CITY COUNCIL COMMUNICATION:

98-381

AGENDA:
AUGUST 24, 1998

SUBJECT:
RENEWAL OF RETIREE HEALTH INSURANCE PREMIUMS - 1998/99

TYPE:
RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:
MARK SCHULTZ
RISK MANAGEMENT COORDINATOR

ITEM ____

OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA

SYNOPSIS —

Every year the City reviews the past year's health insurance costs for retired personnel to establish the next year's premium. Based on actual costs incurred, it is proposed that for the period of October 1, 1998 through September 30, 1999, the premiums be adjusted as per the attached premium schedule. Also attached is a five-year comparison of retiree health insurance premiums and breakdown of the number of retirees currently enrolled in each plan option. The level of benefits would remain the same.

FISCAL IMPACT –

The costs are paid from the Employee Benefits portion of the Trust and Agency Fund ($9,753,341) included in the FY 1998-99 Operating Budget, page 42. Claims are paid as they are incurred during each fiscal year and are recovered through the billing of retirees. Cost recovery is over a twelve-month period beginning October 1 of each year.

RECOMMENDATION –

Approval of the proposed premium rates.

BACKGROUND –

On September 8, 1997, Roll Call No. 97-3096, the City Council approved retiree health insurance premiums for the period of October 1, 1997 through September 30, 1998. The City's policy is that retiree health insurance premiums should be structured to recover the City's cost in providing the benefits. The actual claims paid in the fiscal year ending prior to the October 1 renewal date, plus the administrative costs charged the City by Principal Life Insurance Company, are used for determining retiree premiums.

The administrative cost portion of the premium for each renewal year is projected by Principal Life Insurance Company and reported to the City in March of each year. The compilation of actual claims paid is completed by Principal at the end of the plan year which corresponds to the City’ s fiscal year. The Risk Management Office receives the plan year-end report on claims paid about mid-July; this year it was the week of July 13. Upon receiving all costs associated with retiree health insurance, the Risk Management Office calculates the renewal rates. This is accomplished around the end of July or beginning of August. After calculating the renewal rates for 1998/99, the Risk Management Office met with Federation of Retired City Employees (FORCE-1) on August 6 and reviewed in detail the costs associated with the plan and how the renewal rates were calculated. Following that meeting, the information was reviewed for accuracy, minor revisions made, and the changes provided to FORCE-1.

From FY 1997 to FY 1998, actual claims paid increased by $534,000 or 12 percent. While it is difficult to specifically pinpoint the reasons for this increase, the following information taken from the claim activity profile of City retirees does provide a snapshot: (A) the number of visits made to medical providers (physicians, etc.) decreased 6.5 percent while the cost per visit increased by 7.0 percent, (B) the number of days in the hospital increased by 2.0 percent while the cost per day decreased 3.5 percent, (C) the number of individuals for whom medical claims were paid decreased by 1.0 percent while the number of claim transactions per individual rose 5.0 percent and the average cost per transaction rose 13.6 percent, and (D) the number of individuals for whom prescription drug claims were paid decreased by 3.4 percent while the number of prescriptions filled per individual rose by 4.3 percent and the average cost per prescription rose by 5.9 percent. In addition, the number of retirees experiencing cumulative total claims exceeding $10,000 increased by 11 percent, and of these one individual experienced claims of $115,000 and another $227,000.

While generalizations can be made from this information, other than the benefit levels of the plan options offered, it is not clear what is actually driving the annual costs associated with the City’ s retiree health insurance. As indicated above, while use of medical care may increase in one area of service, the cost per use may decrease, and the reverse can occur in another area of service. What is not known is what factors influence cost most, e.g., changes in the use of the services, changes in fees and charges, or changes in the severity of the illness or injury being treated. It is safe to assume that all of these factors play a role. However, the tyranny of insurance mathematics dictates that unless: (1) use of services decreases, and/or (2) fees remain constant, and/or (3) the severity of illness or injury moderates, the actual claims paid for retirees will continue to rise as will the monthly premiums charged to recover those costs. This is exacerbated if those who are healthy adversely select against the City's plan by enrolling in other, less costly plans. This results in driving up the claims in the already more costly plan because those remaining in the plan are those requiring the greatest need for health care services.

Currently retirees are offered the option of two plans, the Traditional and the Comprehensive. Another option for reducing the monthly premiums would be to reduce the benefit level of one of these plans. As directed by Council last year, the Risk Management Office met with FORCE-1 representatives to discuss such a plan change. With the assistance of Principal Life Insurance Company, the Risk Management Office calculated a redesign of the City's Comprehensive Plan. While the redesign would have reduced the premium below that of the current Comprehensive Plan, the allocation of costs between the Traditional Plan and the Comprehensive Plan would have increased the Traditional Plan premium if implemented mid-year. FORCE-1 did not want to pursue the new plan design as an alternative. However, the Risk Management Office did point out that by applying the same costs as were used to develop the approved premiums for 1997/98, the redesign demonstrated that the change would have resulted in a lower cost alternative for retirees to choose. The Risk Management Office also pointed out that the impact on the Traditional Plan premium could only be known after having implemented the redesign for a year. FORCE-1 determined that it was not interested in the redesign.