Date: June 6, 2013
To: Members of the Joint Labor-Management Benefits Committee
From: Staff
Subject: Flex Benefits Plan Design Options 2014 (Agenda Item # 4)

RECOMMENDATION:

That the Joint Labor Management Benefits Committee (JLMBC) discuss and consider Flex benefit plan design change options for Plan Year 2014 including:

a) Change Flex Medical Plan Default to Lowest Cost HMO Plan
b) Network Type Options
c) Increase Copays of Deductibles
d) Other plan design changes

SUMMARY:

Annually, the JLMBC reviews and makes recommendations on FLEX benefit provider contract renewals and/or Request for Proposal (RFP) results and associated rate changes for the following Plan Year. This report provides information and staff recommendations on the selection of medical plan providers, proposed premium rate increases and other considerations, and medical benefit plan options for Plan Year 2014. The report on the other Flex Benefits Plan providers (dental, life, disability, AD&D, EAP, and FSA) will be provided in a separate staff report. The JLMBC recommendations for plan design changes will be submitted to the City Council for consideration and the JLMBC recommendation for the selection of the medical plan provider will be submitted to the Mayor for consideration.

PLAN DESIGN OPTIONS

During the JLMBC meeting on May 29, 2014 staff provided an overview of the Flex Plan costs and projected expenditures, Flex Plan enrollment trends, and various plan design options implemented during the last three years to reduce employee benefit costs. The plan design changes were aimed at making structural modifications to the FLEX Plan in order to achieve savings. These efforts were driven by the City’s fiscal crisis and the need to reduce the impact of increasing employee benefit costs on the City’s budget.
The JLMBC also strived to maintain the broader goals of a benefits program which includes:

1) Attracting and retaining employees;  
2) Supporting and promoting workplace productivity (improving member health outcomes);  
3) Providing a range of choices allowing members to customize their benefit needs to their unique circumstances; and  
4) Aligning incentives and balancing interests such that needed benefits are provided at a cost that is reasonable to employees and to the City relative to its overall financial capacity.

Staff recommends that the JLMBC consider the following plan design options, which continues to provide plan participants with a range of benefit choices to meet their needs while maintaining the City’s costs at a reasonable level relative to its present financial capacity. Staff will discuss each structural change, separately. In general, our recommendations related to the City’s current plan design structure are meant to fulfill two goals: encouraging service utilization that promotes member health and well-being while simultaneously slowing growth in the City’s long-term costs for funding the Flex program.

1. **Change FLEX Default Plan** – The Kaiser plan has been the default plan for new hires since 2010. If a new hire fails to elect a medical plan within 60 days of his or her hire date, then the employee is automatically enrolled into the Flex default plan. Staff’s research indicates that approximately 50% of new hires end up with default coverage. The JLMBC opted to make Kaiser the default plan in 2010 because the rate renewal reduction offer was conditioned on being selected as the default plan for new hires. The JLMBC did this even though the Kaiser’s single-party cost would be somewhat more expensive than Anthem’s at the time, because the additional cost to the City would be more than compensated for by reduced overall premium costs.

   **Staff recommends designating lowest cost HMO as the Flex plan default because this will generate savings for the plan.** Currently, the Kaiser’s single-party cost ($504) is significantly more expensive than Anthem’s ($465). The Anthem Blue Cross HMO plan is less expensive on per capita basis than the Kaiser HMO plan by 9.1%. In addition, the City has a PAR contract arrangement with Anthem, which means that any savings from the utilization of the plan by single default members will result in savings to the plan.

2. **Co-Pays and Deductibles** – Staff has prepared a summary of plan design options and the corresponding savings (see Attachment 1) that will reduce premium costs in Plan Year 2014. The attachment contains illustrations of
several scenarios for raising office visit, primary care, and specialist copayments. The JLMBC adopted a number of copays and deductible increases for Plan Year 2011. The FLEX plan current copays are on par with other governmental plans in most areas. Increasing co-pays and deductibles are tools for lowering the trend of rising health care costs while encouraging members to understand the costs and importance of healthcare. However, raising copays too high could have the negative impact of discouraging the kind of utilization that can result in long-term healthy behaviors.

Staff recommends that the JLMBC consider increasing the HMO office visit copay from $15 to $20. The $5 copay increase would be on par with City counterparts. Employees would continue to have no copays for preventative care visits and children under 5 years of age. The increase in the HMO office visit copay would impact approximately 20,533 employees (employees currently enrolled in the HMO plans). Increasing the HMO office visit copay by $5 for all FLEX plans would generate approximately $1.9 million in premium savings during Plan Year 2014.

3. **Continuation of HMO Network** – In Plan Year 2013 the medical plan was modified to include a Narrow Network HMO plan alongside a traditional Full Network HMO and the Full Network PPO Plan. Initially, the JLMBC recommended implementing a Narrow Network PPO Plan, however due to employee concerns regarding lack of access to certain providers the JLMBC rescinded its recommendation on this change.

The narrow network option, which is a subset of medical providers from the current traditional or full HMO networks, provided a vehicle for plans to save on premium costs while maintaining access to high quality benefit plans. The narrow network will reduce the premiums in Plan Year 2013 by approximately $7.8 million over the straight renewal of the traditional network. The following diagram illustrates the change in the HMO medical plans (non-Kaiser plan).
The downside to the narrow network is that a Flex participants find that they their current medical provider is outside of the network (provider disruption). However, the JLMBC opted to move forward with the Anthem Blue Cross narrow network because it offered relatively minimal provider disruption rates compared to the other providers. In addition, the Anthem Blue Cross, staff and a JLMBC Ad Hoc Committee worked on ensuring that the transition issues were mitigated.

During the recent RFP process the carriers provided a quote on the Narrow Network option in addition to a Full Network. The rates for the Narrow Network continue to provide significant savings. Staff recommends that the JLMBC continue to offer the Narrow Network.

CONCLUSION:

Staff recommends that the JLMBC receive and file the plan design options presented in this report in an effort to slow the rate of increase in the City’s costs of providing benefits Flex plan costs.

Submitted by: ________________________________
Alejandrina Basquez

Attachment 1  Plan Design Options and Estimated Savings