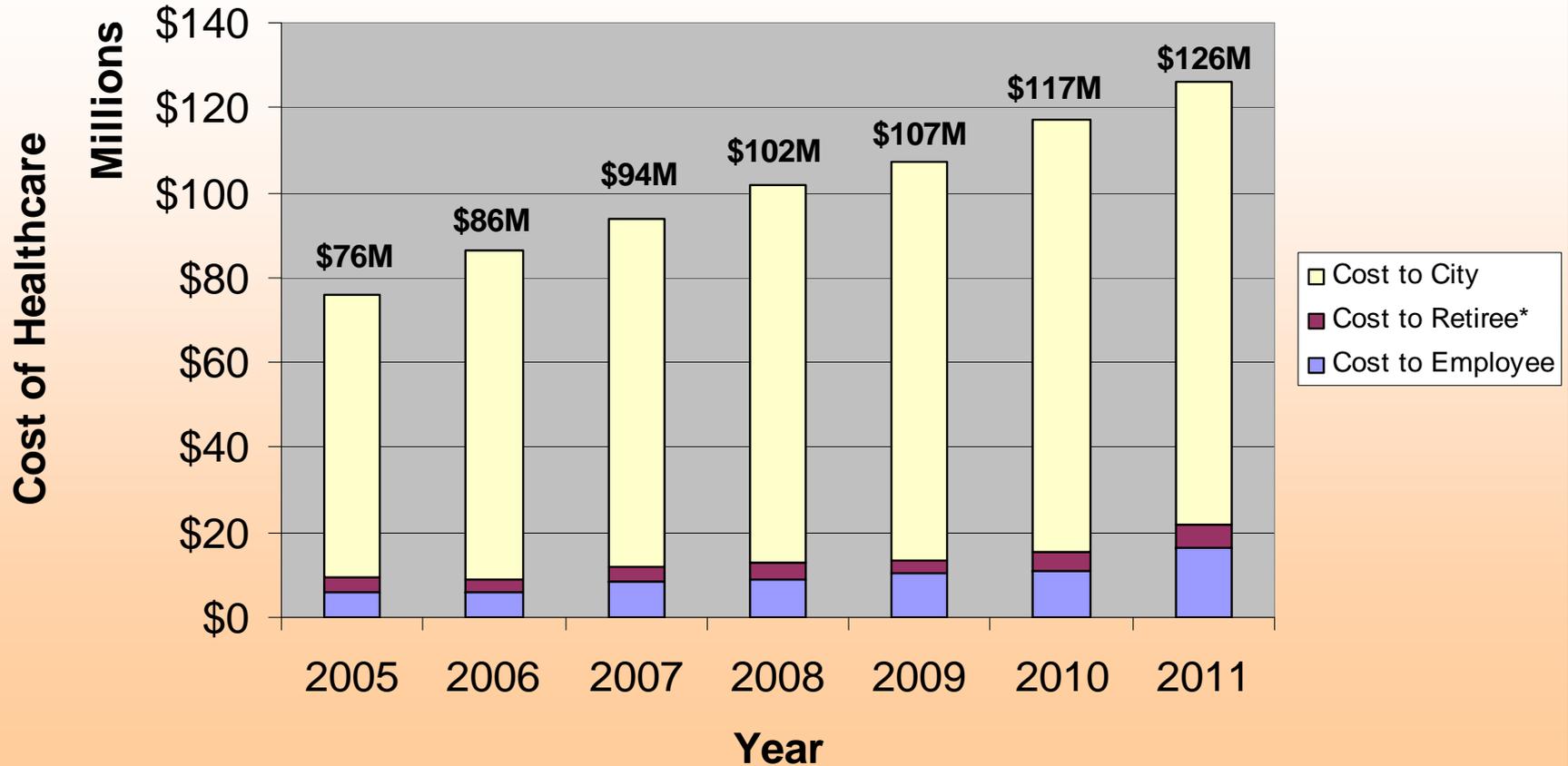


# Healthcare and Wellness in the *City of San José*

September 21, 2010  
Item 3.2

# Health Care Costs - City of San Jose

## City of San Jose Healthcare Cost Trend



\* Retiree cost reflects retirees who select a plan other than the lowest cost plan. The lowest cost plan is provided at no additional cost to retirees.

# Current State of Health Care

- City's Cost Trends and Drivers
  - Aging workforce
  - Medical advances
  - Deterioration of health
  - Third party payer

# Cost Containment – Traditional Short-Term Savings Approaches

- Shifting Costs
- Limiting Access
- Reducing Benefits

# Current State of Health Care

**FACT:** The US has some of the best doctors & hospitals in the world.

**FACT:** The US spends more money per capita on health than any other nation.

**FACT:** The US spends more of our GDP on “health” than any other nation.

**FACT:** The US does NOT have the healthiest people in the world.

**WHY?**

# Current State of Health Care



The US spends approximately \$2.5 trillion on health care  
More than 95% of this is spent on **medical care and procedures** in treating disease or illness.

Need to shift this expenditure from treatment to prevention

**Why?**

# Importance of Lifestyle

**Five controllable lifestyle choices cause over 50% of deaths in the US<sup>[1]</sup>**



Physical Activity



Healthy Eating



Tobacco



Stress



Alcohol

[1] Centers for Disease Control, 2007

# Importance of Lifestyle



Tobacco



Unhealthy Eating

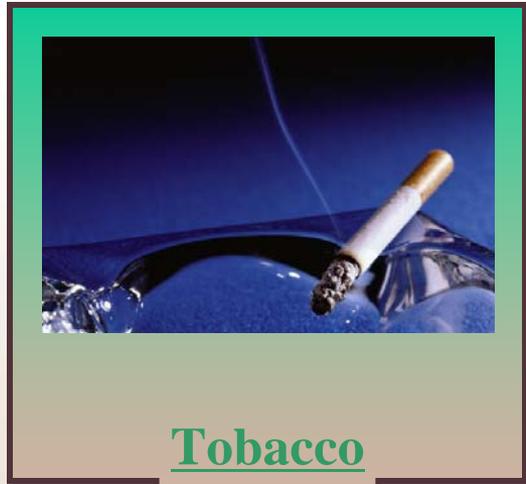


Physical Inactivity

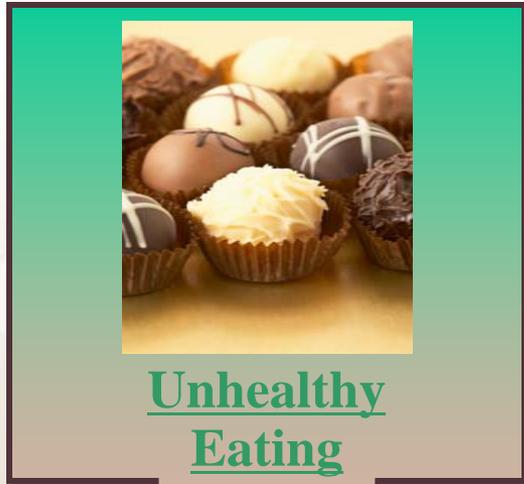
80% of heart disease  
40% of cancers

80% of diabetes  
33% of all deaths

# Importance of Lifestyle



\$75B



\$33B



\$76B

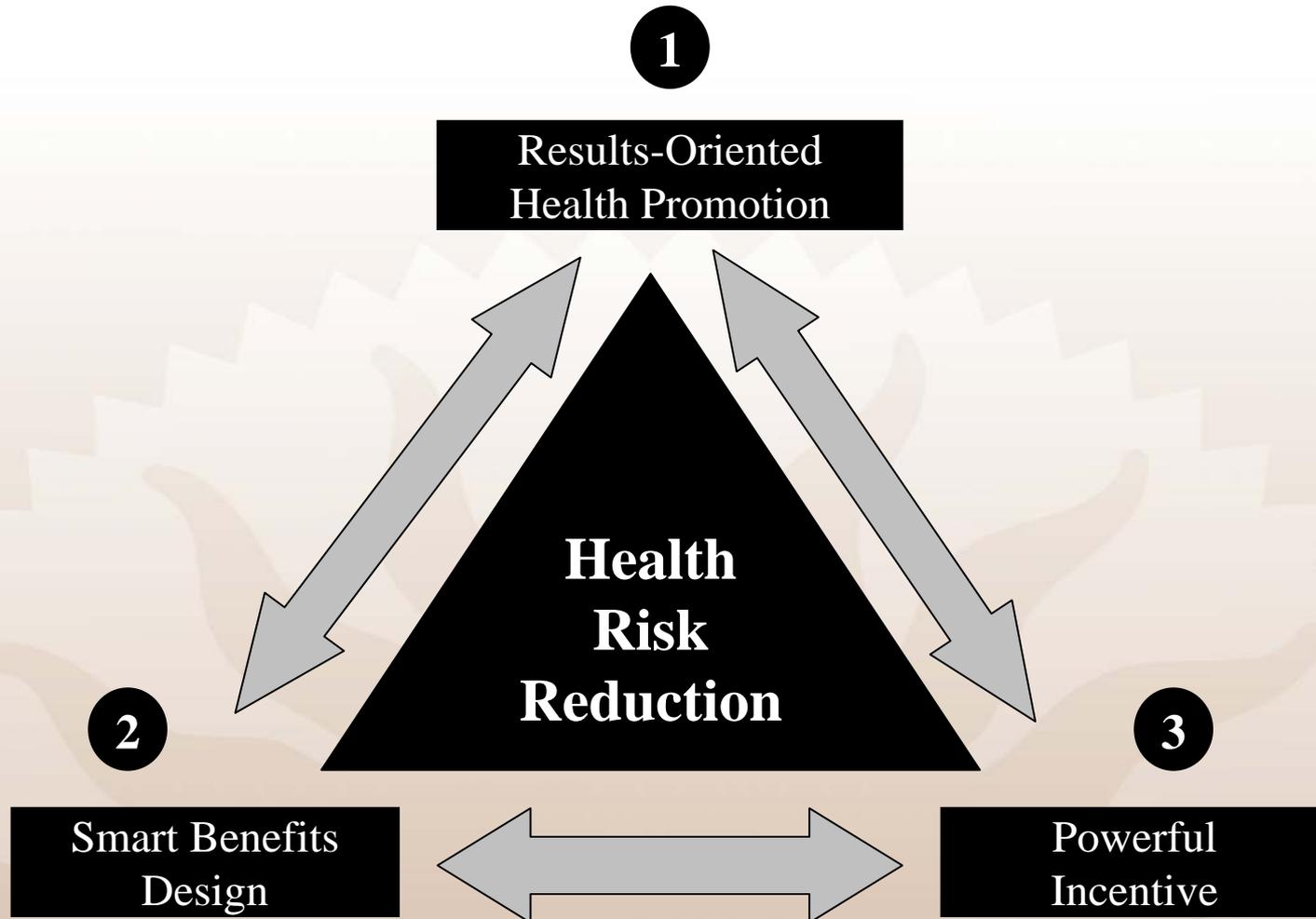
# Cost Containment – Long-Term = Focus on Prevention

- Healthy diet
- Regular exercise
- Don't smoke
- Healthy weight
- Blood pressure control

# Cost Containment – Categories of Wellness Programs

- **Awareness-oriented**
  - Information, resources and environment to learn about healthy lifestyle choices
- **Activity-oriented**
  - Combines awareness with focus on taking action by offering interventions (i.e. walking program, aerobic classes, etc.)
- **Results-oriented**
  - Focus on the desired outcomes, which the main focus being on measurable behavioral change

# Cost Containment



# Local/National Health Care - Trends

- **Issues:**
  - Health care trend increases remain at 10.6% to 11.6% nationally\*
- **Top Employer Responses:**
  - Focus on wellness programs/disease management
  - Cost shifting to participants - contribution /copays/ deductibles
  - Interest in Consumer Directed Health Plans & consumerism
  - Tightening administrative/eligibility procedures
- **Future cost savings potential from Health Care Reform**
  - No cost saving features in current Health “Insurance” Reform

# Health Care Reform Impact

- **Increased reporting/administration**
  - Additional procedures and reporting requirements - 2011
- **Insurers' increases will shift to employers**
  - Limits on insurer's cost saving plan design features - 2011
  - Additional taxes and surcharges - 2011

# Health Care Reform Impact

- **Additional Considerations for City plans -**
  - CMS Medicare Advantage funding reduction shifts cost to the City - 2012
  - Minimal savings impact from Early Retiree Reinsurance Program - 2011/12
  - Low income premium subsidy - 2014
  - Cadillac tax - 2018

# RFP for Medical Plans Summary

- Market Search
  - Compare Costs of Current Plans and Benefit Designs in the Market place
  - Fully Insured (current model)
  - Self-Insured
  - Cost Efficiencies (merge HMO plans to a single provider)
- Received Proposals or Declinations from all Carriers

# RFP Results Summary

- No carrier changes
- Fully insured
- Rate increases below market trend and below rate forecast of 10.5% increase used in FY 2010-11 budget projections:
  - Kaiser 8% for \$25 co-payment plan
  - Kaiser 9% for \$10 co-payment plan
  - Blue Shield 4% for HMO, PPO, POS

# Wellness Program Support

- City's plan designs include \$0 for preventative services
- Blue Shield and Kaiser's proposals includes funding for City's Wellness Program
- Kaiser's and Blue Shield's Wellness Programs currently in place will continue, including cash rewards for participating in healthy lifestyle programs

# Looking to the Future

- Continue investment in Wellness programs
- Continue implementation of Audit recommendations
- Medicare requirements for retirees

**Thank you!**

# Costs of Medicare Plans

	<b>Retirement Medical Trust Fund Cost</b>	<b>Retiree Cost</b>	<b>Total</b>
<b>Current Medicare Plan Design</b>	\$41,419,623	\$6,444,803	\$47,864,427
<b>Medicare Plan with \$10 co-pay</b>	\$41,416,482	\$5,562,597	\$46,979,079
<b>Medicare Plan with \$25 co-pay</b>	\$39,330,364	\$3,805,868	\$43,136,232
<b>Hypothetical if no Medicare Plans were offered</b>	\$44,234,713	\$10,600,471	\$54,835,185

# RFP Selection Committee

- Benefits Review Forum (BRF) is a monthly meeting of union and retiree representatives with HR, OER and Retirement Services staff
- RFP discussed at the BRF, and selection committee made of up committee members, including a retiree
- RFP discussed over the course of 5 months at BRF meetings