

County of Santa Clara

Employee Services Agency

Employee Benefits

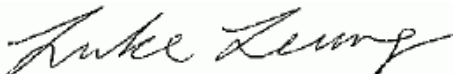


ESA10 051909

Prepared by: Peter Ng
Employee Benefits Director

DATE: May 19, 2009

TO: Board of Supervisors

FROM: 
Luke Leung
Deputy County Executive

SUBJECT: Approve New Premium Rates for 2010 Plan Year for the Various County Employee/Retiree Health and Benefit Plans

RECOMMENDED ACTION

Approve the 2010 plan year premium rates for the various County employee/retiree health and benefit plans (Attachment A & B)

FISCAL IMPLICATIONS

The total estimated FY 2010 County cost of these new benefit plan premium rates for active employees is \$223.4 million based on the current benefit plan enrollment statistics. This amount represents a 6.9% or \$14.5 million increase from the FY 2009 budgeted amount of \$208.9 million. Funding requirement for the \$223.4 million cost has been included in the County Executive's recommended budget for FY 2010.

For retirees, the estimated total medical premium payment by the County for FY 2010 is \$41.1 million. This amount represents a 5.6% or \$2.2 million increase from the FY 2009 budgeted amount of \$38.9 million. Funding for the \$41.1 million payment amount will be provided by the available reserves in the Retiree Medical Program Trust.

CONTRACT HISTORY

The following benefit plan providers supply insurance coverage or underwriting/claims administration services for benefits that the County has previously negotiated with the labor unions. The benefit plan providers and their scope of coverage are stipulated in the negotiated labor agreements.

- Kaiser Health Plan: The original agreement was executed in 1963
- Health Net of California: The original agreement was executed on 03/01/99
- Valley Health Plan: The original agreement was executed on 10/22/85
- Delta Dental: The date of the original agreement is 07/19/78
- Pacific Union Dental (United Healthcare Dental): The date of the original agreement is 07/24/91
- Vision Services Plan: The original agreement was executed on 08/21/89
- Mutual of Omaha Life Insurance: The original agreement was executed on 07/01/99

Renewal contracts for Plan Year 2010 for these various benefit plan providers, along with any applicable amendments to the contracts, will be submitted to the Board at the June 24, 2009 meeting for official action.

REASONS FOR RECOMMENDATION

Each fiscal year, benefit plan providers submit new premium rates for medical, dental, and vision insurance which are reviewed and analyzed by staff to ensure that the rates are appropriately set. Premium rates for self-insured benefit plans such as Delta Dental and Basic Life Insurance are determined by actuarial studies and set by staff accordingly.

As part of the current year review, staff engaged the services of a consultant to review the proposed renewal rates for Kaiser and Health Net, the two largest of the County's benefit plan providers. Based on their analysis, which included benchmark comparisons to a large database of government agencies and other employer groups of similar size as the County, the consultant found that:

- The proposed premium increase for Kaiser was within the range of industry trends, after accounting for the differences in the County's benefit plan design, plan utilization experience, demographics, and higher cost of living area.
- Kaiser was deemed to be "moderately efficient", which means they were just under the benchmarked comparator agencies for cost after accounting for the differences noted above.
- The proposed premium increase for Kaiser would have been higher by 3.5 percentage points if not for an unusually larger number of high cost pooled claims exceeding \$250,000 during the rating period. These high cost claims are pooled together with

other Kaiser member groups and therefore their impact is spread across a broader base for purposes of the rate renewal calculation.

- For Health Net, the Point of Service plan model inherently has less cost control features than a HMO type plan. Because the employee contribution for this plan is relatively minor at about 5% of total premiums (as negotiated in the labor contracts), it also creates for a more adverse selection group of its members that tend to have higher utilization of services.
- Despite Health Net's willingness to cap the rates, which effectively reduced the premium increase by 3.5 percentage points, they are deemed to be "materially less efficient" or rather more costly than comparator agencies.

A few of the key recommendations from the consultant are;

- Develop a multi-year strategy for plan redesign to reflect current market conditions and better control cost increases.
- Consider alternative employee contribution structure that provide for real differences between different levels of coverage (i.e. single vs one dependent vs multi-dependent).
- Market Health Net. Health Net has been the provider for the POS plan for the past 10 years.
- Rethink the POS plan model. The POS plan model is a three-tiered plan that includes options for HMO, PPO, and Out of Network services. Currently, the Out of Network utilization is only 3% of the total costs. Consider another lower cost HMO option with a separate Out of Network option.

Staff is reviewing the consultant findings and recommendations and will be developing an action plan to address them over the next year.

At this time, early approval of these rates is necessary in order to provide retirees with timely notification of premium increases, so that retirees who pay a share of the retiree only premium or pay for spouse coverage may budget for such increases in advance of the due date of their first payment affected by the increase.

Approval of these renewal rates will allow the County to continue to provide these benefits in accordance with negotiated agreements. The amended benefit plan contracts that include these new rates will be completed and submitted to the Board of Supervisors for formal approval at the June 24, 2009 meeting.

BACKGROUND

The contracts and group service agreements for each benefit plan spell out the different rates, levels of medical and health care coverage, and other benefits that have been negotiated with the labor organizations. These contracts and agreements are renewed annually and are subject to premium rate adjustments based on utilization experience, trend factors, cost of living adjustments, and other factors. For the next plan year, no changes to current benefit levels are planned.

Overall, the cost of health care insurance continues to rise throughout the State of California, as well as nationwide, and has been exasperated by the current state of the economy and the high number of layoffs affecting insurance plan enrollment. Medicare payments and reimbursements are fixed by the federal government and are significantly lower than the actual cost of the health care services provided to health plan members with Medicare. As a result, health plans are bearing the majority of the costs of these services and passing those costs on to the employer groups in the rate increases.

Medical Insurance Premiums

Last year renewals saw increases in premiums for medical coverage in the 9% to 10% range for active employees and retirees under age 65, while premiums for those retirees with Medicare ranged from increases of 5% to decreases of 5% depending on the plan. While the increases for the proposed renewal rates are lower overall than last year, the actual cost and utilization of services continues to trend higher than comparable organizations due to several factors. These factors include:

- Richer plan design benefits
- County demographics that include on average a mix of older employees and more dependents per family
- Higher incidence of chronic illnesses that drive utilization of higher cost services
- Higher cost of living for the County

If not for the capping of rates with Health Net, and the pooling of the unusually high number of large claims above \$250,000 with Kaiser, the renewal rates would be about 3-4% higher. As it is proposed now, the medical premiums for active employees and early retirees range from 6.7% to 9.9% or a weighted average increase of about 7.9%, while retirees with Medicare are seeing increases ranging from 3.6% to 7.0% or a weighted average of about 4.8%.

Dental Insurance Premiums

The dental benefit plans include two options – a self-insured Delta Dental PPO plan and a fully insured United Health Care Dental HMO plan (formerly Pacific Union Dental).

Based on current claims experience and the amount of available self-insured reserves, the premium rates for the much larger enrolled Delta Dental plan will see no increase for the next plan year, despite cost of living increases in dental provider rates. This is primarily due to the conversion to Delta's PPO product in July 2008, which is generating projected annualized savings of approximately \$1.3 million to the County.

The smaller enrolled United Health Care Dental HMO plan will see a premium rate reduction of 5% for the next plan year.

Vision Insurance Premiums

The Vision Service Plan will see no increase in premium rates for the next plan year.

Basic Life Insurance Premiums

The Basic Life Insurance benefit is a self-insured plan. The most recent actuarial evaluation indicates that there are sufficient reserves to continue with the current premium rates for the next plan year. Coverage for employees represented by bargaining units other than CEMA will remain at \$25,000, while coverage for CEMA employees will remain at \$50,000.

Summary Premium Rate Schedules

Attachment A summarizes the proposed biweekly active employee rates for the medical, dental, vision, and basic life insurance plans and compares these rates to the prior year.

It should be noted that the County pays the full premium costs for single or family coverage for full-time employees enrolled in Kaiser and Valley Health Plan. The County also pays the full premium costs for single coverage for full-time employees enrolled in Health Net and the majority (about 95%) of the premium costs for family coverage for full-time employees enrolled in Health Net. The employee pays the difference. Premiums for dental, vision, and basic life for full-time employees are paid for in full by the County.

All premiums for part-time employees are paid for by the County and the part-time employee and are prorated based on the actual number of hours worked each pay period.

Attachment B summarizes the monthly retiree rates for the medical plans. It should be noted that the County pays the equivalent of Kaiser retiree single coverage rate only and that dependent costs are listed for reference only and are paid for by the retiree.

CONSEQUENCES OF NEGATIVE ACTION

If these new rates are not approved, the County will not be able to continue with providing health benefits to employees and retirees in accordance with negotiated labor agreements.

STEPS FOLLOWING APPROVAL

The Clerk of the Board is requested to send Keyboard notification of final action to Renae Owens, Management Analysis Program Manager II - Employee Services Agency.

ATTACHMENTS

- ATTACHMENT A

- ATTACHMENT B