

SANTA BARBARA COUNTY BOARD AGENDA LETTER



Clerk of the Board of Supervisors
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Agenda Number:

Prepared on: 5/3/06
Department Name: Human Resources
Department No.: 064
Agenda Date: 5/16/06
Placement: Administrative
Estimate Time:
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors

FROM: Susan Paul, Assistant CEO/Human Resources Director
Human Resources Department

STAFF CONTACT: Scott Turnbull
x2821

SUBJECT: 2006-07 Medical and Dental Insurance Premium Changes

Recommendation(s):

That the Board of Supervisors:

Adopt the following recommendations for medical and dental plan renewals for active employees, early retirees (pre-65) and Medicare retirees effective July 1, 2006 for a one year term:

A) HMO's, Point-of-Service, PPO and Related Medical Programs

- 1) Blue Cross HMO Low* Option Plan – Terminate the plan on June 30, 2006;
- 2) Blue Cross Senior Secure HMO - Terminate the plan on June 30, 2006;
- 3) Blue Shield High* Option (zero dollar copay) Plan - Terminate the plan on June 30, 2006;
- 4) Blue Shield Low* Option HMO Plan (H53907) - Approve the renewal of the existing HMO low option plan with premium rate increases as shown on Attachments A & B and approve the plan changes shown on Attachments A & B ;
- 5) Blue Shield Mid* Option HMO Plan - Approve the renewal of the existing HMO mid-option plan with premium rate increases as shown on Attachments A & B;
- 6) Blue Shield Point-of-Service (POS) Plan - Approve the renewal of the existing POS plan with premium rate increases as shown on Attachments A & B;

- 7) Blue Shield PPO Plan - Approve the renewal of the existing PPO plans with premium rate increases as shown on Attachments A & B;
- 8) Blue Shield High Deductible PPO Plan - Approve the inclusion of a new High Deductible PPO (HSA: consumerism approach to Health Care) plan option for all employees and non-Medicare covered retirees as described in Attachment C with premium rates shown in Attachments A & B;
- 9) Blue Shield Indemnity Plan - Approve the renewal of the existing plan for out-of-area early retirees and Medicare retirees with premium rate increase as shown on Attachments A & B;
- 10) VSP Vision Plan – Approve the adoption of a VSP vision plan shown as Plan A Interim Benefits in Attachment D at the premium rates shown as an optional plan for all medical covered employees and retirees and authorize the Assistant CEO/HR Director to execute any necessary applications and agreements;
- 11) Sterling HSA Administration - Approve the use of Sterling HSA to administer the health savings accounts (HSA) for employees enrolling in the Blue Shield High Deductible PPO plan and authorize the Assistant CEO/HR Director to execute the Employer Application (Attachment E) and any other necessary administrative items;
- 12) Health Savings Account Employer Contribution – Authorize a County contribution to HSA accounts for employees enrolling in the Blue Shield High Deductible PPO plan of \$550 annually (prorated biweekly) plus a pickup of the \$35 account start-up fee and the monthly Sterling HSA Value plan monthly account maintenance fee (\$2.50 monthly) as shown on Attachment E;
- 13) MHN Employee Assistance Plan - Approve the renewal of the existing plan for a 12 month period with premium rate increase from \$2.93 to \$2.99 per employee per month which is included in the County contribution for medical insurance per Attachments A & F;
- 14) Healthcare Assistance Program – Approve the continuation of the healthcare assistance services for all covered employees with CareCounsel with a premium rate increase from \$1.50 to \$1.62 per employee per month which is included in the County contribution for medical insurance as shown in Attachments A & G;

* The terms Low, Mid and High HMO option refers to the plan's benefit levels.

B. Dental Programs

- 1) County Self-Funded Dental Program – Accept the Annual Actuarial Report for the County Self-Funded Dental Program, dated April 3, 2006, which recommends average premium rate decrease of -8.5% for active employees and average decrease of -.5% for retirees as shown in Attachments A & H (Table 5);
- 2) Golden West Pacesetter DMO - Approve the renewal of the existing Pacesetter DMO (dental HMO) dental plan design with a premium increase of 12% for employees and retirees as shown in Attachments A & I.

Alignment with Board Strategic Plan:

The recommendation(s) are primarily aligned with actions required by law or by routine business necessity.

Executive Summary and Discussion:

A) HMO's, Point-of-Service and PPO Medical Programs

In 2004, the County began contracting with Blue Shield of California for three HMOs, two PPOs and a Point-of-Service plan alongside the existing Blue Cross HMO plan. As part of the renewal process in 2005, Blue Shield provided higher than expected renewal premiums for their HMO plans. It was discovered that Blue Shield HMO plans had seriously underpriced one of their HMO plans which resulted in a high renewal at the end of the 2004-05 year. Further exacerbating the underpricing was a sharp rise in claims costs and an enrollment migration into the low option HMO plan such that the premiums were not sufficient to cover the expected years claims.

In 2005, these contracts were renewed with no change in plan design. Because of the high level of increase in plan premiums, the County contracted with an outside consultant to perform an actuarial review of the 2005 plan renewals. In addition to this review, an extensive review of the overall County health program design and individual plan benefit levels was initiated with the participation of the Labor/Management Health Oversight Committee (HOC). The intent was to consider program changes that could potentially help mitigate the rising cost our health insurance plans. The review considered the types of benefits offered, the number of plans offered, the copay structure, prescription drug management, a wellness strategy, and a consumerism approach to health care. The County's health plan structure has not changed significantly in ten years. The committee has met to review plan performance and to review and evaluate plan changes up to twice a month since last July.

The health plan study for the 2006-07 renewal began with a benefit survey of employees and retirees and a comparative survey of other public agency jurisdictions to see how our health plan benefits and premiums compared. Over the last nine months, the HOC has engaged in the following activities to assess benefit plan design changes:

- Health benefits survey of employees and retirees to assess potential plan changes
- Review of prescription drug usage and audit of Rx claims processing
- Explored consolidation of HMO plans with similar plan designs
- Considered reduction of overall number of plans to reduce employee confusion
- Considered reduction in number of health insurance carriers
- Investigated high deductible HSA plans (consumerism approach to Health Care)
- Explored modification of copay / deductible levels to reduce premiums for all enrollees
- Reviewed potential implementation of a wellness plan

In January, the County's health consultant on this project, Turner Consulting, estimated that the Blue Shield renewal rates for their high, mid and low option HMO plans for the 2006-07 year could be as high as 37.5% based on claims experience and utilization.

Some of the key factors driving the high HMO rate increase include:

- Continued high level of claims cost (Average claims to premium ratio for the HMO plans was 105%)
- Projected claim cost inflation
- Enrollment migration to the \$10/\$250 HMO which was priced below expected at the initiation of the 2004-05 contract

Turner Consulting worked with the Health Oversight Committee to aggressively review underwriting assumptions, including trend factors and utilization. This review resulted in a more favorable renewal, including an additional reduction of \$246,000 in a waiver of last years deferred premiums arrangement.

The final premium increase percentages for the 2006-07 plan year are as follows:

Blue Shield Plans

- o HMO Hi* option (former Mid option) 16.1%
- o HMO Lo* option 23.1%
- o Point-of-Service - .9%
- o PPO 10.6%
- o High Deductible PPO/HSA -19.5% from current single PPO rate

In addition to the plan offerings shown above, the CEO/HR is recommending that the Medical Eye Service (MES) vision plan currently included in the HMO Hi option and Point-of-Service (POS) plans shown above be terminated and an optional Vision Service Plan (VSP) plan be made available to all employees. This is being recommended in response to the need expressed by many employees to have access to a vision plan which is not included in most of our plans. The MES plan cost is currently borne fully by employees who enroll in the HMO Hi option and POS plans. As an optional plan, all covered employees will now have access to a vision plan and has the choice whether or not to participate. In addition, the VSP plan design closely mirrors the existing plan design.

Existing Memorandums of Understanding with County employee organizations specify that almost all employee organizations will be receiving an additional \$15 in their benefit allowance beginning in July 2006 to help offset the impact of these premium increases. In addition, it is anticipated that all management groups will be receiving the same increase.

Additionally, it is anticipated that the plan changes of consolidating HMO plans, offering a high deductible PPO/HSA plan and working further to increase wellness participation will assist the County in reducing future premium increases. As described above, the HOC has met regularly since July 2005 and is jointly recommending these plan changes. It should be noted that these significant changes were made possible by the aggressive and collaborative efforts of the HOC to address the increasing costs of health care. Additionally, the changes in health care outlined in this report are in keeping with the recommendations of the Blue Ribbon Task Force.

B. Dental Programs

Self-Funded Dental Plan - Through the County's Self-Funded Dental Program, the County offers its own fee-for-service plan to employees and retirees that includes reduced fee arrangements through a PPO panel of dentists. Claims administration is handled through a local business, Golden West, who also contracts for the PPO provider network. The CEO/HR Director, as plan administrator, oversees administration of the plan; reviews benefit levels, confers with employee organizations through the Labor/Management Health Oversight Committee and recommends premium rate changes annually.

The annual actuarial review of the County Self-Funded Dental Program by The Segal Company (Attachment H) reviewed the dental plan's actual fiscal experience through February 28, 2006. This report includes an analysis of the prior year's actual revenues and expenses as of June 30, 2005. Premium rates are reviewed annually to ensure adequate funds for claim payments and administration expenses. In anticipation of a substantial adjustment to the usual and customary fee schedule, the plan premiums were increased by 10.1% for active employees in 2005. The plan's experience; however, was much more favorable than anticipated and for the 2006-07 year, our actuary is recommending a reduction in active employee premiums of -8.5% and for retirees -.5%. The actuarial report has been distributed to all employee organizations and was reviewed at the April 19, 2006 meeting of the Health Oversight Committee. The committee voted to accept the actuary's recommendations for next year.

Golden West Pacesetter DMO (Dental HMO) Plan – The Pacesetter plan complements the Self-Funded PPO plan and provides a lower cost of coverage with comprehensive benefits in a dental HMO network. No plan design changes are being proposed. The proposed renewal rate for this plan is 12%.

Open Enrollment

The County’s annual open enrollment for employees is scheduled for June 5 through June 23 this year and all employees will have an opportunity to review the plan choices and meet with representative of the health insurance carriers at meetings throughout the County before selecting their medical plan.

Mandates and Service Levels: No change in programs or service level.

Fiscal and Facilities Impacts:

The County and employees will spend approximately \$22 million in premiums to Blue Shield and Blue Cross this fiscal year. If no changes had been made to the County’s health program the premium increase would have been approximately \$5.5 million to the County and employees. The changes outlined in this report kept the increase to approximately \$3.5 million. The County’s portion is approximately 2.2 million. This cost has been planned for as part of the County’s Strategic Financial Plan.

Recommendation A – HMO’s Point-of-Service and PPO Medical Programs – The County contribution for all medical plans is tied to the Blue Shield low option HMO plan which will increase from \$105.19 to \$128.00 biweekly (including the EAP and CareCounsel charges). This will result in a overall County contribution increase for all medical plans (including Fire HMO & PPO plans) of \$2.2 million. This increase will be paid from departmental salary budgets.

Recommendation B.1 – Self Funded Dental Plan – There is no additional cost to the County for the Self-Funded Dental Plan in 2006-07.

Recommendation B.2 - Golden West Pacesetter Dental HMO Plan – The additional cost to the County for the Pacesetter plan is estimated at \$112,000 in 2006-07.

Special Instructions: None.

- cc: Oscar Peters, Retirement Administrator
- Health Oversight Committee
- All Employee Organizations
- All Department Heads
- Nancy Topping, The Segal Company
- Barry Miller, The Segal Company

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