HEALTH INSURANCE COST RESEARCH
AD HOC COMMITTEE

The Health Insurance Cost Research Ad Hoc Committee meeting was held on October 21, 2015, at 3:30 p.m. with Councilman Hare presiding. Members present were Mr. Cole, Mayor Christiansen (arrived at 3:32 p.m.), Mr. Koenig (arrived at 3:42 p.m.), Mrs. Mitchell, and Mrs. Hawkins.

AGENDA ADDITIONS/DELETIONS

Mr. Cole moved for approval of the agenda, seconded by Mrs. Hawkins and unanimously carried.

Election of Chair

Mr. Hare opened the floor for nominations for candidates to serve as Chair.

Mrs. Donna Mitchell, Controller/Treasurer, moved to nominate Mr. Hare to serve as Chair.

By unanimous consent, nominations were closed.

Mrs. Mitchell moved to elect Mr. Hare to serve as Chair, seconded by Mr. Koenig and unanimously carried.

Discussion of Committee's Purpose and Goals

During the Special Council Meeting (Budget Review) of May 27, May 28, June 1, June 2, and June 3, 2015, members agreed to perform due diligence in research on health insurance. During their meeting of July 13, 2015, Council approved the Legislative, Finance, and Administration Committee's recommendation for approval of Mayor Christiansen's proposal to go forward with the health insurance cost research, as amended to include the creation of a committee to consist of at least two (2) members of Council, the City Manager, Mayor, Human Resources Director, and the Controller/Treasurer or her assistant. During their meeting of July 27, 2015, Council approved the appointments of Councilman Scott W. Cole; Councilman William F. Hare; Mayor Robin R. Christiansen; Mr. Scott Koenig, City Manager; Mrs. Donna Mitchell, Controller/Treasurer; and Mrs. Kim Hawkins, Human Resources Director, to the Health Insurance Cost Research Ad Hoc Committee.

Mr. Hare advised members that the City's health insurance premiums had not been reviewed since 2010. He stated his belief that Council members wanted to see what insurance was costing, if the City's rates were competitive, and what could be done, if anything, to lower the City's insurance premiums. Mr. Hare noted the desire for a comparable plan that was not with the State and without a high deductible.

Responding to Mayor Christiansen regarding the Committee's time frame, Mr. Hare expressed his hope to have something to present for the preliminary FY 2017/2018 budget.

Mayor Christiansen stated his belief that it was imperative to prepare two (2) budgets prior to February 2016, including a budget that maintains the State monies that the City had become accustomed to receiving as part of its budget, as well as a contingency budget. Responding,

Mr. Hare indicated that he did not disagree; however, he did not feel that this was part of the current discussion. He stated that his desire was to get health insurance quotes and he assumed that the City would choose a plan that was better than its current plan if a better quote was received.

Mrs. Hawkins stated that she felt they would be unable to change plans because the City has four (4) labor union contracts and 45 non-bargaining employees. She explained that these contracts specifically state that the City must be in the State of Delaware insurance plan. Mrs. Hawkins indicated that if quotes with lower rates and comparable benefits were received, this must be negotiated out of the contracts. She noted that two (2) labor contracts were currently being finished and the other two (2) would not be due until 2018.

In response to Mayor Christiansen as to whether there was an "opt-out" in those contracts, Mrs. Hawkins stated that the City could ask the unions to come to the table to have a contract opener. She advised members that the unions do not have to agree; however, she felt that if they came to the table, they would want something in exchange.

Mr. Hare suggested that no agreements be signed with the two (2) unions that the City was negotiating with until the health insurance quotes are received. Responding, Mrs. Hawkins stated that negotiations may already be too far along. Mr. Hare estimated that quotes could be received within 60 days. He noted that something could be included in the contracts stipulating that cheaper, comparable plans utilizing the same companies could be substituted. In response, Mrs. Hawkins stated that this could be proposed to the unions, but one of the unions' ground rules stated that all proposals would be on the table by a certain date, which was long past.

Mr. Hare expressed his opinion that the City was not there for the unions. He felt that this could be appealed and that an arbitrator would not require the City to pay more for the same type of insurance. Mrs. Hawkins stated that this would be up to the arbitrator and expressed her belief that the City was too far along in the contract negotiations to put something new on the table, although she respected Mr. Hare's thoughts and opinions.

Mr. Hare stated that if a cheaper comparable plan was refused, the City could eliminate positions to obtain the same savings that might be realized by the plan. Mayor Christiansen stated his belief that the purpose of the Committee was to save money for the citizens and possibly for the employees, not to go to war with the City's employees. Mrs. Mitchell stated that the goal is to look into the matter and make a decision, noting that costs were unknown at this point.

Mr. Cole noted that there were three (3) right-to-work bills in State Committee and questioned if this matter could be moved forward with a statement that it would go into effect probably in FY 17 or FY 18 if one (1) of those bills is passed by the legislature.

In response to Mayor Christiansen, Mr. Hare stated his belief that the City had 622 health insurance contracts, based on the September 2015 billing.

Responding to Mayor Christiansen, Mrs. Hawkins indicated that this was the number of current contracts and it did not include people who opted out. She explained that some employees have an option to be covered by a spouse's insurance, which is typically the case with military spouses.

Mr. Hare stated his belief that there were 630 total contracts and the Highmark adjusted total was 622. He noted that this included active and retired employees with all types of coverage. He requested that Mrs. Mitchell provide members with the September invoice listing funds paid to the State for all City employee contracts.

Mayor Christiansen asked if the City's contracts allowed for any wiggle room. Responding, Mrs. Mitchell stated that this would apply only to the approximately 45 employees not represented by a union.

Mr. Hare stated a desire to see what the options would be, noting that opting out would save risk and administrative fees that were close to $300,000.

Mayor Christiansen questioned if there would be a fee for withdrawing from the State plan. In response, Mrs. Mitchell stated her belief that there would not be a State fee but there may be a fee with another provider. Mr. Hare, Mrs. Mitchell, and Mrs. Hawkins agreed that the State would not object to the City withdrawing from the State plan.

Responding to Mayor Christiansen, Mr. Hare advised members that the current administrative fee was close to $29,000 per month. Mrs. Mitchell stated that employees share a portion of this cost, except for employees and retirees who were grandfathered in the old plan.

In response to Mr. Hare regarding an available census, Mrs. Mitchell stated that she had a census from an Other Post-Employment Benefits (OPEB) study which included gender, date of birth, and the plan the participant is in. She indicated that, because of Affordable Health Care Act (ACA) requirements, the City must have this information, which is pulled from the State system. In response to Mr. Koenig, Mrs. Mitchell confirmed that this included information for everyone covered, including active and retired employees and dependents. She indicated that she had also requested two (2) years of the City's claims experience from the State to compare with the premiums the City was paying to the State, noting that this was previously done in 2010. *(City Clerk's Office Note: Subsequent to the meeting, Mrs. Mitchell emailed members and provided the City of Dover Enrollment and Claims Report and the City of Dover Health Care Census (as on file in the City Clerk's Office).)*

Responding to Mrs. Hawkins, Mrs. Mitchell confirmed that the City had paid $3,400 to receive census and claims information in 2010 when the City last issued a Request for Proposals (RFP); however, the current charge for the information was $500.

Mrs. Hawkins questioned if the claims data requested would include health and prescription information. Mrs. Mitchell stated her belief that it would.

Mr. Koenig advised members that health insurance was a highly sensitive subject for all bargaining units. He questioned if the City's goal was solely to save money or to improve care. Mr. Koenig noted that there were six (6) affected groups in the City and there had been no contact or discussion with retirees.

In response to Mr. Hare regarding the City Manager's goal, Mr. Koenig stated his goal was to have a stable workforce at the lowest reasonable cost. Mr. Hare stated that the goal was to see what the exact same health insurance coverage would cost for a plan that was not with the State. Mr. Koenig questioned how any assurance could be given to employees and unions that any estimate provided would not be a one-time, lowball estimate.

Mr. Hare questioned if anyone had talked to Kent County, which had the same plans as the City at an average cost of $8,200 per employee. He noted that the City's cost was approximately $10,900 per employee. In response, Mrs. Hawkins explained that Kent County's total rate for a family plan was $1,880 per month and the City's rate was approximately $2,010 as of September 1st, noting that the County had Highmark as well. She indicated that the County is responsible for the first $5,000 of incurred medical expenses for an individual and $10,000 for family coverage, and they had built that component into their rates.

Responding to Mayor Christiansen regarding whether Kent County had negotiated separately with the vendor and Highmark, Mr. Koenig stated that the County had sought bids.

Mr. Cole suggested the possibility of approaching the unions and explaining the instability that would be coming from the State plan and the possibility of looking at other options to keep costs down.

Mrs. Hawkins advised members that she attends health insurance meetings at the State where the unions advocate for lower-paid State employees by stating the need to keep the premiums low because the State had not had pay increases for quite some time. She indicated that some State employees earn pay that is so minimal that they could actually go on Medicaid and come off the State plan. Mrs. Hawkins expressed reluctance to say that major changes would be coming to the State health insurance plan because the State is so receptive to the unions' advocacy for their members.

Mayor Christiansen expressed the need to look at the cost of health insurance along with the maintenance of standards already in place, stating that this was the Committee's charge. He reiterated the need to prepare a budget that reflects the loss of State monies and increased health care costs, whether through a new or continued program. Mayor Christiansen stated that he felt that if budget preparation occurred in April, May, or June, as it usually does, the City would be playing catch up and that the public and employees deserved better.

Mr. Koenig stated his recollection that before the City's FY 2016-2017 budget hearings, the State had originally indicated that the increase in health insurance costs would be approximately 19.9%.

Mr. Cole stated that this was later changed to 15.7%.

Mr. Koenig was unable to recall the total budget impact. He stated his understanding that Aetna and Highmark had applied to the Insurance Commissioner for a 20% plus increase and they were awarded it. Mr. Koenig felt that regardless of which plan would be used, the City was probably looking at a potential 15% to 20% increase for next year.

Mrs. Hawkins indicated that the State may address this increase through plan designs. Responding, Mr. Koenig stated that the State was the entity that bargained with health care providers and it would be up to the State to redesign plans.

Mrs. Hawkins indicated that prescription drugs plans were a factor, noting that the removal of Viagra from the prescription plan had been a big topic previously and something else like that could be coming along. She explained, for example, that an injectable statin for high cholesterol was being discussed at a cost of $10,000 per month, compared to an oral statin with a co-pay of $850 for 30 days which had been used. Mrs. Hawkins explained that these types of changes were driving costs up. She stated that the Ad Hoc Committee could address the costs that the City incurs, but there were concerns across the health care industry.

Mayor Christiansen stated his belief that the Committee should forge ahead and do the best it could in trying to find savings and reduce the impact on the budget.

Mr. Hare indicated that the last time this matter was reviewed was prior to the State putting in the access fee. Responding to Mrs. Hawkins, he indicated that the previous actuarial report was from November 2010. Mrs. Mitchell clarified that the access fee Mr. Hare referred to was the risk and administration fee.

Mrs. Mitchell expressed surprise that the State had made a change earlier in the year by suddenly charging the University of Delaware a risk fee of 15% when they had never been charged before. While the City's increase went from 5% to 10%, the University's fee went up by 15% and they were upset because it was the first they knew there was a risk fee. The University went to the State and the State put the risk fee back into the premiums, taking the 15% risk fee back down to 5%. Mrs. Mitchell stated her thought that the actuary had helped the State to develop the premiums and questioned if the State had gone to the actuary and asked them to redo these premiums. In addition, Mrs. Mitchell questioned if what the City was paying to the State was truly what they were paying to the carrier. She cautioned members that the State could suddenly change a premium and run the risk fee into the premium, versus running it as a risk fee. Mayor Christiansen questioned if the City was subsidizing someone else. Mr. Hare stated his belief that the State had a stop-loss policy. Responding, Mrs. Hawkins indicated that they did not.

Mr. Koenig stated his thought that the University of Delaware was challenging the State on how they were adjusting the fee and the State felt that they were at risk to a challenge. Mrs. Hawkins expressed her belief that the amount of the change was approximately $3M, noting that the University had commented publicly on this at a State health insurance meeting.

Mr. Hare questioned, with the City's claims experience, what the rates would be if the City went back to being self-insured by Highmark Blue Cross, with the employees receiving the same benefits. Responding, Mrs. Hawkins stated her belief that the City would not be self-insured.

Mrs. Hawkins advised members that approximately 26 jurisdictions who were members of the Delaware League of Local Governments were in the State plan and their rates were very close to the City's rates. She indicated that Georgetown, Middletown, and Newark were not on the State plan and their rates were very comparable.

Mrs. Mitchell explained that Newark has Delaware Valley Insurance Trust (DVIT), which seemed to be a good set-up and was similar to the State. She indicated that this was a pool of municipalities with a plan through Aetna. Mrs. Mitchell noted that Highmark was not included because DVIT would not agree to the extra fees that Highmark tacked on for marketing, etc. She noted that Aetna does not have the network of providers that Highmark has, and Kent and Sussex Counties do not have the providers that are available in New Castle County. Mrs. Mitchell stated that, although those in New Castle County would probably be okay with DVIT, staff was unsure how those in lower Delaware would be impacted unless the network of providers was built up.

Mr. Koenig stated his concern regarding trying to secure a policy on the City for approximately 350 employees plus retirees, which would be approximately 622 contracts. He noted that this was different from pooling 3,000 to 4,000, which would provide better leverage in negotiation. In response to Mr. Koenig, Mr. Hare stated that this was not the case because the State's pool would include people with cancer and high claims. Mr. Koenig noted that the City would have its own group of people in this category.

Mr. Hare stated that the City's claims experience would provide this information to the insurance companies. He stated that the possibility of combining with the County should be explored. Mr. Hare indicated that the cost was approximately $10,938 per employee per year on average. He calculated this amount by dividing the total payment of approximately $567,000 by the Highmark adjusted total of 622 contracts and multiplying this figure by 12 months. He stated that it cost $540 per month per employee to be on the State plan. Mrs. Hawkins noted that the $567,000 total was the full cost; however, participants were sharing the cost.

Mr. Cole noted that Mr. Koenig had expressed concerns about the stability of the workforce and their perception of this research, and he questioned if this could be couched in terms of performing due diligence to make sure that rates are competitive and clarify that this was not a "witch hunt." Responding, Mr. Koenig stated that it could; however, there was an agitated environment and employees sometimes have a different perception of words, noting that terms such as Lean Government and privatization are sometimes viewed by employees as trying to get rid of them. Mr. Koenig indicated that it was unknown what the next year would bring in terms of rate increases. It was his understanding that if the City withdrew from the State program to save money, the City's active workforce would be able to get back into the State plan; however, the 300 plus retirees could not. Mr. Koenig stated that these employees were unrepresented and would not come to the City Manager, Human Resources, or Finance departments but would come straight to Council with their

concerns. Mr. Koenig commented that if everyone withdrew from the State plan, the State might realize the problem. Mrs. Hawkins felt that the State benefitted from the City being in the plan because there were more lives to spread the expenses out. She indicated that the City of Dover was the second largest group.

Mr. Hare reiterated that the City was being charged over $300,000 to be in that group. Responding, Mrs. Hawkins stated that with this cost added, the rates were not too far off from other municipalities.

Mr. Cole expressed concern about possibly receiving variable rates. Responding, Mr. Koenig stated that the State was supposedly at the market risk; however, pressure was on the State to keep the costs controlled or, in his opinion, masked, so that their employees find it affordable. He noted that if the employees do not find it affordable, the State would have to make up the money.

Mrs. Hawkins advised members that the State health insurance committee simply refers to "epilogue" language that dictates how much State employees pay, and they were paying under 10% by epilogue language. In her opinion, the State's concern was the percentage that the State was paying and that is why a task force was formed to figure out how the State would not have to put so many millions of general fund dollars into the health insurance fund.

Mrs. Mitchell explained that one of the reasons that the risk fee was increased was because the health insurance fund got down so low that the State was having to use general fund monies to replenish the health insurance reserve. She indicated that proposed premium increases were not going to get that fund where it needed to be and the State felt that all the other participants in the State plan, like the City of Dover, needed to help pay. Mrs. Mitchell advised members that this cost was put on the employer rather than the employees.

Mr. Koenig questioned if the risk fee that the City pays was equal to the percentage fee that the State contributes to the reserve. Responding, Mrs. Mitchell stated that she did not know.

Mr. Koenig stated that people in the real market, including smaller businesses, were now seeing 25% and 30% increases for Highmark/Blue Care and Aetna. He felt that high deductible plans would be coming forward that would be significantly different from the current plans. He indicated that he was in favor of shopping.

Mr. Hare stated that the State was giving A+ insurance programs but was not giving pay raises. Responding, Mr. Koenig indicated that it was not a fair statement because although there may not be general, across-the-board State wage increases, teachers and the State police receive raises every year. He noted that there are opportunities to increase pay in the State by jumping between different agencies. Mr. Koenig indicated that, although technically there were not general wage increases, the cost of the employee base was going up on the wage side.

Mr. Cole noted that in local government union contract negotiations, some groups were taking 0% contract increases but extra in health care supplements.

Mrs. Mitchell stated her opinion that the State would be looking at higher deductibles. Mr. Cole indicated that Delaware State Education Association employees were being told that they would more than likely be looking at $500 - $1,000 added onto their deductibles.

Mrs. Hawkins advised members that the State had admitted that with a high deductible plan, premiums are typically much less because of the burden of the deductible. However, the problem with the State was that the premiums were still relatively equal, so there was no incentive to go to a high deductible plan.

Responding to Mr. Hare, Mrs. Hawkins confirmed that City employees are on the exact same plan as State employees. The State negotiates the menu of plans and the City, as a rider on the policy, agrees to pay the cost plus the risk fee to ride on that menu of selections.

Mrs. Hawkins stated that if the City were to issue a Request for Proposals (RFP) after obtaining the data, members should be mindful that this should be a serious effort. She felt that no one would bid if they thought it was being done to see if the City's rates were comparable or not. Mrs. Hawkins noted that if the City did this repeatedly without changing plans, people would stop bidding. Mr. Hare indicated that an RFP had not been done for five (5) years.

Mrs. Hawkins advised members that from a Human Resources and benefit administration standpoint she was not in favor of changing carriers every year because this would be extremely challenging for the Human Resources Department, noting that there would also be difficulties in terms of education for employees and retirees. Mr. Hare expressed his opinion that this would usually be done every two (2) years. Mrs. Mitchell stated that, due to the ACA, statistical information had to be maintained; therefore, it would always be available. Mr. Koenig noted that although the City would have statistical information, they would have to ask for the claims history from the State.

Responding to Mr. Koenig, Mrs. Hawkins stated that riders on the State plan, such as the City, do not get a vote on the State health insurance committee.

Responding to Mr. Hare, Mrs. Hawkins confirmed that those who are self-insured must have reserve levels. Mr. Koenig stated his recollection that when the City was self-insured there were two (2) claims that were bellying up the reserve.

Mrs. Hawkins noted that there were no limits anymore because of the ACA and this must be factored in when looking at rates, as well as the cost of stop loss insurance.

Responding to Mayor Christiansen as to whether a basic explanation of what was in the contract of coverage would be provided, Mr. Hare explained that the census would show that.

Mrs. Hawkins envisioned that RFP respondents would be looking for claims data from the State, birth dates of all people on the plan, and how many participants are enrolled in each type of plan, as well as the benefits summary to compare co-pays, etc.

In response to Mrs. Mitchell, Mr. Hare confirmed that the desire was to get the data and then issue an RFP. In response to Mrs. Hawkins, Mrs. Mitchell suggested that the RFP allow at least 30 days to provide time to respond. Mr. Hare suggested that proposals be submitted by the first week in January 2016, which would allow almost 60 days. Mrs. Mitchell suggested that the RFP that was previously issued by the Human Resources Department be modified and reissued.

Mrs. Hawkins noted that the State had previously required submitters to sign confidentiality agreements, which would have to be signed by anyone bidding on the RFP before the claims data is released. This data would not just be put in the RFP but would have to be requested.

Discussion - Setting of Future Meeting Dates and Times

Mayor Christiansen suggested that the next meeting be subject to the call of the chair. Mr. Hare suggested that members plan on meeting sometime during the first part of January.

Mr. Hare requested that he be emailed a copy of the confidentiality statement.

Mayor Christiansen moved for adjournment, seconded by Mr. Cole and unanimously carried.

Meeting adjourned at 4:35 p.m.

William F. Hare
Chair

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