

To: Mayor and City Council

Date: 1/20/11

Via: Gary Jackson, City Manager

From: Healthcare Task Force Committee

Subject: Findings and Recommendation by Healthcare Task Force Committee

Summary Statement: To update City Council on findings and recommendations of Healthcare Task Force.

Review: City Council appointed five (5) members of the community to serve on the Healthcare Task Force. Council directed the group to provide final health fund recommendations by the onset of the FY 11–12 budget process (January – February, 2011). The Task Force was initially charged with:

- Evaluating best practices to determine the optimal range of health insurance related benefits afforded to employees
- Cost-for-service comparisons
- Employer-employee cost-share analysis
- Review of the Asheville Project Disease Management Program
- Other areas of interest

The Task Force convened four times between September and December to review and discuss all aspects of the City's benefits package. Our review included details on the current risk structure, healthcare funding levels, The Asheville Project Disease Management Program, Health claim costs, Medical and dental administrative costs, Health Services on-site Clinic costs, and Health and Wellness initiatives and incentives.

Task Force Defined Objective: Operate a sustainable Health Care Program that provides Access to Quality and Cost-effective, medical care to the City of Asheville's employees, retirees and dependents. The Task Force's recommendation encompasses these three broad categories that, when combined, will improve the Health Care program of the City, provide for fiscally responsible spending and improve the health of the participants.

Access – Improving access to health care by removing barriers (cost and availability), encouraging preventive health care and wellness exams, and affiliating with health care providers/networks to offer expanded services and access to care.

- **Expansion of Employee Health Clinic** – Expansion of services involves acute care diagnosis and treatment by an on-site physician from the current 2 day per week to 5 days, expanded lab services and capabilities, disease management intervention for patients not yet enrolled in The Asheville Project program and current Asheville Project enrollees not compliant with evidence based medical norms. Potential savings also generated through decreased time out of work due to illness, improving health education for patients in all risk levels through preventive medical education, reduction in prescription drug cost through generic utilization and lower cost brand by prescribing physicians and reduction in cost per event for lab work. Details on the financial impact of Expansion of the Employee Health Clinic shown below under the Cost Category.

- **Coordination of Care with Physicians** located in the Community for Employees & Dependents by affiliating with networks and providers, encouraging all Medical Plan participants to find a primary care physician, and facilitating communication with providers through the use of Electronic Health Records. The Medication Therapy Management Program began in July 2010 to review Prescription Drug Utilization of members on health plan is an example of Coordination of Care with pharmacists, physicians and members. Communication of recommendations to members and their Physicians for potential opportunities to reduce member and City costs through prescription drug changes is on-going.

Quality Health Care that focuses on Prevention and Wellness will improve patient health and well-being.

- **Affiliate with Health Care providers** committed to provide quality care and that are committed to Prevention and Wellness Care.
- **Reward prevention/wellness** by creating a system of real rewards for participation in a Wellness Program. The Wellness Program presented by City Staff offers financial rewards to participants for committing to basic biometric testing and healthy behaviors. The Wellness program should provide incentives for modifying unhealthy behavior and educational opportunities to participants.
- **Preventive Care Services** should be covered by the Medical Plan for all members. The U.S. Preventative Services Task Force publishes a detailed recommendation of Preventive Care Services based on evidence-based medical standards of care. Medical Plan changes should be reviewed to ensure these recommendations will be covered. Section 1 of The Guide to Clinical Preventive Services 2010-2011 is attached.
- **Education and Communication** to all employees and retirees on the actual plan costs and cost saving information.
 - Provide information concerning advanced directives before illness begins and partner with Crescent Health Care to provide details upon diagnosis of life threatening illness.

Cost – The third part of our recommendation involves reducing the overall cost of the City’s health insurance program and stabilizing the financial health of the program by rebuilding the health insurance fund. The key is to reduce costs and stabilize the fund while still providing Access to Quality health care. The City’s current plan design and costs were benchmarked against other plans offered by private and public employers in North Carolina. The City’s current Medical benefits and corresponding employee/retiree contributions were found to be richer than those offered through other employers. Modification of Plan designs to reduce costs and increases in employee and retiree contributions will bring the City’s Medical benefits to be more in line with the plans reviewed.

- **Modify Plan Designs** to reduce cost to be more consistent to benefit plans offered by other Public and Private Employers in NC. The new plans should promote preventive care and wellness and provide incentive to utilize the City’s Health Clinic.
 - Plan Design Changes effective 7/1/11: Estimated 14% decrease in claim cost for Fiscal year 2012, which will offset health care trend increase, estimated increase for Health Care Reform changes required by PPCA and increases in Reinsurance Premiums. The estimated reduction in claims is \$1,647,000. Attached is a summary of recommended Plan Design Changes.

- **Increase Employee and Retiree Contribution** by utilizing an *alternate Contribution Strategy* which sets the City's Contribution at the same level for all plans offered.
 - Proposed changes increase the employee contributions 26% over current costs and Retiree Contribution 81% for a combined 40%. This change would result in a savings of approximately \$840,000. Calculation of Retiree contribution increase is based on the actual cost of the City's Retiree population, which is more than 2 times the cost for active employees. The recommended increases in Employee and Retiree contributions must be reviewed for legal and political concerns and objectives. Legal review is necessary due to changes in rating methodology and contribution strategy. Modifying contribution levels to a more moderate increase of 20% for employees and retirees combined is equal to approximately \$420,000 in annual costs. See Chart Below for current and renewal cost comparison of the health plan in which most employees and retirees are enrolled.

Comparison of Current "Middle" Plan & 40% Contribution Increase				
	Per Paycheck Employee Deduction			Annual
Active Employees	Current	Renewal	Increased Cost	Increased Cost
Emp Only	\$11.55	\$23.08	\$11.53	\$299.78
Emp/Spouse	\$90.30	\$106.62	\$16.32	\$424.32
Emp/Children	\$63.00	\$83.08	\$20.08	\$522.08
Emp/Family	\$155.40	\$171.69	\$16.29	\$423.54
	Monthly Rates			Annual
Retirees with City Subsidy	Current	Renewal	Increased Cost	Increased Cost
Ret Only	\$57.75	\$128.00	\$70.25	\$843.00
Ret/Spouse	\$554.40	\$1,073.00	\$518.60	\$6,223.20
Ret/Children	\$442.05	\$710.00	\$267.95	\$3,215.40
Ret/Family	\$935.55	\$2,128.00	\$1,192.45	\$14,309.40
	Monthly Rates			Annual
Retirees without City Subsidy	Current	Renewal	Increased Cost	Increased Cost
Ret Only	\$501.90	\$728.00	\$226.10	\$2,713.20
Ret/Spouse	\$1,254.75	\$1,673.00	\$418.25	\$5,019.00
Ret/Children	\$1,003.80	\$1,310.00	\$306.20	\$3,674.40
Ret/Family	\$1,907.85	\$2,728.00	\$820.15	\$9,841.80

NOTE: Retirees pay the full cost of dependent coverage
 Retiree Renewal Subsidy by City = \$600 per month

- **Future Employee Retiree Health Insurance** – City Staff and Consultants should perform a detailed analysis of the Retiree Health Insurance options for Future Employees. Medical claim costs, liability for future costs, and eligibility limitations should be reviewed and benchmarked with other public employers in North Carolina.

- **Cost Expansion of the Employee Health Clinic** reviewed by the Task Force is shown below. The recommendation is based on future projections of Cost Avoidance and the ability to provide Access to Quality Health Care to Health Plan participants.

	<u>Feb 2011- June 2011</u>	<u>Fiscal Year 2012</u>
Expansion of Health Clinic		
Lease of space & construction costs	\$52,500	\$66,000
Addition of Physician Assistant 5 days per week	\$41,670	\$100,000
Current Health Services Budget	\$113,310	\$251,933
Additional nursing staff	\$10,420	\$25,000
Lab, Supplies & Equipment	\$10,000	\$10,000
Electronic Health Record System	\$10,000	\$17,000
Physician Occupational Costs	<u>\$33,330</u>	<u>\$80,000</u>
Total:	\$271,230	\$549,933
Cost with no change	<u>\$154,972</u>	<u>\$371,933</u>
Additional Costs	\$116,258	\$178,000
Estimated reduction in Medical Claims Cost	-\$100,000	-\$500,000
Additional Cost (1st year)	\$16,258	
Cost Avoidance (year 2)		-\$322,000

- **Reserve Fund** - Priority should be given to stabilizing the Health Insurance Fund by rebuilding the Reserve Fund that will remain available to offset normal variances in claims costs from year to year (Margin), unforeseen catastrophic claims, larger than expected Medical Inflation trends, Incurred But Not Reported Claim Liability and the impact of future Health Care legislative mandates.
 - Each year the City Staff should work with their consultants utilizing sound underwriting methodology to determine an adequate level of Margin and Reserve based on the projected claim fund and Reinsurance protection.
 - To begin the process of rebuilding the fund, we suggest that the City's current level of funding remain the same for Fiscal Year 2012, despite benefit reductions and increases in Employee and Retiree contributions. Additional claim savings generated by the benefit changes, expansion of the Health Clinic and Employee and Retiree contribution changes should be allowed to accumulate towards rebuilding of the Reserve Fund.
 - Once an adequate Reserve Fund level is established, funding should be reviewed and adjusted annually. Allocation of necessary increases to the Reserve Fund level should be included in budgeting for future health care costs.

Financial Summary

Medical Cost Projections*	7/1/11-6/30/12
Estimated Medical & Prescription Drug Claims	+ \$10,533,000
Estimated Administrative Costs	+ \$ 1,012,000
Health Trend & Health Care Reform Changes	+ \$ 1,230,000
Expected Medical Costs at current benefits	= \$12,775,000
Estimated Employee & Retiree Contribution at current levels	- \$ 2,100,000
Required Funding	\$10,675,000
Estimated Reduction for Benefit Changes	- \$1,647,000
Increase Employee & Retiree Contribution 40%	- \$ 840,000
Health Clinic Cost Avoidance	- \$ 322,000
Estimated Savings with Changes	= \$2,890,000
Required Funding with Changes	\$7,785,000
Current City Funding for Medical Only	\$9,407,000
Amount Available for Reserve Fund	\$1,622,000

Medical Cost Projections* - Employee & Retiree Medical and Prescription Drug Plan Costs only. Estimated Costs do not include dental, life insurance, long term disability, or other benefits.