

 <h1 style="text-align: center;">Council Communication</h1> <p style="text-align: center;">Office of the City Manager</p>	<b>Date:</b>	May 23, 2011
	<b>Agenda Item No.</b>	<b>58</b>
	<b>Roll Call No.</b>	<b><u>11-936</u></b>
	<b>Communication No.</b>	<b><u>11-332</u></b>
	<b>Submitted by:</b>	<b>James Wells, Interim Human Resources Director</b>

**AGENDA HEADING:**

Approve administrative services only agreement with Wellmark Blue Cross and Blue Shield of Iowa, John Forsyth, CEO, 636 Grand Avenue, Des Moines, IA 50309, to provide claims administration for employee and retiree Health Plans for the period July 1, 2011 through June 30, 2012.

**SYNOPSIS:**

On behalf of the City of Des Moines, Aon Risk Services (Aon) conducted an evaluation of Wellmark’s fiscal year 2012 health insurance renewal. AON was engaged following Wellmark’s final renewal quote of 7.36%. Aon’s findings are:

- Renewal Rate Outside of Expected Range
  - o Pooling level inappropriate for City’s size
  - Pooling level refers to the dollar amount of a claim that if exceeded is paid by reinsurance, commonly referred to as stop loss or excessive loss coverage.
  - The lower the pooling level the higher the excessive loss premiums.
  - Wellmark’s standard business model uses \$75,000 pooling level for all fully insured clients. A group the City’s size is atypical for fully-insured groups.
  - \$125,000 or \$175,000 pooling level is more appropriate for City’s size.
  - Fully-insured renewal rate would be lower if Wellmark raised their pooling level.
  
- Self-funding Should be Considered for FY 2012
  - o Risk transferred from Wellmark to City.
  - o Calculated savings for assuming risk:
    - Higher pooling level provides savings of approximately \$1.2 million in excess loss premiums
    - Drug rebates paid to City not Wellmark (~ \$200,000/year)
    - Risk and reserve charges not paid to insurance company
  
- Fully-Fund Health Plan in FY 2012
  - o Funding at budgeted rates will fund the health plan at the maximum liability to fund, which is the point at which claims will be paid by a reinsurance company. Funding at this rate essentially eliminates risk in fy 2012.
  - o Self-insured plans are required to maintain a reserve fund for claim fluctuation and claim run-out. If the plan performs as projected, a substantial portion of the reserve requirement will be met and could provide significant savings in fy 2013.
  
- Employees will see no change in benefits, plan design or provider networks because of this change. This action will be transparent to employees and early retirees (non-Medicare).

Based on Aon's analysis and as suggested by Wellmark, staff recommends that Council authorize the Mayor to execute an Administrative Services Only agreement with Wellmark Blue Cross Blue Shield of Iowa to provide claims administration for the City of Des Moines health plan for the period July 1, 2011 through June 30, 2012.

Aon's suggested rates will be reduced by money received from the federal government. The City successfully applied for and received money from the Department of Health and Human Services (HHS) through Early Retiree Reinsurance Program (ERRP). This program was created as part of the Affordable Care Act with the intent of recognizing employers that provide health insurance to early retirees age 55 and older who are not yet eligible for Medicare. Reimbursements are provided to employers for retiree claims between \$15,000 and \$90,000. Per City Council action, roll call #10-354, ERRP reimbursements shall be used to directly off-set health premiums. To date, the City has received \$277,055 from HHS or a 1.17% reduction in FY 12 premiums.

Aon's renewal evaluation was in lieu of a RFP. A waiver to the competitive bidding process is allowed when good cause is shown. An RFP was conducted last year for the FY 2011 health plan. Wellmark was the successful bidder and in fact submitted the only qualified proposal. Wellmark's initial renewal quote of 8.39% provided in November of 2010 was reasonable when considering the earliness of the quote, the City's experience and medical trends at the time. Wellmark revised their renewal rate to 7.37% in February 2011. Staff believed that an RFP would not further reduce costs, however, desired confirmation from an outside consultant. Aon was then chosen through a competitive bid process.

#### **FISCAL IMPACT:**

Amount: The anticipated cost for claims and administration of the health insurance plan is \$25,382,559. Adopted budget is \$26,095,500. The actual premium increase is 6.75% versus Wellmark's final renewal estimate of 7.36%.

Funding Source: 2011-2012 Operating Budget: Human Resources Department, Health and Dental Insurance, IS301, HRS960100, page .

#### **ADDITIONAL INFORMATION: NONE**

#### **PREVIOUS COUNCIL ACTION(S):**

Date: May 10, 2010

Roll Call Number: 10-755

Action: Approval of Contract with Wellmark Blue Cross Blue Shield of Iowa for Health Insurance Coverage for Employees and Certain Retirees and for the Administration of Flexible Spending Accounts.

Date: June 14, 2010

Roll Call Number: 10-931

Action: Approval of application process for the Affordable Care Act's Early Retiree Reinsurance Program through the U.S. Department of health and Human Services (HHS) and authorize the Mayor to sign completed application.

**BOARD/COMMISSION ACTION(S): NONE**

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE**

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