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Legislation Text

File #: 11-1095, **Version:** 2

Chief Administrative Office, Risk Management Division, recommending the Board:
1) Approve the Health Plan Published Rates based on adopted and proposed MOUs effective January 1, 2012 through December 31, 2012, charged to employees effective 2012 Pay Period 2;
2) Approve the increase in the health vendor rates and projected funding;
3) Implement Medco's Preferred Generic Guideline and Preferred Drug Step Therapy (PDST) programs; and
4) Authorize Kim Kerr, Assistant Chief Administrative Officer, or designee to sign health carrier contracts subject to County Counsel's approval. (Cont'd 10/4/11, Item 4)

FUNDING: Internal Service Fund - Risk Management Health Fund.
Executive Summary: To transition to a calendar year program, the County negotiated tentative rates with the County's health carriers effective January 1, 2012. The projected health benefit cost is increasing by 6% ~~or $1.6 million~~ ($1,594,800). The total projected cost is approximately $28.6 million. The County portion is approximately $20 million and the employee's portion is $8.6 million.

The retiree contribution cap is remaining as $1,725,159 for the rest of the Fiscal Year. The retiree contribution cap is determined by using the best estimate of the Total Payroll Cost for FY 2011-12 as agreed to in the Side Letters with the bargaining units in June 2011. Staff will monitor the County's retiree contribution to ensure the cap is not exceeded.

Fiscal Impact/Change to Net County Cost: No change to Net County Cost. Cost variance between Alliant's presentation and staff projections is due to changes or corrections in enrollment data between July and September 2011. The projected health benefit cost for the 2012 Calendar Year is $28,566,000, an increase $1,594,800 or 6% from the projected 2011 Calendar Year cost of $26,971,200. The County will contribute approximately $19,912,387 and $8,653,613 will be funded by the department budgets, employee payroll deductions, retiree contributions, and affiliated agencies. The Fiscal Year 2011-12 budget includes the projected costs for benefit costs.

Background: On February 15, 2011, the Board of Supervisors approved Agenda Item # 22 (File ID# 11-0323) to join the CSAC-EIAHealth program and to transition to a calendar plan year. CSAC-EIAHealth guaranteed the Blue Shield PPO premium would not exceed 9.6% effective January 1, 2012 through December 31, 2012.

To transition to a calendar plan year, another Open Enrollment Period will be held October 17, 2011 through November 4, 2011. During Open Enrollment, employees, retirees, and affiliated agencies will be able to make changes to their benefit plan. Changes made during Open Enrollment will be effective January 1, 2012.

Reason for Recommendation:
Health Rates
Alliant Insurance Services, the County's health benefit consultant, negotiated the premiums with the

various health carriers. The rate increase for all the health carriers is approximately 6%. The rates were presented to the Health Plan Advisory Committee (HPAC) and approved by a vote of 4 to 3.

While the overall health carrier increase is 6%, the blended increase on the rate cards to fund the program is approximately 5.3%. Since the actual rates vary between the vendors, the blended rate is projected to cover the health carrier increased costs.

The employee and the County portion of the rates are determined by each bargaining unit's MOU or by Board resolution. The published rate card amounts are based on tentative agreements with the health carriers.

<u>The rate calculation for the Criminal Attorney's Association, Law Enforcement Managers Association, and the Manager's Association bargaining units are based on the following proposed MOU language subject to final agreement between the Board of Supervisors and represented employees:</u>

<u>Annually in the event of a rate increase, the County shall increase its contribution to the County's medical/dental plan by up to seven and one-half percent (7.5%) of the total rate in order to offset the increase. Any remaining cost shall be paid by the employee.</u>

<u>Since the above proposed language is expected to be incorporated into the Deputy County Counsel Association Bargaining Unit and the Salary and Benefits Resolution for Unrepresented Employees, the rates for Deputy County Counsel and Unrepresented Employees were calculated in the same manner.</u>

<u>Risk Management recommends the Board approve the published rate cards based on the proposed MOU language.</u>

Risk Management recommends the Board approve the tentative rate agreements <u>with the health carriers</u> subject to County Counsel's approval of the contracts.

Details are attached as follows:
Attachment A - Published Rate Cards
Attachment B - Tentative rate increases and projected funding amounts.
Attachment C - Alliant's presentation to HPAC dated August 11, 2011.

Medco
When the County moved to CSAC-EIAHealth, our pharmacy benefit manager changed to Medco Health Solutions and included the following programs:

- Enhanced Concurrent Drug Utilization Review: Screens prescriptions at both mail and retail pharmacies so that prescriptions with safety issues are stopped and identified to the dispensing pharmacist.
- Retrospective Drug Utilization Review: Quarterly mailings to physicians identifying prescribing patterns that is potentially unsafe, ineffective, or is inconsistent with evidence-based standards of care.
- Drug Selection/Prior Authorizations/Step Therapy Rules: For identified prescriptions requiring Prior Authorization, physician review is required to determine if a member's prescription qualifies

for drug coverage based on nationally accepted clinical guidelines and standards.
•Quantity Limits: Identifies prescription claims at point of service to dispense appropriate dosages and quantities based on nationally accepted clinical guidelines and standards.

Effective January 1, 2011, the CSAC-EIAHealth plan will automatically implement the Rational Meds Program. The Rational Meds Program is a patient safety program to alert physicians of possible contra indications.

In addition, Risk Management recommends implementing effective January 1, 2012 the Preferred Generic Guideline and Preferred Drug Step Therapy programs as follows:

1. Preferred Generic Guideline Program: Unless the doctor writes DAW (dispense as written), when a member wishes to purchase a brand name drug when a generic drug is available, the member will pay the difference between the brand and generic drug. Program results in cost savings for the member and the County.

2**.** Preferred Drug Step Therapy (PDST): Outreach program regarding targeted drugs to inform members there are preferred drugs, generic, or OTC alternatives when clinically appropriate. Patient or Pharmacist contacts Physician to switch to the preferred drug. Potential cost savings for the member and for the County at renewal because the premium will be lower as a result of implementing this program.

These programs have not been presented to HPAC. However, Risk Management will provide this information to HPAC during the next meeting in October.

Blended Rates
The County blends the rates to provide affordable access to health care for all County employees and early retirees regardless of the place of residence (Medicare retiree rates are not blended). The rate blending strategy prevents adverse selection and preserves the affordability of the County's Blue Shield PPO Plan primarily due to limited availability of alternative plans (i.e., HMO Plans) in the South Lake Tahoe area.

Adverse selection occurs when a group of people are offered a choice between different levels of access and rates to medical care. People with illnesses tend to value the ability to self-select providers and obtain care near home. If losses were to concentrate in the PPO plan, the PPO rate increase would result in an upward spiral. By blending the rates, savings in either the PPO or HMO plans are shared by the entire group.

Retiree Health Benefits Contribution
The Retiree Health Benefits Contribution Plan, amended on May 15, 2001, limits how much the County will contribute towards a retiree's health cost. The Plan document states:

"In the event the total of County contributions made under this program will exceed 1.2% of Total Payroll Costs during any given fiscal year, then the actual contributions assigned to each Eligibility Level shall be adjusted accordingly in equal amounts, so that the total actual or projected cost of this program shall never exceed 1.2% of Total Payroll cost as defined herein during any single fiscal year".

The 1.2% cap was reached for the first time in 2011. Factors that contributed to reaching the cap include: increasing health care costs, increasing number of retirees, and decreasing County payroll.

On June 21, 2011, (Agenda Item # 11 File ID # 11-0477), the Board of Supervisors approved a budget transfer authorizing payment for County retiree contributions in excess of the 1.2% cap for FY 2010-11 and implementing the retiree contribution cap effective July 1,2011.

The Board of Supervisors also negotiated new language for the Retiree Health Cap with the bargaining units as follows:

The parties agree to amend the plan document to define Total Payroll Costs for FY 2011-12 as "the Chief Administrative Officer's best estimate available at the time of rate calculation for May 2011 open enrollment period, of the total annual costs to all County Departments to be included in the Recommended Budget, for those employee salaries and benefits which, as computed using the system in effect during the year 2000, included all "Class 30" expenses with the following exceptions: the costs of temporary employees, health benefits, health benefits contributions, and overtime.

The parties agree to further amend the plan document to define Total Payroll Costs for FY 2012-13 and subsequent fiscal years as, "the total annual cost to all County Departments as set forth in the Recommended Budget for those employee salaries and benefits which, as computed using the system in effect during the year 2000, included all "Class 30" expenses with the following exceptions: the costs of temporary employees, health benefits, health benefits contributions, and overtime.

The parties understand the Retiree Health Contribution rates will be recalculated annually on a calendar year basis effective January 1 of each calendar year.

Based on the above language, the 1.2% cap amount is projected using the recommended budgeted payroll and the number of retirees by contribution level. The retiree contribution amounts are then adjusted accordingly in equal amounts per contribution level not to exceed the projected cap amount. As of April 2011, the recommended budgeted Total Payroll Cost was $143,763,263. Therefore, effective January 2012 cap will be $1,725,159. The retiree premium without Medicare is $896.85. For a retiree with 20 years of service, the County's premium contribution would be 67% of the premium without the Retiree Cap. With the Retiree Cap the County will pay $402.60/month compared to $600.89, which is 55.1% of the actual premium.

Since the County is transitioning to a calendar year, Risk Management recommends the Board of Supervisor approve the retiree contributions rates effective January 1, 2012 through December 31, 2012.

Action to be taken following Board approval:

1. Risk Management will post and distribute the published rates effective January 1, 2012 through December 31, 2012 to employees, retires, COBRA participants, and affiliated agencies. And, work with the Auditor-Controller to charge employees in Pay Period 2 - 2012.
2. Risk Management will secure contract renewals .
3. Risk Management will implement Medco's Preferred Generic Guideline and Preferred Drug Step Therapy (PDST) programs effective January 1, 2012.
4. Kim Kerr, Assistant CAO or designee will sign health carrier contracts subject to County Counsel's

approval.

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