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# MEMORANDUM

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February 16, 2016

## Medical Insurance for County Employees – Fiscal Year 2016/17

### I. INTRODUCTION

Pima County is now preparing for its fourth year of employee medical self-insurance. Financial analysis of the Health Benefits Trust Fund continues to validate that it was a prudent decision to transition to self-insurance. Undoubtedly, costs and premium increases are lower than they would have been had we remained fully insured. However, medical expenses are still rising nationally, and Pima County is no exception. With a strategic plan in place, rising costs can be mitigated.

### II. STRATEGIC PLAN

#### A. Preferred Provider Organization (PPO) Discontinuation

Consistent with my recommendation last year, the PPO will be discontinued on June 30, 2016. As demonstrated time and again, the PPO has remained an unaffordable option. Last year, Human Resources worked diligently to educate employees about the High Deductible Health Plan (HDHP) and the Health Savings Account (HSA). Approximately 400 employees shifted from the PPO to the HDHP. Currently, approximately 1,300 employees are enrolled in the PPO. Eighty-five percent of newly eligible employees who attend training sessions are choosing the HDHP with the HSA option. As experienced when the Health Maintenance Organization (HMO) was discontinued, people were reluctant to change, and it is not until the cancellation of the PPO plan occurs that any real change will happen, even though there is a more affordable option available as we have provided with the HDHP/HSA plan for several years. Human Resources will conduct educational presentations to help current PPO enrollees better understand the HDHPs and HSAs that will be available.

#### B. Promoting Healthy Lifestyle Choices

Tobacco use continues to be a factor in generating higher cost claims. Pima County has contracted through Aetna to offer a tobacco cessation program that unfortunately has been underutilized. I am proposing the Tobacco-free discount (Healthy Lifestyle Premium Discount (HLPD) #1) be increased from \$5 to \$20 per pay period, as well as adjusting the tobacco-free status from six months down to three months to allow employees enough time to make a behavioral health change. This accomplishes two things:

1. Since, statistically speaking, tobacco users use more medical claim dollars, it makes sense that their premium cost should be higher by not

receiving the increased Healthy Lifestyle discount.

2. The extra incentive of the higher discount will encourage some of our tobacco users to become tobacco-free.

As has been previously identified, the majority of tobacco users want to quit; however, they lack the motivation. Implementing the increased discount for Fiscal Year (FY) 2016/17 will encourage employees to consider making the healthy decision now, while Pima County has a contracted tobacco cessation program in place. Human Resources will periodically send out reminders about the availability of tobacco cessation options available.

C. Second High Deductible Health Plan – HDHP 2

As previously communicated, most employees do not meet their HDHP deductible, and many have sufficiently high enough HSA balances to cover a few years' of unexpected catastrophic illnesses. Employees in this situation may benefit from lower premiums with a higher deductible/Out of Pocket Maximum and increased County HSA deposits. Employees who have been taking advantage of the Internal Revenue Service (IRS) HSA limits will also see an increase in their pay, as the amount they contribute will go down as the County portion increases. With these details in mind, I am recommending a new plan with two options for employees to choose from as shown in Table 1 below.

**Table 1: Proposed High Deductible Health Plan Options.**

	Current HDHP 1			Additional HDHP 2		
	Deductible	Out of Pocket Maximum	County HSA Contribution	Deductible	Out of Pocket Maximum	County HSA Contribution
Single	\$2,000	\$3,000	\$1,000	\$4,000	\$6,650	\$1,250
Family	\$4,000	\$6,000	\$2,000	\$8,000	\$13,100	\$2,500

III. PREMIUM STRUCTURE

Table 2 below details the premiums associated with the current plans, as well as for the two HDHPs being offered in FY 2016/17. Table 3 lists current premiums and HSA contribution compared to what is being proposed for next year. These premiums do not include the recommended \$35 Healthy Lifestyle Premium Discounts that will be available to employees. In other words, if an employee receives all \$35 Healthy Lifestyle Premium Discounts and is enrolled in the HDHP 1 plan, their biweekly health insurance premium will be only \$6.49 (most of our employees).

**Table 2: Health Insurance Premiums.**

			Current Rates FY 2015/16		Proposed Rates FY 2016/17	
Plan	Level of Coverage	# of Ees. Enrolled	Ee. Portion	County Portion	Ee. Portion	County Portion
PPO	Ee. Only	592	\$ 60.00	\$182.87		
	Ee. + Spouse	230	138.00	417.73		
	Ee. + Child(ren)	190	135.00	406.18		
	Ee. + Family	254	197.00	593.98		
HDHP 1	Ee. Only	1,626	23.67	134.19	\$41.49	\$135.12
	Ee. + Spouse	585	36.11	325.11	55.41	348.72
	Ee. + Child(ren)	545	35.18	316.59	54.35	339.19
	Ee. + Family	1,058	51.41	462.72	72.52	502.69
HDHP 2 (New)	Ee. Only	0			36.19	105.10
	Ee. + Spouse	0			47.33	275.98
	Ee. + Child(ren)	0			46.48	268.35
	Ee + Family	0			61.02	399.15

#### **IV. PPO TO HDHP TRANSITION**

As discussed above, the HDHP is typically more advantageous to the employee than the PPO. Table 3 below represents the biweekly payroll savings an employee would experience if they choose to transition from the "current" PPO to one of the proposed HDHPs with HSA. The employee would pay less per pay period at each level of coverage for the HDHP, plus receive HSA contributions from Pima County. Current PPO enrollees will automatically be transitioned to the HDHP 1 option on July 1, 2016. They will also have the option to enroll in HDHP 1 or HDHP 2 during the Annual Enrollment period in the spring.

**Table 3: Biweekly Premium Comparisons.**

Ee. Biweekly Premium Comparison								Ee. Annual HSA ER Contribution	
Plan	Level of Coverage	# of Ees. Enrolled	FY 2015/16	HDHP1 Premium	Premium Increase	HDHP2 Premium	Premium Decrease	HSA 1	HSA 2
PPO	Ee. Only	592	\$ 60.00	\$41.49	(\$18.51)	\$36.19	(\$23.81)		
	Ee. + Spouse	230	138.00	55.41	(82.59)	47.33	(90.67)		
	Ee. + Child(ren)	190	135.00	54.35	(80.65)	46.48	(88.52)		

**Table 3: Biweekly Premium Comparisons.**

Ee. Biweekly Premium Comparison								Ee. Annual HSA ER Contribution	
Plan	Level of Coverage	# of Ees. Enrolled	FY 2015/16	HDHP1 Premium	Premium Increase	HDHP2 Premium	Premium Decrease	HSA 1	HSA 2
	Ee. + Family	254	197.00	72.52	(124.48)	61.02	(135.98)		
	Ee. Only	1,626	23.67	41.49	17.82	36.19	12.52	\$1,000	\$1,250
HDHP 1	Ee. + Spouse	585	36.11	55.41	19.30	47.33	11.22	2,000	2,500
	Ee. + Child(ren)	545	35.18	54.35	19.17	46.48	11.30	2,000	2,500
	Ee. + Family	1,058	51.41	72.52	21.11	61.02	9.61	2,000	2,500

#### **V. SELF-INSURANCE TRUST FUND RESERVES**

Proposed rates are sufficient to continue to grow the fund reserves. As reported last year, the goal is to have sufficient reserves after the first five years to fully repay the startup loan from the Self-Insurance Trust and to eliminate or greatly reduce the need for stop loss insurance. We are on track to achieve this goal, and we have already repaid \$3.3 million of the \$10 million startup loan.

#### **VI. HEALTHY LIFESTYLE PREMIUM DISCOUNT**

The reporting period for the completion of Healthy Lifestyle Premiums Discounts activities ends on February 28, 2016. Table 4 below is a breakdown of the number of employees for each discount (other than the tobacco-free discount), based on November 2015 data. Employees will need to certify their tobacco use status during Annual Enrollment, but it is expected that at least 3,300 covered employees will certify they are tobacco-free.

**Table 4: Employees Eligible for Health Lifestyle Premium Discounts.**

HLPD Progress FY 2016/17	Eligible Ees.
Online Health Assessment	1,710
Preventive Exam or Screening	2,988
100+ Health Lifestyle Activity Points (Exercise tracking or wellness programs)	846

**VII. HEALTH SAVINGS ACCOUNTS (HSA)**

For active employees enrolled in the HDHP with HSA Plan 1, Pima County makes semiannual HSA contributions in the amount of \$500 for single coverage and \$1,000 for those insuring dependents. Annualized, \$1,000 for Employee only and \$2,000 for Employee plus dependent(s), equates to 50 percent of the plan year deductible. The practice of providing an HSA contribution will occur for the HDHP/HSA Plan 2 for an annualized amount of \$1,250 for Employee only and \$2,500 for Employee plus dependent(s). These HSA contributions help offset the higher out of pocket costs when enrolled in the HDHP 2, since the employee is responsible for 100 percent of medical costs before satisfying the deductible.

**VIII. RECOMMENDATION**

I recommend the Board of Supervisors approve the following for Fiscal Year 2016/17:

- A. the medical plans shown in Table 1 above;
- B. the premium amounts shown in Table 2 above;
- C. the proposed County HSA funding strategy discussed in Section VII above; and
- D. continuing the Healthy Lifestyle Premium Discounts with the modifications proposed in Section II.B above.

Respectfully submitted,



C.H. Huckelberry  
County Administrator

CHH/mjk – January 7, 2016

c: Tom Burke, Deputy County Administrator for Administration  
Allyn Bulzomi, Director, Human Resources