

CITY OF HOMER CITY COUNCIL WORKSESSION

MARCH 19, 2012 4:00 p.m.

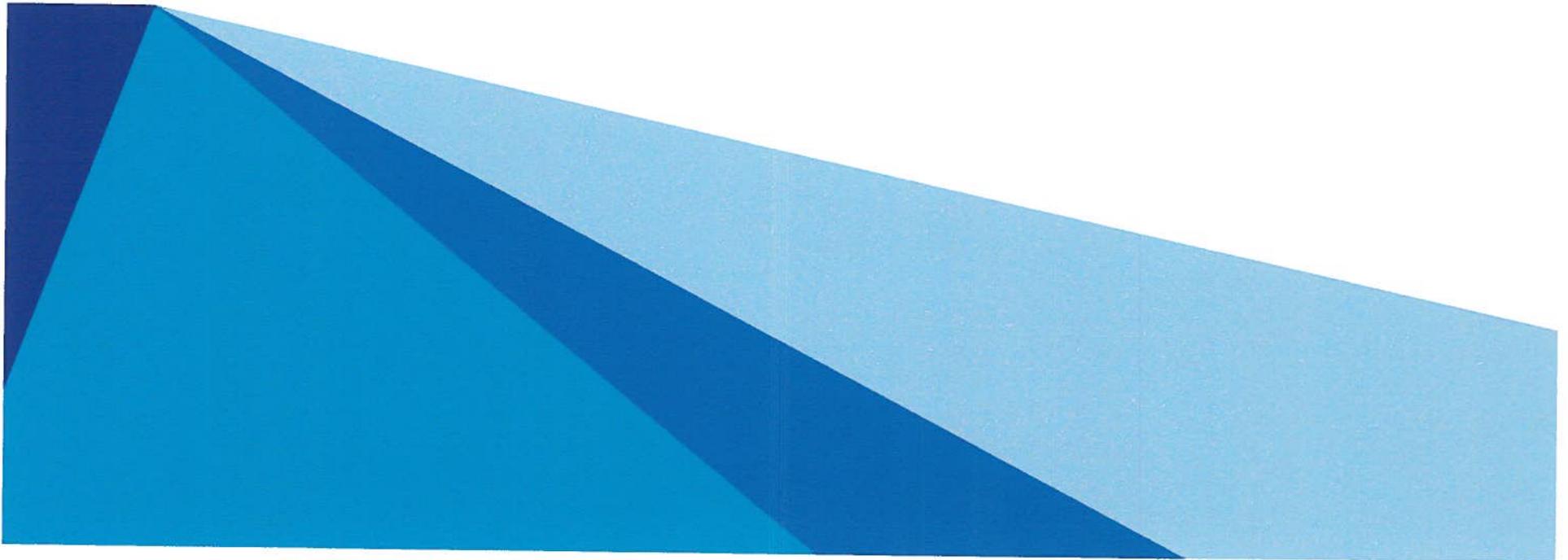


Jeff Paxton
Principal

A few accomplishments since October!

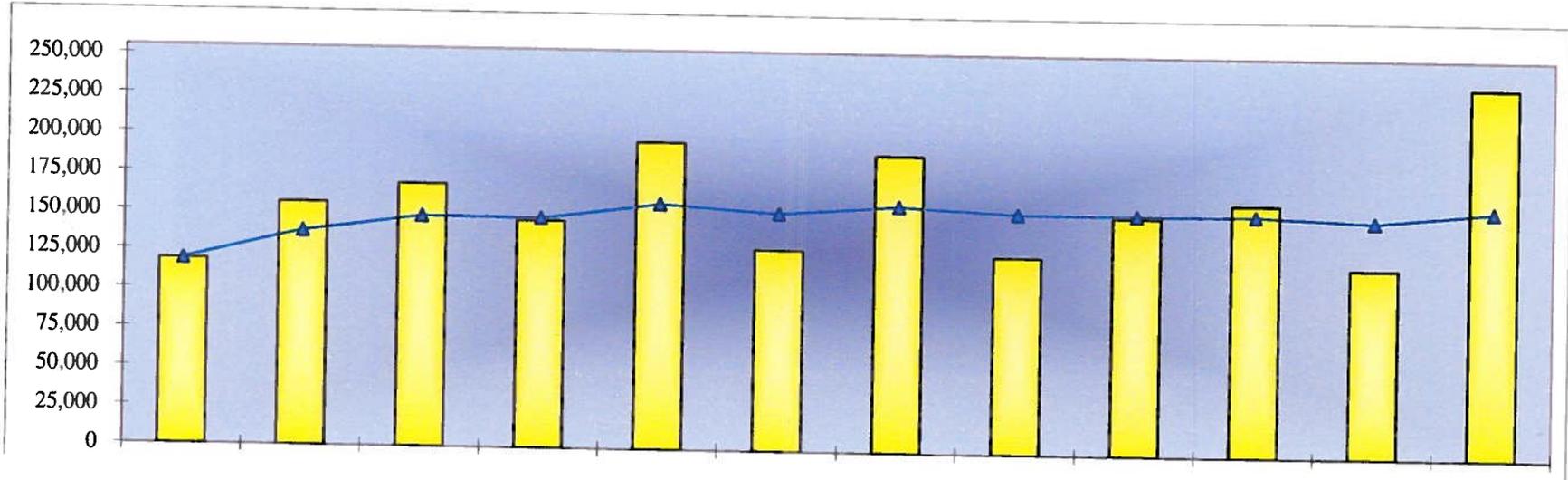
- Negotiated Plan Administration fees saving \$4,500 annually.
- Restructured Stop Loss Policy representing annual premium savings of \$83,700. Expected overall savings is \$115,187.
- Employer paid Life Insurance carrier changes resulted in an estimated annual savings of \$3,300.
- Voluntary Life Insurance carrier changes also resulted in savings to the employees.
- Outsourced COBRA Administration, reducing risk to the city.

CITY OF HOMER PLAN EXPERIENCE AND PROJECTIONS

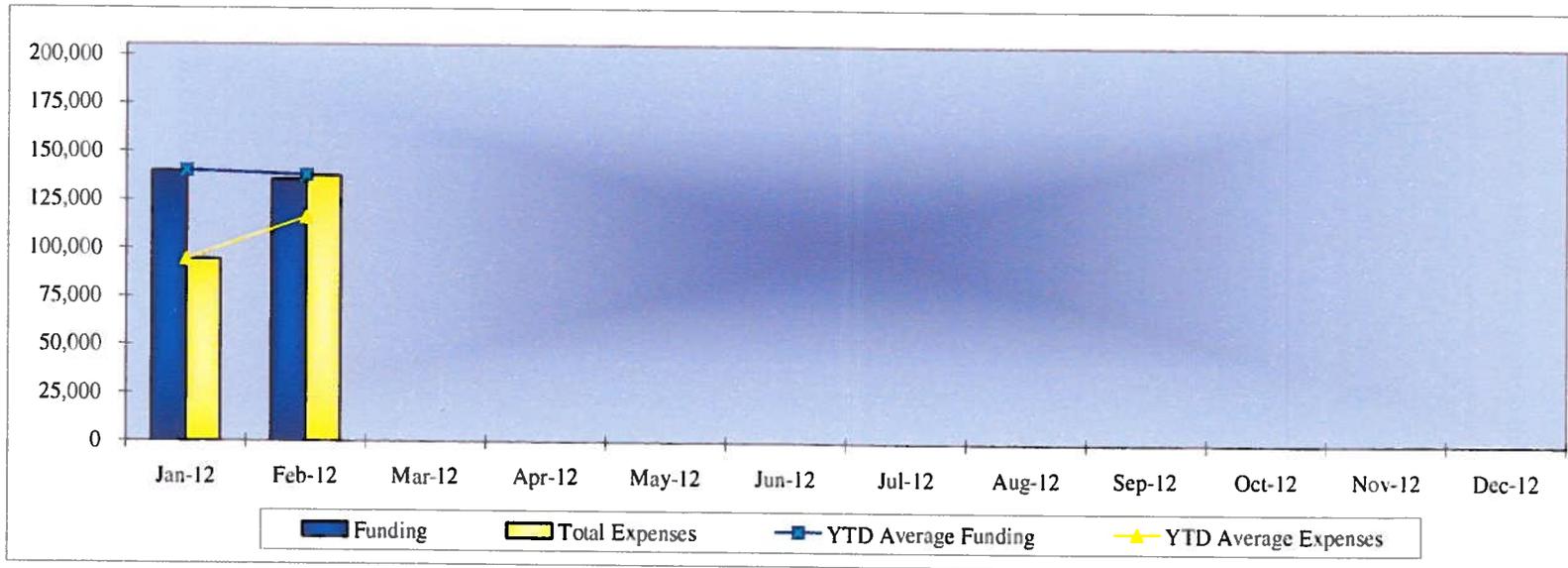


City of Homer

Combined Plan Experience



City of Homer Combined Plan Experience

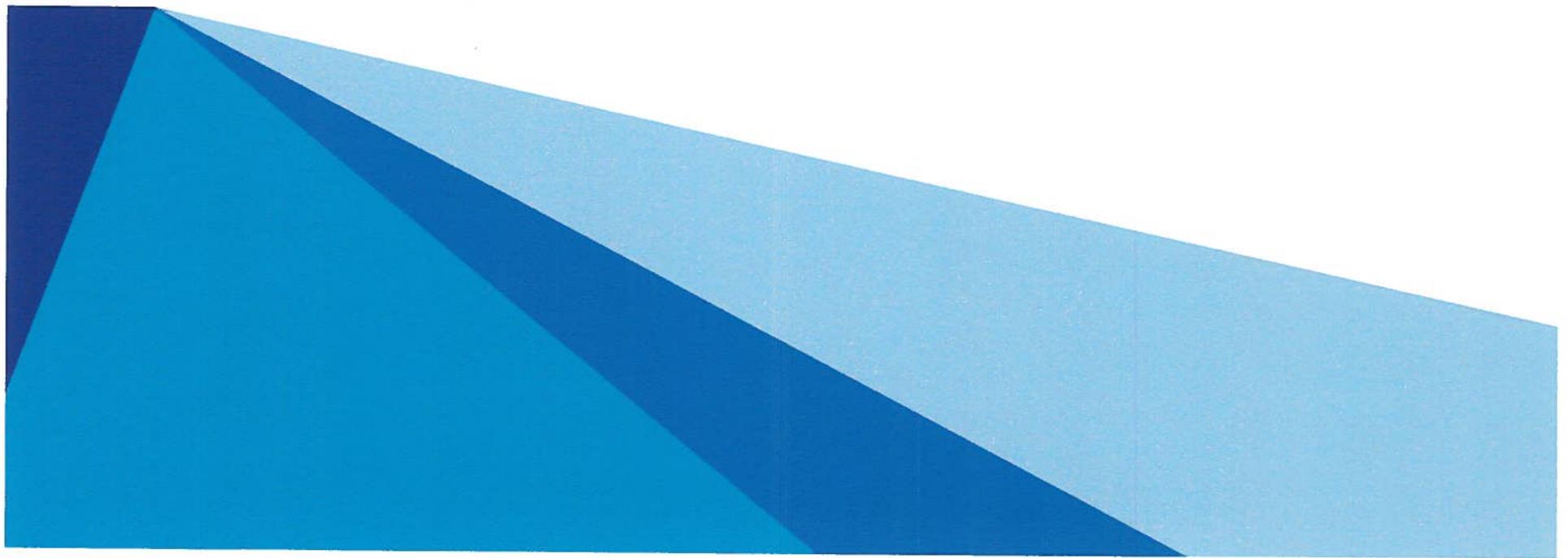


Contract Period

January 2012 - December 2012

	<u>Total Paid</u>	<u>% of Expenses</u>
Funding Level	\$275,517	
PEPM Funding	\$1,428	
Stop Loss Charges	\$69,007	29.8%
Administration Fees	\$7,376	3.2%
Total Fixed Costs	\$76,384	33.0%
Gross Paid Claims	\$155,248	
Reimbursed Claims	\$0	
Net Paid Claims	\$155,248	67.0%
Total Expenses	\$231,631	100.0%
PEPM Expense	\$1,200	
Gain / (Loss)	\$43,886	
Expense Loss Ratio	84.1%	

CITY OF HOMER 2011 NATIONAL SURVEY OF EMPLOYER-SPONSORED HEALTH PLANS



Benchmark Survey Results

Demographics

Average employee age
Average % of female employees
Average % of union employees

	City of Homer	City <500	Alaska employers	West <500
Average employee age	47	43	43	40
Average % of female employees	36%	32%	53%	45%
Average % of union employees	0%	30%	4%	7%

Benchmark Survey Results, continued

Type of medical plan offered

Percent of employers offering each type of medical plan

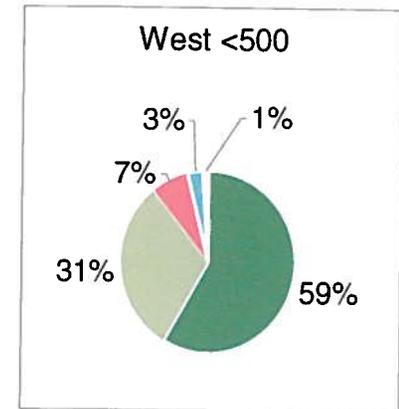
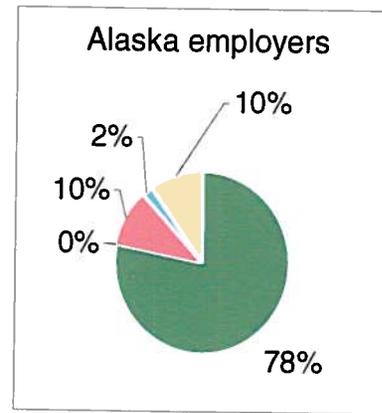
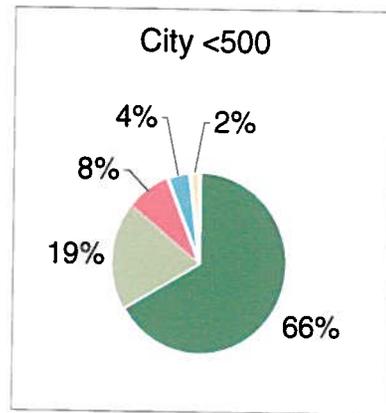
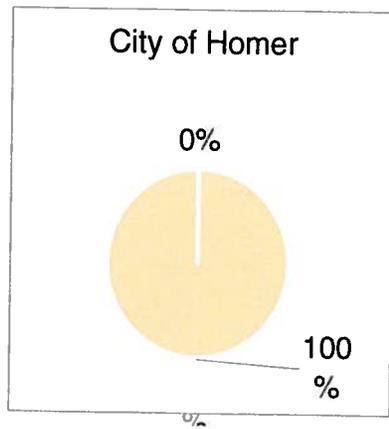
	City of Homer	City <500	Alaska employers	West <500
PPO/POS	No	77%	80%	77%
HMO	No	24%	0%	43%
HSA-eligible CDHP	No	11%	10%	16%
HRA-based CDHP	No	5%	10%	5%
Either type of CDHP	No	15%	20%	20%
Indemnity	Yes	4%	10%	2%

Benchmark Survey Results, continued

Employee enrollment

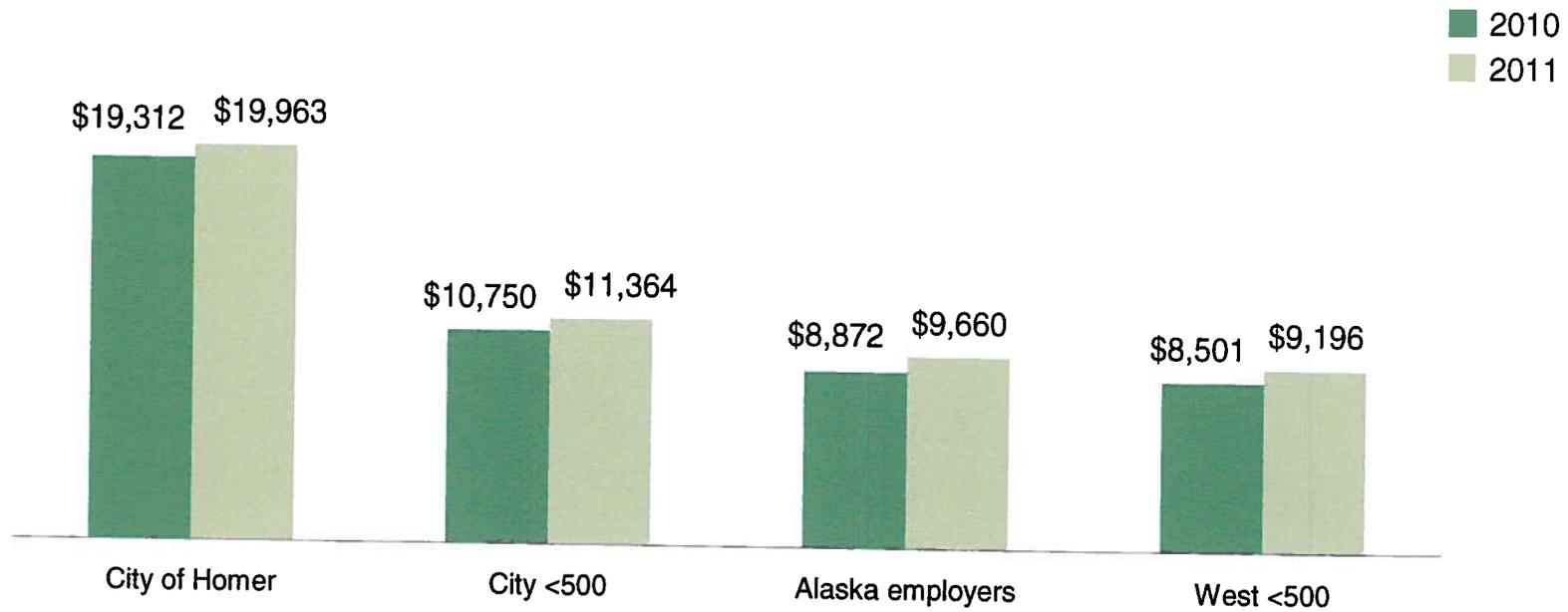
Percent of all covered employees enrolled in each type of medical plan

■ PPO/POS ■ HMO ■ HSA-eligible CDHPs ■ HRA-based CDHPs ■ Indemnity



Benchmark Survey Results, continued

Average total health benefit cost* per employee



*Total health benefit cost includes medical, dental, Rx, vision and hearing benefits

Benchmark Survey Results, continued

EMPLOYEE CONTRIBUTIONS

Individual coverage

Average monthly contribution for individual coverage (\$)

	City of Homer	City <500	Alaska employers	West <500
PPO/POS	\$0	\$99	\$163	\$129
HMO		\$67	ID	\$115
HSA-eligible CDHP		\$47	\$89	\$96
HRA-based CDHP		\$13	ID	\$91
Dental	\$0	\$16	ID	\$22

Average contribution for individual coverage as a % of premium

	City of Homer	City <500	Alaska employers	West <500
PPO/POS	0%	19%	22%	26%
HMO		13%	ID	30%
HSA-eligible CDHP		11%	10%	25%
HRA-based CDHP		3%	20%	23%
Dental	0%	51%	ID	54%

Benchmark Survey Results, continued

EMPLOYEE CONTRIBUTIONS

Family coverage*

Average monthly contribution for family coverage (\$)

	City of Homer	City <500	Alaska employers	West <500
PPO/POS	\$0	\$412	\$611	\$497
HMO		\$290	ID	\$521
HSA-eligible CDHP		\$292	ID	\$418
HRA-based CDHP		\$352	ID	\$324
Dental	\$0	\$51	ID	\$70

Average contribution for family coverage as a % of premium

	City of Homer	City <500	Alaska employers	West <500
PPO/POS	0%	40%	33%	44%
HMO		22%	ID	49%
HSA-eligible CDHP		25%	40%	46%
HRA-based CDHP		32%	20%	40%
Dental	0%	57%	ID	65%

*Family coverage is defined as coverage for employee, spouse and two children

Benchmark Survey Results, continued

COVERAGE ELIGIBILITY, ELECTION

	City of Homer	City <500	Alaska employers	West <500
Coverage waivers				
Average % of employees waiving own coverage	0%	4%	19%	14%
% of employers offering incentive to waive coverage	No	29%	10%	16%
Dependent coverage				
Include provisions concerning spouses with other coverage	No	7%	0%	6%
Average % of employees electing dependent coverage	79%	59%	53%	47%

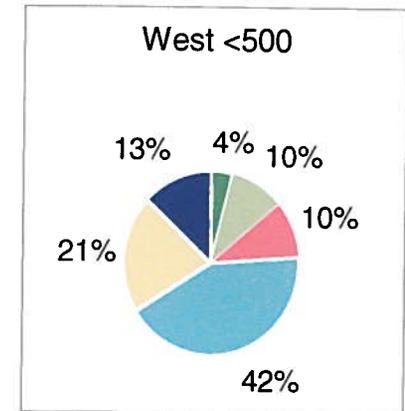
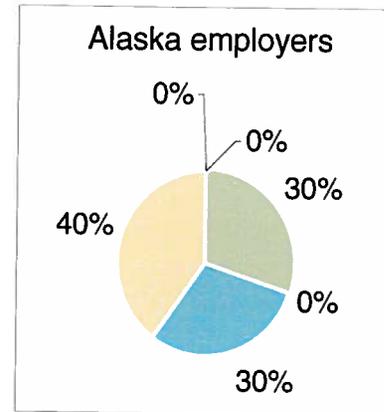
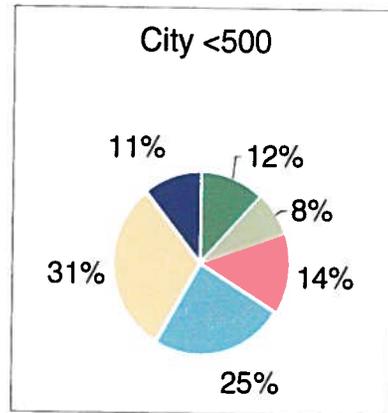
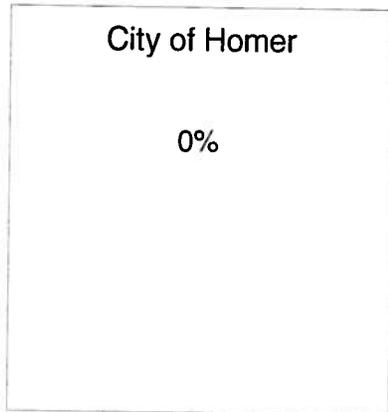
Benchmark Survey Results, continued

HEALTH REFORM

Projected spending increase attributable solely to 2014 PPACA requirements

Percent of employers with 50 or more employees

■ Less than 1% ■ 1-2% ■ 3-4% ■ 5% or more ■ Don't know ■ N/A, already in compliance



Benchmark Survey Results, continued

HEALTH REFORM

Excise tax for high-cost plans

Most likely action with regard to excise tax for high-cost plans¹:

Will do whatever is necessary to bring plan cost below threshold amounts

Will attempt to bring cost below threshold amounts, but may not succeed

Will take no special steps to reduce cost below the threshold amounts

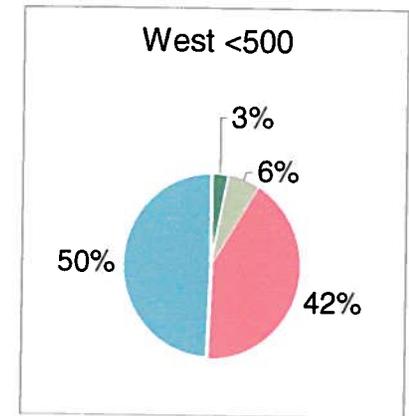
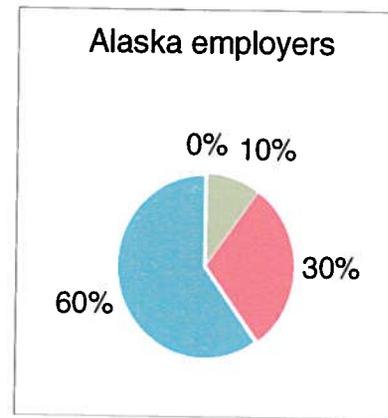
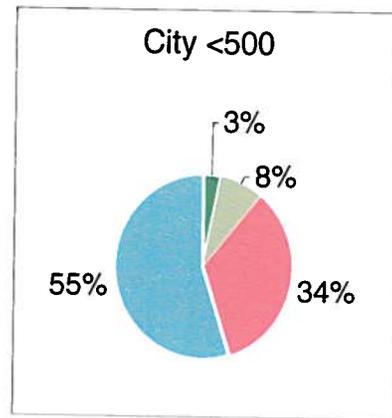
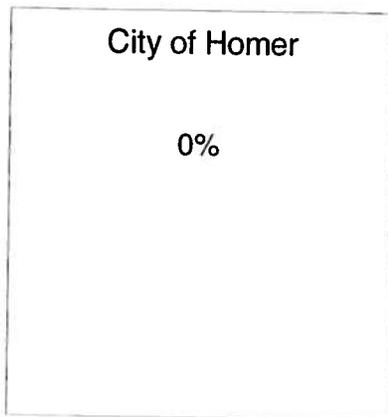
Believe plan(s) are unlikely to ever trigger the excise tax

	City of Homer	City <500	Alaska employers	West <500
Will do whatever is necessary to bring plan cost below threshold amounts		21%	20%	21%
Will attempt to bring cost below threshold amounts, but may not succeed		37%	60%	34%
Will take no special steps to reduce cost below the threshold amounts		3%	0%	3%
Believe plan(s) are unlikely to ever trigger the excise tax		39%	20%	42%

Benchmark Survey Results, continued

Likelihood of terminating medical plan(s) after some or all PPACA provisions go into effect

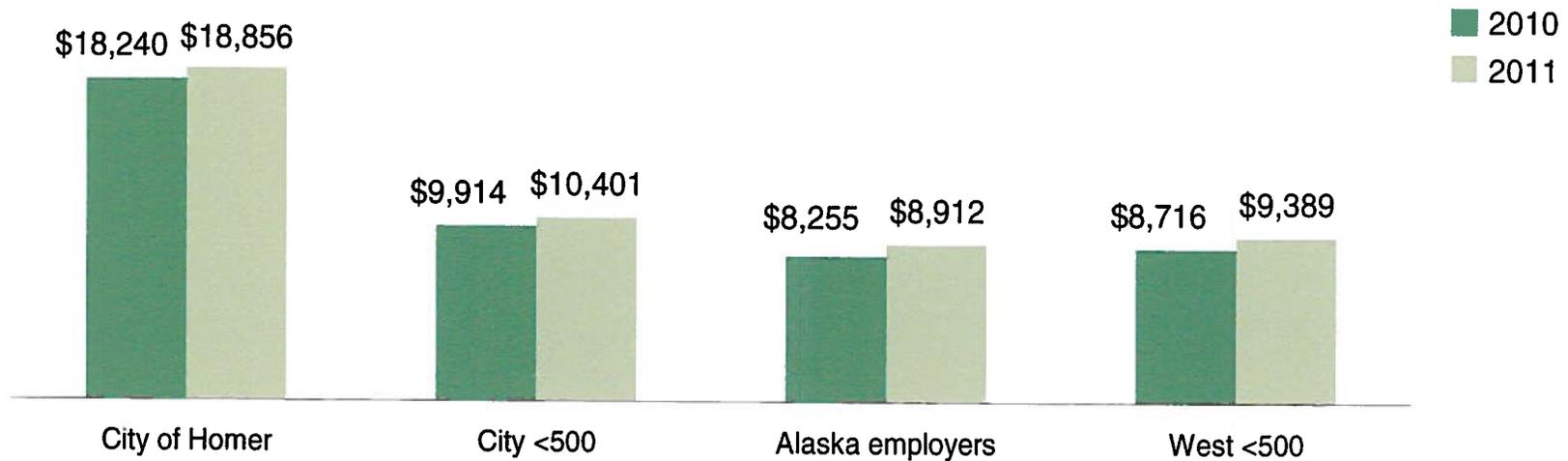
Very likely Likely Not very likely Not at all likely



¹ Based on employers with 50 or more employees

Benchmark Survey Results, continued

Average PPO / POS cost per employee, for active employees



Benchmark Survey Results, continued

PPO / POS cost sharing

	City of Homer	City <500	Alaska employers	West <500
In-network physician visit				
% requiring copay	No	81%	25%	84%
% requiring coinsurance	Yes	17%	63%	23%
No cost-sharing is required	No	10%	13%	3%
Median copay amount	\$0	\$20	\$23	\$20
In-network hospital stay				
% requiring deductible / per-admission copay	No	13%	0%	16%
% requiring coinsurance	Yes	54%	75%	78%
No cost-sharing is required	No	31%	13%	9%
Median deductible amount	\$0	\$125	ID	\$250
Median coinsurance amount	10%	20%	20%	20%
Emergency room visit				
% requiring copay	0%	75%	50%	73%
Median copay amount	\$0	\$100	\$100	\$100

Benchmark Survey Results, continued

PPO / POS cost sharing, continued

	City of Homer	City <500	Alaska employers	West <500
Individual deductible				
% requiring for in-network services	Yes	71%	100%	89%
Median in-network deductible	\$100	\$500	\$350	\$500

	City of Homer	City <500	Alaska employers	West <500
Family deductible				
% requiring for in-network services	Yes	70%	88%	86%
Median in-network deductible	\$300	\$1,000	\$900	\$1,500

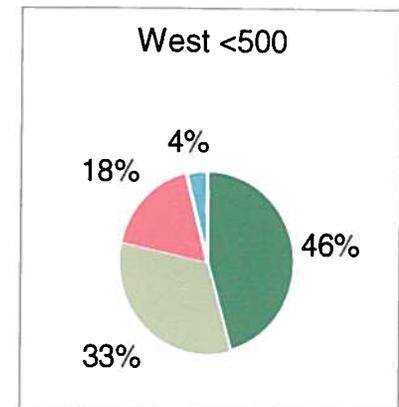
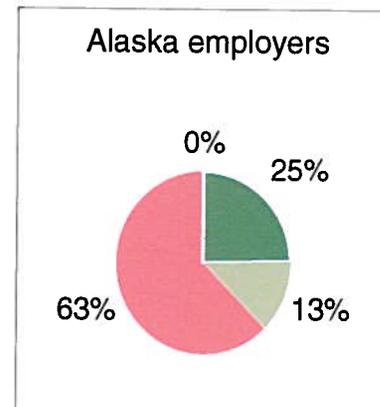
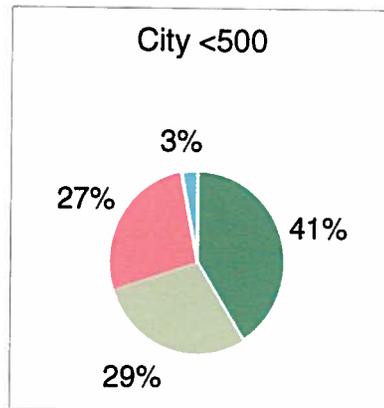
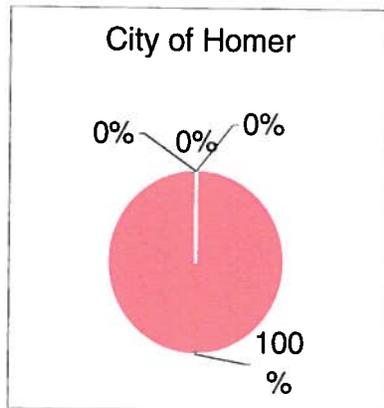
Out-of-pocket maximums for individuals

	City of Homer	City <500	Alaska employers	West <500
Median for in-network services	\$600	\$1,500	\$2,250	\$2,500

Benchmark Survey Results, continued

PPO / POS funding method

- Conventionally insured
- Experience-rated
- Self-funded with stop-loss
- Self-funded without stop-loss



Benchmark Survey Results, continued

Employee cost-sharing requirements for prescription drug plans

Retail	City of Homer	City <500	Alaska employers	West <500
Same level for all drugs		5%	11%	7%
2 levels: generic, brand	Yes	31%	11%	25%
3 levels: generic, formulary, non-formulary		55%	56%	59%
4 or more levels		6%	11%	7%
Use coinsurance for 1 or more drug categories	No	15%	13%	12%

Copayments in prescription drug plans

Average copayment among plans with 3 payment levels

Retail	City of Homer	City <500	Alaska employers	West <500
Generic	\$5	\$11	\$12	\$12
Brand-name formulary	\$15	\$27	\$34	\$30
Brand-name non-formulary	\$15	\$44	\$40	\$49

Benchmark Survey Results, continued

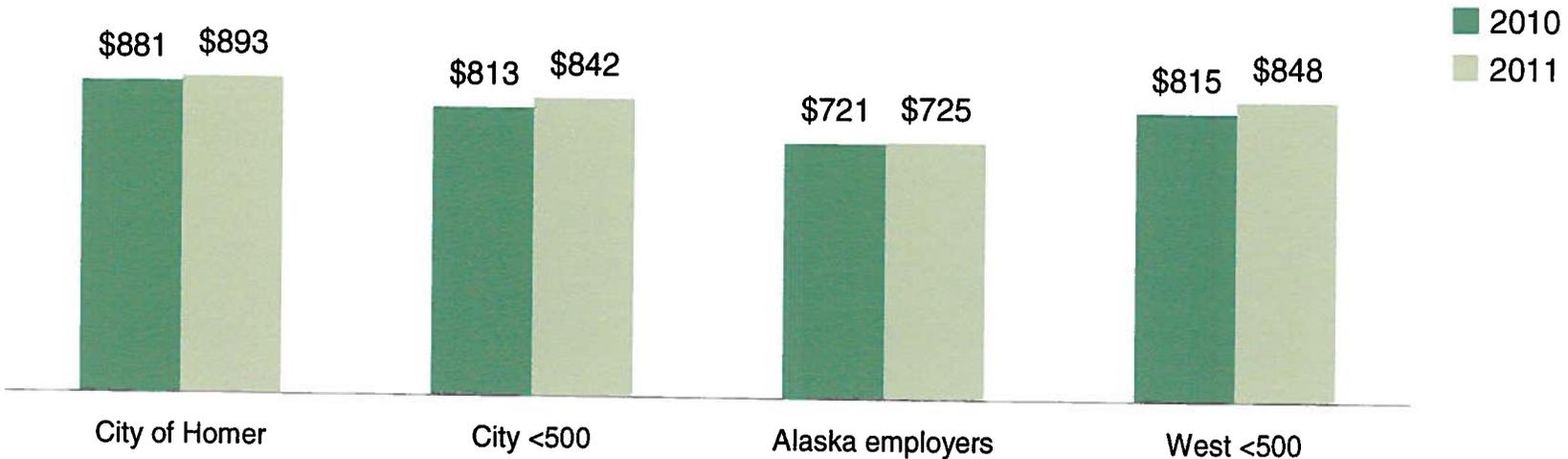
Health management incentives / penalties

	City of Homer	City <500	Alaska employers	West <500
Premium contribution varies based on employees' smoker status		3%	0%	2%
Use incentives or penalties to encourage participation in:				
Health risk assessment (HRA), when offered		13%	0%	10%
Targeted behavior modification, when offered		8%	0%	10%
Biometric screening, when offered		6%	0%	5%
Type of health risk assessment incentive used				
Cash / gift cards		67%	ID	33%
Financial contribution to HRA, HSA, FSA		0%	ID	0%
Lower premium contributions		17%	ID	67%
Lower deductible, copay or other cost-sharing		0%	ID	0%

*Offered to employees enrolled in the largest medical plan of any type

Benchmark Survey Results, continued

Average cost of dental coverage, per employee



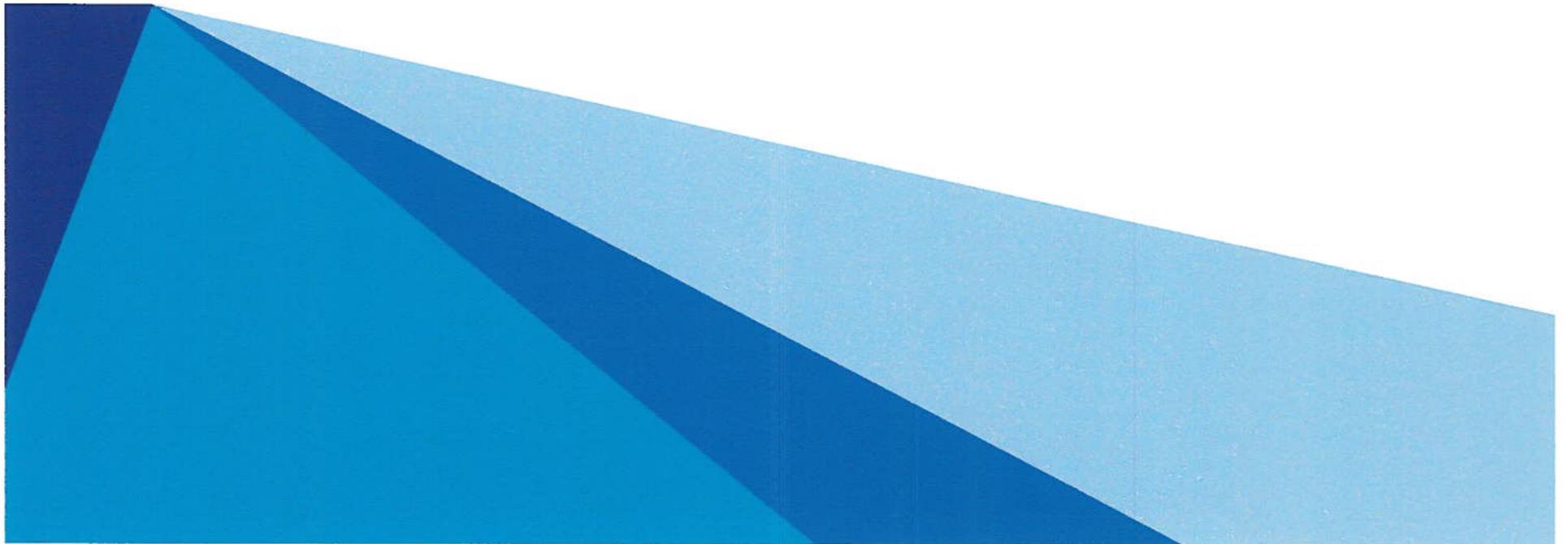
Benchmark Survey Results, continued

OTHER BENEFITS

Flexible spending accounts (FSA)

	City of Homer	City <500	Alaska employers	West <500
Health care FSA				
% offering health care FSA	Yes	45%	70%	59%
Average employee participation		26%	35%	30%
Average annual voluntary contribution		\$1,154	\$1,475	\$1,464
Dependent care FSA				
% offering dependent care FSA	Yes	43%	70%	54%
Average employee participation		3%	3%	7%
Average annual voluntary contribution		\$3,209	\$2,690	\$3,232

CITY OF HOMER HEALTHCARE REFORM



U.S. Supreme Court Decision Scenarios

Most likely

1

Court upholds the individual coverage mandate.



- PPACA moves forward, barring Congressional action
- Employers proceed with compliance strategy – aware of enrollment pressures
- Exchange planning continues in the States
- Budget process may disrupt PPACA implementation

U.S. Supreme Court Scenarios Possible

2

Court strikes down the individual coverage mandate, but the rest of the law remains valid.



- Health insurance market would potentially destabilize because of adverse selection
- Likely to spike costs – employers not immune from impact
- Employers continue to comply with health reform mandates; increased focus on cost containment

U.S. Supreme Court Scenarios Unlikely

3

Court strikes down the individual coverage mandate. Entire law is invalid based on lack of severability.



- The challenge of unwinding what has already been implemented
 - Plan mandates
 - Exchange grants
 - ERRP
- Employers should still pursue strategy of health management and cost control

U.S. Supreme Court Scenarios

Very unlikely

4

Court rules that a decision is premature – no taxes have been assessed for failure to comply



- Employers must continue to comply despite uncertain future of the law
- Ruling would not come until 2015 or later

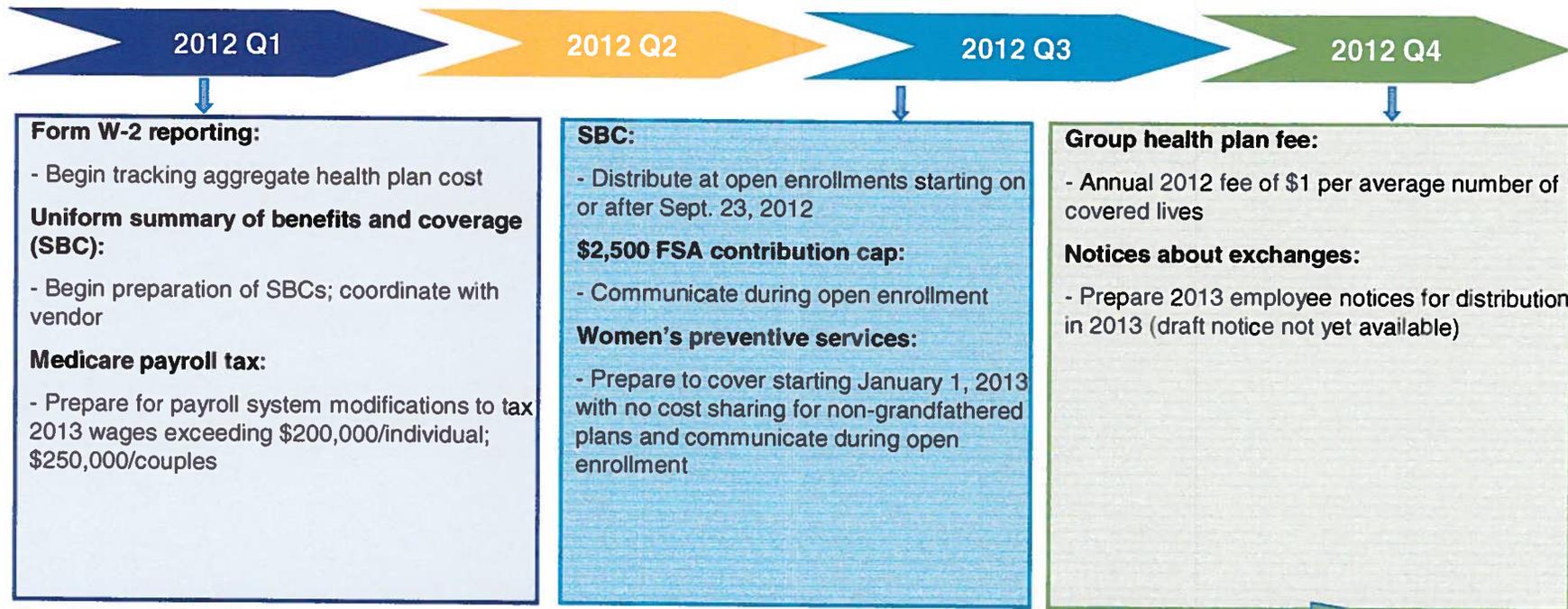
Upcoming mandates and responsibilities

Additional mandates coming up in 2012 & 2013

2012 Mandates	
Form W-2 reporting	<ul style="list-style-type: none"> Beginning with coverage provided in 2012 and reported on Form W-2 to be given in January 2013 for groups over 250. Groups under 250 are delayed until 2013 for reporting in 2014. Gross costs, like COBRA Actives
Group health plan fee	<ul style="list-style-type: none"> Annual fee of \$1, then \$2 indexed, based on average number of covered enrollees, until 2019 Fund federal program on comparative effectiveness research
Uniform benefit summary	<ul style="list-style-type: none"> In addition to SPD and other currently required disclosures Four pages, 12-point font summary provided at initial and annual enrollment Includes information about covered benefits, exclusions, cost-sharing and continuation coverage

2013 Mandates	
\$2,500 health FSA contribution cap	<ul style="list-style-type: none"> CPI adjusted after 2013
Health insurance exchange notice	<ul style="list-style-type: none"> Inform employees about health insurance exchanges: and eligibility rules
New taxes for high-income households	<ul style="list-style-type: none"> Additional <i>employee-only</i> 0.9% Medicare tax on wages exceeding: <ul style="list-style-type: none"> – \$250,000/married filing jointly – \$125,000/married filing separately – \$200,000 in any other case New 3.8% tax on investment income for taxpayers with incomes exceeding levels described above

Timeline for top priority 2012 - 2013 activities



Looking Ahead to 2013

- Distribute SBCs to new hires and special enrollees beginning Jan. 1, 2013
- 60-day advance notices of material modifications to SBC required beginning Jan. 1, 2013
- \$2,500 health FSA contribution cap effective Jan. 1, 2013
- Higher Medicare payroll tax on wages exceeding \$200,000/individual; \$250,000/couples (modify payroll systems in 2012)
- Form W-2 reporting for health coverage (track in 2012 for W-2 form provided in early 2013)
- No cost sharing for women's preventive services in non-grandfathered plans
- Employers notify employees about exchanges
- Medical device manufacturers' fees start
- Change in Medicare retiree drug subsidy tax treatment takes effect
- Exchanges initial open enrollment period to begin in the fall
- Auto-enrollment of full-time employees (applicability date will be later than 2014/TBD)

Key elements of health reform for employers

- Change in tax treatment for over-age dependent coverage
- Accounting impact of change in Medicare retiree drug subsidy tax treatment
- Early retiree medical reinsurance
- Medicare prescription drug “donut hole” beneficiary rebate
- Break time/private room for nursing moms

- Employers to distribute uniform summary of benefits and coverage (SBC) to participants (deadlines vary with group of recipients)
- 60-day advance notice of mid-year material modifications to SBC content
- Form W-2 reporting for health coverage (track in 2012 for W-2 form provided in early 2013)⁴
- Comparative effectiveness group health plan fees begin
- Coverage for additional women's preventive care services begins (plan years on or after August 1, 2012)

- Health insurance exchanges
- Individual coverage mandate
- Financial assistance for exchange coverage of lower-income individuals
- Medicaid expansion
- HIPAA wellness limit
- Employer shared responsibility
- Additional reporting and disclosure
- Dependent coverage to age 26 for any covered employee's child²
- No annual dollar limits²

- No pre-existing condition limits²
- No waiting period over 90 days²
- Additional standards for new or “non-grandfathered” health plans, including limited cost-sharing and deductibles, provider nondiscrimination, and cover routine medical costs of clinical trial participants
- Health insurance industry fees begin
- Auto enrollment some time after 2014³



- Dependent coverage to 26 (grandfathered plans may limit to children without access to other employer coverage, other than parent's coverage)¹
- No lifetime dollar limits¹
- Restricted annual dollar limits, phased amounts until 2014¹
- No pre-existing condition limitations for enrollees up to age 19¹ and no rescissions¹
- No health FSA/HRA/HSA reimbursement for non-prescribed drugs
- Increased penalties for non-qualified HSA distributions

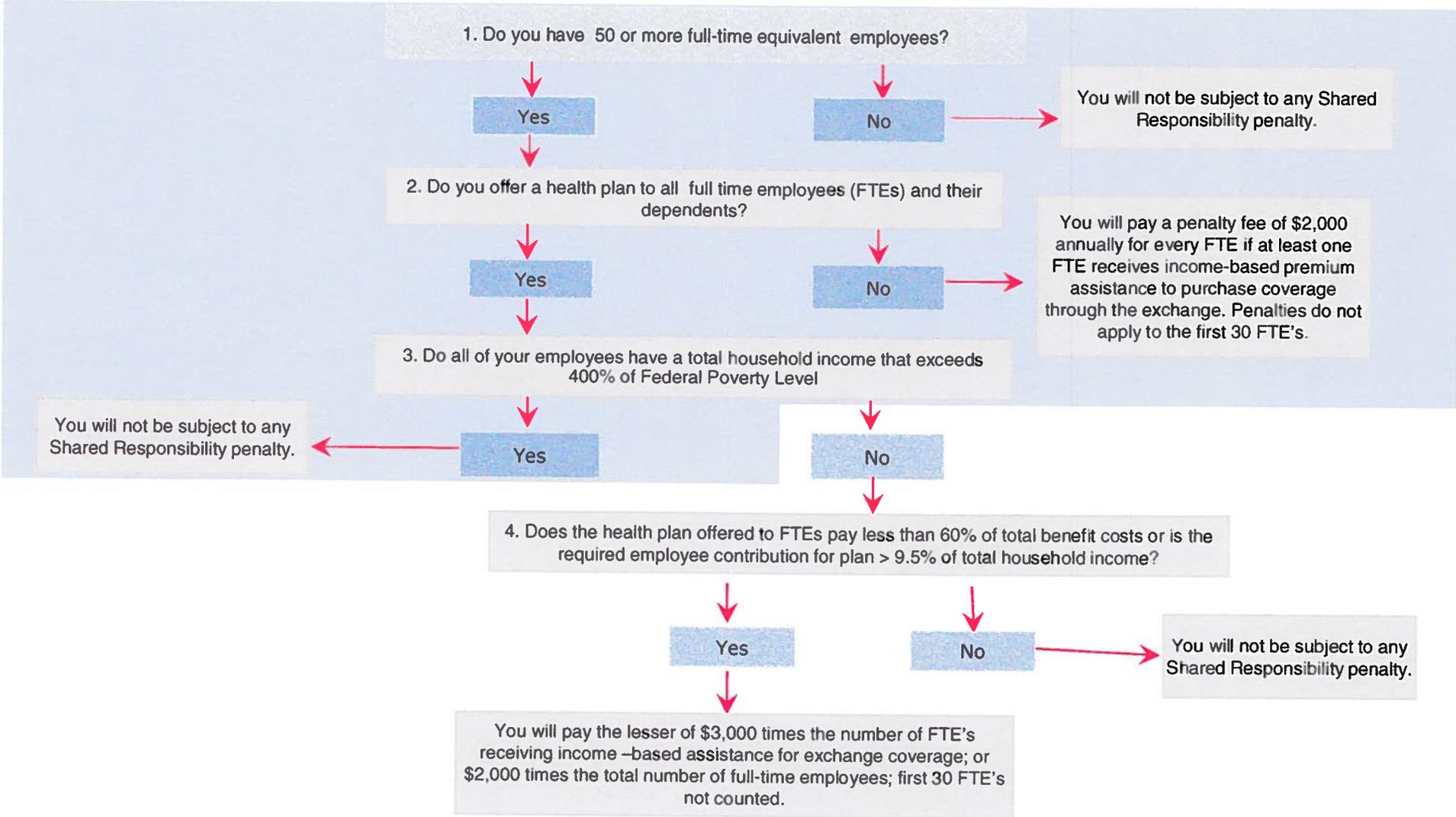
- Additional standards for new or “non-grandfathered” health plans, including preventive care in network with no cost-sharing, appeal and external review, provider choice, and non-discrimination rules for insured plans³
- Income-based Medicare Part D premiums
- Pharmaceutical importers and manufacturers' fees start
- Medicare, Medicare Advantage benefit and payment reforms to begin
- Insurers subject to medical loss ratio rules

- \$2,500 health FSA contribution cap (indexed)
- Employers notify employees about exchanges
- Medical device manufacturers' fees start
- Higher Medicare payroll tax on wages exceeding \$200,000/ individual; \$250,000/couples
- Change in Medicare retiree drug subsidy tax treatment takes effect
- Exchanges initial open enrollment period to begin

- 40% excise tax on “high cost” or Cadillac coverage

1. Applies to all plans, including “grandfathered” plans, effective for plan years beginning on or after Sept. 23, 2010 (Jan. 1, 2011, for calendar year plans).
2. Applies to all plans, including grandfathered plans, effective for plan years beginning on or after Jan. 1, 2014.
3. Delayed until regulations issued/date TBD
4. A temporary exemption applies to certain categories of employers.

Shared Responsibility – Decision Tree Effective in 2014



Understanding the Impact
Employees eligible for Medicaid or Exchange

Family Size	Federal Poverty Level (2011)	Medicaid Threshold (138% FPL)*	400% FPL eligible for Exchange
Single	\$10,890	\$15,028	\$ 43,560
Family of 2	\$14,710	\$20,300	\$ 58,840
Family of 3	\$18,530	\$25,571	\$ 74,120
Family of 4	\$22,350	\$30,843	\$ 89,400
Family of 5	\$26,170	\$36,115	\$ 104,680
Family of 6	\$29,990	\$41,386	\$ 119,960
Family of 7	\$33,810	\$46,658	\$ 135,240
Family of 8	\$37,630	\$51,929	\$ 150,520

* Threshold is determined as 133% of FPL increased to 138% for 5% income disregard

City of Homer Medical Plan Only

Patient Protection and Affordable Care Act (PPACA) - 2018 Excise Tax Estimation

PPACA High Risk Industry Premium/Funding Thresholds

Single	\$10,200
Family	\$27,500

Assumed Trend/Inflation: 8.0%

Rate Tier	2018 Projected Funding (PEPY)	Excess PEPY	Enrollee Counts	Annual Excess	40% Tax
EE	\$12,630	\$2,430	19	\$46,172	\$18,469
EE/Sp	\$29,049	\$1,549	22	\$34,085	\$13,634
EE/Ch	\$28,999	\$1,499	5	\$7,495	\$2,998
Family	\$46,100	\$18,600	49	\$911,404	\$364,562
Projected 2018 Excise Tax Liability:					\$399,663

Assumed Trend/Inflation: 10.0%

Rate Tier	2018 Projected Funding (PEPY)	Excess PEPY	Enrollee Counts	Annual Excess	40% Tax
EE	\$14,361	\$4,161	19	\$79,063	\$31,625
EE/Sp	\$33,031	\$5,531	22	\$121,677	\$48,671
EE/Ch	\$32,973	\$5,473	5	\$27,367	\$10,947
Family	\$52,418	\$24,918	49	\$1,221,005	\$488,402
Projected 2018 Excise Tax Liability:					\$579,644

Assumed Trend/Inflation: 12.0%

Rate Tier	2018 Projected Funding (PEPY)	Excess PEPY	Enrollee Counts	Annual Excess	40% Tax
EE	\$16,292	\$6,092	19	\$115,743	\$46,297
EE/Sp	\$37,471	\$9,971	22	\$219,363	\$87,745
EE/Ch	\$37,406	\$9,906	5	\$49,530	\$19,812
Family	\$59,465	\$31,965	49	\$1,566,287	\$626,515
Projected 2018 Excise Tax Liability:					\$780,369

City of Homer

All Plans Combined

Patient Protection and Affordable Care Act (PPACA) - 2018 Excise Tax Estimation

PPACA High Risk Industry Premium/Funding Thresholds

Single	\$10,200
Family	\$27,500

Assumed Trend/Inflation: 8.0%

Rate Tier	2018 Projected Funding (PEPY)	Excess PEPY	Enrollee Counts	Annual Excess	40% Tax
EE	\$13,388	\$3,188	19	\$60,572	\$24,229
EE/Sp	\$30,792	\$3,292	22	\$72,430	\$28,972
EE/Ch	\$30,739	\$3,239	5	\$16,194	\$6,478
Family	\$48,866	\$21,366	49	\$1,046,944	\$418,778
Projected 2018 Excise Tax Liability:					\$478,456

Assumed Trend/Inflation: 10.0%

Rate Tier	2018 Projected Funding (PEPY)	Excess PEPY	Enrollee Counts	Annual Excess	40% Tax
EE	\$15,223	\$5,023	19	\$95,435	\$38,174
EE/Sp	\$35,013	\$7,513	22	\$165,277	\$66,111
EE/Ch	\$34,952	\$7,452	5	\$37,259	\$14,904
Family	\$55,564	\$28,064	49	\$1,375,121	\$550,048
Projected 2018 Excise Tax Liability:					\$669,237

Assumed Trend/Inflation: 12.0%

Rate Tier	2018 Projected Funding (PEPY)	Excess PEPY	Enrollee Counts	Annual Excess	40% Tax
EE	\$17,269	\$7,069	19	\$134,317	\$53,727
EE/Sp	\$39,719	\$12,219	22	\$268,825	\$107,530
EE/Ch	\$39,650	\$12,150	5	\$60,752	\$24,301
Family	\$63,033	\$35,533	49	\$1,741,120	\$696,448
Projected 2018 Excise Tax Liability:					\$882,006

