

Memorandum 13-157 Fully Insured Health Plan Proposals

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TO: MAYOR WYTHE AND COUNCIL

THROUGH: WALT WREDE

FROM: ANDREA PETERSEN

DATE: NOVEMBER 13, 2013

SUBJECT: FULLY-INSURED HEALTH PLAN PROPOSALS

Introduction

Employers that offer health insurance benefits finance those benefits in one of two ways: they purchase health insurance from an insurance company (fully-insured plans), or they provide health benefits directly to employees (self-insured plans). Typically, these plans differ by who assumes the insurance risk, plan characteristics, employer size, and market share. Currently the City is self-insured, but evaluates the fully-insured plans on an annual basis. Here are some of the details that differentiate the two types of plans:

Fully-Insured Plans

Risk: In a fully-insured plan, the employer pays a per-employee premium to an insurance company, and the insurance company assumes the risk of providing health coverage for insured events.

Plan characteristics: In fully-insured arrangements, premiums vary across employers based on employer size, employee population characteristics, and health care use. Premiums can also change on an annual basis within the same employer because of changes in the demographics of the employed group, utilization and the overall health of the group. However, employers are charged the same premium for each employee.

Employer size: Small employers that offer health benefits are typically fully-insured; however, this trend is changing and smaller employers are switching to self-insured plans.

Self-Insured Plans

Risk: In a self-insured plan, instead of purchasing health insurance from an insurance company and paying the insurer a per-employee premium, the employer acts as its own insurer. In the simplest form, the employer uses the money that it would have paid the insurance company and instead directly pays health care claims to providers through the third party administrator. In addition, self-insured plans purchase a stop loss policy for protection from large claims. Stop loss insurance is a policy that takes effect after a certain amount has been paid in claims. The stop loss premium is calculated for each employee for each month. The premium is based on the number of participants, age of the participants and other information. The stop loss premium is renewed on an annual basis.

Plan characteristics: Employers can often offer multiple self-insured health plans to employees. The plan can also be tailored to decrease utilization in a certain area of the benefit or to reduce the overall expenses.

Employer size: In 2011, 68.5 percent of workers in firms with 50 or more employees were in self-insured plans, whereas only 10.8 percent of workers in firms with fewer than 50 employees were in self-insured plans

Brief Overview of Fully-Insured Proposals for 2014 Plan Year

The City reviewed proposals from three fully-insured companies (Aetna, Premera, and Aetna Alaska Political Subdivision). The details of each proposal are attached.

There are many pros and cons to consider when evaluating full-insured plans. Some of the considerations include:

- Estimated premiums are only good for one year.
- At least a two year commitment may be required.
- Every eligible employee must enroll in the health benefits.
- The City will not receive performance reports regarding utilization and overall health of participants.
- Customer service needs may not meet current standards.

The 2014 self-insured health plans were compared to other municipalities within the Kenai Peninsula. The comparison found that the City of Homer is still competitive with the other municipalities. In addition, transitioning to a fully-insured plan in 2014 will result in terminating contracts with Mercer (Jeff Paxton, Benefit Broker), Meritain

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(Third-Party Administrator and Symetra (Stop-Loss Policy). The City may be expected to pay early contract termination fees. Health Care Reform and the new Health Exchanges are other areas to consider when reviewing the health benefits package. There is a copious amount of information in the attachments and this memo. Please let me know if you have any questions or concerns.



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Related Ordinances **Memorandum - Related Ordinances:** [Ordinance 13-44\(A\) Appropriating Funds for the Calendar Year 2014](#)

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