



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Mark Danaj

**SUBJECT: APPROVAL TO CONTRACT WITH  
HEALTH PLAN CARRIERS FOR  
EMPLOYEE/RETIREE INSURANCE**

**DATE:** 09-27-06

Approved

*Ray White*

Date

*9/29/06*

**COUNCIL DISTRICT:** N/A  
**SNI AREA:** N/A

## **RECOMMENDATION**

Adoption of a resolution authorizing the City Manager to negotiate and execute group health agreements with Kaiser Permanente, Blue Shield of California, and United HealthCare (PacifiCare/Secure Horizons) for the period from January 1, 2007 through December 31, 2011.

## **OUTCOME**

Approval of the recommendation will allow the City Manager to negotiate and execute contracts to provide health plans to City employees and retirees.

## **EXECUTIVE SUMMARY**

A request for proposals (RFP) was issued for all of the City's health plans. Development of the RFP involved a subcommittee of key stakeholders to identify issues and objectives, draft the RFP document, and review and rate the proposals. The conclusion of that process is that staff recommends that Council authorize the City Manager to execute contracts with the prevailing proposers: Kaiser Permanente, Blue Shield of California, and United HealthCare (PacifiCare/Secure Horizons).

Kaiser's 2007 premium quote is 6% above the 2006 premiums. Since the City's contribution to health insurance plans is tied to the lowest-priced plan, Kaiser, this is significant. Kaiser's increase was 19% for 2006; the average increase over the past five years has been 16.5%.

While the 2007 premium increases are relatively low compared to prior years, members of the City Labor Alliance (CLA) committed to work collaboratively with the City to explore further

opportunities to minimize future premium increases to the City and the plan participants. The CLA expressed a willingness to discuss changes related to all drivers of cost increases including plan design, cost-sharing formula, disease management programs, etc. The initial discussions will begin in early 2007.

**BACKGROUND**

The City’s health plans cover over 16,000 persons and cost over \$70 million in premiums. Of the 16,000 persons, approximately 5,300 are employees, 3,300 are retirees, and the remaining are dependents.

Currently, the City offers four health plans to active employees and non-Medicare retirees through two carriers (Kaiser and Blue Shield). In addition, the City offers a total of 6 Medicare health plans to Medicare-eligible retirees through three carriers (Kaiser, Blue Shield, and PacifiCare/Secure Horizons). Enrollments for each carrier are summarized below:

Health Plan Carriers	Non-Medicare Plans (4)		Medicare Plans (6)	Total Participants	% of Total
	Employees	Retirees	Retirees Only		
Kaiser	3,471	882	720	5,073	59%
Blue Shield	1,871	736	864	3,471	40%
PacifiCare/Secure Horizons	N/A	N/A	111	111	1%
<b>TOTAL</b>	<b>5,342</b>	<b>1,618</b>	<b>1,695</b>	<b>8,655</b>	<b>100%</b>

The goals of the Health Plan RFP were to improve plan design, access, and service quality while reducing premium cost increases to the City, its employees, and retirees. Specific areas of interest included:

- ◆ Making premium costs more stable and predictable
- ◆ Maximizing cost containment while minimizing “cost shifts” to participants
- ◆ Lowering plan costs with health risk reduction programs
- ◆ Exploring risk-sharing options such as Consumer Driven Health Plan arrangements
- ◆ Identifying affordable rural and out-of-state plan options for retirees
- ◆ Securing Medicare Part D administrative services from the carriers

**ANALYSIS**

RFP Review Committee

The Health Plan RFP Review Committee consisted of Human Resources, Retirement, and Employee Relations staff, as well as the City’s health plan broker, SST Benefits Consulting. In addition, six

Benefits Review Forum (BRF) members and two retiree association members volunteered to serve on the committee to represent the interests and concerns of the employees and retirees in the process:

- Sue Bradford-Moore, Federated Retirees Association
- Bruce DeMers, Police & Fire Retirees Association
- Chuck Gebhardt, IBEW Representative
- Erik Larsen, MEF Representative
- Kirk Pennington, AMSP Representative
- Bill Pope, OE#3 Representative
- Deborah Powell, CEO Representative
- Jeff Ricketts, POA Representative

The City staff and the broker facilitated the entire process, monitoring and resolving administrative, financial, and contract issues.

Recruitment

The recruitment effort targeted 16 health plan carriers who were either familiar to the City or had expressed interest in the City’s business in advance of the process. In addition, the RFP was announced through the City’s Bid Line site on the Internet and through the broker’s website.

In the interest of maintaining healthcare access for all City participants, the City required all carriers to submit proposals that included Medicare and non-Medicare plans for employees and retirees. For the purpose of establishing benchmarks, proposers were asked to match the City’s current plan designs. Where proposers could not match the existing plan designs, they provided an analysis of the differences. In addition, proposers were prompted to offer progressive solutions that would address the specific areas of interest noted earlier.

The City received proposals from the following health plan carriers. Only the incumbent carriers were able to match the current plan designs exactly. Two proposers failed to offer plans that would be available to both employees and retirees.

<b>Health Plan Carriers</b>	<b>Proposed Non-Medicare Plans Only</b>	<b>Proposed Medicare Plans Only</b>	<b>Proposed Medicare &amp; Non-Medicare Plans</b>	<b>Interview Finalist</b>	<b>Replicated Current Plans</b>
Blue Cross of California			X	X	
Blue Shield of California			X	X	X
Kaiser Permanente			X	X	X
HealthNet			X	X	
Aetna			X		
United Health Care/PacifiCare			X		
Bankers Life and Casualty Company		X			
Sterling HSA	X				

Evaluation Criteria

The City structured the RFP to mirror the primary and secondary selection criteria developed by the Review Committee. Proposers scoring in the competitive range for primary criteria were reviewed for secondary criteria. Respondents who submitted proposals that were determined to be competitive in both primary and secondary criteria were invited to interview as finalists.

<b>Primary Criteria</b>	<b>Secondary Criteria</b>
<ul style="list-style-type: none"> <li>• Premiums &amp; Rate Stabilization</li> <li>• Provider Network &amp; Member Disruption</li> <li>• Plan Design</li> <li>• Prescription Drug Program</li> <li>• Customer Service</li> <li>• Performance/Goals/Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Performance Standards</li> <li>• Wellness, Prevention, and Risk Reduction Programs</li> <li>• Ancillary Programs &amp; Services</li> <li>• Retiree Programs</li> <li>• Transition Services/Support</li> <li>• Additional Features/Offerings</li> <li>• Information Reporting</li> <li>• References</li> </ul>

Evaluation and Selection

Sterling HSA and Bankers Life and Casualty were considered to be non-responsive for failing to propose both employee and retiree plans. Aetna was considered to be non-competitive in the areas of plan design and network size. United HealthCare’s (UHC) proposal was also screened out because of concerns about plan stability (due to UHC being a new competitor in the California marketplace). In addition, UHC’s proposed non-Medicare plan rates were significantly higher than the finalists.

Also, before identifying interview finalists, the Review Committee reached consensus on recommending that the current PacifiCare and Secure Horizons Medicare plans be retained on a renewal basis. Both plans are available to Medicare-eligible retirees only, and no other proposals competed directly with these plans. These plans are recommended in order to avoid participant disruption and to maintain affordable Medicare plan choices for retirees.

The four remaining finalists were Health Net, Blue Cross, Blue Shield, and Kaiser. Prior to their respective interviews, each of these proposers was asked to clarify certain RFP responses and strengthen the weaker areas of their proposals. The Review Committee interviewed the finalists and made the following assessments.

◆ Health Net (Not Selected)

Health Net was interviewed, but eliminated shortly afterwards because the cost proposals for their various plans exceeded the other proposals by more than 5%. Although Health Net proposed viable plan designs and some enhancements, they were not significant enough to outweigh the cost and plan disruption concerns of the committee.

◆ Blue Cross of California (Not Selected)

Blue Cross provided the lowest cost proposal for the HMO (health maintenance organization), PPO (preferred provider organization), and POS (point-of-service) plans. Although an advantage, the low rates triggered copayment changes in the Kaiser plan (per Kaiser’s contract).<sup>1</sup> These plan changes, combined with other disadvantages, outweighed the cost savings.

Advantages (+)			Disadvantages (-)
<ul style="list-style-type: none"> <li>Non-Medicare Plan Rate Changes, from 2006 to 2007:</li> </ul>			<ul style="list-style-type: none"> <li>Proposal triggers Kaiser copayment increases to plan participants</li> <li>The HMO strictly limits specialist self-referrals that the current Blue Shield plan freely allows</li> <li>9% of the City’s 100 top-used PPO physicians are not in Blue Cross’s PPO network</li> <li>100% retiree disruption in Medicare plans</li> <li>Large increases to Medicare-retiree costs</li> </ul>
	<u>Single</u>	<u>Family</u>	
HMO:	-5%	3%	
PPO:	-1%	2%	
POS:	-1%	2%	

◆ Blue Shield of California (Incumbent, Selected)

Selecting Blue Shield (currently an incumbent) will result in no service or network disruption to current participants. Based on current proposals, retaining this carrier will not prompt Kaiser to mandate copay increases in 2007. Although not the lowest-cost proposal, the 5% increase to the HMO plan and the 8% increases to the PPO and POS plans are significantly lower than the average annual cost increases of 16% experienced over the past five years.

<sup>1</sup> Kaiser’s standard agreement and rating assumption states that Kaiser “must be offered on conditions that are no less favorable than those for other health plans.” If Blue Cross were offered alongside Kaiser, this condition would not be met. Consequently, Kaiser would respond by increasing their office visit copayment from \$0 to \$5 and their brand name prescription drug copayment from \$5 to \$15.

<b>Advantages (+)</b>	<b>Disadvantages (-)</b>
<ul style="list-style-type: none"> <li>• No plan disruption to participants</li> <li>• Non-Medicare Plan Rate Increases:                             <ul style="list-style-type: none"> <li>○ 5% HMO</li> <li>○ 8% PPO &amp; POS</li> </ul> </li> <li>• Proven reliability in plan administration</li> <li>• Health Risk and Disease Management programs better fit the City's cost containment objectives.</li> </ul>	<ul style="list-style-type: none"> <li>• Not lowest-cost proposal</li> </ul>

◆ Kaiser Permanente (Incumbent, Selected)

Kaiser Permanente is being recommended for three primary reasons. First, Kaiser's non-Medicare rate proposals were competitive (6% above the 2006 rates) and in-line with Blue Shield's 5% HMO rate increase. Second, 65% of the enrolled employee population and 48% of the enrolled retiree population are currently enrolled in a Kaiser plan. Finally, Kaiser agreed to accommodate several retiree programs that they have resisted in the past.

<b>Advantages (+)</b>	<b>Disadvantages (-)</b>
<ul style="list-style-type: none"> <li>• No plan disruption to participants</li> <li>• 6% rate increase for non-Medicare plans</li> <li>• Proposed performance standards with financial guarantees</li> <li>• Will allow non-medically vested retirees (less than 15 years of service) to enroll at 100% cost to retiree</li> <li>• Will endorse a premium reimbursement program for retirees similar to the health in-lieu program offered to employees</li> </ul>	<ul style="list-style-type: none"> <li>• Not lowest-cost option</li> </ul>

**POLICY ALTERNATIVES**

***Alternative #1: Select Blue Cross of California to replace Blue Shield of California***

**Pros:** 3% less expensive to the City when compared to the cost of selecting Blue Shield

**Cons:** Blue Cross's rate proposal will trigger copayment increases in the Kaiser plans (per the City's contracts with Kaiser). The Blue Cross Medicare plans are vastly different and will result in significant out-of-pocket cost increases to Medicare-eligible retirees.

**Reason for not recommending:** Although the Blue Cross proposal was less expensive, the Blue Shield proposal was superior in terms of virtually all other screening/selection criteria, particularly in the areas of plan design, provider networks and disease management/wellness programs.

### **PUBLIC OUTREACH/INTEREST**

- ✓ **Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater; **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

The local business community was given the opportunity to compete through the City's Bid Line site on the Internet and through the City broker's website. This memorandum is posted on the City's website for the October 17, 2006 Council Agenda.

All key stakeholders were invited to participate in the RFP process. Employee organizations were engaged through the Benefits Review Forum and the RFP Review Committee; staff departments were also active participants through the review committee.

### **COORDINATION**

This memorandum has been coordinated with the Offices of the City Attorney, Employee Relations, Finance and Budget.

### **COST SUMMARY/IMPLICATIONS**

Based on current enrollments and the proposed premiums, the annualized cost of health care (beginning January 2007) will be \$48.0 million for the City and \$8.2 million for employees. These amounts are \$0.5 million and \$2.4 million higher for the City and employees, respectively, than in 2006.

Per union agreement, the City's share is tied to the lowest priced plan, and the City's increase was already included in the 2006-2007 Adopted Budget reserve.

The employees pay the difference between the City's share and the cost of the plan each employee chooses. The employees' cost increase is dramatic because of two factors:

- The cap for most employees in the lowest-priced plan increases from \$50 to \$100 per month.
- The increase in the higher-priced plans (i.e., PPO and POS plans) is almost 8%.

**BUDGET REFERENCE**

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	Proposed Budget Page	Last Budget Action (Date, Ord. No.)
160	0116	Health Premiums	\$47,365,000	*	XI-9	July 1, 2006

\* Contract amounts are not specified. Premium payments will vary based on each year's (Open) enrollment.

**CEQA**

Not a project.

  
MARK DANAJ  
Director, Human Resources

For questions please contact Dave Delong, Acting Benefits Manager, (408) 975-1436.