CITY OF ASHLAND

Council Communication
October 20, 2014, Study Session

Review and discussion of self-insurance for health benefits

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SUMMARY
The City of Ashland became self-insured for health benefits effective July 1, 2013. At the renewal of our plan document in June of this year, Councilor Voisin requested a study session review of how self-insurance works.

Self-insurance is not a change in health benefits per se; rather it is a change in the way the City pays for health benefits. Rather than paying an annual premium to an insurance company that establishes benefits, processes claims, purchases stop-loss insurance and establishes preferred provider networks, the City pays claims directly (through a contracted third party administrator), purchases stop-loss insurance and contracts directly with a preferred provider network. The City thus saves money by reducing administrative costs and eliminating profit. The City also gains the ability to tailor its plan to its group as deemed necessary or desirable. Staff will be joined at this study session by representatives of J.L. Jones & Associates, the City's insurance consultant.

BACKGROUND AND POLICY IMPLICATIONS:
For more than 25 years, Ashland was part of the City County Insurance Benefit Trust (CIS), as are many cities and counties in Oregon. When CIS premiums began increasing at rates the City considered unsustainable, the City left the trust and bid out its insurance needs, ultimately purchasing insurance through PacificSource. At the same time, the Council asked staff to explore the feasibility of converting to a self-funded benefits plan. After monitoring claims experience for two years, staff recommended and Council approved the conversion to a self-funded benefits plan.

In a self-insurance plan, the self-insured entity establishes a separate account from which it directly pays medical, dental and vision claims, rather than paying a premium to a health insurance company that pays those claims. Claims management and payment is handled by a contracted third party administrator (TPA) and the self-insured entity purchases stop-loss insurance to protect the City from catastrophic individual claims as well as aggregate stop-loss to insulate the city from the risk of multiple large claims in one year. Stop-loss insurance is not required in order to be self-insured but it is considered a prudent practice. Locally, Ashland Community Hospital, the Ashland School District, the Oregon Shakespeare Festival and Jackson County managers are also self-insured.

Staff worked with our health benefits consultant, J.L. Jones & Associates, to bid the City's TPA and reinsurance contracts and as a result of that process, contracted with PacificSource to be our TPA and

reinsurer. Contracting with PacificSource also offered the advantage of a seamless transition in terms of claims management.

All insurance, whether purchased or self-funded, is governed by a plan document. In the City's case, the PacificSource plan document became the City of Ashland Employee Health Benefits Plan Document. Some minor changes were made to this document for FY '15 as they relate to required coverages under the Affordable Care Act and to the denial of benefits appeal process.

The City has established an Employee Health Benefit Advisory Committee (EHBAC) which acts as a self-directed employee oversight team with representatives from each employee group and bargaining unit. The EHBAC makes recommendations to management regarding any changes to the employee health plan. Because the City owns the plan, we can make changes based on utilization, rather than passively accepting changes dictated by health insurance companies for profit motives. Recommendations of the EHBAC are included annually in a recommendation to the City Council when the Council adopts the plan document.

Attached to this Council Communication is an FAQ that was distributed to all City employees in March 2013, when the City was considering the move to self-insured health benefits.

FISCAL IMPLICATIONS:

The City budgeted approximately $4 million for health benefits charges (in essence, health insurance premiums) in both FY '14 and FY '15. Had the City remained fully insured with PacificSource, our premium would have been $4.4 million in FY '14 and somewhere in the range of $5 million in FY '15, with similar increases continuing into the next budget cycle. The City experienced an unusually bad claims year in FY '14, which will likely lead to an increase in health benefits charges in the 2015-17 biennium, but even with this increase the City is saving money by being self-insured.

STAFF RECOMMENDATION AND REQUESTED ACTION:

N/A. This item is scheduled for information only.

SUGGESTED MOTIONS:

N/A

ATTACHMENTS:

Frequently asked questions, March 2013.

1. **In a nutshell, what does it mean to be self-insured?**
   Being self-insured means that rather than paying an insurance company to pay medical, dental and vision claims, we pay the claims ourselves, using a third-party administrator to process the claims on our behalf. Rather than sending our money to an insurance company, the money stays in our budget and is controlled by the city. The insurance coverage itself does not change. The method we use to pay for claims changes.

2. **What are the primary reasons the city is considering going from a fully-insured health plan with PacificSource to a self-insured program?**
   The advantages of being self-insured are cost savings and control of the insurance plan. It's estimated that 17 to 20 cents of every dollar paid to a health insurance company goes to administration, overhead and profit. (The Affordable Care Act will limit that to 15 cents on the dollar.) A self-insured plan can offer the *exact same insurance* for lower administrative costs and no profit. It is simply less expensive to offer the *exact same insurance* through a self-insured plan than through an insurance company. We estimate the first-year savings under a self-insured plan at $200,000 to $600,000, but how much we save will depend on actual claims experience.

   Self-insurance also gives us far more control in terms of benefit design and cost containment than private insurance. An employee health benefits advisory committee would make recommendations about the mix and design of benefits rather than a private company (in another city) with no stake in the City of Ashland other than to profit from us. Right now, our insurance company could change the mix of services covered (and raise our premiums) and we would find ourselves in a take-it-or-leave-it position. We could seek a different insurance provider, but with few to choose from in the Rogue Valley, there would be no guarantees that we could get the same (or even a similar) plan at a reasonable cost. With self-insurance, *we* own the plan and *we* decide on changes to the coverages.

3. **How would this change impact employees?**
   It has a positive impact on employees by giving them a direct voice in the design of the health insurance plan and a direct influence over the fiscal integrity of the plan. Because the coverage itself would not change, at least until the employee advisory committee recommends changes, employees will not see a change in coverage.

4. **When we changed from Blue Cross Blue Shield to Pacific Source, my prescription out-of-pocket costs went up or down because the two plans had different drug tiers. Will I have the same issue if the city self-insures?**
   No, and this perfectly illustrates why it is better to be self-insured than to purchase insurance from an insurance company. When we purchase insurance, we are at the mercy of the insurance company in terms of coverages and plan structure. When we're self-insured, we will own the plan and no one can change it but us, based on the needs and desires of the City and its employees.

5. **Currently when I am referred to a new doctor, I check the list of PacificSource Preferred Providers to ensure my doctor is on the list. If the city goes to self-insurance what "list" will I need to refer to?**
   We'll stick with the same list of preferred providers we currently use.

6. **If for some reason I was denied coverage for a particular procedure, who would I appeal the denial to?**
   An appeal would first go to the third party administrator. If an employee was not happy with the outcome of that appeal, it is typically appealed to the plan administrator, which in our case would be the city administrator. Some employees have expressed concern about sharing personal health information with the city administrator, so we can certainly look into having the option of appealing to a hired hearings officer (although I'm not sure why that's preferable to appealing to someone with a direct stake in the health and happiness of the employee).

7. **I've heard people say that self-insurance gives the city more flexibility with our plan, but I'm not sure what that means, can you explain?**
   As a self-insured entity, we have a virtually unlimited ability to change the mix of coverages, to add or delete benefits, to change the balance of co-pays and deductibles, etc., depending on our employees' needs and desires. Of course, none of this is done without a recommendation from the employee benefits advisory committee. When a small group such as ours purchases insurance, the insurance company will typically not tailor a plan to our specific needs and desires. It's on "off-the-shelf" product that we buy as is, although insurance companies will often lower their premiums in exchange for higher deductibles.

8. **The City has had good claims experience over the past few years. What would happen if suddenly we had a year of bad experience?**
   Our charges to the departments (which become our "premiums") and the employee premium contributions would increase, unless we have enough money in reserve to cover the increased cost. In that sense, self-insurance is no different than private insurance. If we have a bad year, the insurance company is going to raise our premiums and it's unlikely those premiums will ever go down. As a self-insured entity we will have to do an annual actuarial study to determine the value of full family, employee-plus-one, and single-person coverage. Those values will provide the basis for determining employee premium contributions.

   However, if we're self-insured, the employee health benefits advisory committee has the option of recommending a re-calibration of the plan to hold costs down. Too, the money that would be the insurance company's profit instead stays in a health benefits reserve fund. If the reserves become large enough during the good years, they can be used to keep charges down after the bad years. With private insurance, we have no reserve fund. Again, any money not used to pay claims becomes the insurance company's profit.

In addition, the City will purchase individual and aggregate stop-loss insurance, which covers claims over and above a certain level.

9. **If I'm out of state, or in Mexico, would my benefits be the same as if I were in Ashland?**
   Whatever the plan currently provides for out-of-state or international coverage is what would be provided under a self-insured plan unless coverage is changed pursuant to a recommendation of the employee health benefits advisory committee.

10. **Now when I have a question about my coverage or a claim, I contact PacificSource customer service. If we were self-insured, who would I call with questions?**
    You would contact the third-party administrator, which may well turn out to be PacificSource customer service. It's interesting to note that in addition to providing insurance, PacificSource provides third-party administrator services to self-insured entities and the quote they have given us for that service is very favorable. Going with PacificSource would also allow for a very easy transition for claims administration.