

**COUNTY OF SACRAMENTO  
CALIFORNIA**

For the Agenda of:  
September 10, 2013

To: Board of Supervisors

From: Department of Personnel Services

Subject: Calendar Year 2014 Group Insurance Renewals

Supervisory  
District(s): All

Contact: Dave Comerchero, Employee Benefits Manager, 874-1627

**Overview**

The Sacramento County employee and retiree medical, dental and vision plan premiums are brought forward for approval by the Board on an annual basis prior to the open enrollment period that is held in the fall of each year. The Board also approves the continuance of premium payments for the health, vision and dental insurance plans that will be offered to County and Special District employees and retirees for the plan year, beginning on January 1. In order to facilitate the number of contracts processed each year, the Board historically has delegated the signatory approval to the Director of Personnel Services for all health, dental, vision and life insurance plan contracts.

**Recommendations**

1. Adopt the attached Resolution to:
  - a. Approve Western Health Advantage and Sutter Health Plus as new medical vendors for the Active and Early Retiree medical program and UnitedHealthcare for the Medicare Retiree medical program for the calendar year commencing on January 1, 2014 and ending on December 31, 2014, at the rates not to exceed those specified in Exhibits A and B.
  - b. Approve ongoing medical, dental and vision insurance plan rates for the period of January 1, 2014 through December 31, 2014, as presented in Exhibits A and B and extending voluntary vision coverage to those covered under High Deductible Health Plans and those who waived County medical coverage.
  - c. Authorize payment to the County's various medical, dental, vision and life insurance carriers, for the calendar year commencing on January 1, 2014 and ending on December 31, 2014, at the rates not to exceed those specified in Exhibits A and B.
  - d. Authorize the Director of Personnel Services to: 1) execute, on behalf of the County, contracts with the insurance carriers for the provision of medical, vision and dental insurance benefits for the period of January 1, 2014 to December 31, 2014, subject to the rates not to exceed those specified in Exhibits A and B including any subsequent revisions as authorized; and, 2) execute, on behalf of the County, amendments to contracts and agreements with the insurance carriers that are administrative in nature and do not have any negative financial impact on the County. This authority will extend to both retroactive administrative

amendments, as needed, as well as any administrative amendments for the period January 1, 2014 through December 31, 2014.

**Measures/Evaluation**

To provide County medical, dental, vision and life insurance coverage to County and participating Special District employees, their enrolled dependents, and access to medical, dental, and vision for retirees by having Plan rates established annually on a calendar year basis.

**Fiscal Impact**

Payments to the medical, dental, and vision carriers are shared between employees, retirees, and the County, based on the insurance subsidies approved by the Board for retirees and in various labor contracts, and the plan selected by individual participants. Insurance rates are calculated on a calendar year basis and become effective January 1, 2014. The estimated savings from the lowered County paid premiums for single coverage in non-Tier B categories is approximately \$580,000 annually; \$290,000 will be realized in the second half of Fiscal Year 2013-14 (January 2014 – June 2014).

**BACKGROUND**

The County medical, dental and vision insurance programs cover County and Special District employees, former employees, retirees and their enrolled dependents. Plan rates are established annually on a calendar year basis. The current program provides coverage through Health Maintenance Organizations (HMO), Preferred Provider Organizations (PPO), Medicare Coordinated and Medicare Advantage Plans with Kaiser, Health Net, Blue Shield, Vision Service Plan and Delta Dental.

All carrier contracts governing the County’s medical, vision and dental benefit programs are updated annually. Due to timeframes resulting from the required review and approvals of both State and Federal agencies, the insurance carriers are unable to present all contracts for signature prior to the start of the plan year. In order to continue the premium administration of the plans, authorization is required from the Board to continue payments to the carriers while the contracts are being finalized.

For calendar year 2014, the County was informed that Blue Shield would not renew their HMO and PPO plans without a change in the County’s medical contribution structure to be an equal percentage across all carriers. This contribution structure Blue Shield is referencing is the County’s Tier B medical contribution structure as outlined in the bargaining contracts.

**DISCUSSION**

Tier B

Tier B sets the County’s medical subsidy contribution amount since 2007 equal to 80 percent of the monthly premium for the lowest cost full coverage \$15 HMO plan. In 2007 the lowest cost HMO plan was Kaiser with 63.4 percent of those employees with County coverage, and the next lowest cost plan was Health Net, which was already 7.8 percent more expensive than Kaiser. Kaiser has been the lowest cost HMO since 2007, and Tier B now is the contribution structure for 48 percent of the employees with County coverage.

Current Environment: Since 2008, two dominant factors have emerged: 1) Kaiser has continued to make gains in enrollment against the existing non-Kaiser carriers, 2) Kaiser's High Deductible Health Plan (HDHP) HMO growth is accelerating and is a significant element in keeping the Kaiser premium increases modest. Kaiser now has 74 percent of all the employees with County coverage. Health Net's HMO premium is now 32 percent higher than Kaiser's HMO, a difference of \$488.14 a month for family coverage. In the last three years, Health Net has lost 23 percent of its subscribers who moved directly to Kaiser, ten percent in 2012 alone.

The County has essentially evolved into an organization with an overwhelmingly dominant medical carrier in Kaiser and a substantially less favorable environment for other carriers to offer affordable and competitive alternatives to Kaiser. Long term, this could result in: 1) having just one carrier willing to offer medical coverage, 2) a secondary carrier offering a significantly more expensive alternative to a shrinking number of employees who can afford it, or 3) a secondary carrier offering coverage with a narrower network disrupting the doctor/patient relationship.

Medical Renewals for Actives and Early Retirees:

Language included in the bargaining contracts requires the County to offer, at a minimum, a Kaiser HMO and one non-Kaiser HMO. Blue Shield, with less than 4.5 percent of the total HMO enrollment, declined to renew given the current contribution structure which currently favors Kaiser. Aetna, Blue Cross, and United Healthcare all declined to renew citing the current contribution structure and the predominant Kaiser enrollment. Kaiser will have a modest three percent increase. Health Net originally quoted a 12.3 percent increase (ultimately reduced to a 9.7 percent increase) under the assumption it would have to absorb the Blue Shield population.

The only other carrier willing to quote was Western Health Advantage (WHA), a local narrow network HMO plan that excludes the Sutter network as a way to lower their costs and provide a more reasonable premium. They utilize the Dignity Health (formerly CHW/Mercy), UC Davis and Hills Physician networks and their initial quote was about four percent below Health Net's current rates, still substantially above Kaiser. However approximately 1100 employees, which is about 50 percent of the current Blue Shield and Health Net covered employees have Sutter doctors, and would be forced to choose new providers or perhaps switch to Kaiser for cost reasons. The County would have therefore faced a difficult decision between another sharp increase in cost for the non-Kaiser carrier in keeping Health Net, or a slight premium reduction and subsequent doctor/patient disruption by switching to WHA.

The County has received a very late submission of a quote from a brand new plan option from the Sutter Health organization, called Sutter Health Plus. This Sutter direct narrow network, with all services provided by Sutter, essentially mirrors Kaiser's business model by attempting to leverage the Sutter system in the local area to provide direct HMO services, bypassing the major health carriers. It does not have any current clients, and they have aggressively priced their HMO coverage to closely match Kaiser with no claims or operational history with the County or any other client. They have also agreed to participate alongside WHA, and once WHA was informed of a potential Sutter competitor, WHA reduced their price further, essentially down to a near match with Kaiser as well. These new carrier premiums are approximately 21 percent lower than the current 2013 Health Net HMO premiums and 33 percent lower than Blue Shield's 2013 HMO premiums. Health Net has indicated that they will not renew their quote if either new carrier is allowed to offer coverage to the County.

The following is the comparison of the 2013 and 2014 premiums for traditional \$15 co-pay HMO plans for employees:

	<u>2013</u>	<u>2014</u>
Blue Shield HMO Single Monthly Premium	\$\$919.16	N/A
Blue Shield HMO Family Monthly Premium	\$2,353.06	N/A
Health Net HMO Single Monthly Premium	\$787.24	\$863.20
Health Net HMO Family Monthly Premium	\$2,013.16	\$2,207.40
WHA HMO Single Monthly Premium	N/A	\$620.54
WHA Net HMO Family Monthly Premium	N/A	\$1,583.08
Sutter Health Plus HMO Single Monthly Premium	N/A	\$618.80
Sutter Health Plus Family Monthly Premium	N/A	\$1,582.70

Both WHA and Sutter Health Plus have agreed to second year rate renewal increase caps not to exceed nine percent, with no minimum enrollment participation requirements. Both new carriers also offer an HSA qualified High Deductible Health Plan HMO (HDHP) which Health Net was unable to offer for 2014. The premiums for the new HDHP HMO's are lower than the County's Tier B contribution, which means there will be no premium payroll deduction for any HDHP plan, including Kaiser, if an employee is in Tier B.

Cost Estimates:

Staff estimates that if Health Net remained the sole non-Kaiser HMO offering and all those employees with non-Kaiser coverage stayed out of Kaiser, County annual costs would increase approximately \$2.9 million as employees continued to move into Tier B from lower contributions Tiers. Annual employee payroll deduction costs would still increase approximately \$2.6 million even with the higher Tier B movement.

If WHA and Sutter were added and employees stayed in their current Kaiser/Non-Kaiser coverage and current contribution Tier, annual County costs would decrease approximately \$580,000 and annual employee premium deduction costs would decrease approximately \$4 million. Employee payroll deduction savings could exceed \$6 million if most non-Kaiser covered families in Tier B enroll in High Deductible coverage for maximum savings.

Early retirees would receive 100 percent of the cost savings since the County provides no medical subsidy that pays 100 percent of a non-Medicare plan premium. Annual savings for early retirees is estimated at \$1.1 million.

Staff recommends moving to WHA and Sutter Health Plus and has provided notice to the Recognized Employees Organizations at a Joint Labor-Management session on August 30, 2013 with overall approval.

Replacing Health Net and Blue Shield will require employees and non-Medicare retirees to re-elect coverage in order to maximize the opportunity to preserve their current doctors, and staff will be planning a longer and more aggressive Open Enrollment campaign this year to ensure a successful transition. Plans include extending the Open Enrollment period to five weeks, three mailings instead of the typical one (the final one is targeted at just the current Health Net and Blue Shield enrollees), extending the hours of the normal Open Enrollment events held at various County locations, adding two dedicated half day presentation sessions for each of the

two new carriers, multiple electronic reminders through the County's Sacramento County Employee News and Information email, and electronic time sheet and payroll reminders.

Active Dental:

Although the County is currently in the middle of a two year rate guarantee with Delta Dental, new fees required of all fully insured health and welfare plans under the Affordable Care Act mean that the dental premium is increasing by a little over one percent.

Active Vision:

Vision is traditionally bundled with the \$15 HMO plans, with Kaiser keeping vision internally and VSP handling the vision benefits for Blue Shield and Health Net HMO participants. Vision is not offered under the Kaiser HDHP HMO or to anyone waiving County medical. This year, VSP agreed to offer a more robust benefit with a higher frame allowance and a more frequent lens replacement period with no premium increase if coverage was offered on a voluntary basis to County employees covered under High Deductible plans or who waive coverage. Staff recommends accepting this enhanced benefit and allowing the optional purchase of vision coverage for those who are enrolled in a High Deductible plan or who waive County coverage.

Medical Renewals for Medicare Retirees:

Although Health Net originally indicated they would not cover Medicare retirees without covering the Active population, they have since returned with a proposal to continue offering Medicare coverage without Active coverage. Health Net's quote for 2014 lowers their Medicare Advantage premiums by 36 percent and increases their Medicare Coordinated plan by approximately six percent. Despite the proposed reduction, the County has received a quote from UnitedHealthcare (UHC), one of the largest national Medicare plan carriers that essentially mirrors the Health Net coverage under an Advantage style plan with a premium reduction of 44 percent. UHC also offer a Medicare Coordinated PPO plan available nationwide with a premium 65 percent lower than Health Net. The County has discussed this offer from UHC with the Sacramento County Retired Employee Association (SCREA) and has received strong support for the transition to UHC. Annual savings to the Medicare Retirees is estimated at \$3.2 million.

Finally, only one non Kaiser carrier will be able to provide a health plan that will allow for a split enrollment, i.e. where coverage in a household is mixed between Medicare coverage and Non Medicare coverage and that would be WHA.

Staff recommends using UnitedHealthcare for the standalone Medicare plans, and WHA as an option for split Medicare/non-Medicare situations.

**MEASURES/EVALUATION**

To provide County medical, dental, and vision coverage to County and participating Special District employees, their enrolled dependents and access to medical, dental, and vision for retirees by having Plan rates established annually on a calendar year basis.

**FINANCIAL ANALYSIS**

Financial provisions for the expected costs of employee and retiree health and dental insurance subsidy have been included as a part of the County's annual budget process. However, the lowered County paid premiums for single coverage in non-Tier B categories will result in an annual savings of approximately \$580,000; \$290,000 will be realized in the second half of Fiscal Year 2013-14 (January 2014 – June 2014).

**CONCLUSION**

The Department of Personnel Services is working with representatives from Keenan & Associates, Labor Relations, and our recognized employee organizations in an effort to explore and implement cost effective options for the County's health benefits programs. Other government employers such as CalPERS are implementing cost saving changes to their plan designs and co-payments or plan offerings; however, very few changes can be made to the County program until the labor contracts are re-negotiated.

The Board's approval of the report recommendations will facilitate timely implementation of the Calendar Year 2014 health insurance program.

Respectfully submitted,

APPROVED:  
BRADLEY J. HUDSON  
County Executive

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DAVE DEVINE, Director  
Department of Personnel Services

By: \_\_\_\_\_  
DAVID VILLANUEVA  
Chief Deputy County Executive

Attachments:

- Resolution
- Exhibit A – Active Rates
- Exhibit B – Early and Medicare Retiree Rates