



MEMORANDUM

Date: March 11, 2009

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

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to be "C.H. Huckelberry", is written over the typed name and title.

Re: Medical Health Insurance for Fiscal Year 2009/10

As the Board knows, our current medical insurance carrier is UnitedHealthcare/PacifiCare. The first contract renewal will be effective July 1, 2009, with rate caps of 14 percent. The total cost to renew the contract based on the rate cap is \$38.7 million, which is \$4.8 million more than the cost for this fiscal year. Also, UnitedHealthcare and PacifiCare have completed the merger, and all plans for fiscal year 2009/10 will be with UnitedHealthcare.

Most of the \$4.8 million increase can be attributed to the following factors that have been mentioned over the past couple of years as contributing to high healthcare costs:

1. As reported by our provider and based on the current year analysis, a very small number of our enrollees incur the greatest amount of costs.
2. Our employees are generally over-insured by being enrolled in the HMO plan and not using the healthcare services to the extent of premiums being paid by both the employee and the County.
3. The Pima County medical plan includes pre-Medicare retirees who elect to stay in our plan and as a group are high users of health service, and hence increase overall healthcare costs for the active employee base.

Due to the current financial crisis and unavailable County dollars to support the \$4.8 million increase, staff researched various options needed to maintain current costs for Pima County. Since the 14 percent rate cap quote offered is below the 23.7 percent increase that would have been required by the provider based on our actual claims experience, I believe that it is in the best interest of Pima County to accept the increased costs for this upcoming fiscal year. At my direction, Human Resources and consultant Paul Zucarelli presented an overview of healthcare benefits to SEIU to provide a better understanding of the High Deductible Health Plan (HDHP). This plan provides the greatest opportunity for Pima County and its employees to save dollars both now and in the future. Based on feedback over the past couple of years, HDHP participants appear to be pleased with this plan. An HDHP satisfaction survey is being conducted to obtain more information, and the results will be posted on the Pima County website.

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Based on Pima County's current financial situation, I am proposing that the County payment for each employee be the same and that this share be based on the HDHP total premium cost for each tier. The HDHP is the most advantageous and cost effective for Pima County and its employees and begins to address the issue that a vast majority of our employees are over-insured.

Today, 6,167 employees are enrolled in medical insurance as follows by plan: 3,697 in the HMO, 852 in the PPO, and 1,618 in the HDHP. If we had not been provided rate caps and if our provider had not been willing to reduce our cost last year, those in the HMO would have realized an increase of 28.88 percent, while those in the PPO/HDHP plan would have realized a 12.53 percent increase. Because of the way the rate caps were presented in the contract, all plans will realize a 14 percent increase.

Under the County's proposed funding strategy, those employees staying in the HMO would see the largest increase in their cost, which would be \$43.73 additional per pay period for employees only. Those employees who stay in the PPO would see a \$17.33 increase per pay period in their premium; those who switch to the PPO from the HMO would see a \$3.14 increase per pay period in their premium; and the employees in the HDHP would see no increase in their premium costs. The primary difference between the HMO, PPO, and HDHP is in plan deductibles. In the HMO there is no plan deductible; in the PPO the deductible is \$500 per year plus coinsurance; and in the HDHP the deductible is \$2,000, with the County paying \$1,000 of this amount. In the HDHP, once the plan deductible is reached the County employee is no longer liable for any medical or pharmaceutical costs for the remainder of the plan year.

Given the employee premium differences between the HMO, PPO and HDHP, it is anticipated a significant number of employees will transition from the HMO plan to either the PPO or the HDHP. For example, an employee now paying a premium of \$24.19 with the HMO plan can switch to the PPO plan with essentially \$3 more per pay period for PPO coverage and avoid the \$67.92 premium that the employee would pay if they chose to remain in the HMO plan.

For next year the total premium cost to Pima County will be \$25.9 million, which is \$1.57 million less than the current fiscal year. The \$1.57 million will be reserved in an employee benefit fund and used to cover employee shifts to the HDHP since the HDHP County funding arrangement will remain the same.

Finally, for fiscal year 2009/10, I am also proposing that we continue to allow pre-Medicare eligible retirees to enroll in and be covered by our medical and dental plans. I have discussed stopping this practice; however, premium costs for retirees could exceed those premium costs of the State Retirement Plan, hence the need to review this practice in greater detail next year.

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In summary, Pima County employees will continue to have three options from which to choose and will have the opportunity to select coverage based on need. Employees will be able to save dollars by selecting a plan with lower premiums than the HMO, resulting in a cost savings in most instances. Staff is available to assist employees in understanding these plans and will be holding pre-open enrollment meetings for employees. If you have any questions, please feel free to contact me.

CURRENT PLAN

<u>Category</u>	<u>HMO</u>		<u>PPO</u>		<u>HDHP</u>	
	<u>Employee</u>	<u>County</u>	<u>Employee</u>	<u>County</u>	<u>Employee</u>	<u>County</u>
Ee	24.19	110.47	10.00	89.05	0	75.08
Ee/Spouse	93.77	214.59	24.56	202.27	0	171.94
Ee/Child(ren)	91.39	208.71	24.17	196.72	0	167.44
Ee/Family	129.27	309.73	30.72	292.19	0	244.78

PROPOSED FOR FY 2009/10 (based on HDHP premium)

<u>Category</u>	<u>HMO</u>		<u>PPO</u>		<u>HDHP</u>	
	<u>Employee</u>	<u>County</u>	<u>Employee</u>	<u>County</u>	<u>Employee</u>	<u>County</u>
Ee	67.92	85.59	27.33	85.59	0	85.59
Ee/Spouse	155.52	196.02	62.58	196.02	0	196.02
Ee/Child(ren)	151.23	190.88	60.93	190.88	0	190.88
Ee/Family	221.41	279.05	89.07	279.05	0	279.05

CHH/jj

c: Gwyn Hatcher, Human Resources Director