



**Council
Communication**
Office of the City Manager

Date

April 10, 2006

Agenda Item No. 72

Roll Call No. ~~06-~~

Communication No. 06-192

Submitted by: Thomas G. Turner, Human Resources Director

AGENDA HEADING:

Recommendation on the City's Health Insurance Provider for active employees and pre-Medicare retirees.

SYNOPSIS:

Recommend approval to renew with Wellmark Blue Cross and Blue Shield of Iowa (John Forsythe, CEO, Des Moines) for a fully insured health plan for active employees and retirees not eligible for Medicare for the period July 1, 2006 through June 30, 2007.

FISCAL IMPACT:

Amount: \$21,195,947

Funding Source: 2006-2007 Operating: Human Resources Department - Principal Health and Dental Fund (IS301) HRS960100, page 285.

ADDITIONAL INFORMATION:

The City of Des Moines sponsors and funds a fully insured health insurance plan providing medical (physician, lab, hospitalization, etc.), prescription drug and dental insurance for active employees and retired City employees. Currently, Wellmark Blue Cross Blue Shield of Iowa insures and administers these plans for the City.

In July of 2005, the City of Des Moines employed Mercer Health and Benefit Consultant (formerly Marsh Advantage America) to conduct two request-for-proposals (RFPs), one for health and prescription insurance coverage for Medicare eligible retirees and the other for active and non-Medicare retirees.

At the October 24, 2005 meeting, Council approved Wellmark to provide medical and prescription coverage for the post-65 Medicare eligible retirees. The new plans, effective January 1, 2006, utilize Medicare's new Part D prescription drug program. Part D and the decision to only offer these Medicare supplement plans were significant for retirees and the City. Post-65 retirees now pay less than one-half for their medical and prescription insurance. Wellmark now bills and collects premium payments

directly from retirees. This eliminates both the expense and revenue associated with these retirees from the City's budget. More importantly, this group's claims experience is pooled with other Wellmark Medicare plans, also known as community rated. This means that the group's high prescription cost will no longer have a negative effect on the active employee's claim experience. This factor aided in a favorable renewal proposal and will lower the City's financial liability with respect to the Governmental Accounting Standards Board Statement No. 45 (GASB 45), a new governmental accounting rule that requires organizations to fund for employee's future benefit cost.

The RFP for the active employees and non-Medicare eligible retirees produced two qualified bidders, Wellmark and United Health Care. Review of these two proposals concluded the week of March 20th with a recommendation from the Ad Hoc Insurance Committee to continue with Wellmark. Wellmark's proposal consists of the following:

1. 0% rate increase for period July 1, 2006 through June 30, 2007.
2. Guaranteed maximum increase of 14% for renewal period July 1, 2007 through June 30, 2008.
3. A Performance Agreement, which places \$25,000 at risk for not meeting specific operational performance standards (enrollment timeliness, customer service standards, and claims administration accuracy).
4. Comprehensive disease management program included at no additional cost.
5. Better Beginnings (high risk pregnancy program) at no additional cost.

United Health Care, Inc. (UHC) provided a similar quote including a lower premium rate totaling \$86,649 less than Wellmark's proposal or ½ of one percent of the \$21,195,947 proposal.

The Insurance Committee recommended Wellmark for several reasons, most importantly, because Wellmark is currently administering the plan and is doing so in accordance with the agreed upon plan design benefit levels. The Committee also expressed concerns that the change in insurance companies would also change preferred provider networks (PPO) causing some employees to have to change doctors in order to remain "in-network." UHC offered a comprehensive preferred provider network (PPO), however, it was not a complete match with Wellmark's PPO. A disruption report identified a greater than 95% match between UHC and Wellmark. However, the Mayo clinic in Rochester, Minnesota was one facility in Wellmark's PPO but not in UHC's. With Mayo not being part of the network, any employee or their covered family members would be subject to balance billing should they choose to use that facility. In the 2005 calendar year, that would have been an additional exposure of well over \$100,000 for the 11 covered members who used the Mayo facilities.

The favorable rates proposed by both UHC and Wellmark is the result of many factors. Total health benefit cost slowed for a third straight year in 2005. The City's claims utilization has been favorable over the past 12-months at 80% for active employees and early retirees. Separation of the Medicare eligible retirees from the active plan eliminated any subsidy that may have occurred by virtue of the Medicare retirees utilizing the same plan as the actives. Another factor in reducing the total cost to the City is that all seven unions, through the collective bargaining process agreed to a reduction in health care benefits. Effective February 1, 2006, the last employee group (Police) covered by the "Traditional Plan" moved to the "SPM" plan.

Wellmark's 0% renewal rate is approximately \$800,000 under the adopted FY 07 budget. An additional \$60,000 will be saved from health insurance changes made by the MEA, Library and Housing unions. These unions have agreed to increased co-payments for office visits and non-generic retail drugs.

A recommendation has been made to the City Manager to reserve \$100,000 of the savings for wellness programs, such as health screening and incentive programs aimed to promote healthy lifestyles. Wellmark has also agreed to participate in this process. Wellmark can analyze claims data and identify trends or prevalent health conditions that are attributable to unhealthy behaviors. Such initiatives can have a positive impact on health claims and insurance costs. This methodology permits a more active management of conditions and behaviors that may result in a significant cost to the health plan in the future. The high claims that will be incurred in two years are not necessarily the same individuals that are incurring high claims this year. The goal is to create an environment and approach that assists employees in taking responsibility to improve their overall health with an outcome that improves their quality of life and provides a positive impact on the overall health insurance cost for the City.

<u>Employee Group</u>	<u>FY 2006 Plan Rates</u>		<u>FY 2007 Plan Rates</u>		<u>Percent Difference</u>	
	<u>Single</u>	<u>Family</u>	<u>Single</u>	<u>Family</u>	<u>Single</u>	<u>Family</u>
CIPEC	\$473.68	\$1,184.21	\$418.51	\$1,046.51	-11.65%	-11.63%
Police Union	\$473.68	\$1,184.21	\$418.51	\$1,046.51	-11.65%	-11.63%
Library Units 10 & 11	\$418.51	\$1,046.51	\$404.57	\$1,011.43	-3.33%	-3.35%
AFSCME	\$418.51	\$1,046.51	\$404.57	\$1,011.43	-3.33%	-3.35%
MEA*	\$418.51	\$1,046.51	\$410.19	\$1,025.48	-1.99%	-2.01%
Fire Union	\$418.51	\$1,046.51	\$418.51	\$1,046.51	0.00%	0.00%
SPM	\$418.51	\$1,046.51	\$418.51	\$1,046.51	0.00%	0.00%
Retirees - Non-Medicare	\$418.51	\$1,046.51	\$418.51	\$1,046.51	0.00%	0.00%

Notes:

*MEA rates for FY 2007 are effective 1/1/2007

Plan Differences:

Fire/CIPEC/Police/SPM/Ret \$10 Office Visit Copay; \$5 generic and \$15 brand name prescription co-pay.
 MEA \$15 Office Visit Copay; \$5 generic and \$20 brand name prescription co-pay.
 Library Units and AFSCME \$20 Office Visit Copay; \$5 generic and \$20 brand name prescription co-pay.

PREVIOUS COUNCIL ACTION(S):

Date: October 24, 2005

Roll Call Number: 05-2562

Action: Selection of Wellmark Blue Cross Blue Shield of Iowa for period January 1, 2006 thru December 31, 2006 for City of Des Moines Retiree Health Plan and approving rates for retirees on Medicare. (Council Communication No. 05-608) Moved by Vlassis to adopt. Motion Carried 7-0.

Date: March 28, 2005

Roll Call Number: 05-736

Action: Development of an RFP to obtain proposals for benefit consulting services. (Council Communication No. 05-156) Moved by Hensley to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S): NONE

Date:

Roll Call Number:

Action:

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

1. Renewal of HMO option for Police and Fire employees.
2. Renewal of administrative services agreement (ASO) for self-insured dental plan for active and retired employees.