

Originator Human Resources	Item 2017 Employee Insurance Benefits
Agenda Section Organizational	Date 8/22/2016

Description

The City has received proposals for employee medical, dental, life and long-term disability insurance benefits for calendar year 2017. The potential plans and associated costs have been reviewed and discussed by the Employee Benefits Committee and now Council review and discussion is sought prior to scheduling this as an action item at an upcoming Council meeting.

Background

State law requires local government employers to seek competitive bids for employee insurance benefits at least once every five years and 2016 is that five year mark for the City of Bloomington. Therefore, the City issued Requests for Proposals for its insurance benefits earlier this summer and has multiple options to consider for calendar year 2017. It is common practice for the City to convene an Employee Benefits Committee, with representation from each of the bargaining units and non-union employees, to review insurance options for the upcoming year. This was done again this year and the Committee has reviewed the RFP responses.

Medical

The City received five responses to the RFP for medical insurance, with Medica, our incumbent carrier, and Blue Cross Blue Shield providing the two lowest cost options. Fortunately both are offering to continue the City's existing insurance plans at a lower cost in 2017 than we are paying for 2016. This means coverage levels, co-pays, deductibles and out-of-pocket maximums will all remain the same, while the monthly premium cost goes down.

Blue Cross Blue Shield offered the lowest cost option, with their proposal reflecting a 9.4% decrease in cost. Medica came in with a 6.5% decrease. The Employee Benefits Committee gave serious consideration to both, as the City is not required to take the lowest cost proposal but instead has the discretion to select the plan that best meets our needs.

Based on their discussion over the course of several meetings, the Benefits Committee is recommending that the City accept the renewal offer from Medica. This would result in an estimated savings of \$519,946 to the group. (A portion of this savings would accrue to the City and a portion to employees based on the employer/employee split of premiums.) However, this is approximately \$225,000 less in savings than could be achieved by switching to Blue Cross Blue Shield, which is something the Council will need to consider in the context of its overall budget discussions.

The primary reasons for the Committee's recommendation are:

- It will avoid disruption to employees and their families, especially as it relates to provider networks and prescription drug coverage. While both carriers are offering the same deductibles and co-pays relative to prescription drugs, each has its own list of formulary drugs. A switch from Medica to Blue Cross Blue Shield is likely to result in some employees being forced to treat with a different prescription drug than they are currently taking. This is especially relevant for those treating a chronic condition.
- Employees and retirees who currently treat at an Allina Clinic can stay with the lower cost network under Medica, but would be forced into the higher cost network with Blue Cross Blue Shield, due to their contracts with Allina. This switch is estimated to impact approximately 64 individuals and their families.
- Medica's offer includes a pooling point of \$125,000 rather than the \$200,000 offered by Blue Cross Blue Shield. Claims above the pooling point are not reflected in the City's claims experience rating used to calculate renewal rates for future years. This essentially minimizes the City's exposure to high cost claims. For 2017, the City had

4 large claims that hit the existing \$125,000 pooling point. Had we been with Blue Cross Blue Shield, 3 of these would have been fully charged to the City's claims experience and only one would have been pooled out.

- Medica offers better wellness benefits and funding for the City, including a \$25,000 lump sum to fund the City's wellness efforts.

Dental

The City is self-insured for dental insurance and in the midst of a multi-year contract with Delta Dental for administrative services. As a result, no competitive RFP is required. Upon reviewing the claims experience for the dental plan, it is recommended that both monthly premiums and benefit levels remain the same for 2017.

Life

The City provides \$50,000 in life and \$50,000 in accidental death and dismemberment insurance for all full-time employees. An RFP was issued and three responses were received. The lowest cost proposal was from the incumbent carrier – Minnesota Life / Securian. They are offering the City a rate reduction from \$0.13 per \$1,000 of coverage to \$0.10 per \$1,000. This amounts to a 23.1% cost reduction and is estimated to save the City \$9,936 per year. The company is also providing a three-year rate guarantee, meaning our costs for life insurance will be flat for 2018 and 2019.

Long-Term Disability

The City also provides long-term disability insurance for all full-time employees, which provides 60% of an employee's pre-disability wages if they have been unable to work for 90 days or more. We received two responses to the RFP for this benefit and once again the incumbent carrier, Madison National Life, provided the lowest cost. They are offering a rate reduction from \$0.245 per \$100 of covered wages to \$0.230 per \$100 of covered wages. This is a 6.1% reduction in costs that is estimated to save the City \$5,974 per year. It too comes with a three-year rate guarantee, protecting the City against cost increases in 2018 and 2019.

Requested Action

This is a discussion item only at this time.

Attachments:

NONE