



**Memo to:** Thomas J. Bonfield, City Manager  
**Through:** Wanda S. Page, Deputy City Manager  
**From:** Alethea C. Bell, Director of Human Resources  
**Date:** July 2, 2013  
**Subject:** Stop Loss Insurance for the City of Durham Health Plan Recommendation

### **Executive Summary**

The Human Resources Department was notified that the existing Stop Loss Insurance premium for the period 2013 – 2014 would increase 30.8% effective September 1, 2013. Although the Stop Loss Insurance contract is currently coupled with the Blue Cross Blue Shield of North Carolina (BCBSNC) Administrative Services Only (ASO) Health Insurance Agreement, the City has the option to separate it and obtain Stop Loss Coverage elsewhere.

### **Recommendation**

Staff recommends that Council authorize the City Manager to terminate the Stop Loss Insurance Agreement with BCBSNC for the 2013 – 2014 plan year and award the contract to Reliance Standard Life Insurance Company.

This recommendation will reduce the premium increase proposed by BCBSNC while maintaining the stability of the insurance fund.

### **Background**

BCBSNC's Stop Loss Coverage insures the City of Durham against high dollar claims (\$255,000 Individual/\$250,000 Aggregate) processed through the health insurance. Since the City of Durham's health insurance plan is self-insured and the City incurs all risk associated with the benefits, the stop-loss coverage is necessary to ensure the stability of the insurance fund.

The cost for Stop Loss Insurance has escalated significantly since 2010, due in part to rising health care costs, and increased usage by employees, retirees and their covered dependents.

Further, vendors that offer Stop Loss Insurance will no longer offer multi-year contracts and price guarantees. Future premiums will be driven by benefit offering and experience rating based on the last 9 to 12 months.

Over the last two years, the City's Stop Loss premiums have increased by more than 60%. The proposed increase for the 2013 – 2014 benefits year is 30.8% (\$226,780).

The Human Resources Department requested a waiver of the Request for Proposal (RFP) process and the advertising process so that cost information could be obtained expeditiously.

## Issues and Analysis

The Stop Loss Insurance for the City of Durham has always been coupled with the health insurance contract. In order for the City to separate the health from Stop Loss, the City must pay a \$53,400 penalty to BCBSNC for an annual reporting fee, and provide additional and ongoing information to the stop loss vendor on the City's current claim trends and specific high dollars claims. The objective of re-bidding the stop loss contract was to ensure similar coverage with reduced fees.

The large increase to premiums is not unique to the City, the benefits broker recently located and replaced stop loss coverage for Durham County without an RFP/RFQ process so that it could be completed rapidly and prior to the effective date of the increase. The broker's familiarity with competitive companies offering this type of insurance prompted a request to bid for the City's Stop Loss insurance from five companies. Four companies submitted quotes to the City including BCBSNC who reduced their initial renewal quote.



## City of Durham

### Stop Loss Proposal Comparison

Proposed for Plan Year September 1, 2013 - August 31, 2014

Report Date: April 18, 2013

Benefits	Stop Loss Insurance Companies				
	BCBSNC (Current Carrier)	Arch Insurance	ING	Phoenix	RSLI
Unlimited Maximum	Yes	Yes	Did Not Bid	Yes	Yes
\$225,000 Individual Deductible with \$250,000 Aggregate Specific Deductible	Yes	Yes		Yes	Yes
Specific Contract	12 / 12	18 / 12		18 / 12	18 / 12
Composite Rate	\$27.73	\$26.84		\$23.92	\$22.06
Annual Cost (2,640 Employees)	\$878,486	\$850,291		\$757,786	\$698,861

Note: BCBSNC imposes a \$1.50 PEPMI penalty for stop loss carve-out and a \$5,000 annual reporting fee.

## **Alternatives**

Absent the acceptance of the bid, the City will need to remain with BCBSNC. BCBSNC did resubmit a lower bid during the process so the actual increase to premiums would be reduced from 30.8% to 19.9%.

## **Financial Impact**

The financial impact of this recommendation is related to the annual premium that the City pays to ensure the stability of the insurance fund.

BCBSNC 2013 – 2014 Premium	\$878,486
Reliance 2013 – 2014 Premium	\$698,861
Penalty from BCBSNC	\$ 53,400
Total Cost of Changing Vendors	\$752,261
Overall Premium Savings from Re-bid	\$126,225

## **SDBE Summary**

The RFP and advertising process was waived so the normal SDBE review was not required. SDBE information was collected and is attached.