

# Memo

**To:** David Plyman, City Manager  
**From:** Lynette Fischer, HR/Risk Manager  
**Date:** October 10, 2013  
**Re:** 2013-14 Health Insurance Renewal

## I. **Background Information**

The City of Rochelle's Health Plan Year expires on October 31 annually. Due to growing budget concerns, Staff solicited 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, two (2) broker agencies were asked to submit proposals: Williams-Manny and Query Insurance.

Identical to last year's process, the agencies were given access to the same set of data, including past claims histories, deductible and out-of-pocket structures, and current plan design. Our plan is self-insured, but agencies had the option to seek out both fully- insured, as well as self-insured, options. Additionally, the brokers were asked to provide any recommendations they felt might assist in terms of cost structure, efficiency, awareness, etc...

Query Insurance was given authority to seek bids from any TPA, network, and re-insurance (ie Stop-Loss) vendor, with one exception. The exception is Blue Cross/Blue Shield (BCBS), to which Williams-Manny was given sole authority to represent the City. Similar to last year's bidding process. Staff expected that our claims history would work against us, as they have been severe in both number and diagnosis, and costly in price. This trend is slowing, but we continue to see many claims for conditions, both acute and chronic, that meet or exceed our \$60,000 Stop-Loss annual deductible.

## II. **Analysis**

Query Insurance presented four (4) unique options, all of which continued with our current self-insurance arrangement and included Cypress Benefit Administrators as the recommended Third-Party Administrator. Two (2) PPO networks were presented (ECOH/HFN and the Alliance), only one of which was realistic for our population. Nine (9) re-insurance carriers were solicited, of which four (4) companies actually quoted, and the best two were included in the proposals. These proposals included options to raise our Stop-Loss deductible to \$70,000 and \$80,000.

Williams-Manny presented two (2) options through BCBS. One option is to remain self-insured; the other is to become a fully insured plan. Regardless of option chosen, BCBS is a full-service company, providing the network, the TPA, the prescription drug plan, and the re-insurance policy.

A number of considerations were taken into account upon evaluating each submitted option, 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 options available such as flexible spending plan administration with new ease-of-access features.

The considered proposals in **Attachment 1** came in at the level of insurance risk deemed to be most appropriate for our risk pool at this time.

### **III. City Manager's Recommendation**

The City of Rochelle will be best-served both in provider choices and in cost by moving to a **fully insured BCBS plan** through Williams-Manny, while keeping the Health Fund reserves at approximately \$1 million through the next plan year. This gives the City the option to revert to a self-insured plan for the 2014-15 renewal if necessary, with a fund balance that can cover large claims payments without running into a deficit situation.

The specific points below balance the interests of the City and its employees:

- The City's costs with a BCBS fully insured plan are fixed for the year, and will be paid on a monthly basis. The only variable will be the run-out claims that were incurred before Nov. 1, 2013 and need to be paid from the City's Health Fund, just as claims are currently paid. The estimate for those claims is about \$189,965 – approximately 2 months' worth of claims.
- There are no additional "lasers," or individual City-funded higher deductibles, with either of the BCBS plans.
- The fully insured plan is the lowest cost alternative among the three (3) options presented.
- The City's total potential maximum funding for the plan in 2013 - 2014, after having several adverse claims years in a row, will remain flat. (This year, other 100-life entities are experiencing increases of 12-18 %.)
- The average claims discount is expected to increase several percentage points through the BCBS network, which will lower our claims costs.

### **IV. Alternative**

Should there be no appetite to move to a fully funded plan at this time, the City will also be very well-served by the BCBS self-insured plan at the \$60,000 specific deductible level. The maximum liability does increase almost \$85,000 over the current year, but there may be some value to continuing to self-insure until the preliminary effects of the ACA (Affordable Care Act) can be quantified and analyzed.