

**CITY COUNCIL  
COMMUNICATION:**

**02-632**

**AGENDA:**

DECEMBER 16, 2002

**SUBJECT:**

RECOMMENDATION  
ON THE CITY'S  
HEALTH INSURANCE  
PROVIDER

**TYPE:**

**RESOLUTION**  
ORDINANCE  
RECEIVE/FILE

**SUBMITTED BY:**

THOMAS TURNER  
HUMAN RESOURCES  
DIRECTOR

**ITEM 61**

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

**SYNOPSIS —**

Recommendation to terminate the City's self-funded health insurance plan administered by Principal Financial Group effective January 31, 2003, and enter into an agreement with Wellmark Blue Cross and Blue Shield of Iowa (John Forsyth, CEO, Des Moines) for a fully insured health insurance plan providing the same benefit coverage for the period February 1, 2003 through June 30, 2004.

**FISCAL IMPACT —**

The expected cost of the Wellmark insured plan for all covered classes based on current enrollment for the 17-month period beginning February 1, 2003 and ending June 30, 2004 is \$38,091,000. Projected costs to maintain the self-insured plan during this same period is \$40,808,000.

**RECOMMENDATION —**

**Authorize the City Manager to terminate the current agreement for provision of health insurance benefits with Principal Financial Group effective January 31, 2003, and authorize the Mayor to execute an agreement with Wellmark Blue Cross and Blue Shield of Iowa after review and approval by the Legal Department.**

**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 (PPO) for medical claims; Advance PCS as the Prescription Benefit Manager for prescription drugs; and Principal Financial Group's dental PPO.

At its September 9, 2002 meeting, the City Council authorized hiring Holmes Murphy (Doug Reichardt, CEO, West Des Moines) to conduct a Request for Proposals (RFP) for the City's health plan. Holmes Murphy solicited proposals from eight firms. Five responded with rate projections (Principal, Wellmark, Coventry, John Deere,

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02-632

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PAGE TWO

and United Healthcare). All were asked to provide claim projections and administrative costs for three time periods: January 1, 2003 through December 31, 2003; March 1, 2003 through February 29, 2004; and July 1, 2003 through June 30, 2004. Other than Wellmark, none of the other companies provided any estimated cost for any period other than January 1, 2003 through December 31, 2003.

Holmes Murphy also sought fully insured rates from all firms. Only Wellmark offered a fully insured plan (medical, administration, and prescription). The dental plan from Wellmark is self-insured.

A fully insured plan provides predictability to the City's cost of this benefit. The risk of high claims experience or a significant number of large claims is borne by the insurance company. The City is not required to fund Iowa Code Chapter 509A reserves. The insurance company assumes the risk the reserves are designed to cover. The City is subject to rate increases reflecting our actual experience in subsequent years. Based on our experience of rapidly increasing claims and a period of high medical inflation, the predictability of the cost by purchasing a fully insured plan is preferable to maintaining a self-insured plan. A self-insured dental plan with the City's current plan design limiting annual benefits to \$750 per person is a preferable option according to Holmes Murphy.

In analyzing the options of maintaining a self-insured plan or moving to a fully insured plan, City staff projected FY04 costs and resulting rates based upon the experience of the first five months of this fiscal year. The total projected funding cost for claims and plan administration is \$27,570,000. In addition, the City would need to assess plan participants an additional premium amount to recover the estimated claim stabilization reserve of \$3,310,000.

A comparison of the Wellmark fully insured rates versus the current cost for retired employees and the projected rates for FY04 assuming remaining a self-insured plan with no changes is attached. You will note, the rates for all classes of retired employees actually drops or remains very comparable with all groups with the exception of the under age 65 family group. This group will pay more for the last five months of this fiscal year; however, the reduction in the Wellmark premium from the projected self-funded premium beginning in FY04 will make such a retired employee even in regard to total cost three months into FY04. The insured plan, however, will not permit retired employees to drop prescription coverage.

Staff is continuing to consult with Holmes Murphy and Wellmark to determine whether some alternate arrangement can be made regarding the retired employees under age 65 that does not impact the current active rate quotes from Wellmark.

	Attachment
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