

**SANTA BARBARA COUNTY
BOARD AGENDA LETTER**



Clerk of the Board of Supervisors
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Agenda Number:
Prepared on: 5/07/03
Department Name: Human Resources
Department No.: 064
Agenda Date: 5/20/03
Placement: Administrative
Estimate Time: N/A
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors
FROM: Ann Goodrich, Human Resources Director
Human Resources Department
STAFF CONTACT: Scott Turnbull
x2821
SUBJECT: 2003-04 Medical and Dental Insurance Premium Changes

Recommendation(s):

That the Board of Supervisors:

1) Adopt the following recommendations for medical and dental plan renewals and additions effective June 23 for active employees and July 1 for retirees:

A) HMOs, Point-of-Service and PPO Medical Programs

1. Health Net HMO Plan - Approve the renewal of the existing HMO plan design with premium rate increases for active employees of 21.8% for the current HMO benefit plan design, 28.41% for early retirees and 4.2% for Medicare retirees (Attachments A & C);
2. Health Net HMO Plan Addition for Active Employees - Approve an additional HMO plan for active employees that modifies the current plan design as shown on Attachment D with a premium increase over the existing plan premiums of 13.6% (Attachments A & C & D);
3. Health Net HMO Plan Addition for Retirees - Approve an additional HMO plan for retirees that modifies the current plan design as shown on Attachment E with a premium increase over the existing plan premiums of 21.8% for early retirees and 4.2% for Medicare retirees (Attachments A & C & E);

4. Health Net Select Point of Service Plan - Approve the renewal of the existing plan design with premium rate increases of 14.4% for active employees, 14.3% for early retirees and 3.5% for Medicare retirees: (Attachments A & F);
5. Health Net PPO Plan - Approve the renewal of the existing plan design with premium rate increases of 14.4% for active employees, 14.3% for early retirees and 4.3% for Medicare retirees; (Attachments A & G);
6. Health Net Retiree Out-of-Area PPO Plan - Approve the renewal of the existing plan design with premium rate increases of 7.0% for early retirees; (Attachments A & G);
7. Health Net Retiree Out-of-Area Flex Net Plan - Approve the renewal of the existing plan design with premium rate increases of 19.4% for early retirees and 9.0% for Medicare retirees: (Attachments A & G),
8. Health Net Retiree Seniority Plus Medicare Risk Plan - Approve the renewal of the existing plan design with premium rate increases of 3.0% for Medicare retirees: (Attachments A & G);
9. Blue Cross Medical HMO - Approve the renewal of the existing plan design with premium rate increases of 7.4% for active employees, 7.4% for early retirees and -1.5% for Medicare retirees (Attachments A & H);
10. MHN Employee Assistance Plan - Approve the renewal of the existing plan design with premium rate increases of 4.2% for active employees, 5.8% for retirees; (Attachments A & I);
11. Healthcare Assistance Program – Approve the continuation of the healthcare assistance services for all covered employees with CareCounsel with a premium rate increase of 8% to \$1.35 per employee per month which is included in the County contribution for medical insurance (Attachment J).

B) County Self-Funded Dental Program

Accept the Annual Actuarial Report for the County Self-Funded Dental Program, dated April 9, 2003, which recommends a premium rate increase of 3.5% for active employees and 2.7% for retirees for fiscal year 2003-2004 (Attachment B);

C) Dental HMO Plan

Golden West Pacesetter Dental HMO - Approve the renewal of the existing HMO dental plan design with a premium increase of 8% for employees and retirees; (Attachments A & K).

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:

MEDICAL PLANS

HMO premium rates have risen significantly throughout the insurance industry this year due to many reasons including, but not limited to, continued rapid prescription drug price increases, increased pressure from physicians and hospitals for greater reimbursement, advances in medical technology, increased County utilization, reduction in the number of hospital owners in Santa Barbara, reduced competition between HMOs and others. The Human Resources Department requested that Health Net, as part of their renewal proposal, offer different office visit and prescription drug co-payment options in order to lower the overall premium rate increases. (Our current HMO plan design with a \$0 office visit co-pay is almost non-existent in the insurance industry). Health Net quoted options included a \$5 or \$10 office visit co-pay, increases in the Rx co-pay from the current \$5 generic, \$10 brand and \$25 non-formulary plan to a \$10 generic, \$20 brand and \$35 formulary plan and also options that included increases in hospital and outpatient co-pays. Eight alternative Health Net HMO plans and 5 different Point-of-Service plan designs were reviewed and all would have the potential to reduce the proposed premium increases.

Last month, a survey of County employees was conducted to request their opinions of the different premium options and the resulting premium changes. Of the 1,400 survey responses received, employees favored only one plan design change which was a Health Net HMO plan with a \$10 office visit co-pay. The Health Oversight Committee, which includes representatives from all of the employee organizations and the Retiree Association reviewed all the proposed options, premiums and survey results at their April 30 meeting. A few of the employee organizations were reluctant to replace the existing \$0 co-pay HMO plan with a \$10 co-pay HMO plan. In order to resolve the deadlock on replacing the current Health Net HMO plan, Human Resources proposed adding an additional Health Net HMO option that includes a \$10 office visit co-pay and an increase in the prescription co-pay. In response, all attending employee organizations voted unanimously to recommend offering the additional Health Net HMO plan.

The Retiree Association which had already increased the office visit co-pay to \$5 and increased the Rx co-pay to \$10/\$20/\$35 on their Health Net HMO plan last year recommended an additional plan that would increase the office visit co-pay to \$10 and include a \$250 co-pay for inpatient and outpatient surgeries. The Retiree Association recommended no other changes in plan design.

Blue Cross Medical HMO Plan – The Blue Cross HMO renewal of 7.4% is an extremely low renewal rate in comparison to the trend in the industry. At last year's open enrollment, over 200 employees changed enrollment into the Blue Cross plan and the claims experience for the plan improved.

Employee Assistance Program – The initial proposed increase for this plan was 12% but after our consultant's further discussion with them the final recommended increase was 4.2%. All existing services including the addition of the telephonic counseling option last year will remain in place.

DENTAL PLANS

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 with a PPO panel of dentists. Claims administration is handled through a local business, Golden West, who also contracts for the PPO provider network. The Human Resources 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 Self-Funded Dental Program by The Segal Company (Attachment B) reviewed the dental plan's actual fiscal experience through February 28, 2003. This report includes an analysis of the prior year's actual revenues and expenses as of June 30, 2002. Premium rates are reviewed annually to ensure adequate funds for claim payments and administration expenses. Using recent claims experience, prior history and projected expenses and dental industry trends, our actuary has indicated that a 3.5% premium rate increase for active employees and 2.7% for retirees is necessary to meet anticipated expenses and maintain an adequate reserve. Plan operations at fiscal year end 2001-02 showed a net operating addition for employees and retirees of \$165,449. For the current year through February 28, 2003, the plan shows a combined operating addition of \$151, 930. The actuarial report has been distributed to all employee organizations and was reviewed at the April 30, 2003 meeting of the Health Oversight Committee. All committee members present voted in favor of accepting the premium rate increase for next year.

In addition, the plan is in the second year of a 3-year term with the plan's claims administrator, Golden West that extends the current \$3.50 per employee per month administration fee.

Golden West Pacesetter Dental HMO Plan – The initial Pacesetter plan renewal of 10% was ultimately reduced to 8%. Recruiting efforts to improve the north county dental HMO network are ongoing.

OPEN ENROLLMENT

The County's annual open enrollment for employees is scheduled for June 2 through June 20 this year and all employees will have an opportunity to review all plans including the new Health Net HMO plan with the health insurance carriers at meetings throughout the County. This year the Employee Benefits Division will be utilizing a telephone enrollment system to both increase accuracy and also provide a higher level of service to our employees.

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

Fiscal and Facilities Impacts:

Recommendation 1A – Health Net HMO, Health Net "Select", PPO and Blue Cross HMO Medical Plans
This is the second year that all the medical plans are above the existing County medical contribution cap. Per the provisions of its MOU's with employee organizations, the County is required to increase the County contribution up to the level of the lowest cost HMO plan for the employee only coverage level.

Similar to last year, the Blue Cross HMO plan remains the lowest cost option. Accordingly, the total Blue Cross premium increase which includes the EAP and healthcare assistance plans will increase the County contribution by \$750,000. For Fiscal Year 2003-04, the total estimated annual County medical contribution cost is \$11,000,000. The cost of the County contribution is budgeted in each department through the salary model.

Recommendation 1B – Self Funded Dental Plan – There is no additional cost to the County for the Self-Funded Dental Plan as the County contribution is capped at the current rate under all employee organization agreements.

Recommendation 1C – Golden West Pacesetter Dental HMO Plan - Assuming the same employee enrollment in the Golden West Pacesetter Dental HMO next year as currently exists, the total County contribution will increase by \$30,000 in Fiscal Year 2002-03 to a total estimated annual amount of \$410,000.

Special Instructions: None.

Concurrence: None

cc: Gary Feramisco, Treasurer
Health Oversight Committee
All Employee Organizations
All Department Heads
Nancy Topping

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