



CITY OF LONG BEACH

R-43

DEPARTMENT OF HUMAN RESOURCES

333 W. Ocean Blvd., 13th Floor Long Beach, CA 90802 Tel: 562-570-6304 Fax: 562-570-6107

September 18, 2007

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute the renewal of contracts with Great-West Life, the City's Third Party Administrator for the Preferred Provider Organization (PPO), Point of Service (POS) group health plans; PacifiCare for the Health Maintenance Organization (HMO) group health plan and closed-panel dental plan; Medco as the Prescription Benefit Manager (PBM) for the Prescription Drug Plan; Delta Dental for the fee-for-service dental plan; Medical Eye Services (MES) for the vision plan; Standard Insurance Company for the Life Insurance and Long- and Short-Term Disability Plans; and Union Mutual Life Insurance Company (UNUM) through Larry Lambert & Associates Insurance Services for the long-term care benefits; and to continue the City's self-funded, in-hospital indemnity program administered by Great-West Life.

Authorize the City Manager to execute any subsequent amendments necessary to maintain current benefit levels and remain in compliance with state and federal laws on all plans. (Citywide)

DISCUSSION

Over the past year, the City has continued with the optimization review of our healthcare and employee benefits programs. With the assistance of Alliant Insurance Services, our insurance consultant, a joint labor-management committee evaluated the financial and service offerings of our medical plan vendors and explored alternative arrangements for cost savings and administrative efficiencies without compromising benefit levels currently enjoyed by City employees. It was determined that the optimal renewal strategy was to permit the existing medical vendors, Great-West Life (Great West) for the Point of Service (POS) and Preferred Provider Organization (PPO) and PacifiCare for the Health Maintenance Organization (HMO), to continue administering the medical plans, but under modified arrangements that resulted in better pricing.

Extensive actuarial and financial analyses revealed that the City can benefit from "carving out" (directly contracting) a number of services. Accordingly, the City selected Medco and Medical Eye Services (MES) to administer the Prescription Drug and Vision plans, respectively. No material plan design changes are suggested for the current benefit plans, with the exception of the vision benefit enhancements noted below. Establishing direct contracts with the following vendors represents the City's most financially advantageous arrangement and improved communication with City

financially advantageous arrangement and improved communication with City employees. Additional benefits include:

- Medco Prescription Drug - Better management of the Rx drug benefit and more innovative cost management programs; greater access to program data and plan performance.

In order to minimize employee disruption in changing prescription benefit managers, it is recommended that all non-formulary users be grandfathered and treated as on-formulary for a three-month period of time to ensure proper communication of all changes. In addition, all existing users of maintenance prescriptions that were preferred under the previous benefit manager and will be non-preferred with Medco would be grandfathered on an ongoing basis unless a generic prescription becomes available that was not previously available.

- Specific Stop-Loss - Enhanced risk protection against large claims that exceed \$500,000 per individual. Claims dollars exceeding \$500,000 will be reimbursed back to the City by the stop-loss carrier. For example, at the \$500,000 deductible (limit per covered person per year), if one member incurs claims of \$750,000, the plan's liability would be limited to \$500,000, and the remaining \$250,000 will be reimbursed by the stop-loss carrier. The City's Stop Loss Insurance carrier selection has not been finalized since it will be advantageous to obtain quotes closer to the plan year start date. Final quotes to determine the most competitive offering are contingent on receiving and evaluating the City's medical plan performance through September 2007. Staff will return to City Council for approval in November 2007.
- MES Vision Plan - Uniform vision benefits for both Great-West and PacifiCare plan enrollees. Currently employees enrolled in the Great-West medical plans have a lesser benefit. Contracting directly with MES will result in a greater frame allowance and enhanced lens and frame service frequency for Great-West medical plan enrollees at a reduced cost.

Additionally, the City is proposing that the Life Insurance benefit be administered by the Standard Life Insurance Company, the current administrator of the City's Long- and Short-Term Disability plans. The Standard Insurance Company offered the most aggressive pricing on the Life Insurance plan (guaranteed for 3 years). Standard also proposed a reduction to the current Long-Term Disability plan rates with a three-year rate guarantee.

The In-Hospital Indemnity plan is a voluntary supplemental benefit plan that is self-insured by the City. The rates remain unchanged from last year. However, there is a closed group of employees that have received premium waivers for the past eight years that will now be required to resume premium payments in Plan Year 2008 if they do not opt out of the plan. Due to a reserve accumulated for this program while it was fully-insured, employees who were self-paying and covered through this plan on March 1, 1994 received a premium waiver. As of Plan Year 2007, the value of the premium

reserve, plus interest earnings, has been fully utilized. These employees will now be assessed premiums starting in January 2008. Notice will be sent to employees and they will be provided three months to authorize the appropriate payroll deductions, unless they decide to opt out of the plan.

Health, dental, life and disability insurance contracts for the 2006-2007 benefit year expire November 30, 2007 for active employees and January 31, 2008 for retired employees. The City has recommended thirteen (13) month contracts on the active employee benefits, so that the benefit plan year runs concurrently with the calendar year, beginning on January 1, 2009.

The City's annual medical program costs with the incumbent vendors were negotiated and tightened throughout the optimization review process. Consequently, the City was able to reduce the original proposed program costs for the upcoming benefit year by more than \$3 million. The health insurance review efforts have successfully resulted in controlling potential cost increases.

This letter was reviewed by Deputy City Attorney Christina Checел and Budget and Performance Management Bureau Manager David Wodynski on September 11, 2007.

TIMING CONSIDERATIONS

Open enrollment for health, dental, and life plans is conducted in late September through early October 2007. Therefore, City Council action is requested on September 18, 2007, so the Department of Human Resources will have adequate time to prepare information for distribution to employees in late September.

FISCAL IMPACT

The total gross program cost, including employee and retiree contributions, is estimated at \$60 million annually for all covered employees and retirees. Total net cost to the City is approximately \$47.2 million after employee and retiree contributions. Based upon estimated plan costs, renewals, proposals, and continuing claims experience, our Consulting Actuary has determined that there is an increase of 3.9 percent to the City's total cost. The benefits of the optimization health insurance review can be seen when comparing City costs to national medical cost trends of up to 15 percent increases. These expenditures have been included in the Proposed Fiscal Year 2008 Budget in the Employee Benefits Fund (IS 391) in the Department of Financial Management Citywide (XC).

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



SUZANNE R. MASON, DIRECTOR
DEPARTMENT OF HUMAN RESOURCES

APPROVED:



ANTHONY W. BATTS
CITY MANAGER

SRM/DH

Attachment



Date: September 6, 2007

To: Anthony W. Batts, City Manager

From: City Employees' Health Insurance Advisory Committee

Subject: **RECOMMENDATION FOR CITY EMPLOYEES' HEALTH, DENTAL, VISION, LIFE AND DISABILITY PROGRAMS FOR FISCAL YEAR 2007-2008**

During the past year, the City's Health Insurance Advisory Committee and City staff from the Department of Human Resources have been evaluating the employee benefit plans, plan rates, costs and related employee benefit matters. This process is required each year to ensure that the City's benefit programs remain competitive, meet employee needs, and are provided in the most cost-effective manner for employees and the City. The following programs have been reviewed:

- Point of Service Plan (POS 100 and POS 90 plan options)
- Preferred Provider Organization Plans (PPO and Thrift PPO plan options)
- HMO plan (PacifiCare HMO)
- Dental Plans (Delta Dental and PacifiCare Dental plan options)
- Vision
- In-Hospital Indemnity Plan; and
- Life and Disability

RECOMMENDATIONS

The City continued with the optimization review of our healthcare and employee benefits programs during the past year. With the assistance of Alliant Insurance Services, our health insurance consultant, a joint labor-management committee evaluated the financial and service offerings of our current medical plan vendors and explored alternative arrangements for cost savings and administrative efficiencies without compromising the level of benefits currently enjoyed by City employees. It was determined that the optimal renewal strategy was to permit the existing medical vendors, Great-West for the Point of Service (POS) and Preferred Provider Organization (PPO) and PacifiCare Health Maintenance Organization (HMO), to continue administering the medical plans, but under modified arrangements that resulted in better pricing.

Extensive actuarial and financial analyses revealed that the City can benefit from "carving out" (directly contracting) a number of services. Accordingly, the City selected Medco and Medical Eye Services (MES) to administer the Prescription Drug and Vision plans, respectively. No material plan design changes are suggested for the current benefit plans, with the exception of the vision benefit enhancements noted below. Establishing direct contracts with the following

vendors represents the City's most financially advantageous arrangement and improved communication with City employees. Additional benefits include:

- Medco Prescription Drug - Better management of the Rx drug benefit and more innovative cost management programs; greater access to program data and plan performance.

In order to minimize employee disruption in changing prescription benefit managers, it is recommended that all non-formulary users be grandfathered and treated as on-formulary for a three-month period of time to ensure proper communication of all changes. In addition, all existing users of maintenance prescriptions that were preferred under the previous benefit manager and will be non-preferred with Medco would be grandfathered on an ongoing basis unless a generic prescription becomes available that was not previously available.

- Specific Stop-Loss - Enhanced risk protection against large claims that exceed \$500,000 per individual. Claims dollars exceeding \$500,000 in a plan year will be reimbursed back to the City by the stop-loss carrier. For example, at the \$500,000 deductible (limit per covered person per year), if one member incurs claims of \$750,000, the plan's liability would be limited to \$500,000, and the remaining \$250,000 will be reimbursed by the stop-loss insurance carrier. The City's Stop Loss Insurance carrier selection has not been finalized since it will be advantageous to obtain quotes closer to the plan year start date. Final quotes to determine the most competitive offering are contingent on receiving and evaluating the City's medical plan performance data through September 2007. Staff will return for City Council approval in November 2007.
- MES Vision Plan - Uniform vision benefits for both Great-West and PacifiCare plan enrollees – currently employees enrolled in the Great-West medical plans have a lesser benefit. Contracting directly with MES will result in a greater frame allowance and enhanced lens and frame service frequency for Great-West medical plan enrollees at a reduced cost.

Establishing direct contracts with the ancillary providers mentioned above will result in the following changes to the current medical contracts:

- Remove MES Vision Rider from Great-West and PacifiCare contracts
- Eliminate Aggregate Stop-Loss Coverage from Great-West contract
- Create new contractual provisions with Great-West allowing for interface capabilities to Medco.

Additionally, it is recommended that the Life Insurance benefit be administered by the Standard Life Insurance Company, the current administrator of the City's Long- and Short-Term Disability plans.

The In-Hospital Indemnity Plan is a voluntary supplemental benefit plan that is self-insured by the City. The rates remain unchanged from last year. However, there is a closed group of employees that have received premium waivers for the past eight years that will now be required to resume premium payments in Plan Year 2008 if they do not opt out of the plan. Due to a reserve accumulated for this program while it was fully-insured, employees who were self-paying and covered through this plan on March 1, 1994, received a premium waiver. As of Plan Year 2007, the value of the premium waivers has exceeded the amount of the initial reserve, plus interest earnings. These employees will now be assessed premiums starting in January 2008. Notice will be sent to employees and they will be provided three months to decline coverage. Beginning January 2008, it would be necessary for employees to authorize the appropriate payroll deductions, unless they decide to opt out of the plan.

Health, dental, life and disability insurance contracts for the 2006-2007 benefit year expire November 30, 2007, for active employees; and January 31, 2008, for retired employees. The committee agrees with the City's recommendation of thirteen (13) month contracts on the active employee benefits, beginning on December 1, 2007, and ending on December 31, 2008.

PLAN COSTS/EMPLOYEE COST SHARING

The Committee recommends the plan rates and payroll deductions as shown on Exhibits A and B.

This concludes the Committee's report of findings and recommendations for the City's group benefit program for plan year December 1, 2007, to December 31, 2008, for active City employees and for the period of February 1, 2008, to January 31, 2009 for retirees.

The Committee requests endorsement of this report and its recommendations by the City Manager and subsequent approval by the City Council.



International Association of Machinists & Aerospace Workers, District 947



Long Beach Association of Engineering Employees



Long Beach Lifeguards' Association



Long Beach Firefighters' Association

Set

Long Beach Police Officers' Association

Ray J. Anderson

Long Beach City Attorneys' Association

Michael A.

Long Beach City Prosecutors' Association

Stephanie L. B. Kemp

Long Beach Association of Confidential Employees

Dick

Long Beach Management Association

Dara Hogan

Department of Human Resources