

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	May 21, 2012
	Agenda Item No.	40
	Roll Call No.	<u>12-0807</u>
	Communication No.	<u>12-239</u>
	Submitted by:	James Wells, Human Resources Director

AGENDA HEADING:

Approve administrative services only agreement with Wellmark Blue Cross and Blue Shield of Iowa, John Forsyth, CEO, 1331 Grand Avenue, Des Moines, Iowa 50309, to provide claims administration for employee and retiree Health Plans for the period July 1, 2012 through June 30, 2013.

SYNOPSIS:

The City returned to self funding its employee and retiree health benefit on July 1, 2011. This change was made following a consultant (Aon) analysis and conclusion that the City could save approximately \$1.8 million from Wellmark’s fully-insured renewal proposal in fiscal year (FY) 2012. The savings were derived from Wellmark’s excessive risk charge for a group the size of the City of Des Moines and from prescription drug rebates (estimated at \$200,000/year) the City would receive as a self-funded group.

AON projected an estimated self-insured plan cost (claims, administration and reserves) of \$23,709,747 for the period July 1, 2011 to June 30, 2012. The City budgeted \$25,382,556 for this period, which represented Wellmark’s fully-insured renewal. Based on claims and administrative cost through April 30, 2012, the City estimates FY 2012 plan cost at \$21,400,000. This will allow the City to establish a \$4 million reserve for claims fluctuation and claims lag as planned and required.

Although it should be viewed over the long term, City Council’s decision to self-fund the health plan, in hopes of curbing spiraling health care cost, has met the first year goal. Had the plan remained fully-insured, the City would have paid Wellmark \$25,529,285 in premiums in FY 2012 and a projected \$27,316,335 in FY 2013. Instead, the City expects to incur total plan cost of \$21,400,000 in FY 2012 and \$25,487,860 in FY 2013. This amounts to a two year savings of nearly \$6 million with an on-going reduction in plan costs of over \$1.5 million.

Wellmark projects the amount of claims paid to be 17.85% more in FY 2013 than in 2012. The high increase is mostly attributable to 2012 being an “immature” claims year, which happens the first year of self-funding. Immature claims or claims lag occurs because Wellmark under the fully-insured plan is responsible for all claims incurred before July 1, 2011. Claims incurred after July 1, 2011 and paid by the City are not due for several weeks and months following their incurred date. AON and Wellmark estimated the first year claims lag at 12% of claims, which means less than 6% of the increase in claims is attributable to the City’s experience and medical inflation or trend. Wellmark’s trend for their general book of business is 7%.

Last year, AON recommended that the City market its individual stop loss (ISL) insurance and Aggregate Stop Loss (ASL) insurance. Employers purchase these excess loss plans to mitigate the risk of large claims. Wellmark provides the City’s ISL and ASL insurance and assumes liability for all health claims exceeding \$125,000 per year and total claims exceeding 120% of projected claims. This

competitive process not only ensures the best price for an expensive component of the City's health benefit, it provides a qualified check on projected claims.

Brendan Berigan, formerly with AON, bid both stop loss insurances for FY 2013. Berigan received quotes from eleven (11) A or higher rated companies. Wellmark submitted the lowest bid for the ISL and ASL. Wellmark's ISL bid was unchanged from their initial renewal quote, which increases the ISL premium from \$595,150 to \$708,315. The large increase from FY 12 is explained by the immature claims occurrence in FY 12. Wellmark reduced their ASL premium quote 14% from their initial renewal quote of \$39,631. The competitive bid process was used in lieu of a request for proposal (RFP) and resulted in \$5,700 savings in the ASL premium and provides a high-level of confidence in Wellmark's renewal estimate for FY 2013. A waiver to the RFP requirement is allowed when good cause is shown. Wellmark's proposal for claims administration and excess loss insurance provides confidence that they will provide the continuity in administering the City's health benefit at the lowest cost.

In FY 2012, the City received \$277,055 from the federal government for 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. The City has submitted an additional reimbursement requests totaling \$451,039. If and when the City receives additional ERRP reimbursements, the amount received will be used to off-set FY 2014 premiums.

The health cost reduction strategy includes continual financial assessments, as well as, employee engagement through cost participation and a City Wellness program. Wellness program planning and development continues, and the most recent achievement is recognition of the City by the American Heart Association as a "Fit-Friendly Company." The Wellness Committee is also working on locating a wellness center in the basement of the Armory. The Parks department has developed a floor plan and preliminary costs for a fitness center with bathrooms. This center will promote opportunities for more active lifestyles, such as lunch time work outs and walks, biking to and from work and many other Wellness initiatives. Funds to pay for the center are available from the Wellness Committee budget and if needed, from the savings realized from the move to self-funding.

The Fit-Friendly Company recognition and development of the Wellness Center signifies that the City is taking steps to create a wellness culture with an ultimate outcome of improving the lives of its employees, thereby reducing related health care costs. Support and leadership from City Council and the City Manager will continue to be essential for program success. Further, through collective bargaining, four bargaining units representing two-thirds of City employment, agreed to increased premium contributions. These efforts heighten employee awareness of their own health and its relationship to health care costs.

FISCAL IMPACT:

Amount: \$25,487,860

Funding Source: Health/Dental Insurance, ISO301, HRS960100, Health and Dental Fund, p. 128.

ADDITIONAL INFORMATION:

<u>Employee Group</u>	<u>7-1-2011 Plan Rates</u>		<u>7-1-2012 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	515.05	1287.67	515.05	1287.67	0.0%	0.0%
Police Union	515.05	1287.67	515.05	1287.67	0.0%	0.0%
Library Units 10 & 11	500.73	1251.80	500.73	1251.80	0.0%	0.0%
AFSCME	500.73	1251.80	500.73	1251.80	0.0%	0.0%
MEA	505.24	1263.12	505.24	1263.12	0.0%	0.0%
Fire Union	515.05	1287.67	515.05	1287.67	0.0%	0.0%
SPM	515.05	1287.67	515.05	1287.67	0.0%	0.0%
Blue Access - Police & Fire Option	533.27	1333.20	533.27	1333.20	0.0%	0.0%
Retirees - SPM	515.05	1287.67	515.05	1287.67	0.0%	0.0%
Retirees - MEA	505.24	1263.12	505.24	1263.12	0.0%	0.0%
Retirees – Lib/AFSCME	500.73	1251.80	500.73	1251.80	0.0%	0.0%
Option 2 CIPEC, GBO, MEA, Police, SPM	NA	NA	479.00	1199.00	NA	NA

Notes:

Plan Differences:

CIPEC, Police, Fire, SPM, Retirees: \$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.

Option 2: \$500/\$1,000 deductible; \$1,500/\$2,000 OPM; \$25 OV copay; \$5/\$25/\$50 Rx copay

PREVIOUS COUNCIL ACTION(S):

Date: May 23, 2011

Roll Call Number: [11-0936](#)

Action: Approve administrative services only agreement with Wellmark Blue Cross and Blue Shield of Iowa, John Forsyth, CEO, 1331 Grand Avenue, Des Moines, Iowa 50309, to provide claims administration for employee and retiree Health Plans for the period July 1, 2012 through June 30, 2013.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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