

City of Appleton

2013 Benefit Summary

Associated Financial Group, acting on behalf of the City of Appleton, has continued to work closely with the Human Resource and Finance teams to build a strategic approach to benefit plans for the employees and family members of the City. In 2012, the Common Council approved a set of recommendations with conditions of annual review. This summary is intended to fulfill those review conditions.

Fully Insured Healthcare versus Self-Funding

Although the decision was made to move forward with a self-funded health plan, fully insured must be reviewed as an alternative. For 2014, there have not been significant changes with fully insured carriers regarding product design, savings opportunities, or mature creative approaches that would benefit the City. As we have described in education sessions throughout the year, fully insured carriers must pay approximately 2.5% of all premiums to the federal government along with additional smaller costs due to Healthcare Reform. This has driven more employers to self-funding. At this time, we see no advantages to consider a fully insured plan for 2014 but will continue to monitor annually as the insurance market is sure to continue to change.

Plan Performance

Year to date, thru July 31, the City's health plan with UnitedHealthcare (UHC) as the administrator is performing below budget. Expenses of \$4,140,093 are \$935,071 below actuarially calculated funding levels or a loss ratio of 81.5%. There are five months that could impact this loss ratio; however, at this time the performance reflects positively regarding a renewal for 2014. Preliminary estimates have been provided to Human Resources and Finance. AFG is in the process of marketing the specific stop-loss. Since the City does not have a single member who has reached 50% of the current specific deductible, we anticipate a competitive renewal.

Generally speaking, there are three cost centers in a self-funded health plan; fixed administrative costs, specific stop loss protection, and medical/prescription claim net costs. The fixed fees represent the smallest cost segment of the three categories followed by stop loss with the claims making up the majority of costs. UHC is currently at the top of the market regarding carriers with the deepest discount arrangements based on a fee schedule, NOT savings off charges. They are also working hard to develop alternative payment vehicles based on outcomes and treatment patterns and away from cost per or fee for service. The employees of the City are using in-network providers over 95% of the time, maximizing savings opportunity for the Plan. Therefore, access and costs are very favorable.



Associated Financial Group
Employee Benefits. Insurance. HR Solutions.

www.AssociatedFinancialGroup.com

Copyright© 2013 by Associated Financial Group, LLC.

Additionally, the City staff has worked diligently with employees to maximize utilization of the customer service tools available to them. In the areas of large case management and disease management, it is important for employees to build a trust in the carrier as an aid to their needs versus an entity that is a barrier to care. It has taken hard work to get employees to engage in the person-to-person and online tools available and to grow comfortable with United. No doubt, the changes in healthcare are expected to continue nationally and at the City level, thus engagement and trust are key factors that are important as we move forward.

Based on cost, service, and savings opportunity, we recommend not marketing the Third Party Administrator (TPA) for 2014.

Marketing Plans

As stated above, AFG is in the process of seeking competitive bids for the stop loss policy. We have also pushed UnitedHealthcare to commit to a multiple year cost structure on their services, which they have agreed to. The City is NOT required to stay with UHC because of this proposal, it only protects against the unknown of increases over the next few years. There is a 90 day termination notice embedded in the agreement so the City can continue to monitor the healthcare market and make changes given better pricing models, disease and large case management, risk bearing models, programs better designed to address the impact of Healthcare Reform, etc.

Our recommendation is to continue with UHC for 2014.

Delta Dental has provided a two-year, no increase proposal for administrative fees. We recommend continuing with Delta for 2014.

Plan Design

Healthcare Reform continues to change the landscape of employer health plans. The actuarial study conducted by Milliman specific to the City's plan outlined the strengths and opportunities in the City's plan. The recommendations from that study along with final rules issued for the Reform Act have been carefully evaluated regarding impact to the City's budget and its' employees. A strategic plan has been developed for the leadership of the City for consideration. Trends developing as a result of the Reform Act include increased costs to employers and employees, increasing out-of-pocket exposure in the form of higher deductibles, elimination of copay structures (all deductibles and coinsurance), and greater payroll contributions to name a few. I recommend the City continue to evaluate the proposed plan and tweak as necessary while monitoring the impact on employee morale, recruitment, and retention.



Associated Financial Group
Employee Benefits. Insurance. HR Solutions.

www.AssociatedFinancialGroup.com

Copyright© 2013 by Associated Financial Group, LLC.