



CITY OF KIRKLAND
Human Resources Department
505 Market Street, Suite B, Kirkland, WA 98033 425.587-3210
www.kirkland.gov

MEMORANDUM

To: Kurt Triplett, City Manager

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

Date: October 4, 2012

Subject: MEDICAL BENEFITS UPDATE & STRATEGIES

In 2010 the City made the decision to withdraw from the Association of Washington Cities (AWC) Benefits Trust and move to a self-funded benefits platform for the 2011 plan year. The decision reflects a fundamental shift in the City's strategy concerning how to best provide comprehensive health care benefits while at the same time controlling the rising cost of care. In moving to a self-funded model, the City now has unprecedented access to key information such as claims trends and cost comparisons. Equally as important, the City can now share this key (de-identified) information with all its employees to foster a collective understanding of the need to control costs with a proactive approach to utilizing health care resources.

Key Messages:

- The City has successfully transitioned from the AWC to self-insurance and direct contracting.
- The City is meeting with all Unions to reinvent the benefits committee and design a collaborative decision-making process that will facilitate the implementation of any proposed plan design decisions, including the critical communication strategies associated with those decisions. The new committee, titled the Employee Benefits Advisory Committee (EBAC) is on track to begin meeting quarterly starting this October.
- The City is now able to see claims data and begin to analyze trends, communicate key information to all employees and design forward thinking strategies to reverse negative, and promote positive trends. The City is currently analyzing 18 months of data with an eye toward a more complete two year data set at the end of the year.

Background

In 2011 the City transitioned to the City of Kirkland Prime Plan, a self-funded platform for medical benefits to replace AWC Plan B. Group Health, dental and vision contracts remain as before, and those contracts are now made directly between the City and the carriers. With no previous data from the AWC, the City made this decision based on the desire to have transparency and make informed decisions regarding the health benefits offered to our employees while controlling costs.

The guiding principal behind this decision was to “control our destiny.” Due to lack of data, the cost of claims was uncertain thus, the City also decided to create a “rate-stabilization fund” that provides additional insurance above and beyond our stop-loss coverage.

At the end of 2011 we were able to reach our reserve goals including the additional rate-stabilization fund and we had a minimal number of stop-loss violations. With this claims experience, our overall rate increase for 2012 was approximately 7% compared to AWCs increase of 11%.

In making the transition to self-insurance it was also agreed to in our Collective Bargaining Agreements that benefits under the new plans would be “substantially similar” to what was provided under the AWC framework. We did not have previous data or plan documents from AWC so we did experience some minor inconsistencies when the City of Kirkland Prime Plan was initially implemented. Human Resources were able to put a process in place with employees to ensure the transition to the new plan went as smoothly as possible. We are pleased to report that corrections to the plan have been limited, and that there have not been any corrections needed since August of 2011.

Towards the end of 2011 although we had a limited claims history, the City was getting a better understanding of its claim trends. Unfortunately, however, with a limited data set and no prior data we could not do any trend prediction and only made minor, legal changes to the plan.

Current Status

Employee Benefits Advisory Committee (EBAC)

The next phase in the transition to self-insurance is to reinvent our existing benefits committee. In 2011, the City researched what other self-insured entities were doing to manage their plans, including the model put in place at King County. As a result of this research, the City proposed the EBAC structure as the best way to propose informed decisions and communicate those proposals to our covered members. The City is on track to begin the work of the EBAC this October. The intent is for the EBAC to meet at least quarterly, and more often as needed.

As we continue to collect data about our plan and gain more insights into our claims experience, the EBAC will be an integral part of the sustainability of our benefits plans. Not only will this committee analyze data and make recommended plan changes, they will facilitate a process of communicating key information directly to our covered members, the health care consumers.

2012 Benefit Costs and Renewal Projections

Benefit cost increases have grown well in excess of inflation for a number of years. As noted above, in 2011, the City transitioned to a self-insured medical program to gain more direct control over our costs through proactive health promotion activities and hopefully to do so at an affordable price. The City experienced a one-time decrease in cost at the outset of the program, which allowed a separate rate stabilization reserve to be established for the Health Benefit Fund of \$1 million. In 2011, the City’s experience resulted in an increase in “per employee per month” costs of 7%, below the former program’s increase of 11%. However, in 2012, the program has experienced a higher than average claims pattern, which requires that an additional 13% be set aside toward potential claims liability. This experience is driven in part by a larger number of births and related expenses to City employees than in prior years. We are also seeing what our

broker is calling "new employee utilization patterns" on all lines of coverage including dental and vision. This is due to the recent hiring of over 60 annexation related employees, many of whom are younger and just starting families. Both of these trends are expected to normalize over the next year. If claims return to a more expected level, the additional funds set aside could add to the rate stabilization reserve. However, if claims continue at an elevated level, some use of the rate stabilization reserve may be required.

We have seen in our very short two year history of self-insuring that there is still volatility in benefit costs, this volatility is normal and expected. The difference in being self-insured is that it is more about managing risk and actual claims than it is about chasing premiums. We have continued to fund at a level consistent to being insured under the AWC, but the benefit of self-insurance is that we now have approximately \$3 million in our reserve fund. The strategy for the City is to continue a conservative financial practice with the expectation to reap the rewards when we begin to see long term trend stabilization and are able to implement strategies to control increasing costs.

Future Strategies

At the close of 2012 the City will have two years of data ready for analysis which will give us an opportunity to effectively analyze the City's benefit plan utilization and trends. We need to be sure to get the most out of this opportunity and look at some strategies that will help to control our rising costs and begin to bend the trend curve. Given what we currently know about our plan from just 18 months of data, below are some options that, along with the EBAC, Human Resources is considering as some potential cost containment strategies.

Employee Education

We know from current data that our employees are high utilizers of our benefit plans, but what we do not know is how educated they are as health care consumers. Moving forward, we are confident that employee education will be a key part of any cost containment strategy.

A key component of employee education is to ensure employees are aware of what tools are available to help them make informed decisions. These tools include analyzing the explanation of benefits that come after treatment, carrier websites with informative tips and tools to research doctors and facilities, the availability of nurse lines offered by First Choice as well as many local hospitals, and other resources that help them to learn about the true costs of care and how to get the best quality of care.

The goal of Human Resources is to partner with the EBAC and our broker to offer education sessions to employees to help with this sharing of information. In addition to the education sessions, the internet is a great tool for raising awareness. Our goal will be to offer a wide variety of resources to help with this education campaign.

Wellness and Disease Management

The City has prided itself for offering a wellness program to employees for many years. We have also received Well City Awards from the AWC in the past. This commitment towards wellness will play an important role in continuing to manage costs. In order for this strategy to have more impact, data analysis will need to be incorporated into the wellness program. Our wellness education and activities will need to be refocused on areas where a positive impact can be made

on claims. Right now our Wellness program is very "fitness focused," but we need to create a more well-rounded program that also incorporates nutrition, emotional health, financial health, and "healthy numbers" (BMI, cholesterol, blood pressure, etc.).

Employee participation in our current disease management program is extremely low. More education and participation in this program will be a goal for 2013 and into the future. It is important for employees who are identified to enroll into this program not only to help mitigate costs, but also to improve their health outcomes.

Recent Proposals

Our recent claims data has also shown us that emergency room utilization is high among our population. With further analysis we can also see that the ER is not always being used for emergent situations. The City has been presented with options that may have the potential to help lower this utilization.

MyCareSystem

Earlier this year, representatives of Evergreen Healthcare system, and First Choice Health met with the city to present what they call the MyCareSystem. MyCare is a health care delivery strategy that is designed to prevent high cost inpatient events by those with chronic conditions with more personalized multidisciplinary care. It is a Point of Service Program in which members select a "Care System" that will coordinate their overall care. The participating care systems are, Evergreen Health, MultiCare, Overlake Medical Center, Rockwood Health System, the Everett Clinic, and the PolyClinic. This program is under development and represents a trend in health care toward a more collaborative care model in which patients centralize their total care within a specific care system. The broader First Choice network is available to every member; however there will be less out of pocket costs to the member inside of their chosen care system. This Program is a proposal in development.

Carena

One option under consideration is to offer access to a team of providers through a company like Carena. Carena is a Seattle-based team of medical, technology, and consumer service professionals that deliver care through a variety of options that help to avoid unnecessary ER visits. The way that Carena works is similar to a nurse line, but instead of just being able to talk to a nurse, other options are available based on the severity of your conditions such as: the ability to Skype with a doctor, a home visit by a provider, referral to an urgent care clinic, etc. All of these options are more convenient for employees as well as more cost effective for the plan.

MedEncentive

Another presentation was made recently to us by a company called MedEncentive. MedEncentive's strategy is to help employers and insurers achieve cost control by rewarding both consumers and their doctors for incorporating "best medical practices" and advancing patient education and empowerment, while motivating healthy behaviors. What this entails is incorporating three basic principles. The first is to attract a high level of provider and consumer participation in patient education and empowerment. The second is to recognize and harness the power of the doctor-patient relationship to motivate adherence to 'best practices' and healthy behaviors. And the third is to align the interests of the provider, the consumer and the payer.

The reason that MedEncentive is different and is a potential future strategy for the City is because it goes beyond your typical wellness rewards program by rewarding both the employee and their doctor for demonstrating the completion of certain performance standards associated with wellness and care management. This is a relatively new program on the market, but they are already seeing the results working and leading to better healthcare and improved health behaviors, which drives cost containment.

As we have seen from just the last 18 months of claims data the cost of health care continues to rise. It will be very important over the next year to begin to implement some of the above strategies and partner with the EBAC and employees so we are able to sustain our benefits plan and combat the rising cost of care.



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