

**NOTICE OF WORK MEETING OF THE CITY COUNCIL
OF THE CITY OF ST. GEORGE,
WASHINGTON COUNTY, UTAH**

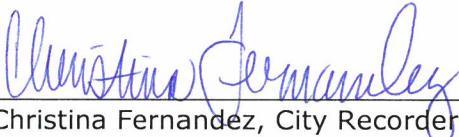
Public Notice

Public notice is hereby given that the City Council of the City of St. George, Washington County, Utah, will hold a work meeting in the Administrative Conference Room in the City Offices located at 175 East 200 North, St. George, Utah, on Thursday, March 30, 2023, commencing at 3:00 p.m.

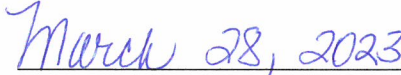
The agenda for the meeting is as follows:

Call to Order
Invocation
Flag Salute

- 1. Discussion regarding employee health benefits.**
- 2. Reports and updates from the Mayor, Councilmembers, and City Manager.**
- 3. Request a closed session to discuss litigation, property acquisition or sale or the character and professional competence or physical or mental health of an individual.**



Christina Fernandez, City Recorder



Date

REASONABLE ACCOMMODATION: The City of St. George will make efforts to provide reasonable accommodations to disabled members of the public in accessing City programs. Please contact the Human Resources office at 627-4674, at least 24 hours in advance if you have special needs.



Agenda Date: 03/30/2023

Agenda Item Number: 01

Subject:

Discussion on city health insurance renewal for FY 2023-2024.

Item at-a-glance:

Staff Contact: Robert Myers

Applicant Name: City of St. George

Reference Number: N/A

Address/Location:

175 East 200 North

Item History (background/project status/public process):

Each year the city's Health Insurance Committee, which is made up of employees from the City Manager's Office, Human Resources, Finance, and Budget, along with the city's health insurance consultant, Gallagher, work to monitor and evaluate the city's health insurance costs and to ultimately determine a direction for the upcoming fiscal year in the selection of a health insurance plan that is affordable and effective at helping the city retain and attract a highly qualified workforce. The City currently uses SelectHealth as the provider for the fully insured health insurance coverage plan provided to the city's employees. The cost in the FY 2023 budget for health insurance is \$11,391,571 across all funds.

Staff Narrative (need/purpose):

This year's renewal with Select Health was quoted at a 15% rate increase to the city and employees. This will be the second year in a row that the city has been quoted a double digit increase. Staff went out for bid to try and obtain more competitive pricing. Staff received a bid from PEHP which proposed rates that would be a 16.37% increase to the city and employees. The city's health insurance consultant then negotiated with SelectHealth down to a rate increase of 8.7%. In addition to going out to bid, staff also worked with Gallagher to look at the option of the city transitioning from a fully-insured health insurance plan to a self-insured health insurance plan. This change would essentially mean that the city would transition from paying a fixed premium for health insurance based on the health insurance carrier's estimate of city claim activity for the upcoming year to the city paying for actual claims activity seen during the upcoming year. This change would shift more risk to the city, as we would be responsible for directly paying actual claims activity which could be more or less than the carrier's estimate, but would also give more control and greater flexibility to the city in helping to control cost. If the city were to go this direction we would still contract for plan administration and would also carry stop-loss insurance that would help mitigate risk from high claimants and high aggregate claims. Additionally, the city would need to establish a reserve amount of \$2.5 million to \$4 million to help cover for bad years on the plan. Based on the current claims trend, plan administration, and stop loss insurance we anticipate the cost increase to the city and employees would be an increase of 6.8% to 8.5% this year under the self-insured option depending on the plan administrator and stop-loss insurance selections. A full overview and analysis provided by Gallagher, the city's insurance consultant, is included as exhibit A.

Name of Legal Dept approver: NA

Budget Impact: No Impact

Recommendation (Include any conditions):

The City's Health Insurance Committee feels that self-funding is a viable option this year and would like to discuss this year's options with the City Council and get feedback on a direction.

Materials prepared for City Council meeting – 30 Mar 2023

The City of St. George provides a competitive benefits package to its employees and dependents. For several years, the City of St. George has been fully insured. A fully insured medical plan requires that the city pay a monthly premium determined by the insurance provider, currently SelectHealth. In exchange, the insurance provider is contractually obligated to pay all covered claims under the terms of the medical contract. Each year, the fully insured renewal is provided by the insurance carrier based on the city's own medical experience and medical inflation. SelectHealth has been the medical insurance provider for the city since July 2018. The annual history with SelectHealth is in Table 1.

	Employees	Members [A]	Premium [B]	Claims [C]	Admin [D]	Loss Ratio [C+D]/B	Rate Increase for NY
7/18 - 6/19	710	1903	\$6,894,000	\$5,810,000	\$562,000	92.4%	3.8%
7/19 - 6/20	728	1969	\$7,249,000	\$6,699,000	\$581,000	100.4%	5.95%
7/20 – 6/21	732	2031	\$7,836,000	\$8,088,000	\$600,000	110.5%	4.0%/5.4%
7/21 – 6/22	754	2114	\$8,482,000	\$9,571,000	\$626,000	120.0%	14.5%
7/22 – 2/23	769	2193	\$6,688,000	\$5,523,000	\$433,000	89.1%	8.7%

Cons: Higher potential maximum cost compared to fully insured. Disruption in provider network and pharmacy formulary.

Appendix

Self-Funding Basics

Self-funding is a common practice for groups the size of the City of St George. In the Gallagher national benchmarking survey, 67% - 74% of public entity employers with 500 – 999 full time employees are self-insured for their medical plan. Most employers partially self-insure their medical plan. As a partially self-funded plan, the city would essentially be its own insurance carrier for most medical and pharmacy claims. The city would contract with a third party administrator to adjudicate and pay claims and would have a stop loss insurance carrier that would insure large individual and aggregate claim risk on the health plan. Stop loss and administrative expenses are often referred to as fixed costs, while claims are variable.

Stop loss insurance is categorized as individual stop loss and aggregate stop loss coverages. Individual stop loss insurance covers large individual risk on a health plan. For example, an individual stop loss deductible of \$250,000 would mean that the City of St George would be responsible for paying the first \$250,000 of claims for any member on the plan during the plan year. Any claims for an individual exceeding the stop loss deductible would be paid by the stop loss insurer. In exchange, the city pays a monthly fixed premium to the stop loss insurer. Based on actuarial tables, the City of St. George with 2200 members on the health plan could expect 2 – 6 claimants in a given plan year for these deductible levels. Over the past two plan years, the city had 2 claimants over \$200k in 2020 – 2021 and 5 claimants over \$200k in 2021 – 2022. When the Affordable Care Act removed lifetime limits for medical expenses, the cost of large claimants has scaled faster than normal medical inflation over the past 10 years. The leveraged trend for high cost claimants is between 18% and 20% compared to medical inflation of 6% - 8% over the same period.

Risk for the whole group below the individual stop loss deductible due to higher than expected utilization and larger claims below the individual stop loss level is covered by aggregate stop loss insurance. In this case, the stop loss insurer provides an expected claims cost per employee per month (PEPM) and an aggregate corridor that is some percentage above the expected costs. For example, a group with 500 employees could have an expected claims PEPM of \$1000 and an aggregate corridor of 125%. In this scenario, the group would have expected claims of \$6,000,000 annually. The maximum claims that the group could pay before the insurer would have to pay any aggregate insurance claim would be \$7,500,000. If the group exceeded the \$7.5M in claims, the insurer would pay the next \$1,000,000 in claims. In practice, groups rarely have an aggregate claim. The probability for a group with more than 1,000 insured employees to have an aggregate claim is less than 1%.

Health plan actuaries who study long term trends on plan costs would say that over a 10 year period, on average, a health plan will have three good years (loss ratio under 95%), three bad years (loss ratio over 105%), and three average years (loss ratio between 95% and 105%). During good years, self-funded employers generally build a reserve surplus which is drawn down in bad years. This helps mitigate larger renewal increases over time. A number of successive poor years with larger than expected claims experience or unexpected large claimants can lead to larger than expected renewal increases, but statistically this is unlikely. As a self-funded plan, the City would need to include a reserve for Incurred But Not Reported Liability (IBNR) which Gallagher estimates at \$952,000 and Gallagher would recommend a claims reserve of around 2 months of claims, approximately \$1.6M.

Medical Renewal and Marketing

Fully Insured

SelectHealth revised their fully-insured renewal to 8.7% from the original 15.0% due to Gallagher's negotiations. Based on 770 enrolled employees, the total premium for the 2023 -2024 plan year is estimated to be \$10,992,787. The City's cost for medical under the fully-insured plan is estimated to be \$10,902,516 which includes \$8,880,176 for non-grandfathered employees and \$2,022,340 in flex benefit allotment funding for grandfathered employees. Due to the contract being fully insured, the City's maximum risk would be the paid premium to SelectHealth. If claims were to exceed the premium costs on the plan, SelectHealth would pay the additional claims at no cost to the city. PEHP also offered a fully insured renewal of 16.37% which was not competitive with the updated offer from SelectHealth.

Self-Funded

Gallagher marketed the plan administration for the City health plan to SelectHealth, PEHP, UMR (UnitedHealthcare), Meritain (Aetna), and Regence Group Administrators (Blue Cross / Blue Shield). Gallagher requested for a carved-in PBM offering from each administrator to make the transition to self-funding more seamless for the city. The network disruption for medical providers was similar for each of the bidding carriers. Under a self-funded arrangement, the City of St George would essentially act as an insurance "carrier", paying for most members claims on the plan. The claims would be administered by one of the carriers above. The annual administration costs for one of these carriers for 770 enrolled employees would range between \$208,000 and \$469,000 depending on the carrier selected. The administration costs are a portion of the total fixed costs that would be paid by the city.

As discussed earlier, large claim risk on the plan for individuals with high cost conditions would be insured by a stop loss insurance provider. Each member on the health plan would have an individual specific stop loss deductible. If annual claims for the member exceed the individual stop loss deductible, then the insurer would reimburse the city for the amount over the stop loss level. Please note that the individual stop loss deductible is not tied to the member's out of pocket maximum which is part of the medical plan design. Rather the stop loss deductible insures the overall plan against large individual and aggregate risk due to claims. Gallagher marketed the stop loss insurance to SelectHealth, PEHP, SunLife, Berkshire Hathaway, Symetra, Berkley, Voya, and Optum. SelectHealth, PEHP, SunLife, Berkshire Hathaway, Symetra, and Berkley each provided preliminary or illustrative stop loss proposals for the city. These preliminary or illustrative quotes are subject to change due to a nurse medical review and data through at least Feb or Mar 2023. The initial preliminary bids for stop loss ranged from \$431,000 to \$1,148,000 depending on the stop loss level and the insurer. Gallagher requested stop loss levels of \$200,000, \$250,000 and \$275,000.

Claims on the plan would be paid weekly by the city. Gallagher projected expected claims for the city for the 2023 – 2024 plan year based on the last 24 months of data (Mar 21 – Feb 23) using actuarial trends of 7.1% medical and 10.0% pharmacy based on Gallagher national actuarial trends. Trending claims to June 30, 2024, Gallagher estimates that the City of St George would have claims per employee per month of \$1073.68, which equates to an estimated annual claims of \$9,921,000.

Including the fixed costs (with UMR as the administrator and Sun Life as the stop loss carrier) would give an estimated annual cost of \$10,980,000 which is slightly less than the fully-insured renewal. This cost represents a 0.2% lower overall spend than the fully insured renewal.

Please note that the fully insured estimate in the preceding paragraph is based on expected claims. Part of stop loss insurance is insuring the entire self-funded plan in case of a number of catastrophic claims that are below the individual stop loss threshold. This maximum liability is computed by the stop loss insurer as part of their offering. If claims exceed the maximum liability corridor of 125% of expected claims, then the stop loss insurer will

pay the next \$1,000,000 in aggregate claims. Based on maximum claims, the city could have \$2.3M of excess claims liability vs the fully insured renewal, but the probability of such an occurrence is less than 1%.

Should the city consider self-funding an option in 2023, the lowest noise is to continue with SelectHealth as the administrator. This would keep current plan designs and just change the funding mechanism for the plan.

UMR with UnitedHealthcare Choice Plus network would offer a broad national network that would include Intermountain Healthcare in Utah and would have minimal disruption on the medical provider side. We have included a pharmacy disruption analysis from OptumRx which indicates that the pharmacy change to Optum from SelectHealth would have no impact for 1446 utilizers and 96.5% of written scripts. 75 utilizers would see a lower tier medication than they are currently on. 7 utilizers would see a higher tier for their current medication. 39 utilizers would have medications that are excluded on the OptumRx Premium PDL formulary. The detailed report is attached.

Dental Renewal

The fully insured dental renewal with SelectHealth is a rate pass (0% increase). We looked at self-funded options for the city dental plan. SelectHealth can administer the plan for an administrative charge of \$10 PEPM and then paid claims. This would be essentially a flat increase to funding. Gallagher has requested an administrative bid from Delta Dental that will be provided and which we anticipate will be around the same cost as the self-funded option from SelectHealth.

Other Lines of Coverage

All other lines of coverage have a rate pass (0% increase) for the 2023-2024 plan year.

Wellness Options

We looked into wellness partners to replace Healthy Living and have found two that we think would be good options. The first company is called Navigate (not to be confused with your enrollment system, Employee Navigate) and the second is called Health Source Solutions.

Attached you'll find the following documents:

Wellbeing platform market overview: High level overview of the 2 programs

HSS Proposal: The proposal from Health Source Solutions that includes all the details of what's included in the program and how it works

Navigate's Optimized Platform and Navigate Find Help: These give you a nice explanation of what's included in the Navigate platform

Wellness Options Comparison: This document highlights the costs associated with each option.

In addition to the above 2 companies, we also included pricing information for wellness options through UMR. UMR has updated their medical proposal to include a \$50,000 wellness credit that the City can use to pay for wellness services through UMR itself or towards one of the other vendor options.

We are happy to discuss each of these in more detail and to set up a demo with any or all of the vendors so that you can get a better feel for the employee experience.