

**ARBITRATION OPINION AND AWARD  
American Arbitration Association  
Case Number 14 360 L 01575 07**

In the matter of an Act 111 Interest Arbitration Between the

**CITY OF PHILADELPHIA**

**AND**

**FRATERNAL ORDER OF POLICE,  
LODGE NO. 5**

**The Arbitration Panel**

Thomas W. Jennings  
*Arbitrator for FOP*

Kenneth M. Jarin  
*Arbitrator for City of Philadelphia*

Ralph H. Colflesh  
*Chairman and Impartial Arbitrator*

**Appearances**

Shannon Farmer  
Jeffrey M. Kolansky  
Jeffrey M. Scott  
Patrick J. Harvey

James J. Binns

*For the City of Philadelphia*

*For the FOP*

Issued: July 10, 2008

I. INTRODUCTION

The City of Philadelphia (hereinafter the "City") and the Fraternal Order of Police, Lodge No. 5 (hereinafter the "FOP") are parties to a collective bargaining agreement which governs the wages, hours and working conditions of the City's police officers. In 2007, the parties exchanged proposals regarding requested changes in the existing collective bargaining agreement and commenced bargaining. When the parties were unable to resolve their bargaining disputes directly, the above-designated Panel of Arbitrators (hereinafter the "Panel") met pursuant to the authority contained in the Policemen and Firemen Collective Bargaining Act, 43 P.S. § 217, et seq. (hereinafter "Act 111"), as modified by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class, 53 P.S. § 12720.101, et seq. (hereinafter the "PICA Act").

Hearings were held on May 29 and 30, June 2, 3, 12, 16, 17, 24, 25 and 26 in Philadelphia, Pennsylvania, at which times the Panel heard testimony and received documentary evidence.

The Panel considered numerous issues submitted by both the FOP and the City. The Panel also considered hundreds of pages of exhibits introduced into evidence by the parties in support of their positions. The Panel was charged with the responsibility of rendering an Award which would govern the terms and conditions of employment of the City's police officers. The prior contract between the parties had a termination date of June 30, 2008.

Following the hearings, the Panel met in executive session regarding the evidence and arguments that had been submitted and raised.

## II. BACKGROUND

This Act 111 interest arbitration was conducted under the dictates of the PICA Act, which created the Pennsylvania Intergovernmental Cooperation Authority (hereinafter "PICA"). The PICA Act requires that the City develop, at least annually, Five-Year Financial Plans that provide for balanced budgets and must be reviewed and approved by PICA. The City is further required to undertake "a review of compensation and benefits" and to ensure that expenditures, including those for employee wages and benefits, are balanced with revenues. 53 P.S. § 12720.102(b)(1)(iii)(H); 12720.209(b) and (c). Under the PICA Act, a failure on the part of the City to comply with such requirements would result in the mandatory withholding of state funding and tax revenues designated for the City.

Most relevant for this Panel, Section 209(k) of the PICA statute, entitled "Effect of Five Year Plan on certain arbitration awards," requires that, prior to rendering an Act 111 award which grants a pay or fringe benefit increase, the Panel must consider and accord substantial weight to:

- i. the approved financial plan; and
- ii. the financial ability of the [City] to pay the cost of such increase in wages or fringe benefits without adversely affecting levels of service.

53 P.S. § 12720.290(k)(l). The Panel also must make a written record of the factors it considered when making its determination according substantial weight to the Five Year Plan and the City's ability to pay. 53 P.S. § 12720.290(k)(2).

During the course of this Act 111 proceeding, both parties raised arguments regarding the City's financial condition and ability to pay for this Award within the confines of the Five Year Plan. In making this Award, the Panel has carefully reviewed and considered the testimony of the witnesses and the exhibits submitted by the parties, as well as the post-hearing submissions of both parties in support of their respective positions. This Panel has duly considered the parties' arguments, and has accorded the City's financial concerns the substantial weight required by law.

### III. FINDINGS

In light of the PICA Act's requirement that the Panel make findings, supported by substantial evidence in the record, that the City has the ability to pay the cost of the Award without adversely affecting service levels, the Panel has carefully considered the evidence and the contentions of the parties. After doing so and fully complying therewith, the Panel has made the following findings in support of its Award:

1. Mayor Michael Nutter took office as the Mayor of the City of Philadelphia in January 2008.
2. The Mayor originally introduced his budget for FY09 on February 14, 2008, proposing modest reductions in the wage tax and business privilege tax and setting aside \$400 million for wage and benefit increases for City employees, including the FOP, over the course of the Five Year Plan.
3. Philadelphia has a high tax burden compared to other large cities nationally and its surrounding counties. However, over the past few years,

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the gap in tax burden between Philadelphia and the surrounding counties has narrowed as Philadelphia has lowered its tax rates and the counties have raised theirs.

4. The City submitted a revised budget and Five Year Plan in May 2008 because its real estate transfer tax revenues for FY08 were millions less than the City had projected.
5. This revised Five Year Plan contained smaller tax reductions than the Mayor had originally proposed in his February budget to make up for the lower revenue.
6. The City's FY09-FY13 Five Year Plan (the "FY09 Plan") was approved by PICA on June 17, 2008.
7. The FY09 Plan sets aside \$400 million over the course of the Plan for wage and benefit increases for City employees, including the FOP.
8. The City has more than 28,000 employees, approximately 6,700 of whom are represented by the FOP. The Five Year Plan does not specifically dictate how the \$400 million is to be divided or allocated by Union.
9. Compensation and benefits for City employees make up 60% of the City's General Fund spending.
10. By 2013, the City expects to spend more than 25% of its total budget on health care and pension benefits for City employees.
11. From FY01-FY08, the City's health benefit costs increased by 123%, while revenues only grew 38% during this period.
12. Since FY01, the City's contribution to the FOP Health Benefits Joint Trust ("Joint Trust") has increased by more than 11% per year on average.
13. The evidence presented at the hearings in this matter demonstrated that the health care program administered by the FOP through the aegis of Law Enforcement Health Benefits, Inc. ("LEHB") is professionally administered so as to maximize the prudent use of City contributions in the provision of quality health care benefits to the City's 6,700 police officers and eligible retirees and their families.
14. LEHB has designed and administered a health care program that emphasizes innovative and aggressive health care management programs that seek to achieve effective cost containment by avoiding illness in the first instance through numerous "wellness" and early detection programs. In this fashion, LEHB works to avoid or at least

ameliorate staggering health care costs attributable to simply treating, as opposed to avoiding, illness.

15. In addition to aggressively working with its officers and families to avoid illness, LEHB also has developed and pursues with equal intensity a cost monitoring and auditing program that seeks to insure that health benefits dollars are expended both wisely and properly.
16. Recognizing that certain economies of size can be achieved by joining with other well-managed health funds, LEHB has maintained active participation in an organization known as the Delaware Valley Health Care Coalition that brings together the collective buying power of dozens of similar funds who jointly provide benefits for 147,000 employees. This membership has provided very tangible results for LEHB, and ultimately the City, by achieving premium reductions from large providers seeking to maintain relations with so large a group.
17. The Panel was particularly impressed with the fact that LEHB has achieved these successes while expending a comparatively small amount of administrative monies in the process.
18. As a direct and immediate result of the cost containment efforts of the FOP and LEHB, the Joint Trust has only experienced medical cost increases of 4%, 5% and 1% over the last three years. These increases are markedly less than national, state or local trends.
19. As a result of shortfalls in contribution rates from previous panels and litigation between the parties, LEHB's reserve assets have been completely expended during the recent past. Without an adequate reserve LEHB would be unable to function, much less perform in the fashion described hereinbefore.
20. The Joint Trust (including LEHB) currently has reserves of approximately \$45 million, or about 4½ months of health plan expenditures.
21. The parties' experts differed as to the amount of reserve assets that should be maintained by a well-managed fund (such as LEHB).
22. As it has for the past several decades, the City continues to struggle with its pension obligations. Although the City's annual contributions have grown by more than 100% since FY01, the City's pension fund was less than 54% funded as of June 30, 2007.
23. In their 2005 Award, the City's firefighters were awarded an improvement in their pension benefits to allow employees in Plan 87 to elect an unreduced survivors pension known as Option 4. The Panel recognizes

the troubled condition of the City's pension fund, but nonetheless believes that it is appropriate for the police to enjoy the same benefit.

24. Philadelphia must provide numerous services as the only city in Pennsylvania that is also a county. These costs include expenses for the prisons and the courts, as well as social services. Philadelphia's poverty rate is the highest of the major cities in the country.
25. Bond rating agencies have ranked Philadelphia second lowest only to Detroit among the 20 largest cities.
26. While the City presented evidence that the City remains beset with financial challenges, the FOP presented evidence that those challenges are improving and that the City's economic future has much to commend it.
27. On June 26, 2008, Mayor Nutter appeared before this Panel and asked that the Panel award a one year contract in order to give the City additional time to devise long-term solutions to the strain that employee compensation costs and other significant challenges currently place on the City budget. The FOP opposes such a request, seeking a three year contract to provide stability to its members.
28. Under the FY09 Plan and in order to sustain a series of new services and expenditures that the City proposes to provide, the City's projected FY08 General Fund fund balance is \$182 million, a decrease of nearly \$116 million in one year.
29. In like fashion, the FY09 Plan projects a \$62.5 million fund balance for this year, decreasing to roughly \$30 million for the next few years.
30. The Panel believes that it is appropriate for the police officers to be part of the Mayor's effort to raise the educational attainment level for the City and to have a more educated workforce. It is appropriate that the City provide financial assistance to police officers who are doing so, as it does for firefighters.
31. One of the highest priorities of the City is improving public safety. As a result, the City has announced several ambitious goals including reducing homicide by 25% in 2008 and 30-50% over the next three to five years, decreasing the number of shooting victims by 20% by the end of the year and increasing the number of guns taken off the streets this year by 5%.
32. To attain those goals, the Mayor and new Police Commissioner Charles Ramsey have committed to putting more police on the streets and

focusing on intelligent policing strategies to be more responsive to crime patterns.

33. The City's population today is less than 70% of the City's 1950s population, but the City's 2008 sworn police complement is 34% higher than in 1955. This was, of course, at a time where drugs and guns were less prevalent in our society. As a result, the City has one of the highest per capita levels of police officers among major cities.
34. During the term of the last Award, three police officers -- Gary Skerski, Chuck Cassidy and John Liczbinski -- were shot and killed in the line of duty and several others were wounded. The Panel recognizes that it is impossible to adequately compensate the officers in this bargaining unit for the danger they face in performing their valuable work protecting the City of Philadelphia; however, a small adjustment to the pensions of the survivors is both appropriate and affordable.
35. In crafting this Award, the Panel has balanced its desire to respect and fairly compensate the work done by the police officers with its obligation to accord substantial weight to the City's ability to pay for the cost of an award without negatively affecting service levels, as required by the PICA Act.
36. In making its Award, the Panel has considered and accorded substantial weight to the City's approved Five Year Plan and the financial ability of the City to pay the cost of any increase in wages or fringe benefits without adversely affecting levels of service.

#### IV. AWARD

##### 1. Term

This Award shall be effective for one (1) year, from July 1, 2008 through June 30, 2009.

##### 2. Wages

- a. Effective July 1, 2008, there shall be an across-the-board wage increase in the Police pay schedule of 2%.
- b. Effective January 1, 2009, there shall be an across-the-board wage increase in the Police pay schedule of 2%.

**3. Longevity**

Effective January 1, 2009, each bargaining unit member shall be entitled to longevity based upon the following schedule, computed on the base salary plus stress differential for the respective rank:

<u>Years:</u>	<u>Percentage</u>
1-2	0
3-4	3.3%
5-9	3.8%
10-14	4.5%
15-19	5.2%
20-24	5.7%
25-29	6.3%
30-35	6.8%

**4. Health and Welfare**

The Panel recognizes the extraordinary effort that the FOP invests in the administration of its health plan. The Panel also recognizes that these efforts have resulted in cost increases in the plan that are far below national, state and local averages over the term of the last Award. As a result of these successful management efforts, the current City contribution exceeds the cost of the benefits by nearly \$140 per member per month and the Joint Board has been able to accumulate a sizable reserve as a cushion against future cost increases.

Despite the FOP's success in containing costs during the previous contract term, the Panel recognizes that the high cost of providing benefits to all City employees is a significant concern to the City. The City argued at the hearing for its need to work cooperatively with the FOP and the other unions to find long-term solutions that will ensure high quality health benefits for police officers and all City employees in a cost efficient manner for the City.

In light of these factors, the Panel directs that the existing contract language shall remain in effect except as provided below:

**a. City Contribution**

Effective July 1, 2008, the City's monthly dollar contribution to the Joint Board shall be \$1,165 per member per month.

b. **Health Care Cooperation Committee**

The City and the FOP with, if possible, the other City Unions will establish the Joint Labor-Management Healthcare Evaluation Committee ("Committee"). The attached Appendix describes the Committee's structure and goals and is incorporated into and shall be part of this Award.

5. **Legal Fund**

Within sixty (60) days of the issuance of the Award, the City shall make a lump sum payment of two million (\$2 million) to the FOP Legal Services Fund.

6. **Retiree Trust Fund**

Within sixty (60) days of the issuance of the Award, the City shall make a lump sum payment of four million (\$4 million) to the Retiree Joint Trust Fund.

7. **Pensions**

- a. Effective July 1, 2008, the City will revise Police Plan 87 by adding the unreduced, 50% Survivor Benefit Option ("Option 4") that is contained in Police Plan 67.
- b. Any member of the bargaining unit who is killed in the line of duty as an immediate result of the violent conduct of a third party that was directed towards the officer or a member of the public or an immediate result of performing other heroic action in an emergency situation in the line of duty on or after January 1, 2006 shall have his or her pension calculated as if the officer retired at the next rank, excluding corporal, above the rank held by the officer at the time of his or her death (e.g. Officer to Sergeant). This section shall not cover death resulting from vehicular accidents.

8. **Uniforms**

- a. Effective July 1, 2008, employees shall receive a uniform allowance of Five Hundred Dollars (\$500.00) per year.

- b. Effective July 1, 2008, employees shall receive a uniform maintenance allowance of Five Hundred Dollars (\$500.00) per year.

**9. Tuition Reimbursement**

Effective July 1, 2008, the Department will adopt a program to provide tuition reimbursement at levels to be determined by the Department after discussion with the FOP to officers who successfully complete education courses approved by the Commissioner in advance in a field related to public safety or administration at an accredited college or university.

**10. Civilianization**

The Department shall be permitted to use Deputy Sheriffs for transportation of prisoners that is currently performed by members of the Police Department.

**11. Transfers**

A transfer committee comprised of equal numbers of representatives appointed by the Police Commissioner and the FOP shall address issues related to the transfer of employees including transfers of officers at the rank of lieutenant and above and an equitable system for transfers of officers out of specialized units for non-disciplinary reasons other than essential manpower requirements.

**12. Work Schedules**

The Panel recognizes that crime, particularly violent crime, is a significant problem in the City and that the new Administration has made reducing crime a top priority and is taking aggressive action to do so. In order to aid in those efforts, the Panel believes it is appropriate to give the Department additional flexibility to respond to crime patterns.

For the term of this Award, the Department shall have the right to change the scheduled starting time of employees in the Highway Patrol Unit and the Strike Force by up to three (3) hours without payment of additional overtime to respond to crime patterns. All changes shall be made in accordance with the requirements of the 2000 Award for similar changes to the work schedules of the tactical Five/Seven Squads. The impact of

this provision on affected officers shall be subject to review as part of negotiations and/or interest arbitration for the contract term to begin on July 1, 2009.

**13. Commanders**

Effective July 1, 2008, officers at the rank of Captain and above shall receive straight time pay for all hours worked on the following four occasions: Mummers' Parade, Fourth of July, Greek Picnic, and Bike Race.

**14. Sick Leave**

The Sick Leave Utilization Schedule shall be deleted from the Police Department Sick Leave Policy (Appendix D).

**15. Payment of Costs**

In this proceeding, the City argued forcefully for a contract term of one year, while the FOP sought a three year term. The Panel has considered the arguments of both sides in support of their suggested term and has determined that it is appropriate to grant the Mayor the one year term he requested from the Panel in order to allow the City the time it needs to address the serious structural challenges it faces, including the cost of employee benefits.

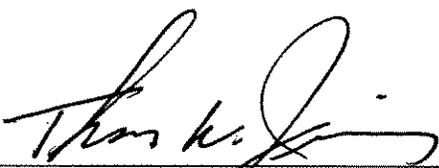
The Panel recognizes, however, that a one year contract term imposes a significant burden on the FOP to engage in interest arbitration proceedings two years in a row if the parties are unable to reach agreement on the terms of a contract to begin on July 1, 2009. In light of these extraordinary circumstances, the Panel makes the following award, which shall not be considered to set a precedent for future awards:

Within sixty (60) days of the FOP presenting reasonable documentation supporting its expenditures, the City will reimburse the FOP for up to \$500,000 of legal expenses and expert fees incurred in this proceeding.

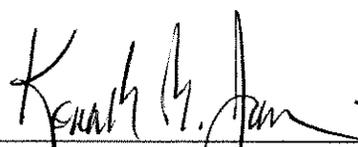
**16. The Existing Agreement**

Except as modified by this Award, all other terms and conditions contained in the collective bargaining agreement between the City and the FOP in effect from July 1, 2004 and June 30, 2008 shall remain in effect. All other proposals and requests for change submitted by the City and the FOP to the Panel, which have not been specifically addressed in this Award, were considered and have not been awarded.

  
\_\_\_\_\_  
Ralph H. Colflesh, Impartial Arbitrator

  
\_\_\_\_\_  
Thomas W. Jennings, FOP Arbitrator

- Agree
- Dissent

  
\_\_\_\_\_  
Kenneth M. Jarin, City Arbitrator

- Agree
- Dissent

Dated July 16, 2008

# **Joint Labor-Management Healthcare Evaluation Committee**

## **I. Introduction and Establishment**

The City and its Unions<sup>1</sup> provide City employees with healthcare through a City controlled healthcare fund for non-union employees and through Union controlled healthcare funds for union employees, with the City supporting the Union administered funds through per-employee monthly contributions. The funds individually determine health benefits, plan terms, and cost allocation for their member employees, and control their own finances.

The City believes that the escalating expenses associated with personnel costs pose serious challenges to the City of Philadelphia's finances and threatens the City's ability to continue to fund employee healthcare benefits in their current form while maintaining a balanced five-year plan and making the necessary investments to ensure the City's growth. The Unions, on the other hand, believe that their members are entitled to receive these quality benefits as a part of their compensation package from the City and should not suffer any reduction in those benefits.

As a result, both the City and the Unions are interested in taking voluntary proactive measures to ensure that City employees continue to receive both high quality and cost-effective health benefits. To that end, the City and its Unions hereby establish the Joint Labor-Management Healthcare Evaluation Committee ("Committee").

## **II. Guiding Principles**

The Committee's work will be guided by the following key principles:

- Maximizing the quality of health benefits for City employees at an affordable cost-effective price is a shared responsibility of the City and the Unions.
- All health plans should be administered according to mutually-recognized industry best practices.
- Decisions about changes in health plans must consider the short-term and long-term impact on the quality and availability of employee healthcare benefits, the financial health of the funds and the financial health of the City, which supports the funds.
- In order to attempt to ensure the quality and cost effectiveness of the healthcare benefits offered by the members of the Committee,

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<sup>1</sup> The term "Unions" refers to: AFSCME District Council 33, AFSCME District Council 47, IAFF Local 22, FOP Lodge No. 5, and the Deputy Sheriffs.

the Committee will be open-minded in its approach, innovative in its thinking and comprehensive in the scope of its considerations.

### **III. Membership**

Within ten (10) days of its execution of the Agreement, each of the City's Unions will appoint one (1) member to serve as the Union's representative on the Committee. Should any Union choose not to participate or to cease participation, the Committee will proceed without that Union's representative. Within fifteen (15) days of each Union's appointment of a representative, the City will appoint one (1) representative for each Union representative appointed, so that there is an equal number of Union representatives and City representatives on the Committee. All time limits may be changed by mutual agreement of the City and the Unions.

The Committee's representatives may delegate their powers to a substitute representative in the event of their absence from a meeting. Substitute representatives will participate fully and vote in the stead of the absent representative.

In addition to voting member(s), the City and each Union may bring one or more advisors, including experts or attorneys, at the party's own expense to advise the party's representative.

### **IV. Powers**

In implementing the Committee, the City and the Unions will retain all rights provided by law, regulation, and their respective collective bargaining agreements or arbitration awards. Further, the Committee will not have the power, directly or indirectly, to alter or amend in any fashion the existing collective bargaining agreements or arbitration awards between the City and the Unions.

Any discrepancies in language implementing the Committee between the various Unions participating shall be resolved by the Committee. Resolution of such disputes shall be consistent with the immediately preceding paragraph and shall not delay the Committee from carrying out its duties or exercising its powers.

The Committee will have the power to issue non-binding findings regarding the current status of healthcare benefits for City employees and recommendations for maximizing the quality and competitiveness of employee healthcare benefits at an affordable cost.

In furtherance of its power to issue non-binding findings and recommendations, the Committee will have the power to request and receive from the City and Union healthcare funds any relevant information including: the plan's terms and conditions of benefits, other documents regarding plan design and benefit offerings, vendor agreements, utilization information, demographics, plan finances and accounting statements, valuations, fees, commissions or other forms of compensation paid directly or indirectly to health benefit advisors, consultants and other professionals, etc. The City and the Union agree that the City and Union healthcare funds will promptly provide

all information requested by the Committee, including taking all necessary steps to ensure that vendors or benefit providers promptly provide requested information in as much detail as the Committee requests (recognizing that the Committee will not request information on individual participants that has not been redacted to protect the privacy of the individual).

All information provided shall be subject to the Confidentiality provision in Section VI. Moreover, any information obtained as a result of participation in the activities of this Committee shall not be used for any purpose in any other proceeding or for any other purpose other than the activities of the Committee.

Appropriate arrangements shall be made by the Committee to insure mutuality of performance in terms of providing the records and information described herein. No party hereto shall be required to perform with any greater promptness or completeness than any other party.

In furtherance of its power to issue non-binding findings and recommendations, the Committee will have the power to spend such monies as are necessary in the advancement of its purpose. The Committee's costs thus incurred will be born by the City.

In furtherance of its power to issue non-binding findings and recommendations, the Committee will have the power to engage independent professionals such as actuaries, accountants, and consultants to assist the Committee in its review of the current healthcare plans and in considering and crafting its recommendations.

## **V. Operation**

The Committee shall convene its first meeting within fifteen (15) days of the City's appointment of its first representative, unless a different meeting schedule is set by mutual agreement of the City and the Unions, but in no event shall the Committee convene later than September 2, 2008. The Committee will meet regularly on at least a bi-weekly basis to conduct its business. The Committee will use all reasonable efforts to produce its findings and recommendations no later than November 1, 2008.

The City will appoint a co-chairperson and the Unions collectively will appoint a co-chairperson for the Committee. The co-chairs shall alternate leading the meetings of the Committee.

The Committee will appoint a secretary, who need not be a member of the Committee, who will be charged with keeping minutes of the Committee's meetings, circulating the minutes to the membership and scheduling Committee meetings.

The Committee will vote on any formal exercise of its powers. The formal exercise of powers is defined as the expenditure of funds, the engagement of professional services, the request for documents and information, and the making of

nonbinding findings and recommendations as described in Section IV. Voting requires that a majority of members (including substitute) be present and that a majority of the members present vote in favor of the action.

## **VI. Confidentiality**

It is recognized that in order to have the frank and open discussions that are essential to accomplish the purposes of this Committee, the absolute confidentiality of all aspects of the Committee's activities is the essence of this Agreement. More specifically, any and all activities, discussions and deliberations of the Committee, including but not limited to any documents, meeting minutes, drafts, reports and recommendations created by or exchanged within the Committee, shall be strictly confidential and may not be publicly revealed voluntarily for any purpose by any member, party or representative of the party, nor offered for any purpose into the record in any interest arbitration proceeding, without the consent of all the Committee's members. It is understood that members of the Committee will share information on the Committee's discussions, deliberations, analyses and recommendations with their respective parties, with the specific expectation that reasonable efforts will be taken by all parties to maintain the confidentiality of that information. The City and each of the Unions participating in the Committee agree that they will not subpoena any member of the Committee, any representative or employee thereof or any consultant or advisor hired by the Committee for the purpose of revealing any activity of the Committee that would otherwise be subject to this confidentiality provision. If any member of the Committee or party is subject to subpoena or other legal process initiated by any third party requiring that member or party to testify or produce documents related to the activities of the Committee, the member shall promptly notify the other members of the Committee.

## **VII. Objectives**

The objective of the Committee is to fully review how the City and Union controlled healthcare funds are currently providing healthcare benefits to City employees, and to make nonbinding confidential recommendations on how to maximize both the quality and cost effectiveness of the healthcare benefits offered to all City employees. The determination as to which, if any, of those recommendations may ultimately be adopted, in whole or in part, shall be left to the sound and exclusive discretion of each party hereto.

As an illustrative but by no means exhaustive list, the Committee is encouraged to consider the effect the following actions would have on both the quality and the cost of employee healthcare benefits:

### **Individual Health Management Programs**

Individual health management program issues include evaluation of the cost and benefit of adopting or expanding upon such employee centric health management programs. These programs often provide such services as personalized

health status and health risk assessments, disease and care advice, management and monitoring, specialized assistance for smoking cessation or weight loss, personalized nutrition or exercise programs, and other important health services. These programs often create “win-win” scenarios, improving the health and quality of life for employees and reducing costs for the funds.

### **Plan Administration**

Plan administration issues include vendor management practices, such as reviewing the negotiation process utilized by the funds and their vendors to establish the vendors’ fees for providing the requested benefits to the funds’ participants, and comparing the rates and fees offered by various vendors for similar healthcare benefits, competitive bidding for vendors, and vendor performance audits; investment strategies such as reviewing the past performance of the funds’ investments as compared to similar investing entities and market performance generally, and analysis of alternative investment strategies that could yield greater or more consistent returns for the funds, potentially offsetting expenses or increasing reserves; and best practices such as eligibility audits and coordination of benefits.

### **Change In Plan Design**

Plan design changes could include, consistent with the demographics and particularized needs of the various funds’ membership, benefit changes, tiers for prescription drugs and mail order drug programs, changing in-network affiliations, creating an independent network and reassessing the healthcare system to be used as the vehicle for providing and managing the benefits [HMO, PPO, POS, etc.].

### **Consolidation**

Consolidation could involve potential options for the integration, in whole or in part, of the City administered healthcare fund and the various Union administered healthcare funds into one or more centrally-administered fund(s). Efficient plan administration being a significant driver of cost savings, consolidating City employees into one or more well-managed unified healthcare plans could provide greater market leverage and purchasing power while also diffusing the risk of catastrophic injuries and high utilization rates. Consolidation into a well-managed fund also carries the potential for greater efficiencies and elimination or streamlining of overlapping and redundant administrative functions.

However, it is recognized that consolidation cannot occur without the consent of all affected Unions.

### **Plan Funding**

Nonbinding plan funding options to be discussed by the Committee could include changing the funding structure, fully self-insuring benefits, altering deductibles and co-payments, or changing coverage maximums. Such modifications need not necessarily be negative in nature in order to achieve cost effectiveness. Further, the

Committee could consider the effectiveness of providing financial incentives to employees who utilize their benefits more efficiently such as by enrolling in a more appropriate healthcare system, actively participating in an individual health management program, utilizing mail-order prescription services, etc.

The Committee is encouraged to consider, in addition to the suggestions made above, any other approaches that might advance the Committee's goal of maximizing the quality and competitiveness of employee healthcare benefits at an affordable cost.