Departmental Matters

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Indian River County
Inter-Office Memorandum
Office of Management and Budget

To: Members of the Board of County Commissioners

Date: June 8, 2016

Subject: **Health Insurance - Summary of Cost Saving Recommendations**

From: Jason E. Brown - Director, Management & Budget

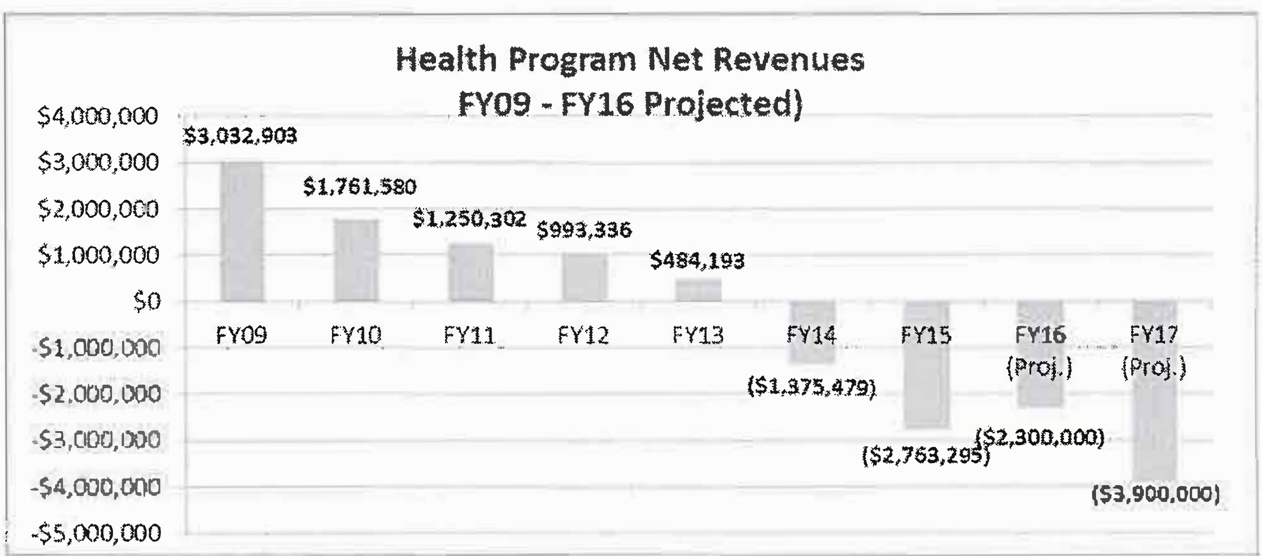
Background

Indian River County utilizes a self-insured group health insurance program. Program expenses for health insurance claims and program administration are paid from contributions from employer and employee contributions. Extraordinary claims are addressed through reinsurance. Program participants include full-time employees and retirees of the Board of County Commissioners and the respective Constitutional Officers (Sheriff, Property Appraiser, Tax Collector, Clerk of Courts, and the Supervisor of Elections).

On February 9, 2016, staff provided a presentation to the Board of County Commissioners regarding the County's health insurance fund. A brief update of the Health Insurance Fund was provided, along with details about increasing healthcare expenses which have led to losses in recent years. Various options to address these losses were presented. Following the presentation, the Board discussed various alternatives and received input from the public. Staff was tasked with researching alternatives further and providing a recommendation back to the Board of County Commissioners. Please find the requested information below.

Alternatives & Analysis

As discussed previously, the County's healthcare costs, both in terms of health claims incurred and the impacts of medical inflation, have increased significantly over the last couple of years. The following graph shows the net revenues of the self-insured health program from FY09 through FY17 (projected).



The health insurance program experienced net surpluses during the period from FY09 through FY13. While our per capita costs remain below most surrounding local governments, these increases have resulted in losses for the Health Insurance Fund for the last two years. For fiscal year 2014/15, the losses were substantial (approximately $2.8 million). It is projected that the loss in the current fiscal year could amount to $2,300,000 assuming a similar level of expenses to last year. Staff has assumed a 9.0% medical inflation rate, which is the average experienced in the State of Florida currently. If the County experiences annual cost increases of 9.0%, this amounts to an additional $1.6 million in costs each year assuming no change in the number of employees. Assuming no action was taken, the loss in the plan could grow to $3.9 million in FY2016/17.

Currently, the Health Insurance Fund has a healthy fund balance. However, adjustments need to be made now to ensure the future financial stability of the plan. Recurring plan revenues must equal recurring plan expenses in order to avoid a further erosion of health plan fund balance, which is a one-time revenue source. As claims costs will continue to escalate, failure to make recommended plan changes this year will result in even deeper health program deficits that will require even more drastic future plan design changes or infusions of tax/fee revenue (employer contributions) and greater increases from plan participants (employee contributions).

Staff has evaluated several potential adjustments to the Health Insurance Program to address the current shortfall as well as future anticipated cost increases. Based upon direction from the February 9th meeting, as well as the magnitude of the projected loss, staff has developed a two-year plan of adjustments to the Health Insurance Program.

Proposed Changes – Effective Fiscal Year 2016/17

1. **Blue Options to Blue Choice Health Plan** – The County's insurance broker has recommended a change from the current Blue Choice plan to a similar Blue Options plan. This plan change would not result in any changes in copays, deductibles or out-of-pocket maximums. The proposed Blue Options plan has more current cost containment mechanisms in place than the existing plan. This is due to the fact that not many plans have remained in the Blue Choice plan currently utilized by the County. It is projected that this change will produce a modest savings of 2% of annual claims expense for the County; based on $16 million in annual claims expense, the savings is estimated at $320,000.

   Florida Blue has also performed a disruption analysis to determine the impact of network changes on the plan members. This analysis showed that only three (3) providers are on the current network that would not be on the new network. This network change would only affect five (5) members. Conversely, there are eight (8) additional providers on the new plan that are not on the existing plan which were utilized by members in the last year. It should be noted that all surrounding local governments with a Florida Blue network are utilizing a Blue Choice Plan.

2. **Kannact Diabetes Management Program** – Last year, diabetic care costs for the health insurance plan were approximately $1,050,000. Kannact provides a comprehensive system to help manage diabetes. In addition to providing glucometers and supplies, Kannact provides a health coach, real-time monitoring, and tracking with a cellular device, and support to help members with diabetes manage their condition. Kannact projects a 10% reduction or approximately $105,000 in medical costs due to reduced hospital visits and the ability to slow advancement of the disease. As an additional benefit, employees feel better and are more productive.

3. **RFP for International Prescription Provider (IPP) Services** – Staff also recommends that the County, through the services of our insurance broker, solicit an RFP for IPP services. IPP's contract with government-licensed physicians, pharmacies and pharmacists in "Tier-1 countries as designated by Congress (e.g. Canada, the United Kingdom, Australia, and New Zealand) to supply brand name medications packaged and sealed by the original manufacturer for direct delivery to plan members. This service would be optional for employees. Each employee interested in such a program would enter into an agreement with the provider to obtain available prescription medications through the program.

   One provider of this service, CanaRx, has provided an analysis based upon the top 100 prescription medications on the County health plan. This analysis shows that County Plan expenditures for the 36 medications available through the program totaled $806,859. In addition, members paid $95,609 in copays.

   Assuming full participation in the program, the County Plan expenses would have been $354,310 during the same time period. Therefore, the County would realize an estimated savings of $452,549. Furthermore, there is no copay for medications meaning employees would realize a savings of $95,609. This results in savings on such medications for both the employee and the employer. It is important to note that participation is not mandatory, so actual savings would likely be less than this amount.

4. **Post Employment Health Plan (PEHP)** – The International Association of Firefighters (IAFF) has requested that the County explore establishment of a PEHP Plan offered by Nationwide. A PEHP plan is a tax advantaged savings vehicle for employees to fund eligible healthcare related expenses during retirement. Employees pay no Federal income taxes, Medicare or Social Security (FICA) on contributions to the PEHP Plan, per Internal Revenue Code Section 501(c)(9). The employer realizes a savings as well, since the employer matching contributions for FICA are not required. This results in a savings to the employer equal to 7.65% of contributions, while the employee saves 7.65% plus their applicable Federal income tax rate. Contributions to the PEHP Plan can be made by the employer, mandatory employee contributions, or funded solely with accrued sick and/or vacation leave time.

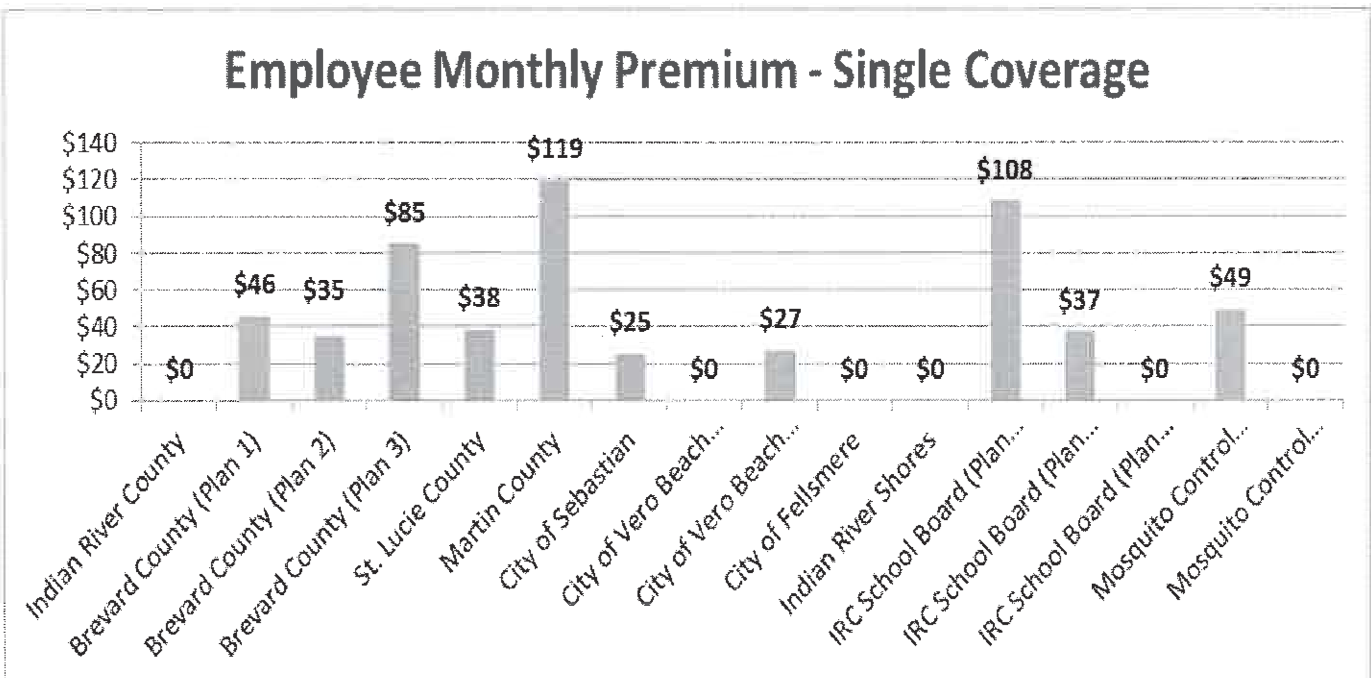
   Based upon sick and vacation payouts from calendar year 2015, the County would have realized a savings of about $44,000 in matching FICA contributions for all bargaining units. According to representatives from the provider, employee participation is mandatory if implemented, but this can be separated by bargaining unit. Staff is agreeable to implementing a PEHP Plan with employee contributions if agreed to by each bargaining unit, but we are reluctant to unilaterally make these contributions mandatory for all employees. Therefore, staff recommends exploring implementation of the PEHP Plan through the collective bargaining process with the County's two (2) bargaining units.

5. **Employee Premium Adjustment** – As discussed previously, the County has not made plan changes or increased employee premiums for many years due to a lack of employee raises and Obamacare considerations. The last time the employee premium was increased was fiscal year 2007/08, when the employee premium for family was raised by $15 per month to the current rate of $217.50. The Healthcare Plan costs have increased significantly since that time, and the County has essentially absorbed the entire cost increase. The following table shows the current premium split for Indian River County for fiscal year 2015/16.

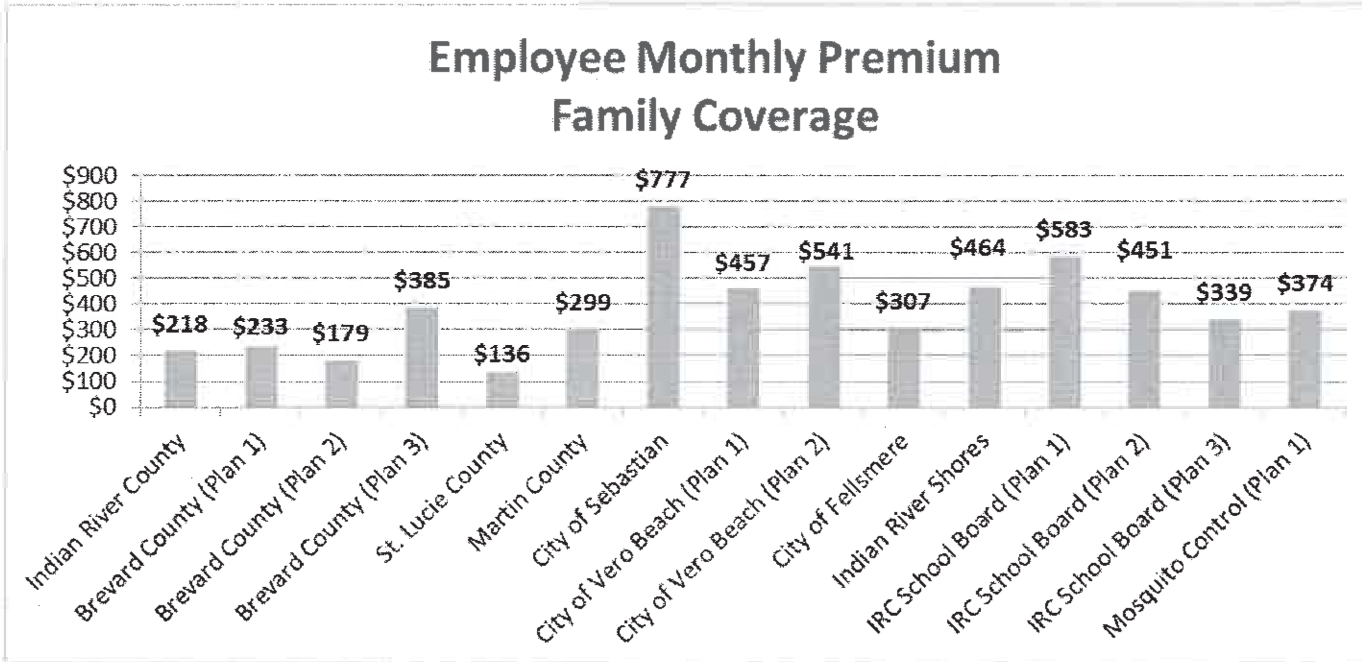
Fiscal Year 2015/16
Employer & Employee Premiums

Tier of Coverage	Monthly Amount: Employee Premium	Monthly Amount: Employer Premium	Percentage Share: Employee Premium	Percentage Share: Employer Premium
Single	$0	$505	0.0%	100.0%
Family	$217.50	$745	22.6%	77.4%

As a point of comparison, the employee premiums for surrounding local governments for Employee Only and Family coverage are shown in the next two charts:



As illustrated in the Single Coverage table above, most local governments in the area charge an employee premium for Single Coverage. Some governments have no charge for a lower level plan, but if the employee chooses a richer plan similar to the Indian River County plan, then an employee premium is charged.



Employee premiums for Family coverage for most area local governments are higher than the County's, as shown in the Family Coverage table above.

Recommendations:

- Staff recommends that the County adopt a policy to establish a share of the total premium to be paid by the County and the employee, which has been done by some local governments . Staff recommends that the premium for Single Coverage is split at 90% employer/ 10% employee. For Family Coverage, the recommended split is 75% employer/ 25% employee.

- In order to avoid placing such a large burden on the employee next year, staff recommends phasing the transition over the next two years. The table below shows the proposed premium split for fiscal year 2016/17, which is an increase of $30/ month for the employee premium for Single Coverage and Family Coverage alike. Based upon proposed premiums for fiscal year 2016/17, an additional ~$30/ month increase for fiscal year 2017/18 would reach the target split of 90%/10% for Single Coverage and 75%/25% for Family Coverage.

Fiscal Year 2016/17
Proposed Employer & Employee Premiums

Tier of Coverage	Monthly Amount		Percentage Share	
	Employee Premium	Employer Premium	Employee Premium	Employer Premium
Single	$30	$605	4.7%	95.3%
Family	$247.50	$845	22.7%	77.3%

6. **Change Effective Date for Health Insurance Plan and All other Benefits** - Indian River County is cognizant of the ever rising costs of health insurance and works very hard in order to offer our employees a quality insurance product, yet still keeps the premiums reasonable for both the County and the Employee. The health benefit plan is offered to all eligible permanent employees who normally work 30 hours or more per week.

   There is currently a thirty (30) day "open enrollment window" during which a new hire may enroll in the health insurance plan. Failure to enroll during this thirty (30) day window which begins upon date of hire may mean that the employee has forfeited enrollment until the next open enrollment period.

   The current system places a significant administrative burden on the agencies (County & Constitutional Officers) in processing new hires and enrolling them in the medical plan and all other benefits within the 30 day window. Therefore, staff recommends changing the effective date of coverage to the first day of the month following sixty (60) days of full-time employment. In addition to reducing the administrative burden, this will provide a moderate amount of savings to the health plan. Based upon 10% turnover, the annual savings from this change would be about $150,000 per year. This change will only impact new hires.

7. **Employer Premium Adjustment** – For fiscal year 2016/17 budgeting purposes, the employer premium has been increased by $150/month for both Single Coverage and Family Coverage. This adjustment provides additional funding of approximately $2.4 million based upon the current number of budgeted employees (including Constitutional Officers). If all of the measures are approved, the employer premium increase could be reduced to $100/month, which would reduce the financial strain on the proposed FY 2016/17 budget for County departments and Constitutional Officers.

8. **OPEB Advance Funding** - While OPEB costs are accounted for separately from Health Insurance Costs, the two items are interrelated. For instance, the OPEB Trust provides funding for a portion of retiree healthcare expenses. Last year, the OPEB Trust contributed $1.9 million to the Health Insurance Fund. If not for the OPEB Trust contribution, the loss in the Health Fund would have been substantially larger. Staff is proposing that an additional advance payment be made into the OPEB Trust Fund. This would reduce the amount of the required OPEB contribution going forward. Based upon our actuarial valuation, for each additional $10 contribution this year, annual contributions would be reduced by $1 going forward, meaning that the County would realize a reduction of about 10% of the additional amount contributed. Staff proposes making an advance contribution to the OPEB Trust in the amount of $9 million. This would reduce the annual required contribution by approximately $900,000. It should be noted that based upon the most recent actuarial valuation, the ARC is increasing by about $400,000 for next year. Therefore, the net effect of this would mean a reduction of about $500,000 in ARC, which would offset the increase in healthcare costs. This would provide additional relief for the FY 2016/17 budgets for County departments and Constitutional Officers to offset (partially) the increase in health insurance costs.

The table below provides a summary of the shortfall in the health plan as well as the impact of the recommended measures above.

Item Description	Estimated Annual Amount	Notes/ Comments
Estimated Annual Loss (FY 15/16)	$2,300,000	
Plus: Medical Inflation		
Est. Increase FY 2016/17	$1,600,000	Assumes 9% annual increase
Estimated Annual Loss – FY 2016/17	**$3,900,000**	**With no Changes**
Less: Savings from Recommendations		
Blue Choice Health Plan	($320,000)	Est. 2% annual savings
Kannact Diabetes Management	($105,000)	Assumes 10% cost reduction
International Prescription Provider	($110,000)	Assumes 25% participation
Change Coverage Effective Date	($150,000)	Assumes 10% employee turnover
Employee Premium Change	($490,000)	Assumes $30/ month increase
Employer Premium Change	($1,630,000)	Assumes $100/ month increase
Subtotal: Cost Savings Measures	**($2,805,000)**	
Estimated Annual Loss – FY 2016/17	**($1,095,000)**	

Rather than a projected loss of nearly $4 million, the recommended cost saving measures reduce the anticipated loss to about $1.2 million. Staff plans to address the remaining shortfall with additional measures in fiscal year 2017/18 as detailed below. It should be noted that the plan changes recommended above do not result in the County losing our grandfathered status for the purposes of the Affordable Care Act.

Potential Changes – Effective Fiscal Year 2017/18

1. **<u>Increased Wellness Measures</u>** – The County has undertaken several wellness initiatives to reduce healthcare costs such as; the annual Health Fair, wellness screenings, smoking cessation classes Weight Watchers programs, Lunch & Learn programs. Staff will continue to develop additional proactive wellness measures. Some organizations provide various financial incentives (premium discounts, preferred health plans, etc.) for employees that actively participate in wellness programs. If this option were pursued, a multi-year phase-in would likely be needed to allow for adequate employee education and outreach prior to full implementation.

2. **<u>Employee Wellness Clinic</u>** – Staff along with the insurance broker has researched the establishment of an employee wellness clinic. Additional time would be needed to conduct a Request for Proposals to select a provider for such services. Additional research, as well as logistical questions such as the location of such a clinic, still need to be finalized. Staff recommends scheduling this process for fiscal year 2017/18. If an RFP is conducted during the next year, then a final decision on whether to move forward with an employee wellness clinic would be made at the completion of the RFP process.

3. **Stand-Alone Pharmacy** – At the February 9th meeting, staff was directed to research the potential for a stand-alone Pharmacy. Our insurance broker has indicated that this option is best suited to larger employers (3,000-5,000 employees) due to the cost of hiring a Pharmacist. The cost to offer limited prescriptions at a wellness clinic is lowered through the use of a dispensary. Under supervision of a Medical Doctor, certain types of medications can be dispensed without the need to have a Pharmacist on staff.

4. **Other Health Plan Adjustments** – In previous years, numerous health plan adjustments were made to provide a savings to the health plan, such as increased copays, deductibles, and out-of-pocket maximums. With the assistance of our broker, staff will explore additional plan adjustments for consideration for fiscal year 2017/18.

5. **Continued Phase-in of Employee Premium Adjustment** – Proposal Number 5 for FY 2016/17 was to establish a premium split between the employer and employee and begin a two-year transition to reach the recommended premium split (90%/10% for Single Coverage and 75%/25% for Family Coverage). Based upon the recommended premium rates for FY 2016/17, an increase of $30/month for both Single Coverage and Family Coverage would be near the recommended premium splits.

6. **Continued Employer Premium Adjustments** – As stated above, healthcare costs are projected to increase by about 9.0% per year. This represents an annual increase of $1.6 million on a countywide basis. Depending upon actual expenses, additional employer premium contributions may be needed.

7. **Pharmacy PPO Adjustment** – Prescription medications make up a significant portion of our total health plan expenditures. Last year, the health plan paid about $4.1 million for prescription medications (in addition to copays from employees). This is a significant portion of total expenditures (~23%) and these costs are rising faster than our overall health costs. Therefore, this area represents a significant potential for savings. Our insurance broker has obtained an analysis of prescription medication expenses on the County's health plan for a one-year period by provider. This analysis has shown that prices paid for the same prescription medicines can differ substantially at various retail pharmacies. Based upon the results of this analysis, staff recommends eliminating some/one provider from the PPO network for prescription medications.

Summary and Conclusion

The County Health Insurance Fund is currently in solid financial condition, however, continued losses similar to those experienced last fiscal year ($2.8 million) cannot be sustained. If adjustments are not made, the Health Plan will likely face a funding crisis over the next several years. Staff has presented a two-year plan above to address the current shortfall in order to ensure the long-term financial stability of the County health plan.

Recommendation

Staff recommends that the Board of Commissioners approve the proposed changes (Numbers 1 through 8) detailed above for fiscal year 2016/17. Staff additionally recommends that the Board approve the Potential Changes for fiscal year 2017/18 for further exploration. During next fiscal year, staff plans to present final recommendations for fiscal year 2017/18.

APPROVED AGENDA ITEM:

BY: Joseph A. Baird

Joseph A. Baird
County Administrator

FOR: June 14, 2016

Indian River County	Approved	Date
Administrator		6/9/16
County Attorney		6/8/16
Budget		6/8/16
Department		
Risk Management		