



City of Killeen

Legislation Text

File #: RS-22-092, **Version:** 1

Consider a memorandum/resolution renewing Group Employee Medical and Pharmaceutical Benefits with United Healthcare and employee dental insurance with MetLife, effective October 1, 2022.

DATE: June 21, 2022

TO: Kent Cagle, City Manager

FROM: Eva Bark, Executive Director of Human Resources

SUBJECT: AGREEMENT WITH UNITED HEALTHCARE FOR GROUP MEDICAL AND RX BENEFITS AND MELIFE FOR DENTAL INSURANCE

BACKGROUND AND FINDINGS:

The City of Killeen offers medical and dental insurance as part of its employee benefits package. Currently, approximately 973 employees select the City's medical insurance plans. In addition, we have 1,187 employees who elect the City's dental insurance plans.

All benefits provided to City of Killeen employees are reviewed annually to ensure that both the City and employees are receiving the best product for the best price. The City currently pays 100% of the medical premiums for the employee only on the lowest plan option. Employees may purchase additional medical coverage for eligible family members or dependents at their added expense. The City's current medical carrier is United Healthcare (UHC), and the City offers two medical plans: An Exclusive Provider Organization (EPO) Plan, traditionally known as a Copay plan, and a High Deductible Health Plan (HDHP), with a health savings component. Due to anticipated huge increases based upon claims performance, the City requested renewal quotes from UHC in order to determine its vulnerability in the market, and to determine if renewing with UHC would be more advantageous than going out for bid inside a rapidly changing environment.

In partnership with the City's Employee Benefits Consultant, Lockton Dunning, a benchmark study was completed to determine how changes in the plan design and contributions would impact cost for both the City and the employees. The initial estimated annual expense for FY 2022 healthcare is \$6,263,796 and if we do not make any plan design, contribution, or eligibility changes, the expense for FY 2023 will be \$7,058,305.

The City's current dental carrier is MetLife and offers employees two dental plans. Approximately 1,187 employees elect the City's dental insurance plan, and the City pays 100% of dental premium for employee only coverage on the lowest plan option. Employees may purchase additional dental care coverage for eligible family members or dependents at their added expense. Last year, MetLife committed to a two (2) year rate guarantee with an increase cap of 5% if we choose to renew in the third year. The annual expense for FY 2023 Dental will be \$271,398, same cost as FY 2022.

Plan Changes and Cost

FY 2022 initial estimated cost: **\$6,263,796**

No changes cost: **\$7,058,305**

Remove Gatekeeper cost: **\$7,380,961**

Remove the Gatekeeper and include minor changes to the plan cost: **\$7,016,486**

- Add deductible and coinsurance to Emergency Room on the EPO Copay Plan and add specialty tier RX cost share to both plans;
- Add copay to Primary Care Physician (PCP) and Specialist Care Physician benefit, after deductible, to the HDHP;
- Change retiree HSA Plan to maximum limits;
- Add \$5 to EPO contribution; keep HSA employee % subsidy the same;
- Remove spouses and dependents of non-active retiree coverage;
- Remove retirees with eligible coverage with current employer from the City's healthcare plan.

City of Killeen Cost:

FY 2022 initial estimated cost: **\$4,683,640**

No changes cost: **\$5,277,556**

Remove Gatekeeper costs: **\$5,518,324**

Remove the Gatekeeper and include minor changes to the plan cost: **\$5,364,045**

- Add \$5 to EPO contribution; keep HSA employee % subsidy the same;
- Remove spouses and dependents of non-active retiree coverage;
- Remove retirees with eligible coverage with current employer from the City's healthcare plan.

After a thorough analysis of the medical insurance options, staff recommends Plan Design, Contribution, and Eligibility changes listed above, as staff feels that these options provide the most effective, one with less disruption, and most competitive medical and pharmaceutical package for the City and employees. Implementing these change options reduces the anticipated cost increase by a total of \$364,475.

Recommended Option Explanation:

- Currently, on the EPO Plan, employees pay a \$650 co-pay when utilizing the emergency room and the proposal is for employees to continue paying \$650 when utilizing the emergency room, in addition paying 30% after meeting the deductible of \$3,500 for individual or \$10,500 for family. In addition, employees currently pay an applicable co-pay for specialty drugs and the proposal is for employees to pay 25% up to max of \$150 instead of the applicable co-pay.
- Employees on EPO Plan will contribute an additional \$5.00 to the plan per month.
- Currently, on the HDHP, employees pay 30% on the cost to see a primary care physician (PCP) or specialty care physician (SCP). The proposal is to implement a co-pay (\$25 for PCP, and \$75 for SCP) after the deductible is met on this plan. This is an out-of-pocket cost savings for participants in the plan. In addition, employees currently pay an applicable co-pay for specialty drugs and the proposal is for

employees to pay 25% up to max of \$150 instead of the applicable co-pay.

- Do not offer spouses and dependents of non-active retiree coverage on the City's healthcare plan, as of October 1, 2022.
- Remove retirees with eligible coverage with current employer from the City's healthcare plan, effective October 1, 2022.
- Offer only the HDHP to new retirees and grandfather current retirees who are on both plans.

Dental

The annual expense for FY 2023 Dental will be \$271,398, same cost as FY 2022.

THE ALTERNATIVES CONSIDERED:

Alternatives considered:

1. Make no changes for a cost of \$7,058,305
2. Remove Gatekeeper for a cost of \$7,380,961
3. Remove Gatekeeper and make the following plan design and contribution changes for a cost \$7,016,486
 - a) Add deductible and coinsurance to Emergency Room on the EPO Copay Plan and add specialty tier RX cost share to both plans;
 - b) Add copay to Primary Care Physician (PCP) and Specialist Care Physician benefit, after deductible, to the HDHP;
 - c) Change retiree HSA Plan to maximum limits;
 - d) Add \$5 to EPO contribution; keep HSA employee % subsidy the same;
 - e) Remove spouses and dependents of non-active retiree coverage;
 - f) Remove retirees with eligible coverage with current employer from the City's healthcare plan.

Which alternative is recommended? Why?

Approve the last alternative to remove gatekeeper, add deductible and coinsurance to Emergency Room on the EPO Copay Plan and add specialty tier RX cost share to both plans; to add copay to Primary Care Physician (PCP) and Specialist Care Physician benefit, after deductible, to the HDHP; Change retiree HSA Plan to maximum limits; to add \$5 to EPO contribution; keep HSA employee % subsidy the same; to remove spouses and dependents of non-active retiree coverage; and remove retirees with eligible coverage with current employer from the City's healthcare plan, effective October 1, 2022 because it is a cost-effective plan and has the least employee disruption to care and pharmacy.

CONFORMITY TO CITY POLICY:

Yes.

FINANCIAL IMPACT:

What is the amount of the expenditure in the current fiscal year? For future years?

The medical insurance plan proposed reflects a total cost increase of \$752,690 to the City based on the average of 973 full-time employees per month who are eligible to participate in medical insurance. To include an additional savings of \$130,000 for not offering the City's plan to non-active retirees' spouses and dependents and for removing retirees with employer coverage from the City's plan. The new contract will be effective October 1, 2022. Costs for healthcare are included into the City's FY 2023 proposed budget, which will be delivered to the City Council on July 5, 2022.

- Initial estimated healthcare cost (FY 22): \$6,263,796
- Proposed healthcare cost (FY 23): \$7,016,486 for removing the gatekeeper, plan design, contribution, and removing non-active retirees' spouses and dependents from City's plan and for removing retirees with eligible coverage with current employer from City's plan.

Is this a one-time or recurring expenditure?

Recurring

Is this expenditure budgeted?

Yes, funds are available in each department/division's personnel service accounts xxx-xxxx-xxx.4082 (medical) and 4083 (dental).

If not, where will the money come from?

N/A

Is there a sufficient amount in the budgeted line-item for this expenditure?

Yes

RECOMMENDATION:

Staff recommends the City Council approve removing the gatekeeper; add deductible and coinsurance to Emergency Room on the EPO Copay Plan and add specialty tier RX cost share to both plans; to add copay to Primary Care Physician (PCP) and Specialist Care Physician benefit, after deductible, to the HDHP; Change retiree HSA Plan to maximum limits; to add \$5 to EPO contribution; keep HSA employee % subsidy the same; to remove spouses and dependents of non-active retiree coverage; and remove retirees with eligible coverage with current employer from the City's healthcare plan, with a cost of \$7,016,486 and authorize the City Manager or designee to execute an agreement with United Healthcare effective October 1, 2022, and that the City Manager or designee is further authorized to execute any necessary change orders in accordance with state and local law.

DEPARTMENTAL CLEARANCES:

Finance

Legal

ATTACHED SUPPORTING DOCUMENTS:

N/A