

# CITY OF HOLLYWOOD



## RENEWAL RECOMMENDATION FOR:

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**MEDICAL & PRESCRIPTION DRUG ADMINISTRATIVE SERVICES ONLY  
MEDICAL & PRESCRIPTION DRUG STOP LOSS  
DENTAL ADMINISTRATIVE SERVICES ONLY  
VISION INSURANCE  
FLEXIBLE SPENDING ACCOUNT ADMINISTRATION**

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**PLAN YEAR EFFECTIVE: JANUARY 1, 2017**

October 19, 2016

Presented By:

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# Request for Proposal Evaluation & Recommendation

## Plan Year Effective Date: January 1, 2017

### EXECUTIVE SUMMARY

The City issued Request for Proposal (No. 4513-16-RD) for Benefits Consultant Services at which time the Gehring Group responded and was awarded the contract in July of 2016.

Shortly thereafter, the Gehring Group met with City staff and issued a Request for Proposal in August of 2016 to forty-seven third party administrators (TPA) and insurance carriers seeking proposals for medical and prescription drug administrative services, medical and prescription drug stop loss, dental administrative services as well as flexible spending account (FSA) administration. It was determined that vision would be negotiated outside of the RFP with the existing carrier Vision Service Plan/VSP. Life insurance coverage with Symetra and Long-Term Disability coverage through Mutual of Omaha are in a rate guarantee until April and May of 2018 and therefore were not included in the Request for Proposal.

The following is a summary of the number of responses by line of coverage (includes incumbent response):

- Self-Insured Medical & Prescription Drug Administrative Services Only (ASO) and Stop loss: 5 carriers
- Medical and Prescription Drug Stop Loss Only: 10 carriers
- Fully-Insured Medical & Prescription Drug: 2 carriers
- Self-Insured Dental Administrative Services Only (ASO): 7 carriers
- Fully-Insured Dental: 7 carriers
- Flexible Spending Account Administration: 9 carriers

In addition to medical, prescription drug, dental insurance and flexible spending accounts, the City offers a comprehensive employee benefits package that also includes vision, an employee assistance program, basic life and accidental death & dismemberment, voluntary life, long-term disability and supplemental worksite insurance.

During the RFP process, all types of funding arrangements and strategies were considered and analyzed to determine the City's best option while continuing to offer a comprehensive and competitive program to members. Proposers were asked to match the current schedule of benefits, to provide pricing for a dual-option offering, to include funds for wellness initiatives, and towards technology that would allow City staff to streamline administration of the benefit plans and allow online enrollment options for employees and retirees for the 2017 plan year.

On September 26, 2016, Gehring Group met with City staff to review the initial analysis of the market solicitation and subsequently best and final offers were negotiated and presented.

## Medical & Prescription Drug

During the RFP process, a total of seven carriers were solicited to provide self-funded and fully-insured medical proposals and another ten carriers were solicited to provide stop loss proposals. As a result of the bid process, five insurance carriers submitted proposals for administrative services and stop loss in addition to four carriers providing stop loss only proposals.

There are several key indicators that medical carriers use when developing a renewal. These include claims experience, large claimants, medical trend, plan fees, and Affordable Care Act (ACA) fees. The Gehring Group regularly monitors the City's claim data.

- Claim Experience - Carriers typically analyze the most recent twelve months of claims in their renewal projection. For the period September 1, 2015 through August 31, 2016, the City paid \$30,545,937 in total plan cost including administrative fees, stop loss and claims. Florida Blue paid \$28,596,308 in claims (medical, pharmacy, and capitation). The ratio of total plan cost compared to total funding is 110% mainly due to utilization and high claimant activity.
- Medical Trend – Medical trend (or “trend”) is the projected increase in cost and utilization of health care services provided to members. The average trend in Broward County is 9.5% which is lower than other parts of the state due to the number of providers in which care can be accessed in the tri-county area. Depending upon the area in the state, medical trend can be 10% - 11%.
- Large (Catastrophic) Claims - When analyzing the most recent 12 month of claims, standard renewal underwriting takes into attention claims incurred by members that are considered catastrophic (in excess of \$350,000). In the City's case, there were three members who incurred claims in excess of \$1,353,456. Consideration is given to the severity and probability that claimants will have ongoing high utilization. The City's top five high claimants are expected to be ongoing as well as a total of thirteen high claimants generating medical and prescription drug costs in excess of \$100,000 per member that are also predicted to be ongoing.
- Healthcare Reform Fees: Due to the Patient Protection and Affordable Care Act (PPACA), there are additional fees that are included in the premium. These fees include:
  - Patient Centered Outcomes Research Institute: Fee to fund an institute that will conduct research to evaluate and compare evidence- based outcomes. This fee is estimated to cost the City \$2.28 per member (bellybutton) per year which is approximately \$9,760 for the 2017 plan year.
  - Transitional Stop Loss Program: Program that is intended to stabilize premiums in the individual market from 2014-2016. This fee will no longer apply moving forward into plan year 2017. Last year, the City paid an estimated cost of \$2.25 per member per month or an annual total of \$110,943.

At each renewal, the Gehring Group prepares a projection using standard underwriting methodology to analyze the accuracy of the proposals and renewal offer(s) received. Our independent projection estimates that an additional \$5,274,804 in funding is needed to cover the cost of claims, administration and stop loss for the upcoming 2017 plan year which are estimated at \$33,611,477 utilizing 13 months of medical trend. Through evaluation of historical

claims data and funding, the medical and prescription drug plan ended the 2015 plan year in a deficit and continues to run at a deficit year to date (January – August 2016) -\$1,780,482.

#### **Initial Medical & Prescription Drug Offers:**

Florida Blue has been the City's third party administrator since 2006. Florida Blue's renewal offer generated a 4.3% increase in fixed cost and a 12.8% in claims cost. The offer included \$100,000 in 2017 as well as additional amounts of \$50,000 provided in January 2017, 2018 and 2019 to be used at the City's discretion for an enrollment system, and/or wellness initiatives. Additionally, if Florida Blue was maintained as the City's medical, prescription drug and dental claims administrator, an additional onetime payment of \$100,000 would be provided to the City upon approval of the contract.

Aetna, AvMed, Meritain and Cigna all provided proposals for claims administration and stop loss. Additionally, Munich Re, HCC / Tokio Marine, CRU / Great Midwest and Voya all provided stop loss proposals with Florida Blue continuing as the claims administrator. The stand-alone stop loss proposals were not found to be as competitive the proposals including claims administration services paired with stop loss coverage.

After careful review of the initial analysis with City staff, it was determined that Cigna offered the most competitive medical and prescription drug proposal based on pricing and contract terms. Cigna's initial offer included wellness funds of \$100,000 in years 1-5, a full-time on-site Cigna representative, \$70,000 for an online enrollment and administration system and a three-month premium holiday for claims administration resulting in approximately \$200,000 in additional savings for 2017.

#### **Best & Final Medical & Prescription Drug Offers:**

The Gehring Group negotiated further with best and final offers due by September 30 2016 and presented to City staff on October 5, 2016.

The initial Cigna offer included an incurred & paid (12/12) contract with a terminal liability option that would protect against catastrophic events at the end of the contract. During the best and final process, Gehring Group negotiated revised contract terms that includes catastrophic "run-in" coverage on an incurred & paid basis of (24/12) with no change to the proposed rates. This type of contract offers more protection to the City based on existing large claims. Additionally, the Gehring Group was able to secure \$70,000 in online enrollment funds for years 1-5 as opposed to a one-time payment to streamline the enrollment process and the administration for staff and members. The Gehring Group also negotiated file feed transfers at no additional cost to the City that will ensure that employees and dependents requiring a prior authorization for medication(s) as well as those utilizing mail order prescriptions will be transitioned from Florida Blue to Cigna easing the transition. Each file feed is estimated at \$5,000.

When analyzing the most recent twelve months of provider and facility utilization for the City population, Cigna generated network access of 97.6% which results in minimal disruption for employees and dependents transitioning from the Blue Options PPO network to Cigna's Open Access Plus (OAP) and Open Access Plus In-Network Only (OAPIN) networks. The CIGNA networks provide nationwide access to contracted providers and Cigna recently negotiated with Memorial Health Systems to establish a reimbursement program that is estimated to reduce claims cost by an additional 2-3% for services rendered within their facilities.

### **Medical and Prescription Drug Recommendation:**

For the 2017 plan year, the Gehring Group and City staff is recommending a carrier change from Florida Blue to Cigna for medical and prescription drug coverage as well as the implementation of an “in-network” only plan to be offered alongside the current PPO plan design. The Cigna in-network only plan referred to as the “OAPIN” plan is an open access plan that does not require referrals to access care from a specialist nor is the member required to select a primary care physician. The “OAPIN” plan is structured with higher annual deductibles and annual maximum out of pocket limits; however enrollment in this plan can potentially reduce claims liability by approximately 13.5%. Employees would have the option of selecting either the PPO option or the OAPIN plan.

Cigna proposed a 5 year claims administration fee that remains unchanged until the year 2020 plan year when it increases by approximately 2% and in January of the year 2021 by an additional 2%. Overall, the administrative fee with Cigna for years 2017, 2018, 2019 is approximately 24% lower than the current Florida Blue administrative fee resulting in a \$261,364 annual savings for the 2017 plan year. Additionally, Cigna’s overall fixed costs are approximately 12% below current. Lastly, Cigna’s expected claims factors are 8% below current when comparing the current Florida Blue PPO plan to Cigna’s OAP plan and are 24.5% below current when comparing Florida Blue’s current PPO plan to Cigna’s proposed in-network only plan (OAPIN). These percentage decreases are based on 100% of the current enrollment remaining in the OAP plan and 100% of the population enrolling in Cigna’s in-network only (OAPIN) plan as it is undetermined at this time what percentage of the population would migrate to the second plan option. Therefore 100% of the current enrollment was utilized to determine plan cost differentials. The reduction in Cigna’s cost does not include the cost associated with run out claims and claims administration with Florida Blue.

### **Dental Insurance Renewal and Offers:**

The City currently offers a self-insured dental program through Florida Combined Life/Florida Blue to eligible employees and their dependents. This program is structured with low and high option plans. The major difference between the two plans is the annual maximum and orthodontia lifetime maximum. The annual and orthodontia maximums on the low plan are \$1,000 and \$2,000 for the high option plan.

On a combined basis, the City’s dental plans have generated loss ratios in excess of 90% for the last two plan years. The current plan year to date (January 1, 2016-August 31, 2016) is running at 96%.

Seventeen carriers were solicited to provide self-funded and fully-insured dental programs. As a result of the bid process, seven carriers submitted a proposal. The City’s current carrier, Florida Combined Life/Florida Blue generated a rate hold for the 2017 & 2018 plan years.

During the initial review with staff, it was determined that Aetna, Cigna and Solstice offered savings opportunities when considering the administrative fee and proposed claims funding. Cigna’s self-insured program was selected as a finalist based on the multi-line discount included in the offer enabling Cigna to reduce the current 2016 dental administrative fee by approximately 38% or \$31,763 annually for plan years 2017, 2018, 2019. The offer also included a two-year rate cap on the dental administrative fee of a 1.7% increase in 2020 and an increase of 2.1% in 2021. Cigna’s administrative fee in year 5 is 35% below the current Florida Combined Life/Florida Blue fee. Additionally, if the dental and medical programs are implemented with Cigna, the medical aggregate attachment factors will be reduced an additional 1%.

The fully-insured dental options were not as competitive in comparison to the self-insured options. All other self-insured proposals were not as competitive as the Cigna bundled offer. The following is a summary of the overall increase or decrease by dental plan respondent:

**Self-Insured Proposals (ASO Fee)**

- Florida Combined Life (incumbent): 0% increase for 24 months
- Cigna (finalist): 37.7% decrease for years 2017, 2018, 2019 and 2-year rate cap for years 2020 & 2021
- Aetna: 27.3% decrease for 36 months
- Guardian: 21.8% decrease for 24 months
- Solstice: 20.4% decrease for 24 months
- MetLife: 0% increase for 24 months
- United Concordia: 0.8% increase for 24 months

**Fully-Insured Proposals**

- Florida Combined Life (incumbent): 4.1% increase for 12 months
- Cigna: 8.8% decrease for 12 months
- Aetna: 10.6% decrease for 12 months
- Guardian: 0.5% increase for 24 months
- Solstice: 1.5% decrease for 24 months
- MetLife: 4.2% decrease for 24 months
- United Concordia: 2% decrease for 24 months

**Dental Insurance Recommendation:**

The Gehring Group and staff are recommending that the City move forward with a change in dental plan administrators and network from Florida Combined Life/Florida Blue to Cigna and remain self-funded. Cigna's geographic access report reveals that 98.8% of employees have access to two contracted providers within a 10-mile radius of their home zip code as compared to Florida Combined Life/Florida Blue at 97.8%. The independent projection prepared by the Gehring Group resulted in a slight funding decrease (2.7%). However, the 2016 plan year to date is trending slightly higher in claims and the slight surplus can be utilized to offset the medical insurance deficit. Additionally, it is being recommended that the current plan funding levels remain unchanged for the 2017 plan year.

**Flexible Spending Account Administration Offers:**

In addition to the medical and dental programs, the flexible spending account administration was also included in the recent Request for Proposal. The City has one remaining renewal option with TASC but is under no obligation to exercise.

Proposals were received from eleven administrators. Of the eleven proposals received, four proposals reduced current cost. The incumbent administrator, TASC proposed a rate hold for years 2017, 2018, 2019. The P&A Group and Discovery Benefits were selected as finalists after the initial review with staff. The P&A Group proposed a decrease in current spend generating \$4,080 in annual savings in addition to a 5-year rate hold.

Discovery Benefits initially proposed a rate higher than TASC; however they were selected as a finalist due to their technology platform and service model.

After review of the initial marketing results, it was determined to ensure legislative FSA compliance that the City paid dollars from the current Flexible Spending Account be transferred to a Health Reimbursement Account. The City would continue to offer a Flexible Spending Account to eligible employees who desired to reduce their taxable income by continuing to contribute pre-tax earnings to a medical or dependent care account. It was at this time that the finalists were asked to provide pricing for Flexible Spending Account administration as well as Health Reimbursement Account administration. The P&A Group's proposal included pricing for both Flexible Spending Account and Health Reimbursement Account administration that increases the City's annual cost by \$5,712. The Discovery Benefits proposal for the administration of both accounts would increase the City's cost by \$9,792 annually.

**Flexible Spending Account Administration Recommendation:**

The Gehring Group and staff are recommending that the City switch administrators effective January 1, 2017 from TASC to the P&A Group for an annual increase of \$5,712. The increase in cost will also include the administration of a Health Reimbursement Account to ensure legislative compliance as well as administration for a Flexible Spending Account. Employees will also benefit from the strong technology and service platforms supported by the P&A Group.

**Voluntary Vision Renewal Offer:**

The vision plan was implemented with VSP in May of 2015. This is a voluntary benefit paid 100% with employee contributions through payroll deductions. For the period August 1, 2015 through July 31, 2016, claims compared to premium is generating a loss ratio of 102%. This is mainly due to the recent implementation of the plan and the employee utilization since it is a recently added benefit. The loss ratio for the 2016 plan year is showing significant improvement. The independent projection prepared by the Gehring Group generated a 28.7% increase based on the last 12 months of claim data. The VSP renewal is a 29% increase or an additional \$57,438 in annual spend and included a 24-month rate guarantee. The cost impact to each tier is minimal since vision represents smaller dollar amounts when compared to higher cost coverages such as medical and dental. The continuation of the VSP plan will allow for the plan to grow more stable and it will provide continuity of care to the employees and their dependents. The Gehring Group and staff are recommending that the vision insurance be renewed with VSP.

## RECOMMENDATION SUMMARY

Based on the review of the negotiated best and final offers, Gehring Group and City staff recommend the following for your consideration:

- **Medical & Prescription Drug Administration and Stop Loss** – Maintain a partially self-funded program switching administrators and stop loss carriers from Florida Blue to Cigna. This generates a 12.4% decrease in fixed costs as well as an 8.0% decrease in expected claim costs for the OAP plan and a 25.4% decrease in claims cost for the OAPIN plan. These percentages are based on 100% of the membership enrolling in the OAP plan and 100% enrolling in the OAPIN plan. The generated savings is estimated to be between 8.0% and 25.4% based on the final enrollment as expected claims cannot be determined by plan at this time.
- **Dental Administration** – Maintain a self-funded program structured with low and high option dental plans. Switch current dental administrator from Florida Combined Life/Florida Blue to Cigna generating a decrease in fixed costs of 37.7% or \$31,763 annually. Current funding factors would remain the same as 2016 levels. Additionally, by selecting Cigna as the claims administrator and network, the medical insurance aggregate claim factors will be reduced by an additional 1.0%.
- **Flexible Spending Account Administration** – Switch administrators from TASC to the P&A Group. Transition the City paid dollars from a flexible spending account to a health reimbursement account to ensure legislative compliance and maintain a flexible spending account for employee dollars. The annual cost to the City would increase by \$5,712 as a result of the P&A Group administering two accounts as opposed to a flexible spending account only.
- **Vision Insurance (Voluntary)** – Maintain current VSP plan with a 24-month rate guarantee.