

**CITY COUNCIL
COMMUNICATION:**

02-327

AGENDA:

JUNE 17, 2002

SUBJECT:

2003 RATES FOR
ACTIVE AND
RETIRED
EMPLOYEES'
HEALTH INSURANCE
RENEWAL

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

TOM TURNER
HUMAN RESOURCES
DIRECTOR

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

SYNOPSIS -

Approve the renewal rates for active and retired employee health, prescription and dental coverage for the plan year commencing July 1, 2002 and ending June 30, 2003, for active employees and August 1, 2002 through June 30, 2003, for retired employees.

FISCAL IMPACT -

Total anticipated costs are \$21,650,000. Total insurance cost contributions from retirees, Metro Waste Authority, Library Foundation and COBRA participants is expected to be \$6,021,355 assuming stable enrollment volume and coverage selection. The active City of Des Moines employees are charged with the remaining cost of \$15,628,645.

RECOMMENDATION -

Approval.

BACKGROUND -

The City sponsors a self-insured health plan with the benefits determined through the collective bargaining process with our represented employees. Based on previous Council policy, these benefits have not been revised to reflect various changes in co-payments, coverage and contributions that many private sector employers have implemented in this period. As a result, the plan pays nearly 100 percent of costs incurred by plan participants choosing to obtain services within the preferred provider network.

During the last two years, several factors have been operating in concert to significantly increase the cost of health care. First, inflation in providing medical services has been increasing in excess of 10 percent per year the last two years. Principal indicated the

current trend of inflation rate is over 13 percent for these hospital, physician and diagnostic services. Prescription drug trend has been in the vicinity of 20 percent during each of the same two years. Increased research has presented more drugs on the market to treat various conditions, and the drug manufacturers have been effective in using advertising to increase demand and utilization.

Additionally, inflation has had a detrimental effect on our costs to secure stop loss insurance as the re-insurance market has hardened as a result of market declines and increased penetration of stop loss limits.

More specific to the City's health plan, we have continued to see an elevated level of large claims. In FY00, the City experienced approximately \$400,000 of claims in excess of \$50,000 per individual claimant. In FY01 and FY02, the volume of these large claims has been approximately \$2,800,000 in each year. These large claims are fueled by an increase in the number of transplant cases and other serious health conditions experienced by our plan members. A significant portion (about 40 percent of the costs) of these large claims are experienced in our under age 65 retired employee group.

During the FY03 budget process, the Council indicated a tax increase to fund the health benefits was not an acceptable option. Accordingly, City staff made several recommendations to reduce reliance on tax generated revenues to cover these costs. These recommendations included elimination of staff positions, a revision in the prescription plan for SPM and retired employees, switching to a different network provider to obtain better discounts and charging retired employees under the age of 65 the actual cost of their claims.

The SPM board was given the challenge of reducing the costs of their benefits by \$180,000. The Board and SPM employees took this challenge seriously and have recommended two changes to the City Manager that are designed to secure this cost reduction. The recommendation is to implement a prescription co-pay of \$5 for generic drugs and \$15 for brand name drugs with an annual cap of \$500 per single and \$750 for family in annual co-payments. Additionally, the SPM Board recommended the physician office visit co-payment be increased from \$5 to \$10 per visit. These changes are proposed to be effective January 1, 2003 to permit SPM employees to fund this additional cost by making appropriate salary deferrals into the Flexible Spending Account Plan (Internal Revenue Code Section 125 Plan).

The retired employees over age 65 will see no benefit plan change. Their contributions are currently funding 100 percent of their costs and are expected to provide full funding in the next fiscal year as well. This group does not incur large hospitalization, surgical and physician expenses as Medicare covers approximately 80 percent of those costs and acts as a cushion from large claim shock. However, this group as well as active and under age 65 employees will see a cost adjustment to reflect state-mandated reserve requirements.

The under age 65 employees, based upon the Attorney General Opinion issued in May 2002 will continue with the same plan as previously provided and will be charged a premium based upon a blending of the active employees and under age 65 retired employees' claims. This state-mandated procedure will result in taxpayers contributing at least \$879,750 toward this group's expected claims in FY03. In previous years, the actual experience of this group has been worse than projected due to the frequency of large unexpected claims. If this trend continues, the taxpayer subsidy required by the state will be even higher.

Following the City Council's budget action in March, City staff began to meet with representatives of the City's collective bargaining groups and other employee representatives to review various network and provider options. The City staff contacted three primary providers in the Des Moines area - Principal Financial Group, Wellmark and Coventry Health Care of Iowa. Each of these groups made presentations and provided cost projections based upon their analysis of the City's claims history. As a result of this competitive environment, the City will benefit from a substantial improvement in our network provider discounts. If the City had remained with the current Health Care Preferred PPO network administered by Principal, the projected cost of claims and administration for FY03 was \$24,656,853. The switch to Midlands Choice results in a \$2,870,000 reduction in our projected claims. Additionally, Principal has been able to reduce our projected administration cost by \$130,000 providing an overall reduction of \$3,000,000 in projected costs.

Reserves Requirements of Iowa Code 509A

Iowa Code Chapter 509A, as implemented by the Iowa Insurance Commission, requires self-funded health plans sponsored by state subdivisions to hold two types of reserves. The first type is a claim fluctuation reserve. This fund is designed to provide a buffer and resource for particular months when claims exceed the expected

level. The reserve amount, as determined by an actuarial calculation based on FY01 claims, is \$2,116,590.

The second reserve type is a "run-out claims" reserve. This fund is intended to provide resources to pay claims that are incurred but not yet paid when an organization terminates a plan or goes out of business. This reserve amount, as determined by an actuarial calculation based on FY01 claims, is \$2,503,281. The City sought an administrative waiver of these reserve requirements from the Iowa Insurance Commission. The Commission denied the City's petition.

The City currently has expended the reserves to pay claims as costs have exceeded budgetary expectations. The rates recommended include a charge to fund these reserves over a twelve-month period. The intention is to reduce or eliminate the 509A reserve assessment when the reserves are funded at required levels. It is important to note, however, the required reserve level will increase as the claims of the plan increase.

City Administration Fee

The Attorney General's Opinion of May 2002 requires the City to blend or pool rates for retired employees under the age of 65. However, the opinion did note the City was permitted to assess a two percent administration fee to retirees. This administration fee is the same level authorized by COBRA. It is intended to recover the cost of labor, postage and supplies expended to support the provision of the benefit to the retirees.

Recommended Rates

The recommended rates for the health care plan are provided in the following chart:

**RETIREE HEALTH INSURANCE
PROPOSED RATES
EFFECTIVE AUGUST 1, 2002**

**UNDER 65
MONTHLY RATE**

Explanation of Charges	SINGLE	FAMILY
Medical	\$ 247.65	\$ 495.31
Prescription	\$ 103.55	\$ 207.10
Dental	\$ 31.67	\$ 58.64
TP A Admin	\$ 35.25	\$ 35.25
509A Reserve Assessment	\$ 87.60	\$ 175.20
2% City Admin Fee	\$ 8.36	\$ 15.93
TOTAL MONTHLY PREMIUM	\$ 514.08	\$ 987.43

**OVER 65 (Medicare Eligible)
MONTHLY RATE**

Explanation of Charges	SINGLE	FAMILY
Medical	\$ 111.43	\$ 222.85
Prescription	\$ 186.61	\$ 373.23
Dental	\$ 31.67	\$ 58.64
TP A Admin	\$ 24.45	\$ 24.45
509A Reserve Assessment	\$ 67.38	\$ 134.75
2% City Admin Fee	\$ 7.08	\$ 13.58
TOTAL MONTHLY PREMIUM	\$ 428.62	\$ 827.50

**COMBINED (One with Medicare/One
Without) MONTHLY RATE**

Explanation of Charges	Family
Medical	\$ 359.08
Prescription	\$ 290.16
Dental	\$ 63.34
TP A Admin	\$ 59.70
509A Reserve Assessment	\$ 154.98
2% City Admin Fee	\$ 15.44
TOTAL MONTHLY PREMIUM	\$ 942.70

Retirees will be permitted to drop dental coverage. Such an election will be irrevocable for a period of two years and a retiree will not be permitted to re-enroll in dental coverage unless the plan participant has an event. An event will include death of a spouse or dependent,

loss of alternate coverage due to the termination of employment of a spouse or termination of the spouse's health plan.

Retirees will be permitted to drop prescription coverage only upon proof of credible coverage in another plan. Such an election will be irrevocable for a period of two years and a retiree will not be permitted to re-enroll in prescription coverage unless the plan participant has an event. An event will include death of a spouse or dependent, loss of alternate coverage due to the termination of employment of a spouse or termination of the spouse's health plan.

Retirees will be permitted to elect the alternate plans for prescription and dental coverage. The alternate plans are detailed later in this communication. The costs of these alternates are:

Single Family

Prescription (over 65) \$ 94.00 \$188.00

Dental (over 65) \$ 22.00 \$ 44.00

Prescription (under 65) \$ 60.00 \$120.00

Dental (under 65) \$ 22.00 \$ 44.00

It was brought to the City's attention some retirees dropped all their medical plan coverage after the Council budget action in March. It has been stated that some of these people over the age of 65 were led to believe they would be paying a \$1,600 monthly premium.

However, the \$1,600 premium was only mentioned in regard to the under age 65 retiree group. Based on this, the City staff plans to offer those individuals who dropped the City health insurance after March 1, 2002 the opportunity, this one time only, to re-enter the plan.

Alternate Plan

The City Council charged City staff as part of the March budget action to develop a health plan that would cost in the vicinity of \$740 per month for a family premium for retired employees under the age of 65. A plan has been developed to meet this requirement including the 509A reserve assessment. The plan benefits of this alternate plan are the same as the current plan with the following changes and premium rates:

DESIGN FEATURES

Medical - Plan 1 benefits with these changes

\$1,500/\$3,000 Deductible - Applies to all services

\$3,000/\$6,000 Out Of Pocket maximum
80/20 Co-Insurance in Network - Applies to all services
60/40 Co-insurance Out of Network

Prescription - New Plan

50% Co-pay on all prescriptions - No Maximum

Dental - Plan 1 benefits with no orthodontia and these changes

Maximum Payment (per calendar year) \$500 per person

Co-payment for Part I Covered Charges 80%

Routine Oral Exams

Co-payment for part II Covered Charges 70%

Restorative Dentistry (fillings)

Co-payment for Part III Covered Charges 50%

Major Restorative - Dentures/Bridges

PREMIUM CONTRIBUTIONS (COST PER MONTH)

Category Single Family

Medical \$180.50 \$361.00

Prescription \$ 60.00 \$120.00

Dental \$ 22.00 \$ 44.00

Plan Administration \$ 35.25 \$ 35.25

City Administration Fee (2%) \$ 6.06 \$ 11.21

509A Reserve Assessment \$ 87.60 \$175.20

Total Monthly Premium \$391.41 \$746.66

On-Going Developments

Some members of FORCE 1 have asked for an alternate prescription plan. City staff stands ready to develop such an alternative and implement it in mid-plan year with a corresponding reduction in premium provided the alternate replaces the current plan. It is important to plan design and adverse selection concerns to not add further options.
