Memorandum

CITY OF DALLAS

DATE October 16, 2015

TO Members of the Budget, Finance & Audit Committee: Jennifer S. Gates (Chair), Philip T. Kingston (Vice Chair), Erik Wilson, Rickey D. Callahan, Scott Griggs, Lee M. Kleinman

SUBJECT Health Benefits Update

On October 19, 2015 the Budget, Finance and Audit Committee will be briefed on a Health Benefits Update. The briefing is attached for your review.

Please let me know if you need additional information.

Molly Carroll
Human Resources Director

Attachment

c: Honorable Mayor and Members of City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Rosa A. Rios, City Secretary
Craig D. Kinton, City Auditor
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Joey Zapata, Assistant City Manager
Mark McDaniel, Assistant City Manager
Eric D. Campbell, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager

HEALTH BENEFITS UPDATE

Budget, Finance and Audit Committee
October 19, 2015

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HOW HEALTHCARE IS PAID/ADMINISTERED

"FULLY INSURED" VERSUS "SELF INSURED"

- Employers provide healthcare coverage for employees by either being "Fully Insured" or "Self Insured"
- Dallas is Self-Insured

Fully Insured

- Employer purchases an insurance plan from an insurance company
  - Can compare prices of insurance plans and buy the product that best fits their needs
- When a person on the insurance plan receives health care (doctor visit, medical procedure, etc.), **the claim is paid by the insurance company**

Self Insured

- Employer sets aside money to pay for healthcare claims
- When a person on the health plan receives health care (doctor visit, medical procedure, etc.), **the claim is paid by the employer**
- Usually, the employer hires a "Plan Administrator" to manage the healthcare plan

"FULLY INSURED" VERSUS "SELF INSURED"

- Large employers (1,000 or more covered lives) normally self-insure because:
  - It is less expensive
  - Employers can design the plan to best meet the needs of the employees
  - Pharmacy plans can be carved out to reduce costs
- The City of Dallas is self insured for active employee and non-Medicare eligible retiree healthcare
  - Revenues are collected from the City, the employees, and retirees via the payroll systems
  - Healthcare claims are paid from those revenues

HEALTHCARE DELIVERY

HEALTHCARE DELIVERY

- Most large employers hire a third-party administrator (TPA) to provide two major services:
  1. **A "network" of healthcare providers**
     - Hospitals
     - Physicians
     - Other healthcare providers (chiropractors, etc.)
     - Ancillary health-care services (labs, imaging facilities)
  2. **Claims adjudication**
     - The process of paying claims submitted or denying payment after comparing claims to the benefits or coverage requirements

  There are four major TPAs in the market
     - Blue Cross/Blue Shield
     - United Healthcare
     - Cigna
     - Aetna

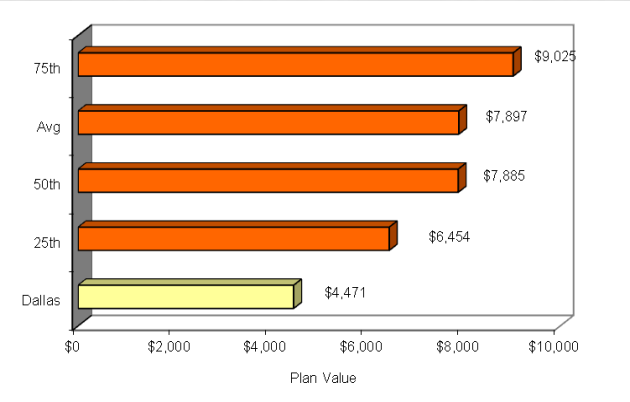
CITY OF DALLAS HEALTH PLAN OVERVIEW

COST, PARTICIPATION AND OPTIONS

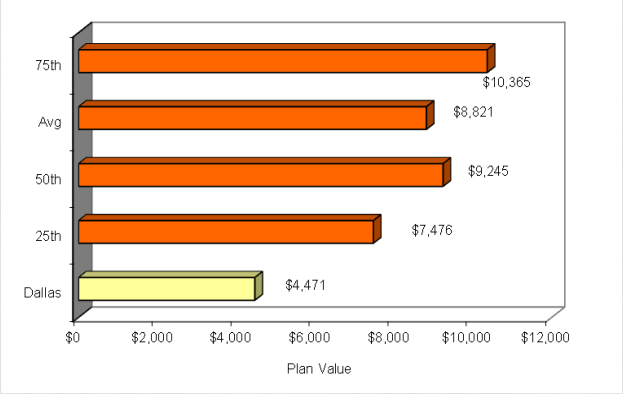
DALLAS COMPARED TO OTHER EMPLOYERS

- The City's health plan provides basic health coverage for members
- Milliman conducted a Total Compensation study in 2012
  - Study revealed the City's health benefits plan is in the bottom quartile compared to both public and private employers

Medical/Vision- <u>Custom Survey</u>



Medical/Vision- <u>Private Sector</u>



- Custom survey data is comprised of other local government and quasi governmental entities of similar size as Dallas

- Private sector survey data is from published survey data

FY15-16 HEALTH PLAN COST $128.8(TOTAL NUMBER) SELF INSURED PLAN

	City Contributions	Employee/Retiree Contributions
Medical Plans HRA Plan PPO – 70/30/3k Medicare Plans	$78.5 million	$50.3 million $23.2 million from employees $27.1 million from retirees
Other Benefits (Dental, Vision, FSA, etc.)	No City Contributions	$17.1 million

HEALTH PLAN PARTICIPATION

Status	Plan	Lives Covered
Active	HRA	14,699
Active	EPO	4,741
Terminated	COBRA	6
Retirees	**Plan**	**Lives Covered**
Pre-65	HRA	960
Pre-65	EPO	1655
Post-65	HRA	6
Post-65	EPO	108

- Two medical plan options
  - 75/25 Health Reimbursement Account (HRA)
  - 70/30 Exclusive Provider Organization (EPO)
- 22,175 lives covered
- 1,864 Employees have waived coverage
- 4,438 Retiree supplemental Medicare plans are purchased

MANAGING TREND

STRATEGIES, HISTORICAL SPENDING, HEALTHCARE COST

CITY'S PLAN HAS PERFORMED WELL COMPARED TO DFW MARKET "TREND"

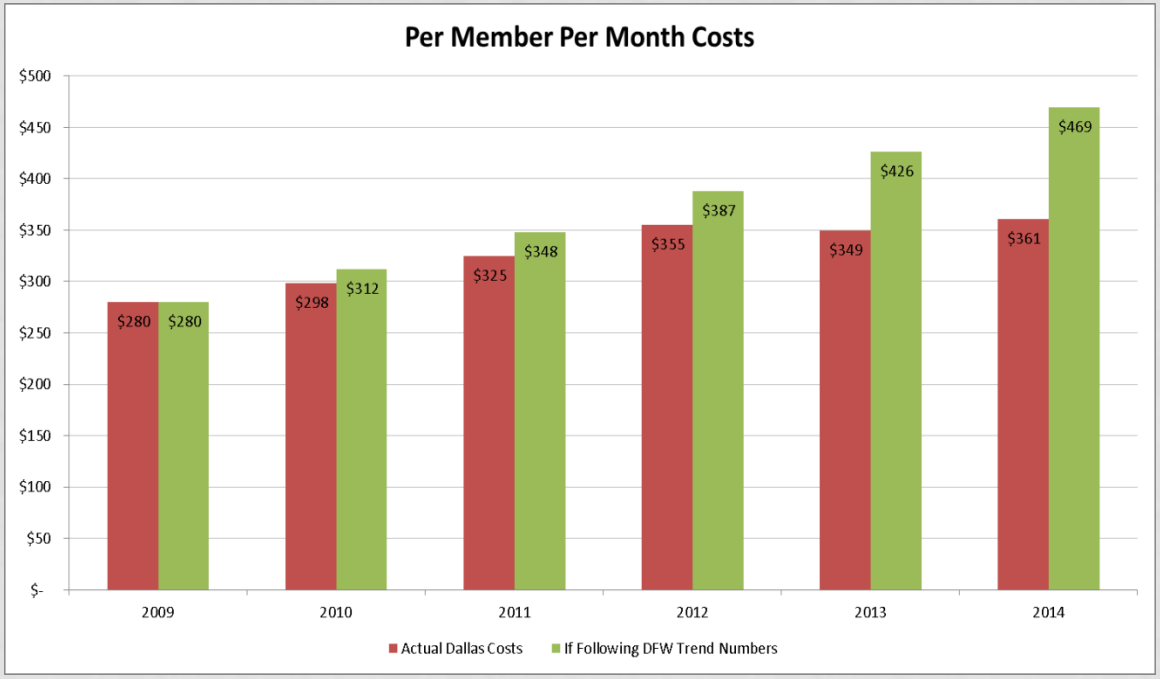
- "Trend" is the change in costs that health plans experience over time
- DFW market is one of the most expensive healthcare markets in the country and has been consistently trending higher
- Continuing to manage the healthcare trend is critical to the City's fiscal health

Year	PMPM	Dallas' % Change (Trend)	DFW Market Trend
2009	$ 280		10.9%
2010	$ 298	**6.6%**	11.4%
2011	$ 325	**8.9%**	11.5%
2012	$ 355	**9.3%**	11.5%
2013	$ 349	**-1.5%**	9.9%
2014	$ 361	**3.2%**	10.2%

PMPM = "Per Member Per Month"

MANAGING HEALTHCARE COST HAS PRODUCED SIGNIFICANT SAVINGS

- If the City's healthcare costs had matched the actual DFW healthcare trend during the past five years, the City would have incurred **$64.8M more** in expenses
- If Dallas had matched DFW market trend since 2009, the **2014 costs would have been about $27.7M more** than actual



4 COST MITIGATION STRATEGIES

Four major ways for employers to mitigate health plan costs

1. Plan design changes to incentivize more efficient utilization of the healthcare. This includes strategies such as:
   - Increasing member utilization of in-network providers
     Dallas' in-network utilization is 95.8%
     Public Entities in North Texas average 93%
   - Increasing generic drugs utilization
     Dallas' generic drug utilization is 81.8%
     Best in class generic drug utilization is 81.3%
   - Implementation of a "Consumer Driven Health Plan" (CDHP) which increases employee engagement as consumers of healthcare
   - Encouraging members to use the appropriate health solution

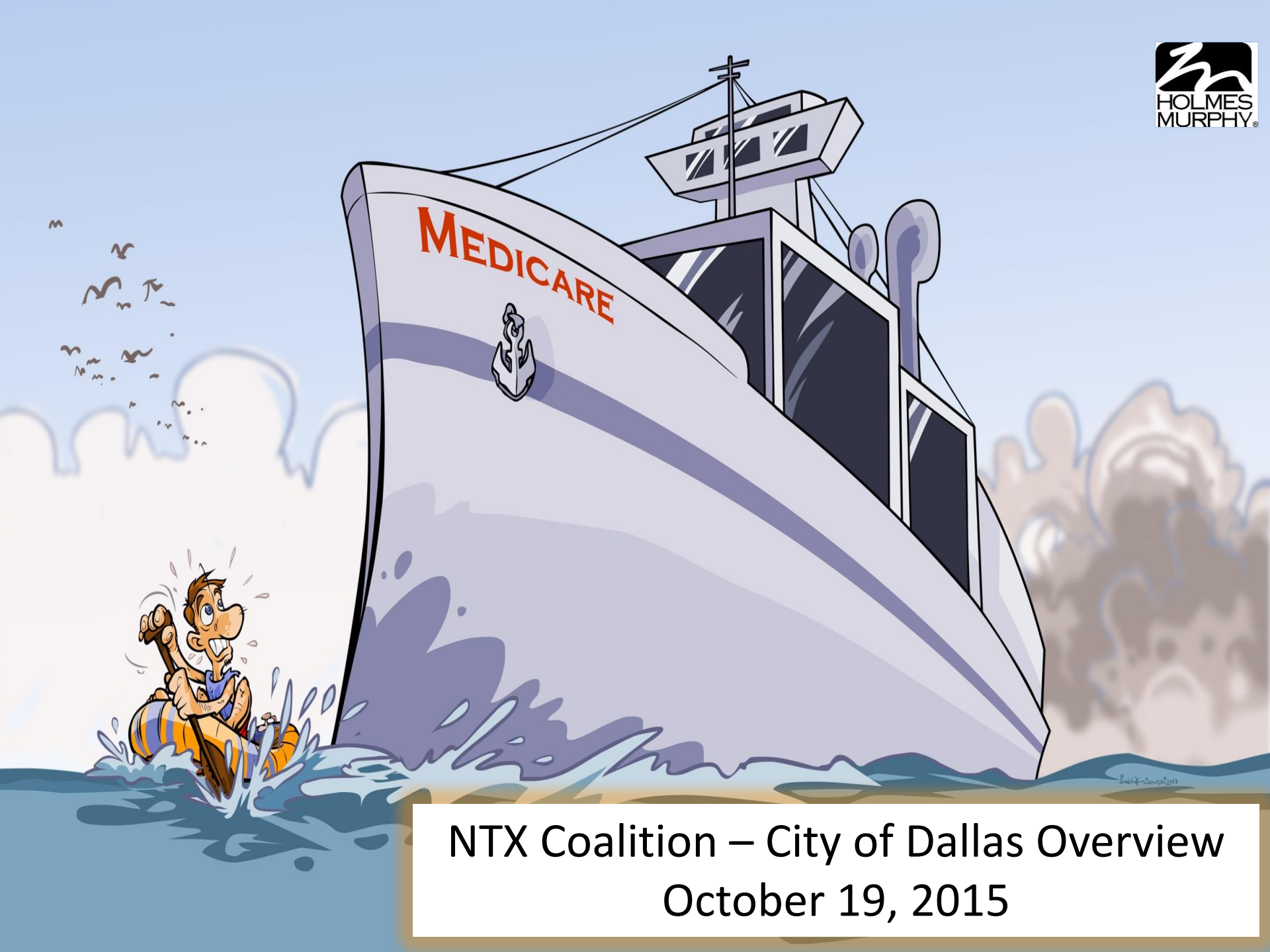
4 COST MITIGATION STRATEGIES

2. Plan design changes that shift costs to plan members, including:
   - Increasing deductibles
   - Increasing the co-insurance (percentage of the costs paid by members)
   - Increasing members' annual out-of-pocket maximums
3. Reducing the price paid for healthcare/ reducing the trend
4. Reduce healthcare demand

HEALTHCARE LANDSCAPE

- The Affordable Care Act is changing the health care landscape
  - Healthcare providers and hospital systems are exploring ways to more efficiently deliver care
  - Employers are exploring value based contracting opportunities
- For the 2016 Plan Year, UHC negotiated for the City additional price concessions from Baylor and Methodist for a plan design that encourages use of their facilities
- For the 2017 Plan Year, we are exploring additional strategies for contracting with hospital systems
  - This strategy is for hospital in-patient and out-patient services only
  - We will still need (and will issue an RFP for) a nationwide network for physician/ancillary services and for out of area health care

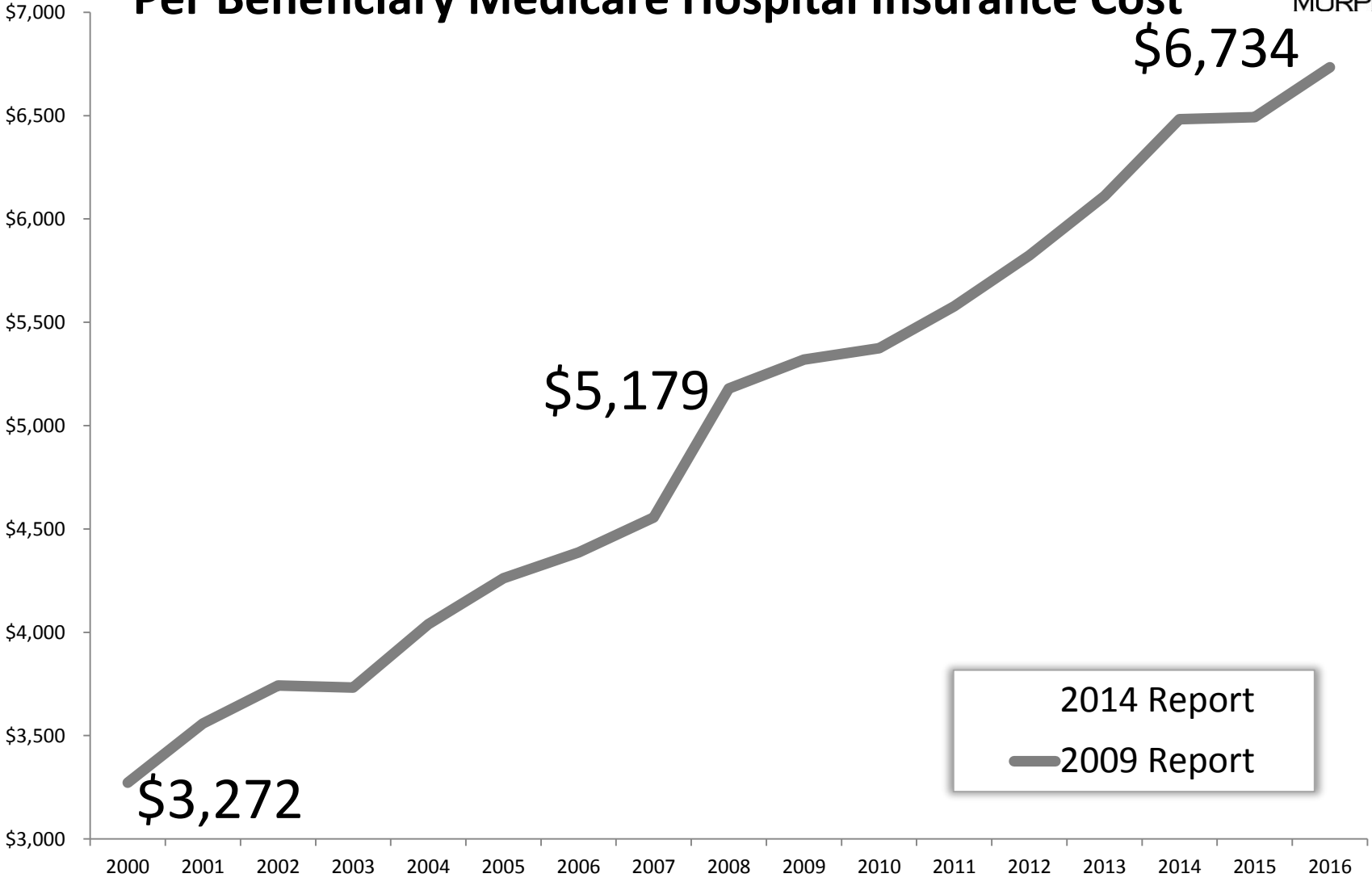
NORTH TEXAS COALITION



NTX Coalition – City of Dallas Overview
October 19, 2015

The Medicare Miracle

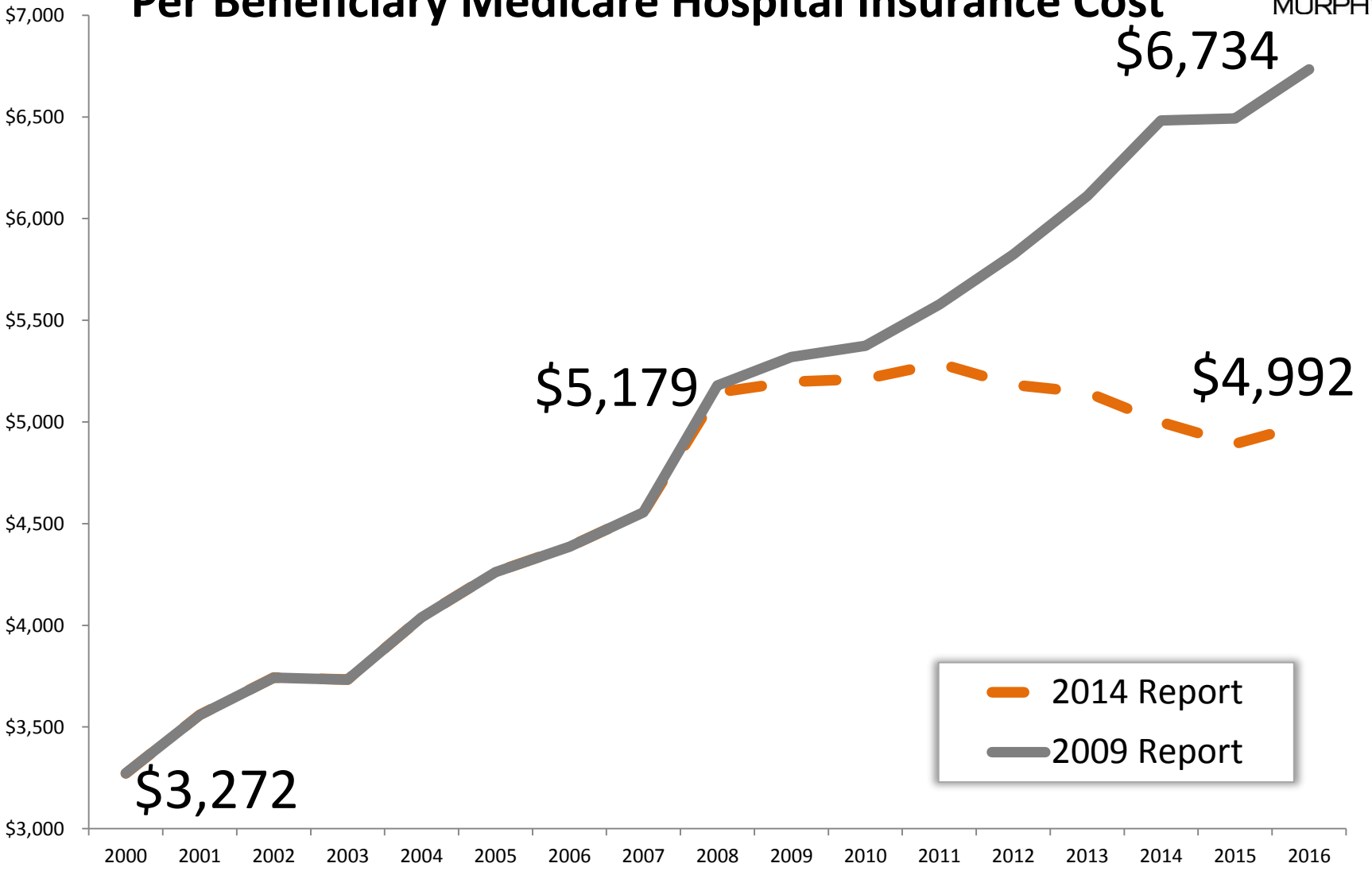
Per Beneficiary Medicare Hospital Insurance Cost



2009 and 2014 Medicare Trustee Reports

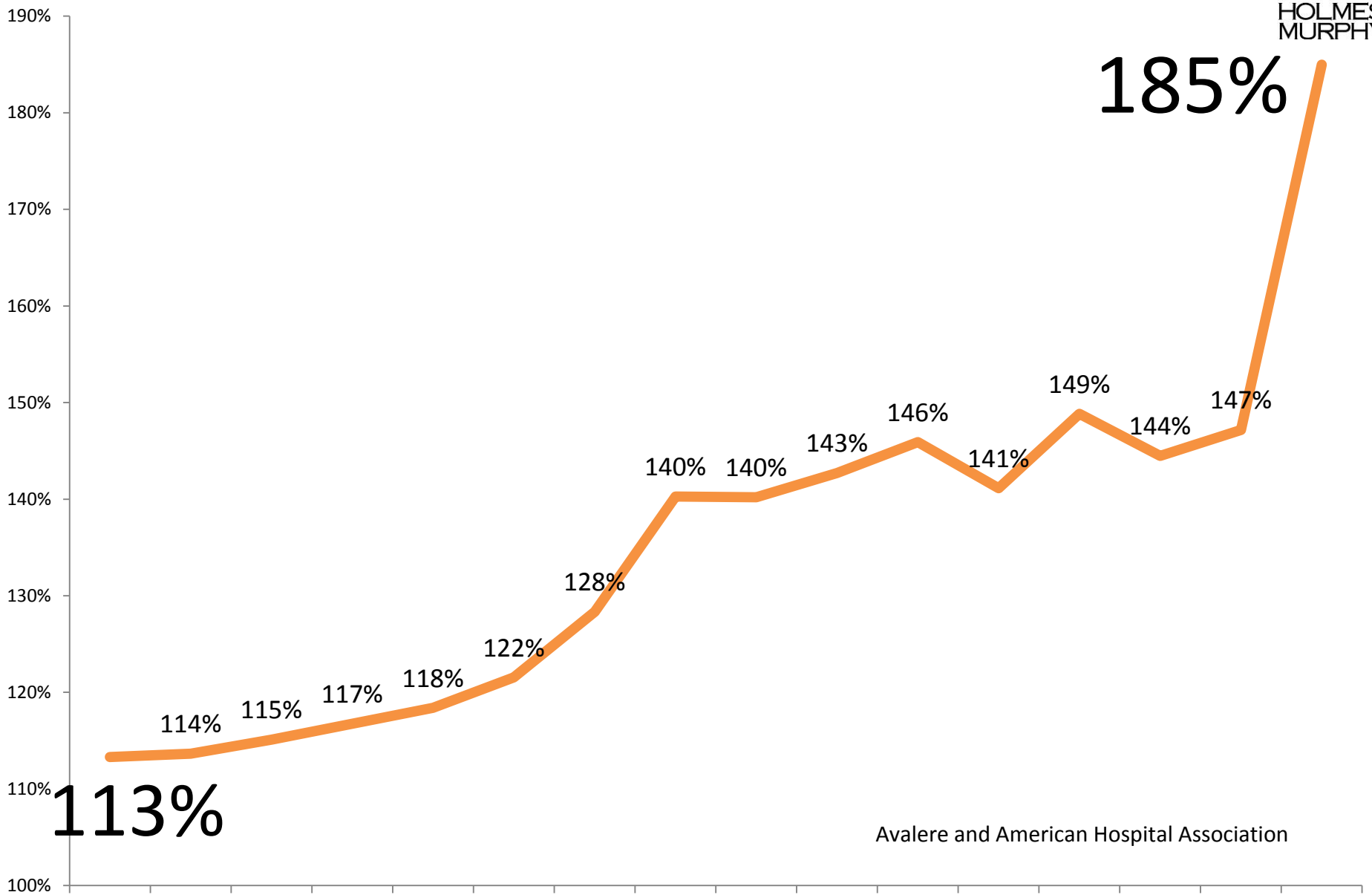
The Medicare Miracle

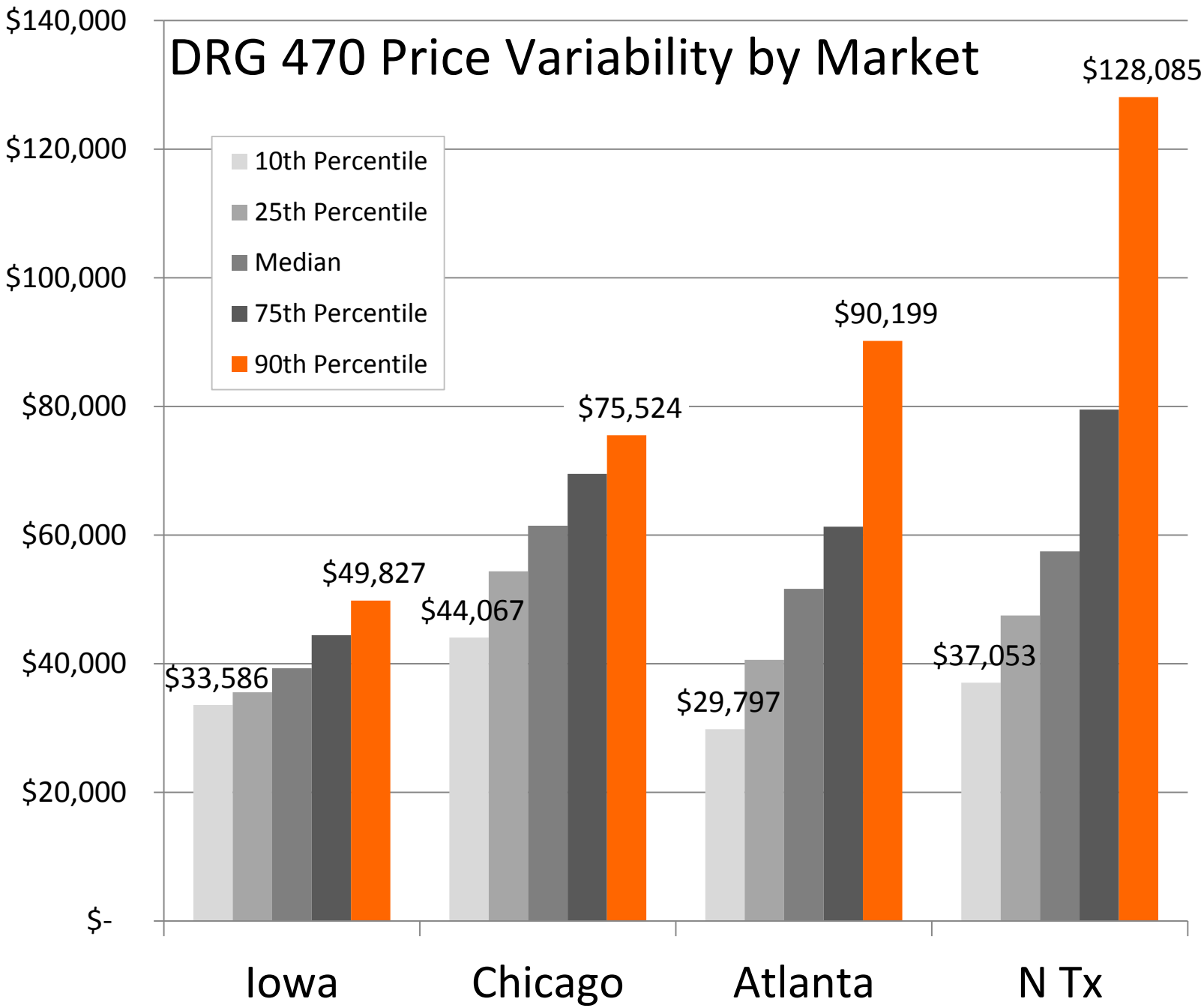
Per Beneficiary Medicare Hospital Insurance Cost



2009 and 2014 Medicare Trustee Reports

Medicare/Private Hospital Payment Ratio




DRG 470 Price Variability by Market
$140,000
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$-
10th Percentile
25th Percentile
Median
75th Percentile
90th Percentile
$33,586
$49,827
$44,067
$75,524
$29,797
$90,199
$37,053
$128,085
Iowa
Chicago
Atlanta
N Tx

Fair
Indexed
Reasonable
Simple
Transparent

We are…

- Combining City Strength
- Working Directly With Hospitals/Health Systems
- Transparency in Reimbursement Rates
- Improving Budget Forecasting
- Reducing Future Healthcare Inflation

We are not…

- Comingling funds
- Purchasing insurance
- Combining risk
- Setting contributions
- Requiring broker/ consultant change
- Changing plan design
- Creating an Exchange

1. Hospital systems set price

2. Cities accept or reject price

3. Third Party Administrators Process Claims

4. Cities set plan designs and contributions

Participating Cities

1. Addison
2. Arlington
3. Bedford
4. Carrollton
5. Cedar Hill
6. Colleyville
7. Coppell
8. Dallas
9. Denton
10. Farmers Branch
11. Fort Worth
12. Frisco
13. Garland
14. Grand Prairie
15. Haltom City
16. Highland Park
17. Irving
18. Keller
19. Lewisville
20. McKinney
21. Mesquite
22. N. Richland Hills
23. Plano
24. Rockwall
25. Rowlett
26. The Colony
27. University Park
28. Watauga
29. White Settlement
30. Wylie

Timeline

NTX Coalition FIRST Pricing

Aug. 27 2015
NTX Coalition Summit Meeting

Sept. 30 2015
Letter of Commitment Due

Oct./Nov. 2015
Provider RFP Goes to Market

Nov. 2015
Founder/Associate Level Members will Send Data for Claims Repricing.

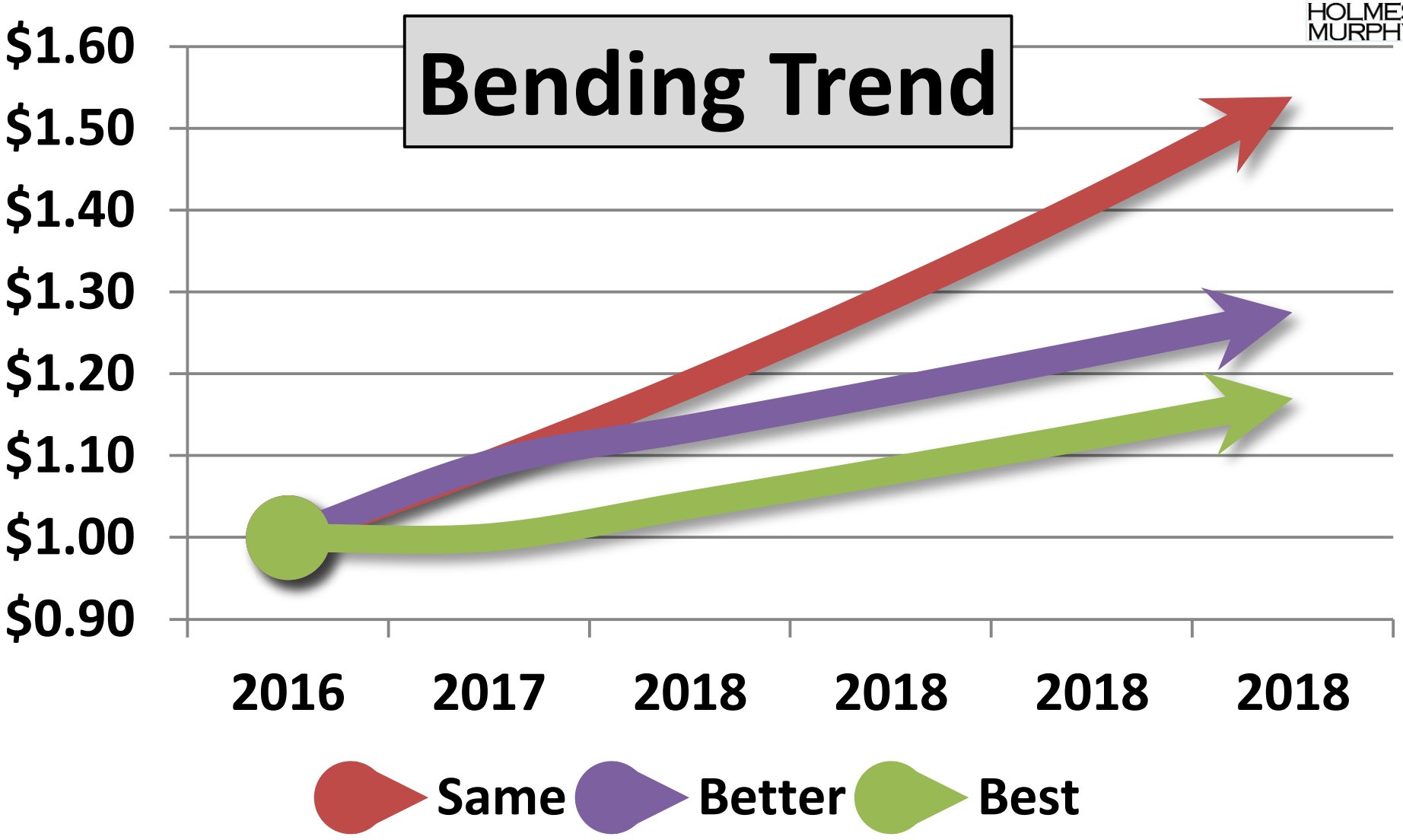
Jan. 2016
Claims Repricing results Delivered to Founder and Associate Level Members

Feb. 2016
Provider RFP Results Delivered to Founder Level Members Only

Jan. 2017
FIRST Pricing Contracts Effective

GOAL: Have provider negotiations, rules of engagement, etc. finalized by Q1-2016 in time for the City to market effectively and make changes where appropriate.

CONTRACT EFFECTIVE DATE: January 1, 2017


Bending Trend
$1.60
$1.50
$1.40
$1.30
$1.20
$1.10
$1.00
$0.90
2016
2017
2018
2018
2018
2018
Same
Better
Best

NEXT STEPS

NEXT STEPS

Service/Product	RFP Date/Implementation Date	Next Steps
Enhanced Benefit Network with Baylor and Methodist	• Begins January 1, 2016	None
Basic/Supplemental Life Insurance	• RFP Issued July, 2015 • Begins January 1, 2016	Council Agenda December, 2015
RFP for direct contracting with hospital systems (NTX Coalition)	• Issue RFP late October/early November, 2015 • Begins January 1, 2017	Brief BF&A and Council approval, late Spring 2015
RFP for full network/third-party-administrator	• Issue RFP late November/early December, 2015 • Begins January 1, 2017	Brief BF&A and Council approval, late Spring 2015
RFP for Pharmacy Benefits Manager (PBM)	• Issue RFP late November/early December, 2015 • Begins January 1, 2017	Brief BF&A and Council approval, late Spring 2015
RFP for Dental & Vision	• Issue RFP late November/early December, 2015 • Begins January 1, 2017	Brief BF&A and Council approval, late Spring 2015
RFP for Retiree Solutions (Pre-Medicare Retirees & Medicare Supplemental Plans)	• Issue RFP late November/early December, 2015 • Begins January 1, 2017	Brief BF&A and Council approval, late Spring 2015
RFP for Affordable Care Act Administration	• Issue RFP early November 2015 • Begins Spring 2016	Brief BF&A and Council approval, late Spring 2015
RFP for Benefits Communications	• Issue RFP early November 2015 • Begins Spring 2016	Brief BF&A and Council approval, late Spring 2015