

# Memo

**To:** David Plyman, City Manager  
**From:** Lynette Fischer, HR/Risk Manager  
**Date:** October 18, 2012  
**Re:** 2012-13 Health Insurance Renewal

## I. **Background Information**

The City of Rochelle's Health Plan Year expires on October 31 annually. For the upcoming plan year, the City Council requested that Staff solicit proposals to determine if alternate options were available that would potentially limit the increases in the overall cost of the City's health insurance plan. To that end, six (6) broker agencies asked to submit proposals: Williams Manny, Rochelle Insurance, Cottingham & Butler, Mutual Med Insurance, and Query Insurance.

At the beginning of the process, the agencies were given the same set of data, including past claims histories, deductible and out-of-pocket structures, and current plan design. Our plan is currently self-insured, but agencies were encouraged to seek out both fully- insured, as well as self-insured, options. A wide range of fully-insured and self-insured markets were available through the brokers (***please see Attachment 1***). Additionally, the brokers were asked to provide any recommendations they felt might assist in terms of cost structure, efficiency, awareness, etc...

Brokers were allowed to contact and quote with any vendor of services they felt would serve the City's needs for quality care and customer service, in combination with reasonable pricing. Staff expected that our last couple of years of claims history would work against us, as they have been the most severe and costly in at least 9-10 years. In 2011 - 2012, we had an unusually large amount of large claimants. All indications are that this trend has slowed. Most all of the large claims are resolved or a flat fixed risk has been negotiated on an ongoing basis.

Given the number of different markets available to the brokers, however, it came as a shock that many vendors declined to bid, and several others submitted uncompetitive bids with increases in re-insurance costs up to 55% higher than current

Of particular note is the absence of any quote from Blue Cross Blue Shield of Illinois. BCBS declined to quote in part due to the claims history issue, but also in part due to "market noise." This "noise" occurs when multiple brokers or agencies go out to the same markets and request quotes for the same client. In this case, BCBS and their re-insurance markets chose to decline business rather than get into a "bidding war" between brokers or agencies.

## II. Analysis

All “complete” proposals received can be seen in **Attachment 2**. There are thirteen (13) unique options presented by four (4) separate entities. [One broker - Williams Manny - did not submit a proposal, and one broker - Mutual Med Insurance - submitted an incomplete proposal that could not be analyzed. ] A number of considerations were taken into account upon evaluating each submitted proposal, in addition to the overall cost., including but not limited to: the PPO network(s) accessed, services provided by the Third-Party Administrator (TPA), services provided by the broker agencies, and additional stand-alone coverage for specific treatment.

In **Attachment 2**, proposals are grouped by presenting agency. Each agency’s options are then sorted in a similar order for each of comparison, with all “like” options shaded in the same color.

## III. Recommendation

The agreed-upon recommendation below balances the interests of the City and its employees, blending the same reliable, responsive, and attentive customer service; ongoing stability in our provider network, and lower guaranteed fixed costs.

For the health plan renewal this year, The City of Rochelle should renew with Cypress Benefit Administrators through the Cottingham & Butler firm; purchase the AIG \$60,000 specific deductible with a \$50,000 aggregating specific feature; and stay with the ECOH/HFN network for the following reasons:

- The City's potential maximum funding on any one person will remain the same at \$60,000. The goal is to limit specific risk with only 105 employees on the plan, since the City's covered lives are considered to be slightly above average risk as it is.
- The City's guaranteed fixed costs increase approximately 12.6%, while its maximum claims cost (Attachment Point) rises 6.9%. These are the lowest-cost alternates among the four (4) options presented (all shaded blue in **Attachment 2**) for this plan structure.
- The City's total potential maximum funding for the plan in 2012 - 2013, after having an adverse claims year, will only increase 7.7%. (This is in an era where double digit to 25% increases on 100-life groups is not unusual.)
- Renewing with Cypress offers the same reliable, customer service and accurate claims handling employees are used to receiving. Staying with ECOH /HFN Network ensures the In-Network Providers remain the same. The merger of ECOH with HFN now covers doctors and hospitals in and around the Chicago-land area. Hospitals such as Rush and Northwestern are part of the network, as are the doctors with admitting privileges there.

Finally, the City is looking for longer-term benefits beyond this plan year. Purchasing the \$60,000 specific deductible with an additional aggregating specific corridor offers lower guaranteed fixed costs, which can possibly save money on fixed costs for the next plan year. At worst case, the City may choose just the standard \$60,000 specific deductible at renewal.