



MEMORANDUM

To: MCWD Board of Managers

From: James Wisker

Date: April 8, 2019

Re: April 11, 2019 Operations Committee Discussion – 2019-2020 Benefit Renewal

Purpose:

To synthesize Board discussions to date regarding Minnehaha Creek Watershed District (MCWD) employee benefits, and to outline staff’s recommendation regarding the 2019-2020 benefit renewal scheduled for the April 25, 2019 Board of Managers meeting.

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.

We collaborate with public and private partners to protect and improve land and water for current and future generations.

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

We collaborate with public and private partners to protect and improve land and water for current and future generations.

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

Summary of Discussions to Date:

As a whole the Board remains cognizant of the ongoing increases in health care costs within the marketplace, and has expressed its concern and desire to both provide competitive employee benefits while remaining fiscally responsible to District tax payers.

However, there has not been unanimous consensus among the Board regarding the specifics of the 2019-2010 benefit renewal, or how to consistently establish benefit renewal plans in the future as a matter of Board policy.

Some Board members have recommended the District benchmark itself against comparable organizations by tying individual benefit offering variables (contribution to premiums, health reimbursement account, etc.) to a market average.

Other Board members have suggested that the Board benchmark itself against other organizations by establishing an annual budget for benefit renewal that is market comparable, and then directing staff to establish the combination of benefit offering parameters within that budget.

Staff Recommendation:

Background Analysis:

Information gathered through the Classification and Compensation survey revealed a diversity of benefit offerings across organizations. That is, each entity 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 tie its individual benefit offerings (premium contribution, health reimbursement account, etc.) to a market benchmark. For example, organizations within MCWD’s market study provided premium contributions varying from 80 – 100% for individuals, and from 60 – 100% for families. Moreover, benchmarking against individual benefit offerings requires that consideration be given to a broad set of variables including, 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.

We collaborate with public and private partners to protect and improve land and water for current and future generations.

Since the District and the comparable organizations within its market are all concerned about increasing costs, the cost of employee benefits can be 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 currently provides lower benefit compensation per employee than the market average as per Springsted's Classification and Compensation study. As a matter of fiscal responsibility, the District is currently able to provide employee benefits at a Cost/FTE lower than comparable organizations within its market. 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.

Separating out health benefit cost, current health costs are approximately \$252,872. With no modification to MCWD's health benefit offerings, renewal costs are projected to be \$277,414, a \$24,542 or 9.7% increase. This increase was budgeted for.

Recommendation:

Policy for Annual Benefit Renewal:

Given the variability in how individual organizations choose to assemble benefit offerings, staff recommends that the MCWD benchmark its benefits against market comparable organizations using the normalizing measure of cost.

Each year, during benefit renewal, the Board can evaluate the projected increase in health care costs in the market place. The percentage increase in market costs can be applied to the market derived Cost/FTE benchmark, which can be used to establish an index against which MCWD measures its own Cost/FTE change over time. This index can then help guide the District's annual budgeting to ensure that MCWD remains aligned with market costs on health care, as one component of employee compensation.

As MCWD's Cost/FTE shift around this index, based on market conditions and changing demographics within its risk pool, the Board can use this information to adjust the annual budget

We collaborate with public and private partners to protect and improve land and water for current and future generations.

and direct staff to assemble benefit offerings within the established 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 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 of the several measures to control the 2019 costs of renewal, and to help proactively address potential increases in total benefit costs in the 2020 budget, would be to consider eliminating the District’s contribution to the health reimbursement account as part of the upcoming 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 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 representing a balanced and fiscally responsible approach to this year’s pending renewal.

Next Steps:

Staff will continue to evaluate this and other benefit offerings (life, disability, etc.) in advance of a final recommendation being presented at the April 25, 2019 Board Meeting.

As the budget is set for 2020, the Board of Managers and staff can continue to establish out year forecasts for benefits to ensure the District remains consistent with the market, provides competitive benefits, and remains responsible stewards of public resources.

If you have questions in advance of the meeting, please contact James Wisker at Jwisker@minnehahacreek.org or 952-641-4509

We collaborate with public and private partners to protect and improve land and water for current and future generations.