



INTER-OFFICE MEMORANDUM

Date: July 24, 2017
To: Mayor and Council
From: Mike Snyder, Human Resources Director
Subject: Partial Self-Insurance Study Session – July 27, 2017

Seeking Council Direction

Staff is seeking Council direction on medical, dental and vision insurance models. Specifically, whether staff should pursue:

- A partial self-insurance model, or
- Continue with a fully-insured model

Presentation Outline

- Introduction and initial information – Brian Sjothun/Mike Snyder
- Presentation of Self-Insurance considerations – Doug DeAngelis, USI Insurance Services

Background

The City of Medford currently administers three (3) separate programs for medical, dental and vision insurance. The programs are as follows:

1. City non-represented employees, employees covered by the AFSCME collective bargaining agreement and all four (4) Teamster collective bargaining agreements;
2. Medford Police Officers' Association; and
3. IAFF Local 1431

The Thursday, July 27, 2017 Council Study Session will be devoted to an explanation of how a partial self-insurance model works for medical, dental and vision benefits. The purpose of the meeting is to have our benefits consultant provide an overview of this model, explain the pros and cons, and answer the Council's questions regarding a program of this nature.

Ultimately, Human Resources staff is looking for the Council to weigh the fully-insured model v. the partial self-insurance model and provide guidance. We are at a crucial junction regarding our benefits as we look to ways we can better control costs and promote sustainability into the future. As you all know, our benefit structure is an attractive part of our compensation package. This enables us to recruit highly qualified employees and retain those that have devoted their professional careers to this City.

Continuous Improvement ~ Customer Service

Closing

At the close of the presentation and question and answer period, we are requesting the Council to provide guidance regarding whether or not to stay the course with a fully-insured model or pursue a partial self-insurance model. Either way, City staff will continue to work with employee groups and our consultants to ensure the sustainability of our health benefits.

Exhibit

USI PowerPoint Presentation

City of Medford

2018 SELF INSURANCE CONSIDERATION AND REVIEW, JULY 2017

CITY COUNCIL STUDY SESSION

GREG 'O HANLON, SVP, USI INSURANCE SERVICES, INC.

DOUG DEANGELIS, SVP, USI INSURANCE SERVICES, INC.

Self Insurance Review and Consideration Executive Summary

Agenda and Critical Issues:

- Fundamental Structure Example of partial self insurance
- The case for partial self funding in today's marketplace
- Underwriting and pricing examples of self insurance vs. fully insured renewals utilizing the same hypothetical claims results over the comparison period
- Expected impact and risk improvement from potential addition of Police and Fire groups
- Pros and Cons/Risk and Reward

Partial Self Insurance Structure

An entity that decides to self insure purchases all elements of a fully insured program and puts them together “a la carte” to provide:

- plan administration services
- network access
- claims and case management
- pharmacy benefit management
- Population Health Management
- individual stop loss protection, and
- aggregate claims protection

Partial Self Insurance Structure

By separating these elements, transparency of pricing and elimination of some taxes and fees provide:

- lower starting cost
- lower cost over time due to transparency

Stop loss coverage is highly competitive

- very robust marketplace and can be marketed and switched out easily without disruption
- forces down prices over time without having to change administration or network platforms

Pharmacy benefit management (PBM) can also be shopped and changed in a transparent manner

- pushes competitive rates downward
- provides a clear view of how the process works and is paid for - taking the blinders off of the pricing and rebate process for each PBM

Partial Self Insurance Structure

A partially self insured entity pays for all small claims under the stop loss level for each and every member and all of those claims are combined into an aggregated expected expense with “worst case” total aggregate protection purchased to mitigate overall risk

More and more public entity groups in Oregon are partially self insured:

➤ Some examples include:

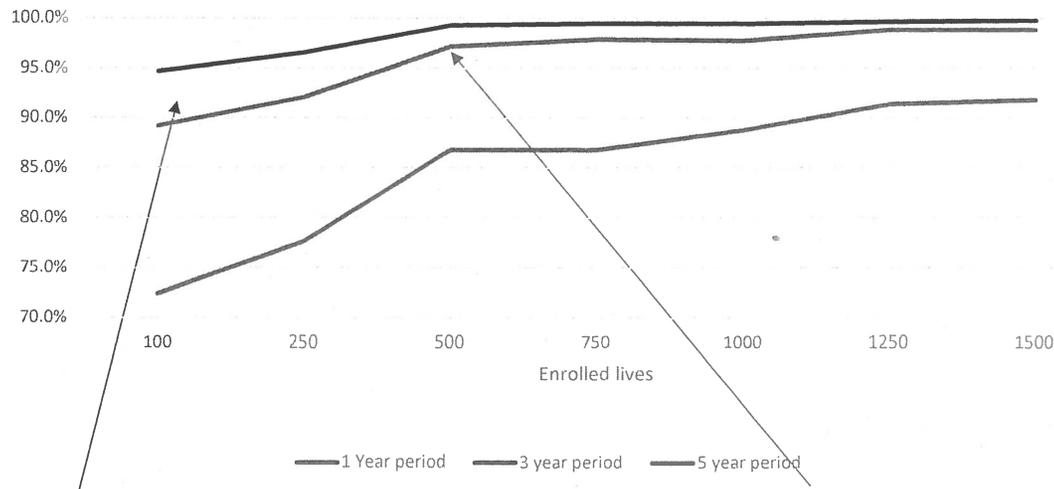
- Jackson County
- Medford School District
- Deschutes County
- City of Gresham
- City of Springfield
- City of Eugene
- City of Salem
- Lane County
- Springfield School District

Alternative Funding:

Understanding Probability & Risk

Given inherent tax and fee advantages of alternative funding arrangements, long-term savings are highly likely.

Likelihood of Self-Funding Costing Less than Fully Insured *



Over a 5 year period, there is a 94.7% chance of a 100 life group saving money by self funding

Over a 5 year period, there is a 99.3% chance of a 500 life group saving money by self funding

- Using case specific factors and robust actuarial tools, USI demonstrates the very high likelihood of partial self-funding costing less than fully insured over the course of 1, 3, and 5 year periods.
- The inherent cost advantage of 7-12% of premium for alternative funding arrangements drives the long term savings.
- USI helps employers understand the appropriate balance of risk and premium.

Understanding the Probability (cont.)

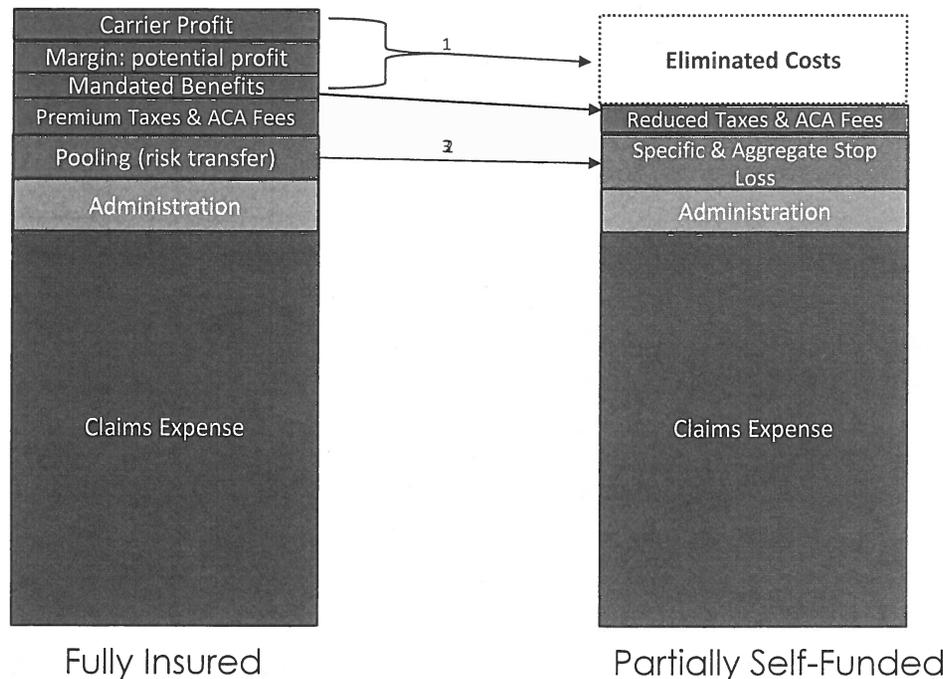
- Optimizing return: The chart below demonstrates the importance of choosing appropriate stop loss levels. The Likelihood calculations will vary based on stop loss.
- The chart below should help illustrate the relationship of stop loss levels, fixed cost and risk.
 - Too much stop loss will increase fixed costs and reduce savings opportunity
 - In the short run, too little stop loss will increase exposure and reduce saving opportunity
 - Over the longer term, more risk = more opportunity for savings

Lives	Stop Loss	1st year	3rd year	5th year
300	50,000	75.8%	88.0%	92.1%
300	75,000	80.2%	92.9%	96.4%
300	100,000	82.8%	94.3%	97.8%
300	125,000	83.3%	94.9%	96.5%
300	150,000	83.1%	95.6%	98.4%
300	175,000	82.4%	95.4%	98.3%
300	200,000	80.7%	94.9%	98.4%
300	225,000	80.4%	95.0%	98.5%

Fully Insured vs. Self-Funded Plans:

Understanding the Components

For groups over 100 employees, actual claims experience plays the most significant role in determining health insurance rates. Alternative funding strategies offer a different way to manage the rest of the cost. Either way, the employer is bearing the cost of actual claims.



1. Margin, carrier profit and review of mandated benefits become potential savings for the employer.
2. Partially self funded plans reduce state premium taxes and many ACA fees.
3. Stop loss replaces the pooling charges, protecting the employer from large individual claimants and excessive total claims.

Fully Insured vs. Self-Funded Plans: Identifying the Savings

The Affordable Care Act (ACA) has changed the landscape for healthcare financing –

- Additional taxes
- Additional fees and regulations

These taxes, fees and regulations have made alternative strategies more attractive

- Estimated 7 -12% of premium savings based upon current premium levels

In a comparison to 2018

- Based upon actual City of Medford claims experience for the past 12 months this creates a fixed cost savings of _____

1 **Renewal Projection - FI Year 1 (2018)**

2 Fill-in the Blue Fields

2 BASED ON PMPM

For Internal

3	Last 12 Months	City of Medford	Prior 12
4	1/1/2018	Beginning date Plan Year (i.e., 01/01/15)	1/1/2018
5	12/31/2018	Ending date Plan Year (i.e., 12/31/15)	12/31/2018
6	6/1/2016	Beginning date Experience Period	6/1/2015
7	5/31/2017	Ending date Experience Period	5/31/2016
8	\$33.00	Admin PMPM	
9	0.00%	Trend	
10	\$52.80	PMPM for Pooling Level	\$1.00
11	75.00%	Weighting for last 12 months	
12	25.00%	Weighting for Prior 12 months	
14	0.04%	2.66% Fees + 2.5% Margin	
15	\$0.10	If fees are a flat amount Enter (adjust descriptions in cell 14 & 37)	
16			
19	9,717	Enter # of Members	9,694
20	\$4,497,706.00	Enter Prem Paid	\$4,277,922.00
21	\$18,216.65	Reserves (Varies based on the circumstances of the group)	\$19,050.07
22	\$1.87	Reserves PMPM	\$1.00
23	\$3,548,329.00	Enter Claims	\$3,810,019.00
24	\$376.82	Claims + Reserves	\$394.03
25	\$1.00	Enter Claims over Pooling Level	\$0.00
26	\$0.00	Pooling adjustment PMPM	\$0.00
27	\$52.80	Pooling	\$48.00
28	\$429.62	Adj Claims/Reserves/Pooling	\$442.03
29	1.109	Trend	1.20
30	\$477.27	Adj. Claims/Reserves/Pooling/Trend	\$530.43
31	1.00	Enter Benefit Adjustment	1.00
32	\$477.27	Adj. Claims/Reserves/Pooling/Trend/Benefit Adj	\$530.43
34	\$477.27	Adj. Claims/Reserves/Pooling/Trend/Benefit Adj/UW Reserve	\$530.43
35	\$957.95	Weighting	\$132.61
36	\$490.56	Blended	
37	\$33.19	Admin PMPM	
38	\$523.75	Total Calculated PMPM Claims	
39	\$22.92	Margin + fees	
41	\$546.40	Required Premium PMPM	
42		Projection	
43	\$482.00	Current Prem PMPM	
44	\$546.48	Estimated Premium PMPM	
45	13.38%	Estimated Medical Increase	



Assumes 100% Credible

1 **Renewal Projection - SI Year 1 (2018)**

2 **Fill-in the Blue Fields**

BASED ON PEPM

For Internal

3	Last 12 Months	City of Medford
4	1/1/2018	Beginning date Plan Year (i.e., 01/01/15)
5	12/31/2018	Ending date Plan Year (i.e., 12/31/15)
6	6/1/2016	Beginning date Experience Period
7	5/31/2017	Ending date Experience Period
8	\$35.00	Admin PEPM + Network
9	8.08%	Trend
10	\$131.00	PEPM for Stop -Loss & Agg
11	100.00%	Weighting for last 12 months
15	\$0.59	If fees are a flat amount Enter (adjust descriptions in cell 14 & 37)
16		
19	3,286	Enter # Employees
20	\$546,100.34	Fixed costs
21	\$166.19	Expected Claims PEPM
22	\$3,643,329.00	Enter Claims
23	\$0.00	Claims > \$150,000
24	\$3,643,329.00	Adj Claims after Pooling
25	\$1,108.74	Claims PEPM
26	1.1109	Trend
27	\$1,231.72	Adj. Claim/Trend
28	Projection	
29	\$1,390.87	Current Projected Costs (Admin+ Fixed) PEPM
30	\$1,397.91	Expected Paid Plus Fixed
31	0.51%	Estimated Medical Increase



Assumes 100% Credible

Police and Fire Groups Potential Impact

The Potential Impact on Plan Strategies and Self-Insurance:

- deliver economy of scale improvements to current City Plan
 - about 10% lower administrative and fixed expenses would be expected compared to current City plan

Police average age is 41 with 66% males

- compared to city plan average age at 49 and 69% males
- This translates to about a 15% stop loss rate impact plan to plan

Fire average age is 46 with 91% males

- compared to city plan averages
- This translates to at least 20% improvement in stop loss pricing plan to plan
- Combined price impact relative to size probably reduces stop loss rates and pure claims rates by more than 10%
- Higher participation of dependents in both groups also spreads risk more effectively for self funded programs

Police and Fire do have more early retirees, which can be problematic for stop loss pricing in a general sense, but the totals are certainly not high enough to create pricing or market concerns going forward with self insurance because of the overall increase in size of the total group, if all plans were joined together.

Pros and Cons

Pros

- Reduced Fixed Costs and increased transparency of all plan results and actions
- Capability to transparently review and shop for best in class
 - Pharmacy Benefit Management pricing and terms with reduced constraints of limited fully insured carrier choices and pricing
- Ability to use reserves to reduce rate/plan change volatility year over year reduces reliance on carrier negotiations and rate calculations, increasing self determination of plan results
- Ability to expand reporting and use data mining tools to identify trends, chronic disease, benchmark current vs. future morbidity and mitigate stop loss rate increases using real data
- Access to sophisticated wellness and population health tools including on site clinic at Jackson County, reference based pricing models, and cost plus direct contracting by specialty

Pros and Cons

Cons

- Risk assumption of claims expense above expected levels for aggregated claims up to 20% year over year
- Self insurance without police and fire is certainly viable but adding those two additional units improves overall risk characteristics/drive lower claims costs over time, and improves scale pricing for stop loss and administration services
- More intense plan management and internal administration, accounting processes and reserve management, including interaction with regulatory agencies
- Requirement for the state regulators to review and approve the plan prior to implementation with some ongoing regulatory review of the plan each year

Historical Review/Discussion Issues

Given recent claims experience for the City, is self insurance something that should be considered?

- The decision to self insure has to be more than simple cost savings when measured against insured plans.
 - Self funding provides the ability to be more nimble and use cash reserves in a direct and influential way to keep expenses down and utilize the “good years” to mitigate experience in the more difficult years.
- Self Insurance is a decision that requires a commitment of a minimum of 36 to 60 months before a clear understanding of the net effect of the process becomes clear.

Historical Review/Discussion Issues

- In order to realize the possibility of data mining and chronic disease identification and management tools, along with population health management and sophisticated wellness strategies, plans MUST be self insured to capture and manage plan data at a deep level using USI tools for chronic disease management.
- Pacific Source is linked to our data management programs and we can provide this data for benchmarking, strategy and tactics to drive down expense and drive better clinical outcomes which are not available to fully insured plans
- The Jackson County on site clinic is looking to expand and for the City to consider a move to join the on site clinic as a potential partner, the plan must be self insured to deliver replacement cost savings for more expensive retail care that is shifted to the on site clinic and can deliver savings to the bottom line for net cost improvement-more primary care, better chronic care management, better long term health outcomes and lower net expenses

Next Steps

Specific analysis information needed:

- Understanding the components
 - Prior year's renewal formula / calculation

- Fully insured vs. Alternative funded historical analysis
 - Prior four year's renewal formula / calculation

- Tax and Fee Calculator
 - Number of medical employees and PEPY estimate