Memorandum

CITY OF DALLAS

DATE April 4, 2014

TO Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair), Jennifer S. Gates (Vice Chair), Tennell Atkins, Sheffie Kadane, Philip T. Kingston

SUBJECT Employee and Retiree Health Benefits Overview

The Monday, April 7th Budget, Finance and Audit Committee agenda will include a briefing on the Employee and Retiree Health Benefits Overview. The briefing will be presented by Molly McCall, Director of Human Resources.

Please let me know if you need additional information.

A.C. Gonzalez
City Manager

Attachment

c: Honorable Mayor and Members of City Council
Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, Interim First Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
Joey Zapata, Assistant City Manager
Charles M. Cato, Interim Assistant City Manager
Theresa O'Donnell, Interim Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Shawn Williams, Interim Public Information Officer
Molly McCall, Director, Human Resources
Elsa Cantu, Assistant to the City Manager

Employee and Retiree Health Benefits Overview

Key Focus Area

Efficient, Effective, Economical Government

Budget, Finance and Audit Committee
April 7, 2014

City Benefits

- The City offers an array of benefits
  - Comprehensive Healthcare
  - Insurance Offerings
  - Workers' Compensation
  - Deferred Compensation
  - Paid Leave
  - Pension
- This briefing is about the City's healthcare program

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Health Plan Overview

Cost, Administration, Plan Options and Participation

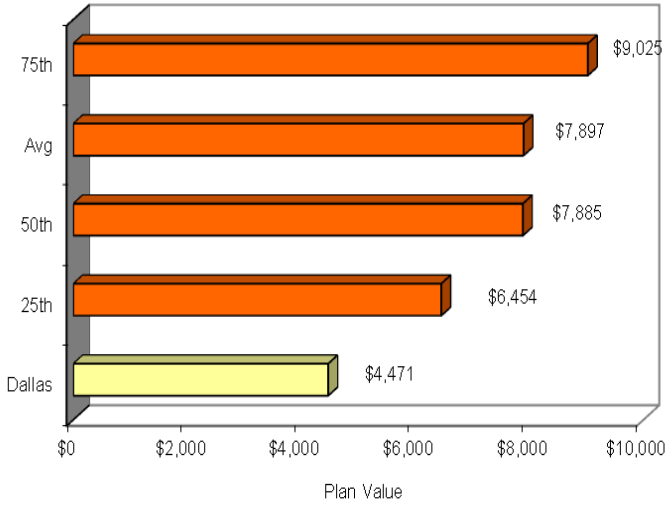
Health Plan Cost

	City Contributions	Employee/Retiree Contributions
Medical Plans HRA Plan PPO – 70/30/3k Medicare Plans	**$66.6 million**	**$52.2 million** $25.7 million from Employees $26.5 million from Retirees
Other Benefits (Dental, Vision, FSA, etc.)	**No City Contributions**	**$15.6 million**

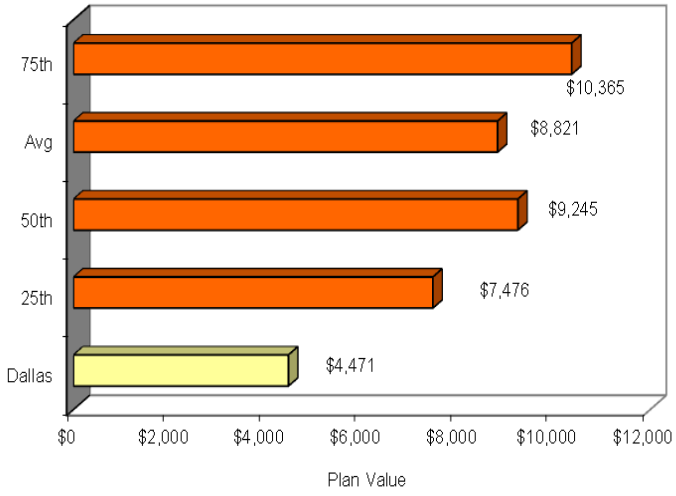
Dallas Compared to Other Employers

- The City's health plan is designed to provide basic health coverage for members
  - A comparison of other Texas cities health plan provisions are provided in the appendix on slide 38
- City engaged Milliman to conduct a Total Compensation study in 2012
- Study showed that the City's health benefits plan is in the bottom quartile compared to other employers

Medical/Vision- Custom Survey



Medical/Vision- Private Sector



Custom survey data is comprised of other local government and quasi governmental entities of similar size as Dallas.

Private sector survey data is from published survey data.

“Fully Insured” versus “Self Insured”

- Employers provide healthcare coverage for employees by either being “Fully Insured” or “Self Insured”

Fully Insured

- Employer purchases an insurance plan from an insurance company
  - Can compare prices of insurance companies and buy the product that best fits their needs
- When a person on the insurance plan receives health care (doctor visit, medical procedure, etc.), **the claim is paid by the insurance company**

Self Insured

- Employer sets aside money to pay for healthcare claims
- When a person on the health plan receives health care (doctor visit, medical procedure, etc.), the **claim is paid by the employer**
- Usually, the employer hires a “Plan Administrator” to manage the healthcare plan

“Fully Insured” versus “Self Insured”

- Large employers (1,000 or more covered lives) normally self-insure because:
  - It is less expensive
  - The employer can design the plan to best meet the needs of the employees
  - Pharmacy plans can be carved out to reduce costs
- The City of Dallas is self insured for active employee and pre-65 retiree healthcare
  - Revenues are collected from the City, the employees, and retirees via the payroll systems
  - Healthcare claims are paid from those revenues

Health Plan Options

Benefit	Covered	Vendor(s)	Funding	Option
Self-Insured Medical & Pharmacy	Active Employees & Pre-65 Retirees	UnitedHealthcare CVS/Caremark	City & Employees/ Retirees	<u>Three Plans:</u> • 75/25 HRA (Health Reimbursement Account) • 70/30/$3,000 - High • 70/30/$3,000 - Low
Fully-Insured Medicare Supplemental Plans	Medicare Eligible Retirees	UnitedHealthcare	City & Retirees	5 Medicare Supplement Plans, 2 Part D Plans and 2 Medicare Advantage Plans
Fully-Insured Dental	Active Employees, Pre-65 Retirees & Medicare Eligible Retirees	UnitedHealthcare	100% Employees & Retirees	<u>Three Options:</u> • Health Maintenance Organization • Exclusive Provider Organization • Preferred Provider Organization
Fully-Insured Vision	Active Employees, Pre-65 Retirees & Medicare Eligible Retirees	UnitedHealthcare	100% Employees & Retirees	<u>Two Options:</u> Standard Plan Buy-Up Plan
<u>Flexible Spending</u> Medical FSA Dependent Care FSA	Active Employees, Pre-65 Retirees & Medicare Eligible Retirees	UnitedHealthcare	100% Employees	 $2,500 Maximum $5,000 Maximum

Health Plan Participation

- 20,649 Lives covered on the self-insured medical plan
- 1,987 Employees waive medical coverage
- 4,196 Retirees enrolled in fully-insured Medicare Plans

Status	Plan	Lives Covered
Active	75/25 HRA	12,739
Active	70/30 EPO - High	4,197
Active	70/30 EPO - Low	1,767
Terminated	COBRA	15
Retiree (Pre-65)	75/25 HRA	855
Retiree (Pre-65)	70/30 EPO - High	967
Retiree (Pre-65)	70/30 EPO - Low	1
Retiree (Post-65)	70/30/ EPO	108

Benefits Administration

- Plan Administrator – UnitedHealthcare (UHC)
  - Services include:
    - Providing a network of health care providers
    - Processing medical claims
    - Coordinating pharmacy claims with the City's Pharmacy Benefits Manager
    - Providing other services to support the self-insured medical plans, including: Employee Assistance Program, Management of Flexible Spending Accounts, Wellness program support, COBRA administration, Call Center, Nurseline, on-site administrative support, on-site nurse, interactive website, and case management for chronic conditions
- Pharmacy Benefits Manager – CVS/Caremark
  - Manage the pharmacy component of the self-insured health plans. Their services include:
    - Providing a network of pharmacies
    - Negotiating drug prices and rebates with pharmaceutical companies
    - Monitoring the pharmacy spending and suggest ways to make the plan more efficient

Other Healthcare Service Providers

- Benefits Consultants – Currently Buck Consulting
  - Healthcare actuarial services
  - Benefits consulting services
  - GASB liability calculations
  - External audits of vendors
- Voluntary Products - Currently Colonial Life
  - Provide a wide array of "voluntary" (aka 100% employee paid) insurance products including universal life insurance, cancer, short term disability, hospital, and long-term disability
- Life Insurance – Currently Standard Insurance
  - City paid $50,000 basic life insurance for full time employees
  - 100% employee paid benefits including accidental death and dismemberment, supplemental life, and dependent life

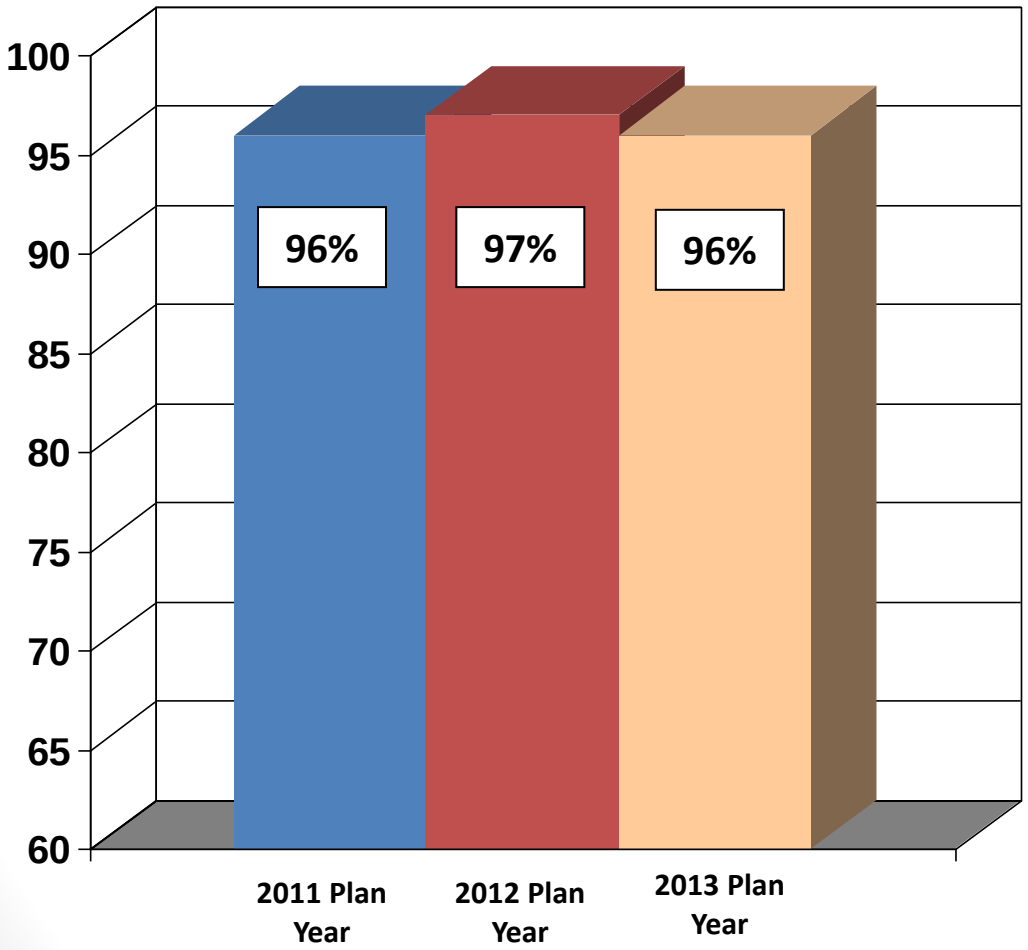
HEALTH COSTS DRIVERS

Plan Performance Metrics

- Health plan performance is measured by the following metrics:

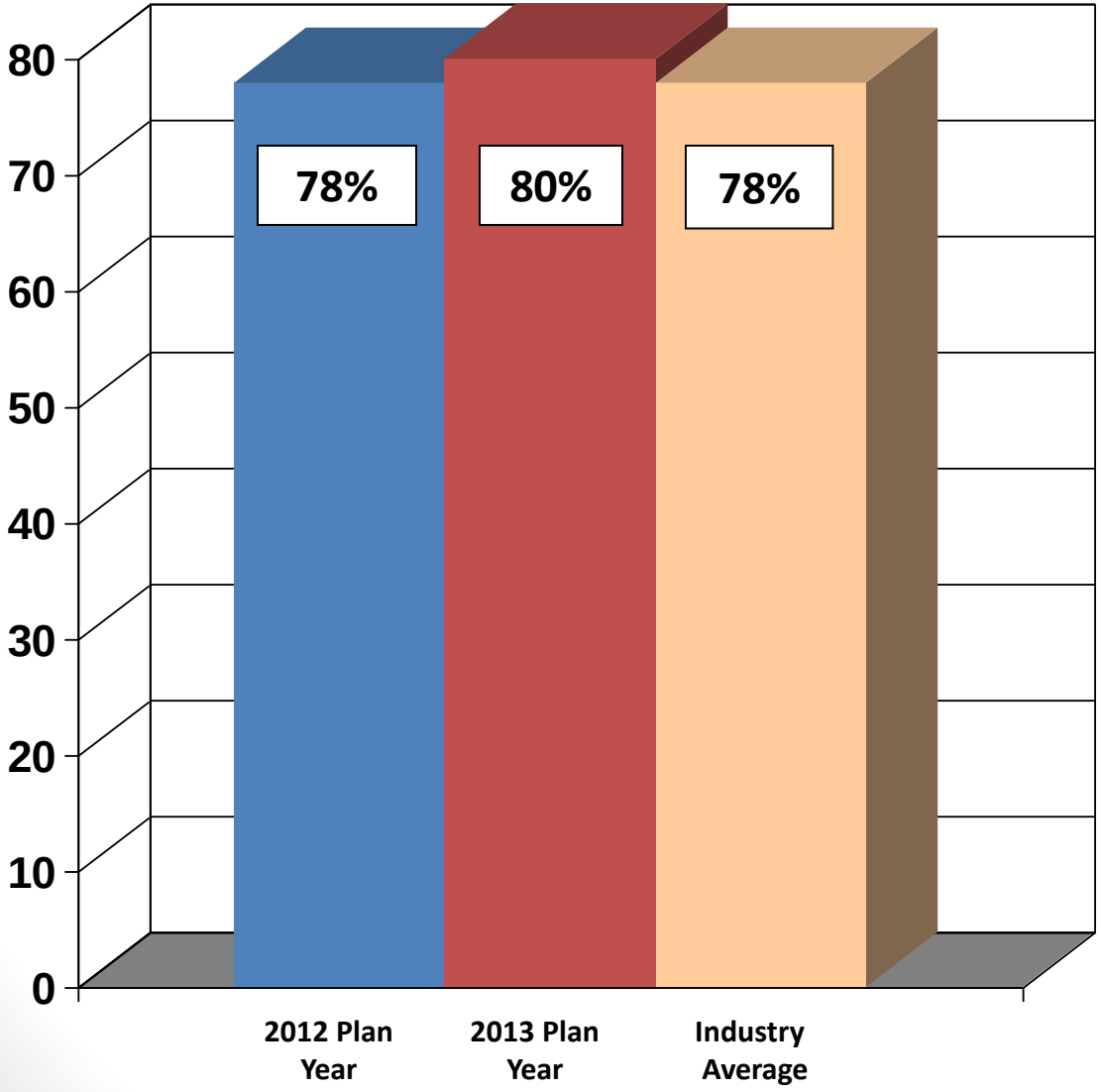
1. "Network" utilization
   - Network providers charge approximately 54% of what out-of-network providers charge
2. Generic drug utilization
   - Normative generic utilization benchmark is 78%
   - Best-In-Class is 80%
3. Population Demographics
   - Dallas has an older population than its peer cities, resulting in higher claims
   - Average employee age is approximately 3 years older than peer cities
   - Each additional year on average increases cost by 2-4%
   - The City has less dependent children on the plan as compared to peer cities
   - Family size is 21% lower than peer cities

Medical Plan Performance - Network Utilization



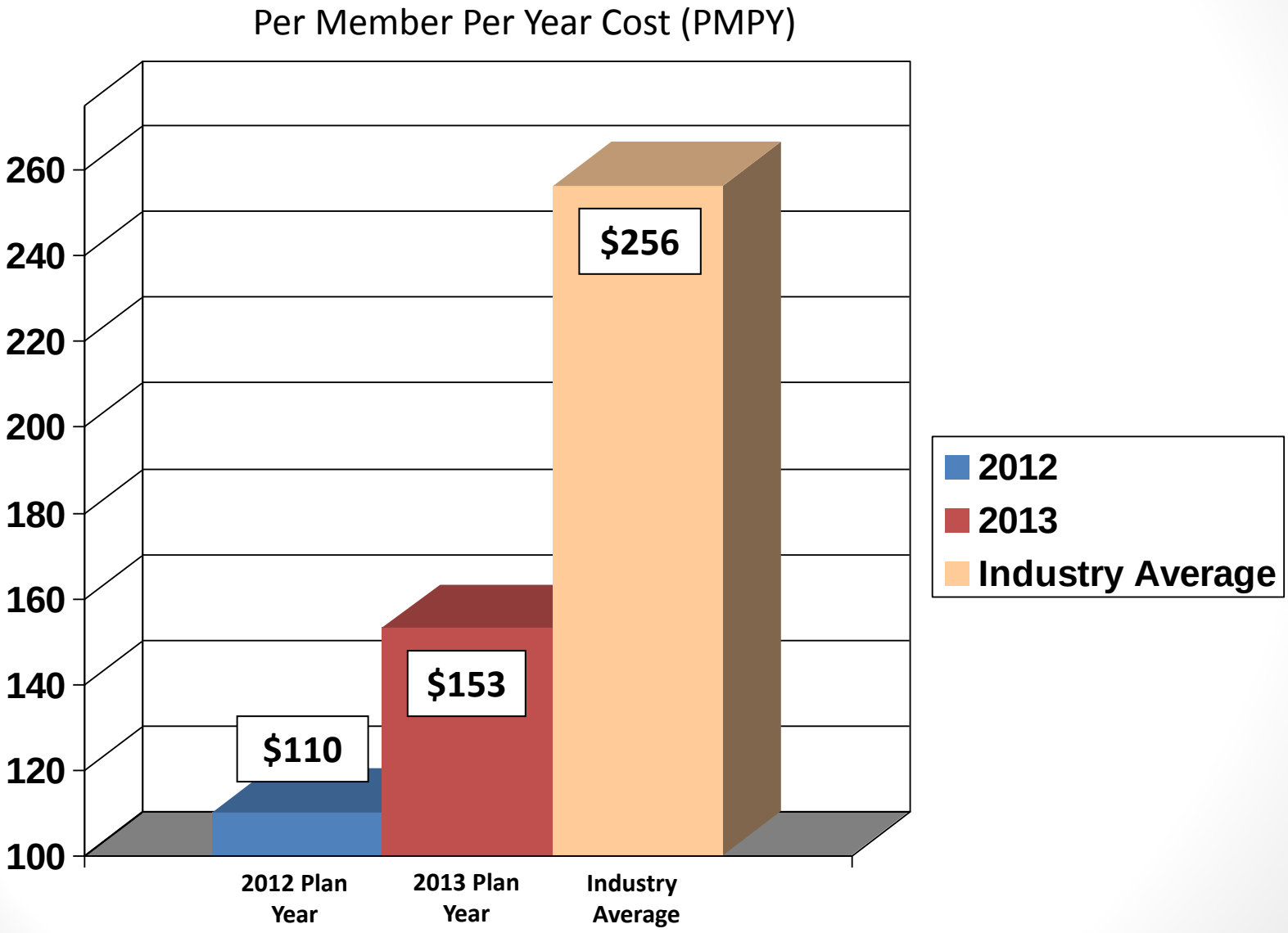
- City of Dallas eliminated out of network services in 2011 except in emergencies
- Savings of approximately $1M per year

Pharmacy - Generic Drug Utilization

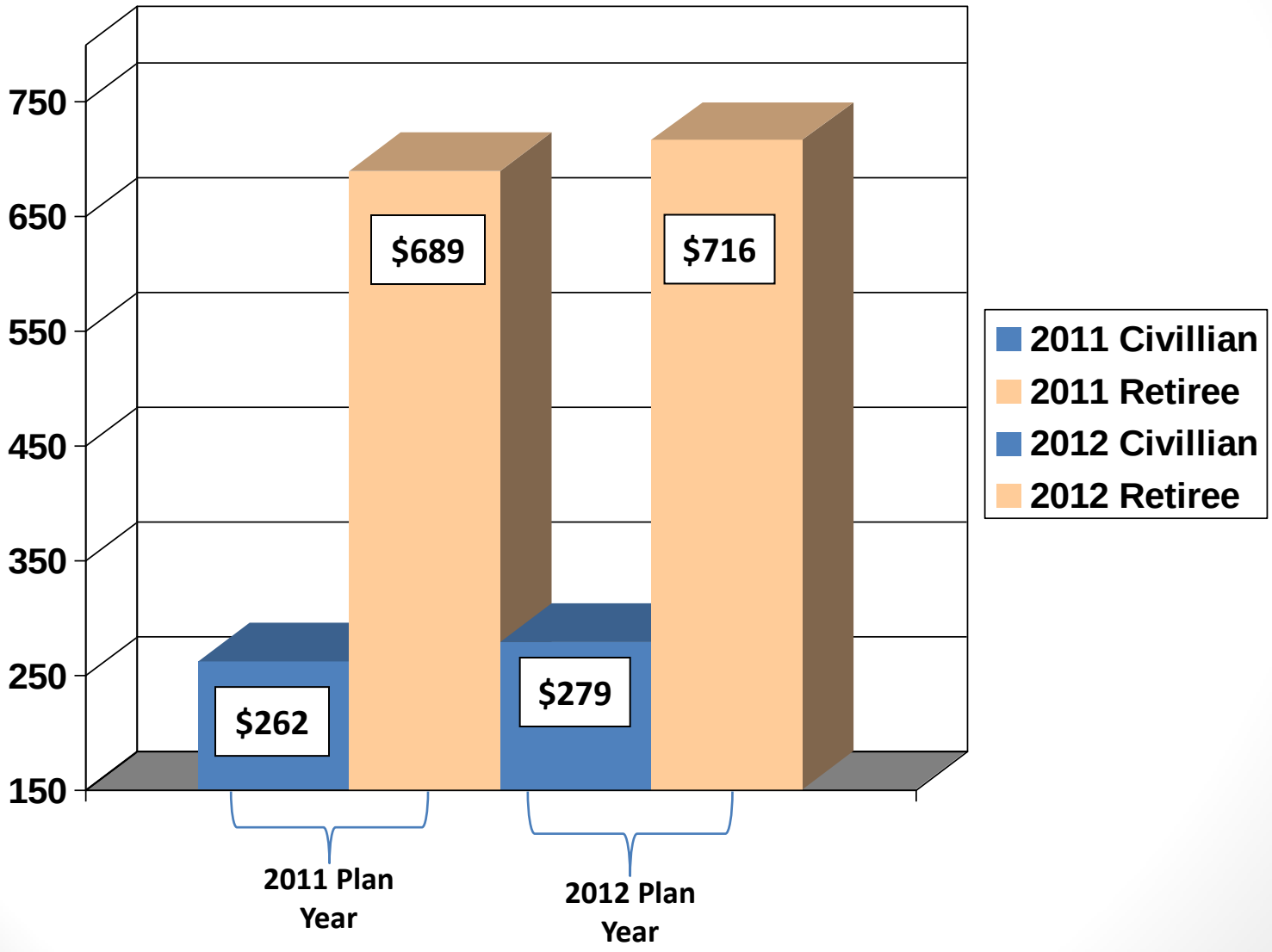


- City's generic drug utilization was around 59% prior to plan design changes
- Every 1% increase in generic drug utilization, decreases prescription drug costs by ½%

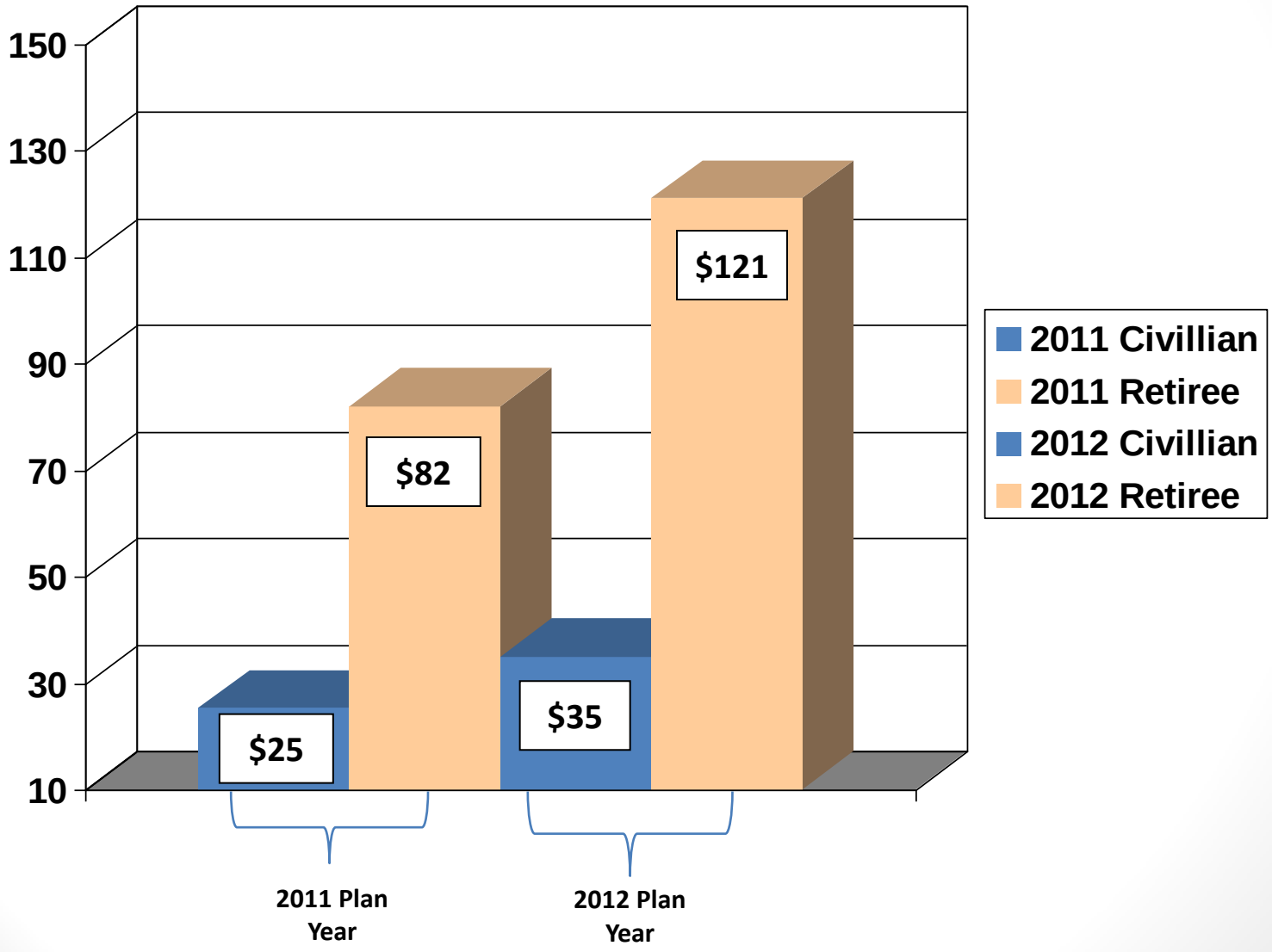
Pharmacy - Specialty Drug Cost



Medical – Net Paid Per Member Per Month



Pharmacy – Net Paid Per Member Per Month



Performance Statistics

- **Obesity**
  - 81% of Dallas' health plan members are overweight or obese
  - 35% of males and 41% of females taking the health assessment had a BMI 30 greater
  - **This is the highest incidence of overweight/obese members in UHC's entire Book of Business**
  - Obesity leads to higher rates of diabetes, cardiovascular disease, hypertension, and high cholesterol; all of which are high cost drivers for health plans

- **Diabetes**
  - 30% of high cost claims (claims in excess of $50, 000 per year) are attributable to diabetes
  - 28% of the plan expenditures
  - Diabetes without complications – 21% higher than peer cities (68.1% higher than expected)
  - Diabetes with complications – 11% higher than peer cities (26% higher than expected)

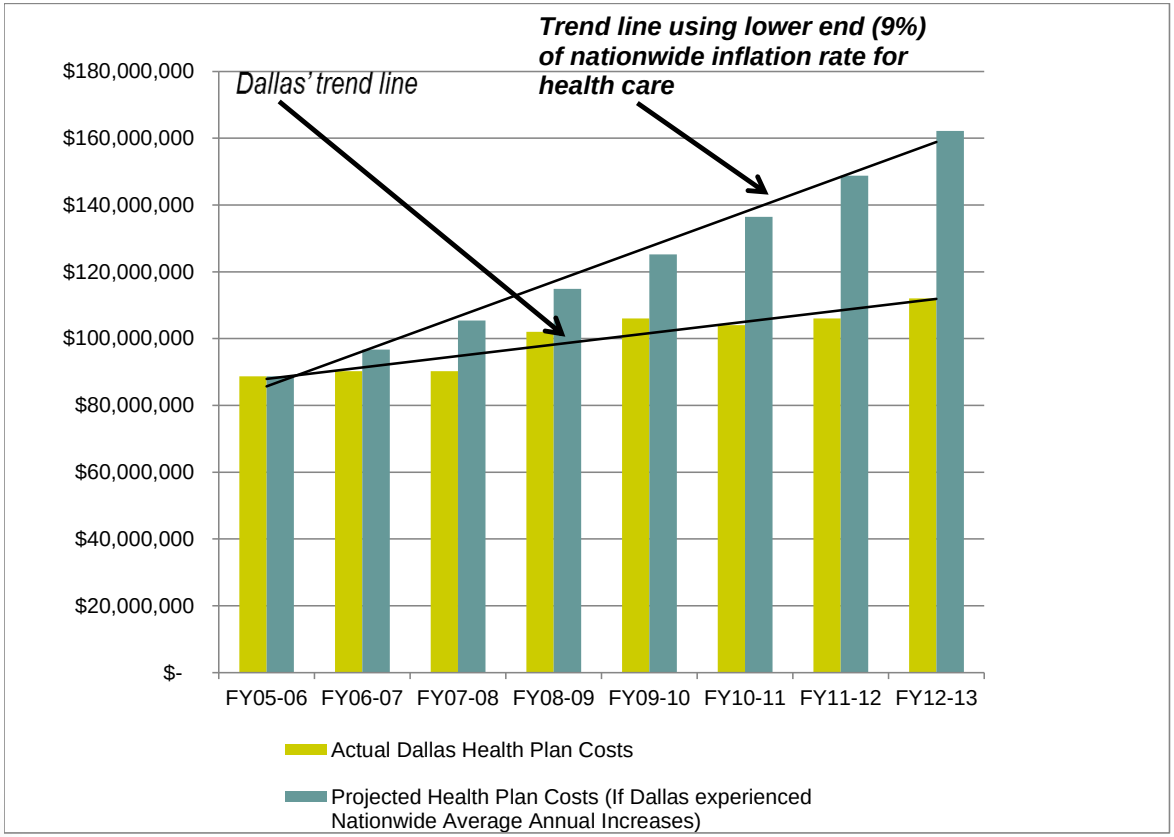
- **Hypertension**
  - 40% higher than peer cities
  - 51% higher than expected

Costs – Mitigating Trend

- Healthcare experts use the phrase “Mitigate the Trend” which means “have your healthcare costs increase at a slower rate than healthcare costs increase in general”
- Nationwide, inflation (or trend) for healthcare has been outpacing overall inflation for the past several decades
- Up until 2013, the inflation rate for healthcare was trending at around 9% to 12%, depending on the area of the country
- In Dallas, the inflation on healthcare was trending at around 10%

Costs – Mitigating Trend

- Why do we care about "Mitigating the Trend?"



- Since 2005, the nationwide increase on health care costs has been trending between 9% and 12% per year
- By implementing changes to the health plans, the City has been able to mitigate much of the inflationary pressures on its healthcare costs
- If the City cost had increased by 9% per year (the lower end of the nationwide average), the cost FY12-13 would have been about $162M

Ways to Mitigate the Trend

- **Make plans consumer driven to help members become more savvy healthcare consumers**
  - Buy generics when possible
  - Do not get multiple tests for the same condition
  - Use the right healthcare provider for the right situation – don't go to the Emergency Room for non-emergent conditions
  - Shop for the best prices when possible
- **Shift costs to employees**
  - Higher deductibles
  - Lower co-insurance
  - Higher out-of-pocket maximums
  - Increased premiums

Ways to Mitigate the Trend

- **Increase in-network utilization** – Prices in network are less expensive than out-of-network services
- **Focus on essential health benefits** – Limit plan coverage for items that are not designated as essential health benefits
- **Direct contracting/Narrow networks**
  - Some large employers are directly contracting with healthcare provider groups
  - Pricing for direct contracts can be better than network prices
- **Accountable Care Organizations (ACOs)**
  - Providers use technology to collaborate across specialties
  - Accountable for 100% of expenditures and care of a defined population of patients
  - Financial incentives are tied to patient outcomes

Ways to Mitigate the Trend

- **Wellness** – Improve the overall health of the population
- **Disease Management** - Ensure members with chronic diseases stay compliant with medications so that they do not have critical, high-cost incidents

What Dallas Has Done to Mitigate Trend

- San Antonio has established a Mayor's Task Force to address high costs in their uniform health plans
- San Antonio's uniformed employees have their own health plan with costs projected at over $13,000 per uniformed employee per year
  - San Antonio's projected civilian cost is $7,360 for 2014
- Below is a response to the Task Force from their consultants about Dallas' plan

ATTACHMENT I MHBT

Question 8; Has anyone from the City reached out to Dallas to determine what they are doing that results in our civilian costs being 2x theirs and our uniform costs being 5x their costs?

The City of Dallas has lower healthcare costs as they only offer three types of Consumer Driven Health Plans (CDHP), to both civilian and uniform employees. Consumer Driven Health Plans help change behavior and reduce costs when compared to traditional medical plans. The City of Dallas was able to drive changes via increased member cost sharing, in addition to reducing overall utilization through improved member decisions resulting in sustainable lower costs. Effective January 1st, 2013, The City of San Antonio offers civilian employees a Consumer Driven Health Plan as an option. While 2013 had only 409 civilians and 11 retirees enrolled in the City's CDHP plan, initial enrollments for 2014 reflect 1,821 civilian and 26 retirees.

What Dallas has done to mitigate trend

- **Reduced Emergency Room visits**
  - Contracted with Concentra so employees on the plan can visit any of their 17 clinics for a low co-pay
    - Did this to reduce ER visits which fell by about 6% from 2012
  - Dallas' ER visits are 20% lower than UHC's Book of Business
    - Still have work to do – projected that about half of the ER visits in 2013 could have been redirected to urgent care
- **Developed Robust Wellness Program**
  - Reducing body weight by 5% reduces diabetes risk by 58%
  - Engaged members cost 22% less than non-engaged members
    - Diabetes - engaged members with diabetes cost 16% less than non-engaged diabetics
    - Obesity - Engaged members with a diagnosis of obesity cost 22% less than non-engaged members with a diagnosis of obesity
    - Still have work to do given the current member demographic statistics and level of engagement
- **Tiered Premiums for Engagement**
  - Those who engage pay a lower premium and receive higher HRA allocations

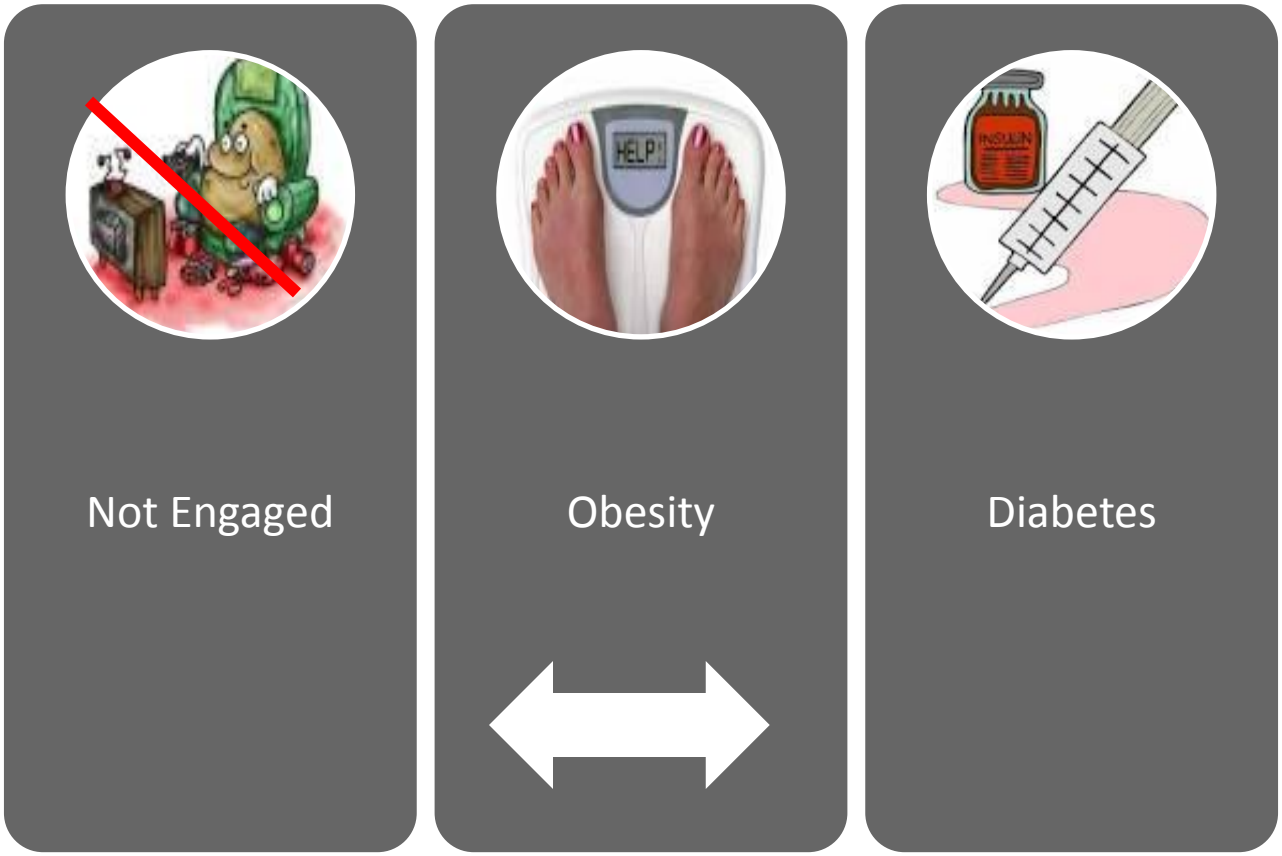
Continuing Efforts

- Strengthen the Wellness program
- Offer “Benefits 101” videos to help employees be better healthcare consumers
- Explore direct contracting options
- Additional education around appropriate use of emergency rooms
- Enhance and promote disease management to help those with chronic diseases better manage their health

2013 WellAware Program

Wellness Program

Target Employee Populations



Not engaging in wellness resulted in 22% higher cost

City of Dallas WellPoints Program

58%

Participants completing health risk assessment

74%

Participants who had well exams

5%

Completed online programs

28%

Participants reaching maximum points

2,147

Employees who earned all 250 Wellpoints and received $300 additional HRA allocation and a premium discount

21,447

Individual activities tracked

414

Retirees < 65 who took the health assessment

21%

Met biometric targets

41%

Participated in educational offerings

Further Considerations

Affordable Care Act and Plan Changes

Provisions of the Affordable Care Act

Provision	COD Pre-PPACA Policy	COD Current Policy	Date of Change
Preventative care covered at 100%	HRA Plan – 100% Coverage 70/30 Plan – 70% Coverage	100% Preventive Coverage	1/1/13
Cover adult children to age 26	Cover unmarried adult children to age 25	Cover married or unmarried adult children to age 26	1/1/11
No life-time maximum	No life-time maximum	No life-time maximum	N/A
Waiting period cannot exceed 90 days	No waiting period	No waiting period	N/A
Elimination of waiting periods for pre-existing conditions for children	12 month waiting period for pre-existing conditions	Elimination of waiting periods for pre-existing conditions for children Adult – 12 month waiting period for pre-existing conditions (will remove in 2014)	1/1/11
3rd party appeal process	External appeals performed at City's discretion	External appeals required	1/1/13
Health Flexible Spending Account limited to $2,500	Health Flexible Spending Accounts limited to $5,000	Health Flexible Spending Account limited to $2,500	1/1/13

Affordable Care Act Fees

- Transitional Reinsurance Fee
  - Establishes three-year transitional reinsurance program that is established under health reform to help stabilize premiums in the individual health insurance market from 2014 to 2016

City of Dallas Implication (All Payable in December)	Transitional Reinsurance (Can be paid by Plan)
Estimated 2014 Annual Fee (due Jan 2015)	$1,117,330
Estimated 2015 Annual Fee	$744,886
Estimated 2016 Annual Fee	$465,199

- Patient Centered Outcomes Research Institute (PCORI)
  - Examines the "relative health outcomes, clinical effectiveness, and appropriateness" of different medical treatments by evaluating existing studies and conducting its own
  - Fee- $2 per average number of lives covered on the plan (current rate $41,298)

2015 Plan Changes

- The 70/30 High Plan will not be offered in 2015
- The Affordable Care Act states the out-of-pocket maximums for health plans cannot exceed $6,350
- The current 70/30 High Plan has separate medical and pharmacy out-of-pocket maximums for a combined out-of-pocket maximum of $10,000
  - This is not compliant with the Affordable Care Act and will not be permissible in 2015
- Plan options are currently being priced to replace this plan

Upcoming Agenda Items

Service	Current Provider	Contract Terms	Contract Status	Action	Agenda Date
Basic Life Insurance	Standard	3 year contract with 2 one-year renewal options	3 year contract expires 12/31/14	Exercising one-year renewal	April 23, 2014
Plan Administrator	UHC	3 year contract with 2 one-year renewal options	3 year contract expires 12/31/14	Negotiating rates for one-year renewal	TBD
Pharmacy Benefits Manager	CVS/ Caremark	3 year contract with 2 one-year renewal options	3 year contract expires 12/31/14	Negotiating rates for one-year renewal	TBD
Healthcare consultant	Buck	3 year contract with 2 one-year renewal options	First renewal expires on 9/30/2014	RFP will be issued for this service	August, 2014
Voluntary Products	Colonial	3 year contract with 2 one-year renewal options	First renewal expires on 6/30/2014	Evaluations underway	May, 2014

Appendix
City of Dallas and Peer Cities

2013 Plan Design (Averages)

	Dallas	Austin	Corpus Christi	El Paso	Ft. Worth	Houston	San Antonio Civilian	San Antonio Uniform
Deductibles In-Network								
Individual	$1,500	$500	$1,025	$1,433	$1,066	$700	$850	$250
Family	$3,000	$3,000	$2,450	$3,083	$2,633	$1,433	$1,700	$500
Out of Pocket Max								
Individual	$6,350	$5,000	$1,833	$6,667	$3,250	$3,500	$2,650	$550
Family	$12,700	$10,000	$5,416	$6,000	$5,708	$7,000	$5,300	$1,500
Monthly Premiums								
Individual	$53	$5	$76	$178	$77	$58	$63	$0
Family	$494	$486	$280	$496	$598	$345	$273	$0

* Averages used when multiple plans offered