



Agenda Item No. 4

To: Finance-Auditing Committee/Committee of the Whole  
Meeting of June 11, 2009

From: Harvey Pye, Director of Human Resources  
Z W. Johnson, Deputy General Manager, Administration & Development  
Joseph M. Wire, Auditor-Controller  
Celia G. Kupersmith, General Manager

Subject: **STATUS REPORT ON THE RENEWAL OF THE HEALTH AND  
BENEFIT INSURANCE PLANS**

### **Recommendation**

The proposed costs for renewal of the District's Health and Benefits Insurance Program are shown below, the Finance-Auditing Committee will be asked to recommend approval of following renewals to the Board of Directors at its June 25, 2009, meeting, for a one-year term, effective July 1, 2009, through June 30, 2010, as follows:

1. Medical Stop-Loss Coverage with Blue Shield of California, including a deductible of \$175,000, in the estimated amount of \$424,000;
2. Kaiser Foundation Health Plan, in the estimated amount of \$5,141,000;
3. Blue Shield of California PPO Plan, on a self-funded basis, at an estimated cost of \$8,832,000;
4. Blue Shield of California HMO Plan, in the estimated amount of \$1,511,000;
5. CVS Caremark Prescription Drug Plan, in the estimated amount of \$4,728,000;
6. OptumHealth Behavioral Solutions, in the amount of \$36,000;
7. Vision Service Plan of California, on a self-funded basis, in the amount of \$252,000;
8. Delta Dental Plan of California, on a self-funded basis, in the amount of \$2,531,000; and,
9. Group Life, Accidental Death & Dismemberment and Dependent Life Plan with Minnesota Life, in the amount of \$98,000.

with the understanding that requisite funds in the amount of \$23,553,000 are available in the FY 09/10 Operating Budget.

### **Summary**

The Mercer National Survey of Employer-Sponsored Health Plans in 2008 showed employers expected an average 2009 cost increase of about 6% after plan changes. This national average only includes active employee populations. The District's health benefits are anticipated to

increase an additional 1% from last year for a total increase of 11% for FY 09/10. Based on the aging population and that this increase includes both active and retired employees, it is considered a reasonable rate.

The District's Mercer consultants worked closely with the carriers on our health and employee benefits. They were able to reduce our cost and negotiate new contracts for FY 09/10 plan year.

- Successful negotiations with Blue Shield resulted in achieving an annual savings of \$45,000 for the following types of coverage:
  - PPO (administration fees) resulted in a savings of \$15,000
  - HMO resulted in a reduction of the proposed increase to the premium rates from 11.6% to 9.5% resulting in a savings of \$28,000
  - Stop-Loss resulted in a savings of \$2,000 even after several new claims

The initial Stop-Loss renewal was negotiated by Mercer from a 36% rate increase to a 25% rate increase. The renewal included two claims of \$235,000 and \$206,000, respectively. However, Blue Shield does not finalize their renewal until a last look at the claims experience. During that review, Blue Shield discovered two additional claims valued at over \$400,000 and \$200,000, respectively. Based upon the combined risk and forecast, Blue Shield revised its rate action to an increase of 35%. Like other employers and based on our aging population we are faced with increasing surgical and other aggressive treatment costs.

The current Stop-Loss policy has a pooling level of \$175,000. Therefore, after applying the \$175,000 stop-loss deductible to each of the claimants, the District liability would be credited \$341,000 by the stop loss coverage for these four claims. Given the average age of the District is 58 years, one can assume additional large claim liability during the policy year. We believe that the Stop-Loss annual renewal premium of \$424,000 is appropriate given the known large claim risk and future liability.

The District's objective is to secure competitive renewal costs with no changes to current benefits while at the same time continuing to promote a strategy of wellness.

This year our Benefit Fair was scheduled for June 3rd and June 4th. The Human Resources Department team is promoting a wellness program to help encourage healthy behavior and increase awareness of healthy lifestyles among our employees. Some of the activities scheduled for the Health Fair include Health Risk Assessment (HRA) and health screenings for blood pressure and cholesterol testing. The first 100 participants in each location that complete the health risk assessment will earn a \$50 reward.

### **Fiscal Impact**

The cost impact summary for these renewals to the District's health and benefit plans for the FY 09/10 are shown on the next page. There are no broker costs included in these numbers, and in the event any provider offers a broker commission, the amount is credited back to the District.

<b>HEALTH PLAN</b>	<b>ESTIMATED COST FY 08/09</b>	<b>PROJECTED COST FY 09/10</b>	<b>% CHANGE</b>
Stop-Loss	\$ 314,000	\$ 424,000	35%
Kaiser Permanente	\$ 4,706,000	\$ 5,141,000	9%
Blue Shield PPO	\$ 7,883,000	\$ 8,832,000	12%
Blue Shield HMO	\$ 1,380,000	\$ 1,511,000	9%
CVS Caremark	\$ 4,172,000	\$ 4,728,000	13%
OptumHealth Behavioral Solutions (EAP)	\$ 36,000	\$ 36,000	0%
Vision Service Plan	\$ 246,000	\$ 252,000	2%
Delta Dental	\$ 2,350,000	\$ 2,531,000	8%
Basic Life/AD&D	\$ 102,000	\$ 98,000	-4%
<b>TOTAL:</b>	<b>\$ 21,189,000</b>	<b>\$ 23,553,000</b>	<b>11%</b>

The total estimate of \$23,553,000 million has been included as part of the proposed FY 09/10 budget in the benefits and postemployment categories in each division in the District.