



CITY OF KIRKLAND
Human Resources Department
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MEMORANDUM

To: Kurt Triplett, City Manager

From: James Lopez, Director of Human Resources and Performance Management
Kelly Maggio-Valenti, Human Resources Analyst
Nicole Bruce, Sr. Human Resources Analyst

Date: March 4, 2016

Subject: Additional One-Time HRA VEBA Contribution for 2016

RECOMMENDATION

Due to the success of the *Healthy Kirkland Initiative*, the City Council authorizes a one-time payment from the health benefit fund to allow the amount of \$500.00 to be deposited into the HRA VEBA Trust Accounts of all eligible employees in the following bargaining units and employee groups:

- a. The City and Public, Professional & Office-Clerical Employees and Drivers Local Union No. 763 ("Teamsters")
- b. The Washington State Council of County and City Employees Local #1837 of the American Federation of State, County and Municipal Employees ("AFSCME")
- c. Public Safety Employees Union #519, Kirkland Police Lieutenants Union ("PSEU")
- d. The Management and Confidential employee group ("MAC")
- e. Kirkland Police Guild – Commissioned Staff ("GUILD")

This authorization is provided by approval of the attached resolution and would be subject to the City Manager's discretion to negotiate the terms and conditions of the one-time payment with each of the recipient units. The City Manager would also be authorized to implement such administrative procedures as may be necessary to carry out the directions of this Resolution.

BACKGROUND

Over the last several years, City of Kirkland staff has been researching implementing plans to put a comprehensive health care system in place that would improve employee health while mitigating the rising cost of health care. During this time there were several reports to Council

regarding the benefits challenges the City faced and recommendations were made to attempt to meet those challenges.

Specifically, since becoming self-insured in 2011, the City had experienced claims growth of over 15% annually. During this time period by prudently balancing reserve levels against expected liabilities, the City had managed to keep its premium equivalent increases closer to 8.8% annually on average. Despite keeping these rate increases at a somewhat reasonable level, this was an unsustainable trend, both as an ongoing budget concern, and to avoid paying a tax liability under the new federal health care law, the *Affordable Care Act*.

This potential liability, known as the "Cadillac Tax" was first introduced to Council during the October 15th, 2013 Council study session. In the study session it was discussed that this tax could cost the City upwards of \$1.5 million in 2018 if the City were to see premium increases of 12% per year. Staying under the tax would require that rate increases per year be limited to approximately 2.5%. Although the federal government has recently moved the effective date of the "Cadillac Tax" until 2020, significant future financial liability still exists should the City fail to effectively manage health care costs.

In May of 2014 in the face of these challenges, City leadership put established the goal of being able to provide City employees with a quality healthcare plan that would make them healthier, contain costs and be sustainable into the future. In order to achieve that goal, the City sought ideas from around the country that had shown success, and looked for ways to build upon those successes. The City also sought to avoid, if at all possible, strategies that emphasized traditional methods of cost shifting.

As a result, focusing on three guiding principles, 1) improving employee health, 2) bending the cost growth trend, and 3) avoiding liability under the coming "Cadillac Tax", the City designed a new approach to delivering high quality care. The new "full systems approach" called "*the Healthy Kirkland Initiative*," dramatically shifted 1) individual economic incentives to better empower individuals to make more informed medical decisions and improve the likelihood of health savings, 2) increased market transparency so employees could be more informed in those decisions, and 3) provided unlimited primary care services, free to employees and qualified dependents, to promote proactive healthy behavior, and ensure participants had ample opportunity to get the critical on-demand primary care necessary to help ensure healthier lives.

The *Healthy Kirkland Initiative* consists specifically of a high deductible health plan, a significant HRA VEBA contribution, an employee information assistance program, a heavily incentivized wellness incentive and a full service near site primary care health facility. The City partnered with the Vera Whole Health clinic (the "VERA" clinic) as the near site health facility providing primary care services to employees and their qualified dependents at no cost to the employee.

The City initiated the *Healthy Kirkland Initiative*, including opening the VERA clinic in April of 2015. What differentiated the City's new approach was not so much the implementation of any of these ideas separately as isolated efforts to improve care, rather the strategy was implementing each of these elements together, at the same time, as *interdependent* parts of a full health care delivery system. Although there are some nuances, generally, the wellness incentive is earned when the employee (and eligible partners) receives a biometric screening at the clinic, reviews the results with a provider at the clinic, has at least one consultation with the

clinic health coach, and enrolls in the Compass health care concierge service. Employees who achieve all of these steps receive a \$600 wellness contribution to their HRA VEBA.

In order to implement the new approach, the City moved forward with its MAC leadership group and signed a memorandum of understanding with each of the bargaining units listed below to transfer from the existing First Choice Prime Plan to the new First Choice High Deductible Health Plan and other plan elements, effectively putting in place the *Healthy Kirkland Initiative* on April 1, 2015. Those bargaining units included Teamsters, AFSCME and PSEU.

The City deeply appreciates this collaboration and collective act of leadership. The new benefits program is showing promising financial results as the City's 2016 contribution for health care was *decreased* by 4.5%. The 4.5% decrease actually represents a *negative growth* trend as the City budgeted a 0% increase in contributions for 2015 and 2016.

City employees have also been actively engaged in healthy behavior. Primary care utilization has actually *increased* during this past year. In the 3rd Quarter of 2015, City employees have the highest participation rates on record with the VERA near site clinic, and approximately 70% of eligible employees and their spouses have earned their Wellness Incentive.

On August 13, 2015, the City and the GUILD signed a collective bargaining agreement effective January 1, 2014 to December 31, 2016. As part of this agreement, the GUILD transitioned into the Healthy Kirkland Initiative plan effective January 1, 2016.

GUILD members, like PSEU members, are not required to earn the wellness incentive element of the new plan because the GUILD already bargained for a HRA VEBA contribution in previous collective bargaining. Thus, although the total amount of HRA VEBA contribution is the same for the GUILD and PSEU as it is for the other participating bargaining units, there is no requirement that the GUILD and PSEU members earn that portion of the HRA VEBA contribution allotted to the wellness incentive.

Even though the GUILD was not part of the first year implementation of the *Healthy Kirkland Initiative* that helped deliver the successful first year results outline above, they did approve switching to the new plan before the results of the plan were known. Therefore, in order to promote the continued success of the VERA clinic and the City's overall wellness program, the City proposes to also include this one-time benefit for qualified GUILD members, provided that the GUILD members earn the one-time benefit by satisfying the requirements of the City's existing wellness incentive program.

The significant savings in health care costs from the Healthy Kirkland Initiative would not have been possible without the leadership and risk taking of the employees in MAC and the bargaining units. The City Manager is proposing to provide a one time "health care dividend" of \$500 to each eligible employee's HRA VEBA to acknowledge the partnership between the City and participating employees that resulted in this success. These contributions total \$240,000 and would be funded through a one-time payment from the health benefits working capital as outlined in the attached fiscal note. Using working capital does not impact the \$2 million health care reserve required for being a self-insured plan or the additional \$1 million benefits rate stabilization reserve.

FISCAL NOTE

CITY OF KIRKLAND

Source of Request							
James Lopez, Director of Human Resource and Performance Management							
Description of Request							
One-time use of approximately \$240,000 from the Health Benefits Fund working capital to provide one-time contributions to employee health retirement or VEBA accounts as described in the attached memo.							
Legality/City Policy Basis							
Self-insurance employers are required to maintain minimum reserve balances based on average claims, which for the City of Kirkland is \$2,058,311 for 2015-16. Additionally, the City has set aside \$1,000,000 in a rate stabilization reserve. This request is from working capital (fund balance) and does not impact either of these reserves.							
Fiscal Impact							
One-time use of \$240,000 from Health Benefits Working Capital. The fund balance is able to fully fund this request.							
Recommended Funding Source(s)							
<i>Reserve</i>	Description	2016 Est End Balance	Prior Auth. 2015-16 Uses	Prior Auth. 2015-16 Additions	Amount This Request	Revised 2016 End Balance	2016 Target
	Health Benefits Working Capital	2,664,156	0	0	240,000	2,424,156	N/A
	Working capital used during the mid-biennial process to fund additional staffing in response to Affordable Health Care Act reporting requirements (\$163,753). The balance above reflects this use.						
<i>Revenue/Exp Savings</i>							
<i>Other Source</i>							
Other Information							

Prepared By	Neil Kruse, Senior Financial Analyst	Date	March 7, 2016
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RESOLUTION R-5191

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND AUTHORIZING AN ADDITIONAL ONE-TIME HEALTH REIMBURSEMENT ARRANGEMENT (HRA) VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION (VEBA) CONTRIBUTION TO ELIGIBLE EMPLOYEES WHO PARTNERED WITH THE CITY IN IMPLEMENTING THE HEALTHY KIRKLAND INITIATIVE.

1 WHEREAS, over the last several years, City staff has researched
2 and implemented plans to put a comprehensive health care system in
3 place to improve employee health while mitigating the rising cost of
4 health care; and
5

6 WHEREAS, the City opted for a "full systems approach" labeled
7 the "Healthy Kirkland Initiative," that dramatically shifted 1) individual
8 economic incentives to better empower individuals to make more
9 informed medical decisions and improve the likelihood of health savings;
10 2) increased market transparency so employees could be more informed
11 in those decisions; and 3) provided unlimited primary care services, free
12 to employees and qualified dependents, to promote proactive healthy
13 behavior, and ensure that participants had ample opportunity to get the
14 critical on-demand primary care necessary to help ensure healthier lives;
15 and
16

17 WHEREAS, the full systems approach consists of a high
18 deductible health plan, a significant Health Reimbursement
19 Arrangement (HRA) Voluntary Employee Beneficiary Association (VEBA)
20 contribution, an employee information assistance program, a significant
21 wellness incentive and a near-site primary care health facility; and
22

23 WHEREAS, in order to implement the new approach, the City
24 moved forward with its leadership group, the Management and
25 Confidential (MAC) employees, and signed a memorandum of
26 understanding with each of the bargaining units listed below to
27 transfer from the existing First Choice Prime Plan to the new First
28 Choice High Deductible Health Plan and other plan elements,
29 effectively putting in place the Healthy Kirkland Initiative on April 1,
30 2015. Those bargaining units include:
31

- 32 a. The City and Public, Professional & Office-Clerical Employees
33 and Drivers Local Union No. 763 (Teamsters);
34
35 b. The Washington State Council of County and City Employees
36 Local #1837 of the American Federation of State, County and
37 Municipal Employees (AFSCME); and

38 c. Public Safety Employees Union #519, Kirkland Police
39 Lieutenants Union - Public Safety Employees Union (PSEU);
40 and
41

42 WHEREAS, the new benefits program is showing promising
43 financial results as the City's 2016 health care contributions decreased
44 by 4.5 percent. The 4.5 percent decrease represents a negative
45 growth trend as the City budgeted a zero percent increase in
46 contributions; and
47

48 WHEREAS, City employees have been actively engaged in
49 healthy behavior and primary care utilization has actually increased
50 during this past year. In the 3rd Quarter of 2015, City employees have
51 the highest participation rates on record with the VERA Whole Health
52 near-site clinic, and approximately 70 percent of eligible employees
53 and their spouses have earned their Wellness Incentive; and
54

55 WHEREAS, on August 13, 2015, the City and the Kirkland
56 Police Guild – Commissioned Staff (Guild) signed a collective
57 bargaining agreement effective January 1, 2014 to December 31,
58 2016; and
59

60 WHEREAS, as part of this agreement, the Guild transitioned
61 into the Healthy Kirkland Initiative plan effective January 1, 2016; and
62

63 WHEREAS, the total amount of HRA VEBA contribution is the
64 same for the Guild and PSEU as it is for the other participating
65 bargaining units, but there is no requirement that the Guild and PSEU
66 members earn that portion of the HRA VEBA contribution allotted to
67 the wellness incentive because the units had already bargained for
68 HRA VEBA contributions in previous collective bargaining; and
69

70 WHEREAS, even though the Guild was not part of the first year
71 implementation of the Healthy Kirkland Initiative that helped deliver
72 the successful first year results outlined above, in order to promote the
73 continued success of the free primary care services clinic and the City's
74 overall wellness program, the City proposes to also include this one-
75 time benefit for the Guild contingent upon successful completion of the
76 wellness incentive program.
77

78 NOW, THEREFORE, be it resolved by the City Council of the City
79 of Kirkland as follows:
80

81 Section 1. Due to the success of the City's Healthy Kirkland
82 Initiative collaboration, the City Council authorizes the City Manager to
83 make a one-time payment from the health benefit fund in the amount
84 of \$500.00 to be deposited into the HRA VEBA Trust Accounts of all
85 eligible employees in the bargaining units and employee groups listed
86 below:

- 87 a. Teamsters
- 88 b. AFSCME
- 89 c. PSEU
- 90 d. Guild
- 91 e. MAC

92
 93 Section 2. This authorization is subject to the City Manager's
 94 discretion in negotiating the terms and conditions of the one-time
 95 payment with each of the recipient units. The City Manager is also
 96 authorized to implement such administrative procedures, as may be
 97 necessary to carry out the directions of this Resolution.

98
 99 Passed by majority vote of the Kirkland City Council in open
 100 meeting this ____ day of _____, 2016.

101
 102 Signed in authentication thereof this ____ day of _____,
 103 2016.

 Mayor

Attest:

 City Clerk