



DATE: May 5, 2014

TO: Thomas J. Bonfield, City Manager

THROUGH: Wanda Page, Deputy City Manager

FROM: Regina Youngblood, Human Resources Director
Michele Cash, Human Resources Manager

SUBJECT: Plan Year 2014-15 Benefits Recommendations

Executive Summary

This benefits recommendation will be for the last year in a three-year agreement with vendors selected during the 2012 Request for Proposals (RFP) for all City benefits programs. The City of Durham will issue RFPs this summer for all City benefits programs with an effective date of September 1, 2015.

The major goal of the City of Durham benefits program is to provide the highest valued benefits plans at the most reasonable cost to employees and the City. While the City of Durham has a very competitive health benefit plan with low deductibles, co-pays, out-of-pocket maximums, and \$0 for generic prescriptions, rising health care costs and increased usage by employees, retirees and their covered dependents continues to challenge the City's ability to accomplish this goal.

There have been several design enhancements and changes implemented over the last year that encouraged employees to be better stewards of their healthcare such as charging employees for the CORE single coverage and required case management of employees for High Cost Claimants (HCCs). While changes produced a positive outcome, we must continue to make enhancements and changes to ensure the City reaches its' goal.

For information on insurance fund reserves and surplus, a detailed summary has been attached.

Recommendation

Staff recommends that Council authorizes the City Manager to continue the administrative agreement with Blue Cross and Blue Shield of North Carolina (BCBSNC) for the 2014-15 plan year. Based on the self-funded projection no increase to the Insurance Fund is needed for the September 1, 2015 effective date. BCBSNC continues to offer programs in case management, disease management and wellness initiatives that will help control high claims and reduce future medical risk.

Staff recommends the following changes to the health plan:

Eliminate the Premium Health Plan. The Premium Health Plan has low participation and a current medical loss ratio of 182%. This recommended change will shift some of the cost of the claims to the employees through higher deductibles, co-pays, and co-insurance, making employees better stewards of their health insurance. Currently this plan is being subsidized by the participants in the Basic Health Plan in which those employees currently earn approximately \$12,000 less than those in the Premium Health Plan.

Attached is the self-funded medical and dental paid claims summaries by benefit plan. The first chart reflects the year-to-date loss ratio of the three health benefit plans and the second chart reflects the loss ratio for the last twelve months.

Create a consistent formula for calculating the City's contribution. There has been inconsistency in the manner in which the City contributes to the health insurance plans. Going forward the City contribution will be calculated by adding the cost of the Core Employee Only plan (\$572.55) + 55% of the incremental difference between the cost of the Core Employee Only Plan and the total cost of the plan in question. The City will still continue to provide a free Employee Only option and will slightly inflate the Core employee only plan cost to maintain a differentiation in premiums.

Establish four coverage tiers. Split the 2-party coverage tier into employee/spouse and employee/children. This recommended change will properly align costs to utilization as children are typically less expensive to insure. Further, it will create an opportunity for employees to remove their spouses from coverage if the spouse is able to obtain health insurance elsewhere. By removing spouses, both the City and the employee reap significant premium discounts.

Expand Wellness Rate requirements. For the 2014-2015 benefit year, employees will pay \$20 per month more for their health insurance if they did not complete the health assessment and one additional wellness activity by prescribed deadlines. For the 2015-2016 benefit year, the requirement will increase to include a requirement of a biometric screening. The screening data provides the City with valuable information that will be used to custom design a wellness program based on our deficiencies and also provides employees information on their key health metrics.

Mandatory Case Management. Currently the City is focusing its case management on High Cost Claimant (HCC) employees. For the 2014-2015 benefit year, employees and dependents with qualifying conditions must participate in case management if initiated by Blue Cross Blue Shield of North Carolina or they will be limited to participation in the Basic health plan.

Continue BCBSNC Dental contract. The dental contract is self-funded similar to the health plan. Based on utilization, we will be required to increase the Insurance Fund by 5.0% to cover the cost of claims. Employee premiums will also increase by 5%.

Staff also recommends continuation of the following vendors:

Unum Life Insurance - provides the City's basic term life and disability insurance

Colonial – provides ancillary employee paid insurance products

The Laymon Group – administers the Flex Spending Accounts and the Health Reimbursement Arrangement (HRA)

Community Eye Care – provides vision benefits

Liberty Mutual – provides voluntary auto, homeowners, and other liability insurance

Hyatt Prepaid Legal Services – provides limited legal services

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

Background

In May 2012 Council voted to approve Staff's recommendation to allow the City to continue with BCBSNC for a three year contract as a self-funded group for the medical and dental plan, with current plan designs. The Council further authorized the City Manager to enter into an administrative contract with BCBSNC and renew contracts with all other current vendors.

For the 2013-2014, BCBSNC delivered a significant rate increase for the Stop Loss Insurance that was bundled with the health plans. In an effort to control costs, the City removed the Stop Loss Insurance from BCBSNC and moved it to Reliance.

Benefits continuation has involved a review with City Management, the Council Insurance Sub-Committee, and will include presentations to employee and retiree groups and a meeting with the Human Resources Liaison group. The changes included in this recommendation will help the City better control costs and encourage healthy life choices.

Issues/Analysis

Health Care

The cost of health care continues to rise and the City of Durham experienced an increase in total payments of 5.4% from the previous year. The most significant increase of 6% was found in inpatient claims. Within the category of inpatient claims there was a 40% year-over-year increase in cancer claims, of which a large portion was in the retiree population. In addition to inpatient, the City experienced a 4% increase in outpatient payments and a 5% increase in payments for professional services. Chronic Renal Failure and Diabetes were the top 2 most costly episodes over the last year.

During the 2013-2014 benefits year the City implemented mandatory case management for employees in the HCC category. As a result of this effort, the City experienced a savings of approximately \$260,000. Expansion of case management is recommended for the 2014-2015 year for all members with qualifying conditions regardless of whether the member is a HCC.

The 2014-2015 health care recommendation maintains the strengths of the previous plan design with important changes that will allow the City to continue to offer a competitive program while engaging employees more, allowing them to be better stewards of their health care.

Wellness and Disease Management

In the past employees accepted health care plans that provided coverage without much understanding of how overall cost in claims affect the premium costs that are paid by employees and the City. With increasing costs, employers have sought to help employees understand the relationship better and involve them in influencing the programs that will provide them with increased choice and responsibility of the cost of the coverage. To encourage employees to take their medications, the plans will continue the \$0 co-pay for generic medications. The plans will also continue to include 100% coverage for medical supplies (includes diabetic supplies, inhaler spacers and peak flow meters). This is all intended to improve resources for those with higher incidents or risk of medical illnesses to help them to better manage their care and cost. Along with this, many organizations, like the City, have also implemented programs that are focused on resources to help participants best identify future medical risk and provide resources to help them maintain and improve wellness by making healthier choices.

To deal with the root cause of increased claims, the plan maintains a focus on identifying and providing case management to members and also providing resources to encourage employees to make healthy life style changes. The health care plan recommendation continues and increases the City's focus on wellness and disease management resources.

The BCBSNC plan continues to have considerable resources available to employees that will encourage and support wellness efforts. The City, with assistance from BCBSNC continues to support Wellness. Further, staff will host programs that focus on improving the health of our members such as the Diabetes Academy currently underway.

In 2014, the City will obtain valuable aggregated information regarding the health and lifestyles of our employees through the Health Risk Assessments and biometric screenings. This information will allow the City to focus its efforts on programs that will directly affect employees' health.

The City will also continue relationships with outside organizations to provide employees with selected wellness initiatives and events. These activities currently include projects with Durham County. The wellness program demonstrates the City's commitment to improving employee health and adds value to the benefits package

Dental Care Plan

Staff also recommends the continuation of BCBSNC as the administrator of the City self-insured dental plan. The tiers will be modified to Employee, Employee/Spouse, Employee Children, and Family to match the recommended health insurance tier change. Retiring employees are allowed to elect dental coverage for up to eighteen (18) months at full cost without a City contribution.

With the use of the plan and the cost of services increasing, Staff recommends that the dental rates be increased by 5.0%.

Basic Term Life Insurance

Under this recommendation the City paid, Basic and Supplemental Term Life Insurance will continue to be provided by Unum. All eligible employees receive City-paid, term life insurance in the amount equal to their annual salary. The rates will remain the same. Employees may select additional, employee-paid, supplemental coverage for themselves and/or dependents. Through UNUM, the City will continue to offer three options for additional term life insurance.

The current City paid and voluntary employee paid supplemental rates will remain the same for 2014-15. Retirees and employees leaving employment with the City may elect to convert the group term life insurance to individual private plans paid for by the retiree or former employee. Disability retirees are granted one year of term life insurance paid for by the City.

Flex Spending and Other Employee Paid Benefits

a. Flexible Spending Accounts (FSAs)

The Laymon Group will continue to provide the administration of the Section 125 Flexible Spending Account Plan. Flexible Spending benefits allow employees to pre-tax the cost of health, dental and vision insurance premiums, and to set up special spending reimbursement accounts to pay for specified uncovered medical expenses, dependent care expenses and eligible parking expenses. The plan offers participating employees the option of using a debit card to pay for eligible medical and dependent care expenses.

b. Healthcare Reimbursement Arrangement (HRA)

The Laymon Group will continue to administer the City's Health Reimbursement Arrangement (HRA) for the health care plan deductibles related to hospital visits, out-patient surgery, medical testing and durable medical equipment expenses. Employees and retirees will be reimbursed \$250 when they submit the Explanation of Benefits (EOB) for the deductibles. Based on the plan level employees and retirees will be reimbursed as follows:
\$250 of the \$500 for the Premium Level Plan,
\$250 of the \$750 for the Core Level Plan, and
\$250 of the \$1,500 for the Basic Level Plan

In order to receive this benefit, employees and retirees must have completed the Health Assessment by 12/31/2013. New Employees are given 45 days from the date of health insurance eligibility to complete the health assessment.

c. Vision

Community Eye Care (CEC) will continue to offer single, two-party or family vision coverage with no increase in rates for the 2014-15 benefits period.

d. Colonial Voluntary Benefits

Colonial will continue to offer voluntary, employee-paid insurance products including cancer, intensive care, long and short-term disability, group universal life, and a prepaid legal plan.

e. Auto and Home Owners Insurance

Liberty Mutual Insurance Company will continue to provide employees with auto, homeowners, renters and umbrella insurance. This benefit is voluntary and employee paid.

Communication

Pre-tax benefits can only be changed during open enrollment and with a qualifying life event; therefore the focus on communication of our overall benefit package is concentrated during open enrollment and at New Employee Orientation (NEO). Communication occurs in the form of all-employee meetings, all-user emails, and individual employee communications.

The communications relating to the specific requirements of the 2014-2015 health wellness rates have been extensive. Employees have been advised of the requirements using several mediums and have received periodic individual updates as to their progress against stated requirements.

The Human Resources Liaison Group continues to meet regularly to discuss, among other things, benefit plan concerns and initiatives. The Liaisons are asked to take information back to their respective departments to provide information to the employees. This is particularly important as we have a subset of employees that do not have direct computer access. The benefits information provided to employees throughout the year by the Human Resources Liaison Representatives is intensified during the City's Open Enrollment (OE) period to ensure employees are completely informed about the benefits and choices available during OE.

All employees will receive an Employee Benefits Summary Guide that will contain information about all benefits, frequently asked questions, vendor contact information, and discounts being offered to employees and their families. Additionally, HR will make benefit presentations to increase understanding of the future benefit offerings and open enrollment process.

For new employees, the HR Department provides a detailed presentation during the two-day New Employee Orientation (NEO). This once-a-month training session for new employees allows HR staff and vendors the requisite time to give thorough explanations of the City's core benefits and voluntary benefits. Further it allows time to assist new employees in selecting the most appropriate benefits. These extended training opportunities are designed to give new employees an appreciation for the tremendous investment that the City has made to provide excellent benefits for its employees.

Continued Improvements to the Open Enrollment Process. As was the case last year the 2014-15 open enrollment process will be a dual process.

a. Web-based on line open enrollment

The City's insurance broker, IBA, will continue to fund the cost of the on-line open enrollment process that will be utilized for enrollment in health, dental, life, long term disability, vision and flexible spending accounts. Employees with access to computers whether at work or at home will be able to enroll in the above-mentioned benefits on their own during the open enrollment period.

Staff will also be available to assist with on-line open enrollment within departments throughout the open enrollment period. In addition, employees without assigned computers will be able to use computer kiosks at some sites and use the computer lab during open enrollment at the Employee Training. All employees and retirees will again be notified and provided with directions on how to use the on-line open enrollment system. Training will also be made available. Staff will be strongly encouraging employees and retirees to attend Employee Benefit Presentations to familiarize themselves with the changes in the plans to

prepare for the Open Enrollment process. This process ensures minimal inconvenience to employees and reduces the disruption of work within the departments.

b. Colonial Enrollment

Employees who want to purchase Colonial products will still have opportunities to meet with Colonial enrollers should they chose to do so. For those employees with current Colonial coverage who do not want to make a change, no meeting with a Colonial representative will be needed. This process further ensures minimal inconvenience to employees and reduces the disruption of work within the departments.

Colonial will also be assisting the benefits department with the overall open enrollment of City benefits.

Alternative

An alternative to Staffs' health care recommendation is to reduce the City/Employee benefit levels or increase employee contribution levels to further provide financial incentives for employees to select a less expensive benefit.

Further, we could maintain the Premium plan for another year and evaluate the cost and participation levels next open enrollment. However, this might be a costly alternative that leads to an overall medical loss ratio of greater than 100% for all plans combined if the current trend continues.

Lastly, the City could recommend that Case Management not be mandatory for everyone that qualifies however there would be the concern that the escalating health care expenses would continue to climb.

Financial Impacts

Health Care

The financial impact of this recommendation is related to the monthly premium that employees and retirees will be required to pay due in part to the City's self-funded strategy. The elimination of the Premium plan, the expansion of the tiers, and the change in methodology will affect premiums.

Based on the self-funded 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 Health Rates:

	<u>Employee Only</u>	<u>Emp./Spouse</u>	<u>Emp./Children</u>	<u>Family</u>
<u>Core Plan</u>				
Total Cost	\$572.25	\$980.00	\$925.00	\$1610.00
City Cost	\$539.75	\$796.51	\$766.26	\$1143.01
City %	94.3%	81.3%	82.8%	71.0%
Employee Cost	\$32.50	\$183.49	\$158.74	\$466.99
<u>Basic Plan</u>				
Total Cost	\$522.90	\$930.00	\$860.00	\$1385.00
City Cost	\$522.90	\$796.51	\$766.26	\$1143.01
City %	100%	85.6%	89.1%	82.5%
Employee Cost	\$0	\$133.49	\$93.74	\$241.99

The health care insurance premium rate charged to employees includes the coverage for BCBSNC and the administrative fee for ComPsych.

The City of Durham health care premiums are “experience based” and driven by the actual claims that are paid by the vendor for City employees, retirees and their dependents. The premium rates charged by other city and county organizations do not affect the rate the City is charged by vendors.

The City of Durham will absorb the \$550,000 increase in health care for the 2014-2015 benefit year out of the existing insurance fund.

Dental Care Plan

The administrative fee paid to BCBSNC for the self-funded plan will be \$3.02 per employee each month for 2014-15. Staff has recommended a 5.0% increase to the dental rate premiums paid by employee. Further, the City of Durham will absorb the 5% increase in premiums at a cost of \$82,000.

Self-Funded Monthly Dental Rates:

	<u>Employee Only</u>	<u>Emp./Spouse</u>	<u>Emp./Children</u>	<u>Family</u>
Total Cost	\$43.16	\$74.45	\$74.89	\$133.73
City Cost	\$28.92	\$43.18	\$43.44	\$45.47
City %	67%	58%	58%	34%
Employee Cost	\$14.32	\$31.27	\$31.45	\$88.26

Attachments

Attachment 1: Reserve Analysis

Attachment 2: Claims Summary by Plan

Equal Opportunity/Equity Assurance (EO/EA) Summary

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

SDBE REQUIREMENTS

March 28, 2014

Memo To: Regina Youngblood, Director
Human Resources Department

From: Deborah Giles, Director
Department of Equal Opportunity/Equity Assurance

Subject: Benefit Services 2014-15

The Equal Opportunity/Equity Assurance Department reviewed the updated information submitted by the following benefit providers and have determined that they are in compliance with the Ordinance to Promote Equal Business Opportunities in City Contracting.

SDBE REQUIREMENTS

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

WORKFORCE STATISTICS

Workforce statistics for BlueCross BlueShield of North Carolina are as follows:

Total Workforce	4603
Total Females	3513 (76%)
Total Males	1090 (24%)
Black Males	287 (6%)
White Males	673 (15%)
Other Males	130 (3%)
Black Females	1638 (36%)
White Females	1659 (36%)
Other Females	167 (4%)

Workforce statistics for Community Eye Care are as follows:

Total Workforce	30
Total Females	26 (87%)
Total Males	4 (13%)
Black Males	0 (0%)
White Males	3 (10%)
Other Males	1 (3%)
Black Females	5 (17%)
White Females	21 (70%)
Other Females	0 (0%)

Workforce statistics for Colonial Life & Accident Insurance Company are as follows:

Total Workforce	1038	
Total Females	746	(72%)
Total Males	292	(28%)
Black Males	36	(4%)
White Males	234	(23%)
Other Males	22	(2%)
Black Females	260	(25%)
White Females	461	(44%)
Other Females	25	(2%)

Workforce statistics for Unum Life Insurance Company of America are as follows:

Total Workforce	31	
Total Females	18	(58%)
Total Males	13	(42%)
Black Males	0	(0%)
White Males	13	(42%)
Other Males	0	(0%)
Black Females	1	(3%)
White Females	17	(55%)
Other Females	0	(0%)

Workforce statistics for Liberty Mutual Group are as follows:

Total Workforce	609	
Total Females	348	(57%)
Total Males	261	(43%)
Black Males	33	(5%)
White Males	215	(36%)
Other Males	13	(2%)
Black Females	73	(12%)
White Females	252	(41%)
Other Females	23	(4%)

Workforce statistics for The Laymon Group, LLC are as follows:

Total Workforce	5	
Total Females	2	(40%)
Total Males	3	(60%)
Black Males	0	(0%)
White Males	3	(60%)
Other Males	0	(0%)
Black Females	0	(0%)

White Females	2	(40%)
Other Females	0	(0%)

Workforce statistics for Independent Benefit Advisors are as follows:

Total Workforce	10	
Total Females	6	(60%)
Total Males	4	(40%)
Black Males	0	(0%)
White Males	4	(40%)
Other Males	0	(0%)
Black Females	0	(0%)
White Females	6	(60%)
Other Females	0	(0%)

Workforce statistics for Compsych Management Corp. are as follows:

Total Workforce	544	
Total Females	381	(70%)
Total Males	163	(30%)
Black Males	11	(2%)
White Males	125	(23%)
Other Males	27	(5%)
Black Females	81	(15%)
White Females	250	(46%)
Other Females	50	(9%)

Workforce statistics for P & A Group are as follows:

Total Workforce	100	
Total Females	67	(67%)
Total Males	33	(33%)
Black Males	1	(1%)
White Males	31	(31%)
Other Males	1	(1%)
Black Females	7	(7%)
White Females	50	(50%)
Other Females	10	(10%)

Cc: Michele Cash