

INTEROFFICE MEMORANDUM

June 4, 2012

MEMO TO: J. Russell Allen
City Manager

FROM: Jamie Brown
Budget and Management Analyst

SUBJECT: Budget Note 9 – Employee Benefits

The following information provides an overview of the employee benefit changes that are proposed as part of the City of Raleigh's FY13 Proposed Operating Budget.

Health Insurance and Other Post-Employment Benefits (OPEB)

In FY12, the city introduced a two-tier option health insurance program that included health insurance premiums for all employees. Under the program, employees have the opportunity to reduce their premium costs through participation in an annual Health Risk Assessment and by not being a tobacco user. The first tier option includes higher deductibles and copays but lower employee premium costs, while the second tier option leaves deductibles and copays at the current rate but includes higher employee premium costs. These tiers and options will remain the same for employees in FY13.

In FY13, the budget for OPEB and the health and dental insurance program has increased by 9% (\$2.6 million) over FY12. While the proposed budget incorporates much of this increase in the FY13 Proposed Operating Budget, the city will share the projected increase in dependent care premiums with employees and retirees who elect dependent care coverage. Those who elect dependent care coverage will experience a 4% increase in their health and dental insurance premiums. For an employee who elects family coverage (spouse and children) and is fully compliant under the health plan, this equates to an annual premium increase of ~\$154 for the first tier described above or ~\$220 for the second tier option – these are pre-tax dollars. No other changes are planned for the current active employee and retiree health and dental plans.

Merit Pay Increase

The proposed budget includes a merit-based compensation increase, equivalent to about 2% of full-time salary costs or \$2.9 million. This will be applied as a merit pay increase of \$1,000 per employee effective September 8, 2012 for full-time regular employees who were hired on or before September 1, 2011 and who have an annual performance evaluation rating of standard or better in the period between 09/01/11 and 09/01/12. Salaries for employees who meet the criteria will be increased \$1,000 up to the maximum salary of their pay grade. Employees who reach the maximum amount in their pay grade before they receive the total \$1,000 merit increase, the difference will be paid as a cash performance bonus and the bonus will be considered compensation for retirement purposes. Employees who are already at the maximum of their pay grade will receive a cash performance bonus of \$1,000 and the bonus will be considered compensation for retirement purposes. Pay range minimums and maximums will not be adjusted. Employees hired after September 1, 2011 are not eligible for this merit pay.

For context, this equate to a 4% increase for employees making \$25,000 annually; a 2% increase for employees making \$50,000 annually; 1.3% increase for employees making \$75,000 annually; and 1% for employees making \$100,000 annually.

Petty Leave

Employees will continue to receive 12 hours of annual petty leave. However, employees will now be able to utilize a maximum of four hours of time per occurrence instead of two hours per occurrence. This policy change has no budget impact.

Supplemental Retirement

In FY13, the Supplemental Retirement Plan (457 Plan) will continue with a reduced level of the City's matching contribution implemented in FY12, which is a matching contribution of \$2 for every \$1 of general employee contributions up to 1% of pay. The city's maximum contribution is 2%. The funding for the Police Officers participating in the State of North Carolina 401(k) plan remains unchanged at 5%.

Tuition Reimbursement

The FY13 Proposed Budget includes a proposal to reduce the maximum annual tuition reimbursement amount for employees from \$1,250 per year to \$1,000 per year.

Award for Service

There are no changes to this program included in the FY13 Proposed Budget. In FY12, this benefit was eliminated for all new employees hired on or after July 1, 2011. For employees hired prior to July 1, 2011, this benefit continues as a one-time lump sum award in December to recognize long-term employees for their service to the City. Employees hired on or before June 30, 1993 will be awarded 4.2% of their annual base pay for 10 or more years of service. Employees hired on or after July 1, 1993 will be awarded 1% for 5 or more years of service, and 2% for 10 or more years of service.