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# MEMORANDUM

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Date: February 12, 2015

To: The Honorable Chair and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator 

Re: **Medical Insurance and Tobacco Issues Continued from the February 10, 2015 Board of Supervisors Meeting – Additional Information**

I previously provided information to the Board of Supervisors regarding this subject. It may be helpful to recap the information and provide additional clarifying facts that may assist the Board in reaching a decision.

#### Number of Employees Using Health Benefits by Plan Type

As shown in Table 1 on Page 2 of my February 10, 2015 memorandum to the Board, Pima County has 5,186 employees taking advantage of our medical insurance program. These employees are divided into two primary plans; a Preferred Provider Organization (PPO) and a High Deductible Health Plan (HDHP). 1,755 employees are enrolled in the PPO, and 3,431 are enrolled in an HDHP. For the largest number of plan enrollees, the Employee-only coverage is selected.

#### Cost Comparison of Health Plans for the Employee Only

At face value, the total cost per employee of the PPO plan is approximately 54 percent higher than the HDHPs. The total proposed biweekly rate for the PPO plan is \$242.87 per pay period; for the HDHPs, it is \$157.86. This cost difference is mitigated when you consider the County contributes \$1,000 to an employee's health savings accounts (HSA) if the employee is enrolled in the HDHP with HSA. When the HSA contribution of approximately \$38.46 per pay period is factored into the HDHP with HSA, the cost difference between the two plans reduces to 23 percent; and the PPO cost is still higher than the HDHP with HSA. Hence, our desire to have employees migrate as quickly as possible to the HDHP.

#### Employee Concerns Regarding PPO Plan Transition

One of the primary concerns of employees in the PPO plan is the impression that it is more cost effective. When all costs and facts are considered, the HDHP with HSA is more cost effective. The following analyses confirm such is the case.

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1. Using family coverage and considering plan premiums paid by the employee, the County contribution to the HSA for an essentially healthy family, the annual expenditure of the family in a PPO plan is \$3,552.38. The same family on the HDHP w/ HSA, with the County's contribution of \$2,000 to the HSA, makes \$711.44. The HDHP with HSA plan costs less.
2. Using the same example and assuming the family has extensive medical services use; including 10 primary care visits, 20 specialist visits, 3 emergency room visits, 30 prescriptions and laboratory work; the out-of-pocket cost, including premiums for the PPO Employee-plus-family, is \$8,152.38. For the HDHP with HSA Employee-plus-family, the cost is approximately \$5,288.56; a savings of approximately \$3,000 for the HDHP with HSA employee with family coverage and extensive medical services use. The HDHP with HSA plan costs less.

The analysis for these hypothetical examples is shown in Attachment 1.

3. AETNA, our insurance provider, randomly selected 16 cases in all benefit tiers in the PPO plan and evaluated their total claims, including premiums, and compared those to claims and premiums these employees would have paid in the HDHP w/ HSA. The results vary; but in all cases, the HDHP with HSA was more cost effective. Savings varied from \$200 to over \$5,000 in one year. Again, the HDHP with HSA cost less. This analysis is included for review in Attachment 2.

While there is some reluctance to transition from the PPO to the HDHP, the data indicates that in most, if not all, cases, the HDHP with HSA is more economical for the employee.

### Smoking Insurance Surcharge

I continue to recommend a policy to the Board that the County not hire smokers in the future. However, whatever the Board decides, I would recommend smokers pay a surcharge to more equitably cover the cost of their additional medical services and cost demand. We previously proposed that this surcharge be increased over time. In my February 10, 2015 memorandum to you, I suggested phasing in the surcharge at 30 percent, 40 percent for the next fiscal year, and 50 percent in two fiscal years.

The federal Affordable Care Act allows employers to impose a tobacco surcharge of up to 50 percent of the total premiums for those employees that use tobacco products. In our case, using an example of the lowest cost plan, the HDHPs, the surcharge would be 50

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percent of \$157.86, or nearly \$80 per pay period. Given the employee would already pay a share of approximately \$23, the surcharge could be in the range of \$60 per pay period for the HDHPs and \$120 per pay period for the PPO. In order not to confuse surcharges between different plans, it is suggested the County adopt a single tobacco insurance surcharge and this surcharge be set at approximately one half of the allowable maximum, which is 50 percent of the total premium. This means all smokers would pay \$30 per pay period as a surcharge for smoking, with the understanding the surcharge would increase by \$10 per pay period over the next three years until it reaches the maximum of \$60 per pay period.

The County has approximately 1,654 employees who smoke and participate in our health insurance program. Of these, approximately 1094 are enrolled in the HDHPs and 560 in the PPO. Employees who complete an approved tobacco cessation program can avoid these surcharges. The County will offer a number of tobacco cessation programs and will encourage all smoking employees to enroll in and successfully complete a tobacco cessation program. We hope all employees who now smoke will enroll in and complete a tobacco cessation program and ultimately stop smoking.

Lessening the Rate Increase for the PPO Plan

I continue to recommend the PPO plan enrollees pay the premiums listed in Table 1 of my February 10, 2015 memorandum *Medical Insurance for County Employees – Fiscal Year 2015-16*. These premiums would ensure all employees who participate in the PPO plan are paying their actual share of medical insurance and healthcare costs. To lower the amount paid by employees in the PPO plan would mean these employees are being subsidized by the HDHP participants or the proportionally higher subsidy is paid by the taxpayers. If the Board desires to lessen the immediate financial impact of the PPO plan for those employees who remain in that plan even though we have demonstrated all employees would benefit financially from the HDHP, I recommend the Board set the rates for the PPO plan as shown in Table 1 below, rather than those in my February 10, 2015 memorandum.

**Table 1: Alternative PPO Biweekly Rates.**

	<b>Rates Proposed in February 10 Memorandum</b>	<b>Alternative Proposed Rates</b>
Employee (Ee) Only	\$108.68	\$ 60.00
Ee + Spouse	230.32	138.00
Ee + Child(ren)	224.59	135.00
Ee + Family	328.26	197.00

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County and Employee Cost for Providing Medical Insurance Coverage in Fiscal Year 2015/16

The total estimated cost of paying all medical insurance premiums to the Self Insurance Trust Fund for Fiscal Year (FY) 2015/16, including the County's contributions to employee HSAs, equals \$55.1 million. Based on the HDHP rates in my February 10 memorandum, the modified PPO or lessened PPO employee contribution rates stated above, and including a \$30 per pay period tobacco surcharge, the cost to the County (or taxpayer) is \$46.9 million and the employee cost is \$8.1 million.

Please note it is likely that the amount paid by employees will be less, perhaps significantly so, if a large number of employees choose to enroll and successfully complete a tobacco cessation plan, then the employee contribution would decrease to \$6.9 million.

Plan Changes for Fiscal Year 2016/17

As can be seen above, taxpayers pay approximately 90 percent of our employees' insurance premiums. They and we have a vested interest in developing and retaining a healthy workforce. Therefore, Pima County will discontinue the PPO plan in FY 2016/17. Also, to create additional incentives for employees to stop smoking, the tobacco-free discount that is now offered at \$5 per pay period will be increased to \$20 per pay period in FY 2016/17. This will create an increased positive incentive for employees to actually stop smoking.

CHH/mjk

Attachments

c: Allyn Bulzomi, Director, Human Resources

# Cost Savings – No Services (Family Coverage)

	<u>PPO</u>	<u>HDHP w/ HSA</u>
Premiums	(\$136.63 X 26) \$3,552.38	(\$49.56 X 26) \$1,288.56
HSA County funded	0.00	+ 2,000.00
<u>Annual Expenditure</u>	<u>\$3,552.38</u>	<u>(711.44)</u>

# Cost Savings – Extensive Services - Estimates

	<u>PPO</u>	<u>HDHP w/HSA</u> Estimates
Premiums	(\$136.63 X 26) \$3,552.38	(\$49.56 X 26) \$1,288.56
Office Visits		
PCP	10 Visits @ \$25 250.00	10 Visits @ \$85 850.00
Specialist	20 Visits @ \$45 900.00	20 Visits @ \$150 3,000.00
Emergency	3 Visits @ \$125 375.00	3 Visits @ \$1,000 3,000.00
Hospital Stay	OOP 6,000.00	6,000.00
Prescription Drugs		
Tier 1	15 scripts @ \$10 150.00	15 scripts @ \$35 525.00
Tier 2	15 scripts @ \$30 450.00	15 scripts @ \$100 1,500.00
Lab Work	2 times 0.00	2 times @ \$50 100.00
<b>Total Medical (Member)</b>	<b>4,600.00</b>	<b>6,000.00</b>
HSA County funded	0.00	+ 2,000.00
<b>Annual Expenditure</b>	<b>\$8,152.38</b>	<b>\$5,288.56</b>

## Actual Comparisons PPO vs HDHP

Employee	Tier	PPO Premiums	What they paid OOP in the PPO in claims	PPO Total	HDHP Premiums	What they would have paid OOP in the HDHP in claims	County HSA	HDHP Total	Difference
1	EE Only	\$1,171.82	\$1,053.91	\$2,225.73	\$546.00	\$2,190.91	-\$1,000.00	\$1,736.91	(\$488.82)
2	EE Only	\$1,171.82	\$2,971.12	\$4,142.94	\$546.00	\$3,000.00	-\$1,000.00	\$2,546.00	(\$1,596.94)
3	EE Only	\$1,171.82	\$942.76	\$2,114.58	\$546.00	\$2,118.23	-\$1,000.00	\$1,664.23	(\$450.35)
4	EE Only	\$1,171.82	\$6,485.72	\$7,657.54	\$546.00	\$3,000.00	-\$1,000.00	\$2,546.00	(\$5,111.54)
5	EE Only	\$1,171.82	\$1,030.80	\$2,202.62	\$546.00	\$2,462.50	-\$1,000.00	\$2,008.50	(\$194.12)
6	EE Only	\$1,171.82	\$1,068.76	\$2,240.58	\$546.00	\$2,010.86	-\$1,000.00	\$1,556.86	(\$683.72)
7	EE Only	\$1,171.82	\$2,000.00	\$3,171.82	\$546.00	\$3,000.00	-\$1,000.00	\$2,546.00	(\$625.82)
8	EE Only	\$1,171.82	\$1,054.98	\$2,226.80	\$546.00	\$2,156.40	-\$1,000.00	\$1,702.40	(\$524.40)
9	EE Only	\$1,171.82	\$254.90	\$1,426.72	\$546.00	\$602.97	-\$1,000.00	\$148.97	(\$1,277.75)
10	EE+SP	\$2,477.28	\$1,728.65	\$4,205.93	\$805.22	\$4,274.30	-\$2,000.00	\$3,079.52	(\$1,126.41)
11	EE+SP	\$2,477.28	\$2,759.10	\$5,236.38	\$805.22	\$4,956.60	-\$2,000.00	\$3,761.82	(\$1,474.56)
12	EE+SP	\$2,477.28	\$831.17	\$3,308.45	\$805.22	\$4,017.13	-\$2,000.00	\$2,822.35	(\$486.10)
13	EE+CH	\$2,421.12	\$2,856.60	\$5,277.72	\$805.22	\$4,972.59	-\$2,000.00	\$3,777.81	(\$1,499.91)
14	EE+CH	\$2,421.12	\$2,103.59	\$4,524.71	\$805.22	\$4,746.43	-\$2,000.00	\$3,551.65	(\$973.06)
15	EE+FAM	\$3,552.38	\$3,234.74	\$6,787.12	\$1,288.56	\$4,973.42	-\$2,000.00	\$4,261.98	(\$2,525.14)
16	EE+FAM	\$3,552.38	\$2,695.22	\$6,247.60	\$1,288.56	\$4,425.94	-\$2,000.00	\$3,714.50	(\$2,533.10)