

**Benefits Focus Group Minutes
(01/25/02)**

Meeting started at 8:30 a.m. January 25, 2002

Committee members, alternates and staff advisors present:

Suzy Milburn, Housing & Community Development
Debbi Horst, Housing & Community Development
Pat Horan, Bobby Jones Golf Course
Neal Elliott, SMREA (Fire Retiree)
Rick Winters, Engineering
Karen Lusk, Engineering
Linda McKinney, Human Resources
Ed Whitehead, Police
Gil Fernandez, Public Works/Utilities
Benita Saldutti, Pensions
Dick Minster, Retired General Employee
John Glanden, SMREA (Fire Retiree)
John Agen, SMREA (Police Retiree)
Joe Munyak, SMREA (Police Retiree)
Bill Campbell, Human Resources
Chris Lyons, Finance
Pam Hayes, General Services
Janice Cox, Public Works
Casey Humpert, Van Wezel
Joyce Dolan, Retiree

Mike McNees City Manager
April Bryan, Human Resources
Stacey Monroe, Planning
Charles Senf, Retiree

City Manager thanked everyone for their participation on the committee. He requested that all members keep an open mind as they discussed the health benefit plan. The last few years the cost of the City's health insurance has increased, but the benefits have not changed. The administration wants to find a way to keep the level of service but also find a way to help bring the costs down. There has been a level of misunderstanding that in order to bring costs down, the decision has already been made to take services away from the employees and retirees. This is not true. No decisions have been made at this time. The goal is to make sure that people get the benefits that they need. No one ever wants to bring down the cost by denying needed benefits. The purpose of this committee is to understand the situation, the options, and give feedback to the Administration so they can understand how the employees and retirees feel about the different options and what the solutions should be. We need to decide how we are going

to fund the medical plan this year and going forward, and search for possible sources of funding.

John Agan, retired Police, requested that information asked for be made available in a timely manner.

City Manager left the meeting.

Bill Campbell established a guideline for the meeting and for how the committee will function. After the presentation of financial information and background information of the City's medical plan, the committee will set goals for the next meeting. Initially the committee needs to look at the overall landscape of the medical plan. The two goals are short and long-term. The short-term goal is looking at what the medical plan will be for the remainder of this year. The long-term goal is looking at what the medical plan will be going into the future. A report will be presented to the City Manager by March 1, 2002.

Bill suggested that the committee meet on a weekly basis at least through the first 4-6 weeks. The meetings will be public meetings. They will be recorded and minutes will be taken. There will be an agenda for every meeting. The committee members will set the agenda for each meeting. The committee was asked to stay focused and follow the agenda in order to meet the objective established at the meetings. At the end of each meeting, it needs to be summarized so that everyone leaves with the most salient points from the meeting and with some common agreement on the goals and objectives for the next meeting. Minutes will be distributed.

Neil Elliott expressed concern that PBA and teamster's representatives were not invited to meeting because they represent such a large group of people. Bill Campbell explained that because the City is currently in contract negotiation with both unions it could only proceed with these meetings with non-represented employees. It is hoped that after the negotiations are complete, they will be represented at these meetings. This is on the advice of the City's labor attorney that to invite a union representative to these meetings, while they are in collective bargaining with the City, would leave the City open to an unfair labor practice.

Chris Lyons passed out a summary sheet covering past 13-year financial history of the self-insured insurance fund. The summary sheet showed revenue & expenses of the fund, contributions made by the City and the employees, profits and losses over the years. A discussion followed of good and bad years. Chris explained the situation at end of 2000, which was a year of high claims. It was decided not to change anything in the medical plan until it was shown that it was a trend. At end of 2001, there was a \$1.8 million loss. Now something has to be changed. The employees' rates, changes in the plan, and/or quotes from private companies need to be examined to see if the City can do better. The estimate of the year ending in December 2002 is projecting a loss. Over the last four years, the City has put in over \$4 million in additional contributions to keep the employees' rates and the plan the same. Management made

the decision to use the reserves instead of raising rates to see if the trend would reverse. Unfortunately, that did not happen. The average cost to the plan per person is \$4000/year. In 1999, several employees were up to the \$100,000 limit. In 2000, the top ten claims accounted for about 28% of the total medical expense. An average for self-insured plans is that top ten claims should account for 12-15% of the total expenses. Stop loss was at \$100,000 now at \$150,000. This was changed in 2001, because the City could not get written for \$100,000. The City has an actuarial study report done every year that offers comments on the soundness of the fund. There had been enough reserve in past years, but in 2001, the actuary started telling the City that it either needed to change the plan and/or change the premiums because the reserve levels were going down.

There was some discussion and questions about revenue investment earnings and how they are invested. The City operates under state guidelines regarding what types of investments it can and cannot make.

Bill Campbell passed out handouts and explained how self-insurance works. The contributions of the employees go into the self-insurance fund and then the fund is used to pay all claims.

The City has reinsurance because the fund cannot cover the entire risk. Reinsurance covers extra large claims. The rate charged for reinsurance is based on the City's claim experience/history and the health of the pool of covered lives. Reinsurance rates have gone up dramatically since 1999 because of a number of large claims and long term illnesses. The City's rate has increased from \$90,000 to almost \$300,000 in three years. This year has seen a slight decrease more reinsurers available and the City's claim totals being lower because a couple of people with long term illnesses passed away. That also changed the City's rating so that it has a better rate going into 2002. The City has to have the reinsurance in order to protect the plan so the cash payments out do not bankrupt it.

The City is a member of Healthcare Sarasota. This is a consortium that was formed by the City the County the school board and the hospital around 1993 in order to develop a broad base of purchasing power for the medical products we use. The areas in which the City has an advantage are: (1) Our contract with the network that services the hospital. This network is called PHO (physician's health organization). That is who the City's primary contract is and it receives a very good discount with them. The City also gets a very good discount with the hospital for all the hospital services in Sarasota Memorial Hospital. The contract with Caremark, for pharmacy services, also provides a large discount. Fees for the City's third party administrator (EMI) is the other area where a significant discount is realized. EMI's role is to receive all medical claims. They review them to insure that they are accurate, valid, not duplicate claims, and then pay them. EMI also does a utilization review for the City. That is when someone needs to have pre-certification for services. They work with the employee and the physician to make sure that the prescribed treatment is in fact required and is consistent with the injury you have. EMI also is currently the administrator of COBRA, which for the City, is

a very small group of people. EMI is not the insurance company, they are just the administrator. They are the repository for all the City's claims data. The current rate paid to them is a basic third party administration fee, a fee for utilization of review and a fee for COBRA administration. The current fee is \$10.16 per employee/retiree/month. Total is roughly \$140,000 per year.

Question was asked if the City had investigated the possibility of having someone on staff perform that service and that a cost savings might be realized. Bill said that it would not be cost effective to do that with City staff because of the time and resources required.

Although others have joined the Healthcare Sarasota organization, like FCCI and the YMCA, that does not lower the cost of insurance for the City. The cost is based on the claims experience. The City does not share its claims experience with other members of Healthcare Sarasota. However, increased participation in the group does increase the buying power concerning contract services. At present, the School Board does not participate in the plan. They are fully insured through Blue Cross or AETNA, but what they use Healthcare Sarasota for is as a vehicle to try and get lower bids from their fully insured providers. They pay a fixed amount for an administration fee.

There are only three sources of revenue for the medical fund, the City's contribution, the employee's premium for dependents and the structure of the plan (how co-pays, the co-insurance and the out of pocket costs are structured).

Neil Elliot pointed out that the fund balance rose from 1989 to 1998 before it started falling back a bit. If during the last couple years there were about 10 claims a year that went into the stop loss insurance and those 10 claims amounted to 20% of the total cost in a group of 1500 or more insured people, then maybe this was more of an anomaly than a trend.

Chris pointed out that what the handouts show are fund balances and expenses, not the actual claims. What used to be considered an anomaly is becoming the norm. A decision was not made in these earlier years (1999-2001) to change the rates or the plan because the thought was that this had happened in the past but that it would change and there would not be this many again. The years where there were no catastrophic claims, the fund balance turned around and got built up and so a false sense of security developed. The past three years, it has not and now it should not be treated as an anomaly.

The first three months of this fiscal year look to be a little lower than what was experienced in 2001, but possibly, that could not be a true picture. At this point in time in the fiscal year, the City doesn't have the actuary study. Also the holiday season could contribute to a smaller number of claims being processed. Regardless, it is still generating a negative number.

There are roughly 1100 employees and retirees insured by the City's plan. The number of dependents would be additional to that. The retirees group is getting larger and larger because medical technology is allowing people to live longer. The cost of that technology is going up. Eventually the retiree pool will get smaller, because those hired after 1993 will not be covered. It will probably around the year 2020 before a reduction in the numbers is seen.

Explanation of handouts.

Page 1 shows the figures used to project what the cost of the plan will be for 2002. Medical costs are projected at \$7.1 million based on last year's history plus an inflation factor of 10%. The reinsurance rate of \$230,000 was based on an initial estimate. The actual rate will only be about \$220,000 for the year. The administrative costs is \$144,000. That is based on what the actual contract fees are with EMI and the number of people in the plan at the end of the year 2001. A new formula for allocating the administrative costs will be used. Each organization will pay a pro-rated per member cost that will drop our share about \$10,000. If some type of agreement can be negotiated with the School Board and where they are going to go with Healthcare Sarasota, it could drop a little more.

Joe Munyak: asked for clarification about the School Board's involvement in Healthcare Sarasota. Bill Campbell explained that the School Board pays a fixed amount of the Healthcare Sarasota administrative fees, but they do not use Healthcare Sarasota products. They pay \$40,000 for using none of the products to use as leverage to negotiate with Blue Cross/Blue Shield on their contract prices. If they began to fully use Healthcare Sarasota products then it would result in a savings in administrative costs to us because they would be paying a per member share for administrative cost instead of a flat rate. Also, by putting that number of people into the group it would give the potential to negotiate some discounts on products, third party administrative fees, etc. in the future.

A question was asked about the relationship between the medical insurance fund and the Worker's Compensation insurance fund. Although both funds are self-insured, they are completely separate funds. Worker's Compensation insurance covers all medical costs associated with an injury. None of those charges are covered by medical insurance.

Handout pages 2 & 3 was a survey of other municipalities in the west-coast area to show what they have done with their plans and how their plans are structured. HMO & PPO plans are compared because they are the most common plans. This information is to give the committee an idea of what is out there and to encourage ideas of things that could be done to improve the City's plan.

Handout page 4 showed history of City's plan and changes in the plan's structure over the period of 1990-2001.

Pages 5& 6 show the value attached to some of the plan changes that have been proposed and the savings that could result.

Charles Senf asked about the range of prices in dental services in Sarasota and how an employee could seek the most cost effective treatment. Bill Campbell said that Healthcare Sarasota now has a dental network similar to the medical network of doctors. There is currently a list of about 100 dentists who have agreed to a set fee schedule for Healthcare Sarasota.

Page 7 of the handout is a cash summary through November 2001 showing a running 12 month total of the actual claims that were paid.

Bill Campbell then said he would like to summarize today's meeting and put together some objectives for next meeting.

Neil Elliot asked if the handouts were just a draft of an idea of changes? Bill stated that these were the changes that were proposed to put through this year that would result in roughly a million dollars in savings. This was to show how the million dollars was constructed. Pages 5 & 6 are the City's ideas for changes. Idea for these changes came up by talking to Healthcare Sarasota and the people at the hospital. It is the plan that the hospital and the county have implemented in the last few years to control their costs. On Page 5 which shows PPO vs Teamhealth you see a 15% number. That is based on the hospital's experience. After two years, based on the number of people from the hospital that went to Teamhealth from PPO, they had 18-19% savings. We estimated our savings at 15%.

There was some discussion about deductibles as they applied to families and individuals and how this is an area where savings may be realized.

Bill asked everyone to at least bring one suggestion or one idea of something that might be a viable change to our plan that we could be shared with the others. Asked that all suggestions be sent to KayKae Thomas in Human Resources so that a list could be compiled to distribute at the next meeting.

Next meeting will be Friday, February 1, 2:-3:30 p.m. in the City Commission Chambers.

Bill stated that since this was an open meeting it is governed by the Sunshine Laws. The City will record the meetings and will keep a file of the meetings. They are open to the public and will be posted in the lobby of City Hall. Whatever is discussed in the meetings is not to be discussed with other Committee members outside of the meeting.

Suzu Milburn requested an official membership list be compiled and distributed.

At the next meeting, all the ideas will be discussed briefly.

Bill Campbell asked the committee if they would be agreeable to him bringing in someone to speak about defined contribution plans just to give information and another option to consider. The committee was agreeable to this suggestion.

The meeting adjourned at 10:20. a.m.