



**DATE:** June 5, 2015

**TO:** Thomas J. Bonfield, City Manager

**THROUGH:** Wanda Page, Deputy City Manager

**FROM:** Regina Youngblood, Human Resources Director

**SUBJECT:** 2015 – 2018 Health Insurance Recommendation

### **Executive Summary**

The City of Durham understands how important it is to provide quality healthcare coverage for its employees at an affordable price. Health coverage serves as a core component of the City's total benefits package and it effectively contributes to the recruitment and retention of employees as well as increased morale. In addition, the City has wellness initiatives that are designed to educate employees about their health risks and provide resources to assist employees in making better decisions about improving their health.

The City of Durham has been successful in controlling costs by making changes to benefit plan designs and requiring high risk employees participate in disease and case management programs. Over the last three years, the City has been able to maintain a "no cost single-coverage" health option for employees with nominal increases to other health premiums even in the face of general industry medical trend increases of more than 8%.

An emphasis on controlling expenses will always be a fundamental necessity in order to continuously provide affordable benefits to employees, dependents, retirees, and the City. Programs and changes in benefits design will be necessary in order for the City to maintain their reputation as having a strong health benefit offering.

As further outlined in this memorandum staff recommends that the City of Durham change from Blue Cross Blue Shield North Carolina (BCBSNC) to AETNA for the City's health insurance offering. See sample Aetna contract agreement in [Attachment #1](#).

Aetna has proposed the introduction of a Duke Accountable Care Organization (Duke ACO) Plan that is estimated to save the City approximately \$7.5 million in health care claims over the three year benefit cycle, assuming a 60% enrollment in the product. While the 60% enrollment may initially appear aggressive, more than 70% of the City's claims are paid to medical providers within the new network. Aetna will guarantee The City of Durham up to \$651,000 over three years if the discount rate is not achieved.

The Duke ACO product will allow the City of Durham to offer employees an improved benefit at a lower cost. The Duke ACO product will become the Employee/Only free option. In addition, Aetna will provide employees and retirees with products that mirror our current health offering to include disease and case management.

The Duke ACO will maximize the quality of care that patients receive through an established care protocol that requires the highest quality of service for the most affordable price. Every provider in the network will have access to the employees' medical records to allow them to work cooperatively to optimize patient care. The Duke ACO will provide City of Durham employees with access to a dedicated team of individuals who coordinate every aspect of their care; all of this is designed to improve employee health outcomes and reduces claims costs. The Duke ACO is fully operational now and will be available to City of Durham employees upon the effective date of the new benefit year, September 1, 2015.

## **Background**

On December 1, 2014 the City of Durham issued and advertised a Request for Proposals (RFP) for health insurance administration. Submissions were due on January 8, 2015. Only BCBSNC and Aetna elected to submit proposals. Upon submission, both proposals were sent to EO/EA for compliance approval.

As part of the evaluation selection process, a committee was created consisting of seven individuals throughout the organization. Committee members represented the following areas: Human Resources, Finance, Risk Management, Public Safety, Water Management, Solid Waste, and EO/EA. In addition to the evaluation committee, the City's broker was also requested to evaluate the vendors separate from the Committee.

The evaluation committee and broker evaluated the proposals based on the following criteria: cost, disruption, distinguishable benefits, mechanics, and network access.

Both the evaluations performed by the committee and the broker were considered for the final selection process and recommendation. To give proper consideration to the professional advice provided by the City's broker, the selection scores of the evaluation committee and the broker were weighted 60/40 with the greater weight associated with the broker.

Following the formal recommendation to City Management and the City Council Insurance Sub-committee BCBSNC has subsequently submitted multiple revisions to their initial proposal. The most recent revision was received after close of business on Tuesday June 2, 2015. **See Attachment #2.** These supplemental proposals were reviewed by a team of individuals from the City Manager's Office, Human Resources Department, Finance Department, and the City's broker.

## **Issues/Analysis**

Several factors continue to influence the cost of our health insurance premiums. High Cost Claimants continue to plague the City with 68 members incurring more than 32% of claims payments. Further, expensive medications also place a significant cost upon the City with several months over the last year incurring more than 30% of the claims cost.

Additionally, BCBSNC has in recent years missed its discount rate guarantee resulting in higher claims costs for the City of Durham. It costs the City of Durham approximately \$500,000 for every 1% that the discount guarantee is missed. Over the last four years BCBSNC discount rates have ranged from 49.3% to a current rate of 51.4%.

BCBSNC is currently developing an ACO product and network but would not be able to offer the City of Durham employees an ACO product (Blue Local) until July 1, 2016, which would be in year two of a three year benefit cycle. Employees would thus have to wait until year two to receive lower payroll deductions and improved out-of-pocket benefits.

At this time the Blue Local product appears to cover a smaller network than Aetna's Duke ACO however that could change as the Blue Local product is fully developed. Approximately 61% of the City's claims are running through the Blue Local network compared to 70% of claims captured by the Aetna Duke ACO.

Blue Local's two-tier offering, as compared to Duke ACO's three-tiered offering, may not provide employees the option to access BCBSNC's larger network before incurring out-of-network costs. Approximately 95% of the City's claims are currently running through Aetna's network.

While the City has been focusing on case and disease management over the last year, poisoning and injuries replaced cancer as the number one top inpatient category which emphasizes a need to focus on safety during the upcoming year.

While the City has experienced some challenges this year controlling health care costs, preventive screenings and case management have improved due to several changes in plan design and communication and now are at or above industry average. Further, an objective of the 2014-2015 health plan was to modify plan design so medical loss ratio would be at 100% or less. Currently the ratio is 99%.

Changing from the existing BCBSNC plan to a new AETNA Duke/ACO plan may impact a small number of employees as approximately 5% of the past year claims would fall out of the AETNA Duke/ACO. Additionally some change issues will likely arrive as employees transition to a new claims processing provider and system. Employees did not have any trouble acclimating to the elimination of the Premium Health Plan over the last year and are enrolled in one of the remaining two options. These employees now share more of the cost of their health care needs with higher co-pays and deductibles. Further, the addition of a new tier, employee/children, saw a reduction in spouses on the health plan allowing a savings of approximately \$148K.

To steer participation in the Duke ACO plan, the City of Durham will contribute a greater amount towards the total cost of this product and pass the savings along to employees. Employees selecting the Duke ACO will experience lower monthly payroll deductions as noted in the table below. In addition, the City of Durham has intentionally improved the benefits offered through the Duke ACO plan to reduce out-of-pocket expenses for employees.

Due to increases in utilization, the City is recommending a 3% increase in health care premiums for both the City and employees. The increase will allow the City to maintain its current reserve levels. The City also recommends that an employee-only health plan option continue to be offered at no cost to the employee. This increase in premiums is significantly

lower than the industry trend of 8%, The City also recommends that healthcare premiums be differentiated between those that do participate in the required wellness programs and those that do not. The proposed monthly rates associated with the plan options are as follows:

	<u>Employee Only</u>	<u>Emp/Spouse</u>	<u>Emp/Children</u>	<u>Family</u>
<b>Core Plan</b>				
<b>Total Cost</b>	\$589.42	\$1,009.40	\$952.75	\$1,658.30
<b>City Cost</b>	\$555.94	\$820.41	\$789.25	\$1,177.30
<b>City %</b>	94.32%	81.28%	82.84%	70.99%
<b>Employee Cost</b>	\$33.48	\$188.99	\$163.50	\$481.00
<b>Basic Plan</b>				
<b>Total Cost</b>	\$538.59	\$957.90	\$885.80	\$1,426.55
<b>City Cost</b>	\$528.59	\$820.41	\$789.25	\$1,177.30
<b>City %</b>	98.14%	85.65%	89.10%	82.53%
<b>Employee Cost</b>	\$10	\$137.49	\$96.55	\$249.25
<b>ACO Plan</b>				
<b>Total Cost</b>	\$526.47	\$901.60	\$851.00	\$1,481.20
<b>City Cost</b>	\$526.47	\$792.34	\$759.45	\$1,258.25
<b>City %</b>	100.00%	87.88%	89.24%	84.95%
<b>Employee Cost</b>	\$0	\$109.26	\$91.55	\$222.95

Due to the Affordable Care Act, the maximum out of pocket will not include deductibles and co-payments so City employees will experience a slight adjustment in this area. Further, the City is required to offer health insurance upon hire to non-seasonal part time employees that work more than 30 hours per week.

Based on the number of recommended changes and the implementation of a new ACO product, staff recommends a mandatory open enrollment where all employees will be required to log into the existing enrollment system and make their benefit selections.

In order to ensure employees understand the benefit offering, open enrollment presentations throughout the City will be provided as well as meetings covering retiree health. The City's HR Liaisons will be educated by staff to ensure they are also able to assist employees.

An open enrollment booklet will be provided to all employees outlining the new benefit offering as well as Frequently Asked Questions.

## **Alternatives**

An alternative would be to continue the City's relationship with BCBSNC. This alternative would result in less disruption for employees in the initial year; however disruption would occur in the second year due to the implementation of BCBSNC's new ACO product (Blue Local).

Additionally, employees would forego a year of premium savings that they would otherwise enjoy from Aetna's plan design. Employees would also need to wait an additional year for benefit improvements that would be built into the Aetna plan.

In year two, employees would be offered the Blue Local product. Blue Local's two-tier offering, as compared to Duke ACO's three-tiered offering, does not provide employees the option/ flexibility to access BCBSNC's larger network before incurring out-of-network costs. The City of Durham's employees are known to be risk and change adverse as it relates to their benefit selections; this could negatively impact their willingness to enroll in a more restrictive offering. Lower than expected enrollment in Blue Local will directly increase the City's claims costs.

Using a benchmark of Aetna's current actual discounts of 55.3% (for a 60% enrollment in Duke ACO) and the value of their ACO clinical programs compared to where the City of Durham is today with BCBSNC's discount of 51.4% staff calculated the City's potential risk exposure could be as much as \$7.5 million over three years.

To offset these risks, BCBSNC commits to guarantee the dollar value difference of the allowed claims based on the actual in-network discounts and the guaranteed discounts up to \$2 million over three years.

Because BCBSNC's ACO network is not yet established the risk to the City of Durham is higher. To mitigate the higher risk BCBSNC would need to provide a significantly greater guarantee. That guarantee should be based on the difference between their current and proposed performance, the amount of which is calculated as much as \$6.8 million over three years. [See Attachment #3](#)

Aetna will guarantee The City of Durham up to \$651,000 over three years if they do not achieve their stated discount. The City of Durham has a higher level of confidence in Aetna's ability to achieve the stated discounts because they are based on actual performance with an established ACO network in place.

## **Financial Impacts**

As a self-insured plan, the financial impact of the health recommendation relates to the monthly premium increase that the City, employees and retirees will be required to pay for their health insurance for the 2015-2016 benefit cycle to maintain current insurance reserve levels. Based on the usage of the benefit and other administrative fees, it is expected that the City will require a 3% increase in premiums. The increase in premiums excludes the Employee Only/Basic Insurance premium which will be offered to employees for a nominal fee. It will also exclude the Employee Only/Duke ACO premium as this plan will be offered at

no charge to employees. Further, the employee health premiums can be used to steer employees to the new ACO, allowing both the employees and City to benefit by the reduced contractual rate.

If the City experiences the 60% enrollment in the ACO, the savings to the City over the next three years will be approximately \$7.5 million in claims costs. After the initial implementation year, consideration for plan design changes may be necessary to compliment the new model.

**EO/EA Summary**

The Equal Opportunity/Equity Assurance Department reviewed the proposals 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 Aetna Life Insurance Company are as follows:

Total Workforce	597	
Total Females	491	(82%)
Total Males	106	(18%)
Black Males	16	(3%)
White Males	64	(11%)
Other Males	26	(4%)
Black Females	95	(16%)
White Females	314	(52%)
Other Females	82	(14%)