

## **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, 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 cost of Social Security, Medicare, and IPERS for General Fund employees was \$560,635 in 2012/2013 and it will increase to \$590,574 in 2013/2014. FICA and Medicare contribution rates will remain at 6.2% and 1.45%, respectively, for 2013/2014. The IPERS rate will increase from 8.67% in 2012/2013 to 8.93% in 2013/2014.

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, to 24.76% for 2011/2012 and further increased to 26.12% for 2012/2013. The pension contribution rate will again increase to 30.12% in 2013/2014. Property tax funding for police and fire pension will increase from \$1,121,886 in 2012/2013 to \$1,357,731 in 2013/2014, an increase of \$235,845. This resulted in an 18.4% increase in the property tax rate for police and fire pension to \$1.7009/\$1,000 of valuation in 2013/2014. This is an increase of approximately \$.26/\$1,000 of taxable valuation compared to the current year.

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, \$17,840 in 2010/2011 and \$24,376 in 2011/2012. Retiree medical costs are estimated at \$26,600 for both the 2012/2013 revised estimate and 2013/2014 budget.

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 was \$12,285. Due to one large claim, the premium for this insurance increased to \$36,000 in 2012/2013 and will remain at \$36,000 for 2013/2014.

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 \$1,388,867 for 2013/2014. 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. Effective January, 2013, the rates increased 3% to \$440.43 and \$1,171.54, respectively, for single and family coverage. For 2013, deductibles increased from \$300 to \$400 for single and from \$600 to \$800 for family health coverage. The annual out-of-pocket maximums also increased from \$600 to \$800 and from \$1,300 to \$1,600 for single and family coverage. The monthly administrative fee for 2013 is \$107.35 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 2013/2014 maintains the premium rates at \$440.43 and \$1,171.54, respectively, for single and family coverage. The budgeted tax funding amount for 2013/2014 for General Fund employees is \$1,388,867.

Employee benefit costs for life insurance will increase from \$14,133 in 2012/2013 to \$14,855 in 2013/2014. 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 2013/2014.

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. Effective January 2013, the rate increased 5% to \$25.69. 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 2013/2014, the cost of dental insurance for General Fund employees is budgeted at \$39,072 compared to the \$37,050 budgeted for 2012/2013.

In regard to worker's compensation, the City of Muscatine continues to experience fluctuations in rates. For the respective fiscal years from 2004/2005 through 2011/2012, the worker's compensation experience modification factors were .84, .93, .88, .87, .84, .89, .87 and .82. These represent the factors applied to the base rates for each job classification based on the claims history of the employer. For 2012/2013 the experience modification factor decreased to .77 and it is estimated to remain at .77 for 2013/2014. The tax funding amount for General Fund employee workers compensation for 2013/2014 is estimated at \$43,916 compared to the \$38,290 originally budgeted for 2012/2013.

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 rate decreased again January 1, 2013 to .9% of \$26,000 of wages. The 2013/2014 budget provides funding for this rate to be 1.2 % of applicable wages of \$26,700 as of January 1, 2014. The tax funding amount for 2013/2014 is estimated at \$48,604 compared to the \$57,950 budgeted for 2012/2013.

The budget includes funding for long-term disability insurance for full-time non-union employees. The estimated cost for General Fund employees is \$9,222 for 2013/2014 compared to \$8,654 budgeted for 2012/2013. 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 2013/2014 is budgeted at \$15,641.

#### **CURRENT TRENDS AND ISSUES:**

The Employee Benefits tax levy rates for both 2012/2013 and 2013/2014 were set at rates lower than the rates that would have been needed to fund 100% of the costs of General Fund employee benefits. For 2012/2013 \$100,426 of General Fund employee benefit costs were funded from the General Fund balance instead of the Employee Benefits tax levy. This allowed the overall City property tax rate for 2012/2013 to be reduced by approximately \$.10/\$1,000 of valuation.

The 2013/2014 Employee Benefits tax levy is \$527,005 less than the amount that would be needed to fund 100% of General Fund employee benefits and that amount of these benefit costs will be funded from the General Fund balance. This allowed for the overall Employee Benefits levy rate for 2013/2014 to be reduced from \$3.87207/\$1,000 of valuation to \$3.80682/\$1,000, which was the reduction needed in order for the total overall City tax rate to remain unchanged for 2013/2014. It should be noted, however, that a significant portion of the increase in employee benefit costs is due to the increase in the Police and Fire pension contribution rate. If this pension contribution rate further increases in upcoming years as projected, increases in the City's total tax levy rate will be unavoidable.

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 2013/2014 beginning fund balance of \$3,865 and funding \$527,005 less than the full amount of employee benefits from this levy, the Employee Benefit tax levy for 2013/2014 is \$3,040,212 compared to the \$3,025,794 budgeted for 2012/2013 (an increase of .5%). This requires a tax levy rate of \$3.80682 compared to \$3.87207 for the 2012/2013 budget year, a decrease of 1.7% in the levy rate.

## Employee Benefits Fund

### Fund Statement

	<u>Actual</u> <u>2010/2011</u>	<u>Actual</u> <u>2011/2012</u>	<u>Budget</u> <u>2012/2013</u>	<u>Revised</u> <u>Estimate</u> <u>2012/2013</u>	<u>Budget</u> <u>2013/2014</u>
Beginning Balance, July 1	\$ 127,450	\$ 148,204	\$ 119,149	\$ 164,258	\$ 3,865
Revenues					
Property Tax	\$ 2,799,186	\$ 3,085,921	3,011,256	\$ 3,011,256	3,027,205
Utility Tax Replacement Excise Tax	12,577	14,950	14,538	14,538	13,007
Total Revenues	<u>\$ 2,811,763</u>	<u>\$ 3,100,871</u>	<u>\$ 3,025,794</u> (1)	<u>\$ 3,025,794</u>	<u>\$ 3,040,212</u> (2)
Funds Available	<u>\$ 2,939,213</u>	<u>\$ 3,249,075</u>	<u>\$ 3,144,943</u>	<u>\$ 3,190,052</u>	<u>\$ 3,044,077</u>
Expenditures					
Transfers Out					
Police Retirement	\$ 389,877	\$ 538,195	\$ 589,485	\$ 588,334	\$ 712,721
Fire Retirement	388,304	491,247	532,401	540,485	645,010
Police & Fire Retiree Medical	17,840	24,376	26,600	26,600	26,600
Health Insurance	1,313,428	1,320,072	1,351,565	1,350,434	1,388,867
Dental Insurance	34,043	35,264	37,050	37,189	39,072
Life Insurance	14,387	14,929	14,133	14,310	14,855
Police and Fire Medical Insurance	12,285	12,285	12,900	36,000	36,000
Long-term Disability Insurance	8,964	8,576	8,654	8,720	9,222
Post-Employment Health Plan	58,589	41,469	15,706	59,909	15,641
Workers Compensation	36,181	34,505	38,290	37,619	43,916
Unemployment	51,080	55,860	57,950	39,816	48,604
Deferred Compensation	4,773	0	0	0	0
FICA/IPERS	461,259	508,039	560,635	547,197	590,574
Employee Benefit Levy Reduction (1)	0	0	(100,426) (1)	(100,426)	(527,005) (2)
Total Expenditures	<u>\$ 2,791,009</u>	<u>\$ 3,084,817</u>	<u>\$ 3,144,943</u>	<u>\$ 3,186,187</u>	<u>\$ 3,044,077</u>
Ending Balance, June 30	<u>\$ 148,204</u>	<u>\$ 164,258</u>	<u>\$ 0</u>	<u>\$ 3,865</u>	<u>\$ 0</u>
<b>Increase (Decrease) in</b>					
<b>Fund Balance</b>	<b>\$ 20,754</b>	<b>\$ 16,054</b>	<b>\$ (119,149)</b>	<b>\$ (160,393)</b>	<b>\$ (3,865)</b>

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 resulted in \$100,426 of the General Fund balance being used to fund employee benefits during 2012/2013.
2. The 2013/2014 Employee Benefits tax levy is \$527,005 less than what would be needed to fund 100% of the employee benefit costs for General Fund employees. This resulted in \$527,005 of the General Fund balance being used to fund employee benefit costs in 2013/2014. This allowed for the City to maintain the same total tax rate for 2013/2014.

#### 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 2010/2011 and 2011/2012 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 2012/2013 is budgeted to be \$3,865 compared to the zero balance originally budgeted for similar reasons. That balance is budgeted to be used for employee benefit costs in 2013/2014.