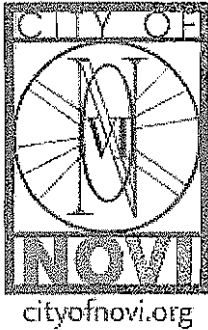


MEMORANDUM



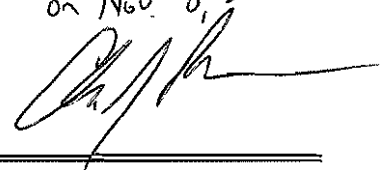
TO: CLAY J. PEARSON, CITY MANAGER
VICTOR CARDENAS, ASSISTANT CITY MANAGER

FROM: TIA GRONLUND-FOX, DIRECTOR OF HUMAN RESOURCES

SUBJECT: 2011 HEALTH CARE RENEWAL

DATE: NOVEMBER 4, 2010

*For Manager's Report
on Nov. 8, 2010*



The 2011 Health Care Open Enrollment will begin on November 15th and run through December 3rd. This is the only time of the year that an employee or retiree may change their health care election except in the case of a qualifying event such as a birth, death, change of jobs, etc.

Months prior to the actual Open Enrollment period, the Human Resource staff works with the City's benefit consultant, Gallagher Benefit Services, to access our current health care offerings, obtain pricing on other health care options and identify any changes to our plans that can be made that would produce a reduction in the City's costs.

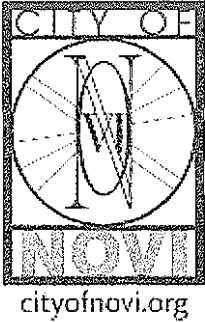
This year we have made several positive changes that will reduce the City's Health Care costs such as successfully negotiating higher premium cost sharing, higher office visit co-payments and the elimination of the BCBS PPO "Traditional" Plan, with our Police Command and Fire bargaining units as well as implementing these changes with our Administrative group which includes Library personnel.

Despite the positive changes to our plans and cost sharing, the City's renewal rates with Blue Cross Blue Shield rose upwards of 56% which, based on current head count, will increase the City's cost for this plan option by \$277,000 for active employees and \$188,000 for retired employees. This is the highest health care increase the City has ever experienced. Over the past several years (10-12) our increases have ranged between 3-10%, which is below the national average of 10-12%. Even with this significant increase from BCBS the City has sufficient funds within the overall budget to handle this year's increase.

Due to contractual obligations with both active and retirees, BCBS is the one option that the City is required to offer. In light of the significant increase in premium, we do expect many employees who are currently electing BCBS may switch to one of the other plan offerings, Health Alliance plan, which rose 7.5% or Priority Health, which is new for the 2011 plan year.

The attached memorandum identifies our renewal process as well as our recommendation for health care plan offerings for the 2011 plan year.

MEMORANDUM



TO: CLAY J. PEARSON, CITY MANAGER
VICTOR CARDENAS, ASSISTANT CITY MANAGER

FROM: TIA GRONLUND-FOX, DIRECTOR OF HUMAN RESOURCES

SUBJECT: 2011 HEALTH CARE RENEWAL

DATE: NOVEMBER 3, 2010

We have completed our review of the 2011 health plan renewal offers and alternatives and provide our findings and recommendations as summarized below. Our review of medical and dental coverage included proposals from Blue Cross Blue Shield, Health Alliance Plan, Priority Health, Delta Dental, Guardian, MetLife and Prudential.

Blue Cross Blue Shield (BCBS) Renewal and Alternatives

BCBS' rate increase for 2011 is based upon deteriorating claim experience (up approximately 30% from the previous year), changes in the BCBS pricing structure and benefit changes mandated under federal healthcare reform. BCBS provided a proposal to self-fund the benefit program again this year, but this option does not look attractive because of the poor claim experience and the requirement to pay back a large portion of accumulated past deficits in the first year of self funding.

We also requested an alternative HMO proposal called Healthy Blue Living. However, BCBS' sister company, Blue Care Network, did not provide a proposal due to a large backlog in underwriting. When we have considered Blue Care Network as an alternative to Health Alliance Plan in the past, the pricing has never been competitive.

Based on the current active and retiree enrollment in Blue Cross Blue Shield and using the new 2011 premium rates, the City's increase in premium rose between 53-58% with a projected net cost increase to the City of approximately \$277,000 for active employees and \$188,000 for retired employees.

The above net cost figures do factor in the higher employee contributions and benefit changes that have been negotiated in 2010 for the 2011 benefit year. These changes include: 10% premium cost sharing and moving to a \$20 Office Visit Co-pay, for Admin, Library, COAM and Fire as well as eliminating the higher cost BCBS "Traditional" PPO plan for these groups as well as the MAPE employees.

Based on the premium cost that active and retired employees are required to contribute in 2011, we expect to see some movement to lower cost alternatives among this population. For example, we expect that some active employees may elect to enroll in the lower cost

HMO alternative for 2010 and that some retirees will move to a plan that has a higher drug copayment which will produce a lower premium. Therefore, the ultimate increase in Blue Cross Blue Shield premium may be lower than what is illustrated here.

Health Alliance Plan (HAP) Renewal and Alternatives

The projected final net cost increase for HAP is approximately \$94,000 for active employees and approximately \$6,000 for retired employees, or a percentage increase of approximately 7.5%. These figures are based on current enrollment volumes and factor in the higher employee contributions and benefit changes, as mentioned on the previous page, that were negotiated in 2010 for the 2011 benefit year. These figures may increase as employees and possibly retirees migrate to this plan as a lower cost option than the BCBS plan.

We also requested a proposal for a plan, Health Engagement, a wellness-based plan design that rewards healthier members with higher benefit levels. Members are required to complete certain wellness activities, including completion of an online health risk appraisal, a screening exam with their primary care physician and follow-up requirements for members with certain risk factors. For example, members who smoke are required to enroll in a smoking cessation program and to ultimately quit smoking. Overweight members are required to enroll in a weight loss program and continue until they reach stated targets.

Preliminary feedback our Health Care Advisory Committee received from various employees and bargaining units at the City indicated that the Health Engagement plan would not be well received among employees and might drive employees back into the more expensive BCBS plan option (especially among those employees who still have fairly low premium contributions). We also recognize that with many other changes scheduled for this year's Open Enrollment (health care reform and the addition of a new plan election), that a reform to the HAP plan may be better received next year. For this reason, we decided not to elect this option for 2011, but will continue to study it as an option for 2012 or later.

New Option for 2011 – Priority Health

We requested a proposal from Priority Health for PPO and HMO plan designs. The one very competitive portion of this proposal was for a high deductible HMO plan with a companion health savings account (HSA). This type of plan offers the member an opportunity to accumulate tax-deferred funds in an account, which is owned and controlled by the member. Both employers and employees may contribute to a HSA and any unused balance at the end of a year rolls over into the next year. As long as funds are used to pay for qualified medical expenses, they are never subject to taxation.

I recommend offering the Priority Health HSA/HMO as a new optional benefit choice for 2011 with a partially funded HSA account by the City as an incentive for employees to consider this option. It would be mandatory that any employee opting for this plan would contribute 10% of the premium cost of the plan regardless of the union group. The annual deductibles for this plan are \$1,200 for a single and \$2,400 for a 2-person or family contract.

To introduce the plan, I would propose for this year that the City contribute 75% of the employee's annual deductible through a Health Savings Account (HSA). This contribution would leave the employee with a deductible comparable to that of the BCBS plans. The HSA would be in the employee's name and also allow the employee to make pre-tax contributions into the account to be used for health care expenses.

Even after a partial City funding to the accounts, this plan option will be the least expensive benefit alternative in the 2011 lineup as shown in the table below. It also opens the door to our offering consumer-directed health plans, which provide incentives for employees to become more cost-conscious because they have a financial incentive to manage their healthcare expenditures better (unused funds in the HSA continue to accumulate and earn interest).

2011 City of Novi Health Care Cost Overview				
Carrier	Monthly Premium	Minus: Employee Monthly 10% Premium Contribution	Plus: Monthly Employer Contribution to Employees' Health Savings Account (HSA)	City Monthly Net Cost
Priority Health	\$869.61	\$86.96	\$150.00	\$932.65
HAP	\$1,180.54	\$118.05	\$0.00	\$1,062.49
BCBS CB2	\$2,007.78	\$200.78	\$0.00	\$1,807.00

The above figures are based on a **family rate**. Single and 2-Person rates are less.

Dental Renewal and Alternatives

Delta Dental initially proposed an increase of approximately 10% based on our group's claim experience over the past year. However, based on the pricing provided by competitor carriers, Delta agreed to reduce the increase to 6%, which results in a total annual cost increase of approximately \$12,000.

Recommendations

I recommend continuing the current BCBS (contractual obligations) and HAP offerings in 2011 and adding the new Priority HMO as an alternative. We also recommend renewing our contract with Delta Dental for 2011. We continue to work toward getting all bargaining units and non-bargained employees to the same level of payroll contribution and toward eliminating the most expensive benefit options in favor of more cost-effective alternatives.