CITY OF HOUSTON

Human Resources Department

Interoffice

Correspondence

To: Mayor Annise Parker

From: Omar Reid
Human Resources Director

Date: February 28, 2011

Subject: Health Benefits RFP results and recommendations

The contracts for the city's six primary welfare benefit plans expire on April 30, 2011. The Health Benefits RFP process to seek replacement contracts began in July 2010, and created the best competition among proposers in 16 years. This memo focuses on recommendations for plans and plan vendors for May 2011 benefit year.

Through this process, and in response to the current economic pressures, we have secured a health plan that keeps total contract cost to 0% increase, based on the enrollment assumptions described later in this package. The process explored ways that would retain some of the familiar HMO features and providers, allowed more flexibility for the city in the funding mechanism, and aggressively pursued a health improvement model that requires employees to take greater responsibility for their health status. With this comes health improvement guarantees.

The Health Benefits RFP process concludes with these recommendations:

1. **Health plans**
    a. Contract with Cigna Healthplan for administrative services for three new health plans for employees and certain retirees for a three year term, with two additional option years;
    b. Replace the insured HMO/PPO model with three new self-insured plans, described in Attachment 1:
        i. Cigna KelseyCare plan: a limited network "exclusive provider organization"
        ii. Cigna Open Access plan: a full network EPO, and
        iii. CDHP plan: a Consumer-Driven Health Plan with a high-deductible;
    c. Establish a Health Care Account (health reimbursement arrangement) in conjunction with the CDHP to use to pay a portion of the new $1500 / $3000 deductible;
    d. Change the participant contribution structure from 3 tiers to 4 tiers for active employees;
    e. Engage participants in improving their health by requiring participation in certain wellness programs, with a financial surcharge for not participating;
    f. Medicare-covered retirees – eligibility for the new health plans mentioned in 1.b. above is limited to retirees who are not covered by Medicare. Retirees with Medicare will be required to enroll in one of the city's six Medicare plans in order to have health coverage after April 30, 2011. Medicare requires a signed application for each enrollee, so the city cannot simply transfer them to a Medicare plan. Cigna's financial proposal is contingent on migrating this population to MA plans.
    g. Develop a final contribution strategy that aligns with the final plans costs. *(At this writing, plan costs are being proofed.)*

2. **Dental plans**
    a. Contract with United HealthCare for dental services for employees and retirees for a three year term, with two additional option years.
    b. Retain the current DHMO and dental indemnity plan model.
    c. Retain 3 tier contribution structure.
    d. Contributions for this employee-pay-all plan will increase 6% for May 2011, and remain flat for the next two years.

3. **Supplemental Insurance plans**
    a. Contract with AFLAC for a three year term, with two additional option years.
    b. Retain current cancer and hospital plans, enhancing the accident/disability benefit to include on/off the job disability, and increase the monthly benefit from $750 to $1000.
    c. Contributions for these employee-pay-all plans have been essentially flat since the 1999 for cancer and hospital plans, with disability plan increasing $0.35/mo for the new benefit in the family category.

4. **Flexible Spending Account Administration**
    a. Contract with FlexOne, a division of AFLAC, to administer the two Section 125 Flexible Spending Accounts, at no charge to the city. Contract term is the same as #3 above.

5. **Healthcare Flexible Spending Account**
    a. Increase maximum annual contribution to $2500 from $2000. This will be the federal maximum in 2014.

ADDITIONAL HEALTH PLAN INFORMATION

We recommend Cigna as the new health plan administrator, based on one year and three year cost, and relying on their guarantee of improved health status for active employees. Factors that weighed into the recommendation Cigna include:

1. **Plan cost** for new Cigna KelseyCare / Cigna Open Access / CDHP plans are detailed in Attachment 3, and are under final review before contracting:
    a. 1st year: $ 284.3 million (a slight reduction from current HMO/PPO cost = $287.1M)
    b. 3 year: $ 940.7 million

    Costs may be displayed in "plan year" or "fiscal year" for various comparisons. These plan year costs reflect the maximum for which the city would budget, and the point at which stop loss insurance would activate to provide protection for the city. This recommendation includes the purchase of stop loss insurance at 105/105/110% during each of the first three years. Plan costs are sensitive to tier enrollment and plan enrollment.

    The plan cost includes a health reimbursement arrangement (HRA) funded by the city, which provides first-dollar reimbursement to CDHP participants for the annual $1500/3000 deductible, up to $500/yr for a Employee Only coverage, or $1000 for employees covering dependents. Unused amounts at the end of the year roll over to the next year, and are combined with the next year's city contribution. Expected enrollment in the CDHP is 10%, and funding for the HRA is included in the plan cost in 1.b. above.

2. **Risk mitigation**: cost of stop loss insurance in new self-insured funding model:
    a. Moving to self-insurance creates opportunity for the city to keep/save/invest the $24 million/month currently budgeted/spent for health care until claims are actually incurred,

instead of paying 100% of it as a full insurance "premium." The money the city collects from departments and participants will only spent as claims are incurred/paid. In transition from insured to self-insured, it is prudent to buy protection against unanticipated spikes in claims before claims stabilize and financial reserves are built. Currently, the best protection / lowest risk available is 105% of "expected" claims. This recommendation includes stop loss coverage at 105% aggregate in the first and second years, increasing to 110% the third year, contingent on claim stability and the city's ability to reserve and to tolerate greater exposure. Over time, the city may decide to eliminate the stop loss insurance, based on claims stability, adequate reserves, enrollment stability, and the city's tolerance for risk.

b. The proposed stop loss insurance policy also provides monthly cash protection from unanticipated claim spikes.
c. The city will also purchase stop loss coverage on individual claims, so that no single claim will exceed $500,000 in a year.
d. The cost for all stop loss versus the risk is a $47.3 mil premium to cap the city's exposure at $54.6 mil above "expected claims" over three years.

3. **Network access**:
    a. The new **Cigna KelseyCare** plan features the Kelsey Seybold clinics as the sole network of this HMO-like plan, allowing potentially 45% of the population to keep the low time-of-service copayment plan without changing doctors. There are 258 primary care physicians in the EPO-limited Kelsey network. Services are covered only if provided by Kelsey Seybold providers. Employees with dependents living outside the Kelsey service area may cover them using Cigna-contracted providers in those areas.
    b. Participants will be able to access many of their familiar non-Kelsey doctors through the **Cigna Open Access** plan, at higher monthly cost and greater time-of-service cost. Cigna offers broad nationwide PPO-type network for the EPO and CDHP plans, with 78% overlap of the current PPO network, and a pledge to recruit current providers to increase the network match. Services are covered only if provided by Cigna Open Access network providers.
    c. The network for the **CDHP** is the Cigna Open Access Network, with the option to seek services out of network, for higher time-of-service payments.
    d. Texas Children's Pediatric Associates, in the current HMO, is not in the Cigna KelseyCare network. TCPA has 7.6% enrollment, or 4881 current enrollees, and will be accessible only through the Cigna Open Access and CDHP plans.

4. **Health improvement**: Cigna offered the most aggressive model for improving participants' health. Coupled with aggressive employer-mandated participation requirements, Cigna has guaranteed that they will shift 20% of the population in the two sickest categories to healthier categories by year three of the contract. The model involves potential increases to employees' contributions during the year, based on participation/non-participation in various required health engagement programs. As long as the city attaches financial rewards/penalties for population participation, vendors offer various levels of engagement requirements and outcomes. Cigna recommends phasing in this approach over the first two years, using a contribution structure that allows for a discount for achieving specific milestones during the year.
    a. **Year one**: discount on monthly contributions for not using tobacco products; surcharge later in the plan year if you do not complete a health assessment and provide biometric data by July 31; surcharge in year two for not engaging in one of four types of educational programs Cigna offers during year one;
    b. **Year two**: the wellness program will be updated by January 2012 to require participation in additional programs, or the participants will not be eligible for the most favorable contribution structure.

5. **MWBE commitment**: Cigna commits to achieving the 15% goal from the RFP. They have submitted letters of intent substantiating 10-12% of administrative fees with certified MWBEs, and are working continuously with Affirmative Action to demonstrate good faith efforts to achieve the

entire goal. Administrative fees are estimated to be about $10.4 million in year one. Though not a formal goal, the ethnic analysis of the provider network in Houston shows that about 52% of Cigna's 7200 providers are non-white males, meaning the city's claim dollars (about $244 million) will be paid to ethnically-diverse group of local business people, even though most providers have declined to become certified.

6. **Guarantees and amounts at risk**:
    a. $1 million/year in administrative guarantees: satisfaction, account management, claim processing, client support, etc.
    b. $1.7 million guarantee for improving the health of the sickest population by the third contract year;
    c. $4 million on guaranteed discount of 61.6% for claims paid to in-network providers;
    d. Four on-site customer service staff;
    e. one clinical staff member to provide health improvement resources on-site;
    f. $1.2 million to use on other health improvement programs
    g. $400K health improvement budget annually, contingent upon city requirements for engagement.
    h. $1 million for city to designate for use in community health initiatives
    i. $75,000 implementation guarantee

7. **Technical support**: As part of May 2011 open enrollment period, Cigna will provide an electronic enrollment system. (Employees and retirees without PC access may still enroll on paper.) Cigna's robust employee portal allows participants to customize a page that will track their health status and claims expenses, provide online customer support, opportunities for education and engagement.

8. **Implementation**: Cigna has committed financial guarantees and substantial advance resources in the first year for an implementation plan to ensure smooth transfer of 66,000 participants to a new vendor system, new plan model, and new network. They will establish a toll-free phone line that will launch mid-March to answer employees / retirees' questions during enrollment.

CONTRIBUTION STRATEGY

The city's aggregate contribution to the new plans is in the final development stage.

The following attachments provide context for the plans and plan costs.

Attachment 1 displays proposed plan design features for the Cigna KelseyCare plan / Cigna Open Access plan / CDHP plan.

Attachment 2 displays proposed participant contributions in proposed 4 tier structure designed to achieve an aggregate 7x/2x% contribution ratio. *(under final review)*

Attachment 3 displays vendor plan costs in COH FY11 and FY12 budget perspective.

Attachment 4 displays the risk corridors, protections and stop loss insurance cost for self-insuring the city's new risk.

Attachment 5 displays a spectrum of plan models, for context.

Baseline HMO/PPO model

- What changes would be required to maintain the current HMO / PPO model at flat cost.
- Proposed EPO1 / EPO2 / CDHP plan design
- CDHP as the only plan offered

Attachment 6 displays comparative vendor plan costs for one and three years.

Thank you for your consideration of this recommendation. Please indicate your approval below. We will share the approved memo with the Budget and Fiscal Affairs Committee on Feb.1, adding Attachments as they are finalized. As discussed, we will pursue a March 9 agenda date.

Approved: _____
Mayor Annise D. Parker

Cc: Kelly Dowe
Waynette Chan
Lloyd Waguespack
Candy Clarke Aldridge
Ramiro Cano