




# MEMORANDUM

Date: February 4, 2016

To: The Honorable Chair and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator 

Re: **Supplemental Background Information to My February 16, 2016 Memorandum:  
Medical Insurance for County Employees for Fiscal Year 2016/17**

## I. INTRODUCTION

The purpose of this memorandum is to provide the Board of Supervisors with additional background information regarding Fiscal Year 2016/17 medical insurance for County employees. This item is scheduled for the Board's February 16, 2016 agenda.

In formulating the recommendation for an additional High Deductible Health Plan (HDHP), the following parameters were used:

1. The current Preferred Provider Organization (PPO) health plan would cease on June 30, 2016.
2. Employee payroll deductions need to be equal to or less than the current PPO rates.
3. The plan must meet federal guidelines for eligibility for Health Savings Account (HSA) participation.
4. There would be no adverse impact to the existing HDHP/HSA.

## II. ANALYSIS

### A. Current Spend

The first step was to analyze the current plans, enrollment, revenue, and claims expense. Consistent with prior years' analysis, PPO plan expenses are disproportionately higher than the HDHP – to both the employee and the County. Currently, 25 percent of our employees are enrolled in the PPO, accounting for 42 percent of the total claims spend.

**Table 1: PPO Three-year Claims Spend History.**

FY	Claims Spend	Percent of Total Claims
2013/14	\$12,427,505	43
2014/15	14,951,192	42
2015/16	3,045,386	*42

\*First Quarter.

As a result of the higher claims cost, the employee contribution is naturally higher than the HDHP.

**Table 2: Employee (EE) Portion of Premium Cost.**

<b>Level of Coverage</b>	<b>PPO EE portion</b>	<b>HDHP EE portion</b>
Ee. Only	\$ 60.00	\$23.67
Ee. + Spouse	138.00	36.11
Ee. + Child(ren)	135.00	35.18
Ee. + Family	197.00	51.41

**B. Current HDHP/HSA**

Working with Aetna and our benefits consultants, staff reviewed the current HDHP/HSA to determine whether any changes were warranted. Based on our review, it was concluded our current plan is more than competitive with the other jurisdictions, both in cost and plan design. Also taken into consideration were the higher than average HSA balances of employees and the fact that many of our employees do not meet their deductibles. Very few meet the out-of-pocket maximums.

Consistent with prior years, the majority of enrollees have claims costs below \$500 per year. Table 3 below lists the number of HDHP employees that satisfied their deductible/out-of-pocket maximum within the past two years. These are the only enrollees that would have been impacted by a higher deductible/out-of-pocket maximum.

**Table 3: Employees Who Satisfied Deductible  
and Out-of-Pocket Maximum.**

<b>Plan Year</b>	<b>Deductible</b>	<b>Out-of-Pocket Maximum</b>
2013/14	71	14
2014/15	50	22

Another relevant factor is that individual HSA balances are growing. Currently, \$14,766,000 is on deposit with HSA Bank for Pima County employees with individual balances as categorized in Table 4 below. As can be seen, many employees have saved enough to cover the costs of an unanticipated medical expense were to occur.

**Table 4: Employee HSA Balances.**

<b>HSA Account Balance</b>	<b>Employees</b>
\$500 or less	464
\$500.01 - \$1,000	681
\$1,000.01 - \$1,500	703
\$1,500.01 - \$2,000	348
\$2,000.01 - \$2,500	267
\$2,500.01 - \$3,000	159
\$3,000.01 - \$5,000	458
\$5,000.01 - \$10,000	506
\$10,000.01 - \$15,000	192
\$15,000.01 - \$20,000	91
Over \$20,000	83

**C. HSA Federal Participation Requirements**

In order to satisfy the Internal Revenue Service (IRS) requirement for HSA eligibility, HDHP deductibles must be at least as shown in Table 5 below.

**Table 5: HDHP Deductibles for HSA Eligibility.**

<b>Level of Coverage</b>	<b>Deductible</b>	<b>Out-of-Pocket Maximum</b>
Ee. Only	\$1,300	\$ 6,550
Ee. + Dependents	2,600	13,100

Given the current HDHP with HSA plan deductibles are fairly similar to the IRS minimums, and many employees have significant HSA funds on account, the logical step was to design and implement a plan with higher deductibles, lower per-pay-period employee deductions, and higher County HSA contributions.

Maximum annual HSA contribution rates mandated by the IRS are shown in Table 6 below.

**Table 6: IRS Mandated Maximum HSA Contribution Rates.**

<b>2016 Maximum</b>	<b>EE + ER Annual</b>	<b>HDHP 1 with</b>	<b>HDHP 2 with</b>
Ee Only	\$3,350	\$ 90.38	\$ 80.77
Ee + dependent(s)	6,750	182.69	163.46
Catch up – 55 and over	1,000	38.46	38.46

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Since the County will be depositing more in the HSAs of employees in the HDHP 2 with HSA, those employees that choose to maximize their HSA contributions will also see an increase in their paycheck as their portion of the HSA contribution will be reduced.

D. PPO to HDHP Transition

As a point of correction to "Section IV PPO to HDHP Transition" in my February 16, 2016 "Medical Insurance for County Employees – Fiscal Year 2016/17," employees enrolled in the PPO will automatically be enrolled in the **HDHP 1 without HSA**. In order for Pima County to open the employee's HSA, and as part of the electronic Annual Enrollment process, the employee must attest that they meet the HSA requirements. For example, the employee must:

- have no other medical coverage (certain exceptions apply)
- not be enrolled in any part of Medicare
- not be claimed as a dependent on another individual's income tax return
- not be enrolled in a Flexible Spending Account, except a "Limited Purpose" FSA. A Limited Purpose FSA may only be used for dental or vision expenses not covered by the health plan.

III. SUMMARY

The proposed health plan changes were presented and reviewed by HIBWAC at the December 2015 and January 2016 meetings. Based on comments from members who attended the December 2015 HIBWAC meeting, those employees enrolled in the PPO who fail to choose an HDHP plan will be automatically enrolled in the HDHP1 without HSA instead of the HDHP2. During Annual Enrollment, Human Resources staff will work with PPO enrollees and Department Benefits Representatives to assist employees in transitioning their enrollment to the plan they choose.

CHH/mjk

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