



Market Analysis: Group Health Plan



City of Des Moines

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Mercer Health & Benefits in partnership with B. Brendan Berigan & associates were contracted by the City of Des Moines to administer a Request for Proposal to interested carriers for their group health and prescription drug programs for the plan year beginning July 1, 2009.

The objectives of the project were to:

- Obtain competitive proposals for benefit administration on a fully insured and self insured basis
- Recommend most advantageous funding methodology for the City
- Identify carriers who will duplicate current administration of the plan
- Complete necessary analysis to assure carrier of choice has in place provider contacts that will support claims projections.
- Improve employee satisfaction through superior customer service/gain service guarantees based on group specific experience.
- Identify carrier who can support current level of managed care initiatives that will produce improved health status and demonstrate a reasonable ROI.
- Obtain FSA administration quotes. Preferably blended with other benefit costs.

Marketing results

The following carriers were contacted and invited to participate in a RFP process:

Aetna	Principal
Cigna	United HealthCare
Coventry	Wellmark BCBS of Iowa
Health Alliance	

Letters of declination due to inability to be competitive were received by all carriers except United HealthCare and Wellmark BCBS of Iowa.

Responses to RFP

Principal – after initially declining, Principal reconsidered and submitted a proposal. They were disqualified as a viable option due to incomplete response to RFP questionnaire, willing to quote only limited number of employees (non-Union) at this time, indicated need to further develop provider network, provided self funded option only with no guaranteed rates, and could not confirm duplication of current administration.

United Healthcare – named as a finalist and participated in finalist interview.

Initial rates provided by UHC were very competitive. Through analysis that was performed, irregularities were revealed and UHC was asked to address these items in a Best and Final

Offer. After UHC reviewed, they acknowledged key mistakes were made and advised that they were withdrawing from consideration do to an inability to be competitive at this time.

Wellmark BCBS of Iowa - named as a finalist, participated in finalist interview and is our recommended carrier.

Wellmark completed the RFP and provided proposals for fully insured and self funded models. They provided new service guarantee risk model that incorporates group specific performance metrics. Wellmark also indicated they would be able to provide FSA quote that could be blended with group plan premiums.

Wellmark provided a renewal rate for existing benefits at an increase of **12.33%**.

Proposal Analysis

In evaluation of the potential carriers, the following factors were to be considered:

- Cost of Program – *weighted at 50%*
- Multiple year fees, caps or guarantees – *weighted at 10%*
- Analysis of provider discount equivalents – *weighted at 10%*
- Analysis of PBM discount equivalents – *weighted at 10%*
- Provider Network match and stability – *weighted 15%*
- Disease management, reporting capabilities and demonstrated ROI – *weighted at 5%*

Because Wellmark was the only remaining finalist, the outcome of recommending Wellmark could not be based upon the initial criteria as stated in the RFP.

In addition to a review of Wellmark's RFP, a renewal analysis was performed under a Mercer model using historical claims and membership data as well as the renewal data supplied by Wellmark. The model and subsequent analysis suggested a reasonable renewal rate in the 8.7% to 9.5% range. Primary areas of review include assigned Pooling charge, assigned risk charge, and decrease in the consideration component of the renewal projected costs.

After discussing our findings, Wellmark presented a Best and Final Offer at a **9.83%** increase over current rates, resulting in approximately \$671,500.00 in savings to the City of Des Moines from the initial renewal. In addition, Wellmark offered to administer FSA as part of the 9.8% increase at no additional cost for the first year.

Recommended funding methodology

During the RFP process, both fully-insured and self-funded with reinsurance funding options were requested. Since Wellmark is the only final bidder, we will focus only on their numbers.

Through the RFP process the following options were reviewed:

- Multiple specific reinsurance deductibles were requested (\$50,000, \$75,000, and \$150,000)
- Multiple contract types (12/12 & 12/18)
- Administrative costs for general services, claim services, network access, management reports, utilization review Out-of-Network and Indemnity Plans. Both Wellmark's fully insured rates and self-funded proposal include standard services in all areas.

The synopsis below will only take into account the most competitive Wellmark option (\$50,000 specific deductible) and assumes the use of a 12/18 contract so that a direct comparison to fully insured is allowable.

Expected "Good Case Scenario"

- Fully insured Renewal costs: \$22,816,374
- Expected Self-Funded costs: \$22,137,539
- Expected cost savings for self-funded: \$678,835

Possible "Worst Case Scenario"

- Fully insured renewal costs: \$22,816,374
- Maximum Self-funded costs: \$27,052,156
- Potential additional liability to the city for self-funding: \$4,235,782

During the first year of self-funding additional money could be required to build and maintain a reserve account for the paying of claims that were incurred but not yet reported (IBNR). Claim reserve analysis and additional State of Iowa reporting would also be required on a yearly basis to determine the required funding level of this account.

In addition to the potential additional costs of the self-funded plan, The City of Des Moines could potentially put themselves in a position where they could incur additional GASB 45 liability if any pre-65 retiree health costs could be attributable to the City of Des Moines health plan.

Final Recommendation

Considering only one Health insurance carrier agreed to fully participate and provide a quote for insuring the City of Des Moines' Health Plan, we are compelled to recommend the following:

1. Award Wellmark Blue Cross Blue Shield of Iowa the contract to insure and administer the City of Des Moines group health plans,
2. Accept the rate increase of 9.8% over current fully insured rates to be effective for plan year July 1, 2009 through June 30, 2010.
3. Accept Wellmark offer to administer FSA plan for plan year beginning July 1, 2009 through June 30, 2010 at no cost. * This is an offer for initial year only, does not include costs for optional debit card feature and the City will need to consider administration costs for future years.
4. Accept Wellmark proposed Operational Performance Standards Guarantee which places 20% at risk of the annualized administration fee.
Meet with Wellmark well in advance of the renewal date to collaborate on content, timing and performance review of Member and Account Satisfaction surveys.
5. Due to several factors including, troubled national economic atmosphere, limited *potential* upside savings from converting from fully insured to self insured, and substantial additional claims risk exposure and possible negative GASB 45 liability (concerning possible prefunding future retiree costs) it is most prudent to continue to fund the group health plans on a fully insured basis for the plan year July 1, 2009 through June 30, 2010.

Respectfully submitted,

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City of Des Moines Premium History
 Actual vs. Projected Traditional Plan

