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Title: Approve the Recommendation by GCG Financial to Award the Medical Insurance renewal to Blue Cross Blue Shield of Illinois (BCBSIL) for a one-year term and for an amount not to exceed \$2,750,860. (Item 1 of 3)

Sponsors:

Indexes:

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Date	Ver.	Action By	Action	Result
9/5/2017	1	City Council	approved	Pass

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Approve the Recommendation by GCG Financial to Award the Medical Insurance renewal to Blue Cross Blue Shield of Illinois (BCBSIL) for a one-year term and for an amount not to exceed \$2,750,860. (Item 1 of 3)

DEPARTMENT: Human Resources

SUBMITTED BY: James Sheehan, Director of Human Resources

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

Other items on the City Council agenda related to this item:

- 17-666 Approval of a contract with CVS-Caremark for pharmaceutical management services
- 17-667 Approval of a contract with OPTUM-Unimerica Insurance Company for a specific stop-loss insurance policy

On April 15, 2014, the City Council approved GCG Financial (GCG) as the City's benefits broker for a three year period beginning May 1, 2014. On April 18, 2017, the City Council approved a two year contract extension for GCG Financial to continue as the benefits partner to the City. One of the duties of GCG is to price, recommend and negotiate the renewal of medical insurance contracts for the City of Naperville.

The City of Naperville is self-insured, therefore for the purposes of medical insurance, the City contracts with insurance providers to administer the program components and the City funds the

actual claim expenses. The City currently has individual stop loss reinsurance that goes into effect and limits the liability of the City in the event of an individual catastrophic claim in excess of \$200,000 for the HMO product and \$300,000 for the PPO products.

The City offers four medical plans to our plan participants, including a Health Maintenance Organization (HMO), a traditional Preferred Provider Organization (PPO), a PPO with a consumer-driven health plan (CDHP) and a health reimbursement account (HRA) and a PPO with a high deductible health plan (HDHP) and a health savings account (HSA).

Over the past several years, the City has implemented significant changes to the medical insurance program, aiming to implement necessary and effective participant cost sharing through plan design revisions, higher participant premium contributions and education. Some of these changes include:

- Implemented Medicare supplement plan providing enhanced benefits at a lower cost and saving the city \$600,000 annually
- Implemented plan design changes to better balance the health care costs between the City and the employees and retirees
- Award of Delta Dental contract increasing customer satisfaction with network and reducing city and employee costs
- Expansion of wellness initiatives
- Increased educational forums on benefits and wellness

DISCUSSION:

For 2018, the team is recommending several key concepts to assist in mitigating cost increases while continuing to offer access to comprehensive benefits. Two key recommendations supporting this benefits management strategy are renewing the contracts with CVS Caremark for prescription drug administration and contracting with OPTUM for a stop-loss reinsurance. These recommendations are discussed in detail below and are associated with the PPO plans only.

Blue Cross Blue Shield of Illinois

The City of Naperville's medical insurance contract with BCBSIL will expire on December 31, 2017. With this medical insurance renewal, the City for a second year in a row will see a reduction in fixed costs with BCBSIL. In addition, BCBSIL has the strongest network in the Chicagoland area. 96.4% of our participants use an in-network physician and are receiving an average of 59.7% in negotiated savings which results in the highest combination of negotiated discounts for the City.

GCG recommends continuing to utilize BCBSIL for our medical insurance program in 2018.

Pharmacy Benefit Manager - CVS-Caremark

The City began working with CVS-Caremark in 2017 and based upon our experience to date, CVS Caremark offers the expertise and tools needed to maneuver the complex field of prescription drugs. CVS-Caremark has a better negotiated rate for pharmacy costs and the City utilizes their clinical management tools and guidelines to achieve savings and offer educational opportunities for participants.

The City intends to expand the use of these tools and guidelines to continue to optimize pharmacy costs and manage prescription drug utilization by our participants. Through proactive, direct marketing, CVS-Caremark is working with our employees and retirees on tools to lower pharmaceutical expenses. These efforts will be expanded in the upcoming year with a specific

emphasis on increasing mail order and generic pharmaceuticals to lower user and city costs. With pharmacy costs as the fastest rising components of healthcare costs, this relationship with CVS-Caremark will help us manage these costs more effectively.

GCG recommends continuing to utilize CVS-Caremark as the Pharmacy Benefit Manager (PBM) for the PPO plans.

Stop Loss Reinsurance - OPTUM

As discussed above, the City currently has individual stop loss reinsurance that goes into effect in the event of an individual catastrophic claim in excess of \$200,000 for the HMO product and \$300,000 for the PPO products. The current policy is up for renewal.

GCG conducted an RFP for specific stop-loss reimbursement insurance for the PPO plans. BCBSIL will continue to provide individual stop-loss reimbursement insurance for the HMO.

GCG Financial sent out a Request for Proposal (RFP) for Specific Stop Loss Coverage and distributed it to the following carriers (along with the RFP results):

- OPTUM - 45% over current premiums
- Guardian - 69% over current premiums
- MRM - 65% over current premiums
- Blue Cross Blue Shield - 54% over current premiums
- Reliance Standard - declined to bid
- Sun Life - declined to bid
- Swiss RE - declined to bid

Based upon the results of the RFP, GCG recommends that the City renew their contract with OPTUM to provide specific stop-loss reimbursement insurance for the PPO products in 2018. The cost of the OPTUM contract is significantly higher than the current contract based on claims experience over the last several years.

Insurance Premiums

The City team met with representatives from GCG to review the estimated financial position of the City's insurance programs based on actual performance for 2016 and year to date 2017. Based on the actual performance and projected expenses for the remainder of 2017 and 2018, GCG recommends the following premium increases for each plan to yield a financially sound plan:

- HMO - 3.0%
- PPO Traditional - 6.1%
- PPO CDHP - 15%
- PPO HDHP - 5.8%

FISCAL IMPACT:

The renewal costs with BCBSIL for administrative services in 2018 are expected to be \$2,750,860, representing a 4.3% decrease from 2017. The cost of the contract for 2018 with OPTUM is expected to be \$459,286, a 45% increase from 2017. These are just two components of the City's overall healthcare costs. In 2018, total healthcare costs are projected to be \$17,500,000, an

increase of 3% over 2017 projected costs. Because the City is self-insured, claims experience will be the largest driver of overall medical insurance costs averaging 80% of our total healthcare costs.