



City of Seguin RFP TF-2019-42

Bob Treacy, LHIC | October 29, 2019

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Executive Summary



EXECUTIVE SUMMARY

GROUP MEDICAL OVERVIEW

The City of Seguin has contracted its Medical/Rx Plan contract with United Healthcare (UHC) for the past two (2) years, PY 2018 and current 2019; plan year anniversary date is January 1st each year.

The City has enjoyed an extremely static progression of premium rate increases over time, averaging 3% premium rate increases while retaining ACA GOLD level benefit plan. The City's recent 18 month claim cycle has been on an increasing trajectory, putting adverse pressure on Loss/ Claim Ratios which projects out at a 37% increase for Plan Year 2020 (See attached PROJECTION EXHIBIT).

UHC delivered an initial group medical increase of 29%. Our consultants Gallagher Benefits Services, recommended the city engage a comprehensive Request For Proposal (RFP) process.

All marketplace leading Carriers/Vendors responded to the RFP process and responses follow based upon current GOLD ACA benefit designs;

The insurance carriers/vendors that responded to the RFP were:

- UHC (Incumbent)
- Blue Cross Blue Shield of Texas
- Humana
- Aetna

The following Vendors Declined To Quote (DTQ)

- Cigna
- Texas Municipal League (TML)

The due diligence process review of the response included the following decision variables:

- RFP Response/Price Point/Benefits (40%)
- Medical/Pharmacy Managed Care Platform (40%)
- Carrier Transition (20%)



EXECUTIVE SUMMARY

CARRIER/VENDOR RESPONSES

The attached medical/Rx Premium and Benefit Analysis analytics show that the incumbent/UHC and Blue Cross Blue Shield of Texas (BCBSTX) issued the most competitive proposals.

- UHC (+29%)
- BCBSTX (+20%)
- Aetna (+ 35%)
- Humana (+27%)

TRANSITION CREDITS/PACKAGED SAVINGS DISCOUNTS

BCBSTX has offered further premium reductions from the base 20% increase;

- 1) An expense credit of \$100,000 (-3 %) to offset transitional costs and hardship moving from current carrier UHC.
- 2) A “bundle” discount of (-2 %) off the group medical proposal. This vendor has offered an additional premium cost incentive to contract the group Medical, Life/AD&D, dental together as a package. BCBSTX group Life/AD&D and dental ASO proposals were BELOW current UHC contracted/proposed costs. These discounts total an additional (-5 %)

PLAN CHANGES

Staff is recommending NO plan changes to the group medical and pharmacy RX plan effective January 1, 2020. The City will retain a solid “GOLD” standard ACA plan levels which is the high end of the employer benchmarking in this governance marketplace.

RECOMMENDATIONS

Staff recommendation is to award the Group Medical, Life/AD&D, Dental contract to BCBSTX effective January 1, 2019.



EXECUTIVE SUMMARY

STRATEGIES MOVING AHEAD

As noted before, the city has been able to retain a “GOLD” standard medical plan over the years. In addition, the City contributes 75% of the total cost of the medical/Rx plan. Additional “core” group health and welfare benefits include employer paid Life/AD&D and dental plans.

The City is experiencing headwinds in our group medical plan;

- After a continuous run of strong Loss Claim Ratio (CLR) annual reporting cycles, the city has been on an 18 month trend of adverse CLR months. The additional concern lies in the claims data. Our CLR is adverse as a macro, or group, not just a few claimants having large claims > \$125,000. The concern is that the core group as a whole is experiencing broad base morbidity. In all likelihood this trend will continue. The additional chance that large claimants will manifest themselves add cause for concern in future years.
- The PREMIUM HISTORY EXHIBIT slide tells the story of our ability to keep premiums at a minimal increasing trend, beating the markets. Constantly pushing the premium base down successfully over the years adds a greater increase delta when adverse claim cycles are incurred. $PLAN\ EXPENSES / EARNED\ PREMIUM = PREMIUM\ ADJUSTMENT$
- A perfect storm has presented itself for the PY 2019 renewal and the city is seeing these optics in the marketplace reaction to our RFP. $CONSISTENT\ INCREASED\ CLAIMS\ TREND\ UNIT\ COSTS > UNDERVALUED\ PREMIUM\ UNIT\ COSTS = SPIKING\ MARKET\ PREMIUM\ COST\ ADJUSTMENT.$
- MULTI OPTION PLAN OFFERINGS will allow the City to set a flagship plan in place for core budgeting purposes, then allow employees to either buy up (higher ACA benefit value) / buy down (lower ACA value - minimizing payroll contributions) for meeting employees where they are.
- WELLBEING initiative must be a part of the DNA in our medical/RX plans. Mandatory annual biometric screenings, smart utilization management programs, and targeted consumerism benefit strategies must all play a greater role to assist employees find lower cost care solutions and assist the plan in bending increasing cost curves over time.
- VOLUNTARY BENEFITS offerings must continue to supplement the core group health and welfare package through the city. The City is looking to implement smart technology benefit communication/enrollment tools for HR staff and employees. Implementing a complete package high value / low cost benefit products for employees and family members to purchase through payroll deduction will complete / round out the total value proposition to employees.



Projection Exhibit

				Current
Medical RX Paid	Jan-18	to	Jul-19	\$4,579,269
Number of Employees	Jan-18	to	Jul-19	7,154
Net Claims PEPM				\$640
Benefit Decrement				0.954
Trend Factor	20.5	@	0.8%	16.40%
Trended Medical/RX Claims				\$711
Pooling Charge		\$150,000		11%
Total Paid Claims				\$789
ASO				13%
ACA Fees				2.65%
Total Projected Costs				\$931
Total Earned Premium				\$665
Premium Adjustment Projected				39.89%

Notes:

Weighted Avg Blended Manual 32% of Total Premium



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2020 RFP Analysis



Medical Analysis

Carrier		UHC	UHC	BCBS	BCBS
Plan Name		BCZX/RX001	BCZX/RX001	1500 Plan	1500 Plan
Individual Annual Deductible		\$1,500	\$1,500	\$1,500	\$1,500
Family Annual Deductible		\$3,000	\$3,000	\$3,000	\$3,000
Co-insurance		20%	20%	20%	20%
Individual Out of Pocket Maximum		\$4,000	\$4,000	\$4,000	\$4,000
Family Out of Pocket Maximum		\$8,000	\$8,000	\$8,000	\$8,000
PCP Visit Copay		\$0/\$25	\$0/\$25	\$25	\$25
Specialist Visit Copay		\$25/\$50	\$25/\$50	\$50	\$50
TeleHealth Copay		\$0	\$0	\$25	\$25
Routine Lab/Imaging					
• Billed by Physician		No Charge	No Charge	No Charge	No Charge
• Free Standing		No Charge	No Charge	No Charge	No Charge
• Out Patient Hospital Facility		No Charge	No Charge	No Charge	No Charge
Emergency Room					
• Facility		\$500 + Coins	\$500 + Coins	\$500	\$500
• Physician		Included	Included	20% After Deductible	20% After Deductible
• Urgent Care Copay		\$75	\$75	\$75	\$75
RX					
• Copays		\$10 / \$35/ \$70 / N/A	\$10 / \$35/ \$70 / N/A	\$10 / \$35/ \$70	\$10 / \$35/ \$70
• Mail Order		2.5X	2.5X	2.5 X	2.5 X
Generic Push/Step Therapy/Prior Auth		Yes	Yes	Yes	Yes
Rates	PPO	Current	Renewal	Proposed	Proposed with Savings
Employee	232	\$452.43	\$583.63	\$545.36	\$534.45
Employee + Spouse	24	\$1,017.95	\$1,313.14	\$1,227.04	\$1,202.50
Employee + Child(ren)	62	\$859.60	\$1,108.88	\$1,036.16	\$1,015.44
Employee + Family	50	\$1,248.70	\$1,610.81	\$1,505.18	\$1,475.08
Monthly Cost		\$245,124.76	\$316,208.58	\$295,473.74	\$289,564.27
Annual Cost		\$2,941,497.12	\$3,794,502.96	\$3,445,684.92	\$3,374,771.22
Change from Current		N/A	29%	17%	15%

\$100K transition cost

\$100K transition cost

2% Package Savings

Not Competitive:

Aetna – 35%

Humana – 27%

Cigna – Decline to Quote

TML – Decline to Quote



Historical Reference

Historical Premium Summary

	2003		2019	
EE 232	\$304.72	\$848,340.48	\$452.43	\$1,259,565.12
ES 24	\$683.15	\$196,747.20	\$1,017.95	\$293,169.60
EC 62	\$580.04	\$431,549.76	\$859.60	\$639,542.40
EF 50	\$838.23	\$502,938.00	\$1,248.70	\$749,220.00
Total 368	\$1,979,575.44		\$2,941,497.12	

Benefit Decrements Over Time

	HUMANA	UHC
Deductible	\$500	\$1,000
Coinsurance	20%	20%
Out of Pocket ACA	\$1,500	\$3,000
PCP/Spec Copay	\$15	\$0/\$25/\$50
RX Card	\$10/\$25/\$45/25%	\$10/\$35/\$70

Cumulative Increase: **48.59%**

Average Annual Increase over **16** renewal periods **3%**

The Plan Year 2019 renewal plan premium rates at 80% ACV **GOLD** Standard Plan under PPACA guidelines



ASO Dental Analysis

Carrier		UHC - ASO Dental Out of Network		BCBS Out of Network	Aetna Out of Network	Humana Out of Network
R & C		90th Percentile		90th Percentile	90th Percentile	90th Percentile
Rates	EEs	Current	Renewal	Proposed	Proposed	Proposed
ASO Fee PEPM	367	\$4.35	\$4.35	\$4.30	\$3.88	\$3.90
Monthly Cost		\$1,596.45	\$1,596.45	\$1,578.10	\$1,423.96	\$1,431.30
Annual Cost		\$19,157.40	\$19,157.40	\$18,937.20	\$17,087.52	\$17,175.60
Change from Current		0.00%		-1.15%	-10.80%	-10.34%
Rate Guarantee Until		01/01/21		01/01/22	01/01/21	01/01/23



Life Analysis

Carrier	UHC		BCBS
	Current		Proposal
Class 1	Employees working 30 hours week		Employees working 30 hours week
Employee Benefit	Flat \$25,000		Flat \$25,000
Benefit Maximum	\$25,000		\$25,000
Guarantee Issue Limit	\$25,000		\$25,000
Accelerated Death Benefit	50% of Applicable Benefit		50% of Applicable Benefit
Waiver of Premium	Included		Included
Portability	None		None
Conversion	Included		Included
	Age Reductions		Age Reductions
Age 65	35%	35%	35%
Age 70	50%	50%	50%
Rates	Current	Renewal	Proposal
Life Rate Per \$1000	\$0.180	\$0.180	\$0.123
AD&D Rate Per \$1000	\$0.030	\$0.030	\$0.030
Total Rate Per \$1000	\$0.210	\$0.210	\$0.153
Est. Monthly Volume	\$8,867,500	\$8,867,500	\$8,867,500
Est. Monthly Cost	\$1,862.18	\$1,862.18	\$1,356.73
Est. Annual Cost	\$22,346.10	\$22,346.10	\$16,280.73
Change from Current	0.00%		-27.14%
Rate Guarantee Until	1/1/2022		1/1/2022



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Compensation, AM Best & Disclosures



Compensation - Health

A.M. Best Ratings & Compensation - Health

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Carrier	Quote Status	Commission/Supplemental Compensation
Medical, Rx		
United Healthcare	Incumbent/Renewal	0% / \$0 to \$54 PEPY
BCBS of TX	Proposal	0% / \$7.50 to \$15.00 PEPY
Aetna	Proposal	0% / \$0 to \$48 PMPY
Humana	Proposal	0% / \$1.00 to \$17.00 PEPQ
Cigna	DTQ	0% / \$0.00 to \$30.00 PEPY
TML	DTQ	0% / 0%
Dental		
United Healthcare	Incumbent/Renewal	0% / 0% to 4% of premium
BCBS of TX	Proposal	0% / 0%
Aetna	Proposal	0% / 0% to 5%
Humana	Proposal	0% / 0% to 7% of premium
Cigna	DTQ	0% / \$0.00 to \$2.20 PEPY
TML	DTQ	0% / 0%



Compensation - Non-Health

A.M. Best Ratings & Compensation – Non-Health

Carrier	Status	Commission/Supplemental Compensation	AM Best Rating
Life/AD&D			
United Healthcare	Incumbent/Renewal	0% / 0% to 4% of premium	A/XV
Dearborn National	Proposal	0% / 0% to 6% Annualized Premium	A/XV
Aetna - The Hartford	DTQ	0% / 2% of paid premium	A/XV



AM Best Ratings – Non-Health

A.M. Best Ratings & Compensation - Health

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Level	Category	Level	Category
A++, A+	Superior	C, C-	Weak
A, A-	Excellent	D	Poor
B++, B+	Good	E	Under Regulatory Supervision
B, B-	Fair	F	In Liquidation
C++, C+	Marginal	S	Rating Suspended

Financial Size Categories			
FSC I	Up to 1,000	FSC IX	250,000 to 500,000
FSC II	1,000 to 2,000	FSC X	500,000 to 750,000
FSC III	2,000 to 5,000	FSC XI	750,000 to 1,000,000
FSC IV	5,000 to 10,000	FSC XII	1,000,000 to 1,250,000
FSC V	10,000 to 25,000	FSC XIII	1,250,000 to 1,500,000
FSC VI	25,000 to 50,000	FSC XIV	1,500,000 to 2,000,000
FSC VI	50,000 to 100,000	FSC XV	2,000,000 or more
FSC VIII	100,000 to 250,000		

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Disclosures

The intent of this analysis is to provide you with general information regarding the status of, and/or potential concerns related to your current employee benefits environment. It does not necessarily fully address all of your specific issues. It should not be construed as, nor is it intended to provide legal advice. Questions regarding specific issues should be addressed by your general counsel or an attorney who specializes in this practice area.

This analysis is for illustrative purposes and is not a guarantee of future expenses, claims, costs, managed care savings, etc. There are many variables that can affect future health care costs including utilization patterns, catastrophic claims, changes in plan design, health care trend increases, etc. This analysis does not amend, extend, or alter the coverage provided by the actual insurance policies and contracts. Please see your policy or contact us for specific information for further details in this regard.

Network discount analysis is based on a representative basket of 'goods and services' an employer's health plan(s) could expect to see over the course of a year. It is in no way intended to imply a direct correlation to an employer's actual claim experience. This analysis is designed to approximate a differential in reimbursement rates among various networks in order to assess efficiency and does not in any way represent a guarantee of savings.

This proposal is an outline of the coverage proposed by the carrier(s), based on information provided by your company. It does not include all of the terms, coverages, exclusions, limitations, and conditions of the actual contract language. The policies and contracts themselves must be read for those details. Policy forms for your reference will be made available upon request.

This analysis contains a financial cost summary and an outline of key policy provisions. Although cost is an important factor in placing coverage with a stop loss carrier, key policy provisions are also critical to the selection process and they may represent additional financial liability. For example, a stop loss policy that supersedes a client's plan document language could have a negative financial impact on the Plan. Although most stop loss carriers will agree to cover medically necessary and generally accepted practices and procedures, there may be other limitations which should be considered prior to policy acceptance.

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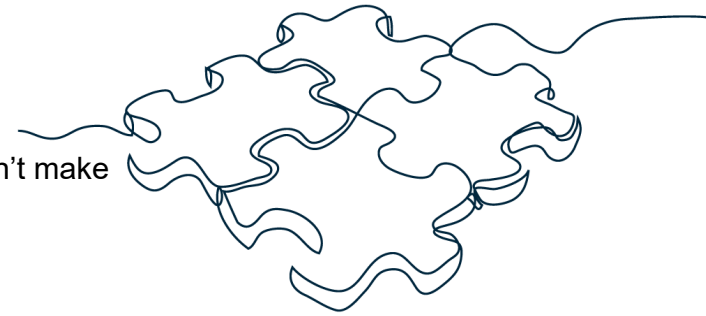
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1. We are a Sales and Marketing Company dedicated to providing excellence in Risk Management Services to our clients.
2. We support one another. We believe in one another. We acknowledge and respect the ability of one another.
3. We push for professional excellence.
4. We can all improve and learn from one another.
5. There are no second-class Citizens – everyone is important and everyone’s job is important.
6. We’re an open society.
7. Empathy for the other person is not a weakness.
8. Suspicion breeds more suspicion, To trust and be trusted is vital.
9. Leaders need followers. How leaders treat followers has a direct impact on the effectiveness of the leader.
10. Interpersonal business relationships should be built.
11. We all need one another, We are all cogs in a wheel.
12. No department or person is an island.
13. Professional courtesy is expected.
14. Never ask someone to do something you wouldn’t do yourself.
15. I consider myself support for our Sales and Marketing. We can’t make things happen without each other. We are a team.
16. Loyalty and respect are earned – not dictated.
17. Fear is a turnoff.
18. People skills are very important at Arthur J. Gallagher.
19. We're a very competitive and aggressive Company.
20. We run to problems – not away from them.
21. We adhere to the highest standards of moral and ethical behavior.
22. People work harder and are more effective when they’re turned on – not turned off.
23. We are a warm, close Company. This is a strength – not a weakness.
24. We must continue building a professional Company – together – as a team.
25. Shared values can be altered with circumstances – but carefully and with tact and consideration for one another’s needs

When accepted Shared Values are changed or challenged, the emotional impact and negative feelings can damage the Company.

- Robert E. Gallagher
May 1984



- 8 years running -

Thank You!

Consultant: Bob Treacy, LHIC

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