

MEMORANDUM



TO: CLAY J. PEARSON, CITY MANAGER
PAMELA W. ANTIL, ASSISTANT CITY MANAGER

FROM: TIA GRONLUND-FOX, DIRECTOR OF HUMAN RESOURCES

SUBJECT: SELF FUNDED MEDICAL PRESENTATION

DATE: JUNE 24, 2009

6/25/09

To: Mayor & City
Council Members

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On Monday July 6th, Kelley Demiryman from Gallagher/Rains will present to City Council their findings regarding the viability of self-funding the City's employee health care.

Since my communication to you of May 27th, Gallagher/Rains has provided us with an updated report which illustrates various pooling points or stop loss options which **could reduce health care costs for the City by an estimated \$80,000.**

In past pricing of self-funded proposals, as well as in the first report provided by Gallagher, pricing was based upon \$25,000 or \$50,000 stop loss levels. In part because we currently have a \$25,000 stop loss with our experienced rated program and, typically, the lower the stop loss the higher the premium. (Reference pg. 4 – Overview of BCBS Projected Annual Costs)

We have found that the pricing for \$10,000 and \$20,000 lower stop loss plans are much more attractive when considering the City's past 3 year claims history.

Based upon the numbers we have today, the City of Novi, as noted above, could save approximately \$80,000 to **change to a Self Funded Plan with a \$10,000 stop loss.** Please note that the pricing that is shown in this report is for a July 1, 2009 renewal and the City of Novi has a January 1, 2010 renewal. We are unable to obtain numbers for a January renewal as the pricing typically comes out in September or October. Also, as noted above, due to BCBS risk exposure on the \$10,000 deductible plan, it is likely that BCBS will increase the costs for these lower stop loss plans in the future. It is just not known when this could happen.

Attached please find the most recent update provided by Ms Demiryman which will be shared with City Council on the evening of July 6th.

Thank you.

c: Kathy Smith-Roy, Director of Finance

Attachments:
Gallagher/Rains Presentation



City of Novi

www.gallagherbenefits.com

Review of Additional BCBS Self-Funded Proposals

June 2009

Confidentiality Statement

- At Gallagher Benefit Services, Inc. we pride ourselves on the skills, experience and integrity of our employees, our intellectual capital, and the results we achieve for our clients and their enrollees. We work diligently to ensure the work we do meets and exceeds your objectives as our client.
- As such, all information provided in this report and associated materials is proprietary and confidential. It is intended solely for use by the City of Novi.
- These materials and subsequent information may not be shared with, copied for or released to any individual or organization without the express written permission of the City of Novi and Gallagher Benefit Services, Inc.

Additional Self-Funding Considerations

- Based on Novi's claim history over last 3 years (where majority of claims fell under \$10,000 per contract per year), we requested BCBS provide stop loss proposals for deductibles lower than the current \$25,000 specific
- The following slide shows annual administration, stop loss premium and claim costs under BCBS' projections
- The next slide shows annual administration and stop loss premium using BCBS' projections and claim projections based on Novi's 2008 utilization, recalculated based on \$10,000, \$15,000 and \$20,000 specific pooling points
- All quoted costs and premium rates are based on an assumed effective date of July 1, 2009 and are subject to change based on actual effective date, final plan enrollment figures and final plan of benefits to be administered
- Projected savings figures are based on historical claim utilization and may not be predictive of future utilization

Overview of BCBS Projected Annual Costs

	\$10,000 Specific	\$15,000 Specific	\$20,000 Specific
Administration Costs:			
<i>Fee per Employee per Month</i>	\$50.58	\$50.58	\$50.58
<i>Expected Access Fee per Employee per Month</i>	\$35.00	\$35.00	\$35.00
<i>Projected Annual Administration Cost</i>	\$105,776.88	\$105,776.88	\$105,776.88
Stop Loss Premium Cost:			
<i>Monthly Rate (Specific & Aggregate)</i>	\$384.48	\$315.70	\$289.25
<i>Projected Annual Premium Cost</i>	\$475,217.28	\$390,205.20	\$357,513.00
BCBS Projected Claims Cost <i>(Medical and Rx, no vision)</i>	\$721,601.00	\$760,827.00	\$784,173.00
Projected Combined Costs	\$1,302,595.16	\$1,256,809.08	\$1,247,462.88
BCBS Maximum Claims Cost - Based on Aggregate <i>(Medical and Rx, no vision)</i>	\$865,921.00	\$912,992.00	\$941,008.00
Projected Maximum Costs	\$1,446,915.16	\$1,408,974.08	\$1,404,297.88

Notes:

1. Illustration does not include vision claim costs, estimated at approximately \$4,000 per year.
2. Illustration does not include transitional accounting, which will reduce Novi's fixed costs in the first year.
3. For reference, current projected annual premium cost for BCBS fully insured plan is \$1,239,517.

Overview of Projected Annual Costs Based on City of Novi 2008 Recalculated Claims

	\$10,000 Specific	\$15,000 Specific	\$20,000 Specific
Administration Costs:			
<i>Fee per Employee per Month</i>	\$50.58	\$50.58	\$50.58
<i>Expected Access Fee per Employee per Month</i>	\$35.00	\$35.00	\$35.00
<i>Projected Annual Administration Cost</i>	\$105,776.88	\$105,776.88	\$105,776.88
Stop Loss Premium Cost:			
<i>Monthly Rate (Specific & Aggregate)</i>	\$384.48	\$315.70	\$289.25
<i>Projected Annual Premium Cost</i>	\$475,217.28	\$390,205.20	\$357,513.00
2008 Actual Claims Cost plus 12% Trend <i>(Medical and Rx, no vision)</i>	\$573,857.73	\$679,840.47	\$757,159.82
Projected Combined Costs	\$1,154,851.89	\$1,175,822.55	\$1,220,449.70
BCBS Maximum Claims Cost - Based on Aggregate <i>(Medical and Rx, no vision)</i>	\$865,921.00	\$912,992.00	\$941,008.00
Projected Maximum Costs	\$1,446,915.16	\$1,408,974.08	\$1,404,297.88

2008 Recalculated Claims Cost	\$512,372.97	\$607,000.42	\$676,035.55
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Notes:

1. Illustration does not include vision claim costs, estimated at approximately \$4,000 per year.
2. Illustration does not include transitional accounting, which will reduce Novi's fixed costs in the first year.
3. For reference, current projected annual premium cost for BCBS fully insured plan is \$1,239,517.
4. See next pages for back-up calculations.

Analysis of 2008 Claims at \$10,000 Specific

2008 Claim Range	# of Employees	Facility Claims	Professional Claims	Master Medical Claims	Rx Claims	TOTAL CLAIMS	Chargeable Medical Claims at \$25,000 Specific	Chargeable Med/Rx Claims at \$10,000 Specific
\$0-\$4,999	63	\$20,248.29	\$31,550.23	\$11,902.72	\$50,278.97	\$114,043.21	\$114,043.21	\$114,043.21
\$5000-\$9,999	21	\$33,709.37	\$33,965.30	\$22,224.73	\$68,409.36	\$158,329.76	\$158,329.76	\$158,329.76
\$10,000-\$14,999	7	\$28,228.53	\$31,873.96	\$7,254.89	\$12,263.07	\$79,627.45	\$79,627.45	\$70,000.00
\$15,000-\$19,999	6	\$47,050.49	\$24,932.38	\$7,076.77	\$24,969.49	\$104,035.13	\$104,035.13	\$60,000.00
\$20,000-\$24,999	4	\$36,235.67	\$24,343.56	\$10,235.51	\$18,207.59	\$89,026.33	\$89,026.33	\$40,000.00
\$25,000-\$29,999	2	\$15,627.54	\$4,931.79	\$945.90	\$29,242.14	\$50,749.37	\$79,242.14	\$20,000.00
\$30,000-\$34,999	1	\$22,560.33	\$7,294.64	\$2,885.40	\$2,053.38	\$34,794.75	\$27,053.38	\$10,000.00
\$35,000-\$39,999	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$40,000-\$44,999	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$45,000-\$49,999	1	\$2,353.66	\$31,360.24	\$2,277.31	\$10,992.77	\$46,984.98	\$35,992.77	\$10,000.00
\$50,000-\$54,999	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$55,000-\$59,999	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$60,000-\$64,999	1	\$42,059.03	\$13,634.75	\$2,619.65	\$5,585.70	\$63,900.13	\$30,585.70	\$10,000.00
\$80,000-\$84,999	1	\$43,821.87	\$14,406.31	\$4,355.04	\$20,538.96	\$83,123.18	\$45,538.96	\$10,000.00
\$125,000-\$129,999	1	\$4,216.04	\$78,133.50	\$1,989.90	\$44,373.94	\$128,714.38	\$69,373.94	\$10,000.00
TOTAL	108	\$296,110.82	\$296,426.66	\$73,767.82	\$286,915.37	\$953,328.67	\$832,848.77	\$512,372.97

Savings in Chargeable Claims

N/A

\$320,475.80

Additional Stop Loss Premium to Reduce Specific Deductible

N/A

\$172,620.00

Estimated Savings

N/A

\$147,855.80

Estimated Annual Claim Costs for Employees Spending Less than \$10,000

\$3,242.54

Estimated Annual Claim Costs for Employees Overall

\$8,827.12

Note: Claims shown below gray shaded are pooled at \$10,000 based on medical and Rx. Claims shown below peach shaded area are pooled at \$25,000 based on medical only.

Analysis of 2008 Claims at \$15,000 Specific

2008 Claim Range	# of Employees	Facility Claims	Professional Claims	Master Medical Claims	Rx Claims	TOTAL CLAIMS	Chargeable Medical Claims at \$25,000 Specific	Chargeable Med/Rx Claims at \$15,000 Specific
\$0-\$4,999	63	\$20,248.29	\$31,550.23	\$11,902.72	\$50,278.97	\$114,043.21	\$114,043.21	\$114,043.21
\$5000-\$9,999	21	\$33,709.37	\$33,965.30	\$22,224.73	\$68,409.36	\$158,329.76	\$158,329.76	\$158,329.76
\$10,000-\$14,999	7	\$28,228.53	\$31,873.96	\$7,254.89	\$12,263.07	\$79,627.45	\$79,627.45	\$79,627.45
\$15,000-\$19,999	6	\$47,050.49	\$24,932.38	\$7,076.77	\$24,969.49	\$104,035.13	\$104,035.13	\$90,000.00
\$20,000-\$24,999	4	\$36,235.67	\$24,343.56	\$10,235.51	\$18,207.59	\$89,026.33	\$89,026.33	\$60,000.00
\$25,000-\$29,999	2	\$15,627.54	\$4,931.79	\$945.90	\$29,242.14	\$50,749.37	\$79,242.14	\$30,000.00
\$30,000-\$34,999	1	\$22,560.33	\$7,294.64	\$2,885.40	\$2,053.38	\$34,794.75	\$27,053.38	\$15,000.00
\$35,000-\$39,999	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$40,000-\$44,999	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$45,000-\$49,999	1	\$2,353.66	\$31,360.24	\$2,277.31	\$10,992.77	\$46,984.98	\$35,992.77	\$15,000.00
\$50,000-\$54,999	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$55,000-\$59,999	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$60,000-\$64,999	1	\$42,059.03	\$13,634.75	\$2,619.65	\$5,585.70	\$63,900.13	\$30,585.70	\$15,000.00
\$80,000-\$84,999	1	\$43,821.87	\$14,406.31	\$4,355.04	\$20,538.96	\$83,123.18	\$45,538.96	\$15,000.00
\$125,000-\$129,999	1	\$4,216.04	\$78,133.50	\$1,989.90	\$44,373.94	\$128,714.38	\$69,373.94	\$15,000.00
TOTAL	108	\$296,110.82	\$296,426.66	\$73,767.82	\$286,915.37	\$953,328.67	\$832,848.77	\$607,000.42

Savings in Chargeable Claims

N/A

\$225,848.35

Additional Stop Loss Premium to Reduce Specific Deductible

N/A

\$87,607.00

Estimated Savings

N/A

\$138,241.35

Estimated Annual Claim Costs for Employees Spending Less than \$15,000

\$3,868.14

Estimated Annual Claim Costs for Employees Overall

\$8,827.12

Note: Claims shown below gray shaded are pooled at \$15,000 based on medical and Rx. Claims shown below peach shaded area are pooled at \$25,000 based on medical only.

Analysis of 2008 Claims at \$20,000 Specific

2008 Claim Range	# of Employees	Facility Claims	Professional Claims	Master Medical Claims	Rx Claims	TOTAL CLAIMS	Chargeable Medical Claims at \$25,000 Specific	Chargeable Med/Rx Claims at \$20,000 Specific
\$0-\$4,999	63	\$20,248.29	\$31,550.23	\$11,902.72	\$50,278.97	\$114,043.21	\$114,043.21	\$114,043.21
\$5000-\$9,999	21	\$33,709.37	\$33,965.30	\$22,224.73	\$68,409.36	\$158,329.76	\$158,329.76	\$158,329.76
\$10,000-\$14,999	7	\$28,228.53	\$31,873.96	\$7,254.89	\$12,263.07	\$79,627.45	\$79,627.45	\$79,627.45
\$15,000-\$19,999	6	\$47,050.49	\$24,932.38	\$7,076.77	\$24,969.49	\$104,035.13	\$104,035.13	\$104,035.13
\$20,000-\$24,999	4	\$36,235.67	\$24,343.56	\$10,235.51	\$18,207.59	\$89,026.33	\$89,026.33	\$80,000.00
\$25,000-\$29,999	2	\$15,627.54	\$4,931.79	\$945.90	\$29,242.14	\$50,749.37	\$79,242.14	\$40,000.00
\$30,000-\$34,999	1	\$22,560.33	\$7,294.64	\$2,885.40	\$2,053.38	\$34,794.75	\$27,053.38	\$20,000.00
\$35,000-\$39,999	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$40,000-\$44,999	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$45,000-\$49,999	1	\$2,353.66	\$31,360.24	\$2,277.31	\$10,992.77	\$46,984.98	\$35,992.77	\$20,000.00
\$50,000-\$54,999	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$55,000-\$59,999	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$60,000-\$64,999	1	\$42,059.03	\$13,634.75	\$2,619.65	\$5,585.70	\$63,900.13	\$30,585.70	\$20,000.00
\$80,000-\$84,999	1	\$43,821.87	\$14,406.31	\$4,355.04	\$20,538.96	\$83,123.18	\$45,538.96	\$20,000.00
\$125,000-\$129,999	1	\$4,216.04	\$78,133.50	\$1,989.90	\$44,373.94	\$128,714.38	\$69,373.94	\$20,000.00
TOTAL	108	\$296,110.82	\$296,426.66	\$73,767.82	\$286,915.37	\$953,328.67	\$832,848.77	\$676,035.55

Savings in Chargeable Claims

N/A

\$156,813.22

Additional Stop Loss Premium to Reduce Specific Deductible

N/A

\$54,916.00

Estimated Savings

N/A

\$101,897.22

Estimated Annual Claim Costs for Employees Spending Less than \$20,000

\$4,701.40

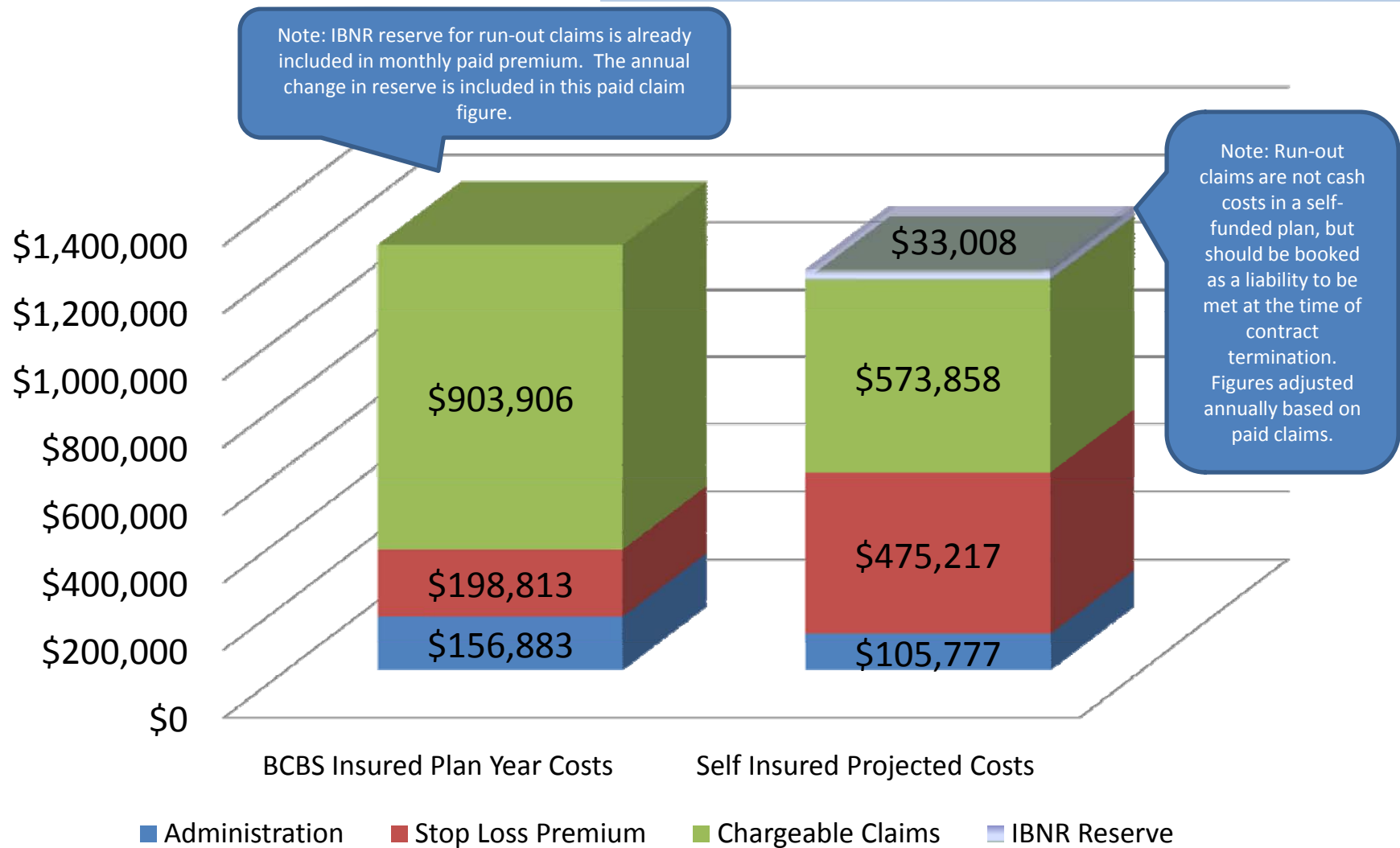
Estimated Annual Claim Costs for Employees Overall

\$8,827.12

Note: Claims shown below gray shaded are pooled at \$20,000 based on medical and Rx. Claims shown below peach shaded area are pooled at \$25,000 based on medical only.

Elements of Plan Cost

Traditionally Insured versus Self Funded



Note: BCBS insured plan year cost figures are taken from 2009 renewal accounting. Self-funded illustration based on a \$10,000 specific deductible and does not include first year transition costs. IBNR figure is estimated.

Projected Cost Comparison

(Based on \$10,000 Specific Deductible Program)



First Year Projected Self Funding Expenses:
\$62,517 in administrative fees
\$475,217 in stop loss premiums
\$573,858 in claims
\$43,260 access fees

\$1,154,852

\$84,665 projected difference

BCBS Fully Insured
2009 Projected
Premium:
\$1,239,517



Note: Self-funded projection does not include approximately \$62,000 in transitional costs, which is a first year, non-recurring savings as a result of returning the rate stabilization and IBNR reserve funds to City of Novi.

Transition from Traditional to Self-Funding

- BCBS returns rate stabilization reserve (RSR) and incurred but not reported reserve (IBNR) funds to City of Novi.
- City of Novi required to fund a hospital prepayment based on expected use of hospital services.
- New banking arrangements required. City of Novi can make monthly or weekly payments to BCBS.
- Monthly or quarterly reconciliation of payments.
- City of Novi not required to pre-fund reserve for future claim liability but should book this as a future liability.

Transition from Self-Funding to Traditional

- City of Novi required to fund all claims incurred prior to change in funding, even if processed after change back to traditional funding.
- At the same time, normal monthly premium payments begin to be paid to BCBS.
- Hospital prepayment will be refunded to City of Novi.
- New IBNR reserve must be established from premium payments.
- Self-funded reconciliations may continue for up to two years to ensure all claims are processed.

Advantages/Disadvantages of Self-Funding

Advantages of Self-Funding	Disadvantages of Self-Funding
City recovers funds from IBNR and RSR accounts at BCBS	City becomes responsible to fund run-out claims at time of contract termination (should be booked as a future liability on financial statements)
City benefits from positive cash flow if claims experience is favorable	City experiences adverse cash flow if claims experience is unfavorable
Reduced administrative fees apply	Month to month budgeting becomes more unpredictable

Disclaimers

Legal Disclaimer

The intent of this analysis is to provide you with general information regarding the status of, and/or potential concerns related to, your current employee benefits environment. It does not necessarily fully address all of your specific issues. It should not be construed as, nor is it intended to provide, legal advice. Questions regarding specific issues should be addressed by your general counsel or an attorney who specializes in this practice area.

Coverage Disclaimers

IMPORTANT: This analysis is an outline of the coverages proposed by the carrier(s), based on information provided by your company. It does not include all of the terms, coverages, exclusions, limitations, and conditions of the actual contract language. The policies and contracts themselves must be read for those details. Policy forms for your reference will be made available upon request.

Renewal/Financial Disclaimer

This analysis is for illustrative purposes only, and is not a guarantee of future expenses, claims costs, managed care savings, etc. There are many variables that can affect future health care costs including utilization patterns, catastrophic claims, changes in plan design, health care trend increases, etc. This analysis does not amend, extend, or alter the coverage provided by the actual insurance policies and contracts. Please see your policy or contact us for specific information or further details in this regard.