

## **Memorandum 14-010 Fully-Insured Health Plan Proposals**

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**TO:** MAYOR WYTHER AND COUNCIL

**THROUGH:** WALT WREDE

**FROM:** ANDREA PETERSEN

**ORIGINAL DATE:** NOVEMBER 13, 2013

**AMENDED DATE:** JANUARY 8, 2014

**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,

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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). A brief summary of each proposal is attached, as well as a more detailed summary of each proposed plan.

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.

### Allocating Money for Individual Medical Coverage

If the City decides to offer employee a dollar allocation for procuring medical coverage individually there are several implications to consider:

The allocation becomes taxable income. It may place an employee in a higher tax bracket.

Each employee procuring coverage will have a completely different coverage and the cost will vary. If an individual obtains coverage from the federal exchange in Alaska, they will have a choice of either Moda Health or Premera, both offering different coverage levels. The costs vary by age. Consequently, a 25 year old male will have a substantially lower cost than a 55 year old male for the same plan. In essence, some employees will possibly receive a significant raise in pay, while others may have to pay more than the fixed dollar allocation for coverage. How will employees get information about individual health plans and know how to navigate this complex market. Yes, "consumerism" is increasing rapidly around healthcare, however, it would be a significant "leap" culturally to move from an employee program to nothing at all.

Would the allocation be intended to provide for dental & vision as well as medical coverage? If so, there are very few if any individual alternatives for dental & vision.

"Are other employers doing this?" Rarely, has Mercer seen this type of a maneuver implemented. Mercer has had many discussions with employers on this topic. The topic quickly moves back to the why has the employer provided benefits historically. There has never been a requirement for providing benefits in the past. Consequently, there has been a business case for doing so. Usually, the business case is around retention and recruitment of staff.

More current thought is around private exchanges and defined contribution. The concept allows for employers to designate a contribution toward benefits and offers choice for the employees to select what may be more appropriate benefits for their specific situation. Private exchanges are relatively new and there has not been a lot of discussion regarding the success of the exchange.

### Play or Pay Provision

"What is the pay or play clause?" The pay or play notion under the Affordable Care Act (ACA) is part of the shared responsibility provision applicable to employers with 50 or more FTE's. If the employer elects not to offer medical coverage, that employer will be subject to a penalty for not offering coverage. The amount is calculated on a

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monthly basis, but for general purposes is \$2000 per eligible employee per year minus the first 30 employees. This would cost the City approximately \$146,000 (103 employees – 30 = 73 x \$2,000). The penalty is far less costly than offering coverage, however, if the City makes an allocation for employees to procure their own health coverage, that amount would be subject to payroll taxes. The penalty for not offering escalates each year.

### Employees' Opting Out of Coverage

"Can an employee opt out of coverage with an employer and not be covered at all?" Unfortunately the answer to this question depends on the situation. Generally, the answer is yes. However, there are many factors that determine if a particular program will allow employee waivers for opting out of coverage. For example, some carriers require 100% participation for their fully insured programs. That said, there are no regulations stipulating employees may not opt out of employer coverage. If an employee does opt out and not have any coverage, the ACA will impose a tax on that individual when they file their taxes for 2014.

### Other Items to Consider

The 2014 City of Homer 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. Transitioning to a fully-insured plan in 2014 would result in terminating contracts with Mercer (Jeff Paxton, Benefit Broker), Meritain (Third-Party Administrator, and Symetra (Stop-Loss Policy). The City would be expected to pay early contract termination fees.

Although the 2014 health care plan has changed significantly for employees, base wages and salaries are falling behind. Lower wages can make recruitment challenging for some positions and the City of Homer is not competitive with other municipalities and boroughs. It is recommended to review the total compensation package and create and implement a compensation strategic plan. In addition, there are several departments that are not staffed to the appropriate level such as parks maintenance, building maintenance, and many others. It is also recommended that Council considers conducting an organization wide employee full-time equivalent (FTE) analysis. By conducting an employee FTE analysis, the City and management will be able to strategically plan to meet the staffing needs in order to provide the services the City offers.

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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2014 Health Plan Proposals

2014 Dental Plan Proposals

Premera Medical/Vision Plan Proposals

Premera Dental Plan Proposals

Aetna Medical/Vision Plan Proposals

Aetna Dental Plan Proposals

Alaska Political Subdivision Medical Plan Comparison Chart

Alaska Political Subdivision Health and Life Premiums

 [Memorandum 14-010 Backup](#)

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