



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: CEO/Human Resources  
Department No.: 064  
For Agenda Of: May 6, 2008  
Placement: Administrative  
Estimated Tme: n/a  
Continued Item: n/a  
If Yes, date from:  
Vote Required: Majority

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**TO:** Board of Supervisors  
**FROM:** Department Michael F. Brown, County Executive Officer, 568-3404  
Director(s) Susan Paul, Assistant CEO/Human Resources Director, 568-2817  
Contact Info: Jeri Muth, Assistant Human Resources Director, 568-2816  
Scott Turnbull, Employee Benefits Manager, 568-2821  
**SUBJECT: 2008 County Health Insurance Program Changes**

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**County Counsel Concurrence**

As to form: Select\_Concurrence

**Auditor-Controller Concurrence**

As to form: Select\_Concurrence

**Other Concurrence:** Select\_Other

As to form: Select\_Concurrence

**Recommended Actions:**

**1) Select Aetna as County's Health Insurance Carrier**

Approve the selection of Aetna Health, Inc. as the County's primary health insurance carrier to replace Blue Shield of California and replace all existing medical plans for active employees and retirees, effective July 1, 2008 for an eighteen-month term at the premium rates shown in Attachments A-1 through A-3; increase the County Health Savings Account (HSA) contribution from \$550 to \$900 per year for employees enrolled in the High Deductible PPO plan; and authorize the Assistant CEO/HR Director to execute the Master Application to Aetna and any other necessary documents; and

**2) Add Kaiser Permanente HMO Health Plans**

Approve the selection of Kaiser Permanente as an additional insurance carrier for the County's High and Low Option HMO plans for employees and retirees residing in Kaiser's Ventura County service area, effective July 1, 2008 for an eighteen-month term at the premium rates shown in Attachment B and authorize the Assistant CEO/HR Director to execute the Master Application to Kaiser Permanente and any other necessary documents; and

**3) Implement On-Site Medical Clinic Program**

Authorize the Assistant CEO/Human Resources Director to conduct a Request for Proposal (RFP) for an on-site medical clinic program, return to the Board with recommendations for establishing the clinic and other required actions and designate program funding from departmental health plan premium savings; and

**4) County Self-Funded Dental PPO Plan**

Accept the annual Actuarial Report for the County Self-Funded Dental Plan shown as Attachment C and continue the existing program benefits at the current premium levels, effective July 1, 2008, and

**5) Golden West Pacesetter Dental HMO Plan**

Approve the renewal of the existing Golden West Dental HMO plan and existing benefits for all active employees at a premium increase of 10% for active employees and retirees, effective July 1, 2008, for an eighteen-month period as shown on Attachment D; and

**6) CareCounsel Healthcare Assistance Program**

Approve the renewal of the CareCounsel Healthcare Assistance Program for all covered active employees at a premium rate increase of 8.4% (\$.14 monthly) and covered retirees at a premium rate increase of 4.8% (\$.08 monthly), for an eighteen-month period, effective July 1, 2008, as shown on Attachment E.

**Summary Text:**

These actions are recommended in order to implement more cost-effective medical programs, continue existing ancillary health programs, maintain current dental plan coverage for employees and retirees, and to assist the County and its workforce in reducing future health benefit costs. In addition, the change in contract end dates will lock in lower rates for an extended period of time and synchronize the health insurance and Flexible Spending Plan enrollment periods on a calendar-year basis.

**Background:**

**1) Selection of Aetna as County's Health Insurance Carrier**

Since July 2004, the County's health plans have been insured by Blue Shield. Each year, CEO/Human Resources (CEO/HR), working with the County's Health Oversight Committee (HOC), which is comprised of the County's labor organizations and management representatives, has taken aggressive negotiating positions with Blue Shield in attempts to reduce initial renewal proposals. (A list of HOC participants is included in Attachment F). Though these efforts have resulted in Blue Shield lowering their initially-proposed rates, the County's rates, nonetheless, have continued to increase at a rate significantly higher than industry norms, in the double digits, and beyond the County's budget forecast estimates. Between Fiscal Year 2004-2005 and 2007-2008 the combined Blue Shield premium increases for all employee plans have grown by nearly 66% (compounded) in spite of the County's and the HOC's pursuit and implementation of cost reduction strategies.

As a result of these increases, the HOC recommended that the County go out to bid for a health insurance carrier concurrent with obtaining Blue Shield's proposal for the upcoming year. In November 2007, the County issued a comprehensive RFP to the five insurance carriers operating in Santa Barbara, Ventura, and San Luis Obispo counties as well as Kaiser Permanente in Ventura County. At the same time, Blue Shield was requested to submit its renewal proposal. All carriers, including Blue Shield, were requested to submit both a twelve- (12) and eighteen- (18) month proposal and include rate guarantees for future renewals. An eighteen-month proposal was requested in order to synchronize the health plan enrollment with the Flexible Spending Plan enrollment period which is on the calendar year.

Bids were received from Aetna, Blue Cross, Cigna, Health Net, United Healthcare, and Kaiser and were thoroughly reviewed and evaluated by the HOC. Blue Cross and Health Net were subsequently eliminated as non-competitive with the other proposals. An HOC Subcommittee was formed to further screen RFP ratings, identify finalists in the bidding process, conduct finalist interviews and reference checks, and return to the HOC with a recommendation. The Subcommittee was led by the County's Employee Benefits Manager and included representatives from Service Employees International Union, Locals 620 and 721, Union of American Physicians and Dentists, Probation Peace Officers Association, Sheriff's Management Association, and the Retirees' Association.

Based on its review, the Subcommittee recommended Aetna as the finalist based on the carrier's overall health programs, strong disease management program, excellent customer service, strong administrative and implementation support, and highly competitive rates. These conclusions were borne out by reference checks conducted with current and past Aetna clients. In addition, Aetna's physician and hospital network shows significant overlap with the existing Blue Shield network and includes Sansum Clinic in Santa Barbara/Lompoc, Santa Barbara Select Physician Association, and Midcoast Care in Santa Maria. All of the existing hospitals in the Blue Shield network in Ventura, Santa Barbara, and San Luis Obispo counties are also in Aetna's HMO and PPO networks. Aetna also conducted a review of Blue Shield's claims data for the past year to analyze the impact of changing to the Aetna plans. For the HMO plans, 92.9% of paid claims dollars would also be paid in-network under Aetna. For the Point-of-Service plan, 97.7% of the claims dollars would be in-network and for the PPO plans 86.8% would be in-network thus showing a close match between the two carrier's networks. This overlap will minimize the impacts on employees and retirees when switching to Aetna.

The Subcommittee subsequently made its recommendation and the HOC unanimously supported the recommendation to contract with Aetna and also recommended that the County contract for an eighteen-month period at Aetna's proposed rates in order to align the health plan year with the Flexible Spending Plan year on the calendar year basis. All employee organizations have signed and returned side letters indicating their agreement with the recommended health plan changes.

The recommended Aetna eighteen-month premium rate proposal results in increases significantly lower than Blue Shield's proposed rates as shown below:

<b>Comparison of Aetna Premium Rate Proposals w/ Blue Shield                      (All HMO, PPO, POS plans combined)                      18-Month Period, July 1, 2008 – December 31, 2009</b>		
<b>Member Subgroup</b>	<b>Blue Shield Proposal</b>	<b>Aetna Proposal</b>
Employee	26.6%	5.6%
Early Retiree	43.3%	17.2%
Medicare Retiree	37.5%	18.3%
Combined (Overall) All Groups	30.6%	9.1%

The breakdown of these overall increases to the individual plan increases are shown in Attachments A-1 through A-3. The percentage increases shown above represent the average increase for all Aetna medical plans by subgroup. Some of the coverage levels in the retiree subgroups shown on Attachment A-3 present wide ranging rate increases within a single plan due to the current Blue Shield rating methodology and the impact of recent changes in Medicare. For example, under the current retiree rate schedule, some of the plans show a lower cost for a retiree with one dependent than the cost for a single retiree. In order to properly establish the relationships between coverage for retirees with and without Medicare and with and without dependents, Aetna needed to adjust these rate relationships which resulted in higher percentage increases for certain coverage levels. The current rates for those coverages would not have been sufficient to cover plan costs.

The recommended rates for all subgroups would remain in effect for a full eighteen-month period. In order to change enrollment cycles to the calendar year, a second open enrollment period will be held prior to January 1, 2009 to provide employees and retirees with an opportunity to change plans for the following calendar year.

CEO/HR also recommends an increase to the County HSA contribution amount from the current level of \$550 to \$900 per year for all employees enrolled in Aetna's high deductible PPO plan (HDHP). (Only employees enrolled in this plan can receive a County HSA contribution). This will provide a stronger incentive to enroll in the high deductible PPO and HSA account which helps control health care costs since plan participants are responsible for higher out-of-pocket costs. Memorandums of Understanding between the County and employee organizations allow for a lower County contribution to the HDHP plan as compared to the County cost for the Low Option HMO plan. The savings from this reduced contribution level are used to fund a biweekly County contribution to the employee's HSA account. With the adoption of the Aetna HDHP plan premiums, the difference in cost between these two plans will increase from \$550 to \$900 annually. This recommended

increase in the County HSA contribution amount will not add any additional cost to the County when compared with the County cost for all other health plans.

**2) Addition of Kaiser Permanente HMO Health Plans**

The Subcommittee also reviewed the Kaiser proposal for consideration as an additional HMO option for employees and retirees living in Kaiser’s Ventura service area. In January 2007, Kaiser entered the HMO market in Ventura County by purchasing the Buenaventura Medical Group (BMG). BMG had previously been part of Blue Shield’s physician network and as a result of the Kaiser purchase, over 200 employees and retirees were forced to select a different primary care physician within the Blue Shield network in order to retain their HMO benefits.

Kaiser submitted an eighteen-month proposal to match both the High and Low Option HMO plan designs. The plan benefits are similar to the existing Blue Shield plans and were matched as closely as possible. The HOC Subcommittee found the Kaiser proposal to be extremely competitive and recommended to the HOC that the County contract with Kaiser to add their High and Low Option HMO plans as an option for employees and retirees living in Kaiser’s Ventura County service area. Kaiser’s eighteen-month premium rates are shown on Attachment B and are significantly lower than the current Blue Shield rates as summarized below:

**Comparison of Kaiser Proposal with Current Blue Shield Rates**

<b>Employee Rates</b>	<b><u>Blue Shield</u> Current 12- month rates</b>	<b><u>Kaiser</u> Proposed 18- month rates</b>	<b><u>% Change</u></b>
<b>Low Option HMO</b>			
Employee Only	\$316.25	\$301.00	-4.8%
Employee + 1 Depend.	\$588.46	\$571.90	-2.8%
Employee + Family	\$917.16	\$872.89	-4.8%
<b>High Option HMO</b>			
Employee Only	\$470.23	\$312.79	-33.5%
Employee + 1 Depend.	\$873.29	\$594.30	-31.9%
Employee + Family	\$1,366.60	\$907.09	-33.6%

**3) On-site Medical Clinic Proposal**

Many employees, retirees, and their dependents have serious medical conditions that require ongoing intensive treatment. Other employees are in the early stages of developing a controllable disease and could benefit from a program to assist them in slowing or halting the progression to a more serious condition. Because of the County’s large employee population, insurance carriers base premium rate increases primarily on claims experience levels; therefore implementing plans and strategies that decrease utilization and improve

employee health are the chief means for reducing the County's health care premium rate increases. As discussed above, the County's medical claims and resulting premium increases have been higher than industry norms for a number of years. In an effort to reduce and manage health care costs, and in addition to releasing an RFP for competitive health plan proposals, CEO/HR looked for an approach that would address this growing concern.

As a result of the search for innovative ways to address high health plan utilization, CEO/HR contacted an on-site medical clinic provider to explore the implementation of a program with proven success in reducing employer and employee healthcare costs. The on-site medical clinic program is an extension of a health plan's disease management program that reduces health plan cost increases by establishing and operating health clinics at employer locations staffed by nurse practitioners or physician assistants. The program focuses on early identification and management of chronic health risks that drive employer healthcare costs. It can also provide episodic primary care and prescription drug delivery services which reduce absenteeism resulting in improved productivity.

Employee participation in the program is voluntary but many employers provide incentives for participation. Employees are given a health risk appraisal including lab tests that can provide early identification of health risks and establish a health management program that ultimately reduces both the level of health care required by County employees as well as plan utilization. The HOC and labor organizations received a presentation from one such program with a proven track record in reducing health care costs for both public and private sector employers. All groups were impressed with the potential of such a program and the opportunity it provides to better manage healthcare costs. The company provided statistics that showed much as a 9 to 1 return on investment in their on-site medical clinics which was supported by reference checks conducted by CEO/HR. Further, in reference checks with current and past clients, some clients reported health care cost increases of only 3% and 5.6% in the year following implementation of the on-site medical clinic program.

Based on this, staff recommends the issuance of an RFP for an on-site medical clinic program provider and will return to the Board with specific program implementation recommendations at a future date with the goal of establishing the clinic in FY 2008-2009. Based on the selection of Aetna's eighteen-month rate proposal, the County will save approximately \$2.8 million in budgeted County contribution costs, a portion of which is recommended to be used to fund the on-site medical clinic program. Future year funding of the on-site medical clinic program would be derived from reductions in health care premium costs.

#### **4) County Self-Funded Dental PPO Plan**

Annually, an actuarial evaluation of this plan is made in order to review the status of the fund and to project required premium changes to maintain the health of the fund (see Attachment C). While this actuarial valuation recommends a rate increase of 13.5%, this recommendation was based primarily on the level of current dental trend and not on the plan's recent claims experience. Last fiscal year and to date in the current fiscal year, the plan's premiums have fully supported all claims and administrative expenses. The

reserves in this fund currently exceed the target level and are sufficient to absorb any claims fluctuations during the coming fiscal year. Therefore there are no changes recommended for this program and it will continue at existing program benefit and premium levels, effective July 1, 2008.

**5) Golden West Pacesetter Dental HMO Plan**

The Golden West Pacesetter Dental HMO Plan remains a cost-effective option for employees and retirees and the premium increases are minimal. There is no change to the current benefit level. The proposed premiums shown in Attachment D are for an eighteen-month period which would also align this contract term with the County's Flexible Spending Plan year.

**6) CareCounsel Healthcare Assistance Program**

The CareCounsel Healthcare Assistance Program is available to all covered employees and retirees and provides valuable assistance with questions about benefits coverage, plan selection, claims and eligibility issues, and also provides consumer education. The proposed increase for an eighteen-month term represents a nominal increase to the current rates at a premium rate increase of 8.4% (\$.14 monthly) and covered retirees at a premium rate increase of 4.8% (\$.08 monthly), for an eighteen-month period, effective July 1, 2008, as shown on Attachment E.

**Performance Measure:**

**Fiscal and Facilities Impacts:**

Budgeted: Yes

**Fiscal Analysis:**

<u>Funding Sources</u>	<u>Current FY Cost:</u>	<u>Annualized On-going Cost:</u>	<u>Total One-Time Project Cost</u>
General Fund			
State			
Federal			
Fees			
Other:			
Total	\$ 15,600,000.00	\$ 16,100,000.00*	\$ -

\* Fiscal year costs are broken down as follows:

	<u>Current FY Cost</u>	<u>Annualized On-going Cost</u>
<b>Medical</b>	\$14,400,000	\$14,900,000
<b>Dental</b>	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>
<b>Total</b>	\$15,600,000	\$16,100,000

**Narrative:**

The health program cost increase shown is for all medical and dental plans combined. The annual increase in County costs for medical plans is estimated to increase from \$14,400,000 to \$14,900,000 (\$500,000 increase or 3.5%) and County dental plan contributions, which are capped at the current contribution levels, will remain at \$1,200,000 annually for a total of \$15,600,000 current year costs and \$16,100,000 annualized ongoing costs. Plan costs are fixed for an eighteen-month period and are currently loaded in all departments' proposed budgets. Negotiations with Aetna and Kaiser will continue regarding future rate caps.

**Special Instructions:**

**Attachments:**

- Attachment A-1: Active Employee Aetna Medical Plan Premium Rates
- Attachment A-2: Active Employee Biweekly Premium Schedule
- Attachment A-3: Retiree Aetna Premium Rates
- Attachment B: Kaiser HMO Premium Rates for All Employees and Retirees
- Attachment C: Self-Funded Dental Plan Actuarial Review
- Attachment D: Golden West Pacesetter Dental HMO Renewal Letter
- Attachment E: CareCounsel Healthcare Assistance Plan Renewal Letter
- Attachment F: Health Oversight Committee Member List

**Authored by:**

Scott Turnbull, Employee Benefits Manager

**cc:** Oscar Peters, Retirement Administrator  
Health Oversight Committee  
All Employee Organizations  
All Department Heads  
Michael Conrad, Alliant Insurance Services