

SPECIAL REVENUE FUNDS

EMPLOYEE BENEFITS FUND

GENERAL INFORMATION:

The Employee Benefits Special Revenue Fund was established by State law to allow for the levying of taxes for certain employee benefits. For the City of Muscatine, the Employee Benefits levy includes funding for costs of police and fire pension contributions, police and fire medical insurance costs for on-the-job injuries, worker's compensation, unemployment, health insurance, life insurance, dental insurance, FICA, IPERS, employer deferred compensation contributions, long-term disability insurance and post employment health plan costs.

When the General Fund levy of a city reaches the legal limit of \$8.10 per \$1,000 of assessed valuation, the employer's share of Social Security, Medicare, and IPERS may be levied from the Employee Benefits Special Revenue Fund levy. The City of Muscatine has been at the \$8.10 General Fund levy limit for many years. The budget for 2011/2012 included a levy of \$527,507 for FICA, Medicare, and IPERS costs which was 100% of the General Fund costs eligible to be funded from this levy. The 2012/2013 budget includes a levy of \$460,209 for 82% of the eligible FICA, Medicare, and IPERS costs which required a tax levy rate of \$.58893 per \$1,000 of valuation. The remaining \$100,426 of FICA, Medicare, and IPERS costs will be funded from the General Fund. This allowed the overall City property tax rate for 2012/2013 to be reduced by approximately \$.10/\$1,000 of valuation. FICA and Medicare contribution rates will remain at 6.2% and 1.45%, respectively, for 2012/2013. IPERS rates will increase from 8.07% in 2011/2012 to 8.67% in 2012/2013.

The pension contribution rate for police and fire personnel has varied since the statewide Municipal Fire and Police Retirement System of Iowa (MFPRSI) replaced the former local system on January 1, 1992. The contribution rate was 17% through the 1992/93 year, 19.66% for 1993/94, 18.71% for 1994/95, 17.66% for 1995/96 and 17.00% for 1996/97 through 2002/2003. For 2003/2004 it increased to 20.48%, 24.92% for 2004/2005, and 28.21% for 2005/2006. For 2006/2007 the pension contribution rate decreased to 27.75%, to 25.48% for 2007/2008, to 18.75% for 2008/2009, and to 17.0% for 2009/2010. The pension contribution rate increased to 19.90% for 2010/2011 and further increased to 24.76% for 2011/2012. The pension contribution rate will again increase to 26.12% in 2012/2013.

The City is also obligated by the State Code to pay job-related medical costs for former police and fire employees who terminated employment due to work-related injuries or illnesses. A total of \$69,206 of medical costs related to several individuals' injuries or illnesses were incurred in 2006/2007, \$100,679 in 2007/2008, \$16,084 in 2008/2009, \$22,882 in 2009/2010, and \$17,840 in 2010/2011. Retiree medical costs are estimated at \$26,600 for both the 2011/2012 revised estimate and 2012/2013 budget. In April 2011, the City began using a bill review service for these medical costs. From April through November 2011, the City realized a savings of \$12,500 from using this service.

The Employee Benefits Special Revenue Fund tax levy also funds premiums for health insurance, dental insurance, life insurance, worker's compensation and unemployment costs for employee benefits associated with the General Fund. Also included is funding for police and fire medical insurance costs for on-the-job injuries of current employees. The police and fire pension systems provide disability payments for police officers and firefighters injured on the job. However, the pension systems do not include a provision for funding medical costs resulting from these injuries. For 2011/2012, the police and fire medical insurance cost is \$12,285 and it is budgeted to increase to \$12,900 for 2012/2013.

Health insurance costs for the City of Muscatine have increased significantly over the last ten years. The cost of health insurance for employees in the General Fund is estimated at \$1,351,565 for 2012/2013. The cost would be higher if the City had not chosen to participate in a cost-plus funding plan with the insurance carrier. The City basically pays costs incurred plus a monthly administrative fee. When an individual claim reaches a certain amount, stop loss insurance pays for the costs over the maximum limit. Each month the City sets aside in the Health Insurance Internal Service Fund certain premium amounts to fund actual medical costs, administrative fees, and the stop-loss fee.

Since the inception of the cost-plus funding plan for health insurance, the premium costs established have varied. Effective January 1, 2004, the rates were set at \$238.97 and \$635.66, respectively, for single and family coverage. The rates included a \$94.69 per month administrative fee. This administrative fee includes the administrative costs of processing claims under the insurance plan as well as fees for the individual and aggregate stop loss insurance. For 2004, deductibles were increased from \$200 to \$300 for single and from \$400 to \$600 for family health coverage. The annual out-of-pocket maximums were also increased from \$500 to \$600 and from \$1,000 to \$1,300 for single and family coverage. Effective January 1, 2005, the rates increased by 8.8% for both single and family coverage to \$259.97 and \$691.52, respectively. In 2005 the City's health insurance claims increased dramatically. Health insurance premiums increased by 33.8% effective January 1, 2006 to \$347.84 and \$925.26, respectively for single and family coverage. Effective January 1, 2007, the rates increased to \$388.12 and \$1,032.39, respectively, for single and family coverage, increases in both rates of 11.6%. Effective January 1, 2008 rates further increased to \$427.60 and \$1,137.42, respectively, increases of 10.2%. Health insurance claims have stabilized since 2008 and the single and family rates for 2008 were maintained for 2009, 2010, 2011, and 2012. The monthly administrative fee for 2012 is \$106.14 per employee. The administrative fee includes the \$8.31 Wellmark network access fee as well as the individual and aggregate stop loss insurance fees. The budget for 2012/2013 maintains the premium rates at \$427.60 and \$1,137.42, respectively, for single and family coverage. For 2013, deductibles are budgeted to increase from \$300 to \$400 for single and from \$600 to \$800 for family health coverage. The annual out-of-pocket maximums will also increase from \$600 to \$800 and from \$1,300 to \$1,600 for single and family coverage. The budgeted tax funding amount for 2012/2013 for General Fund employees is \$1,351,565.

Employee benefit costs for life insurance will decrease from \$15,133 in 2011/2012 to \$14,133 in 2012/2013. Effective October 2011, the City changed life insurance companies. The life insurance rates decreased from 22 cents per month per \$1,000 of coverage to 18 cents per month per \$1,000 of coverage. Basic provisions in the amount of life insurance coverage for each employee remain the same for 2012/2013.

Dental insurance rates for City employees for 2011 increased 3% from \$23.76 per month to \$24.47 for single coverage for City employees. The rate did not increase in 2012, however the budget allows for the monthly rate to increase by 3% to \$25.20 effective January 1, 2013. Employees fund 100% of the additional cost if they opt for family coverage. The City's dental plan is a self-insured plan through Wellmark. For 2012/2013, the cost of dental insurance for General Fund employees is budgeted at \$37,050 compared to the \$36,752 budgeted for 2011/2012.

In regard to worker's compensation, the City of Muscatine continues to experience fluctuations in rates. For the respective fiscal years from 2003/2004 through 2010/2011, the worker's compensation experience modification factors were .82, .84, .93, .88, .87, .84, .89 and .87. These represent the factors applied to the base rates for each job classification based on the claims history of the employer. For 2011/2012 the experience modification factor is .82 and it is estimated to decrease to .77 for 2012/2013. The tax funding amount for General Fund employee workers compensation for 2012/2013 is estimated at \$38,290 compared to the \$34,754 originally budgeted for 2011/2012.

The City's unemployment rate effective January 1, 2010 was .7% of applicable wages of \$24,500. The rate increased to 1.5% of \$24,700 of wages January 1, 2011. The rate decreased slightly to 1.4% of \$25,300 of wages January 1, 2012. The 2012/2013 budget provides funding for this rate to be 1.5 % of applicable wages of \$25,300 as of January 1, 2013. The tax funding amount for 2012/2013 is estimated at \$57,950 compared to the \$56,554 budgeted for 2011/2012.

The budget includes funding for long-term disability insurance for full-time non-union employees. The estimated cost for General Fund employees is \$8,654 for 2012/2013 compared to \$9,645 budgeted for 2011/2012. As with life insurance, the City changed to a new carrier for long-term disability insurance in October of 2011. The new rate is .27% of base wages for non-union employees compared to .31% with the previous carrier.

The budget also includes funding for a retirement health savings plan for full-time and permanent part-time non-union, fire bargaining unit, and blue/white bargaining unit employees. This plan provides funding of contributions to individual accounts of these employees and also provides that the payout of 40% of accumulated sick leave at retirement be paid into these accounts. For the blue/white bargaining unit group, vacation balances at retirement are also paid into this plan. The tax funding amount for 2012/2013 is budgeted at \$15,706.

CURRENT TRENDS AND ISSUES:

The City has had beginning balances in the Employee Benefits Fund in recent years due to actual employee benefit costs being less than budgeted due to vacancies or benefit rates being lower than projected. With the estimated 2012/2013 beginning fund balance of \$119,149 and funding \$100,426 less than the full amount of employee benefits from this levy, the Employee Benefit tax levy for 2012/2013 is \$3,025,794 compared to the \$3,085,846 budgeted for 2011/2012 (a decrease of 1.95%). This requires a tax levy rate of \$3.87207 compared to \$4.06191 for the 2011/2012 budget year, a decrease of 4.67%. In 2012/2013 the City is levying taxes for \$100,426 less than the full amount needed to fund all of the General Fund employee benefits. In effect the General Fund will fund that portion of the benefits. This was done in order to reduce the total City tax rate by approximately \$.10/\$1,000 of valuation for 2012/2013.

Employee Benefits Fund

Fund Statement

	<u>Actual 2009/2010</u>	<u>Actual 2010/2011</u>	<u>Budget 2011/2012</u>	<u>Revised Estimate 2011/2012</u>	<u>Budget 2012/2013</u>
Beginning Balance, July 1	\$ 207,408	\$ 127,450	\$ 88,811	\$ 148,205	\$ 119,149
Revenues					
Property Tax	\$ 2,579,034	\$ 2,799,186	3,071,659	\$ 3,071,659	3,011,256
Utility Tax Replacement Excise Tax	14,503	12,577	14,187	14,187	14,538
Total Revenues	\$ 2,593,537	\$ 2,811,763	\$ 3,085,846	\$ 3,085,846	\$ 3,025,794 (1)
Funds Available	\$ 2,800,945	\$ 2,939,213	\$ 3,174,657	\$ 3,234,051	\$ 3,144,943
Expenditures					
Transfers Out					
Police Retirement	\$ 333,906	\$ 389,877	\$ 531,561	\$ 535,462	\$ 589,485
Fire Retirement	320,128	388,304	493,863	491,695	532,401
Police & Fire Retiree Medical	22,882	17,840	26,600	26,600	26,600
Health Insurance	1,357,903	1,313,428	1,393,524	1,334,766	1,351,565
Dental Insurance	34,573	34,043	36,752	36,378	37,050
Life Insurance	13,899	14,387	15,133	14,908	14,133
Police and Fire Medical Insurance	12,285	12,285	12,285	12,285	12,900
Long-term Disability Insurance	8,598	8,964	9,645	8,789	8,654
Post-Employment Health Plan	50,547	58,589	36,479	37,267	15,706
Workers Compensation	39,149	36,181	34,754	34,891	38,290
Unemployment	24,053	51,080	56,554	59,887	57,950
Deferred Compensation	9,849	4,773	0	0	0
FICA/IPERS	445,723	461,258	527,507	521,974	560,635
Employee Benefit Levy Reduction (1)	0	0	0	0	(100,426) (1)
Total Expenditures	\$ 2,673,495	\$ 2,791,008	\$ 3,174,657	\$ 3,114,902	\$ 3,144,943
Ending Balance, June 30	\$ 127,450	\$ 148,205	\$ 0	\$ 119,149	\$ 0
Increase (Decrease) in Fund Balance	\$ (79,958)	\$ 20,755	\$ (88,811)	\$ (29,056)	\$ (119,149)

1. The Employee Benefits levy was lowered in 2012/2013 in order to reduce the overall City tax levy rate by \$.10/\$1,000 of valuation. This will result in \$100,426 of the General Fund balance being used to fund employee benefits during 2012/2013.

Explanation of Changes in Fund Balance:

The Employee Benefits Tax Levy funds costs of benefits for General Fund employees. The balances at the end of 2009/2010 and 2010/2011 were due to savings in employee benefit costs due to vacancies, changes in insurance coverage for employees, and health insurance rates being less than budgeted. The balance in this fund at the end of 2011/2012 is budgeted to be \$119,149 compared to the zero balance originally budgeted for similar reasons. The balance at the end of 2011/2012 is budgeted to be used for employee benefit costs in 2012/2013.