is double these numbers:

Current Plan

- Deductible: $3,300
- Out-of-Pocket Maximum: $3,300
- Copay: None in-network
- HSA Eligible
- Note: Increase Deductible from 2024 amount of $2,250

Renew Existing Plan (16.9% premium increase)

- Deductible: $3,400
- Out-of-Pocket Maximum: $3,400
- Copay: None in-network
- HSA Eligible
- Cost: $788/month single, $2,370/month family
- Note: IRS mandated deductible/out-of-pocket maximum increase

Alternate Plan #1 (7.7% premium increase)

- Deductible: $3,400
- Out-of-Pocket Maximum: $5,400
- Copay: 20%
- HSA Eligible
- Cost: $730/month single, $2,181/month family
- Note: This plan increases the deductible/out-of-pocket maximum and introduces a copay element after the deductible is met.

Alternate Plan #2 (9.5% premium increase)

- Deductible: $4,400
- Out-of-Pocket Maximum: $4,400
- Copay: None in-network
- HSA Eligible
- Cost: $742/month single, $2,219/month family
- Note: Increase deductible/out-of-pocket maximum

As the Council considers this, it should be remembered that the City and the employees split the cost of the premiums 80/20. This means that both the City and the employees are affected by premium increases with the employees being additionally affected by deductible and out-of-pocket maximum increases. A renewal of the existing plan would increase the City's contribution to a single coverage plan by $1,068 annually and the employees contribution by $364 annually (with the out-of-pocket maximum included). This means the employees pay a greater portion of the increased costs ($1,332 premium and $100 out-of-pocket), with the split of increase being about 75/25 once out-of-pocket increases are included.

For the other plans, the portion of the increase that is born by the employees is even greater. For Alternate Plan #1, combining the increased premiums and the increased out-of-pocket maximum for single coverage comes to a $588 annual increase for the City and a $2,244 annual increase for employees. This means for Alternate Plan #1, the split between the City and the employees for the increase is 21/79, with the employee picking up the vast majority of the increase in total costs ($732 premium and $2,100 out-of-pocket). Finally, for Alternate Plan #2, the split between the City and the employees for the increase is 35/65, with the employee again picking up the majority of the increase in total costs ($876 premium and $1,100 out-of-pocket).

What I am trying to show here, is that while the City pays 80% of the premium for health insurance, that is not the total cost of the insurance and that the City isn't the only one who feels the increase. Employees also pay 20% of the premiums plus than have to pay the out-of-pocket costs of the insurance when receiving care. So the cost of healthcare for the employee goes up by both the percentage increase of the premiums plus any increase in the out-of-pocket maximums. In my view, the decrease in premiums would not be worth the benefit of the higher out-of-pocket costs realized by alternate plans in 2026. Because of that, my recommendation is to renew the existing plan for 2026.

Recommendation

After reviewing the current plan, as well as the plans that could be alternatives, I am recommending to the City Council to maintain the existing health insurance benefits moving into 2026. In my view, the alternatives do not save significant enough in premiums to offset the much higher out-of-pocket costs that could result. Already, the City and employees would be seeing premium increases as well as the employees realizing higher out-of-pocket costs should the plan remain the same.

Because of this, my recommendation is to maintain the existing health insurance plan for 2026.