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To: Thomas J. Bonfield, City Manager
Through: Wanda Page, Deputy City Manager
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From: Virginia Jones, Human Resources Manager
Dee Byers, Health Strategies Coordinator
Subject: 2012-13 Medical and Dental Benefit Recommendation

Executive Summary

Through a Request for Proposal (RFP) process and with assistance from an employee review committee, Staff ranked United Healthcare (UHC) number one as the City's proposed administrator of its self-funded medical and dental plans.

On April 19, 2012 Staff presented all benefit recommendations to the City Council Insurance Subcommittee for the 2012-13 benefit year. The presentation included Staff's recommendation of United Healthcare (UHC) to administrator the City's self-insured medical and dental plans.

On April 23, 2012 Blue Cross Blue Shield of North Carolina (BCBSNC) amended its proposal. On April 25, 2012 Staff provided a memorandum to the Insurance Subcommittee with a summary update. Subsequently, during the May 10, 2012 City Council Work session council members requested clarification on the BCBSNC proposal. It was determined that additional information could be received and considered from the two top ranked participants in the process. Staff followed up with BCBSNC and requested clarification regarding the terms of its April 23, 2012 amended proposal. UHC was also contacted to provide additional and/or clarifying information.

On May 16, 2012 Staff contacted the members of the medical and dental employee review committee to determine their availability to reconvene so that members could consider the additional amended and clarifying information provided by both BCBSNC and UHC. The committee reconvened on Monday, May 21, 2012. After reviewing the additional amended and clarifying information provided by BCBSNC and UHC, as well as comments and concerns received from employees and retirees, the employee review committee recommended UHC for a second time. At the May 21, 2012 City Council meeting the City Manager deferred discussion on the 2012-13 medical and dental recommendation until the next City Council meeting on June 4, 2012.

Staff has continued to receive and consider employee, retiree, and provider information and concerns as well as information from BCBSNC and UHC through June 1, 2012 that has informed the staff's current recommendation.

Recommendation

Staff recommends:

A zero percent (0%) increase in funding (premiums) for the 2012-13 self-funded medical and dental plan year.

That the City contract with Blue Cross Blue Shield of NC (BSBCNC) to administer its self-funded health and dental plans for three years beginning with the 2012-13 plan year. After the 2012-13 plan year, renewal information and recommendations would be provided each of the following two plan years.

This recommendation supports Council strategic goal #4 *Well-Managed City: Provide professional management that is accountable, efficient, and transparent.*

Background

Every three years Staff advertises the City's Benefit Request for Proposals. Staff requests volunteers to serve on employee review committees for every benefit. This year the medical and dental employee review committee was comprised of five members representing a cross section of the City's workforce. The review committee's recommendation was submitted to the Human Resources Benefits Manager for consideration.

On May 17, 2012 after receiving additional amended and clarifying information from BCBSNC Staff distributed an all-user e-mail updating employees and retirees on the status of the 2012-13 self-funded medical and dental plans recommendation. Specifically that the benefits agenda item was being referred back to the administration on Monday May 21, 2012. Staff also informed employees and retirees that the medical and dental employee review committee would reconvene and informed plan members how they could provide input.

On May 21, 2012, the employee review committee recommended that the City contract with United Healthcare (UHC) to administer its self-funded health and dental plans for three years beginning with the 2012-13 plan year. **See Attachment #2 Employee Medical and Dental Review Committee Recommendation.**

Issues and Analysis

Since May 21, 2012 employees, retirees, dependents, and providers have continued to provide input for the analysis. Below is a brief summary of the key elements relevant to Staff's current and final recommendation.

Medical

1. Primary Care Provider Network

A primary care provider network is important when considering a plan administrator. Both United Healthcare's (UHC) and Blue Cross Blue Shield of North Carolina (BCBSNC) have expansive primary care provider networks.

Based on an analysis UHC shows a 99.5% primary care provider access for City of Durham members within 10 miles of the members' zip codes. BCBSNC shows a 99.6% primary care provider access for City of Durham members.

There will be providers that BCBSNC has under contract that UHC does not, as well UHC will have contracted providers that BCBSNC does not. Since BCBSNC is the incumbent and if the City switches to UHC there can be and likely will be providers in BCBSNC's primary care provider network who are not contracted with UHC. This situation is not uncommon when there is a change in plan administrators. **Staff recognizes this is a concern but concludes plan members will have comprehensive access and choices with either administrator.**

2. Specialty Care Providers

Continuity of specialty care services is of prime importance. Specifically, mental health provider services was a concern addressed by our stakeholders during the review process.

UHC has reported that it has 347 mental health providers (including groups, facilities and providers) within a 20 mile radius of Durham. BCBSNC has reported that it has 1,596 mental health providers (including groups, facilities and providers) within a 20 mile radius of Durham.

In specific incidences, as with any specialty provider, a plan member seeking to retain a single provider for services may be required to obtain out of network care but would have the option of selecting a comparable provider in network. **BCBSNC provided the greatest access to providers in-network for this specialty area.**

3. Case Management

Case management is essential to the control of high cost claims. UHC monitors 50+ conditions and BCBSNC currently monitors 20 conditions. BCBSNC has signed a contract with a new Disease/Case Management vendor that will offer additional conditions to be case managed.

UHC has offered the City a guarantee on its performance and the outcomes for its Case and Disease Management programs. UHC has placed a performance guarantee on results of up to 15% of its case/disease management programs administrative fees. This includes:

- implementation/operations - UHC guarantees a 95% outreach to identified members, and 60% enrollment rate for case management and 85% enrollment rate for disease management. Should any portion of this guarantee be missed UHC will pay the penalty.
- programs satisfaction - UHC guarantees at least 90% of the participants will be "satisfied" or "very satisfied" with the program and the nurse working with them. UHC has placed a 2.5% performance guarantee on results in this area.

Disease Management

UHC concentrates on four major programs: Heart Failure, Coronary Artery Disease (CAD), Diabetes and Asthma. BCBSNC focuses on the four major programs identified above as well as programs such as high cholesterol, weight, stress, migraine and fibromyalgia.

UHC has higher employee/dependent participation in its disease program than BCBSNC through more effective outreach programs (texting, e-mail, web chats, telephone calls, provider outreach).

BCBSNC, the current plan administrator, has reached out to 27% of the plans identified members. BCBSNC has not offered a performance guarantee in the area of disease/case management. **UHC's proposal offers the greatest value to the plan in this area.**

4. Care Management

Care Management outreach programs add value for our plan members. BCBSNC charges a separate claims line item for care management that is billed per employee per month, which averages out to about \$5,757.00 each month. This fee includes diagnostic imaging, mental health/substance abuse management fee, Nurse Line Blue, clinical opportunities notification and specialty care. BCBSNC's program has value for our plan members.

UHC's care management fee is included in its proposed administrative fee. UHC will provide plan members access to centers of excellence networks comprised of medical centers with experience in the treatment of specific complex conditions. "Complex Condition Management" programs include: Transplant Resource Services, Congenital Heart Disease Services, and Neonatal Resources Services. Additionally UHC includes Kidney Resource Services which would assist the City in managing its 41 plan members who have Renal Disease.

While BCBSNC has a separate cost for care management its amended proposed overall cost is still lower. **However, UHC's proposal provides a richer benefit specifically aligned with the needs of our high cost claimants.**

5. Pharmacy

The Pharmacy benefit is essential to our plan. It plays an important role in positively affecting the health and well-being of our plan members through preventive care and control of chronic illnesses.

BCBSNC has a familiar formulary where drugs are categorized into three tiers (tier 1 is generics, tier 2 is brand name drugs with no generics, and tier 3 is brand name drugs with generics) for City plan members. BCBSNC and UHC networks are equal. UHC has proposed a pharmacy benefit that will mirror the City's current benefits.

BCBSNC has better pharmacy discounts. There are also minor differences in administration of mail order and retail prescriptions. For example, UHC does not charge an administrative fee for mail or retail prescriptions. **The pharmacy discount provided by BCBSNC is a better value to the City's plan overall.**

6. Duke Office Visit Claims Processing

The Duke hospital based clinic office visit co pay and deductible/coinsurance issue has been a concern for the plan and plan members for six years. It causes members to have a different cost ratio than other plan members within the network.

BCBSNC proposed to administer true office visit co pays for all of the City's three benefit plans at Duke Hospital owned offices and any other hospital offices that a City of Durham member may visit. BCBSNC has placed a performance guarantee on results of 5% of its medical administrative fees should it fail to achieve a 98% financial accuracy in processing these claims.

UHC has proposed to administer hospital-based clinic office visits as a copay for the City of Durham and currently administers hospital-based clinic visits for other clients.

While BCBSNC has offered a performance guarantee UHC's experience provides better value to the City's plan at this time.

7. Customer Service

Customer service is a key component to ensuring that plan member concerns are addressed in a timely and accurate manner. Stakeholders shared some customer service experiences that were good and bad for both BCBSNC and UHC. **Both companies have comparable customer service.**

8. Run Out Claims Administration upon Termination of Contract

If UHC is chosen to administer the City's plan effective September 1, 2012 there will be claims with service dates prior to August 31, 2012 that will be presented for payment after September 1, 2012. These claims are referred to as "run-out claims". The Plan permits claims to be presented for a period of up to three months after the service date. Therefore, it is important to assure that all eligible claims are properly managed.

BCBSNC has proposed to administer the run out of claims. BCBSNC charges the current administrative fee to administer the run out for three months. If there is a change to the City's plan administrator from BCBSNC to UHC the City, under the current agreement, will be required to pay three months of run out claims administration fees to BCBSNC totaling \$244,062.00. This amount is reflected as a

cost to change administrator's and can be found in the attached Comparison of Administration Cost Proposals.

This fee is not applicable to UHC since it is not the incumbent. However, UHC has offered the City no charge to administer run out for six months in the event the City terminates its contract with UHC in the future. BCBSNC proposes that the run out fee provision and early termination fee provision would continue as they are outlined in the City's current Agreement but would be based on the new medical administration fee. **As a result of the difference in future processing of run out claims, UHC's proposal provides a better value to the plan.**

9. Administrative Fee Costs

The cost of a self-funded plan has fixed components, among them are administrative fees. The administrative fees, stop-loss premiums, and any other set fees charged per employee are referred to as fixed costs and are billed monthly based on plan enrollment just like an insurance premium.

Administrative fixed costs for the City's plan are approximately 7% of the total cost of the plan. In the final financial proposals BCBSNC has proposed the lowest fixed costs. It proposed the lowest monthly per member per month (PEPM) administrative rate with a three year guarantee and the lowest cost over the three year contract period.

A detail of the fixed cost can be found in the attached Comparison of Administrative Cost Proposals.

Comparing the administration fee proposals from UHC and BCBSNC, excluding run out claims administration costs, the annual difference is \$12,736.80. Over a three year period the difference is \$38,210.40. With the inclusion of the \$244,062 cost to administer run out claims, the additional cost of changing administrators in year one is \$256,798.80. **Due to the additional administrative cost incurred by the plan in year one, BCBSNC's three year proposal to administer the City's plan provided the lowest cost to the plan by \$205,851.60. See Attachment #1 Comparison of Administrative Cost Proposals.**

10. Overall Plan Annual Costs

Overall plan costs inclusive of fixed costs are estimated to be approximately \$30 million dollars for the 2012-13 plan year. The City's self insurance fund is budgeted and funded to cover plan cost regardless of the administrator selected. In addition to monthly administrative fees, the cost of a self-funded plan also has variable costs. The variable costs are the actual member claims. The City currently pays member claims on a weekly basis.

There are other factors that affect the overall plan costs such as network discounts for medical, dental and pharmacy. BCBSNC has placed a performance guarantee of 2% of medical administration fees on an in-network provider discount target of 51.6%. Attainment of the target discount could save the plan several hundred thousand dollars based on projected plan costs. UHC's proposal contained a 50% in-network provider discount. UHC did not provide a network provider discount guarantee.

While actual plan total costs are difficult to project exactly, BCBSNC's proposed network discount projects greater savings for the City's plan thus lower costs for the plan overall.

11. Day to Day Plan Administration

Human Resources Staff works closely with the plan administrator to address plan and member concerns on a day to day basis. During this extensive analysis period, UHC and BCBSNC were provided numerous opportunities to improve their offering to the City. In the final analysis, the proposals were similar in some value areas and different in some value areas. **Ultimately Staff did not find enough incremental increase in value of the proposal presented by UHC to recommend a change at this time. BCBSNC is the current administrator and has worked effectively on behalf of the City's plan interests.**

Dental

There is a financial and administrative advantage to using the same administrator for the City's self-funded medical and dental plans. The dental annual benefit maximum for plan members is \$3,000 regardless of the administrator.

1. BCBSNC and UHC will offer one ID card for medical and dental.

2. In-network Savings

UHC has a much larger provider network than BCBSNC for dental services. Members should have a greater opportunity to select in-network providers. By using in-network providers, both the City's plan and plan members would experience savings. **UHC's proposal offers the plan members additional choices and is a better value for the plan.**

Alternative

An alternative to Staff's health and dental recommendation is to select United Healthcare (UHC) as the medical and dental plan administrator.

Financial Impact

Based on the self-funded projection an increase in funding of 0% is recommended for the September 1, 2012 effective date.

Health Care

Based on the self funding strategy, the City has set the employee premiums to encourage employees and retirees to make their selection of health care plan based on their need. The premium cost and City/Employee costs are listed below for each of the health care coverage plan levels.

Self-Funded Monthly Rates:

<u>Health Care Plan</u>	<u>Total Perm</u>	<u>City Cost</u>	<u>City %</u>	<u>Employee Cost</u>
<u>Premium Plan</u>				
Single	\$ 640.50	\$ 572.25	89%	\$ 68.25
Two Party	\$1,140.30	\$ 772.64	68%	\$367.66
Family	\$1,701.00	\$1,079.87	63%	\$621.13
<u>Core Plan</u>				
Single	\$ 572.25	\$ 572.25	100%	\$ 00.00
Two Party	\$ 936.60	\$ 772.64	82%	\$163.96
Family	\$1,495.20	\$1,079.87	72%	\$415.33
<u>Basic Plan</u>				
Single	\$ 522.90	\$ 522.90	100%	\$ 00.00
Two Party	\$ 898.80	\$ 772.64	86%	\$126.16
Family	\$1,368.15	\$1,079.87	79%	\$288.28

The health care insurance premium rate charged to employees will help the plan to offset the cost of administrative fees charged by the plan administrator and the administrative fee for Duke EAP.

Dental Care Plan

Premiums paid by employees for dependent care are listed below.

Self-Funded Monthly Rates:

<u>Dental Care Plan</u>	<u>Total Prem</u>	<u>City Cost</u>	<u>City %</u>	<u>Employee Cost</u>
Single	\$ 40.00	\$27.00	67%	\$13.00
Two Party	\$ 69.00	\$40.00	58%	\$29.00
Family	\$117.00	\$40.00	34%	\$77.00

SDBE Summary

It is a mission of the City to increase minority participation in the vendorship of the City's benefits programs. Human Resources and the Equal Opportunity/Equity Assurance (EO/EA) Department staff work closely with current vendors to help increase minority

participation and the appreciation of diversity. EO/EA has reviewed the information for all of the vendors represented in this recommendation.

The EO/EA department collects quarterly EEO statistics from vendors. EO/EA has determined that recommended vendors are in compliance with the Ordinance to Promote Equal Business Opportunities in City Contracting. The compliance report from EO/EA has been submitted by staff.

SDBE REQUIREMENTS

No M/SDBE or W/SDBE goals were set.

WORKFORCE STATISTICS

Workforce statistics for Blue Cross & Blue Shield of NC are as follows:

Total Workforce	1415	
Total Females	1105	(78%)
Total Males	310	(22%)
Black Males	54	(4%)
White Males	227	(16%)
Other Males	29	(2%)
Black Females	416	(29%)
White Females	635	(45%)
Other Females	54	(4%)

Attachments

1. Comparison of Administrative Costs Proposals 2 pages
2. Medical and Dental Review Committee
May 21, 2012 Recommendation 1 page
3. United Healthcare May 18, 2012 Proposal. 4 pages
4. BCBSNC Letter of Clarification Dated May 15, 2012 5 pages