county of ventura

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October 4, 2016

Board of Supervisors
County of Ventura
800 South Victoria Avenue
Ventura, California 93009

Subject: Approval of County of Ventura Flexible Benefits Program, and Health Benefits, Rates, and Contract Providers for Plan Year 2017; Authorization for County of Ventura to Become a Member of the Public Agency Consortium Enterprise Joint Powers Authority

Recommendations

It is recommended that your Board:

1. Authorize the Director of Human Resources to sign Addendum to the Agreement and Acceptance of the Amended and Restated Joint Exercise of Powers Agreement with Public Agency Consortium Enterprise (PACE) Joint Powers Authority (JPA) (Exhibit 4) so that the County may become a member of the PACE JPA.

2. Approve the Plan Year 2017 health plan rates for medical, dental, and vision plans for active County employees and COBRA participants, commencing January 1, 2017, for Plan Year 2017, as listed in Exhibit 1.

3. Approve the new contract of PACE JPA as the carrier for the Anthem Blue Cross High-Deductible Preferred Provider Organization (HDHP/PPO) plan and the Exclusive Provider Organization (EPO) plan for Plan Year 2017.

4. Approve the renewal of Ventura County Health Care Plan (VCHCP) as a carrier for a Health Maintenance Organization (HMO) plan for Plan Year 2017.

5. Approve the renewal contract of MetLife Dental as the Dental Preferred Provider Organization (DPPO) for Plan Year 2017.

6. Approve the renewal of Medical Eye Services (MES) as the vision carrier for Plan Year 2017.

7. Authorize the Director of Human Resources to sign any necessary Plan Year 2017 agreements or amendments with PACE JPA (Anthem), VCHCP, MetLife Dental, and MES Vision with the Board-approved rate and benefit changes, upon approval of legal sufficiency by County Counsel.

Fiscal/Mandates Impact

Mandatory: No
Source of Funding: Flexible Credit Allowance and Employee Contributions
Funding Match Required: None
Impact on Other Departments: Minimal

FY 2016-2017 Budget Projection for Medical Benefits ISF Fund I420 Division 1420				
	Adopted Budget	Adjusted Budget	Projected Actuals	Estimated Savings/Deficit
Expenditures	$10,129,626	$10,212,236	$10,212,236	$0
Revenue	$9,507,201	$9,507,201	$9,507,201	$0
Net Cost	$622,425	$705,035	$705,035	$0

Annualized gross medical premiums are estimated at $7,193,406 for PACE JPA and $61,370,856 for VCHCP, for total gross medical premiums estimated at $68,564,261.

Discussion

The current Flexible Benefits Program Plan Year expires on December 31, 2016. Internal Revenue Service (IRS) regulations require that the County hold an annual Flexible Benefits Program Open Enrollment period prior to the beginning of the new Plan Year commencing January 1, 2017. We recommend that your Board approve the health plans and rates for medical, dental, and vision offerings for Plan Year 2017 (January 1, 2017, through December 30, 2017) as listed in Exhibit 1.

This proposal was reviewed with the Joint Labor Management Committee on September 15, 2016. The Committee considered the plan options and raised no objections to our recommendations.

Upon approval, the annual Open Enrollment period will begin on November 1, 2016, and end on November 30, 2016.

Medical Plans

The County currently offers a choice of three medical plans to its employees and non-Medicare eligible retirees. Two are Health Maintenance Organization (HMO) plans: one from Ventura County Health Care Plan (VCHCP) and one from UnitedHealthcare (UHC). The third option is a High Deductible Health Plan (HDHP)/Preferred Provider Organization (PPO) plan with UHC.

A. New Health Plan Option:

For Plan Year 2017, County Benefits performed an extensive search to identify available plan options that would provide a complementary option to the Ventura County Health Care Plan HMO. At staff's request, Aon Hewitt (the County's consultant and broker of record) arranged for County representatives to meet face-to-face with Aetna, Blue Shield, Anthem Blue Cross, and UnitedHealthcare. Additionally, County staff also explored joining the California State Association of Counties' Joint Powers Authority (CSAC JPA) and the Public Agency Consortium Enterprise JPA (PACE), which is affiliated with the larger Municipalities, Colleges, and Schools Insurance Group JPA (MCSIG). These JPAs are all member-directed insurance risk-sharing pools.

Having reviewed the various options, and in collaboration with the County's Joint Labor-Management Health Care Committee, County Counsel, and the Auditor Controller, we recommend that your Board approve, for the 2017 Plan Year, the replacement of the UHC health plan options with the PACE JPA Anthem health plan options. The PACE JPA offers simple yet generous plan designs and favorable premium rates that will result in employee savings. The PACE JPA plan options that we recommend are the Anthem Blue Cross Exclusive Provider Organization (EPO), which is similar to an HMO except a Primary Care Physician is not required to direct care, and the Anthem Blue Cross High-Deductible Health Plan Preferred Provider Organization (HDHP PPO; Health Savings Account (HSA)-compatible). We also recommend that our HSA third-party administrator (HealthEquity HSA) remain in place for those employees enrolled in the HDHP PPO who wish to continue to contribute or start contributing to a HSA.

When compared to the 2016 UHC plan premium rates, participating employees in the PACE JPA Anthem plan will realize annual premium reductions of between -0.4% and -37.6%, a total estimated annual savings of approximately $2,265,000. For the 2016 plan year, your Board approved a general fund subsidy of $916,106 to the UHC plan participants; we do not recommend a similar subsidy for the 2017 Plan Year.

It's important to note the Anthem plan offering is self-insured (or self-funded) through the PACE and MCSIG JPAs. With a self-insured health plan, the JPA and its members operate their own health plan as opposed to purchasing a fully-insured plan from an insurance carrier. The benefit to self-insuring is that it allows the JPA and its members to save on administrative and other retention margins that an insurance company may add to its premium for a fully-insured plan. While self-insuring exposes the JPA and its members to risk in the event that more claims than expected must be paid, a review of the audited financials of the MCSIG JPA show that they have unrestricted net assets (reserves) in the amount of $10,905,643 that could be used if this were to occur.

Accordingly, we recommend that your Board approve the County's joining of the PACE JPA and authorize the Director of Human Resources to sign the attached Addendum to the Agreement and Acceptance of Amended and Restated Joint Exercise of Powers Agreement (Exhibit 4). In order to mitigate the County's risk, the proposed agreement is limited to a two-year initial contract term and includes a negotiated maximum rate increase of 12% in the second year (the cap is not inclusive of additional government taxes).

B. Ventura County Health Care Plan Benefit Changes:

We recommend the following plan design benefit changes to the VCHCP HMO plan in order to better reflect utilization costs:

- Office Visit (VCMC Provider) - Copay increasing from $0 to $10
- Specialist Visit (VCMC Provider) - Copay increasing from $0 to $20
- Specialist Visit (non-VCMC Provider) - Copay increasing from $30 to $40
- Emergency Room – Copay increasing from $75 to $150 (waived if admitted)
- Ambulance (ground and air) - Copay increasing from $75 to $150
- Durable Medical Equipment (excluding breast pump) – Copay increasing from $0 to 10% (50% copay for replacement, when medically necessary)
- Home Health Care – Copay increasing from $15 to $20
- Chemotherapy, radiation, infusion therapy (outpatient) – Copay increasing from $0 to $20
- Outpatient X-ray and diagnostic imaging – Copay increasing from $0 to $20
- Genetic Testing – 10% copay, up to max of $500 (copay was $200)
- Prosthetic and orthotic equipment – Copay increasing from $0 to 10% (50% copay for replacement, when medically necessary)
- Mental Health & Substance Abuse Outpatient Care – Copay increasing from $0 to to $10

C. Medical Plan Tiered Premium Rates

In order to mitigate the impact of the Affordable Care Act Excise Tax planned to take effect in 2020, and to align the County's premium rate structure with other public and private sector entities, we recommend transitioning over a period of a number of years from a composite rate structure to an actuarial tiered premium structure. The composite rate structure maintains the same premium rate for all employees, regardless of the number of dependents an employee covers. An actuarial tiered premium structure charges employees premiums based on the number of dependents covered and their anticipated utilization of services.

By way of background, in 2020, the Affordable Care Act's Excise Tax (also known as the "Cadillac Tax") is planned to go into effect. As a result of the excise tax, health plans will need to remit 40% for every dollar spent on benefits plans (including both employer and employee contributions) that are in excess of pre-established thresholds (currently $10,200 for individual coverage and $27,500 for family coverage, but these thresholds will be indexed for inflation in future years).

Current 2016 composite premium rates range from $9,531 for VCHCP to $21,962 for UnitedHealthcare HMO Network 3 per year per employee. If composite rates remain in place, we estimate that in 2020, County health plans will need to remit significant excise taxes, which will then likely result in increased premium rates to participants. With actuarial tiered rates, we anticipate a significantly lower excise tax liability. By way of example, the Employee Only actuarial tiered rates in 2017 will range from $6,501 for VCHCP to $6,728 for Anthem EPO per year per employee, and these rates would be compared to the Individual Coverage Threshold (currently $10,200) when assessing for the excise tax.

Our recommendation is to transition to actuarial tiered premium rates for Employee Only, Employee Plus One, and Employee Plus Two or More dependents over a period of 3-5 years. During the transition years, we recommend the utilization of "hybrid" tiered premium rates. The 2017 "hybrid" premium tiered rates introduces the three tiers but with a very narrow spread in premium rates, as depicted in the table on page 6. The true actuarial spread between the tiers is noted in Exhibit 2. The transition to true actuarial costing over a number of years is intended to smooth out the impact of rate fluctuations to employees.

While employees will be charged "hybrid" premium rates, the County is required by contract to remit the actuarial cost premiums to PACE JPA (see Exhibit 2). Hybrid premiums have been calculated based on the 2016 Employee Only, Employee plus One, and Employee plus Two or More dependent enrollments. To the extent that the 2017 enrollment tier ratios do not change significantly, the amount collected from participants will be relatively the same as that remitted to PACE JPA. To the extent that enrollment ratios change, plan reserves will be impacted. Relatively more Employee plus Two dependent enrollments in the PACE JPA plan will draw down reserves, while more Employee Only enrollments will add to the reserves. Currently, the Medical Fund Unrestricted Net Position (reserves) is at $1,093,893 (includes FY15 CAFR GASB 68 entries); it is anticipated that this amount will be sufficient to absorb any net funding outflows.

Finally, the transition to a tiered premium rate structure will align the County's health plan cost structure with the vast majority of our peer public and private industry counterparts. A survey of regional counties (see Exhibit 3) and Ventura County cities shows that their health plan rates are tiered, typically for Employee, Employee plus One, and Employee plus Two or More. This trend is also evident throughout the State of California in both the private and public sectors (including CalPERS and Covered California).

D. Plan Year 2017 Premium Rate Recommendations:

It is recommended that your Board approve the proposed Plan Year 2017 health plan bi-weekly rates as listed in Exhibit 1 (page 1 of 2) – Plan Year 2017 Medical Plan Rates – Active Employees, representing rate changes ranging from -37.6% to 20.8%.

For comparison purposes, CalPERS recently approved premium increases of 4.14% for their HMOs and 3.76% for their PPOs, and Covered California approved premium increases of 13.2% on average for next year.

The recommended final biweekly hybrid-tiered premium rates for Plan Year 2017 are as follows:

Plan	Coverage Tier	Count	PY 2016 Rates (composite)	Recommended PY 2017 Rates	% Increase to Employee
VCHCP	EE only	1843	$ 352.95	$ 390.11	10.5%
	EE + 1	1221	$ 352.95	$ 409.26	16.0%
	EE + 2 or more	2237	$ 352.95	$ 426.43	20.8%
Anthem EPO (formerly UHC HMO Network 1)	EE only	34	$ 540.08	$ 507.57	-6.0%
	EE + 1	66	$ 540.08	$ 524.45	-2.9%
	EE + 2 or more	120	$ 540.08	$ 537.71	-0.4%
Anthem EPO (formerly UHC HMO Network 2)	EE only	31	$ 696.94	$ 507.57	-27.2%
	EE + 1	56	$ 696.94	$ 524.45	-24.8%
	EE + 2 or more	118	$ 696.94	$ 537.71	-22.8%
Anthem EPO (formerly UHC HMO Network 3)	EE only	0	$ 813.40	$ 507.57	-37.6%
	EE + 1	1	$ 813.40	$ 524.45	-35.5%
	EE + 2 or more	3	$ 813.40	$ 537.71	-33.9%
HDHP PPO	EE only	14	$ 652.54	$ 417.64	-36.0%
	EE + 1	16	$ 652.54	$ 431.73	-33.8%
	EE + 2 or more	43	$ 652.54	$ 442.80	-32.1%
Opt Out	N/A	1512	$ 214.38	$ 235.65	9.9%

<u>Dental Plan</u>

A formal Request for Proposal (RFP) was conducted for the 2017 Plan Year in order to ensure that the County continued to offer highly valued and cost-effective benefit coverage for its employees.

The initial bid screenings and evaluations were performed by Aon Hewitt Consulting. A total of five (5) providers responded to the invitation for bids on the dental plan: MetLife (DPPO incumbent), Anthem Blue Cross, Delta Dental, UnitedHealthcare, and United Concordia.

Based on our review of the RFP results, and working in collaboration with the Joint Labor-Management Health Care Committee and Aon Hewitt Consulting, we recommend that MetLife Dental be selected to continue to offer our employees the most cost-effective dental benefits with a 2% decrease in premium rates (annual savings of $129,187), a three-year rate guarantee, some benefit enhancements, and no provider disruption.

Vision Plan

A formal RFP was conducted for the 2017 Plan Year in order to ensure that the County continued to offer highly valued and cost-effective benefit coverage for its employees.

The initial bid screenings and evaluations were performed by Aon Hewitt Consulting. A total of six (6) providers responded to the invitation for bids on the vision plan: MES Vision (incumbent), VSP, Davis Vision, EyeMed, MetLife, and UnitedHealthcare.

After reviewing the marketing results, County Benefits staff (working with Aon Hewitt Consulting) determined that MES Vision continues to offer the most cost-effective benefits with a 18.9% decrease to the current premium rates (annual savings of $116,628) and a four-year rate guarantee. We are therefore recommending that the County renew the services of MES Vision as the vision carrier for Plan Year 2017.

We are also recommending a change to a three-tiered rate structure from a composite rate structure, as this will put the rate structure of this plan in line with the medical and dental plan offerings.

Medical Opt-Out Fee

It is proposed that the Medical Plan Opt-Out feature be continued for Plan Year 2017. The Opt-Out option, with its risk-sharing charge to offset the adverse impact of the loss of these employees from the medical plan risk pool, is proposed at a biweekly rate of $235.65 per employee, representing an increase of 9.9% from the current plan year (see Exhibit 1 – page 1 of 2).

The Opt-Out Fee was developed in response to a study done by an outside actuarial firm that determined a fee should be charged to employees opting out. The actuaries found that the loss of employees from the total insured risk pool would have an adverse impact on the premiums for those remaining in the County's plans. Therefore, a formula-driven model that incorporated valid actuarial assumptions to compensate for the loss of participants and premium dollars has been developed to determine the annual Opt-Out rate.

Currently, there are 1,512 employees who have elected to Opt-Out of the medical plan coverage due to having other outside group medical coverage, such as through a spouse's employer. As has been the practice since Plan Year 1999, we recommend that the funds collected from the Opt-Out option continue to be used to offset the base carrier premiums for participants in County-sponsored medical plans and be applied as a cost offset to County services consisting of Benefits Administration, Employee Assistance Program, Wellness Program, and the Work/Life Program.

There are currently 5,803 employees participating in County-sponsored health plans and approximately 938 employees participating in health plans sponsored by the Ventura County Deputy Sheriff's Association (VCDSA) and the Ventura County Professional

Firefighters Association (VCPFA). The Opt-Out risk sharing charge will be collected from approximately 1,324 employees (excludes VSDSA and VCPFA opt-out employees) at the proposed biweekly rate of $235.65, allowing the County-sponsored medical plan members to have an offset applied to their medical premiums in the amount of $35.82 per bi-week.

Represented members of VCPFA enrolled in a VCPFA-sponsored option are not eligible to elect a County-sponsored medical plan. Any VCPFA employee who becomes newly-eligible to participate in the Flexible Benefits Program shall only be eligible for a VCPFA-sponsored plan. However, VCPFA will receive the Opt-Out return, less County services costs, in an amount proportionate to the members who Opt-Out of the Association plan. Based on the current VCPFA member Opt-Out counts for 2016, Opt-Out rate offsets have been applied to their 2017 medical plan rates in the amount of $22.82 per bi-week.

VCDSA-represented members may choose a VCDSA-sponsored option and continue to be eligible for County-sponsored dental, vision and flexible spending accounts. The VCDSA will also receive the Opt-Out return, less County services costs, in an amount proportionate to the members who Opt-Out of the Association plan. Based on the current VCDSA member Opt-Out counts for 2016, Opt-Out rate offsets have been applied to their 2017 medical plan rates in the amount of $34.88 per bi-week.

Retiree Medical, Dental and Vision Plan Rates

Non-Medicare Eligible Retirees under age 65 have the same choice of health plans as active employees. Retirees age 65 and over have a choice of Medicare plans. Those rates are set annually by the Centers for Medicare and Medicaid Services and are being finalized for calendar year 2017. In a separate Board Letter, we will present the complete 2017 retiree health program package, including medical, dental and vision plan benefits and rates.

Subsidized Retiree Health Benefits Program

The County allows eligible employees who retire from the County to purchase and participate in County-sponsored Retiree Health Plan offerings. For non-Medicare risk plans, the retiree pays premiums that are developed by blending actives and retirees' costs. Since retirees are older and generally cost more than actives, the premium paid by the retirees is less than the "true cost" of coverage for retirees. This implicit subsidy is considered an obligation under the Governmental Accounting Standard Board (GASB) requirements.

Authorization to Sign Agreements

Agreements will be substantially the same as existing agreements, with the exception of carrier changes and rate changes noted in this letter. It is also proposed that the Board authorize the Director of Human Resources to sign these agreements, with the Board-approved rate and benefit changes, upon approval of legal sufficiency by County Counsel.

<u>Summary</u>

Exhibit 1 (page 1 of 2) lists the proposed rates for active County employees, and Exhibit 1 (page 2 of 2) lists federal COBRA rates for all County-sponsored health plans. The proposed rate renewals submitted to the County from the various outside providers were facilitated by Aon Hewitt Consulting and Keenan & Associates. Aon Hewitt Consulting and Keenan & Associates are compensated and directly paid by the outside providers, and these commissions are calculated as part of the total health premiums (Medical, Dental, Vision).

As a result of your Board's leadership and concern for County employees, their families, and retirees, reasonably priced full-family health plan choices and coverage will continue to be available to maintain health and provide protection from catastrophic financial losses associated with the lack of adequate health insurance.

This letter has been reviewed by the County Executive Office, County Counsel, and the Auditor-Controller's Office. If you have any questions regarding this item, please contact me at 654-2561 or Tracy Sewell, Benefits Manager, at 648-9218.

Respectfully,

for

SHAWN ATIN
Assistant County Executive Officer/Human Resources Director

MICHAEL POWERS
County Executive Officer

c: Matt Carroll, Assistant County Executive Officer
Jeff Burgh, Auditor-Controller
Leroy Smith, County Counsel

Exhibits
1 – Plan Year 2017 Medical Rates - Active County Employee and COBRA Rates
2 – Actuarial Tiered Premium Rates
3 – Survey of Other Counties' Medical Plans and Rates
4 – Addendum to the Agreement and Acceptance of Amended and Restated Joint Exercise of Powers Agreement