

MEETING DATE: April 25, 2019

TITLE: 2019 Renewal of MCWD Employee Benefits

RES. NUMBER: 19-053

PREPARED BY: James Wisker

E-MAIL: Jwisker@minnehahacreek.org

TELEPHONE: 952-641-4509

REVIEWED BY: Administrator Counsel Program Mgr. Board Committee
 Engineer Other

WORKSHOP ACTION:

<input type="checkbox"/> Advance to Board mtg. Consent Agenda.	<input type="checkbox"/> Advance to Board meeting for discussion prior to action.
<input type="checkbox"/> Refer to a future workshop (date): _____	<input type="checkbox"/> Refer to taskforce or committee (date): _____
<input type="checkbox"/> Return to staff for additional work.	<input type="checkbox"/> No further action requested.
<input checked="" type="checkbox"/> Other (specify): <u>Final Action on April 25, 2019</u>	

PURPOSE or ACTION REQUESTED:

The Board of Managers is requested to:

- Authorize the District Administrator to renew MCWD employee benefits for plan year June 1 2019 – May 31 2020
- Establish a policy for guiding employee benefit renew in the future

SUMMARY:

Background:

The MCWD renews its employee benefits on an annual basis in May of each year. The current plan year renewal is 2019 – 2020.

In 2018, as part of the MCWD Board’s efforts to strategically align its human resources, the District completed a Classification and Compensation Study conducted by Springsted Inc. (Springsted). As part of this study, in addition to assembling market salary data, Springsted also collected information from comparable organizations regarding employee benefit plans and costs.

December 20, 2018 Board Meeting:

At the December 20, 2018 meeting the Board accepted the Classification and Compensation Study, and associated findings, and adopted the pay structure developed as a part of the study.

During the December 20, 2018 meeting the Board discussed the need to provide a market competitive total compensation (salary and benefits) package that facilitates the recruitment and retention of talent necessary to achieve the District’s mission, while responsibly managing increasing costs over time.

At that time, the Board discussed various benchmarks for maintaining fiscally responsible market competitiveness, including (1) the total cost to the District; (2) the District’s costs per full time employee; and

(3) the District's percent contribution to employee premiums. The Board directed staff to facilitate analysis and discussion of employee benefits, leading up to the annual renewal in May 2019.

January 10, 2019 Operations and Programs Committee:

At the January 10, 2019 Operations and Programs Committee (OPC) meeting, Managers reviewed a number of modeled three year scenarios that included the following variables:

- 10-15% average annual growth in health costs
 - For MCWD and comparable organizations
- Reducing the District's percent contribution to family premiums to 80% over time
- Eliminating the District's contribution to a health reimbursement account
- No change in MCWD's other benefit offerings (plan type, deductible amounts, etc.)

These modeled scenarios evaluated the change over time in:

- Total cost to the District for employee health benefits
- District cost per full time employee vs. the market cost per full time employee
- Cost to employees

January 10, 2019 Board Meeting:

At the January 10, 2019 meeting the Board of Managers adopted a Compensation Policy designed to attract and retain the talent the District needs to accomplish its mission.

This policy identified the District as striving to be an elite organization, and outlined the Board's commitment to establishing and maintaining a total compensation package (salary and benefits) that is competitive with the public and private market within the region while also reflecting the organization's standards of excellence and unique strategic priorities.

March 14, 2019 Operations and Programs Committee:

At the March 14, 2019 OPC Meeting, staff presented additional information regarding the projected 2019 – 2020 renewal costs, obtained from the District's benefit broker.

As part of this presentation the OPC considered various options for managing costs while achieving the organization's goals outlined in the Compensation Policy.

Health benefit offering variables that were analyzed and discussed include:

- Carrier change
- Network change
 - Including offering multiple (tiered) plans
- Deductible change
- Premium payments
- Contribution to Health Savings Account
- Contribution to Health Reimbursement Account
- Access to Flexible Spending Account

As part of the comprehensive analysis of all MCWD benefit offerings, beyond health, other variables were also analyzed and presented. Those included:

- Dental coverage and deductible change
 - Short term disability change
 - Life insurance change
-

April 11, 2019 Operations and Programs Committee:

At the April 11, 2019 OPC, staff recapped discussions to date and framed a recommendation for the pending 2019 benefit renewal.

This discussion outlined that each entity surveyed through the Classification and Compensation survey provides a slightly different combination of offerings to meet their unique goals, and needs of their workforce, while remaining fiscally responsible.

This diversity in how employers choose to provide benefits for their workforce presents challenges when considering how the District might most effectively benchmark its benefit offerings (premium contribution, health reimbursement account, etc.) against the market. For example, on one variable (premium contribution) organizations within MCWD's market study provided premium contributions varying from 80 – 100% for individuals, and from 60 – 100% for families.

Expanding this method of benchmarking to other benefit offering parameters requires that variability across organizations be normalized in areas of premium contribution, deductible amounts, health savings account contribution, health reimbursement account, network coverage, etc. Selecting market average benchmarks from this level of variability presents obvious constraints.

It was discussed at the April 11 OPC that, since the District and all comparable organizations within its market are concerned about increasing costs, the cost of employee benefits is a factor that normalizes the variability inherent in how employers individually choose to assemble benefit offerings.

As part of the benefit survey conducted by Springsted, organizations were asked to provide the total cost of providing health benefits for their employees. This information yielded a metric of cost to the organization per employee (Cost/FTE) of providing health benefits.

MCWD's Cost/FTE is currently ~\$10,796. The Market Average Cost/FTE is ~\$12,641.

This means that while MCWD provides competitive benefit offerings (network, deductible, premium contribution, health reimbursement account, etc.), it is currently doing so at a lower cost per employee than the market average organization per Springsted's Classification and Compensation study. This is due in part to MCWD's current demographics, which will change over time.

The other pertinent factor when considering cost, and fiscal responsibility, is the budget. The Board established a 2019 total benefit budget of \$349,834. This includes costs for health, dental, health savings accounts, health reimbursement accounts, flexible spending accounts, life insurance, and short and long term disability. 2019-2020 Renewal costs are projected to be under budget, at \$340,254.

There was consensus through the April 11, 2019 OPC discussion that, as a matter of policy, the MCWD Board of Managers should guide employee benefit renewal through the budget setting process – setting a market comparable and fiscally responsible budget for benefits and directing the Administrator to establish employee benefits within that budget.

Recommendation:Policy for Annual Benefit Renewal:

Based on discussions to date and given the variability in how individual organizations choose to assemble benefit offerings, staff recommends that the MCWD Board guide annual benefit renewal through its annual budgeting process, ensuring that MCWD costs are benchmarked against market comparable costs and delegating the assembly of specific benefit offerings to the District Administrator

Each year, as part of the budget process, the Board can evaluate the projected increase in health care costs in the market place for the coming year(s) on advice from its broker and staff. The estimated percentage increase in benefit costs can be applied to the market derived Cost/Employee benchmark, effectively establishing a market index against which MCWD measures its Cost/Employee change over time. This information can be used to guide the MCWD Board's annual budgeting to ensure the MCWD remains aligned with market costs on health care as one component of employee compensation.

As MCWD's Cost/Employee shift around this index, based on market conditions and changing demographics within its risk pool, the Board can use this information as a barometer to decide how to adjust the annual budget. This framework will allow the District to continue providing competitive benefit offerings while ensuring market correlated fiscal responsibility.

2019 – 2020 Benefit Renewal:

Current projected renewal costs fall within the 2019 benefit budget. Proposed renewal costs with no changes are \$340,254, and the 2019 budget for employee benefits is \$349,834. This includes health, dental, life and disability.

However, staff understands the Board's interest in effectively managing growing health care costs. One measure to control 2019 renewal costs, and to help proactively address potential increases in total benefit costs in the 2020 budget, is to eliminate the District's contribution to the Health Reimbursement Account as part of the renewal. The District's current health costs are primarily composed of premiums (\$252,972) and the health reimbursement account (\$24,840), for a total of \$277,712.

When looking at 2019 renewal costs, the combination of premiums and the Health Reimbursement Account would total \$302,254. Eliminating the District's contribution to the Health Reimbursement Account would reduce budgeted expenditures by \$24,840, bringing the proposed renewal costs to \$277,414, in line with existing levels of budgeted expense on health benefits.

This change would represent a relatively modest change in the District's overall benefit offerings, and would serve to offset the rising premium costs, thereby providing a balanced and fiscally responsible approach to this year's pending renewal.
