

OFFICE OF THE CITY MANAGER

NO. LTC#

309-2012

LETTER TO COMMISSION

TO:

Mayor Matti Herrera Bower and Members of the City Commission

FROM:

Kathie G. Brooks, Interim City Manager

DATE:

November 28, 2012

SUBJECT: Health Care Premium Rebates

This Letter to the Commission is in response to members of the City Commission who have inquired as to why those health plans with low loss ratios do not provide a premium rebate to the plan participants when the premium paid for coverage exceeds the amount of claim cost incurred by the plan.

To determine what affects a premium rebate may have on the City's group health plan, and if a premium rebate is a viable option for the City, the Administration contacted the City's Benefit Consultant, Gallagher Benefit Services (Gallagher), for guidance. The plan actuary assigned to the City indicated that while employers have the ability to set prospective premium and contribution rates that reflect experience by plan, they have uniformly avoided retroactively rebating contribution dollars by plan based on claim experience. Gallagher is concerned that such practice would violate Federal laws, such as the Americans with Disabilities Act (ADA), by rewarding employees for not seeking or receiving medical care, yet penalizing employees with illnesses. The City, however, may prospectively incentivize good behavior, for example, by rewarding employees for having a variety of vital signs tested and then giving discounts for hitting goals for things like blood pressure, body mass index and cholesterol. As part of the Budget Advisory Committee's review of healthcare costs, the City will request that it recommend a program to encourage healthy behaviors and target specific health actions using customized information, financial incentives and ongoing support for employees.

More specific to the City, there are a few reasons the actuary has advised us a premium rebate would not be feasible. First, the enrollment in most of the plans is too small to be statistically sound. You can see a very good illustration of this when you look at the enrollment and the associated loss ratios by year and by plan provided in the attachment. As you can see, many plans have few participants and have high claim expenses. When looking at the plan's loss ratio, the percentage of claim cost paid versus plan premium collected from those enrolled, the loss ratios for the plans fluctuate from year to year; one year having a relatively high loss ratio and a subsequent year with a much lower loss ratio. Even when the plan's enrollment is quite small, the plan's cost may be quite significant.

As an example, in 2009, the Premium PPO had twenty-four (24) active employees, and experienced a claim loss ratio of nearly 130%. In 2010, there were seventeen (17) enrollees with a claim loss ratio of only 31%. The Premium PPO currently has eleven (11) active employees in the plan. Through August of 2012, the eleven (11) enrollees had averaged a

loss ratio of just over 60%. As this shows, with such a small enrolment, even a few moderate claims can cause huge swings in the plan's cost. We see similar results for the other plans as well, especially for the plans with lower enrollments. Even if we combine the enrolment across actives, pre-Medicare retirees and Medicare retirees, we see significant variation from year to year for any given plan.

Beginning with the City's 2006 Annual Open Enrollment, the Administration has been educating employees of the premium cost saving provided by Standard HMO and PPO medical plans. This employee education has been successful in moving the majority of employees to the City's two lower cost Standard medical plans. This change in coverage not only provides the employee savings, but also the City, as the premium rates for the Standard plans are lower than those for the Premium plan. For example, for an employee enrolled in the Premium PPO plan, the City's premium subsidy is \$1,874.46 versus \$1,306.64 for the Standard Plan, providing a monthly savings to the City of \$567.82. The 2012 monthly premium cost for the employee and City are included in Attachment B.

Currently of the nine hundred seventy three (973) active employees participating in the City's medical plan, nine hundred twenty four (924), or 95%, have elected medical coverage in one of the City's two Standard plans.

Additionally, the City subsidizes coverage at no less than fifty percent (50%) of premium cost for the Premium HMO, the Premium PPO and the POS plans. The City subsidy for the Standard HMO and Standard PPO is more, 75% for employee only coverage and 60% for family coverage. So conversely, employees pay no more than fifty percent (50%) of the premium of any plan. Unless a loss ratio, including the administrative fees, drops below fifty percent (50%), the City is still subsidizing the cost of the coverage. Even if experience on any one plan is consistently good, the City is still subsidizing the cost of that plan and employees are not being charged more than fifty percent (50%) of the cost of the coverage.

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Attachment

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Attachment A

City of Miami Beach Medical Plan Experience by Plan and Enrollee Class

City of Miami Beach Health Plan Experience by Plan and Enrollee Class

Plan Class Standard HMO Active													,		
dard HMO			Average Enrollees	llees	Premium Rate	m Rate			Fixed	Total	Total	Employee O	Employee Only Coverage		Family Coverage
dard HMO	Ų	Period	EE	Familiv		Familiy	Premium	Claims	Costs	Expense	Loss Ratio	Employee	City	Employee	City
	Ne Ne	2010	505	↓	\$ 357.59	\$ 886.31	\$6,044,617	\$5,718,301	\$742,583	\$6,460,884	106.9%		\$268.19	\$354.52	\$531.79
	<u> </u>	2011	485	375	\$ 393.35	\$ 974.94	\$6,670,677	\$8,664,637	\$802,399	\$9,467,036	141.9%	- 1	\$299.36	\$395.89	\$593.83
		2012 YTD	496		\$ 458.76	\$1,137.07	\$4,622,428	\$4,031,576	\$646,149	\$4,677,726	101.2%	\$134.72	\$329.84	\$472.26	\$679.60
<u></u>		Subtotal	496	373			\$17,337,722	\$18,414,514	\$1,291,131	\$20,605,645	118.8%				
Pre	Pre 65 Retiree	2010	48	24	\$ 357.59	\$ 886.31	\$462,629	\$362,160	\$59,616	\$421,777	91.2%	- 1	\$178.80	\$443.16	\$443.16
		2011	20		\$ 393.35	97	\$652,498	\$1,277,341	\$79,260	\$1,356,601	207.9%	- 1	\$196.68	\$487.47	\$487.47
		2012 YTD	59	39	\$ 458.76	\$1,137.07	\$502,621	\$984,017	\$71,562	\$1,055,579		\$229.38	\$229.38	\$568.54	\$568.54
		Sushfotal	52	33			\$1,617,747	\$2,623,518	\$210,439	\$2,833,957	175.2%				
Ordina UMA		2010	25	53	\$ 590,59	\$1,463.86	\$1,400,842	\$1,892,387	\$102,803	\$1,995,190	142.4%	\$295.30	\$295.30	\$731.93	\$731.93
	<u> </u>	2011	6 6			\$1.610.25	\$1,402,398	\$1,535,101	\$101,872	\$1,636,973	116.7%	\$327.72	\$327.72	\$812.52	\$812.52
		2012 YTD	3 23			\$1,878.02	\$704,411	\$1,016,874	\$61,466	\$1,078,340		\$381.74	\$381.74	\$946.40	\$946.40
		Subtotal	09				\$3,507,652	\$4,444,362	\$266,141	\$4,710,503	134.3%				
Pre	Dra 65 Retiree	2010	9/	42	\$ 590.59	\$1,463.86	\$1,279,897	\$1,642,260	\$98,631	\$1,740,892	136.0%		\$295.30	\$731.93	\$731.93
	33.00	2011	2.0			\$1,610.25	\$1,311,197	\$2,373,096	\$99,354	\$2,472,450	188.6%	\$324.83	\$324.83	\$805.13	\$805.13
		2012 YTD	65		\$ 757.68	\$1,878.02	\$807,132	\$1,042,423	\$71,567		138.0%	\$378.84	\$378.84	\$939.01	\$939.01
		Subtotal	70	33			\$3,398,226	\$5,057,779	\$269,553	\$5,327,332					
Ctandard DDO Active	ive	2010	33	11	\$ 698.90	\$1,714.73	\$507,489	\$202,216	\$35,422			l	\$524.18	\$685.89	\$1,028.84
	·	2011	31	17		\$1,886.20	\$663,579		\$43,018	\$894,425	134.8%	\$193.65	\$580.94	\$760.39	\$1,140.59
		2012 YTD	28	00		\$2,199.86	\$302,841	\$226,130	\$24,481	\$250,610		\$261.70	\$640.72	\$908.00	\$1,306.64
		Subtotal	30	12	1		\$1,473,909	\$1,279,753	\$102,921	\$1,382,673					
] å	Dro 65 Retiree	2010	25	16	\$ 698.90	\$1,714.73	\$529,943	\$395,265	\$34,129	\$429,394	81.0%	\$349.45	\$349.45	\$857.37	\$857.37
		2011	21	16		\$1,886.20	\$554,419	\$283,729	\$34,505	\$318,235		1	\$384.40	\$943.10	\$943.10
		2012 YTD	23	14	\$ 896.63	\$2,199.86	\$357,337	\$465,710	\$26,600	\$492,311	137.8%	\$448.32	\$448.32	\$1,099.93	\$1,099.93
1		Subtotal	23	15	1		\$1,441,699	\$1,144,705	\$95,234	\$1,239,939					
180	Doct 65 Retiree	2010	37	33	\$ 534.63	\$1,155.88	\$689,410	\$427,301	\$60,385	\$487,646	70.7%		\$267.32	\$577.94	\$577.94
<u> </u>	3	2011	42	39		\$1,283.58	\$891,174	\$527,086	\$76,554	\$603,640	67.7%		\$294.05	\$641.79	\$641.79
		2012 YTD	43	43	\$ 685.89	\$1,489.89	\$654,342	\$353,083	\$64,864	- 1		\$342.95	\$342.95	\$744.95	\$744.95
		Subtotal	41	38			\$2,234,926	\$1,307,470	\$201,803	δ.		l			
Premium PPO Act	Active	2010	19	5	\$1,186.35	\$2,910.64	\$441,567	\$567,976	\$18,088		1		\$593.18	\$1,455.32	\$1,455.32
		2011	14	Э	\$1,304.99	\$3,201.70	\$326,670	\$100,597	\$13,928				\$652.50	\$1,600.85	\$1,600.85
		2012 YTD	8	3	\$1,522.00	\$3,734.12	\$163,649	\$99,396	\$7,601			\$763.90	\$763.90	\$1,874.46	\$1,874.46
1		Subtotal	13	4			\$931,885	\$767,968	\$40,336	1		_			
a	Pre 65 Retiree	2010	36	11	\$1,186.35	\$2,910.64	\$886,789	\$992,858	\$37,230	Š		_	\$593.18	\$1,455.32	\$1,455.32
		2011	31	8	\$1,304.99	\$3,201.70	\$767,084	\$559,523	\$32,348	\$591,871	77.2%		\$652.50	\$1,600.85	\$1,600.85
		2012 YTD	25	4	\$1,522.00	\$3,734.12	\$380,586	\$329,715	\$19,223			\$761.00	\$761.00	\$1,867.06	\$1,867.06
1		Subtotal	30	8			\$2,034,459	\$1,882,096	\$88,801		%6'96				
ĬĞ	Post 65 Retiree	2010	110	61	\$ 907.46	\$1,962.05	\$2,636,644	\$1,694,247	\$143,047	\$1,837,294			\$453.73	\$981.03	\$981.03
		2011	102	53	\$ 998.21	\$2,178.82	\$2,614,255	\$1,411,705	\$139,827	\$1,551,532		1	\$499.11	\$1,089.41	\$1,089.41
		2012 YTD	76	45	\$1,164.21	\$2,529.03	\$1,584,613	\$698,729	\$99,784			\$582.11	\$582.11	\$1,264.51	\$1,264.51
		Subtotal	103	53			\$6,835,513	\$3,804,681	\$382,658	\$4,187,339	61.3%				

												-	Total Monthly Premium	ly Premium	
		-	August Enrolled		Dromium Rate	n Rate			Fixed	Total	Total	Employee On	Employee Only Coverage		Family Coverage
ī	į		Average curonees	ا ا	1	Familiv	Premium	Claims	Costs	Expense	Loss Ratio	Employee	City	Employee	City
Plan	Class	2010	1	7 9	658 12	6 ¢ 658 12 ¢1 632 95	\$161.958	\$137.926	\$10,060	\$147,986	91.4%	\$329.06	\$329.06	\$816.48	\$816.48
So.	Active	2010	י ר) «	723 93	8 \$ 773 93 \$1 796 25	\$186.249	\$273,620	\$10,567	\$284,187	152.6%	\$361.97	\$361.97	\$898.13	\$898.13
		2011 2012 VTD	4 "	· ·	6 \$ 844.31 \$2.094.	\$2,094.95	\$106,156	\$152,254	\$7,364	\$159,618	150.4%	\$425.06	\$425.06	\$1,054.86	\$1,054.86
		Subtotal	0 4	<u>}</u>			\$454,364	\$563,799	\$27,991	\$591,791	130.2%				
	4	Subtotal	+ o	1	658 17 \$1 632	\$1 632 95	\$166,055	\$352.731	\$11,222	\$363,953	219.2%	\$329.06	\$329.06	\$816.48	\$816.48
	Pre 65 Ketiree	2010	0 0) V	773 93	773 93 \$1 796 25	\$161,509	\$308,157	\$11,290	\$319,446	197.8%	\$361.97	\$361.97	\$898.13	\$898.13
		1102 OTO C100	n o	> · ·	844.31	\$ 844.31 \$2.094.95	\$113.539	\$271.685	\$9,288	\$280,974	247.5%	\$422.16	\$422.16	\$1,047.48	\$1,047.48
		Subtotal	6	<u>}</u>		200	\$441,103	\$932,573	\$31,800	\$964,373	218.6%				
		4	. 2	7 4	511 15	\$ 51115 \$110517	\$168,816	\$113,989	\$16,035	\$130,023	77.0%	\$255.58	\$255.58	\$552.59	\$552.59
	Post bo Ketiree		14	γ · α	562 27	562 27 \$1 227 27	\$215,961	\$132,215	\$20,263	\$152,478	70.6%	\$281.14	\$281.14	\$613.64	\$613.64
		7012 VTD	† † †	2 5	655.77	\$1,424.54	\$184,469	\$129,422	\$19,500	\$148,922	80.7%	\$327.89	\$327.89	\$712.27	\$712.27
		2017 2102 Cultotal	12	10			\$569,247	\$375,626	\$55,797	\$431,424	75.8%				
		Suprorai	CT	7			1:-/2024	1	1						

Total By Year									000000	700
Total 2010		2010	626	639	<u> </u>	\$15,376,656	\$14,499,616	\$1,369,971	\$1,369,971 \$15,869,586	103.2%
Total 2010		2011	931	653	<u>v)</u>	\$16,417,671	\$16,417,671 \$18,298,213	\$1,465,185	\$1,465,185 \$19,973,398	121.7%
Total 2011		2012 VTD	426	626	- 0)	\$10,484,125 \$9,801,015	\$9,801,015	\$1,129,451	\$1,129,451 \$10,930,466	104.3%
10tal 2012 11D	3					4 00 000	447 500 044	42004	CAC ECO AE1	1101%
2010 - 2012 YTD		Total	945	639		\$47,278,452	547,598,844	12,304,007	72,304,007 740,303,431	110.1%

Subtotal By Plan						, , , , , , , , ,	400	000 000	105 80/
Standard HMO		2010	553	389	\$6,507,246	\$6,080,461	\$807,199	1099,288,0¢	105.6%
		2011	535	410	\$7,323,175	\$9,941,978	\$881,659	\$10,823,637	147.8%
		2012 YTD	555	420	\$5,125,049	\$5,015,593	\$717,712	\$5,733,305	111.9%
		Subtotal	548	406	\$18,955,470	\$21,038,032	\$2,401,570	\$2,401,570 \$23,439,602	123.7%
Dromine HAAD		2010	142	95	\$2,680,739	\$3,534,647	\$201,434	\$3,736,082	139.4%
		2011	131	88	\$2,713,595	\$3,908,197	\$201,227	\$4,109,423	151.4%
		2012 YTD	119	67	\$1,511,544	\$2,059,297	\$133,033	\$2,192,331	145.0%
	1	Subtotal	130	83	\$6,905,877	\$9,502,141	\$535,694	\$10,037,836	145.4%
Ceandard DDO		2010	94	09	\$1,726,841	\$1,024,782	\$129,935	\$1,154,717	%6.99
Stalluain 110		2011	96	71	\$2,109,172	\$1,662,222	\$154,078	\$1,816,300	86.1%
		2012 YTD	66	65	\$1,314,521	\$1,044,924	\$115,945	\$1,160,869	88.3%
	•	Subtotal	94	65	\$5,150,534	\$3,731,927	\$399,958	\$4,131,886	80.2%
Odd minimord		2010	165	17	\$3,965,001	\$3,255,081	\$149,908	\$3,454,166	87.1%
		2011	146	64	\$3,708,009	\$2,071,825	\$186,102	\$2,257,928	%6.09
		2012 YTD	130	52	\$2,128,847	\$1,127,839	\$126,608	\$1,254,447	28.9%
		Subtotal	147	64	\$9,801,857	\$6,454,745	\$511,796	\$6,966,541	71.1%
300		2010	25	19	\$496,830	\$604,645	\$37,317	\$641,963	129.2%
3		2011	25	20	\$563,719	\$713,992	\$42,119	\$756,111	134.1%
		2012 YTD	27	22	\$404,164	\$553,362	\$36,153	\$589,514	145.9%
		Subtotal	26	20	\$1,464,714	\$1,871,998	\$115,589	\$1,987,587	135.7%
				1					

Total By Enrollee Class	Class								
2		2010	628	440	\$8,556,474 \$8,518,805	\$8,518,805	\$309,675	\$9,428,480	110.2%
Active		7070	050		40 240 572	611 475 361	¢071 784	\$ 10 397 145 S	134.0%
		2011	593	450	100,024,116 010,842,84	100,024,116	TO / T / C C		
		2012 VTD	288	430	\$5,899,486 \$5,526,230	\$5,526,230	\$747,061	\$6,273,291	106.3%
		Cub total	603	440	\$23,705,532 \$25,470,397	\$25,470,397	\$2,628,520	\$2,628,520 \$28,098,917	118.5%
		Subtotal	5	8	\$3 325 313 \$3.745.274	\$3.745.274	\$240,829	\$3,986,103	119.9%
Pre MC Retirees		2010	192	0 0	\$3 446 707	\$4.801.845	\$256,758	\$5,058,604	146.8%
		1107	180	co T	\$2,161,215	\$3.093.551	\$198.241	\$3,291,791	152.3%
		2012 YID	797	S S	CC CCC 05	¢11 640 670	\$605 827	¢695 827 ¢12 336 498	138.1%
		Subtotal	185	<u>S</u>	\$6,505,65¢		70,000	00,000,000	
2000		2010	159	101	\$3,494,870	\$2,235,536	\$219,467	\$2,455,003	70.2%
INC Retirees		3011	15.8	100	\$3,721,391		\$236,649	\$2,307,650	62.0%
		7012 VTD	154	100	\$2,423,425	\$1,181,234	\$184,149	\$1,365,383	56.3%
		2016		2		\$5 487 777	\$640.259	\$6.128,036	63.6%
		Subtotal	15/	TOO		111111111	200		