



Legislation Text

File #: 18-736, **Version:** 1

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 an amount not to exceed \$3,022,595 and for a one-year term (Item 1 of 3)

DEPARTMENT: Human Resources

SUBMITTED BY: James Sheehan, Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

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

- **18-746:** Pharmaceutical Management Services renewal with CVS-Caremark
- **18-747:** Specific Stop-Loss Insurance Policy renewal with Optum-Unimerica Insurance Company

On April 15, 2014, City Council approved GCG Financial (GCG) as the City's benefits broker for a three-year period beginning May 1, 2014. A two-year extension was approved on April 18, 2017 to extend the contract term to April 30, 2019. One of the duties of GCG is to price, recommend and negotiate the renewal of medical insurance contracts for the City.

As a self-insured organization, the City contracts for administration of the medical insurance program, while internally funding actual claim expenses. The City offers four medical plans, including:

- HMO - Health Maintenance Organization
- PPO - Traditional Preferred Provider Organization
- PPO-CDHP - Consumer-driven health plan with a health reimbursement account (HRA)
- PPO-HDHP - High deductible health plan with a health savings account (HSA).

To limit liabilities, the City maintains individual stop-loss reinsurance for individuals with catastrophic claims of more than \$200,000 on the HMO plan and \$300,000 on the PPO plans.

Overall, total healthcare costs for 2019 are projected at \$16.4 million, a seven-percent decrease over 2018 projections. As a self-insured organization, medical claims represent the majority of the projected expenses. The City implemented significant changes in recent years to the medical

insurance program to implement more effective participant cost-sharing. Changes included plan design revisions, higher participant premium contributions and education. Examples of the changes include:

- Implemented Medicare supplement plan providing enhanced benefits at a lower cost, saving approximately \$600,000 annually.
- Implemented plan design changes to balance health care costs between the City and employees/retirees.
- Awarded dental contract to Delta Dental, increasing customer satisfaction with network and reducing costs to both the City and employees.
- Expanded wellness initiatives.
- Increased educational forums on benefits and wellness.

DISCUSSION:

For 2019, staff recommends several concepts to help mitigate cost increases, while still offering access to comprehensive benefits. Two key recommendations are renewing contracts with CVS-Caremark for prescription drug administration and OPTUM for stop-loss reinsurance. Both recommendations are only associated with the PPO plan.

Blue Cross Blue Shield of Illinois

The City's medical insurance contract with Blue Cross Blue Shield of Illinois (BCBSIL) expires on December 31, 2018. The recommended renewal includes a slight increase in administrative fees due to rising costs in the HMO. The City received reductions the previous two years and expects overall 2019 medical expenses to be below 2018 amounts.

GCG recommends continuing to use BCBSIL for medical insurance in 2019 due to the strong network provided to employees. More than 99-percent of the City's participants use an in-network physician, which resulted in more than 61-percent savings through discounts. In the past 12 months, the City was below average in claims experience and projected costs were less than 2018 estimates.

Pharmacy Benefit Manager - CVS-Caremark

The City began working with CVS-Caremark in 2017, and offers the expertise and tools needed to maneuver the complex field of prescription drugs. CVS-Caremark offers better rates for pharmacy costs and the City uses their clinical management tools and guidelines to achieve savings and offer educational opportunities for participants.

GCG recommends continuing to use CVS-Caremark as Pharmacy Benefit Manager (PBM) for PPO plans in 2019. The City will expand use of the tools and guidelines to continue optimizing pharmacy costs and manage prescription drug utilization. CVS-Caremark is working with our employees and retirees on tools to lower pharmaceutical expenses. Their efforts will be expanded next year with an emphasis on increasing mail-order and generic pharmaceuticals to lower costs. Pharmacy costs are the fastest

rising component of healthcare and this relationship will help us manage expenses more effectively.

Stop Loss Reinsurance - Optum

As discussed above, the City maintains individual stop-loss reinsurance for individuals with catastrophic claims of more than \$200,000 on the HMO plan and \$300,000 on the PPO plans. The current policy is up for renewal.

GCG recommends continuing with Optum to provide specific stop-loss reimbursement insurance for PPO products in 2019. GCG received a proposal from Optum for the same premium of the current policy, which is \$56.12 per employee each month. Additionally, Optum offers an experience refund option providing a refund if the City does not use all the premiums paid throughout the year. Based on 2018 claims experience, GCG estimated Optum's net cost for 2019 would be \$51.22 per employee each month. GCG also requested a proposal from BCBSIL for stop-loss. BCBSIL submitted a proposal of \$52.13 per employee each month, which is higher than the Optum net amount.

Insurance Premiums

Staff met with representatives from GCG to review the estimated financial position of the City's insurance programs. Due to a strong performance in 2017 and projected expenses for the remainder of 2018, no premium increases are planned for 2019. This will be the first year the City is able to maintain flat premium amounts.

The City plans to eliminate the CDHP as a medical plan option based on actuals and projections through 2019. The plan is under performing and has less than 90 participants, making it no longer a viable financial option. The City intends to offer current CDHP participants a contribution to an HRA or HSA for 2019, depending on plan choice. This one-time offer is anticipated to ease the transition to a new plan. The City is working with some bargaining units to eliminate the CDHP, since contracts require consent prior to a plan elimination.

FISCAL IMPACT:

Overall, total healthcare costs for 2019 are projected at \$16.4 million, a seven-percent decrease over 2018 projections. As a self-insured organization, medical claims represent the majority of the projected expenses.

Medical insurance costs are expensed based on the nature of charges. Administrative fees are billed at the end of every month, while claims are billed weekly. Administrative costs are the only fixed cost associated with the medical plan and determined by the number of enrollees, while claims are billed based on use. The City maintains a dedicated account for each plan for both claims and administrative fees.

Stop-loss coverage is billed monthly. Based upon enrollment, total cost projection for the coverage is \$461,307, which is less than a one-percent increase over current year projections.

Prescription drug costs are expensed to a pharmaceutical claims account. Expenses are incurred weekly and based only on claims. No administration costs are associated with the CVS-Caremark plan, as the program is a supplement to the PPO plans. GCG projects total cost for the year at \$2.5 million, which is a 16-percent decrease in claims over 2018.

The 2019 Budget will be built based on the recommendations provided by GCG and Council's plan approvals. GCG estimated total medical claims expenses for next year at \$10.5 million.

Projected expenses will be used as part of the 2019 Budget, which is currently being developed for Council approval later this year.

