



WESTMINSTER

COLORADO

AGENDA

SPECIAL CITY COUNCIL MEETING

MONDAY, SEPTEMBER 30, 2002

AT 8:00 P.M.

- 1. Pledge of Allegiance**
- 2. Roll Call**
- 3. Purpose of Special Council Meeting**
 - A. Employee Health Care Provider
- 4. Adjournment**



WESTMINSTER

City of Westminster

Office of the Mayor

4800 West 92nd Avenue
Westminster, Colorado
80031-6387

303-430-2400

FAX 303-428-4564

September 23, 2002

Michele Kelley, City Clerk
City of Westminster
4800 West 92nd Avenue
Westminster, CO 80031

Dear Michele:

Please call a special meeting of the City Council for Monday, September 30, 2002 at 8:00 P.M. to be held at City Hall in the City Council Chambers, located at 4800 West 92nd Avenue, for the following purpose:

Employee Health Care Provider

Sincerely,

Ed Moss, Mayor



W E S T M I N S T E R

City of Westminster
General Services
Department

City Clerk's Office

4800 West 92nd Avenue
Westminster, Colorado
80031-6387

303-430-2400

FAX 303-428-4564

September 23, 2002

To All Members of City Council:

A special meeting of the City Council has been set for Monday, September 30, 2002 at 8:00 P.M. to be held at City Hall Council Chambers, located at 4800 West 92nd Avenue, for the following purpose:

Employee Health Care Provider

Sincerely,

Richelle Work
Deputy City Clerk



WESTMINSTER

Agenda Memorandum

City Council Meeting
September 30, 2002

SUBJECT: City Employee Health Insurance
PREPARED BY: Matt Lutkus, Deputy City Manager for Administration

Recommended City Council Action

- (1) Approve a contract with Great West Insurance Company for administrative services related to the City’s self-insured employee medical insurance program based upon the recommendation of the City Manager and a finding that a negotiated contract for these services best serves the public interest.
- (2) Authorize the City Manager to renew contracts with Kaiser Permanente and Delta Dental; authorize the continuation of a four-tier rate structure with the employer and employee premium rates as shown on the attachments to this memorandum; and charge the expense to the appropriate Central Charges accounts in the General, Golf, Water and Wastewater Funds.

Summary Statement

- City Council action is requested to authorize the City Manager to approve a negotiated “Administrative Services Only” contract with Great West Insurance Company and to renew the contracts with Kaiser Permanente and Delta Dental for employee medical and dental coverages for 2003 and to approve 2003 medical and dental employer and employee contribution rates.
- City Staff is recommending a three option medical benefit package for employees: the Kaiser HMO and Point of Service (POS) and Preferred Provider Organization (PPO) options provided through Great West Insurance.
- Staff is recommending increases of 15% in premiums for both the City and employees for all plan options effective January 1, 2003. Staff is recommending the continuation of a “blended” rate for all the plan options. (Attachment D)
- The City’s cost for these benefits is within the amount included in the 2003 budget for employee benefits.
- During the past several months, ten firms including Kaiser and the City’s other medical insurance company, Anthem BlueCross BlueShield were asked to submit quotes for the City’s medical insurance program. After receiving the results of a subsequent formal bid process, City Staff and the City’s consultant negotiated with the low bidder, Great West to maintain their favorable quote despite the inclusion of the Kaiser HMO option.
- During the past two weeks, General Services Staff have held twelve meetings for the purpose of explaining changes to the medical benefits and premiums. The response from the employees to the proposed three-option plan has been positive overall. The concerns that were expressed relate to the increasing cost for brand name prescription drugs.

Expenditure Required: \$5,838,667

Source of Funds:	General Fund	\$3,771,856
	Water Fund	539,561
	Wastewater Fund	173,800
	Golf Course Funds	103,450
	Employee Contributions	865,000
	Plan Reserves (if required)	150,000

Policy Issues

Should the City change to a fully self-funded plan for a large portion of its employee medical coverages?

Should the City consider replacing its current medical plans provided through Anthem with alternative medical plans?

Alternatives

1. Renew present health insurance coverages with Anthem Blue Cross/Blue Shield.
2. Select an option whereby City employee health coverages are fully insured.

Neither of these options is being recommended because they fail to assist in the containment of the escalating cost of health care coverage, and fail to address long-standing customer service issues.

Background Information

The City currently provides all benefitted employees with an excellent medical benefit package through coverages offered by Kaiser Permanente, a Health Maintenance Organization HMO, and three options under the Anthem Blue Cross/Blue Shield Plan – an indemnity plan, Prime, a provider organization plan (PPO) and Blue Advantage, an HMO following the independent physician model. The breakdown of enrollment in the various plans by the number of employees enrolled is as follows:

Anthem Blue Cross/Blue Shield, Indemnity Plan - 7
Anthem Blue Cross/Blue Shield Prime - 166
Anthem Blue Cross/Blue Shield HMO Plan - 405
Kaiser HMO - 253

Approximately 79% of the total cost of the medical plans is paid for by the City representing contribution levels that are consistent with these provided by other entities within the City's every-other-year salary and benefit survey.

Like employers throughout the country, the City has felt the pressures of steadily increasing medical costs. These increases are largely caused by increased hospitalization costs, increasing costs for prescription drugs, the increasing costs of physicians, and the fact that, industry wide, previous efforts to manage healthcare costs have likely run their course. For 2002, the City was able to hold down the projected 19% increase in cost to 13.5% by essentially buying down the rates through the use of approximately \$405,000 in the self-insured plan reserves.

The City's health benefits consultant Gallagher Byerly requested various carriers to provide quotes for the City's employee medical coverage in 2001 with very limited success. At that time, it was determined that there were no practical alternatives to the City's arrangement with Anthem and Kaiser. The City's Human Resources/Benefits Staff have, however, regularly had to work with Anthem representatives to assist employees in resolving myriad issues related to the handling of their medical insurance claims. Moreover, both Anthem and Kaiser have demonstrated considerable resistance to providing summary claims information that would help the City direct wellness program priorities, and thus, assist in reducing long-term health costs. During the past several months, Gallagher Byerly has obtained quotes for renewing health insurance plans with Anthem and Kaiser as well as quotes from Anthem and other carriers on alternative fully insured and self-insured plans.

After review of the initial quotes that the City received from seven carriers and considerable discussion with Gallagher Byerly, City Staff is proposing that the City self insure a large portion of its medical benefit package as opposed to only self insuring the PPO and indemnity options it does today. Moreover, Staff is recommending that the City contract with an insurance carrier to provide what is known as an "administrative services only" or ASO contract. This contract includes the fixed costs of the plan, that is, third party administrative services, claims management review, specific claim excess insurance beyond the threshold of \$75,000 and aggregate stop loss insurance for the claim payments in excess of 125% of estimated claims. The Kaiser option would be retained, although there are several areas where plan participants would see some reduction in benefits.

As noted above, City employees would have the option of enrolling in the PPO, the POS Plans or the Kaiser HMO. The PPO would be similar to the Prime Plan available to employees currently. PPOs generally have a large network of health care providers who agree to a fee structure and billing arrangements that are part of very a specific plan. Some have co-pays for office visits and prescriptions with co-insurances on other parts of the plan. Plan participants can select their health care providers with considerable amount of flexibility. A Point Of Service plan has some of the elements of both the PPO and an HMO. There is a network of health care providers who agree on fee schedules for services. This network is generally more limited than the PPO network. Participants select a primary care provider (PCP) and that provider acts as a gatekeeper for determining the appropriate service provision for medical services. The PCP makes referrals to specialists if they deem appropriate. In terms of benefits, this plan differs from an HMO in that plan participants can go to providers outside the POS network but at a much higher cost to the participants.

The renewal quotes from Kaiser and Anthem represent an overall 24% increase over 2002 budgeted medical costs not including the transfer from reserves. These percentages represent the requested increase after the renewal quotes were revised downward by both carriers. The Kaiser Plan itself was quoted at a 19.1% renewal with a reduction in several benefits. Bids for a POS/PPO self insurance option with a prescription benefit were requested from Anthem, CIGNA, Great West, Mutual of Omaha and Kaiser. Kaiser was also asked to submit a bid for its Triple Option Plan. The results of this bid process are shown on the attached chart entitled Attachment A provided by Gallagher Byerly.

Of the firms listed above, Kaiser did not submit a quote for their Triple Option Plan as requested and Mutual of Omaha did not provide a POS option. With some exceptions, the Anthem, CIGNA, and Great West, POS, and PPO Plans are very similar as are the lists of providers that are available through these plans.

A PPO/POS self-insured plan provides considerable advantages to the City and employees in terms of containing future cost increases and at the same time maintaining a high level of benefits. The most significant of these is that the employees who are currently enrolled in the Prime, Indemnity, and Anthem HMO Plans would very likely be able to retain substantially the same benefits and providers that they have today. An exception is that current Anthem HMO participants would see an increase in their prescription benefits from a flat \$10 per prescription drug to a fee schedule in the POS plan of \$10 for generic, \$20 for brand name, and \$35 for non formulary prescription drugs. Although most employees will not see a significant change in benefit, a few employees have indicated that the prescription drug costs for their families will increase significantly because they require brand name drugs for chronic conditions.

The quotes from the various carriers not including Kaiser were based on the condition that there would not be an HMO in the plan. This condition brought about more favorable quotes because of the industry trend that shows that healthier individuals are more likely to enroll in an HMO option.

After City Staff received the quotes, Staff and Bob Kauffman, the City health benefits consultant, met with the low bidder, Great West to negotiate their quote. The outcome of these negotiations was that Great West agreed to maintain their quote for a plan without the Kaiser HMO in a plan that would include Kaiser. This is positive news for many Kaiser participants who have established long-term relationships with providers and are comfortable with the Kaiser medical care system. The changes for the plan can be accomplished within the 15% included in the proposed 2003 Budget. The same percentage increase would be paid by employees. In a worst-case scenario, an additional 2% (or approximately \$100,000) would have to be absorbed in plan reserves at the end of 2003. A comparison of the negotiated Great West and Kaiser quotes with the Anthem and Kaiser renewal quotes are shown on Attachment B.

General Services Department Staff and Bob Kauffman are currently meeting with groups of employees to discuss the proposed changes in benefits and carriers. As of September 26, twelve general employee meetings had been held in addition to meetings with the Employee Advisory Committee, employee groups within departments and individual employees. Despite the premium increase, employees are generally pleased with the proposed health plan package. This is due mainly to the fact that Kaiser will continue to be an option for employees and non-Kaiser participants will continue to have excellent medical benefits under the proposed self insurance package with Great West. During the employee meetings, two employees expressed concern about the change in prescription benefits. At least one employee has indicated that they might be at the September 30 Council meeting to express their concerns on this issue directly to Council.

As Council will note, Attachment B shows estimated and maximum claims for the negotiated Great West ASO contract with and without Kaiser. The maximum claim column represents the total claims cost to the City in a worst-case scenario given a 125% stop loss on the aggregate stop loss claims policy. Since there is a lag time from the start of the calendar year to when claims for that year begin to be filed, the quotes do not represent a full twelve-month period. Thus, it should be assumed that the claims cost will likely increase during subsequent years.

Nevertheless, there are clear advantages to moving toward a self-insured plan. This is due to the fact that the City has the ability under self-insurance plan to retain any savings that occur below the maximum liability, the City has the protection of the stop loss coverage, and it can be much more proactive with regard to controlling losses by directing wellness efforts in those areas where they are most needed.

Attachment C provides a summary of plan benefits under each of the recommended medical plan options. Attachment D is the charts that show the proposed employer and employee medical and dental rates for 2003. These charts reflect the recommended 15% increase in plan premiums.

The City's health benefit consultant Bob Kaufmann from Gallagher Byerly as well as General Services Staff will be present at Monday evening's special Council meeting to respond to any questions that Councillors may have on the proposed changes to the City's health benefits plan.

Respectfully submitted,

J. Brent McFall
City Manager

Attachments

CITY OF WESTMINSTER, COLORADO
MINUTES OF THE SPECIAL CITY COUNCIL MEETING
HELD ON MONDAY SEPTEMBER 30, 2002 AT 8:17 P.M.

PLEDGE OF ALLEGIANCE:

Mayor Moss led Council, Staff and the audience in the Pledge of Allegiance.

ROLL CALL:

Mayor Moss, Mayor Pro Tem Atchison and Councillors Dittman, Dixon, Hicks, Kauffman and McNally were present at roll call. Brent McFall, City Manager; Martin McCullough, City Attorney; and Richelle Work, Deputy City Clerk were also present. Absent none.

PURPOSE OF SPECIAL MEETING:

Mayor Moss stated that the purpose of the Special Meeting was to approve contracts for Employee Health Insurance Providers.

CITY EMPLOYEE HEALTH INSURANCE

Councillor Dittman moved, seconded by Dixon to approve the contract with Great West Insurance Company for administrative services related to the City's self-insured employee medical insurance program based upon the recommendation of the City Manager and a finding that a negotiated contract for these services best serves the public interest. The motion carried unanimously.

Councillor Dittman moved, seconded by Dixon to authorize the City Manager to renew contracts with Kaiser Permanente and Delta Dental; authorize the continuation of a four-tier rate structure with the new employer and employee premium rates as shown and charge the expense to the appropriate Central Charges accounts in the General, Golf, Water and Wastewater Funds. The motion carried unanimously.

ADJOURNMENT:

The meeting was adjourned at 8:22 P.M.

ATTEST:

Mayor

City Clerk

Summary of Proceedings

Summary of proceedings of the City of Westminster Special City Council meeting of Monday, September 30, 2002.

Present at roll call were Mayor Moss, Mayor Pro-Tem Atchison, Councillors Dittman, Dixon, Hicks, Kauffman, and McNally.

Council approved the contracts with Great West Insurance Company for administrative services related to the City's self-insured employee medical insurance program and authorized renewal of contracts with Kaiser Permanente and Delta Dental for \$5,838,667.

By order of the Westminster City Council
Richelle Work, Deputy City Clerk
Published in the Westminster Window on October 10, 2002.