

MERCER

Health & Benefits

CITY OF SCOTTSDALE

SELF-INSURED MEDICAL/DENTAL BENEFIT PLANS

Fiscal Year 2007/2008

February 22, 2007



Marsh & McLennan Companies

Introduction

- City Code requires the City Council to authorize the contribution rates for employee health benefits
- FY 2007/08 is fourth “benefits cycle” since new health plans were introduced in January, 2004 after extensive competitive procurement process
- Three self-funded medical plans (2,625 Employees/Retirees)
 - Aetna EPO (80% enrollment / 2,096)
 - Aetna PPO (4% enrollment / 100)
 - MMSI PPO (16% enrollment / 429)
- One self-funded dental plan (1,775 Employees)
 - Delta Dental network

City of Scottsdale Health Plan Participation by Employment Status (December, 2006)

	Aetna EPO	Aetna PPO	MMSI PPO	Total
Total FT EE's	1822	56	334	2212
Total PT EE's	139	14	15	168
Total Cobra EE's	25	5	7	37
Total Retiree's	110	25	73	208
Grand Total	2096	100	429	2625
% of Grand Total	79.8%	3.8%	16.3%	

Key Health Care Benefit Issues

- What are the overall cost projections for the self-funded health plans for FY 2007/08?
- What cost sharing strategies are appropriate and affordable?
- What can be done to further control costs, strengthen incentives for wellness and “consumerism”, and improve overall health plan performance?

To examine these issues, Human Resources and Financial Services staff utilized the expertise of:

- Chapman-Kelly (claims auditors)
- Mercer Health & Benefits (primary consultant)
- Employee Benefits Communication Team (EBCT)

Chapman-Kelly Claims Audit - Overview

- Random audits of Aetna Medical, Aetna Rx, MMSI Medical, MMSI Rx, and Delta Dental
- Audit and quantify the dollar impact of eligibility-based errors
- Identify payment errors
- Confirm the plans are being administered in accordance with designs
- Verify payments are being made in accordance with rates contracted between vendors and health providers

Chapman-Kelly Claims Audit - Results

- Total number of claims reviewed – 1,210
- Total number of errors found – 26
- Total amount of claims paid in the sample - \$140,730
- Total amount paid in error - \$665.25
- Percent of claims with an error – 2.1%
- Financial error rate - .5%
- Findings are within normal error rate of 1-3%
- Follow-up has occurred with all providers

Employee Benefits Communication Team (EBCT)

Sarah Ferrara, CAPA

Joni Lindsey, Citizen & Neighborhood Resources

John Belatti, City Attorney

Stella Fusaro, City Auditor

Steve Arnold, Community Services

Jan Cameron, Community Services

Colleen Domigan, Community Services

Denise Cook, Community Services

Jack Miller, Court

Raudel Castanon, Financial Services

Michelle Lucero, Financial Services

Dana Toporek, Fire

Scott Caccavale, Fire

Teresa Martin, Fire

Kathy Montalvo, Economic Vitality

Harold Stewart, Economic Vitality

Tanya Hazlehurst, Information Systems

Susan D'Agostino, Municipal Services

Melanie Gibson, Municipal Services

Ed Murrell, Municipal Services

Kerry Huston, Planning & Development Services

MarJan Hill-Enriquez, Planning & Development Services

Tim Finn, Police

Jimmy Wasson, Police

Chet Anderson, Police

Ida Stephens, Police

Dawn Coomer, Transportation

Douglas Magee, Water Resources

Pat Folger, Water Resources

Jennifer Bowley, West World Operations

EBCT FY 2007/08

Summary of Feedback / Issues

- Interest in learning more about the City's health care plans so that employees can take full advantage of their benefits
- Interest in wellness education and support for more health and wellness programs
- Interest in exploring future changes to the City's benefit plans such as:
 - Converting the Aetna PPO to a “qualified” High Deductible Health Plan with a Health Savings Account
 - Retirement Health Savings Account options and other ways to help employees save for retirement medical expenses

EBCT FY 2007/08

Summary of Feedback / Issues

- Concern that the existing Aetna “step-therapy” Rx protocols may limit physician discretion in prescribing medications
- Concern with on-going viability of the MMSI plan and an understanding that the Aetna EPO rates would increase if the MMSI plan goes away at some point
- Concern that the City remains competitive with other major employers on wages and health benefits in order to attract and retain quality employees
- Understanding that over time employees will need to contribute more toward the cost of health care

EBCT FY 2007/08

Summary of Key Recommendations

- After thoroughly discussing an array of plan design alternatives, recommended a package of plan design changes to help control costs and encourage effective use of the City's health plans.
- After discussing multiple cost-sharing strategies, recommended that the City shift to pricing the medical plans on an overall composite/ blended basis, rather than individually, as a way to stabilize overall rate increases.

Overview of Mercer Services

In June 2006, the City retained Mercer Health & Benefits to:

- Develop a clear understanding of City's health care cost trends
- Develop health care cost projections for FY 2007/08
- Recommend contribution strategies for the City and its employees, including rates and plan design features
- Assess Prescription Drug costs, rates, and plan designs
- Provide on-going consulting services for 1 year

City of Scottsdale FY 2007/08 Cost Projection - Overview

- Mercer calculated projected costs based on the most recent 12 months of claims (1/06-1/07)
- Fixed costs were projected based on typical increases Mercer is seeing in the marketplace and known provider access fees
- Paid claims were adjusted to reflect 7/1/06 plan changes
- Adjustments were made for claims over the stop loss deductible (\$300,000/individual)
- Trend factors from the carriers were applied
- New rates were set using December enrollments, expected claims + fixed costs (stop loss, admin fees paid to providers, etc.)

Overall Medical/Dental Cost Projection

- FY 2006/07 estimated costs \$19.8 million
- **FY 2007/08 projection \$22 million (medical \$20.5M + dental \$1.5M)**
 - Based upon active actual enrollment only
 - Does not include budget factor for current vacant positions and any new positions approved for FY 2007/08
- FY 2006/07 budget \$21.9 million
 - Includes full enrollment: employees, retirees, COBRA eligible
 - Does not include \$1.3 million that Council included in the operating contingency for excess claim costs, if needed
- FY 2007/08 budget estimate \$23.9 million (approx. \$4.5M funded by participants)
- FY 2007/08 self-insurance reserve is recommended to be \$7 million and carry-over balance is projected to be sufficient to cover this reserve amount

Mercer Cost Projection FY 2007/08

- Total composite projected medical increase (claims + fixed costs) is about **10%**
 - Individual plan cost projections are: plus 4% for Aetna EPO, minus 30% for Aetna PPO, and plus 48% for MMSI
 - Demographics, utilization of medical services and network discounts are key differences between MMSI and Aetna EPO
- Dental plan projected increase is 33%
 - Dental rates have not changed since January 2004.

Recommended Pricing/Cost Sharing Strategy – Composite Approach

- Rate differential between plans is reasonable as it currently exists
- Two of the three plans have too few enrollees to permit accurate predictability of claims and rates
- Composite strategy maintains the affordability and viability of all medical plan offerings
- Composite rate adjustments are common practice with employers offering multiple plans



Summary of Total Costs for Recommended Composite Strategy (Medical Plans)

CITY OF SCOTTSDALE

FY2007/2008 Cost Projection

***Composite Renewal Strategy - 10% Increase to Aetna EPO & MMSI
Includes Proposed Plan Design Changes***

GRAND TOTALS - ALL							
MEDICAL/RX ONLY	Dec-06 Lives	Medical Eff. 7/1/06 Current-Adj.	Medical Eff. 7/1/07 PROPOSED	Current Employer Contribution	Current Employee Contribution	Proposed Employer Contribution	Proposed Employee Contribution
<u>AETNA EPO</u>	2096	\$1,242,472	\$1,367,828	\$1,055,944	\$186,718	\$1,162,284	\$205,544
<u>AETNA PPO</u>	100	\$53,890	\$53,919	\$37,404	\$16,515	\$37,404	\$16,515
<u>MMSI PPO</u>	429	\$258,390	\$284,607	\$160,708	\$97,731	\$176,876	\$107,731
MONTHLY TOTAL	2,625	\$1,554,752	\$1,706,354	\$1,254,056	\$300,964	\$1,376,564	\$329,790
ANNUAL TOTAL		\$18,657,026	\$20,476,250	\$15,048,676	\$3,611,563	\$16,518,769	\$3,957,480
COST AS A % OF TOTAL				80.7%	19.3%	80.7%	19.3%
Total Cost Difference			\$1,819,223			\$1,470,094	\$345,917
Percent Increase Over Current			9.8%				



Summary of Proposed Contribution Rates for Full-Time Employees (Medical Plans)

CITY OF SCOTTSDALE
FY2007/2008 Cost Projection

Composite Renewal Strategy - 10% Increase to Aetna EPO & MMSI
Includes Proposed Plan Design Changes
All Per EE Costs On a Monthly Basis

ACTIVES-FULL TIME							
MEDICAL/RX ONLY		Medical	Medical	Current	Current	Proposed	Proposed
	Dec-06	Eff. 7/1/06	Eff. 7/1/07	Employer	Employee	Employer	Employee
	Lives	Current-Adj.	PROPOSED	Contribution	Contribution	Contribution	Contribution
AETNA EPO							
EE Only	608	\$295.00	\$325.00	\$285.00	\$10.00	\$314.00	\$11.00
EE + Spouse	249	\$640.00	\$704.00	\$575.00	\$65.00	\$632.00	\$72.00
EE + Child(ren)	262	\$535.00	\$589.00	\$485.00	\$50.00	\$534.00	\$55.00
EE + Family	703	\$915.00	\$1,007.00	\$815.00	\$100.00	\$897.00	\$110.00
	1,822	\$1,122,132	\$1,235,135	\$1,016,467	\$105,665	\$1,118,779	\$116,356
AETNA PPO							
EE Only	17	\$285.00	\$285.00	\$285.00	\$0.00	\$285.00	\$0.00
EE + Spouse	11	\$575.00	\$575.00	\$575.00	\$0.00	\$575.00	\$0.00
EE + Child(ren)	3	\$485.00	\$485.00	\$485.00	\$0.00	\$485.00	\$0.00
EE + Family	25	\$815.00	\$815.00	\$815.00	\$0.00	\$815.00	\$0.00
	56	\$33,000	\$33,000	\$33,000	\$0	\$33,000	\$0
MMSI PPO							
EE Only	169	\$350.00	\$386.00	\$285.00	\$65.00	\$314.00	\$72.00
EE + Spouse	76	\$770.00	\$847.00	\$575.00	\$195.00	\$632.00	\$215.00
EE + Child(ren)	24	\$650.00	\$716.00	\$485.00	\$165.00	\$534.00	\$182.00
EE + Family	65	\$1,120.00	\$1,233.00	\$815.00	\$305.00	\$897.00	\$336.00
	334	\$206,070	\$226,935	\$156,480	\$49,590	\$172,219	\$54,716
MONTHLY TOTAL	2,212	\$1,361,202	\$1,495,070	\$1,205,947	\$155,255	\$1,323,998	\$171,072
ANNUAL TOTAL		\$16,334,429	\$17,940,841	\$14,471,369	\$1,863,060	\$15,887,977	\$2,052,864
COST AS A % OF TOTAL				88.6%	11.4%	88.6%	11.4%
Total Cost Difference			\$1,606,412			\$1,416,608	\$189,804
Percent Increase Over Current			9.8%				



Summary of Proposed Contribution Rates for Part Time/Job Share Employees (Medical Plans)

CITY OF SCOTTSDALE
FY2007/2008 Cost Projection

Composite Renewal Strategy - 10% Increase to Aetna EPO & MMSI
Includes Proposed Plan Design Changes
All Per EE Costs On a Monthly Basis

PART-TIME/JOB SHARE							
MEDICAL/RX ONLY							
	Dec-06 Lives	Medical Eff. 7/1/06 Current-Adj.	Medical Eff. 7/1/07 PROPOSED	Current Employer Contribution	Current Employee Contribution	Proposed Employer Contribution	Proposed Employee Contribution
<u>AETNA EPO</u>							
EE Only	100	\$295.00	\$325.00	\$214.00	\$81.00	\$236.00	\$89.00
EE + Spouse	10	\$640.00	\$704.00	\$431.00	\$209.00	\$474.00	\$230.00
EE + Child(ren)	16	\$535.00	\$589.00	\$364.00	\$171.00	\$401.00	\$188.00
EE + Family	<u>13</u>	<u>\$915.00</u>	<u>\$1,007.00</u>	<u>\$611.00</u>	<u>\$304.00</u>	<u>\$673.00</u>	<u>\$334.00</u>
	139	\$56,355	\$62,055	\$39,477	\$16,878	\$43,505	\$18,550
<u>AETNA PPO</u>							
EE Only	10	\$285.00	\$285.00	\$214.00	\$71.00	\$214.00	\$71.00
EE + Spouse	1	\$575.00	\$575.00	\$431.00	\$144.00	\$431.00	\$144.00
EE + Child(ren)	0	\$485.00	\$485.00	\$364.00	\$121.00	\$364.00	\$121.00
EE + Family	<u>3</u>	<u>\$815.00</u>	<u>\$815.00</u>	<u>\$611.00</u>	<u>\$204.00</u>	<u>\$611.00</u>	<u>\$204.00</u>
	14	\$5,870	\$5,870	\$4,404	\$1,466	\$4,404	\$1,466
<u>MMSI PPO</u>							
EE Only	10	\$350.00	\$386.00	\$214.00	\$136.00	\$236.00	\$150.00
EE + Spouse	4	\$770.00	\$847.00	\$431.00	\$339.00	\$474.00	\$373.00
EE + Child(ren)	1	\$650.00	\$716.00	\$364.00	\$286.00	\$401.00	\$315.00
EE + Family	<u>0</u>	<u>\$1,120.00</u>	<u>\$1,233.00</u>	<u>\$611.00</u>	<u>\$509.00</u>	<u>\$673.00</u>	<u>\$560.00</u>
	15	\$7,230	\$7,964	\$4,228	\$3,002	\$4,657	\$3,307
MONTHLY TOTAL	168	\$69,455	\$75,889	\$48,109	\$21,346	\$52,566	\$23,323
ANNUAL TOTAL		\$833,459	\$910,668	\$577,307	\$256,152	\$630,792	\$279,876
COST AS A % OF TOTAL				69.3%	30.7%	69.3%	30.7%
Total Cost Difference			\$77,210			\$53,486	\$23,724
Percent Increase Over Current			9.3%				

Proposed Plan Design Changes - supported by EBCT Estimated Net Savings to City of \$250,000

- MMSI Plan
 - Increase the Out-of-Network deductibles to \$2,000/indiv and \$4,000/family (currently \$1,000/indiv & \$2,000/family)

- Aetna Plans
 - Remove mandatory step therapy/pre-authorization for selected Rx

- All Three Medical Plans
 - Add incentive for generic Rx usage (added cost if member chooses a brand name over a generic, unless the doctor specifies the member must take the brand drug)

Proposed Plan Changes - Continued

Behavioral Health Benefits (Cigna) –

- Increase office visit co-pay for mental health/substance abuse services from \$10 to \$15 for the first 30 visits, then \$30 co-pay per visit thereafter
- Add an Employee Assistance Program (EAP) with ancillary work-life benefits at no cost to employees and family members
 - EAP office visits can be used for non-medical problems like stress management, marriage & family issues, etc.
 - Includes referral services for child & elder care, adoption assistance, legal assistance, etc.

City of Scottsdale Proposed Dental Contributions FY 2007/08 - Monthly

	Current Total Premium	Proposed Premium 7/1/07	Current City Contribution	Current Emp Contributions	Proposed City Contribution	Proposed Employee Contribution
Emp Only	\$30	\$40	\$30	0	\$35	\$5
Emp & Spouse	\$66	\$88	\$30	\$36	\$41	\$47
Emp & Child(ren)	\$54	\$72	\$30	\$24	\$39	\$33
Emp & Family	\$90	\$119	\$30	\$60	\$44	\$75



Questions, Discussion & Policy Direction