

Memorandum



Date: August 15, 2008
To: Honorable Mayor and Members of the City Council
Subject: **August 20, 2008 Briefing – 2009 Employee/Retiree Health Benefits**

The attached briefing is a presentation on the 2009 Proposed Employee/Retiree Health Benefits Plan design changes. The changes includes the opening of an onsite medical clinic and introduction of a health reimbursement account to encourage employees/retirees and their dependents to participate in preventative care and wellness programs.

Please let me know if you have any questions or need any additional information.



Mary K. Suhm
City Manager

c: Deborah Watkins, City Secretary
Thomas P. Perkins, Jr., City Attorney
Craig Kinton, City Auditor
Judge Jay E. Robinson
Ryan S. Evans, First Assistant City Manager
David O. Brown, Interim Assistant City Manager
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**2009 Employee/Retiree
Health Care Briefing**

**City Council
August 20, 2008**

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City of Dallas Self-Insured Health Plan Overview

- Large employers (500+ employees) normally do not buy traditional health insurance; instead they self-insure
- Internally collect contributions (from City and member)
- If claims are lower than contributions, cash can be used to offset premiums in future years
- If projected claims are higher than contributions, something must change
 - Increase premiums
 - Decrease coverage
 - Increase City subsidy
 - Or some combination of the above

City of Dallas Self-Insured Health Plan Overview

UHC & Deloitte's Health Care Role

□ UnitedHealthcare

- Serves as the City's medical management and claims processing administrator
- UHC one of the largest health insurers in the U.S serving more than 26 million customers
- United Health Care also provides access to high quality care from more than 535,000 physicians and care professionals, and partners with more than 4,700 hospitals nationally and globally based on UCH network coverage.

□ Deloitte Consulting

- Serves as the City's benefits and actuarial consultant
- Deloitte provides professional services and advice, focused on client service through a global strategy executed locally in nearly 140 countries.
- Deloitte delivers services in four professional areas, audit, tax, consulting and financial advisory services, and serves more than 80% percent of the world's largest companies, as well as large national enterprises, public institutions, locally important clients, and successful, fast-growing global growth companies

City of Dallas' Self Insured Health Care History

- **Since plan year 2004 member premiums have not changed**
- In January 2004, the City contracted with Humana Health Care to serve as the Third Party Administrator (TPA).
- In January 2006, the City contracted with United Healthcare to serve as the Third Party Administrator (TPA).

- Changes in 2006 design to keep member premiums constant
 - Eliminated cross applying of deductibles
 - Increased emergency room co-pay
 - Offered Medicare eligible retirees AARP Medicare Supplement, Medicare Advantage HMO and Medicare Part D plans that provided greater medical benefits after coordination with Medicare than the City's PPO plan
 - Implemented comprehensive Wellness Program

- Changes in 2007 design to keep member premiums constant
 - Modified prescription drug plan co pay percentages and minimum amounts
 - In 2007 the City eliminated fully-insured Health Maintenance Organization (HMO) and established an Exclusive Provider Organization (EPO)



National Trends

National Health Care Trends in the US

- National healthcare expenditures are projected to reach \$3.6 trillion in 2014, growing at an average annual rate of 7.1 percent during the forecast period 2003-2014. As a share of gross domestic product, healthcare spending is projected to reach 18.7 percent by 2014, up from its 2003 level of 15.3 percent (Healthcare Financial Management, July 2005).
- If employer cost of health benefits continues to grow at the rate shown by the Employment Cost Index (ECI) for Health Insurance from 1995 to 2002, employer health benefits will constitute 16.5 percent of total compensation by 2010 (Employment Policy Foundation).
- The U.S. population is aging rapidly. At the same time, the life expectancy of seniors is extending. Senior citizens will place a significant strain on the health care system in coming years. America's 78 million Baby Boomers begin turning 65 in 2011.

Current Trends @ Bizhealthcheck.com

<http://www.aohn.org/Bizhealthcheck/health-Care-Trends.cfm>

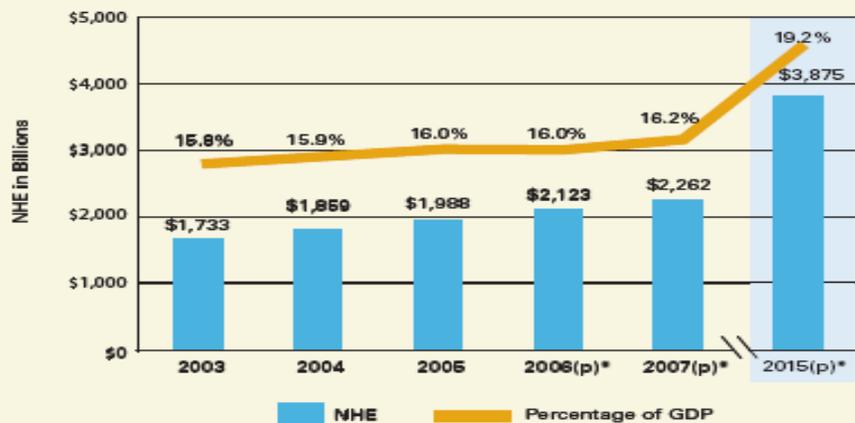
National Health Care Trends in the US

"Per capita health care spending in the United States has increased at a faster rate than per capita income for a number of decades," Bernanke said. "Should that trend continue, as many economists predict it will, the share of income devoted to paying for health care will rise relentlessly." Americans now spend more on health care than for housing or food. Government estimates show that by 2020, health spending will exceed 22 percent of the nation's gross domestic output.

Rising Health Care Costs: One of 'Biggest Challenges' Voice of America 6/17/08 by Mil Arcga

National Health Expenditure (NHE), 2003-2015

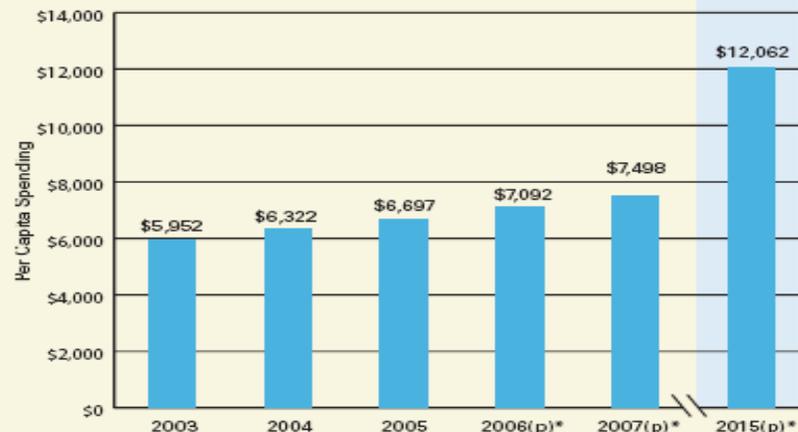
The NHE is projected to increase by more than 70 percent between 2007 and 2015, with healthcare expected to account for almost 20 percent of GDP.



*Projected by CMS
Source: Centers for Medicare and Medicaid Services (2007)

Expenditures per Capita, 2003-2015

On a per capita basis, NHE has been growing at a projected Compound Annual Growth Rate (CAGR) of almost six percent over the last five years.

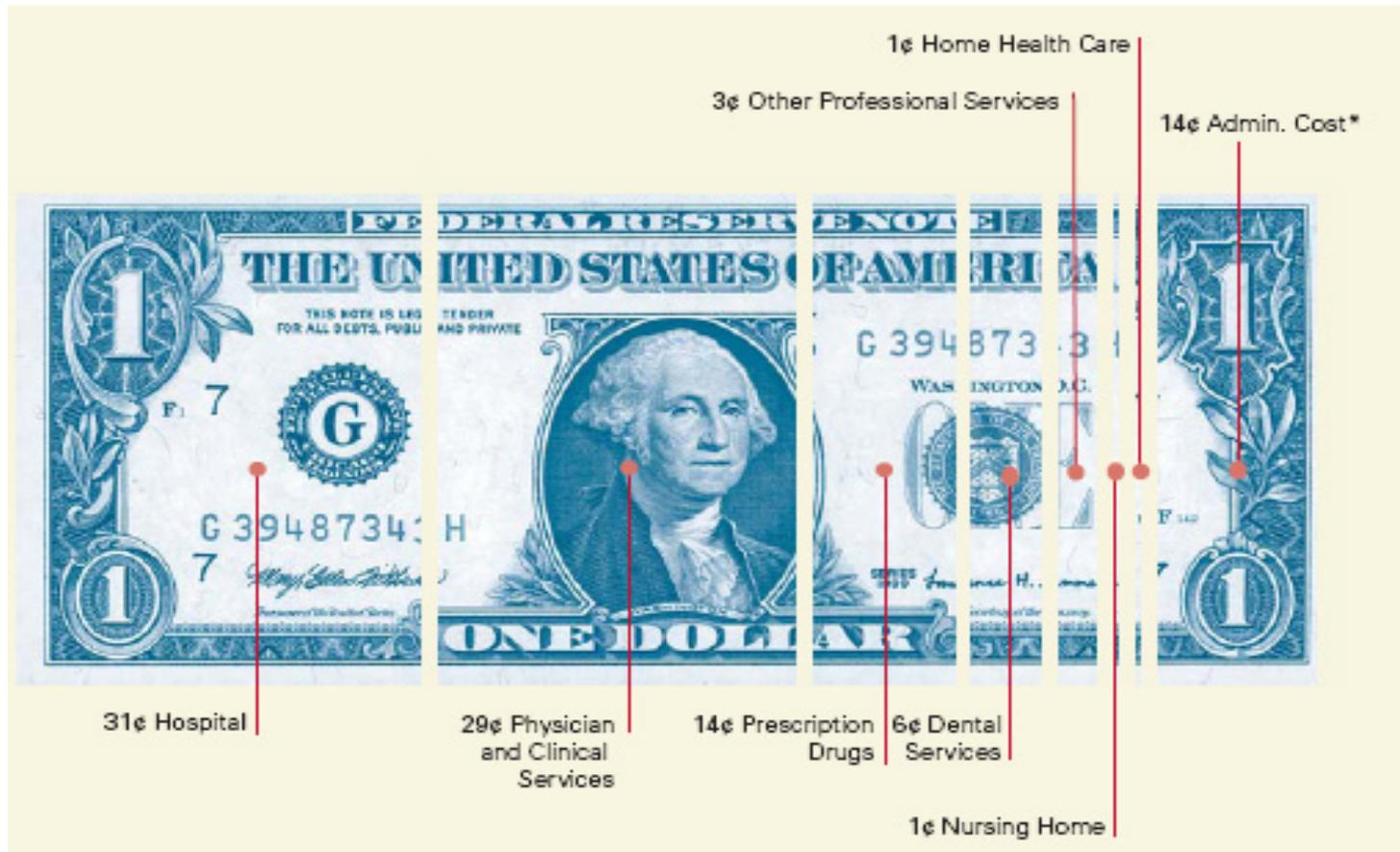


*Projected by CMS
Source: Centers for Medicare and Medicaid Services (2007)

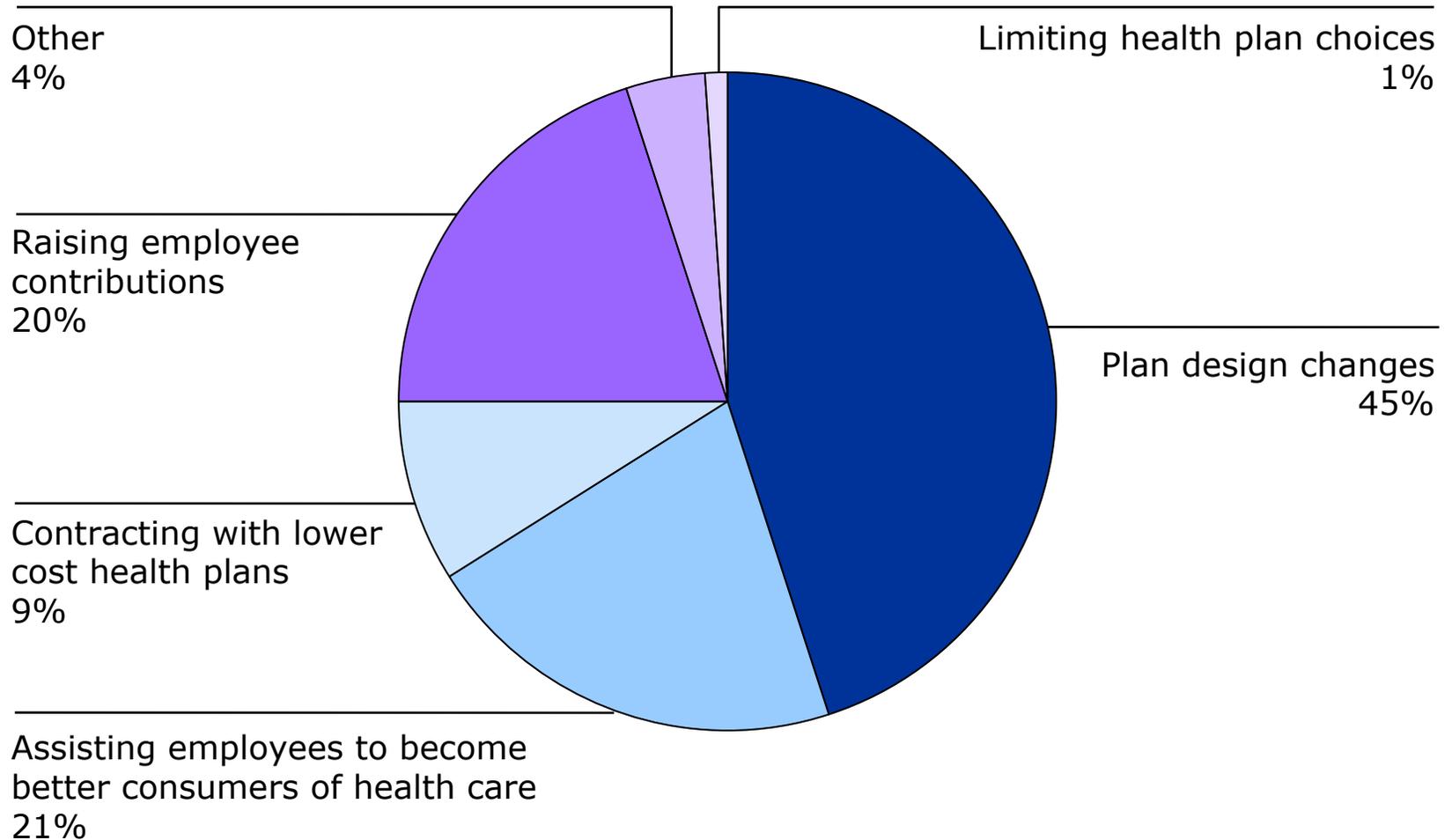
National Health Care Trends in the US

Private Insurance Healthcare Dollar, 2005

Nearly 75 percent of the private insurance healthcare dollar goes toward hospitals, physician services and prescription drugs.



Traditional Strategies used to Control Costs



National Health Care Trends in the U.S.

Consumer Driven Health Care Plans

- According to Ted Nussbaum, Watson Wyatt's director By 2009, nearly 55% of US corporations plan on offering a consumer-driven health plan, reports Watson Wyatt and the National Business Group on health.
- "As CDHC [consumer-directed health Care plans] enrollment goes up, trend numbers consistently decline," Ted Nussbaum, Watson Wyatt's director of group and health care consulting in North America, tells ICDC. "That was pretty unexpected and astounding."
 - Overall, companies that offered CDH had a two-year cost increase trend of 5.5%, compared with 10% for companies without CDH, according to the report. Companies with at least half of their work force enrolled in a CDH plan had a two-year increase trend of 4.6% — almost half that of companies that don't offer CDH.
- Employee Benefits Research Institute (EBRI) shows that folks with CDHPs are indeed somewhat more cost-conscious health care customers than those in comprehensive plans. According to EBRI:
 - *27 percent of adults in CDHPs and HDHPs said they checked the price of a service prior to receiving care, as opposed to 21 percent of those in comprehensive plans.
 - *People in CHDPs were more likely to say they participated in employer-sponsored wellness programs.
- "Consumer-driven health care plans have been with us for more than a decade and we've all had a chance to gain some experience. Health reimbursement accounts (HRAs) are just a better way to introduce CDHC" Says Benefit Resource Vice President Tom Guiler ©2005 Benefit Resource, Inc.

Onsite Health Care Facilities

- On-Site health centers can serve as a significant leverage point to improve the adoption of employer sponsored consumer initiatives among employees and their families says Stuart Clark, executive VP of Comprehensive Health Services, Inc, a provider of on-site and national workforce health management programs.

What are Health Reimbursement Accounts (HRA)

- A Health Reimbursement Account (HRA) is an IRS regulated, employer-sponsored benefit plan that allows participants to receive reimbursement for eligible out-of-pocket healthcare expenses.
- Overtime the HRA plan is designed to encourage members to utilize their preventive care benefits, which may reduce their health care costs.
- **Benefits of a Health Reimbursement Account to the City include:**
 - Employees are encouraged to become more aware of their health status and conditions at an early stage.
 - The HRA account allows employees the ability to rollover the unused portion of allocation from year to year.
 - Employees and the employer create a partnership to reduce health care cost overall.

National Health Care Cost Trends

The Four Employer Areas of Focus to Assist Members in Managing their Health Care Costs:

Basic
Consumer
Driven
Health Plan
Structure

FINANCIAL INCENTIVES

- Account-based plans – HRA or HSA
- Increased out-of-pocket
- Retirement savings
- Wellness benefits
- Incentive payments

INDIVIDUAL RESPONSIBILITY

- Medical information
- Treatment options
- Price information
- Web messaging & reminders
- Plan selection tools

CARE MANAGEMENT & WELLNESS

- Health coaching & advocacy
- Disease management programs
- Provider network enhancements
- Corporate wellness programs

EDUCATION & COMMUNICATION

- Change management campaign
- Focus groups
- Newsletters
- Employee meetings
- Surveys



Budget/Cost Sharing Model

Budget/Cost Sharing Model

| | FY04-05 | FY05-06 | FY06-07 | FY07-08 | FY08-09 No Changes | FY08-09 With Changes |
|-------------------------------------|---------|---------|---------|---------|-----------------------|----------------------------|
| Budget Amount | \$88.7M | \$88.7M | \$90.2M | \$90.2M | \$102.4M | \$99.4M |
| City Contribution ** | \$46.6M | \$46.6M | \$48.1M | \$48.1M | \$57.3M | \$55.7M |
| Employee Contribution ** | \$22.0M | \$22.0M | \$22.0M | \$22.0M | \$23.6M | \$22.9M |
| Retiree Contribution ** | \$20.1M | \$20.1M | \$20.1M | \$20.1M | \$21.5M | \$20.8M |

****The City of Dallas four year average of cost sharing model with employees and retirees has been as follows:**

City = 54%

Employee = 24%

Retiree = 22%

Cost Sharing Comparison of DFW Cities

2008 PREMIUM COMPARISON AVERAGE COST SHARING OF PREMIUMS

| | Houston | San Antonio | Plano | Fort Worth | Mesquite | Arlington | Garland | Richardson | DART | Phoenix | AVG. |
|-------------|---------|-------------|-------|------------|----------|-----------|---------|------------|------|---------|------|
| EE Contr. | 46% | 15% | 9% | 25% | 13% | 6% | 37% | 30% | 28% | 16% | 22% |
| City Contr. | 54% | 85% | 91% | 75% | 87% | 94% | 63% | 70% | 72% | 84% | 78% |
| TOTAL | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

The City of Dallas is:

Employee Contribution: 44%

City Contribution: 56%

Cost Sharing Model Options

| Cost Sharing To include proposed changes | FY08/09 Proposed Cost Sharing Model For City of Dallas 56%/44% | OPTION 75%/25% | OPTION 80%/20% | OPTION 90%/10% |
|---|---|---------------------------|---------------------------|---------------------------|
| Budget Amount | \$99.4M | \$99.4M | \$99.4M | \$99.4M |
| City Contribution | \$55.7M | \$74.6M | \$79.5M | \$89.5M |
| Tax Rate Increase | 0 | 2.16 cents | 2.71 cents | 3.86 cents |
| Employee Contribution | \$22.9M | \$13.4M | \$11.1M | \$5.1M |
| Retiree Contribution | \$20.8M | \$11.4M | \$8.8M | \$4.8M |



Current Plan Options

Current Plan Options

- **Offerings for Active Employees & Retirees (under 65)**

| <u>Plan Description</u> | <u>Enrollment %</u> | <u>Headcount</u> |
|---------------------------------------|---------------------|------------------|
| ▪ 80/20, \$1,000 deductible | 48% | 5,959 |
| ▪ 70/30, \$3,000 deductible | 17% | 2,271 |
| ▪ Self-insured EPO (replaced HMO) | 13% | 1,863 |
| ▪ 70/30, \$1,000 deductible | 10% | 1,509 |
| ▪ 80/20, \$300 deductible | 8% | 1,194 |
| ▪ 80/20, \$3,000 deductible | 2% | 188 |
| ▪ 70/30, \$300 deductible | 2% | 207 |
| ▪ Self-insured Prescription Drug Plan | | |

- **Plan Offerings for Medicare Eligible Retirees (over 65)**

- 4 fully-insured AARP Medicare Supplement Plans
- 3 fully-insured Medicare Advantage HMO Plans
- 1 Medicare Part D Prescription Plan



Proposed Health Care Plan Changes

Proposed Changes

- **Reduce the number of medical plan options from 7 to 3 (**)**
 - **Introduce a Consumer Directed Health Plan with Health Reimbursement Account (HRA)**
 - Add \$1,000 HRA to include rollover option
 - Increase total out-of-pocket from \$4,000 to \$6,000
 - Increase employee coinsurance from 20% to 25%
 - **Maintain self-insured PPO 70/30 - \$3,000 deductible**
 - **Maintain self-insured EPO plan**

 - ****Establish an Onsite Preventative Care Clinic for Employees, Retirees and Dependents**
 - Implement on-site Medical Clinic to provide wellness & primary care services. This action will increase employees benefits.
 - All employees (insured and non-insured) and their dependents are eligible
 - Services will also be available to retirees and their dependents that are enrolled in City's Health Plan
- ** See page 30 for detail of plan design for Onsite Clinic**

PLAN COMPONENT COMPARISON

PPO Plan Option

VS.

HRA Plan Option

| | | | |
|-------------|---|-------------|---|
| Component 1 | <p>Monthly Premium The amount that participants pay based on plan selection</p> | Component 1 | <p>Monthly Premium The amount that participants pay based on plan selection</p> |
| Component 2 | <p>Preventative Care Covered benefits that assist participants to understand their current health status</p> | Component 2 | <p>Free Preventative Care Covered benefits that assist participants to understand their current health status</p> |
| Component 3 | <p>Prescription Plan Co payment coverage in tiers After a \$75 deductible is met.</p> | Component 3 | <p>Prescription Plan Co payment coverage in tiers After a \$1,500/\$3,000 deductible is met</p> |
| Component 4 | <p>Deductible Designated amount members must pay before co-insurance apply</p> | Component 4 | <p>Deductible Designated amount members must pay before co-insurance apply</p> |
| Component 5 | <p>Coinsurance The cost sharing plan between the participant and the City</p> | Component 5 | <p>Coinsurance The cost sharing plan between the participant and the City</p> |
| Component 6 | <p>Flexible Spending Account An IRS tax free vehicle that employees may elect to deduct dollar amounts from each paycheck for medical expenses</p> | Component 6 | <p>Flexible Spending Account An IRS tax free vehicle that employees may elect to deduct dollar amounts from each paycheck for medical expenses</p> |
| | | Component 7 | <p>HRA Allocation A credit amount used to pay for members medical & prescription expenses prior to deductible</p> |

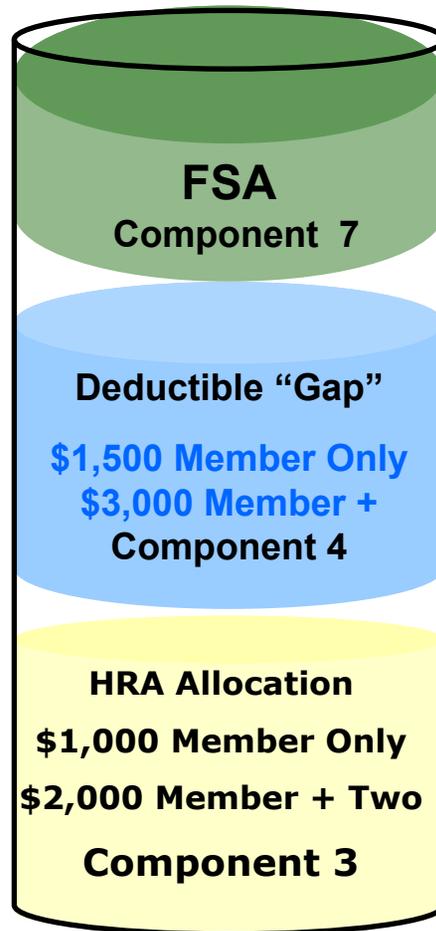
2009 Deductible Gap – Flexible Spending Account

Using your Flexible Spending Account (FSA) for the Deductible Gap portion of your benefit plan. **FSA is not available to employees not enrolled in City's health plan nor retirees.**

Maximum that can be contributed to FSA = \$5,000



FSA dollars not used during the Plan year cannot be rolled over.



FSA - Employee contributions thru payroll deductions that can be used to cover expenses after HRA funds have been exhausted. FSA dollars can be used to cover medical, vision, dental and over the counter medications.

Remaining balance of Deductible to be paid by employee.

(First dollars) Employer dollars given to employees for eligible medical and prescription expenses.

Example: Jose — Year 1

Jose has single coverage. Jose has been fairly healthy throughout the year. He uses in-network providers.

HRA Annual Allocation: **\$1,000**

Healthcare Expenses:

| | |
|--|----------------|
| RX Services (Charged to the Allocation) | \$125 |
| Wellness Services (not charged to the Allocation) | \$750 |
| Other Services (urgent care visit)(No cost to employee) | \$200 |
| Total Expenses: | \$1,075 |

How the Expenses Were Paid:

First, CDH Plan/Employer Paid:

| | |
|---|-------|
| Wellness covered at 100% in-network (City Cost) | \$750 |
| HRA allocated to RX expenses (City Cost) | \$125 |
| HRA allocated to Other expenses (City Cost) | \$200 |
| Jose's Out of pocket cost: | \$0 |

Then, Jose Paid:

| | |
|------------------|-----|
| Deductible "gap" | \$0 |
| Coinsurance | \$0 |

Finally, the CDH Plan/Employer Paid:

| | |
|-----------------|-----|
| Health Coverage | \$0 |
|-----------------|-----|

Summary:

| | |
|--|--------------|
| Total Expenses | \$1,075 |
| Jose Paid | \$0 |
| CDH Plan/Employer Paid | \$1,075 |
| HRA Unused Allocation Rollover to Year 2 (\$1,000 -\$325) | \$675 |

Sample Life: James & Doris — Year 1

James & Doris have family coverage. James has diabetes that requires a moderate level of healthcare each year. They use in-network providers.

| | |
|--|----------------|
| HRA Annual Allocation: | \$2,000 |
| Flexible Spending Account Election (FSA) | \$3,250 |
| Healthcare Expenses: | |
| Wellness Services (not charged to the Allocation) | \$1,500 |
| Other Services (doctor office visits, prescription drugs, hospital charges, emergency room charges, x-ray, etc.) | <u>\$6,000</u> |
| Total Expenses: | \$7,500 |

How the Expenses Were Paid:

First, Plan/Employer Paid:

| | |
|--|----------------|
| Wellness covered at 100% in-network (City Cost) | \$1,500 |
| HRA allocated to expenses (City Cost) | <u>\$2,000</u> |
| Balance remaining: (Shared cost w/ City & Participant) | \$4,000 |

Then, James & Doris Paid using FSA Dollars:

| | |
|------------------|---------|
| Deductible "Gap" | \$3,000 |
| Coinsurance | \$250 |

Finally, Plan/Employer Paid: Health Coverage

\$750

Summary:

| | |
|--------------------------------|---------|
| Total Expenses | \$7,500 |
| James & Doris Paid through FSA | \$3,250 |
| Plan/Employer Paid | \$4,250 |
| HRA Rollover to Year 2 | \$0 |

FY08-09 Premium Structure

Active Employees Current Rates 2007 - 2008

| Deloitte | Total Plan Cost = Monthly EE/RET + City Contribution | | | | Monthly City Contributions | | | | Monthly Employee Contributions | | | |
|--------------------|--|----------------|--------------------|----------------|----------------------------|----------------|--------------------|----------------|--------------------------------|----------------|--------------------|----------------|
| | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee |
| | <u>Only</u> | <u>+Spouse</u> | <u>+Child(ren)</u> | <u>+Family</u> | <u>Only</u> | <u>+Spouse</u> | <u>+Child(ren)</u> | <u>+Family</u> | <u>Only</u> | <u>+Spouse</u> | <u>+Child(ren)</u> | <u>+Family</u> |
| 2008 Active | | | | | | | | | | | | |
| \$300/80% PPO | \$352 | \$739 | \$627 | \$1,015 | \$221 | \$221 | \$359 | \$359 | \$131 | \$518 | \$268 | \$656 |
| \$1,000/80% PPO | \$279 | \$592 | \$499 | \$812 | \$221 | \$221 | \$359 | \$359 | \$58 | \$371 | \$140 | \$453 |
| \$3,000/80% PPO | \$260 | \$551 | \$464 | \$755 | \$221 | \$221 | \$359 | \$359 | \$39 | \$330 | \$105 | \$396 |
| \$300/70% PPO | \$332 | \$681 | \$577 | \$934 | \$221 | \$221 | \$359 | \$359 | \$111 | \$460 | \$218 | \$575 |
| \$1,000/70% PPO | \$257 | \$546 | \$459 | \$747 | \$221 | \$221 | \$359 | \$359 | \$36 | \$325 | \$100 | \$388 |
| \$3,000/70% PPO | \$237 | \$503 | \$454 | \$690 | \$221 | \$221 | \$389 | \$359 | \$16 | \$282 | \$65 | \$331 |
| EPO | \$401 | \$922 | \$870 | \$1,402 | \$221 | \$221 | \$359 | \$359 | \$180 | \$701 | \$511 | \$1,043 |

Active Employees New Rates 2008 - 2009

| Deloitte | Total Plan Cost = Monthly EE/RET + City Contribution | | | | Monthly City Contributions | | | | Monthly Employee Contributions | | | |
|--------------------|--|----------------|--------------------|----------------|----------------------------|----------------|--------------------|----------------|--------------------------------|----------------|--------------------|----------------|
| | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee |
| | <u>Only</u> | <u>+Spouse</u> | <u>+Child(ren)</u> | <u>+Family</u> | <u>Only</u> | <u>+Spouse</u> | <u>+Child(ren)</u> | <u>+Family</u> | <u>Only</u> | <u>+Spouse</u> | <u>+Child(ren)</u> | <u>+Family</u> |
| 2009 Active | | | | | | | | | | | | |
| HRA Plan | \$359 | \$705 | \$634 | \$961 | \$284 | \$284 | \$422 | \$422 | \$75 | \$421 | \$212 | \$539 |
| \$3,000/70% PPO | \$151 | \$315 | \$285 | \$431 | \$112 | -\$15 | \$180 | \$35 | \$39 | \$330 | \$105 | \$396 |
| EPO | \$521 | \$1,194 | \$1,127 | \$1,813 | \$284 | \$284 | \$422 | \$422 | \$237 | \$910 | \$705 | \$1,391 |

Pre-65 Premium Rates FY08-09

Pre-65 Current Rates 2007 -2008

| Deloitte | Total Plan Cost = Monthly EE/RET + City Contribution | | | | Monthly City Contributions | | | | Monthly Employee Contributions | | | |
|---------------------|--|----------|-------------|----------|----------------------------|----------|-------------|----------|--------------------------------|----------|-------------|----------|
| | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee |
| | Only | +Spouse | +Child(ren) | +Family | Only | +Spouse | +Child(ren) | +Family | Only | +Spouse | +Child(ren) | +Family |
| 2008 Pre-65 Retiree | | | | | | | | | | | | |
| \$300/80% PPO | \$902 | \$1,596 | \$1,172 | \$1,855 | \$451 | \$451 | \$451 | \$451 | \$451 | \$1,145 | \$721 | \$1,404 |
| \$1,000/80% PPO | \$610 | \$1,168 | \$827 | \$1,377 | \$305 | \$305 | \$305 | \$305 | \$305 | \$863 | \$522 | \$1,072 |
| \$3,000/80% PPO | \$528 | \$1,048 | \$730 | \$1,242 | \$264 | \$264 | \$264 | \$264 | \$264 | \$784 | \$466 | \$978 |
| \$300/70% PPO | \$790 | \$1,428 | \$1,038 | \$1,667 | \$395 | \$395 | \$395 | \$395 | \$395 | \$1,033 | \$643 | \$1,272 |
| \$1,000/70% PPO | \$520 | \$1,034 | \$719 | \$1,225 | \$260 | \$260 | \$260 | \$260 | \$260 | \$774 | \$459 | \$965 |
| \$3,000/70% PPO | \$438 | \$912 | \$622 | \$1,090 | \$219 | \$219 | \$219 | \$219 | \$219 | \$693 | \$403 | \$871 |
| EPO | \$1,006 | \$2,013 | \$1,911 | \$2,936 | \$503 | \$503 | \$503 | \$503 | \$503 | \$1,510 | \$1,408 | \$2,433 |

Pre-65 New Rates 2008 -2009

| Deloitte | Total Plan Cost = Monthly EE/RET + City Contribution | | | | Monthly City Contributions | | | | Monthly Employee Contributions | | | |
|---------------------|--|----------|-------------|----------|----------------------------|----------|-------------|----------|--------------------------------|----------|-------------|----------|
| | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee | Employee |
| | Only | +Spouse | +Child(ren) | +Family | Only | +Spouse | +Child(ren) | +Family | Only | +Spouse | +Child(ren) | +Family |
| 2009 Pre-65 Retiree | | | | | | | | | | | | |
| HRA Plan | \$716 | \$1,333 | \$1,001 | \$1,590 | \$358 | \$358 | \$358 | \$358 | \$358 | \$975 | \$643 | \$1,232 |
| \$3,000/70% PPO | \$541 | \$1,123 | \$767 | \$1,342 | \$277 | \$277 | \$277 | \$277 | \$264 | \$846 | \$490 | \$1,065 |
| EPO | \$1,026 | \$2,048 | \$1,945 | \$2,986 | \$358 | \$358 | \$358 | \$358 | \$668 | \$1,691 | \$1,588 | \$2,629 |

Modify Retirees Health Care Subsidy Beginning January 2009

- **Current employees who retire with full benefits, receive health care subsidy regardless of years of service.**
- **The subsidy ranges from \$277 to \$358 per month depending on the plan selected (PPO, EPO etc).**
- **The proposed plan is to create a tiered structure for retirees based on their pension years of service.**

Proposed Retiree Tiered Subsidy based on pension years of service:

| Tier Coverage | Pension Years of Service | City Subsidy |
|----------------------|---------------------------------|-----------------------------|
| Tier One | 0 – 5 | 25% of City Subsidy |
| Tier Two | 6 – 10 | 50% of City Subsidy |
| Tier Three | 11 – 20 | 75% of City Subsidy |
| Tier Four | 21 + | 100% of City Subsidy |

Onsite Clinic's Purpose

- The onsite clinic proposed is to provide preventative services to City employees, retirees and their dependents
- An On-Site Clinic at City Hall is proposed with goals to:
 - Provide better access to efficient and appropriate medical care
 - Improve health of employees and their dependents
 - Control Health Care Costs
 - Preventing Illness
 - Treatment in the earliest stages of an illness
 - Management of certain chronic illnesses (hypertension, diabetes, asthma, depression, etc.)
 - Referral to Primary Care Physicians (PCPs) and Specialists as medically appropriate
 - Reduce Emergency Room visits for non-emergency care
 - Reduce absenteeism and improve productivity
- The clinic will provide treatment in the following areas
 - Common Illnesses
 - Preventive Screenings
 - Physical Exams and Vaccinations

CITY OF DALLAS ONSITE CLINIC

| Access to services that promote better productivity, provides early detection of potential health issues, support education to promote healthy lifestyles and reduces out of pocket expenses | | | Non-Participants in City's Health Plans | HRA Plan | EPO Plan | \$3K- 70/30 Plan |
|---|---|--|---|--|--|--|
| SERVICE LEVEL 1 - COMMON ILLNESS AND INJURY | | | <i>No Fee Charged</i> | <i>No Fee Charged</i> | <i>No Fee Charged</i> | <i>No Fee Charged</i> |
| Allergies Allergic Reactions Arthritis Asthma Athlete's Feet Bladder Infections Bronchitis Burns-minor Colds Cuts-minor Colitis Contusions Diarrhea | Diverticulitis Ear Infections Eye Infections Eczema Emphysema Gastritis Headaches Hypertension Hemorrhoids Influenza (Flu) Insect Bites & Stings Impetigo Laryngitis | Lacerations (minor) Psoriasis Poison Oak & Ivy Ringworm Strains & Sprains Sinus Infections Strep or Sore Throats Stomach Flu Skin Rashes Viral Illnesses Wound Care | Participant are issued a tailored UHC ID Card. Access limited onsite clinic only. Services are filed with UHC to capture clinical data. | Participants use their UHC ID Card. Services are filed with UHC to capture clinical data. | Participants use their UHC ID Card. Services are filed with UHC to capture clinical data. | Participants use their UHC ID Card. Services are filed with UHC to capture clinical data. |
| Prescriptions may be provided within this service level. | | | | | | |
| SERVICE LEVEL 2 PHYSICAL EXAM, PREVENTATIVE CARE / WELLNESS SCREENING (The onsite clinic shall offer most preventative care screening at their City Hall site. However, other screening related to treatment may require referrals) | | | <i>\$25.00 Co-Pay</i> <i>Participants shall pay for all "Lab Fees" Outside the Clinic.</i> | <i>No Fee Charged</i> | <i>No Fee Charged</i> | <i>No Fee Charged</i> |
| Well Women's Exam: the Clinic will provide care and medical coordination for all adult ailments and issues including, annual physicals, (pap & breast exam) mammogram, Menopausal management, Osteoporosis management, Thyroid evaluation, counseling, and management of chronic medical illnesses. Well Men's Exam: the Clinic will also provide care and medical coordination for all adult ailments as well as, annual physicals, including screening for prostate cancer, colon cancer, and cardiac risks, management of chronic medical illnesses, as well as comprehensive screening for heart disease and cancer. | | | Participants are screened for medical conditions and health status reports are established. | Participants are screened for medical conditions and health status reports are established. | Participants are screened for medical conditions and health status reports are established. | Participants are screened for medical conditions and health status reports are established. |
| SERVICE LEVEL 3 TREATMENT: REFERRAL / INTERVENTION | | | <i>Cost to the Participants</i> | <i>No Fee Charged</i> | <i>No Fee Charged</i> | <i>No Fee Charged</i> |
| Treatment for any medical condition identified from Level 2 shall be referred to providers of choice by the participant. The assessment information shall be made available to the participant for the providers review. | | | Participants are referred to medical providers for follow up and treatment. | Participants are referred to medical providers for follow up and treatment. | Participants are referred to medical providers for follow up and treatment. | Participants are referred to medical providers for follow up and treatment. |
| SERVICE LEVEL 4 UHC HEALTH AND WELLNESS TOOLS | | | <i>Free Access</i> | Free Access Included in Plan | Free Access Included in Plan | Free Access Included in Plan |
| Health Assessment Nurseline/NurseChat | Employee Assistance Counselors Legal Counseling | Health Coaches Financial Counseling | Participants can access 24/7 Nurseline/EAP and online tools | Participants can access 24/7 Nurseline/EAP and online tools | Participants can access 24/7 Nurseline/EAP and online tools | Participants can access 24/7 Nurseline/EAP and online tools |

Summary of FY08/09 Proposed Plan Options

Summary Health Plan Changes

- **The benefit plan design offerings will be reduced from seven plans to three January 2009.**
- **Introduce a Consumer Directed Health Plan with a Health Reimbursement Account (HRA)**
 - Add \$1,000 Allocation (credit) to include rollover option
 - Increase total out-of-pocket from \$4,000 to \$6,000
 - Increase employee coinsurance from 20% to 25%
- **Establish an Onsite Preventative Care Clinic for Employees, Retirees and Dependents**
- **Create a new cost sharing model for retirees based on years of service.**
- **Establish the 2009 premium rate structure as recommended by the Deloitte Consultants.**

2009 Proposed Self Insured Plan Designs

(The Proposed HRA Plan is a “member only” example)

| SCENARIO A | Current \$3,000 / 70% PPO | | EPO | | Proposed HRA Plan | |
|--|---|-------------|---|-------------|--|-------------|
| | In-Network | Out-Network | In-Network | Out-Network | In-Network | Out-Network |
| (1) Annual HRA Allocation | N/A | | N/A | | \$1,000 | |
| (2) Total Annual Deductible | \$3,000 | \$6,000 | \$0 | N/A | \$2,500 | |
| (3) Deductible Gap (#2 - #1) | N/A | | N/A | | \$1,500 | |
| (4) Employee Coinsurance | 30% | 50% | 25% * | N/A | 25% | 50% |
| (5) Annual Coinsurance Maximum | \$4,500 | \$9,000 | \$5,000 | N/A | \$4,500 | \$9,000 |
| (6) Total Out-of-Pocket Maximum (#5 + #3) | \$7,500 | \$15,000 | \$5,000 | N/A | \$6,000 | \$10,500 |
| (7) Out of Plan Services Payable from HRA | N/A | | N/A | | None | |
| (8) Preventive/Wellness | Coinsurance w/ no deductible | | \$25 Copay | | Paid at 100% (does not go against HRA) | |
| (9) Other Copays | Emergency Room: \$100 | | PCP: \$25 Specialist: \$45 Inpatient: \$600 Emergency Room: \$150 Outpatient Surgery: \$300 | | None | |
| (10) Prescription Drug Benefit (Retail & Mail) | \$75 / person deductible Generic: 10% / \$10 min Formulary: 25% / \$25 min Non-Formulary: 40% / \$40 min \$2,500 / person Max OOP | | Formulary: \$25 Generic: \$10 Non-Formulary: \$40 Mail Order = 2x Retail | | Post Deductible - \$1,500 Generic: 10% Formulary: 25% Non-Formulary: 40% | |
| | | | | | | |
| | | | | | | |

EXHIBIT A

HISTORY

OF

PLAN DESIGN CHANGES

History of Plan Design Changes

- Prior to 1983, City paid 100% of employee premium
- In 1983, a fully-insured HMO option added
- In 1990, added self-funded Preferred Provider Organization
- From 1990 through 2000, plan premiums were unchanged:
 - Member: \$0/month
 - Member + 1: \$51/month
 - Member + 2 or more: \$63/month
- In 2001 the City contracted with United Health Care as the Third Party Administrator
- Changes in 2002 to streamline administration
 - Outsourced membership services
 - Automated claims processing
- Changes in 2003 to maintain low member costs
 - Increased out of pocket maximums from \$2,000 to \$2,500 for individual in network (plus deductible)
 - Added Web-based enrollment and call center
 - Coordinated retiree claims with Medicare to match active employee benefit

EXHIBIT B

On-Site Clinic

Scope of Services Overview

City of Dallas Onsite Clinic FAQ

Q. Why should I participate in the City of Dallas Onsite Clinic?

A: There are many good reasons to obtain services through the City's onsite clinic. At the clinic, you will have the opportunity to:

Receive access to early detection of potential health issues

Find out what your 'health indicators' are (blood pressure, cholesterol levels, glucose, weight)

Speak with a health professional about your results

Obtain educational information to promote healthy lifestyles

Reduce your out of pocket expenses

Q. Will employees be charged any fees for utilizing the clinic?

A. Employees and their eligible dependents that are enrolled in one of the City's medical plans will be able to access services at the clinic for **FREE**.

Employees that are not participating in the City's health plan may receive treatment for common illnesses and injuries such as allergies, headaches, or sprains and strains at no cost. However, no participants in the City's health plan will incur charges for preventative care and wellness screenings such as thyroid testing, PAP Smears, mammograms and colorectal exams for a \$25.00 co-payment and all associated lab fees outside the clinic. Employee will also be responsible for the cost of referrals to medical providers for follow-up and treatment.

City of Dallas Onsite Clinic FAQ

Q: Who is eligible to participate in the onsite clinic?

- A. The onsite clinic is a benefit offered as part of the City's health plan. Eligible participants include:
Benefits eligible employees and their spouses/dependents enrolled in the City's medical plan. Benefits eligible employees who have waived coverage in the City's medical plan. Pre-65 and Post 65 Retirees and their dependents enrolled in the City's health plan

Q. What type of services will be available through the onsite clinic?

- A. The clinic will be equipped to address the following:
Common illness and injuries such as:
Allergies, Arthritis, Athlete' Feet, Bladder Infections, Bronchitis, Colds, Contusions, Diarrhea, Ear and Eye Infections, Eczema, Gastritis, Headaches, Hypertension, Hemorrhoids, Influenza, Minor Skin Lacerations, Viral Illness, etc.
- Preventative Care/Wellness Screening
Health Assessment, Blood Pressure, Diabetes, Cholesterol, Colorectal, Thyroid, Kidney, Obesity, PAP, mammograms and Prostate Screening.

City of Dallas Onsite Clinic FAQ

- Treatment: Referral/Intervention
 - Treatment for any medical condition identified through preventative and wellness screenings referred to providers of choice by the participant.
- UHC Health and Wellness Tools
 - Health Assessment, Employee Assistance Counselors, Health Coaches, Nurse line/Nurse Chat, Financial Counseling, Legal Counseling
- **Q. What form of identification do I need to bring to the onsite clinic as proof of eligibility to obtain service?**
- A. Employees participating in the City's medical plan may present their current UnitedHealthcare insurance card to receive service. Employees not participating in the City's plan will be issued an identification card through UnitedHealthcare as proof of eligibility.
- **Q. Who will perform the services rendered at the onsite clinic and how are they credentialed?**
- A. The onsite clinic will be staffed by medical professionals who are qualified and properly credentialed.
- **Q. What about privacy and protecting participants' personal health information?**
- A. Any Personal Health Information (PHI) obtained in the clinic is protected by federal and state privacy laws including the Health Insurance Portability and Accountability Act (HIPAA).

City of Dallas Onsite Clinic FAQ

- **Q. Will my health premiums be impacted by my health status?**
- A. No. An individual's health information is protected is protected by federal and state privacy laws including the Health Insurance Portability and Accountability Act (HIPAA) and will not be used for determining premiums. Only aggregated data is shared with the City.
- **Q. Who can I contact with questions about my results?**
- A. Participants may discuss any questions regarding screening results or medical conditions through Nurse line services which provides access to nurses 24 hours a day, 7 days a week. You may reach them at 1-800-586-6875.
- **Q. Who should I call regarding questions about the onsite clinic?**
- A. You may call the City of Dallas Human Resources Department at (214) 670-3120.

EXHIBIT C

Cities Medical Plan Comparison

Active Medical Comparison

| | City of Dallas | | City of Fort Worth | | | City of Houston | | City of San Antonio | | | City of Phoenix | |
|--------------------------------------|----------------------|--------|--------------------|---------|---------|-----------------|--------|---------------------|--------|--------|-----------------|--------|
| Plan Year | 1/1/08 | 1/1/08 | 1/1/07 | 1/1/07 | 1/1/07 | 5/1/07 | 5/1/07 | 1/1/07 | 1/1/07 | 1/1/07 | 8/1/07 | 8/1/07 |
| Plan Type | PPO | EPO | POS | POS | POS | PPO | HMO | PPO | HMO | HMO | PPO | HMO |
| Network Benefits | | | | | | | | | | | | |
| Deductible | 1,000 | None | \$750 | 500 | 250 | 200 | None | 500 | None | None | None | None |
| Coinsurance plan pays) | 80% | 100% | 80% | 85% | 90% | 80% | 100% | 80% | 100% | 100% | 100% | 100% |
| Office visit copay | | | | | | | | | | | | |
| Primary Care | 20% after deductible | 20 | 25 | 20 | 15 | 30 | 20 | 15 | 15 | 25 | 15 | 15 |
| Specialist | | 45 | 25 | 20 | 15 | 50 | 45 | 15 | 15 | 50 | 25 | 25 |
| Hospital admission deductible | CY Ded. | 600 | CY Ded. | CY Ded. | CY Ded. | 500 | 500 | CY Ded. | 100 | 100 | 100 | 100 |
| Out-of-pocket maximum | 7500 | 2500 | 2000 | 2000 | 2000 | 3000 | 1500 | 4000 | 1000 | 1000 | 300 | 300 |
| Emergency room copay | 100 | 150 | 125 | 100 | 75 | 150 | 150 | CY Ded. | 100 | 100 | 100 | 100 |
| Prescription drug deductible | 75 | 0 | 50 | 25 | 35 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Retail drug copay | | | | | | | | | | | | |
| Generic | 10%/\$10 | 10 | 10 | 8 | 6 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Brand formulary | 25%/\$25 | 25 | 30 | 25 | 20 | 30 | 30 | 20 | 20 | 20 | 20 | 20 |
| Brand non-formulary | 40%/\$40 | 40 | 50 | 45 | 35 | 45 | 45 | 40 | 40 | 40 | 35 | 35 |
| Mail order drug copay(90 day supply) | | | | | | | | | | | | |
| Generic | 10%/\$10 | 20 | 25 | 20 | 15 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| Brand formulary | 25%/\$25 | 50 | 75 | 63 | 50 | 60 | 60 | 40 | 40 | 40 | 40 | 40 |
| Brand non-formulary | 40%/\$40 | 80 | 125 | 113 | 88 | 90 | 90 | 80 | 80 | 80 | 70 | 70 |
| Lifetime maximum | Unl | Unl | Unl | Unl | Unl | 1.5M | Unl | 1M | Unl | Unl | Unl | Unl |
| Non-Network Benefits | | | | | | | | | | | | |
| Deductible | 2000 | N/A | 2000 | 1500 | 750 | 400 | N/A | 1000 | N/A | N/A | 400 | N/A |
| Coinsurance | 60% | N/A | 60% | 65% | 70% | 60% | N/A | 60% | N/A | N/A | 70% | N/A |
| Out-of-pocket maximum | 15000 | N/A | 8000 | 4000 | 4000 | 5000 | N/A | 3500 | N/A | N/A | 2400 | N/A |
| Emergency room copay | 100 | N/A | 125 | 100 | 75 | 150 | N/A | CY Ded. | N/A | N/A | 100 | N/A |
| Lifetime maximum | Unl | N/A | 1M | 1M | 1M | 1.5M | N/A | 1M | N/A | N/A | 1M | Unl |

Exhibit D

Employee Feedback

Employee Focus Group

- The City Hired Consumer and Market Insights, Inc. (CMI) to conduct focus group sessions regarding health care options with 411 employees. CMI is a consumer and marketing research firm that specializes in designing and analyzing processes, developing clear strategies.
- CMI assisted HR in providing focus group services- recruiting design and oversight, facilitating, analyzing, reporting- to the Human Resources Department to:
 - Better understand the employees perspective on the healthcare paradigm shift
 - Explore what employees think about the three new healthcare plans and why
 - Obtain feedback on which healthcare plan is preferred by employee participants

Employee Feedback

Focus Group Survey Results

■ New Healthcare Plans Ranking

- The 411 employees ranked the healthcare plans from favorite to least favorite as follows:
 - HRA First Choice
 - PPO Second Choice
 - EPO Third Choice

■ Perspective on Premiums and Other Features

- When presented with the proposed health plans. If given the option of increasing premiums or prescription deductible, employees answered:
 - 54% would rather have a higher prescription deductible
 - 30% would rather have a higher health premium
- Employees listed the following features as important to them:
 - 62% - Free preventative coverage
 - 39% - Higher employee premiums (lower deductible and lower out-of-pocket expenses)
 - 36% - Control prescription costs
- After hearing the presentation, 56% of the employees stated that their opinions had changed. Of the proposed health plans, the employees believed the best health plan for them and their families are:
 - 55% chose the HRA Health Plan
 - 19% chose the EPO Health Plan
 - 12% chose the 70/30-\$3,000 deductible PPO Health Plan

Focus Group Results

| Current Plan | EPO | HRA | PPO | No Coverage |
|---------------|----------|----------|----------|-------------|
| 80/20 \$1,000 | 13% (18) | 70% (96) | 13% (18) | 2% (2) |
| 70/30 \$3,000 | 7% (2) | 50% (14) | 21% (6) | 11% (3) |
| EPO | 47% (46) | 29% (29) | 2% (2) | 13% (13) |
| 70/30 \$1,000 | 9% (5) | 59% (32) | 26% (14) | 6% (3) |
| 80/20 \$300 | 14% (8) | 67% (38) | 7% (4) | 2% (1) |
| 80/20 \$3,000 | 7% (2) | 58% (18) | 26% (8) | 3% (1) |
| 70/30 \$300 | 0% (0) | 56% (5) | 22% (2) | 11% (1) |

- New 2009 healthcare plan employees/retirees choices based on current information

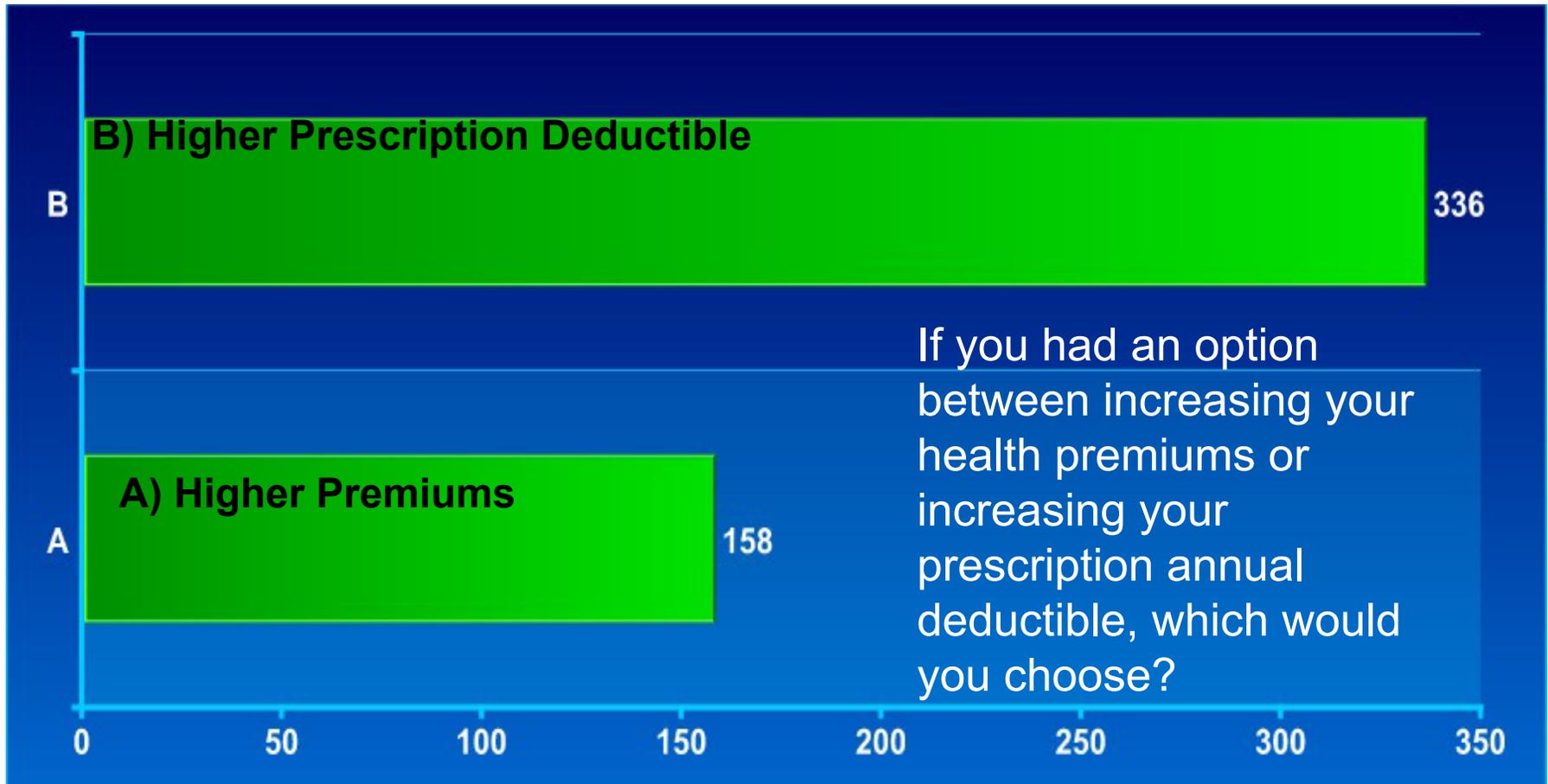
Employee Feedback (cont)

New Healthcare Plans Likes and Dislikes – Summary

Employees listed their likes and dislikes of each plan. The following chart provides a summary of the likes and dislikes employees listed most.

| PLANS | #1 – HRA | #2 – PPO | #3 – EPO |
|-----------------|--|---|--|
| Likes | <ul style="list-style-type: none"> • Free preventative care • Rollover of unused funds • \$1000 HRA account/contribution from City | <ul style="list-style-type: none"> • In network & out of network availability • No referrals needed • Simplicity of plan • Prescription deductible • Covers any major emergency • Ability to choose physician of choice | <ul style="list-style-type: none"> • Emergency Room coverage with no deductible • Lower prescription drugs • Free preventative services |
| Dislikes | <ul style="list-style-type: none"> • “Confusing – I need to visit some more workshops to get a clear understanding” • “Insufficient information; not enough info to state opinion” • “Too expensive - I don't have enough information to make an informed opinion” • “Not sure; conflicting information about what is or isn't covered by the \$1,000” | <ul style="list-style-type: none"> • Retiree Premium too expensive • \$75 deductible for out of network • Higher premiums • 70%/30% coverage • Out-of-pocket fees are expensive • Residual bills • Deductible is too expensive | <ul style="list-style-type: none"> • Increase in premiums and the additional 25% costs • Paying a co-pay for preventive/wellness treatment • Total maximum \$5000 • Provider choices are limited |

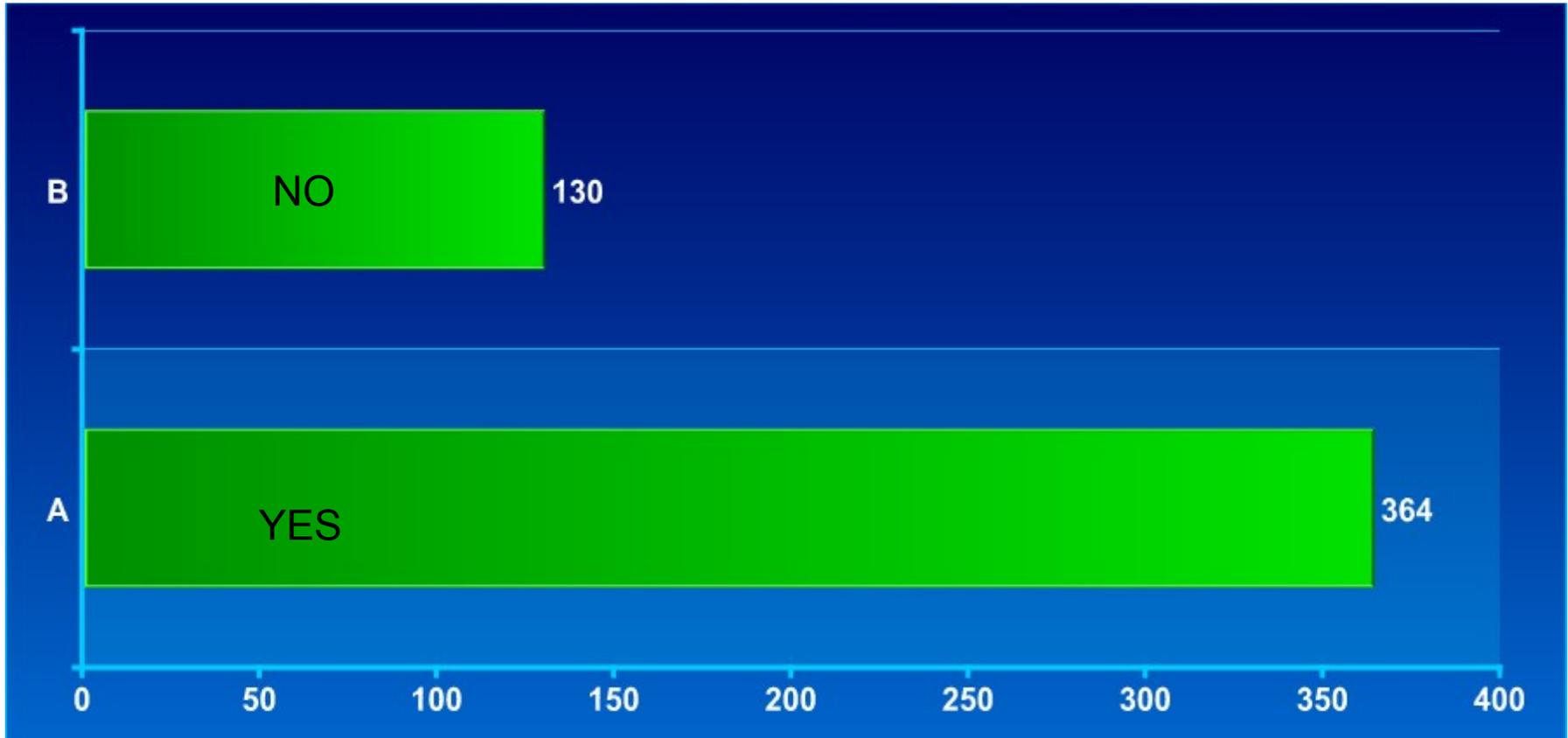
SURVEY RESULTS: The Human Resources Department surveyed an additional 494 employees to seek input on Health care changes.



If premiums would increase to offer a plan that focused on the following:

- Free preventive coverage
- \$1000 for Single/\$2,000 Family annually to pay for eligible medical and prescription services (not to exceed \$1,000single/\$2000 annual rollover)
- With a higher deductible and a higher out-of-pocket maximum

Would you enroll?



If the City of Dallas offered a plan in which preventive health care services were free, would you consider it to be a good benefit for you and/or your family?

