



Legislation Text

File #: 07-1098, **Version:** 1

Recommendation to authorize 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; and

Authorize 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)

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 Checelski and Budget and Performance Management Bureau Manager David Wodynski on September 11, 2007.

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.

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).

Approve recommendation.

SUZANNE R. MASON, DIRECTOR
DEPARTMENT OF HUMAN RESOURCES

APPROVED:

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CITY MANAGER