



# CITY COUNCIL STAFF REPORT



December 6, 2022

## ITEM TITLE

Employee Benefits: Adopt the 2023 Cafeteria Benefits Plan Reflecting Health Insurance and Voluntary Insurance Benefits for Eligible City Employees

**Report Number:** 22-0302

**Location:** No specific geographic location

**Department:** Human Resources

**Environmental Notice:** The activity is not a "Project" as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

## Recommended Action

Adopt a resolution adopting the City of Chula Vista Cafeteria Benefits Plan for 2023, including a description of available benefits, participation rules, election procedures, manner of contributions, the maximum amount of contributions, the plan year, and the plan's provisions for complying with flexible spending arrangements (FSAs).

## SUMMARY

The Internal Revenue Code requires that the Section 125 Cafeteria Benefits Plan offered by the City to its employees be in a written document and that the document be formally adopted by the City Council on or before the first day of the plan year. Staff is requesting Council's approval to adopt the 2023 Cafeteria Benefits Plan document by resolution to fulfill the City's obligation for the 2023 plan year.

## ENVIRONMENTAL REVIEW

The activity is not a "Project" as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

## BOARD/COMMISSION/COMMITTEE RECOMMENDATION

Not applicable.

## DISCUSSION

In June 1998, the City established its first Section 125 Cafeteria Benefits Plan. In compliance with Internal Revenue Code §125(d) the City Council annually adopts a written plan document prior to the first day of the plan year. The first day of the City's plan year is January 1, 2023. This Cafeteria Plan Document is a written plan that describes how the City offers eligible employees certain benefits on a pretax basis (such as health insurance) while having the option to choose among at least one taxable benefit (such as cash). Having an approved written plan is critical under cafeteria plan regulations. Without a written Plan or if the written Plan does not comply with applicable requirements regarding content and timing of adoption, the Plan is not a Section 125 Cafeteria Plan and employees' benefit elections will be taxable. The City timed its open enrollment period in 2022 to comply with these regulations and to meet provider cutoff deadlines for enrollment which will ensure employees have benefits coverage without interruption. The City's Plan includes the following required information and incorporates all of the operating rules prescribed in Code §125 and the regulations thereunder.

- Description of available benefits
- Participation rules
- Benefit election procedures
- Plan Year
- Manner of contributions
- Maximum amount of contributions
- Plan provisions for complying with flexible spending accounts (FSAs)

Specific health plans offered and their structure are not part of this Cafeteria Plan Document and instead defined in what is known as the Summary of Benefits and Coverage (SBC). Employees are provided the SBCs as part of open enrollment materials to assist them in making their benefits elections. The determination of the health plans available and their structure are based on an annual review after our broker, Marsh and McLennan Agency, LLC., extensively markets with benefit plan providers for coverage comparable to the prior year while keeping the increase in costs to the City and its benefited employees to a minimum. All employee groups are advised of the offers and the plan structures that will provide the least increase in premium costs.

Cafeteria Benefits Flex Allotments for unrepresented employees and elected officials are included in both the Cafeteria Plan Document and the Compensation Summary. Staff is requesting Council's approval to adopt the 2023 Cafeteria Benefits Plan document by resolution to fulfill the City's obligation for the 2023 plan year (Attachments 1-4).

## DECISION-MAKER CONFLICT

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter.

## CURRENT-YEAR FISCAL IMPACT

### **2023 Cafeteria Benefits Plan**

Staff assumed a 12.5% increase in medical premiums in the 2022/23 budget based on preliminary information from the City's insurance brokers. The City spent \$14.8 million in fiscal year 2021/22 on Cafeteria Plan benefits for all funds. In fiscal year 2022/23 based on current projection the City is anticipated to spend \$18.7 million. As a result of the final health insurance premiums negotiated by the City's broker for

the 2023 Benefits Plan Year, anticipated vacancies, and changes in employee benefits selections the City is expecting an overall savings of \$704,272 in fiscal year 2022/23.

## ONGOING FISCAL IMPACT

Flex Allotments are negotiated with the City's bargaining groups. Unrepresented employees and elected officials also receive Flex Allotments. With the exception of Public Safety bargaining groups, the City shares the cost of medical insurance premium increase on a 50/50 basis. The 50/50 cost sharing formula utilizes the average cost increase of family premiums of non-indemnity health plans. Then to determine the next plan year's Flex Allotment, 50% of the average increase is added to the current year's Flex Allotment amount. For Public Safety bargaining groups, the City assumes the full cost of the medical premium increases. As a result of the negotiated premium changes for the 2023 Benefits Plan Year, the 2023 Flex Allotments are increasing by an annual amount of \$504. This increase will not impact Flex Allotments for employees who waive medical insurance or elect Employee Only medical coverage since those amounts are capped at amounts specified in the Compensation Summary or Memorandum of Understanding.

The table below illustrates the Cafeteria Flex Allotments for the 2023 Plan Year. The impact to future budgets and the five-year financial forecast will depend on the outcome of negotiations with the City's bargaining groups and the changes in medical insurance premiums.

**City of Chula Vista  
2023 Flex Allotments (Non-Safety Employees)**

Group/Bargaining Unit	2023 Flex Allotment: Employees w/ Dependents on Medical Insurance (Annual Amount)	2023 Flex Allotment: Medical Opt Out or EE Only Medical Insurance (Annual Amount)
Association of Chula Vista Employees (ACE)	\$15,564.00	\$13,024.00
Confidential (CONF)	\$16,064.00	\$13,024.00
Elected Officials (CATY, CL, MY)	\$18,840.00	\$15,162.00
Executives, City Manager, and City Clerk (EXEC, CMGR, CCLK)	\$18,840.00	\$15,162.00
Middle Managers and Professionals (MM/PROF)	\$16,940.00	\$12,762.00
Confidential and Unclassified Middle Managers and Professionals (MMUC,MMCF,PRUC,PRCF)	\$16,940.00	\$12,762.00
Non-Safety IAFF (NIAF)	\$15,564.00	\$13,024.00
Senior Managers (SM)	\$17,440.00	\$13,762.00
Western Council of Engineers (WCE)	\$16,440.00	\$13,024.00

## ATTACHMENTS

1. 2023 City of Chula Vista Cafeteria Benefits Plan Document
2. Exhibit A – 2023 Health Care & Dependent/Child Care Flexible Spending Accounts
3. Exhibit B – Hartford Voluntary Insurance Plan
4. Exhibit C – Employee Assistance Program (EAP)

*Staff Contact: Courtney Chase, Director of Human Resources/Risk Management*