



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Human Resources
Department No.: 064
For Agenda Of: May 15, 2007
Placement: Administrative
Estimated Tme:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Susan Paul, Assistant CEO/HR Director, 568-2815
Director(s)
Contact Info: Scott Turnbull, Employee Benefits Manager, 568-2821
Jeri Muth, Assistant HR Director, 568-2816
SUBJECT: 2007-08 Medical and Dental Insurance Program & Premium Changes

Recommended Actions:

Adopt the following recommendations for medical and dental plan renewals for active employees, non-Medicare and Medicare covered retirees, effective July 1, 2007 for a one year term:

A) Blue Shield HMO's, Point of Service and PPO Medical Plans – Approve the renewal of the following Blue Shield plans at the premium rates shown in Attachment A & C with the benefit plan changes shown in Attachment B.

- 1) High Option HMO Plan (H53905 and H54493)
- 2) Low Option HMO Plan (H54553 and H54554)
- 3) Point-of-Service Plan (ZH 5743 and ZH5838)
- 4) Preferred Provider Organization Plan (977737 and 94436)
- 5) MHN Employee Assistance Plan – Approve the continuation of the current plan with no increase in premium rates.
- 6) Healthcare Assistance Plan – Approve the continuation of the healthcare assistance counseling services for all covered employees with CareCounsel at a 2.5% monthly increase to \$1.66 per month for employees and to \$2.82 per month for retirees as shown on Attachment D.

B) Dental Plans

- 1) County Self-Funded Dental Plan – Continue the existing program benefits with no increase in premium rates for all employee and retiree groups,
- 2) Golden West Pacesetter Dental HMO Plan - Continue the existing program benefits with no increase in premium rates for all employee and retiree groups.

Summary Text:

Approval of these recommendations will provide the continuation of the County's health insurance plans and programs for employees and retirees.

Background:

Medical Plans: Last year, the County engaged an actuary to assist in identifying and implementing several important health insurance program changes to help slow the rate of health insurance premium increases, reduce duplication of benefits, and improve program cost control. Four HMO plans were consolidated into two plans, a high and low option, to reduce plan duplication and confusion; a high deductible PPO plan coupled with a health savings account was added to encourage consumer cost awareness; several copayment changes were made to reduce plan costs encourage cost control; and a wellness program was implemented to encourage wellness behaviors.

While these plan changes were significant, several key factors continue to drive the County's health insurance costs such as:

- Continued high level of plan utilization by members
- Higher average age of employees and retirees than other Blue Shield clients
- Higher length of hospitalization stays
- Significantly higher hospital claims payments to Cottage Health Systems
- Higher emergency room usage
- Increased cost of brand name Rx prescriptions
- Increased level of plan payments for high claims individuals (over \$25K / year)

Blue Shield's initial proposed HMO premium increase was 29.3% as of January 2007 (approximately 95% of all employees are covered by our HMO plans). CEO/HR worked with the County's benefits consulting firm to negotiate with Blue Shield and evaluate different program changes that could reduce this cost. The consultants vigorously questioned many of the actuarial assumptions utilized by Blue Shield in their underwriting calculations and were successful in reducing the proposed HMO increase to 23.3%.

In order to further reduce overall plan cost, several plan design areas were identified as having potential to affect additional reductions. The Health Oversight Committee reviewed and selected different alternatives for which Blue Shield provided reductions in the premium increase percentages as a result of these selections. These changes have been agreed to by all of the County's recognized bargaining units.

Premium Allocation for Active Employee, Early Retirees (Non-Medicare) and Medicare Retirees:

Currently, Blue Shield reports the claims experience of the Active Employee, Early Retiree and Medicare Retiree Groups separately. Medicare Retiree and Active Employee groups typically report significantly lower claims expenses per enrollee than the Early Retiree group.

During the rate setting process, the Active Employee and Medicare groups have been subsidizing the Early Retiree group by artificially lowering the Early Retiree group's premiums and increasing their own rates resulting in an implied subsidy to the Early Retirees. This subsidy is the subject of recent

GASB (General Accounting Standards Board) Rules 43 and 45 which, beginning next year, will require financial reporting by the County and SBCERS of any implied subsidy amount

The Health Oversight Committee reviewed different premium allocation options this year and have recommended that this subsidy practice be eliminated so that the premium increases will reflect the claims experience of each rating group. This change will eliminate the County's GASB reporting requirement and lower the cost of health premiums to Active Employee and Medicare Retiree groups.

Conclusion

As a result of our negotiations with Blue Shield, the recommendations by the Health Oversight Committee on plan design changes shown in Attachment B and the reallocation of claims experience by employee/retiree rating group, the premium increases for employees changed as follows:

	Initial Blue Shield Proposal	Final Renewal Percentage
HMO – High Option	29.30%	17.23%
HMO – Low Option	29.30%	15.96%
Point-of-Service Plan	13.30%	16.11%
PPO Plans	26.12%	8.12%

The MHN Employee Assistance Plan's premium rate structure continues to support the plan benefits with no increase.

The CareCounsel healthcare assistance service for employees and retirees assists many plan members with plan selection, claims and other problem resolution and has proposed a nominal increase commensurate with their cost increases.

The Vision Service Plan (VSP) will enter the second year of a four year rate guarantee in 2007-08.

Dental Plans: The County Self-Funded Dental plan's claims experience was reviewed by an actuary and it was determined that there was no need for a premium increase at the present time. This plan is reviewed each year.

The Golden West Pacesetter Dental HMO Plan will enter the second year of a 3-year rate guarantee period.

Fiscal and Facilities Impacts:

Budgeted: Yes

Fiscal Analysis:

The County and employees will spend approximately \$22.9 million in premiums to Blue Shield this fiscal year. With the proposed plan changes and removal of the early retiree rate subsidization, the estimated increase in plan costs for the active employee group shared between the County and employees is approximately \$3.6 million (15.7%) bringing the estimated employee group cost to \$26.5 million. The County's contribution increase is estimated at \$1.9 million. This cost has been planned for as part of the County's Strategic Financial Plan and represents a reduction of approximately \$2 million from the amounts currently budgeted for next year.

Special Instructions:

None

Attachments:

Authored by:

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cc: Oscar Peters, Retirement Administrator
Health Oversight Committee
All Employee Organizations
All Department Heads
Vicki Bourus, Alliant Insurance Services