

Memorandum



CITY OF DALLAS

DATE June 10, 2011

TO Honorable Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair), Ann Margolin (Vice Chair), Vonciel Jones Hill, Angela Hunt, Delia D. Jasso, David A. Neumann, Ron Natinsky

SUBJECT Employee & Retiree Health Care Contracts

The City has completed the Request for Competitive Sealed Proposal process for the Employee & Retiree Health Benefits plan. The attached briefing with recommendations for vendors will be presented on Monday, June 13th at the Budget, Finance & Audit Committee.

If you have questions or need additional information, please let me know.

A handwritten signature in cursive script that reads "Jeanne Chipperfield".

Jeanne Chipperfield
Chief Financial Officer

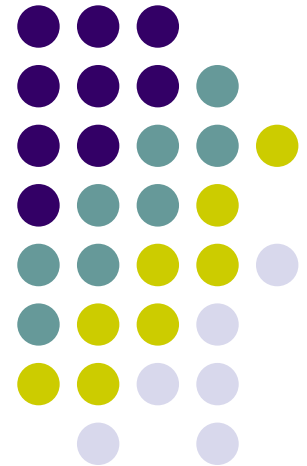
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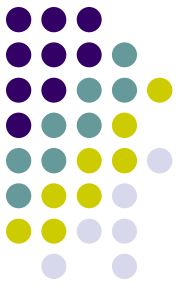
c: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Deborah A. Watkins, City Secretary
Thomas P. Perkins, Jr., City Attorney
Craig D. Kinton, City Auditor
C. Victor Lander, Administrative Judge
Ryan S. Evans, First Assistant City Manager
A.C. Gonzalez, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
Helena Stevens-Thompson, Assistant to the City Manager

Employee & Retiree Health Care Contracts

Budget, Finance & Audit
Committee

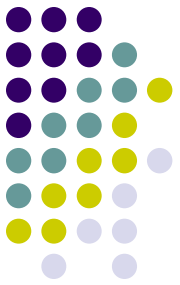
June 13, 2011





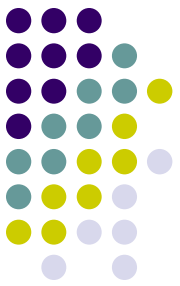
Purpose

- Review City of Dallas Health Benefits Plans
- Review the Request for Proposal (RFP) for Employee/Retiree Healthcare
- Provide results of the proposal evaluations
- Make recommendations



City's Health Plans Overview

Costs, Participation, Plan Options, and Administration



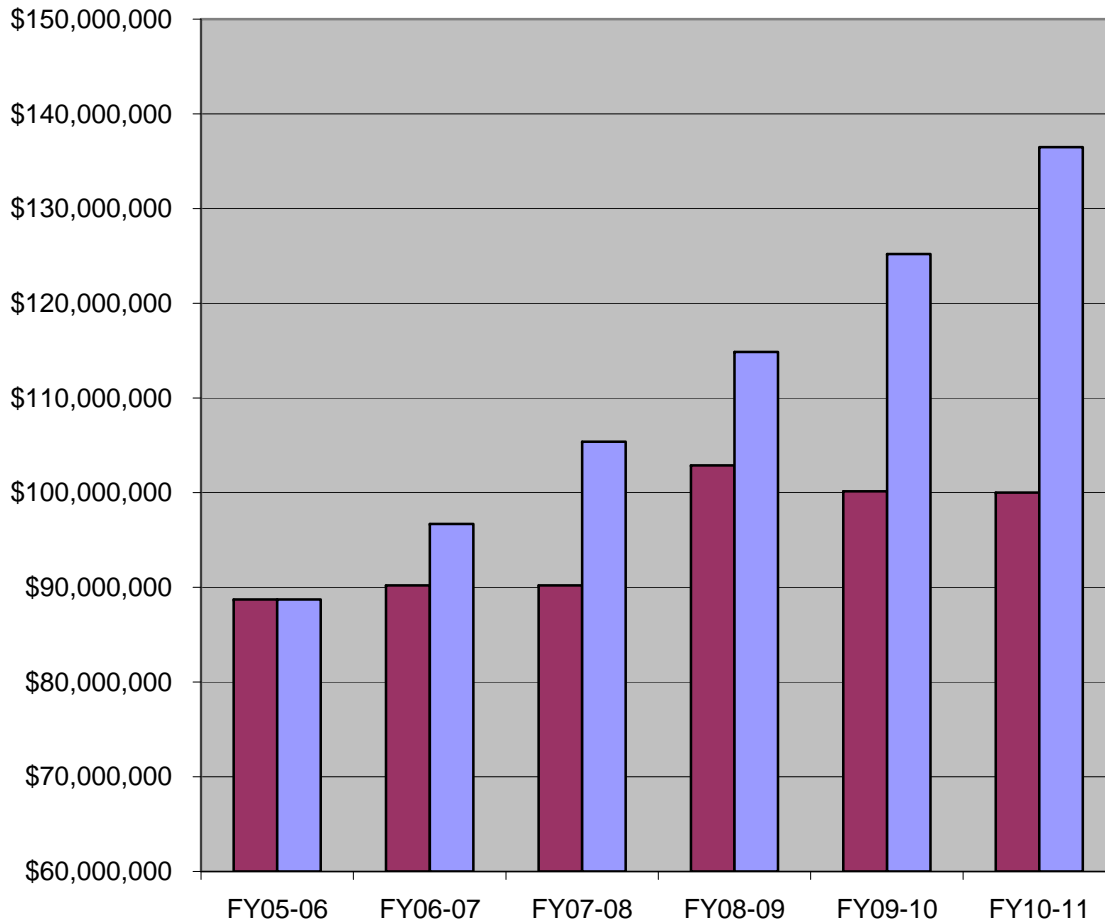
FY09-10 Costs

Product	City Contributions	Employee/ Retiree Contributions	Early Retiree Reinsurance Program *
Self-Insured & Fully-Insured Medical & Pharmacy Products	\$56.9 M (55.5%)	\$43.0 M (42.0%)	\$2.5 M (2.4%)
Fully Insured Dental/Vision	\$0	\$3.9 M (100%)	N/A

- The City & employees/retirees share the cost of healthcare
- Employees Retirement Fund provides retirees with \$125 per month subsidy for healthcare regardless of enrollment in City plans
- Dental and Vision are 100% employee paid

** Early Retiree Reinsurance Program is a federal program that reimburses some of the expenses incurred by pre-65 retirees. The program is expected to run out of funding at the end of 2011.*

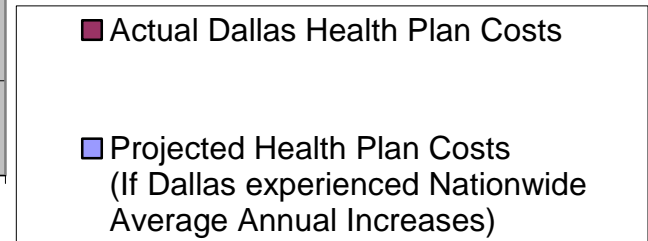
Change in Annual Health Care Costs



Since 2005, health care costs have increased from 9% to 12% per year nationally.

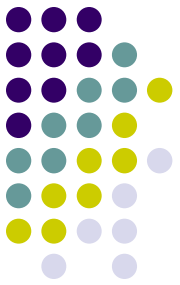
By implementing changes to the health plans, the City has been able to mitigate much of the inflationary pressures on its health care costs.

If the City's costs had increase by 9% per year (the lower end of the nationwide average), the costs in FY10-11 would have been about \$136M.



FY10-11 Expenses are estimated as of June, 2011.

City of Dallas Health Plans



- Two medical plan options
 - 75/25 Health Reimbursement Account (HRA)
 - 70/30 Preferred Provider Organization (PPO)
- 21,197 lives covered as outlined below:
 - 2,264 Employees have waived coverage

Status	Plan	Lives Covered
Active	HRA	14,367
Active	PPO	4,531
Terminated	COBRA	111
Retirees	Plan	
Retiree (Pre-65)	HRA	1,651
Retiree (Pre-65)	PPO	1,236
Retiree (Post-65)	HRA	30
Retiree(Post-65)	PPO	131

- Additional 3,872 Supplemental Medicare Plans are purchased by Post-65 Retirees

75/25 HRA Medical Plan

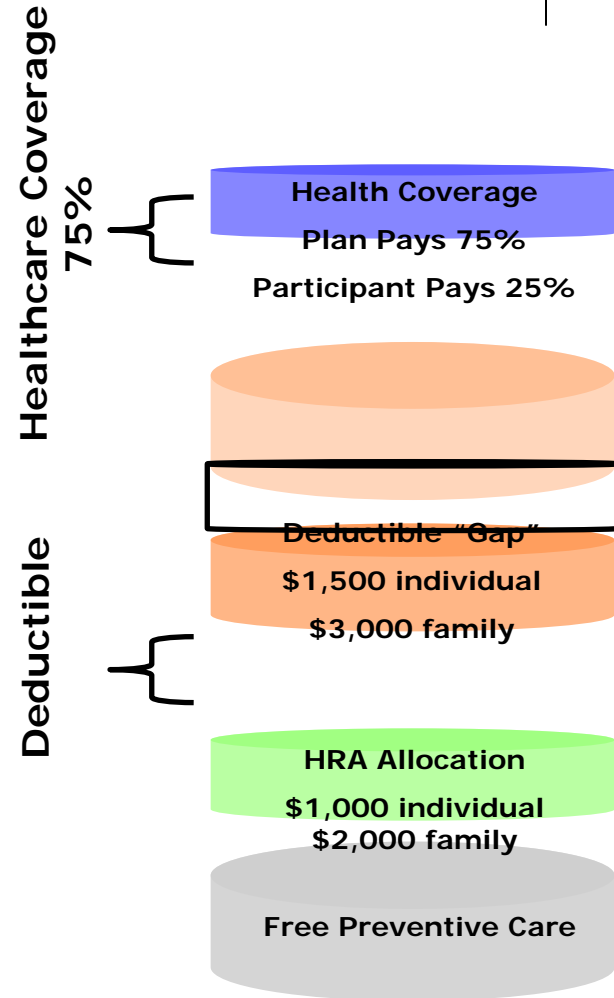
High-deductible medical plan, with a health reimbursement account

1. Medical and Prescription Plan:

- Combined Medical & Prescription Deductible:
 - \$2,500 per individual
 - \$5,000 per family
- Annual maximum out-of-pocket of:
 - \$6,000 per individual
 - \$12,000 per family
- Up to 100% coverage for preventive care

2. Health Reimbursement Account:

- City funds allocated to pay for eligible medical expenses during the plan year
- HRA utilized prior to employee paying towards deductible
 - \$700 allocation for individual coverage
 - \$1,700 allocation for family coverage
 - \$300 added for completing a Health Risk Assessment
- Unused HRA funds rollover up to a maximum of \$6,000



70/30 PPO Plan - \$3,000 Deductible



Medical Plan and Prescription Plan have separate deductibles

1. Medical Plan

- High Deductible Medical plan:
 - \$3000 deductible per individual
 - \$9000 family deductible
- Deductible must be met before plan pays, except for preventive services
 - Preventive Care (annual wellness exams and screenings)
 - Employee pays 30% and plan pays 70%
 - Deductible is waived

2. Prescription Drugs

- \$150 deductible per person
 - Tier 1 Drugs - 10% of cost (\$10 minimum)
 - Tier 2 Drugs - 25% of cost (\$25 minimum)
 - Tier 3 Drugs - 40% of cost (\$40 minimum)

Benefits Administration



- Large employers normally do not buy traditional health insurance; instead they self-insure (i.e. the employer pays the claims)
 - The employer ‘designs’ the Plan(s) (i.e. determines cost share, level of coverage, what is covered, etc.)
 - The Administrator implements the Plans
- The City’s self-insured health benefit plans are currently administered by UnitedHealthcare (UHC) who:
 - Provides a network of health care providers
 - Administers and processes medical claims
 - Provides services to support the self-insured medical plans
 - Employee Assistance Program
 - Management of Flexible Spending Accounts
 - Wellness program support
 - Call center, Nurseline, on-site administrative support and on-site nurse, interactive website, case management for chronic conditions

Benefits Administration

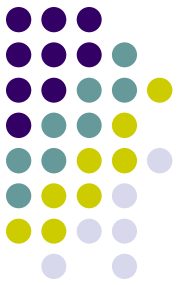


- UHC also provides the following health care products for the City
 - Self-Insured Pharmacy Benefits Program
 - Fully-Insured Supplemental Medicare and Medicare Advantage plans (for Medicare eligible retirees)
 - Fully-Insured Dental
 - Fully-Insured Vision

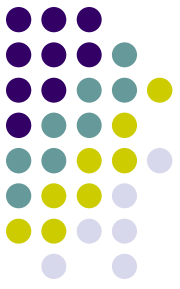
Benefits Administrator History



Prior to 2001	City's health plan was self-funded and self-administered
2001	Privatized administration of health plans <ul style="list-style-type: none">Contracted with UHC to serve as the healthcare Third Party Administrator (TPA)
2004	Contracted with Humana to serve as the healthcare TPA
2005	City canceled contract with Humana, issued RFP, and selected UHC to serve as the healthcare TPA <ul style="list-style-type: none">Entered into four-year contract with two one year renewal options with UHC
2009	First one-year renewal option with UHC exercised
2010	Issued Request for Information (RFI) to determine if City should go out for bid or exercise final one-year renewal option with UHC <ul style="list-style-type: none">Exercised one year renewal option with UHC
January 2011	Issued Request for Proposal (RFP) for three year contract with two one-year renewal options <ul style="list-style-type: none">Contract to start 1/1/2012



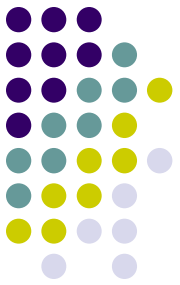
2011 Request for Proposal



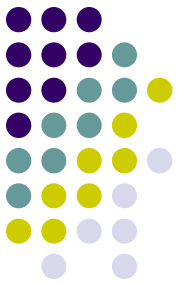
Request for Proposal (RFP)

- RFP advertised on 1/6/2011 and 1/13/2011
- Services Included in RFP
 - Third Party administrative services for self-insured medical plans
 - Pharmacy Benefits Management
 - Supplemental Medicare & Medicare Advantage Plans
 - Dental
 - Vision
 - Comprehensive wellness program
- To realize the most competitive pricing, proposals were accepted for bundled and unbundled services
- Proposals were due on 2/16/2011

Vendor Evaluations



- Vendor presentations conducted March 23rd, 24th, and 25th
- Evaluation team members:
 - Interim Director, Human Resources
 - First Assistant Chief, Dallas Fire Rescue
 - Assistant Director, Dallas Police Department
 - Assistant Director, Communication and Information Services
 - Third Tier Executive, Office of Financial Services
 - Purchasing Staff provided evaluation scores for MWBE and Financial (based on financial analysis by consultant)
- Seventeen employee/retiree advocates attended vendor presentations to listen and provide feedback to evaluation team members
 - See Appendix for list of participants
- Buck Consultants, the City's Health Benefits consulting firm, provided oversight
 - Subject matter experts
 - Prepared financial analysis of bids



Evaluation Criteria

Criteria	Points	Scored By
Financial	37	Purchasing/Consultant
Network Accessibility, Disruption & Discounts	25	Evaluation Committee
Qualifications & Experience	18	Evaluation Committee
MWBE	15	Purchasing
Wellness Programs	5	Evaluation Committee

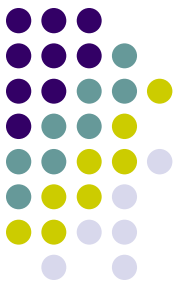
Explanation of Evaluation Criteria



● Financial Analysis

- Proposals for healthcare administration services are complex
 - There are many variables that factor into the cost for healthcare services
 - Each company structures their offer differently
- Comparing proposals requires subject matter experts
 - Buck Consultants, the City's benefits consultant, completed the financial analysis of the proposals
 - Buck Consultants has been providing benefit and actuarial consulting for 95 years
 - Local team averages more than 20 years underwriting experience of major health plans

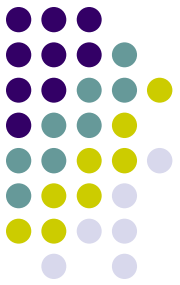
Explanation of Evaluation Criteria



- Network Accessibility, Disruption, & Discounts
 - “Network Accessibility” refers to how many providers are within a certain distance from where the members live.
 - For this proposal, vendors were required to provide network accessibility on the following standards:

Provider Group	Access Standard
Internist/Family Practice/General Practice	2 in 10 miles
OB\GYNS	2 in 10 miles
Pediatricians	2 in 10 miles
All other Specialists	1 in 15 miles
Hospitals	1 in 15 miles

- “Network Disruption” analyzes the percentage of employees who would have to change their healthcare provider if a new network provider was selected.
- “Network Discount” is the percentage off the ‘retail price’ that members of the healthcare network receive.
 - The higher the discount, the less the cost for treatment

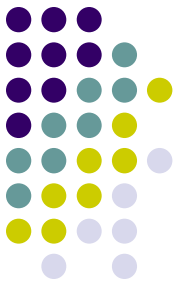


Summary of Proposals

Summary of Proposals for Health Benefits RFP 2011						
<i>Provider</i>	<i>Medical TPA</i>	<i>Pharmacy</i>	<i>Vision</i>	<i>Dental</i>	<i>Wellness</i>	<i>Other</i>
Aetna	x	x			x	Medicare
Blue Cross Blue Shield of Texas	x	x		x	x	Medicare
Cigna	x	x	x	x	x	Medicare
United Healthcare	x	x	x	x	x	Medicare
Caremark		x				
Restat		x				
Block Vision			x			
Delta Dental				x		
Humana			x			Medicare Advantage
Transition Assist						Transition Services to Medicare
# Proposals	4	6	4	4	4	6

- Ten vendors submitted proposals
 - Four submitted proposals to serve as the Medical Third Party Administrator (TPA) – Aetna, Blue Cross Blue Shield, Cigna, and United Healthcare
- All Proposers were interviewed

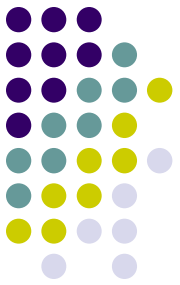
Medical – Summary of Scores



Summary of Scores - Medical						
Vendor	Network Accessibility & Discount Summary (25%)	Qualifications & Experience Overview (18%)	Wellness, Case & Disease Management (5%)	Business Inclusion & Development (15%)	Financial Summary (37%)	Grand Total (100%)
United Healthcare	24.00%	17.20%	3.20%	12.00%	37.00%	93.40%
Blue Cross Blue Shield	21.80%	16.60%	4.40%	10.00%	36.35%	89.15%
Cigna	22.20%	15.00%	3.20%	12.00%	36.70%	89.10%
Aetna	20.60%	14.80%	2.60%	10.00%	34.68%	82.68%

- UHC ranked #1 in four of the five categories and 1st overall

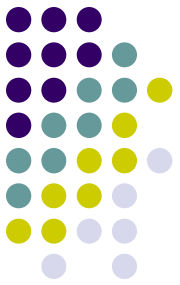
Pharmacy – Summary of Scores



Summary of Scores - Pharmacy

Vendor	Network Accessibility & Discount Summary (25%)	Qualifications & Experience Overview (18%)	Wellness, Case & Disease Management (5%)	Business Inclusion & Development (15%)	Financial Summary (37%)	Grand Total (100%)
United Healthcare	21.60%	17.00%	3.40%	12.00%	28.45%	82.45%
Blue Cross Blue Shield	22.00%	16.60%	3.80%	10.00%	33.15%	85.55%
Cigna	22.20%	15.00%	3.00%	12.00%	33.38%	85.58%
Aetna	20.20%	14.40%	3.00%	10.00%	32.27%	79.87%
Caremark	22.20%	16.20%	3.80%	13.00%	37.00%	92.20%
Restat	22.00%	14.80%	2.40%	3.00%	31.49%	73.69%

- Caremark ranked #1 in four of the five categories and 1st overall

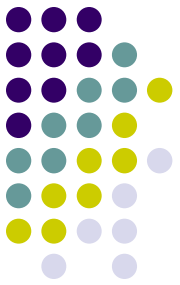


Medicare - Summary of Scores

Summary of Scores - Medicare						
Vendor	Network Accessibility & Discount Summary (25%)	Qualifications & Experience Overview (18%)	Wellness, Case & Disease Management (5%)	Business Inclusion & Development (15%)	Financial Summary (37%)	Grand Total (100%)
United Healthcare	21.20%	16.80%	3.40%	12.00%	35.06%	88.46%
Blue Cross Blue Shield	20.60%	15.60%	4.00%	10.00%	37.00%	87.20%
Cigna	21.00%	15.40%	3.20%	12.00%	32.30%	83.90%
Aetna	18.00%	13.80%	3.20%	10.00%	30.89%	75.89%

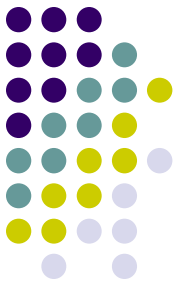
- UHC ranked #1 overall
- Humana and Transition Assist were deemed non-responsive

Vision - Summary of Scores



Summary of Scores - Vision						
Vendor	Network Accessibility & Discount Summary (25%)	Qualifications & Experience Overview (18%)	Wellness, Case & Disease Management (5%)	Business Inclusion & Development (15%)	Financial Summary (37%)*	Grand Total (100%)
United Healthcare	21.00%	16.80%	3.00%	12.00%	37.00%	89.80%
Cigna	21.40%	15.00%	2.80%	12.00%	32.73%	83.93%
Humana	16.80%	14.20%	2.20%	7.00%	31.83%	72.03%
Humana (Vision-Alternate)	15.40%	13.40%	2.20%	7.00%	30.77%	68.77%
Block Vision	22.60%	15.00%	3.40%	4.00%	35.37%	80.37%

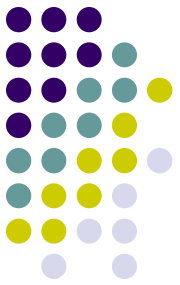
- UHC ranked #1 overall
- Vision insurance is 100% employee paid



Dental - Summary of Scores

Summary of Ranking - Dental						
Vendor	Network Accessibility & Discount Summary (25%)	Qualifications & Experience Overview (18%)	Wellness, Case & Disease Management (5%)	Business Inclusion & Development (15%)	Financial Summary (37%)*	Grand Total (100%)
United Healthcare	21.60%	16.20%	2.80%	12.00%	37.00%	89.60%
Blue Cross Blue Shield	19.60%	15.60%	3.60%	10.00%	32.39%	81.19%
Cigna	19.60%	15.40%	2.80%	12.00%	34.39%	84.19%
Delta Dental	23.40%	17.20%	4.00%	4.00%	36.00%	84.60%

- UHC’s Dental product ranked #1 overall
- Dental insurance is 100% employee paid



Recommendations

Summary of Recommendations



Product	Current Vendor	Proposed Vendor
Self-Insured Medical Plans (includes Wellness)	UHC	UHC
Pharmacy	Prescription Solutions (UHC Subsidiary)	Caremark
Medicare	UHC	UHC
Dental	UHC	UHC
Vision	UHC	UHC

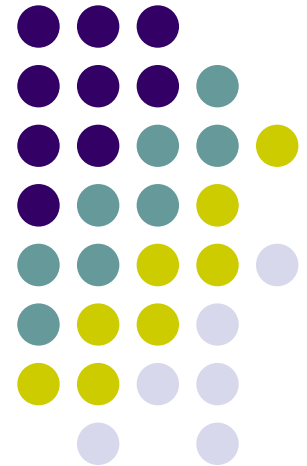
- All contracts are three year contracts with two one-year renewal options starting January 1, 2012



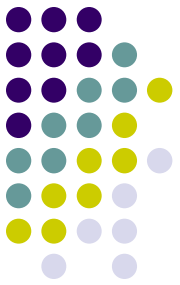
Next Steps

- June 15, 2011 – Approve contracts with selected vendors
 - Three year total contract price with United Healthcare is \$18.9M
 - Three year total contract price with Caremark is \$800,000
- August, 2011 – Approve annual plan design changes and Benefits Master Plan documents
- September, 2011 thru November, 2011 – Open Enrollment for 2012 benefit elections
- January 1, 2012 – Effective date of new contracts

Appendix

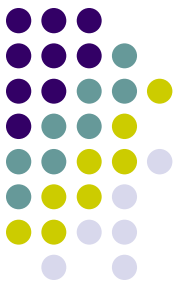


List of Employee/Retiree Advocates at Presentations



Group	Status/Department
Employee/Retiree Health Benefits Committee	Active Employee - Aviation
Employee/Retiree Health Benefits Committee	Active Employee - Convention Center
Employee/Retiree Health Benefits Committee	Active Employee - Fire Civilian
Employee/Retiree Health Benefits Committee	Active Employee - Fire Civilian
Black Firefighters Association	Active Employee - Fire Uniform
Dallas Fire Association	Active Employee - Fire Uniform
Dallas Fire Association	Active Employee - Fire Uniform
Employee/Retiree Health Benefits Committee	Active Employee - Parks
Dallas Police Association	Active Employee - Police Uniform
Employee/Retiree Health Benefits Committee	Active Employee - Police Uniform
Latino Police Officers Association	Active Employee - Police Uniform
Service Employees International (SEIU)	Active Employee - Sanitation
Employee/Retiree Health Benefits Committee	Retired - Civilian
Employee/Retiree Health Benefits Committee	Retired - Civilian
Employee/Retiree Health Benefits Committee	Retired - Civilian
Employee/Retiree Health Benefits Committee	Retired - Fire Uniform
Employee/Retiree Health Benefits Committee	Retired - Police Uniform
Asian Police Officers Association	Invited. No representative sent.
Police Executive Lodge	Invited. No representative sent.
Fraternal Order of Police	Invited. No representative sent.
Hispanic Fire Fighters Association	Invited. No representative sent.
US Steelworkers	Invited. No representative sent.

Summary of Financial - Medical



COSTS - SELF-INSURED MEDICAL & RX				
TOTAL ANNUAL COSTS	UHC (W/O RX)	AETNA (W/O RX)	CIGNA (W/O RX)	BCBS (W/O RX)
2012-Medical Costs	\$ 70,398,579	\$ 74,728,425	\$ 70,899,657	\$ 72,342,758
2012-Admin Fees	\$ 5,793,595	\$ 6,796,164	\$ 6,379,197	\$ 5,376,193
2012-FSA Expenses	\$ 86,346	\$ 115,571	\$ 60,575	\$ 119,556
2013-Medical Costs	\$ 74,270,500	\$ 78,838,488	\$ 74,799,138	\$ 76,321,610
2013-Admin Fees	\$ 6,228,115	\$ 7,000,049	\$ 6,379,197	\$ 5,564,360
2012-FSA Expenses	\$ 86,346	\$ 115,571	\$ 60,575	\$ 119,556
2014-Medical Costs	\$ 78,355,378	\$ 83,174,605	\$ 78,913,090	\$ 80,519,299
2014-Admin Fees	\$ 6,639,170	\$ 7,210,051	\$ 6,379,197	\$ 5,759,113
2012-FSA Expenses	\$ 86,346	\$ 115,571	\$ 60,575	\$ 119,556
<i>3 YEAR TOTAL - Self Insured Medical Claims</i>	\$ 241,944,375	\$ 258,094,496	\$ 243,931,201	\$ 246,242,001
<i>3 YEAR TOTAL - Pharmacy Claims (Caremark)</i>	\$ 20,107,075	\$ 20,107,075	\$ 20,107,075	\$ 20,107,075
Total Self-Insured Medical and Pharmacy	\$ 262,051,449	\$ 278,201,570	\$ 264,038,275	\$ 266,349,075

- **UHC has the lowest price when combined with Caremark for pharmacy services**
- **The contract with UHC will be for \$18.9M (3 year total of Admin Fees and FSA Expenses)**
- *Note: Estimated costs are for evaluation purposes only*

Summary of Financial - Pharmacy

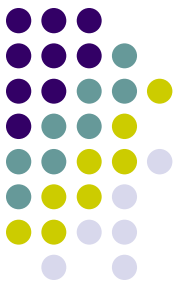


COSTS - PHARMACY						
TOTAL ANNUAL SPEND	UHC**	AETNA**	CIGNA**	BCBS**	CAREMARK	RESTAT
2012	\$ 8,283,860	\$ 7,304,820	\$ 7,060,060	\$ 7,109,645	\$ 6,346,880	\$ 7,457,795
2013	\$ 8,739,472	\$ 7,706,585	\$ 7,448,363	\$ 7,500,675	\$ 6,695,958	\$ 7,867,974
2014	\$ 9,124,009	\$ 8,045,675	\$ 7,776,091	\$ 7,830,705	\$ 7,064,236	\$ 8,300,712
3 YEAR TOTAL	\$ 26,147,341	\$ 23,057,080	\$ 22,284,515	\$ 22,441,026	\$ 20,107,075	\$ 23,626,481

*** UHC, Aetna, Cigna, and BCBS do not offer stand-alone pharmacy options. The prices quoted are only available when combined with Administration of the self-insured plans.*

- Caremark pharmacy is the least expensive option
- The contract with Caremark will be not to exceed \$800,000 (the administration costs which is based on the number of prescriptions filled)

Summary of Financial - Medicare



MEDICARE PROGRAM

TOTAL ANNUAL PREMIUMS	UHC	AETNA	CIGNA	BCBS
2012 - Part D PDP RX Only	\$ 3,725,862	\$ 4,303,362	\$ 4,622,604	\$ 3,210,645
2012 - Medicare Supp. AARP Plans	\$ 5,051,283	\$ 5,654,034	\$ 4,919,152	\$ 5,082,510
2012 - Advantage Plan	\$ 30,024	\$ 38,688	\$ 16,773	\$ 51,997
2013 - Part D PDP RX Only	\$ 3,856,267	\$ 4,453,980	\$ 4,784,395	\$ 3,323,018
2013 - Medicare Supp. AARP Plans	\$ 5,228,078	\$ 5,851,925	\$ 5,091,322	\$ 5,260,398
2013 - Advantage Plan	\$ 31,075	\$ 40,042	\$ 17,360	\$ 53,817
2014 - Part D PDP RX Only	\$ 3,991,237	\$ 4,609,869	\$ 4,951,849	\$ 3,439,323
2014 - Medicare Supp. AARP Plans	\$ 5,411,061	\$ 6,056,743	\$ 5,269,519	\$ 5,444,512
2014 - Advantage Plan	\$ 32,162	\$ 41,444	\$ 17,968	\$ 55,700
3 YEAR TOTAL	\$ 27,357,049	\$ 31,050,086	\$ 29,690,942	\$ 25,921,920

**2nd and 3rd year rates not available since have to be approved by Centers for Medicare (CMS). Figures are based on the historical 3.5% annual increase

- UHC is not the least expensive but scored highest overall because of higher rankings in other categories.

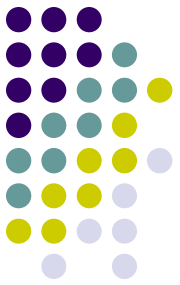
Summary of Financial – Dental



TOTAL ANNUAL PREMIUMS (EMPLOYEE PAID)	UHC (PPO/DHMO/EPO)	BCBS (PPO/MAC ALTERN)	CIGNA (PPO/DHMO)	DELTA DENTAL (PPO/DHMO/EPO)
2012	\$ 2,756,719	\$ 3,131,911	\$ 2,854,050	\$ 2,893,286
2013	\$ 2,756,719	\$ 3,131,911	\$ 3,025,294	\$ 2,893,286
2014	\$ 2,931,443	\$ 3,382,464	\$ 3,206,811	\$ 2,893,286
3 YEAR TOTAL	\$ 8,444,882	\$ 9,646,285	\$ 9,086,155	\$ 8,679,857

- UHC is the least expensive option.
- Dental is 100% employee paid.

Summary of Financial – Vision



VISION PROGRAM

TOTAL ANNUAL PREMIUMS (EMPLOYEE PAID)	UHC	BLOCK VISION	CIGNA	HUMANA
2012	\$644,768.52	\$674,394.00	\$716,760.24	\$749,470.08
2013	\$644,768.52	\$674,394.00	\$716,760.24	\$749,470.08
2014	\$644,768.52	\$674,394.00	\$752,884.08	\$749,470.08
3 YEAR TOTAL	\$1,934,305.56	\$2,023,182.00	\$2,186,404.56	\$2,248,410.24

- UHC is the least expensive option.
- Vision is 100% employee paid.