



CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

From: James Lopez, Director of Human Resources and Performance Management
Nicole Bruce, Senior Human Resources Analyst

Date: May 20, 2014

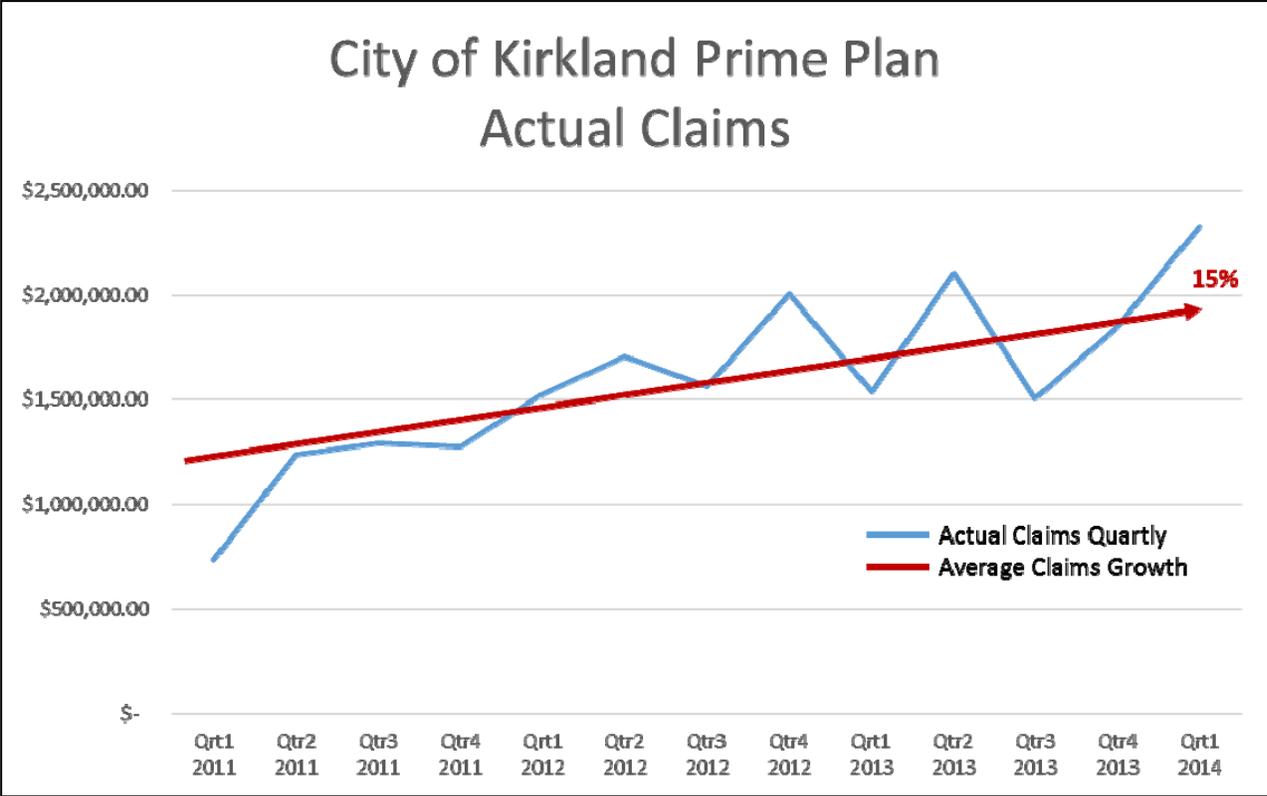
Subject: Health Care Update

RECOMMENDATION

That City Council receives an update on the development of the City's long term efforts to improve employee health while mitigating the rising cost of health care. This memorandum will also serve as an update to Council on the City's progress towards compliance with the Affordable Care Act ("ACA") and the possible financial impacts of this legislation. As a final note, the City has been keeping apprised of the options available in the marketplace and staff seeks Council approval to continue due diligence regarding the consideration of possible long term strategies as discussed below.

BACKGROUND

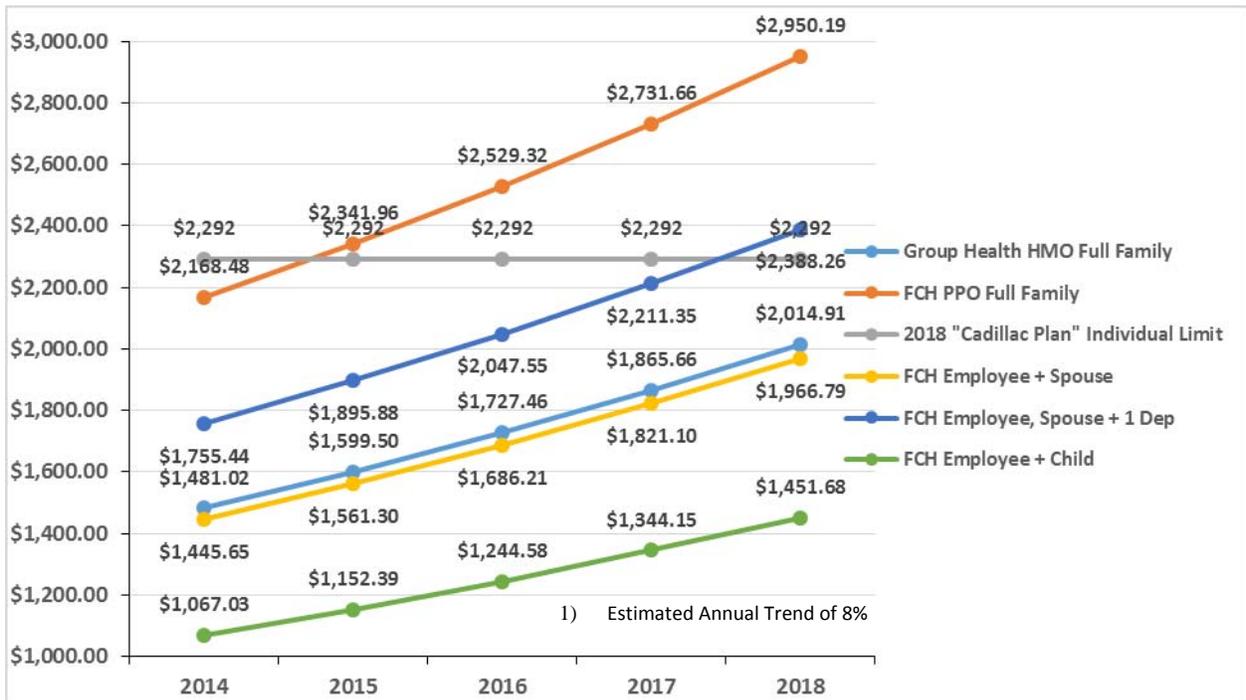
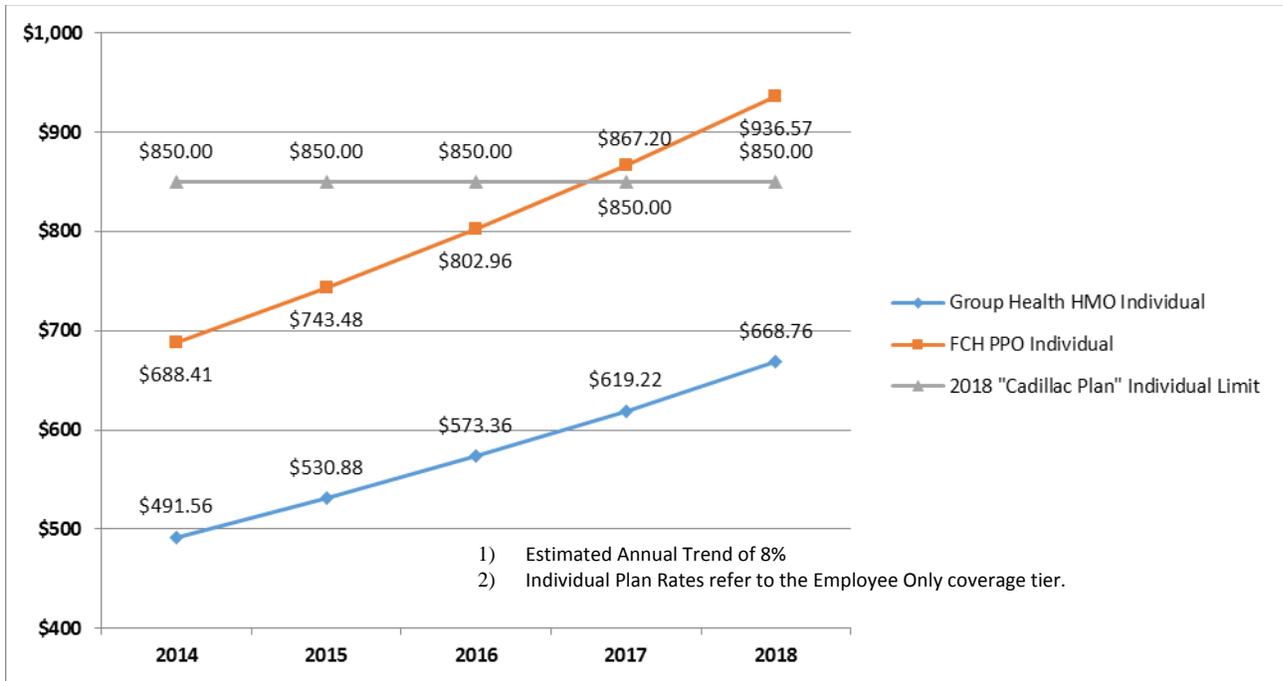
In the October 3, 2013 memorandum to Council, titled, "Health Care Update and 5 Year Benefits Framework", it was presented that the City now has more than three years of medical trend data and as with most employers, our cost for providing coverage to employees continues to rise. Since the City became self-insured in 2011, our claims growth has been slightly over 15% as illustrated in the graph below. However, as explained in the October 23, 2013 memorandum to Council, titled, "Health Care Costs and the Health Benefits Fund", the City's actual premium contributions to itself are based on several factors including claims, the actual number of participants, and policy decisions about whether the City wants to add to or use reserves to fund a portion of the difference between the "expected liability" and the "maximum liability". By prudently balancing reserves levels against expected liabilities, Kirkland has managed to keep our premium equivalent increases closer to 8.8% on average.



In addition to the standard claims growth, some requirements imposed by the ACA have been implemented into the plan as early as 2012. To date, the ACA plan design changes are costing the City an estimated \$150,000 per year. Attachment A shows a list of these changes.

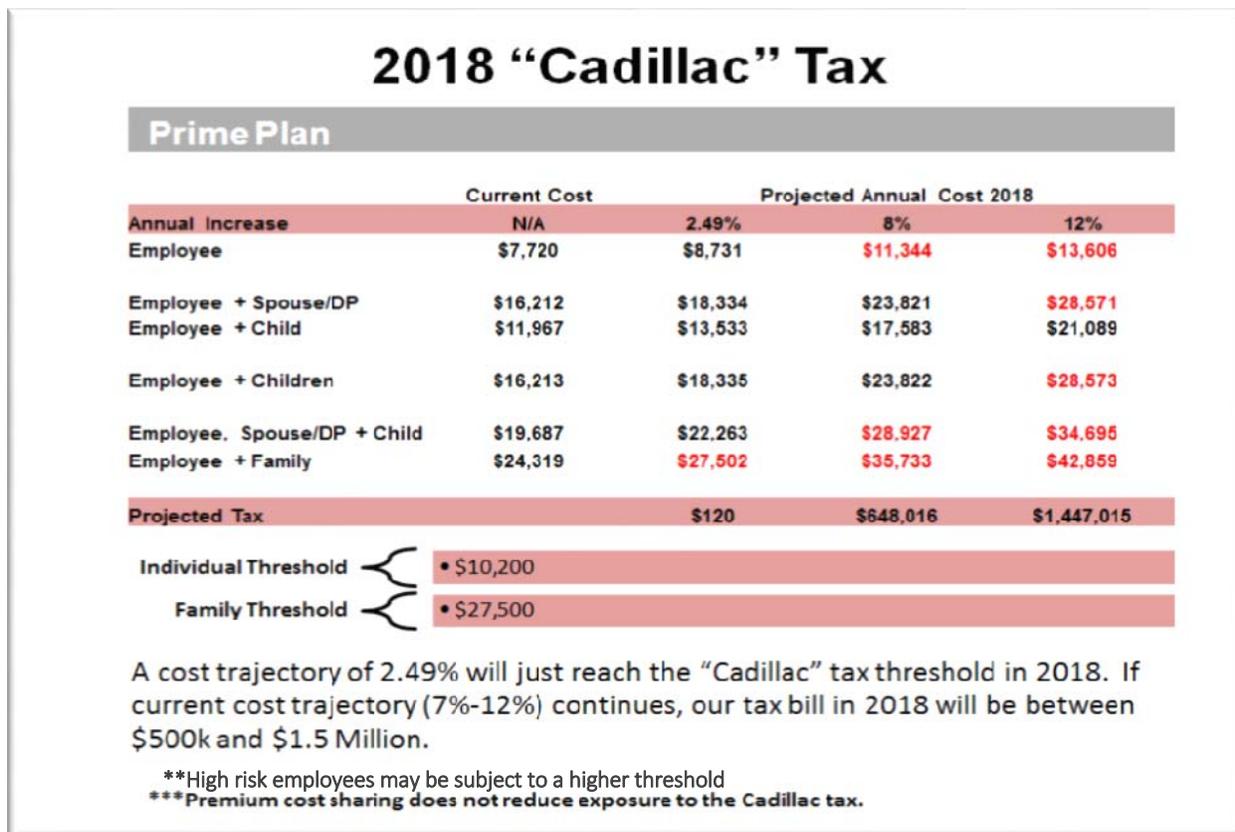
Moving forward, the part of the ACA that has the potential to be most impactful to the City is the "Cadillac Tax". This tax will be imposed on employers who offer actuarially rich benefit plans in 2018 and beyond. The "Cadillac Tax" was first introduced to Council during the October 15th Council study session. In the study session it was discussed that this tax could cost the City upwards of \$1.5 million in 2018 if we were to see premium increases of 12% per year.

As mentioned above, the City's three year premium increase has been closer to 8.8%. However as depicted in the graph below, even with an estimated annual increase of 8%, the City is on a trajectory to reach the "Cadillac Tax" threshold on the full family medical premiums by 2016. The City is also projected to reach the "Cadillac Tax" threshold on the employee only coverage prior to 2018. Currently, 75% of the employee population has one or more dependents enrolled on the on the plan. The "Cadillac Tax" will be assessed based on each individual employees' enrollment tier. For example, an employee with only a spouse enrolled on coverage will be lower than full family. The graphs below illustrates how assessments are made.



It is important to note that other costs such as the premiums the City pays for the Employee Assistance Program, Program Fees, as well as contributions to HRA VEBA and FSA accounts will also be added to the above rates to calculate the "Cadillac Tax". Within the ACA legislation there is a higher premium threshold for high-risk professions (Public Safety), however the City does not currently qualify for this higher threshold.

Another way to look at the impact of the “Cadillac Tax” is through the projected dollar amount that the City will have to pay if the premium thresholds are tripped. The chart below shows that if the City continues to have increases of around 8% the potential liability would be close to \$650,000. As the chart illustrates, staying under the tax requires that the increase per year would need to be limited to approximately 2.5%.



COMMUNICATION AND TRAINING

Over the past few months, the benefits team in the Human Resources Department has been focusing their efforts on communication to employees regarding the need to “bend the trend” in the growing cost of healthcare, the impacts of the ACA, and on educating them to be empowered stewards of health care. The benefits team has focused this communication effort in two areas, 1) market reform and plan design and 2) benefit core skills trainings.

As Council is aware, benefit changes are subject to union negotiations, therefore market reform and plan design discussions are taking place either at the bargaining table, with the Employee Benefits Advisory Committee (EBAC) or with our newly developed “Roundtable Discussions”. Both the EBAC and the Roundtable Discussions are focused around health care topics that the employee groups would like to learn more about. The City has increased the number of EBAC

meetings from quarterly to once per month to better streamline communication. The EBAC is also updated monthly on the growth in claims and our claims trends.

The second area of communication is the benefits core skills trainings, which focuses on the consumer side of health care. The benefit team has created four modules that we are delivering at department staff meetings with the intent to better educate our employee groups to be more engaged consumers of health care. The four modules are as follows:

1. Benefits 101 – This module will serve as a refresher course for employees to revisit the language of health care. What is my deductible and what is the difference between a deductible and the out of pocket maximum? What is the difference between co-pay vs. co-insurance? What is a premium and who pays the premium?
2. Plan Savings – This module will introduce different avenues for recognizing savings within the health plan. For example, employees can save themselves and the City money by learning how to read an explanation of benefits (EOB). Another avenue of savings is understanding how to sign up for and use mail order drugs.
3. Preventive Care 101 – In this module employees will learn about the programs the City currently offers to help prevent long and/or short term health issues. These programs have been historically underutilized and the goal of this module is to remind employees of the resources that are currently available to help manage their health care.
4. Making Informed Decisions – This module will further develop our employees understanding of choosing the right health care for the circumstance. For example, *“I am seeing flashing lights and spots in my vision, should I call the nurse line, go to an urgent care facility, or the ER?”*

Another way the benefit team is increasing communication regarding the City’s Health Care efforts is through our intranet site. In conjunction with the IT Department the benefit team has created a website called, Health Care Corner, where employees can go to get information regarding education, outreach and the latest developments in the City’s health care efforts.

The goal of this communication effort is to promote employee engagement and provide the tools necessary for employees to be empowered stewards of health care which will impact the long-term sustainability of our health plans.

Finally, as part of the City’s ongoing efforts to prepare for the future of health care, listed below are three possible long term strategies worthy of additional research and evaluation.

POSSIBLE LONG-TERM STRATEGIES

High Deductible Health Plan with Health Retirement Account

A High Deductible Health Plan is a Preferred Provider Organization (PPO) Plan with a deductible of at least \$1500 for an individual and \$3000 for a family. The trend in benefits is moving towards these types of consumer driven plans. These plans are said to increase awareness about health care savings and, in turn, can save the individual and the employer money in the long term. Typically, the “insurance” is reserved for the more expensive medical costs and

procedures and the employee is responsible for all expenses up to an amount that is higher than the traditional PPO Plan. Thus, it is referred to as a High Deductible Health Plan (HDHP).

To make the plan attractive to employees, the City would make a deposit into a Health Retirement Account (HRA) which can be used to cover some of the out-of-pocket expenses up to the higher deductible or it can be saved for retirement. Even if the City were to make a contribution into the HRA, they are still thought to save money because employees and their families will evaluate the cost vs benefit of spending their own money.

The City has received interest from our employee groups regarding assistance with retiree health care costs and an HRA is one way to offset some of the expenses after retirement. Unlike previous health-savings plans offered by employers, account balances that are not used in a plan year can be carried over to the next year, essentially beginning to save for retirement. HRA deposits are tax-deductible and the withdrawals that are used to pay approved out-of-pocket health care costs are tax-free. HRA's can also be transferred from job to job.

On-Site/Near-Site Clinic

In trying to control the rising cost of health care, there has been an increasing trend in employers offering on-site clinics to their employees. These clinics are located on an employer's campus and dedicated to serving its employees. These clinics are typically used by 60% of on-campus employees and 25% of employees' dependents. On-site clinics are frequently staffed by a registered nurse (RN), physician assistant (PA) and full or part-time physicians. Services can include primary care appointments, prescription drug dispensing, administration of vaccinations, providing health and wellness education, and referring employees to in-network doctors and specialists. It is estimated that in 2009 there were 2,200 such clinics operating and are anticipated to grow to 7,000 by 2015.

The main reason employers are contracting with vendors for services that operate these clinics is to take costs that are growing at a national average of 8% and turn a large portion of that percentage increase into fixed costs. The fixed cost is the per-employee-per-month fee that is paid to the vendor to provide these types of services. In addition to fixed cost there are also start-up costs associated with a clinic, however by the 2nd year most employers see a significant decrease in their medical expenses. The benefit team is currently in the process of conducting a Request for Proposal (RFP) on clinic providers to determine if this is a potential long-term strategy for the City.

Health Concierge Service

Health concierge services are fairly new in the marketplace. However, they are quickly showing favorable return on investments (ROI) for employers and getting praise from employees as well. The idea behind these services is to show market transparency and contain costs. Most of the savings provided by this service are generated by the referral assistance they provide to employees and their families. For example, if a primary care physician refers an employee or dependent for a surgery, the physician typically refers that individual to a provider the physician is familiar with or to an affiliated hospital/clinic. The physician does not take the associated cost of the service into consideration. This is where a concierge service becomes beneficial. An employee would call the concierge vendor and get a list of providers that offer the same services. The information they receive would include cost as well as location, hours of operation, links to the provider's website, and links to reviews about the physician. If an

employee were to choose one of these providers, the service will then schedule the appointment for the employee and also help with the transfer of their medical records.

Another service concierge vendors provide is reviewing charges that have been incurred for health services. This is another area where savings can occur for both the City and the employee. It can be very complex for employees to balance all of the bills that come after seeking treatment for services, especially if the bills are for complicated procedures. The concierge service audits the bill to be sure the charges are correct charges and that the employee has paid their provider the correct out-of-pocket expenses. Data shows that the average ROI for employers who offer this type of service to be 8:1. Providing this concierge service also increases employee satisfaction with the benefits provided by the employer.

A health concierge service can generate savings under most benefit frameworks, but it can be particularly effective when combined with a high deductible plan. Under the high deductible plan, the employee benefits financially by saving money on the cost of procedures and treatment. The concierge service provides options that allow the employee to choose to spend less and save more in their HRA account, either to use for additional claims in a current year or to "roll over" into future years or use.

CONCLUSION

This update to Council is an important milestone in the City's efforts to continue to provide high quality health care to our employees and their families, while mitigating the cost of that care. As we consider the data presented in this memorandum as well as the potential strategies touched upon, staff recommends at least three considerations govern future action.

First, even though our claims cost trend is increasing, our evaluation of best practices show that successful changes in claims utilization will first require additional focus on outreach, education and incentives to our employees rather than cost shifts or benefit reductions. Sustainable savings can only occur after employees understand why change is necessary, that change really can occur, and how such change can be achieved by Kirkland in ways that improve health, maintain quality care, and reduce cost. Therefore over the next year staff is recommending that education efforts are strengthened and plan design changes are limited to incentive-based approaches that reward employees for voluntary actions that improve health, reduce cost, and do not require collective bargaining. Examples of such initiatives might be to financially incentivize employees to select Group Health (which costs the City less across all benefits categories, while providing quality care) during open enrollment or to provide concierge services as a voluntary measure later this year.

Second, any proposed plan design changes must be part of a collaborative process with our labor groups and should emphasize promoting employee health, rewarding informed decisions and promoting market reform.

Finally, the City will need the flexibility to constantly monitor our progress, evaluate what is working, what is not, and act expeditiously to affect positive change prior to 2018. Moving forward staff will be periodically updating council and making recommendations concerning each of these points so that the City and its employees will be best prepared to address the future of health care together.

Affordable Care Act Required Changes

Below is a list of the changes that have been implemented in the City of Kirkland Prime Plan to comply with the Affordable Care Act.

- **Administrative Changes**
 - Payroll Tax Increase (eff. 1/1/13)
 - Employers are required to withhold the additional taxes from wages.
 - W2 Reporting (eff. 1/1/13)
 - Employers are required to report the aggregate cost of employer-sponsored health coverage on the W-2 form.
 - Comparative Effectiveness Fees (PCORI fee) (eff. 1/1/13)
 - Employers are required to pay a per enrolled member fee to help fund the Patient-Centered Outcomes Research Institute. In 2012 the fee was \$1 per member and in 2013 it was \$2 per member. The remaining fees will be indexed.
 - Summary of Benefits and Coverage (eff. 9/23/13)
 - Employers are required to provide participants a Health and Human Services (HHS) approved summary of benefits and coverage prior to enrollment.
 - Reinsurance Fee (eff. 1/1/14)
 - Employers are required to pay \$63 per enrolled member to HHS.
 - Exchange Notice eff. 1/1/14)
 - Employers are required to provide written notice to employees about the Exchanges offered in 2014.
- **Plan Design Changes**
 - 100% Coverage for Woman's Preventative Care (eff. 1/1/13)
 - Employers are required to cover woman's well visits, specific testing and screenings, contraception, breastfeeding support and supplies, and domestic violence screenings.
 - Pre-existing Condition Exclusion (eff. 1/1/14)
 - Employers are required to eliminate all pre-existing condition exclusions and limitations.
 - Clinical Trials (eff. 1/1/14)
 - Employers are required to allow coverage of usual care costs provided as part of an approved clinical trial.
 - Tobacco Cessation (eff. 1/1/14)
 - Employers are required to pay for FDA-approved tobacco cessation drugs with no cost share.
 - Emergency Room Services (eff. 1/1/14)
 - Employers are required to cover emergency services that are rendered at an out-of-network provider at the same level as an in-network provider.
 - Caps on Cost-sharing Limits (eff. 1/1/14)
 - Employers are required to limit the individual out-of-pocket maximums to \$6,600 and the family out-of-pocket maximums to \$12,700. Kirkland had to reduce this limit on our retiree plan. We also needed to restructure our plan to have co-payments be applied to our out-of-pocket maximums on both our Prime Plan and Retiree Plan; prior to this change employees would pay co-payments for all services regardless of hitting the out-of-pocket maximums.