

**CITY COUNCIL  
COMMUNICATION:**

**02-467**

**AGENDA:**

SEPTEMBER 9, 2002

**SUBJECT:**

RECOMMENDATION  
TO SELECT A  
CONSULTANT AND  
ISSUE AN RFP FOR  
THE CITY'S HEALTH  
INSURANCE

**TYPE:**

**RESOLUTION**  
ORDINANCE  
RECEIVE/FILE

**SUBMITTED BY:**

THOMAS TURNER  
HUMAN RESOURCES  
DIRECTOR

**ITEM \_\_\_\_\_**

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

**SYNOPSIS —**

Recommendation to hire Holmes Murphy (Doug Reichardt, President, West Des Moines) as a consultant and broker of record to draft and issue a Request For Proposal (RFP) for the City's health plan, evaluate proposals, and recommend a provider or providers for a period not longer than December 31, 2006.

**FISCAL IMPACT —**

Expected fees to Holmes Murphy are \$17,000. There are sufficient carryover funds from FY02 in the City's Training and Benchmarking fund to cover this expense.

**RECOMMENDATION —**

**Authorize the City Manager, after legal review and approval, to execute an agreement with Holmes Murphy to develop and issue an RFP for the City's health insurance and further authorize the issuance and evaluation of the RFP.**

**BACKGROUND —**

The City of Des Moines sponsors and funds a health insurance plan providing medical insurance (physician, lab, hospitalization, etc), prescription drug insurance, and dental insurance. These plans are currently administered by the Principal Financial Group. The City uses Midlands Health Partners as the Preferred Provider Organization for medical claims; Advance PCS as the Prescription Benefit Manager for prescription drugs; and Principal Financial Group's dental PPO.

During the spring of 2002, City staff and representatives of various employee groups conducted a review of proposals from Wellmark, Coventry Healthcare of Iowa, and Principal for provision of the health insurance. This review resulted in the selections noted above and also provided a reduction in expected claims. However, this process was not a formal RFP. The City did not use a third party to evaluate the proposals to point out differences in discounts on various aspects of the insured coverage. The proposals were evaluated on the expected gross annual cost based upon the City's claims history. The last time the City hired a consultant to perform a

review of its health plan was in 1995. At that time the City secured the services of the Segal Company. The result of that process was a \$600,000 savings in expense per a memo in the file from Eric Larsen, City Risk Manager, at the time.

An RFP evaluated by a consultant will:

1. Provide an independent evaluation of projected costs;
2. Provide a basis to evaluate administrative and non-claims costs to assure reasonableness and necessity;
3. Provide a reasoned analysis of the best funding mechanism (insured, self-insured, hybrid products)
4. Provide expertise whether a lower stop loss point is to our economic advantage;
5. Provide a better analysis of the scope and breadth of network providers;
6. Provide credibility to the analysis and recommendation of a provider; and
7. Provide analysis and recommendations regarding ancillary services such as case management, transplant centers, disease control, and informational programs.

The RFP will request both insured and self insured quotes and will suggest three different plan year start dates of January 1, March 1, and July 1. The RFP will also permit a bundled and unbundled proposal. That is, the proposals can be reviewed for providing all three elements of the benefit or any one or combination thereof.

An insured quote will provide a good indication of the validity of self-insured claims projections. An insured plan would insulate the City from having to fund large claims in the year they are incurred but would be reflected in insured rates for the subsequent plan year. The insured plan has the disadvantage of higher costs due to the risk the insurance company assumes.

Various levels of stop loss insurance for a self-insured plan will be requested as well. Known benefit plan changes (e.g. those for SPM employees effective January 1, 2003) will be factored into these prospective quotes.

The ad hoc insurance committee comprised of representatives of various employee groups and Federation of Retired City Employees (FORCE-1) will participate in the process. They will review the responses and be given presentations by representatives from Holmes Murphy.

The City has labor agreements with commitments regarding benefit levels lasting through June 30, 2006. These benefits cannot be lawfully changed other than mutual agreement or through the collective bargaining process as the various labor agreements expire. The first labor agreement, Municipal Employees Association

	<p>(MEA), expires June 30, 2003. Bargaining for their successor agreement will begin this fall. Management intends to place benefit changes on the table during this process. However, other units will have the same benefit provisions for the foreseeable future until their agreements expire. It is extraordinarily important that the City obtain the best value for the health care dollars. However, it is also important not to switch networks and providers on an annual basis. This may cause confusion for our employees or disruption in their own medical care by a need to switch doctors. The RFP will be for a period ending no sooner than December 31, 2006.</p>
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