



Board of Supervisors Memorandum

February 10, 2015

Medical Insurance for County Employees – Fiscal Year 2015-16

Introduction

It has been 18 months since Pima County transitioned to self-insurance for employee medical coverage. This transition has proven to be a sound financial decision, as Pima County has avoided significant cost increases that had been anticipated due to double-digit rate increases under the fully insured model. Overall costs have been lower than we experienced in a fully insured environment. Attachment 1 to this memorandum provides an analysis of previous fiscal years under the fully insured model with UnitedHealthcare and our self-insured model. As you will see, we avoided over \$5.5 million in additional healthcare costs by moving to a self-insured model.

In addition, aggregate claims data can now be reviewed to develop projections for the best course of action for future years. This data is regularly reviewed and analyzed by Aetna and CBIZ (the County's benefits consultant). Now that we have claims data for an 18-month period, we are able to lay out our strategic plan for the future.

Strategic Plan

Preferred Provider Organization versus High Deductible Health Plan

As reported last year, the Preferred Provider Organization (PPO) plan continues to cost employees and the County significantly more than the High Deductible Health Plans (HDHP). Because the HDHP is typically more advantageous to the employee and County, Human Resources staff have conducted numerous educational meetings to encourage PPO members to transition to the HDHP. There has been some marginal success in this effort.

Currently, 33.6 percent of County employees are insured in the PPO; however, the claims of that group represents 41 percent of total claims cost. This is not necessarily based on the health of the members of the PPO; it is more a matter of the PPO plan design, which pays a portion of each office visit and prescription drug claim, which are not subject to deductible. The result is the County is bearing a substantial portion of the cost of the PPO plan. Based on a per employee per month (PEPM) basis, this represents \$935,000 to \$1.4 million of additional cost to Pima County.

The current premium rate structure practice of the County subsidizes a higher amount for the PPO plan compared to the HDHP. County premiums for the PPO are \$668 PEPM and \$581 PEPM for the HDHP. The County is paying \$86 PEPM more each month toward the PPO in addition to paying a portion of each claim for those enrolled in the PPO. Employees

in the HDHP must satisfy the deductible (Single \$2,000/Family \$4,000) before the plan will begin to pay.

After reviewing this disparity, I am recommending the County's premium contribution be the same for the HDHP as the PPO. Employees who wish to remain in the PPO would pay the higher premium associated with the actual cost of that plan. Table 1 below shows projected rates and contributions based on the most recent actuarial funding projection actuarial analysis conducted by CBIZ. In addition, I am recommending the PPO be discontinued as of June 30, 2016. At that time, a second HDHP with a different plan design will be introduced. Human Resources will notify PPO enrollees of the change and provide education as needed. Fiscal Year (FY) 2015/16 will be the last year for the PPO, and remaining PPO members will need to transition to one of two HDHPs.

Proposed Rate Contributions

The funding projections are also based on a migration of PPO members to the HDHP plan for next year. The PPO and HDHP are rated separately and contributions have been increased to achieve those projections. County contributions are based on the calculated contribution for the HDHP. In previous years, the contribution ratios have varied between levels of coverage. For next year, ratios have been standardized to 85/15 for employee only and 90/10 for all other levels.

Table 1: Projected Rates and Contributions – FY 2015/16.

			Current Biweekly Rates FY 2014/15		Proposed Biweekly Rates FY 2015/16		
Plan	Level of Coverage	# of Ees Enrolled	Ee Portion	County Portion	Ee Portion	County Portion	Ee change
PPO	Ee Only	802	\$ 45.07	\$159.04	\$108.68	\$134.19	\$ 63.61
	Ee + Spouse	298	95.28	371.76	230.62	325.11	135.34
	Ee + Child(ren)	260	93.12	361.69	224.59	316.59	131.47
	Ee + Family	395	136.63	528.11	328.26	462.72	191.63
HDHP	Ee Only	1,420	21.00	126.53	23.67	134.19	2.67
	Ee + Spouse	531	30.97	306.60	36.11	325.11	6.61
	Ee + Child(ren)	488	30.97	297.76	35.18	316.59	5.68
	Ee + Family	992	49.56	430.91	51.41	462.72	4.21

PPO to HDHP Transition

As discussed above, typically, the HDHP is more advantageous to the employee than the PPO. When the employer Health Savings Account (HAS) contribution is factored in to offset the deductible variance between the two plans, and the variance in the employee contributions is calculated, the HDHP is a prudent financial choice for employees. The HDHP also encourages employees to become informed consumers when it comes to their healthcare services.

Table 2 below shows the biweekly payroll savings an employee would experience if they chose to transition from the "current" PPO to the "proposed" HDHP with HSA. The employee would pay less per pay period at each level of coverage for the HDHP than they are paying today. In addition, they will receive County HSA contributions.

Table 2: Biweekly Payroll Savings, Transition from the Current PPO to the Proposed HDHP.

PPO		Biweekly Current PPO to Proposed HDHP			
Level of Coverage	Number of Employees	Current PPO	Proposed HDHP	Premium Savings	HSA ER
Ee Only	802	\$45.07	\$23.67	\$21.40	\$38.46
Ee + Spouse	298	95.28	36.11	59.17	76.92
Ee + Children	260	93.12	35.18	57.94	76.92
Ee + Family	395	136.63	51.41	85.22	76.92

Table 3 below details the biweekly payroll savings between the "proposed" PPO and the "proposed" HDHP with HSA. The savings would be even more significant based on the projected contributions for next year.

Table 3: Biweekly Payroll Savings, Proposed PPO and the Proposed HDHP.

PPO		Biweekly Proposed PPO to Proposed HDHP			
Level of Coverage	Number of Employees	Proposed PPO	Proposed HDHP	Premium Savings	HSA ER
Ee Only	802	\$108.68	\$23.67	\$85.01	\$38.46
Ee + Sp	298	230.62	36.11	194.51	76.92
Ee + Children	260	224.59	35.18	189.41	76.92
Ee + Family	395	328.26	51.41	276.84	76.92

Self-Insurance Trust Fund Reserves

Proposed rates are sufficient to continue to grow the fund reserves. As reported last year, the goal is to have enough reserves after the first five years to eliminate the need to purchase stop loss insurance. We are not only on track to achieve that goal, we are on track to begin repaying the \$10 million startup loan from the General Fund. The first payment is scheduled for the end of FY 2015/16.

Healthy Lifestyle Premium Discount

Employee engagement continues to be an integral component of managing healthcare costs. The Healthy Lifestyle Premium Discount (HLPD) program has tremendous participation. Employee Wellness surveys continue to reflect positive responses to various programs and events held each year. Participation in new programs also continues to grow regularly. Last year was the first year where Employee Wellness confirmed that health assessments and preventive exams were completed, as well as ensuring the employee earned at least 100 Healthy Lifestyle Activity Points (HLAPs) prior to awarding discounts.

With the implementation of ADP, this process will be streamlined. The reporting period for HLPDs is March 1, 2014 through February 28, 2015. In March, employees will certify their eligibility in the benefits system; and in early April, Employee Wellness will validate the data and load the audited information back into the benefits system. This means that at the time of annual open enrollment, the employee will already know which discounts they are eligible to receive. Table 4 below is a breakdown of the numbers of employees receiving a \$5 discount per pay period in each category.

**Table 4: Employees Receiving a \$5 Discount
Per Pay Period, by Category.**

Tobacco Free	3,540
On-Line Health Assessment	2,764
Preventive Exam or Screening	2,799
100+ Healthy Lifestyle Activity Points (Exercise tracking or wellness programs)	1,607

Health Savings Accounts (HSA)

For active employees enrolled in the HDHP with HSA, Pima County makes biweekly HSA contributions in the amount of \$38.46 for single coverage and \$76.92 for those insuring dependents. Annualized, \$1,000 for Employee only and \$2,000 for Employee plus

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dependent(s) equates to 50 percent of the plan year deductible. These HSA contributions help offset the higher out-of-pocket costs when enrolled in the HDHP, since the employee is responsible for 100 percent of medical costs before satisfying the deductible.

Pima County employees' HSA balances continue to grow each year. As of January 1, 2015, 66 percent of our insured employees have an HSA; and the combined cash and investment balance in all our employees' accounts is approximately \$11 million. Additionally, total contributions by employees are higher each pay period than the contribution by the County. This plan continues to be a cost savings benefit for our employees. Very few employees choose to switch to the PPO or cancel coverage. I recommend maintaining the same funding level as we have had for the past several years to help encourage more PPO participants to migrate to the HDHP.

Recommendation

I recommend the Board of Supervisors approve the medical rates shown in Table 1 above along with continuing the current County Health Savings Account funding strategy and Healthy Lifestyle Premium Discounts.

Respectfully submitted,


C.H. Huckelberry
County Administrator

CHH/mjk

Attachment

c: Allyn Bulzomi, Director, Human Resources

Pima County Self Insured Trust Validation Analysis July 2011 - June 2014

Actual Plan Cost	UHC Fully Insured July 2011 - June 2012 (paid premium)	UHC Fully Insured July 2012 - June 2013 with 6 Months of Run-Out (paid premium)	Pima County Self-Funded July 2013 - June 2014 with 3 Months of Run-Out (claims + fixed cost)
Medical Claims Cost **	\$25,259,458	\$29,582,524	\$24,069,314
Pharmacy Claims Cost	\$6,567,701	\$6,853,707	\$7,543,877
Administration Fees	\$3,555,459	\$4,446,854	\$3,764,038
Stop Loss Fees			\$860,006
Stop Loss Reimbursements			(\$344,866)
Rx Rebates*			(\$570,760)
Total Cost	\$35,382,618	\$40,883,085	\$35,321,610
Average Monthly Enrolled Employees/Members	5,535	5,369	5,305
Total Cost PEPM/PMPPM	\$532.71	\$634.60	\$554.87
Annual PEPM/PMPPM % Change		19%	-13%
		18%	-12%

Fully Insured Plan Estimated Cost Assuming 8% annual increases			
PEPM/PMPPM	\$532.71	\$242.14	\$685.37
Annualized Cost	\$35,382,618	\$40,883,085	\$43,628,737
Total Self-Insured Plan Savings 2013 - 2014			\$8,307,127

Fully Insured Plan Estimated Cost Assuming 14% annual increases			
PEPM/PMPPM	\$532.71	\$242.14	\$723.45
Annualized Cost	\$35,382,618	\$40,883,085	\$46,052,555
Total Self-Insured Plan Savings 2013 - 2014			\$10,730,946

Fully Insured Plan Estimated Cost Assuming 20% annual increases			
PEPM/PMPPM	\$532.71	\$242.14	\$761.52
Annualized Cost	\$35,382,618	\$40,883,085	\$48,476,374
Total Self-Insured Plan Savings 2013 - 2014			\$13,154,764

Note:

*RX rebates include payments received for 1st 3 quarters and an estimated receivable of \$150k for the 4th quarter of the plan year.

**Pima County Self-Funded Aetna Column includes 3% IBNR for unknown run-out claims

Above costs do not include Pima County's HSA contributions

