Memorandum
City of Lawrence
Human Resources Division

TO: **David L. Corliss, City Manager**

FROM: **Lori Carnahan, Human Resources Manager**
Michelle Spreer, Benefits Specialist, Human Resources

CC: **Diane Stoddard, Assistant City Manager**
Cynthia Wagner, Assistant City Manager
Jonathan Douglass, Assistant to the City Manager
Healthcare Committee

Date: **April 26, 2011**

RE: **2012 Employee Healthcare Plan-Budget and Plan Design**

Annually the Human Resources benefits staff meets with the Healthcare Committee (HCC) to discuss funding of the healthcare plan which includes city and employee/retiree contributions. Hays Companies, our benefits consultants, assist staff and the HCC with funding strategies as well as plan design alternatives. For the past two months, staff, Hays and the HCC have discussed both funding and plan design concurrently. Recommendations for both funding and plan design are included in this memo.

Executive Summary

- Based on current plan design Hays Companies projects an overall 10% ($1,014,000) increase over revised 2011 projections to the city's healthcare program for 2012 for a total of $10,400,000.
- Human Resources staff and Hays were directed to present alternative healthcare plan designs to the City Manager based on zero growth in city funding for 2012. Currently the City funds a total of $7,691,464 toward the healthcare plan. Staff, Hays and the HCC recommend that the current PPO design be replaced with an account based plan. The recommended plan that meets the directive is outlined in Option B in the chart on page 3. This alternative incorporates increased deductibles and out of pocket maximums. In addition to the plan design changes, the alternative includes the implementation of $11 per pay period employee contribution for their own coverage beginning in 2012. Currently the City pays for 100% of the employee's premium. Implementing the employee premium would require all dependent coverage tiers to increase accordingly.
- Staff and the HCC have also presented an alternative that includes an increase of $103,000 in City funding for 2012. Option C in the chart on page 3 incorporates the increase in City funding which allows for a more modest increase in deductible and out of pocket maximum for employees. This option also implements an $11 per pay period employee contribution.
- Staff recommends using reimbursements from the Early Retiree Reinsurance Program (ERRP) to help offset the cost of implementing a Health Clinic with services provided by Lawrence Memorial Hospital (LMH) as well as continuing an incentive program which encourages healthy behaviors.
- The plan experienced lower than projected expenses in 2010. Claims expenses came in under projected by approximately $1.8m (Attachment 1). The committee reviewed 2010 utilization with Hays in April to get a better understanding of why expenses were down. This can be attributed to overall lower utilization as well as network pricing for commonly used services.

Healthcare Plan Projected Expenditures – Assuming No Plan Design Changes

As of this date, Hays projects a 10% overall increase to health care expenditures for 2012 over revised 2011 expenditures (see Attachment 2, Chart #1) or approximately a 2.5%($275,000) increase over the funding levels projected in April 2010 for 2011. The chart below illustrates the projected increases and total plan cost for 2012 assuming we maintain our current PPO plan design. The increase in funding required to maintain our current plan design and match revenues to expenses would need to be a combination of employee/retiree and city contributions to equal $1,215,000.

Cost increases due to trend:	
Medical/Rx	10%
Dental	9%
Administrative	7%
Stop Loss	25%
Expenses included in admin fees below:	
Consulting fees	$50,000
Wellness budget (HRA, biometric clinics)	$13,255
Flu Shot program	$10,000
Wellness Administration	$10,000
COBRA Admin (@ .79 PEPM)	$7,645
Total	$90,900
Projected plan costs for 2012:	
Claims (medical, dental & Rx)	$8,958,000
Administrative fees	$542,000
Stop Loss	$900,000
Total Plan Costs for 2012	**$10,400,000**

Zero Growth to City Contributions

Human Resources staff was directed to make recommendations for 2012 based on zero growth in city funding. There is also a desire to introduce consumerism wherever possible. Consumerism puts decision making in the hands of the participants. By supplying the information and decision making support tools they need along with financial incentives and other benefits that encourage personal involvement, participants can alter health and healthcare purchasing behaviors.

Recommended 2012 Employee Healthcare Program

Staff recommends a five component approach to meeting the funding objective, introducing consumerism, promoting wellness and maintaining a competitive healthcare plan for city employees. The Healthcare Committee is supportive of the proposal to implement an account based plan. Our recommendation includes:

1. 100% replacement of the current PPO design to an account based plan design;
2. Increased employee deductibles and out of pocket maximums (no change to dental program);
3. The addition of an Employee contribution for their own coverage (previously employees only contributed to coverage for their dependents);
4. Implementation of a health clinic in order to help offset increases to employee out of pocket healthcare plan costs and to provide tools for improving overall employee health;
5. Enhance the financial incentive program to encourage employees to examine their own lifestyles and commit to behavior changes that may improve their overall health.

#1 – Replacement of PPO with Account Based Healthcare Plan Design

With the directive to maintain current city funding levels and the desire to introduce additional consumerism into the City's healthcare plan, Hays recommended that staff and the HCC begin looking at High Deductible Healthcare Plans also known as Account Based Plans. Attachment 3 is a summary of each type of account based plan. The most important feature of the Account Based Plans (with 100% replacement of current plan) is they consistently bend the cost curve down for a health care plan beginning two years after

implementation. The bending of that curve would have a direct impact on the trend our plan experiences. Trend can be explained as the expected increase in claims cost caused by increased cost and utilization of services.

Therefore, we might see trend remain at 10% in 2013 with our current PPO but could see trend at 8% with an Account Based Plan. Hays also presented several plan design options as alternatives to our current PPO plan. These included modifications to our PPO plan, a Health Savings Account (HSA) eligible plan and additional Health Reimbursement Account (HRA) plans. The committee narrowed the discussion to our current plan model (PPO) and the Health Reimbursement Account (HRA) model. Below is a chart that illustrates the plan design alternatives that were discussed.

2012 Plan Design Alternatives

Medical Plan Information	Current PPO Design	2012 PPO Option A No increase in City funding	2012 HRA Plan Option B No increase in City funding	2012 HRA Plan Option C Increase in City funding
Employer Health Fund Contribution				
Individual/Family	n.a.	n.a.	$250/$500	$250/$500
Deductible (Individual/Family)				
In-Network	$300 / $600	$1,000/$2,000	$750 / $1,500	$700 / $1,400
Out-of-Network	$300 / $600	$1,000/$2,000	$750 / $1,500	$700 / $1,400
Out-of-Pocket (Individual/Family)				
In-Network	$1,000 / $2,000	$3,000/$6,000	$1,750 / $3,500	$1,200/$2,400
Out-of-Network	$2,400 / $4,800	$3,000/$6,000	$4,200 / $8,400	$3,650/$7,300
Coinsurance Level				
In-Network	20%	20%	20%	20%
Out-of-Network	40%	40%	40%	40%
Prescription Drug				
Generic	20%	20%	20%	20%
Brand - 30 day supply	$25 + 20%	$25 + 20%	$25 + 20%	$25 + 20%
Brand - 90 day supply	$50 + 20%	$50 + 20%	$50 + 20%	$50 + 20%
Out of Pocket Maximum (Individual/Family)	$900/$1,800	$1,000/$2,000	$1,000/$2,000	$1,000/$2,000
Biweekly Contributions				
Employee	$0	$0	$11	$11
Employee plus Spouse	$72	$72	$83	$83
Employee plus Children	$64	$64	$75	$75
Family	$113	$113	$124	$124
Account Utilization				
	n.a.	n.a.	89.0%	89.0%
Plan Funding Impact				
Increase in City Contributions	$1,215,000*	$0	$0	$103,000
Increase in Employee Contributions	$0	$0	$220,000	$220,000
% Change in Projected Plan Cost	n.a.	-9.5%	-2.0%	-1.0%
Projected Retained Earnings Spend Down	$0	$236,000	$780,000	$780,000

*Increase required to maintain this plan in 2012 matching revenues to expenses

Option A

To sustain our current PPO plan design in 2012 with no increase in funding from either the city or employees would require extensive increases in out of pocket costs for our employees in order to keep up with trend and keep our retained earnings at the desired level. Staff does not recommend making a change that would have such a drastic impact on out of pocket costs to the employee with no programmatic changes to affect future trend. This option would spend down our retained earnings by approximately $236,000 and maintain our current trend level in future years.

HRA Options B and C

Human Resources staff, Hays and the Healthcare Committee recommend implementing a Health Reimbursement Account (HRA) based plan for 2012 as a full replacement of our traditional PPO plan. Hays strongly recommends implementing the HRA as a full replacement and not as an additional plan offering. Full replacement avoids risk of adverse selection by high users of the health plan concentrating in the lower deductible option. Based on past experience, Hays will not project future savings to our plan with the use of an HRA if multiple plan designs are offered. Additional considerations for recommending an HRA based plan are the following:

- HRA's were introduced into the marketplace to help promote consumerism.
- Plan provides protection from significant/catastrophic health care costs for our employees but at the same time shifts accountability for lower-cost services and discretionary spending decisions to the consumer (employee).
- Research has shown that account based plans such as this can reduce the medical trend by 2 to 3% in the second year and beyond.
- The HRA approach does not require an initial cash outlay from the city. These funds are a notional account maintained by the city and used by the employee as needed. There is no actual account; these funds come out of the notional account automatically during claim processing. If an employee should leave employment, these funds stay with the city.

Option B above meets the directive of no increase in City funding for 2012 and sets the deductible at $750/$1,500 (single/family) and out of pocket maximum at $1,750/$3,500.

Option C incorporates an increase in City funding of $103,000 for a total of $7,794,464. This increase in funding allows for a more modest increase in deductible and out of pocket maximum. Deductible is set at $700/$1,400 (single/family) and out of pocket maximum at $1,200/$2,400.

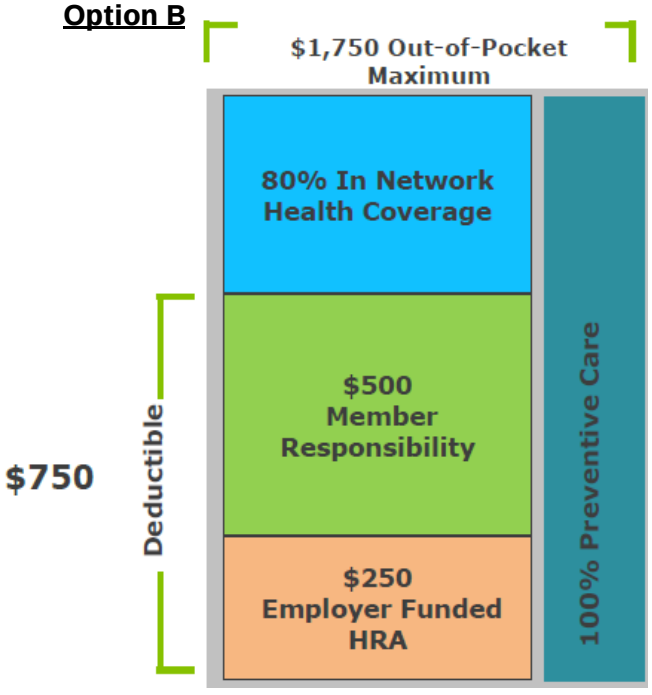
Both Option B and C include an employee contribution and spend down of retained earnings of approximately $780,000. Spend down of retained earnings with either HRA option is projected to show worst case scenario. It is very early in the year and therefore we have limited claims data for 2011. Hays will adjust the spend down amount as we get updated claims data throughout the year. Realistically, Hays believes that spend down of retained earnings will be between $500,000 and $700,000 with either HRA option.

#2 – HRA Plan Design Alternatives

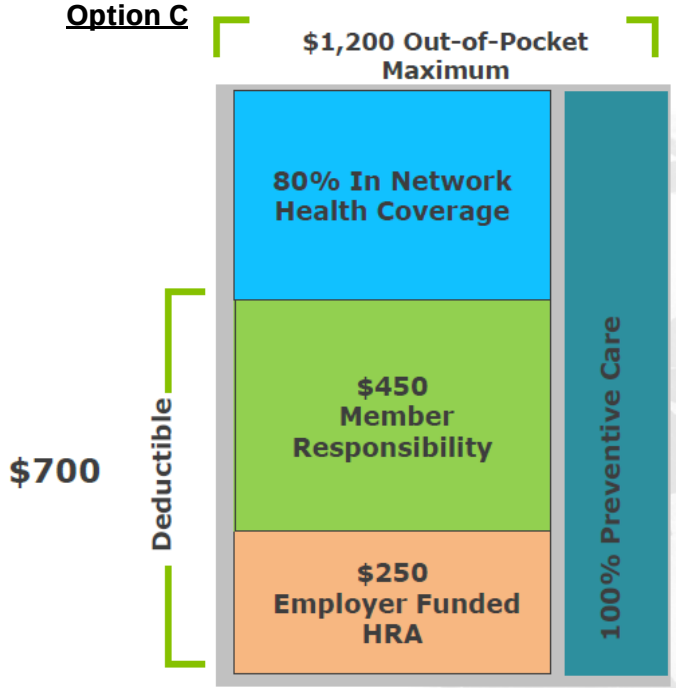
As mentioned above staff recommends a total replacement of our PPO plan with an HRA plan. The charts below illustrate the two HRA plan alternatives based on individual coverage.

In both alternatives the first $250 (for an individual) and $500 (for a family) of medical expenses would be funded by the HRA. Once HRA funds have been exhausted, the member would begin paying for plan expenses until they meet the remainder of the deductible. After the deductible has been met, the member will continue to pay 20% of eligible claims until the out of pocket maximum has been reached. Staff also recommends that unused HRA funds roll over from year to year up to a maximum fund balance of two times the employer funded HRA + wellness incentive. This maximum will be re-examined following a year of utilization.

Option B



Option C



Attachment 4 demonstrates what claims would look like going through each of the plan designs shown above; our current PPO plan, Option A and the HRA Plan Alternatives; Option B and C. The out of pocket expenses on these examples do not take into account the premiums that employees pay each pay period. Keep in mind, in years 2 and beyond employees may have rollover HRA funds that will help reduce out of pockets costs for the employee.

Prescription plan design (copayments/coinsurance) would remain the same at 20% for generics and $25 + 20% for brand name prescriptions. The out of pocket maximum for prescriptions would go to $1,000 individual and $2,000 family; a $100 increase for individuals and $200 increase for family.

Dental would remain the same as in 2011.

By implementing any of these alternatives, we will no longer have Grandfathered status under the Patient Protection and Affordable Care Act (PPACA). This may require additional minor plan changes; depending upon when and if the regulations are issued defining "essential benefits". Losing grandfathered status will also require that an external appeal process for denied claims be implemented. There may be an administrative charge for this external appeal process.

#3 – Employee and Retiree Contributions

We recommend implementing an employee contribution beginning in 2012 for their own coverage. When adding an employee contribution, each dependent tier would increase accordingly. The HRA Plan Alternatives shown above lists what the per pay period contributions will be. This reflects an overall 11.5% increase to current employee contributions. When factoring in the contribution for employee only coverage, total employee contributions will increase 35% or $220,000. Implementing an employee premium would require a change to the HCC Goals and Objectives (attachment 5).

Retiree contributions will increase by approximately 8.8% over 2011 rates. The retiree rates reflect the actual required funding levels for the plan in total, offset by the change in plan design.

#4 – Health Clinic

As proposed late in 2010, Human Resources staff believes that a Health clinic with services provided by Lawrence Memorial Hospital (LMH) would be an ideal offset to the higher out of pocket costs that are being shifted to our employees. The objective of the clinic is to reduce the health care plan claims dollars through promotion and facilitation of a healthier workforce and in turn cost avoidance. The Health Clinic would provide employees with disease prevention and health management resources without being subject to deductibles and coinsurance. The primary goal for the implementation of the Health Clinic is to provide accessible and demonstrated health and wellness activities to city staff and retirees in order to better maintain and/or enhance the health and wellness of our employees and retirees.

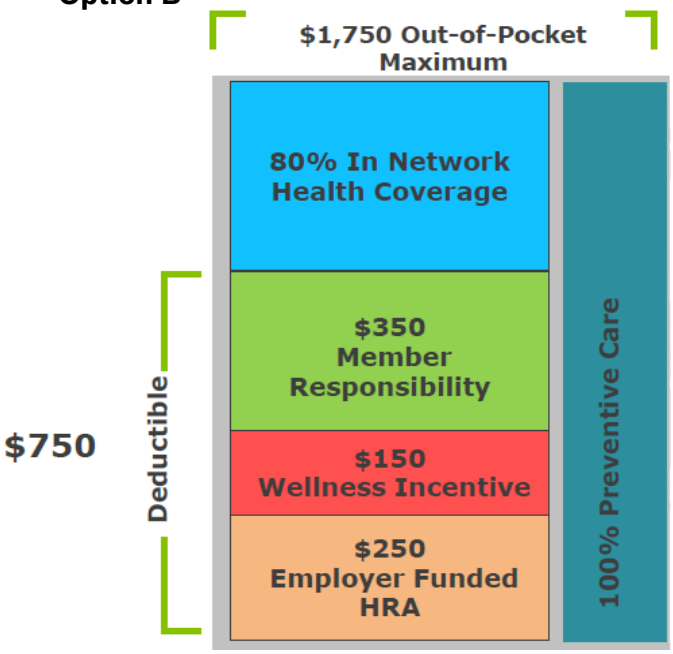
Late in 2010, staff reviewed RFP's submitted for clinic services. LMH submitted a cost effective proposal that would give the city flexibility to be charged based on actual utilization of the clinic which would include number of hours needed and number of employees that utilize the clinic. Estimated annual costs to operate the clinic for 500 employees and 1,040 hours would be $163,820.

The healthcare plan, to date, has received approximately $32,000 from the Early Retiree Reinsurance Program (ERRP) based on our 2010 claims from June – December. An additional $49,000 will be requested early in the second quarter. Future reimbursements are dependent on claims utilization. These reimbursements can help offset the cost of the clinic in 2012.

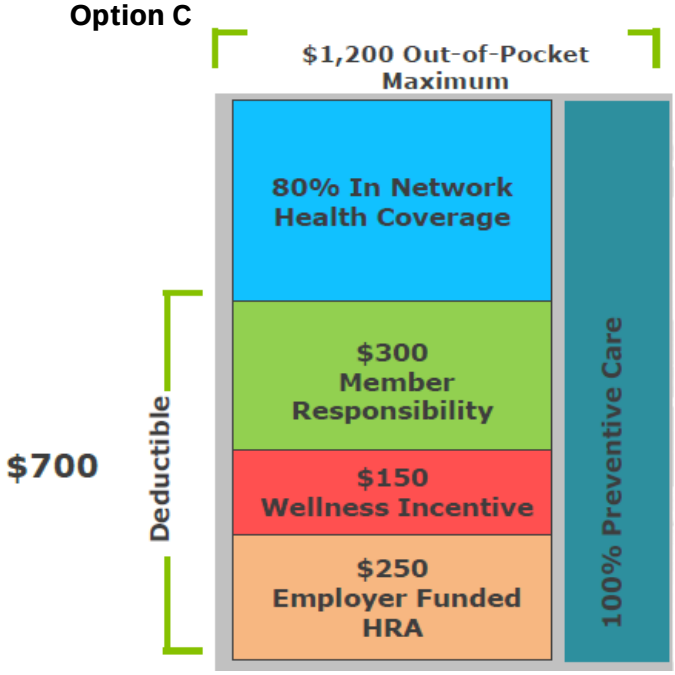
#5 – Employee and Retiree Incentive Program

The current wellness program gives employees a $5 per paycheck incentive for completing a Health Risk Assessment and signing a non-tobacco declaration which reduced income into the plan by approximately $37,830 in 2011. For 2012 it is recommended that rather than add the incentive to the employee's paycheck, the city apply an incentive of $150 to the participating employee's HRA account (see graph below). This is a $20 per participant increase over the current incentive program. There are currently 291 participating employees. We would also recommend that the city require participation in the Health Risk Assessment and follow up visits as recommended based on overall health (high, medium, low risk factors) with the health clinic professional staff in order to have access to the health clinic.

Option B



Option C



Wellness programming with periodic incentives will be provided by the CHAMP committee. An example would be participation in the Walk Kansas currently in effect.

Minimum Retained Earnings (MRE)

Maintaining MRE at 20% of projected plan cost for two years out allows us to smooth out increases to city funding as well as employee contributions. Having a healthy MRE level allows us to fund current and future incentives related to wellness programs.

Retained Earnings also funds the cost of catastrophic claims, the amount determined by our stop loss contract each year. In 2012 it will again likely be set at 120%. The 120% represents the amount of claims the city is responsible for paying over the projected costs before stop loss insurance begins paying claims.

Attachment 2 includes two charts that project future trend, to include claims, administrative expenses and stop loss insurance. It is desirable to have “Fund Balance EOY” equal to or greater than “Recommended MRE” for at least one year beyond the year for which the budget is being prepared. Chart #1 illustrates trend if we were to keep our current PPO plan. Chart #2 illustrates the impact on trend by implementing a Health Reimbursement Account Option B.

2010 Utilization

Staff and the HCC reviewed our 2010 utilization with Hays on April 28, 2011. Hays compared our 2010 claims data to 2008 because we were unable to get our 2009 claims data from BCBSKS. The Hays report highlighted two areas:

1. What contributed to our lower than projected claims year in 2010, and
2. Where we need to focus our efforts in terms of disease management and wellness in the future.

Our average charges as compared to the norms are shown below. The norm is the database that Hays uses for the Heartland region; Kansas, Missouri, Iowa and Nebraska.

Average Charge as Percent of Norm - HPI Analysis		
	2008	2010
Inpatient Hospital	94%	72%
Outpatient Hospital	95%	105%
Emergency Room	106%	114%
Inpatient Surgery	105%	85%
Outpatient Surgery	99%	85%
Office Visits	94%	81%
Mental Health Visits	90%	96%
Physical Medicine Visits	92%	86%
Wellness/Routine Visits	93%	98%
Radiology Services	89%	88%
Laboratory Services	123%	120%

Factors contributing to the lower than expected costs in 2010 also include:

- Overall lower utilization in following areas:
  - Inpatient hospital admissions down 9.8%
  - Outpatient hospital services down 24%
  - Physician office visits down 12%

- Partnerships with organizations that encourage a greater degree of plan management to include:
  - Staff support for development and implementation of health related programming
  - Superior tools and greater support for claims analysis
  - Regular review of claims for medical necessity
  - Multiple levels of Pre-Pay and Post-Pay claim quality audits to ensure accuracy and eliminate duplicate payments

- Increase of 17% in routine and preventative services with no increase in total cost to the plan for these services.

Also during this review it became clear that some of our members with chronic conditions, such as diabetes, are not doing what they need to be in order to manage their conditions. Those that had the annual recommended blood tests did not do it near as often as recommended by The American Diabetes Association. Diabetes is a chronic condition which, if improperly managed, will lead to the onset of multiple other chronic conditions resulting in costly, possibly catastrophic claims. Hays recommended that the plan be designed to encourage regular blood tests by those with diabetes. Cigna has informed us that due to a revised preventive care claim process that uses service codes rather than diagnosis codes, these tests will now be paid at 100% at in network providers.

While utilization of preventative services increased in 2010, Hays indicated that our adult members are not taking advantage of preventative services to the degree they should. Adults receiving preventative care is anywhere from 28 to 47% for females and from 14 to 38% for males (ranges represent different categories of preventive services that were analyzed). Ideally these numbers should be around 80%. Hays recommended the City focus communications on educating members about the preventative care under our plan. This will also be talked about a great deal during open enrollment later this fall.

Transfers to Healthcare Plan

Each year Human Resources calculate the breakdown of city funding to the healthcare plan for each department to assist them in developing their budgets. Below are the totals for 2012 which has the same total cost as 2011 with updated FTE. Overall, the city will need to budget $9,666.19 per current FTE and $10,070.06 per new FTE approved for 2012 to maintain 2011 funding.

Transfers to fund health plan 2012

Budget $9,666.19 per current FTE and $10,070.06 per new FTE approved for 2012.

Fund	Description	Current FTE	Decreases	Additions	Total FTE	Rec. Xfers	% of Total Funding
1068	General Fund 001 (Retirees)	56.00	0.00	0.00	56.00	$58,360.13	0.8%
1068	General Fund 001	450.64	0.00	0.00	450.64	$4,350,464.82	56.6%
210	Public Transportation	0.61	0.00	0.00	0.61	$5,888.92	0.1%
211	Recreation	29.28	0.00	0.00	29.28	$282,668.23	3.7%
213	Special Alcohol	3.00	0.00	0.00	3.00	$28,961.91	0.4%
214	Special Gas Tax	25.50	0.00	0.00	25.50	$246,176.22	3.2%
501	Finance-Utility Billing	22.26	0.00	0.00	22.26	$214,897.36	2.8%
501	Utilities-Administration	12.00	0.00	0.00	12.00	$115,847.63	1.5%
501	Utilities-Engineering	9.00	0.00	0.00	9.00	$86,885.73	1.1%
501	Utilities-Clinton Plant	11.40	0.00	0.00	11.40	$110,055.25	1.4%
501	Utilities-Kaw Plant	13.40	0.00	0.00	13.40	$129,363.19	1.7%
501	Utilities-WWTP	18.40	0.00	0.00	18.40	$177,633.04	2.3%
501	Utilities-Sanitary Sewer Coll Sys	15.40	0.00	0.00	15.40	$148,671.13	1.9%
501	Utilities-Water Quality	5.00	0.00	0.00	5.00	$48,269.85	0.6%
501	Utilities-Water Distribution	22.40	0.00	0.00	22.40	$216,248.92	2.8%
502	Sanitation	95.84	0.00	0.00	95.84	$925,236.44	12.0%
503	Public Parking	15.00	0.00	0.00	15.00	$144,809.54	1.9%
504	Vehicle Maintenance	17.25	0.00	0.00	17.25	$166,530.97	2.2%
505	Stormwater Utility	10.50	0.00	0.00	10.50	$101,366.68	1.3%
506	Public Golf Course	5.75	0.00	0.00	5.75	$55,510.32	0.7%
611	Outside Agency Grant-Transit	2.39	0.00	0.00	2.39	$23,072.99	0.3%
611	Outside Agency Grant-Cops in Schools	0.00	0.00	0.00	0.00	$0.00	0.0%
611	Outside Agency Grant-Traffic	0.00	0.00	0.00	0.00	$0.00	0.0%
621	Fair Housing Grant	0.10	0.00	0.00	0.10	$965.40	0.0%
631	CDBG	3.45	0.00	0.00	3.45	$33,306.19	0.4%
633		0.50	0.00	0.00	0.50	$4,826.98	0.1%
641	Transportation Grant	1.60	0.00	0.00	1.60	$15,446.35	0.2%
					790.67	$7,691,464.20	100.0%

Attachment 1

Healthcare Plan Internal Financial Summary

	Actual					Projected	Actual
	2005	2006	2007	2008	2009*	2010	2010*
Add'l anticipated expenses						-83,000.00	
Revenues							
City	5,287,932.00	5,678,536.00	6,005,611.00	6,321,793.00	6,369,977.36	7,325,474.00	7,246,945.96
Employee	864,609.54	909,102.23	964,376.20	959,811.04	1,052,992.01	1,126,701.45	1,090,287.58
Retiree	252,562.60	285,339.75	265,263.24	269,069.32	334,810.69	295,976.25	390,394.58
Interest	122,696.12	253,552.79	293,838.00	283,002.59	69,978.15	0.00	17,593.28
Total Revenues	6,527,800.26	7,126,530.77	7,529,088.44	7,833,675.95	7,827,758.21	8,748,151.70	8,745,221.40
Expenses							
Claims (from financials)	4,377,650.54	5,024,471.39	6,082,168.73	6,715,784.55	7,371,877.61	9,154,201.00	7,099,333.91
Admin Charge	173,390.69	162,852.15	192,487.90	234,478.51	254,926.83	317,745.00	391,106.95
Stop Loss Premium	311,057.25	312,202.02	386,141.05	424,221.55	499,666.96	511,322.00	631,270.00
Other Contractual Expenses	0.00	0.00	10,501.36	0.00	81,745.12	0.00	46,020.50
Total Expenses	4,862,098.48	5,499,525.56	6,671,299.04	7,374,484.61	8,208,216.52	9,983,268.00	8,167,731.36
City Authorized FTEs	767.89	798.25	827.67	818.92	809.17	796.67	796.67
Net Income	1,665,701.78	1,627,005.21	857,789.40	459,191.34	-380,458.31	-1,235,116.30	577,490.04
Actual ending fund balance	4,587,423.78	6,214,428.99	7,072,218.39	7,531,409.73	7,095,910.06	5,777,793.76	7,673,400.10

*2009 claims include $455,113 incurred 2009, paid in 2010
*2010 claims include $582,356, incurred 2010, paid in 2011

Percent change							
Revenues							
City	9.50%	7.39%	5.76%	5.26%	0.76%	15.00%	13.77%
Employee	1.72%	5.15%	6.08%	-0.47%	9.71%	7.00%	3.54%
Retiree	-0.23%	12.98%	-7.04%	1.43%	24.43%	-11.60%	16.60%
Interest	262.37%	106.65%	15.89%	-3.69%	-75.27%		-74.86%
Total Revenues	9.42%	9.17%	5.65%	4.05%	-0.08%	11.76%	11.72%
Expenses							
Claims	0.37%	14.78%	21.05%	10.42%	9.77%	24.18%	-3.70%
Admin Charge	-11.47%	-6.08%	18.20%	21.81%	8.72%	24.64%	53.42%
BCBS GOE,ASL,ISL	-35.15%	0.37%	23.68%	9.86%	17.78%	2.33%	26.34%
Other Contractual Expenses							
Total Expenses	-3.47%	13.11%	21.31%	10.54%	11.31%	21.63%	-0.49%
Net Income							
Actual ending fund balance	57.01%	35.47%	13.80%	6.49%	-5.78%	-18.58%	8.14%

City Budget Request (May year prior)	5,387,408.00	5,549,030.00	5,848,892.00	6,365,947.00	6,556,925.00	7,325,474.00
Difference- Actual from Request	(99,476.00)	129,506.00	156,719.00	(44,154.00)	(186,947.64)	(78,528.04)
Expected Plan Costs (May year prior)	6,436,803.00	5,910,973.00	6,073,399.00	7,671,993.90	7,222,676.00	9,983,268.00
Difference- Actual from Projected	(1,574,704.52)	(411,447.44)	597,900.04	(297,509.29)	985,540.52	(1,815,536.64)
Claims by by Stop Loss outside Innoprise	215,918.00	244,800.00	77,886.00	224,623.59	282,701.00	687,489.00

Attachment 2

Chart #1 Trend with current PPO Plan Design

Category	2011	2012*	2013	2014
Expenses				
Medical	6,143,000	6,748,000	7,413,000	8,143,000
Rx	1,507,000	1,655,000	1,818,000	1,997,000
Dental	509,000	555,000	605,000	659,000
Administration	507,000	542,000	580,000	621,000
Stop Loss	720,000	900,000	1,125,000	1,406,000
Total	9,386,000	10,400,000	11,541,000	12,826,000
Revenues				
City	7,691,000	7,691,000	7,691,000	7,691,000
Employee	1,494,000	1,494,000	1,494,000	1,494,000
Total	9,185,000	9,185,000	9,185,000	9,185,000
Fund Balance BOY	7,856,000	7,655,000	6,440,000	4,084,000
Fund Balance EOY	7,655,000	6,440,000	4,084,000	443,000
Recommended MRE	2,496,000	2,770,000	3,078,000	3,427,000
% Increase in Revenues needed to Cover Current years' expenses		13%	26%	40%
% Increase in Revenues needed to maintain minimum funding (per City's policy)		-27%	15%	72%

Assumptions/Inputs for 2013 and 2014	
Trend	
--Medical	10%
--Rx	10%
--Dental	9%
--Administration	7%
--Stop Loss	25%
City Funding Increase	0%
Employee Funding Increase	0%
MRE Level	20%
Catastrophic Load	20%

Chart #2 Trend by Implementing Health Reimbursement Account (HRA)

Category	2011	2012*	2012 HRA Plan	2013 HRA Plan	2014 HRA Plan
Expenses					
Medical	6,143,000	6,748,000	6,542,000	7,065,360	7,630,589
Rx	1,507,000	1,655,000	1,655,000	1,818,018	1,997,092
Dental	509,000	555,000	555,000	604,950	659,396
Administration	507,000	542,000	542,000	579,940	620,536
Stop Loss	720,000	900,000	900,000	1,125,000	1,406,250
Total	9,386,000	10,400,000	10,194,000	11,193,268	12,313,862
Revenues					
City	7,691,000	7,691,000	7,691,000	7,691,000	7,691,000
Employee	1,494,000	1,494,000	1,723,000	1,723,000	1,723,000
Total	9,185,000	9,185,000	9,414,000	9,414,000	9,414,000
Fund Balance BOY	7,856,000	7,655,000	7,655,000	7,655,000	7,655,000
Fund Balance EOY	7,655,000	6,440,000	6,875,000	5,876,000	4,755,000
Recommended MRE	2,496,000	2,770,000	2,715,000	2,981,000	3,280,000
% Increase in Revenues needed to Cover Current years' expenses		13%	8%	19%	31%
% Increase in Revenues needed to maintain minimum funding (per City's policy)		-27%	-34%	-12%	15%

Assumptions/Inputs for 2013 and 2014	
Trend	
--Medical	8%
--Rx	8%
--Dental	9%
--Administration	7%
--Stop Loss	25%
City Funding Increase	0%
Employee Funding Increase	0%
MRE Level	20%
Catastrophic Load	20%

* Assumes no plan design or funding changes

Attachment 3

ABHP: HSAs, HRAs, Health FSAs

Account Feature	Health Savings Account (HSA)	Health Reimbursement Account (HRA)
Eligibility	Individuals (employees) with high-deductible plan (HDHP)	Employees whose employers make available
Health Insurance Requirement	Qualified high deductible health plan required	None except by employer plan design
Contributions	Employer, employee, or both	Employer only
Annual contribution limits	Fixed amount established by law	None legally required, employer sets its contribution amounts
Qualifying expenses	Miscellaneous IRC 213(d) expenses, limited health premium reimbursements	Miscellaneous IRC 213(d) expenses, unlimited health premium reimbursements, subject to plan design
Non-qualified withdrawals	Yes, but taxable, plus 20% penalty. After age 65, death or disability -- no penalty	Not allowed
Rollover of unused funds	Unused funds roll over	Allowed, although employer can establish limits
Non-forfeitable	Fully portable, can take to new employer	No, but COBRA rights apply

Important: with HSA-qualified HDHP, prescription costs (not copays or coinsurance) apply to high deductible (can "carve out" preventive prescriptions to pay "first dollar").

Attachment 4
Claim Examples

$2,000 Allowed Charge			
2011 PPO ($300 Deductible)			
Total Individual Claim Charge	$	2,000	
Deductible	$	300	Employee pays immediately
Balance	$	1,700	
20% Employee responsibility	$	340	
Plan pays	$	1,360	
Total employee out of pocket	$	640	
2012 PPO Opt A ($1,000 deductible)			
Total Individual Claim Charge	$	2,000	
Deductible	$	1,000	Employee pays immediately
Balance	$	1,000	
20% Employee responsibility	$	200	
Plan Pays	$	800	
Total employee out of pocket	$	1,200	
2012 HRA Plan Option B ($750 deductible with $250 HRA provided)			
Total Individual Claim Charge	$	2,000	
HRA Pays	$	250	Plan pays immediately
Deductible Remaining	$	500	Employee pays
Balance	$	1,250	
20% Employee responsibility	$	250	
Plan Pays	$	1,250	
Total employee out of pocket	$	750	
2012 HRA Plan Option C ($700 deductible with $250 HRA provided)			
Total Individual Claim Charge	$	2,000	
HRA Pays	$	250	Plan pays immediately
Deductible Remaining	$	450	Employee pays
Balance	$	1,300	
20% Employee responsibility	$	260	
Plan Pays	$	1,290	
Total employee out of pocket	$	710	

$500 Allowed Charge			
2011 PPO ($300 Deductible)			
Total Individual Claim Charge	$	500	
Deductible	$	300	Employee pays immediately
Balance	$	200	
20% Employee responsibility	$	40	
Plan pays	$	160	
Total employee out of pocket	$	340	
2012 PPO Opt A ($1,000 deductible)			
Total Individual Claim Charge	$	500	
Deductible	$	500	
Balance	$	-	
20% Employee responsibility	$	-	
Plan Pays	$	-	
Total employee out of pocket	$	500	
2012 HRA Plan Option B ($750 deductible with $250 HRA provided)			
Total Individual Claim Charge	$	500	
HRA Pays	$	250	Plan pays immediately
Deductible Remaining	$	250	Employee pays
Balance	$	-	
20% Employee responsibility	$	-	
Plan Pays	$	250	
Total employee out of pocket	$	250	
2012 HRA Plan Option C ($700 deductible with $250 HRA provided)			
Total Individual Claim Charge	$	500	
HRA Pays	$	250	Plan pays immediately
Deductible Remaining	$	250	Employee pays
Balance	$	-	
20% Employee responsibility	$	-	
Plan Pays	$	250	
Total employee out of pocket	$	250	

These are examples only. Plan payment and employee out of pocket costs assume individual coverage, no wellness and in-network utilization.

Attachment 5

Health Care Committee Ongoing Goals and Objectives
Revised 1/1/2011

Mission

The City of Lawrence Health Care Committee is devoted to balancing the best interest of the City of Lawrence and the best interest of the City employees in order to establish and maintain a high quality, cost effective health care plan that offers meaningful benefits to its employees and retirees.

The largest component of the City of Lawrence employee benefit package is the health care plan. It serves as a recruitment and retention tool. To attract potential employees, and keep current ones, the health care plan must be market competitive in terms of employee cost (i.e. premiums, deductibles, coinsurance, and out of pocket maximums) and the level of benefit provided (scope of covered services).

Background

The City of Lawrence Health Care Committee was formed in 1998 to develop guidelines regarding annual funding and plan design. Since 1998, on an annual basis, the Health Care Committee has devoted time to review, revise, and refine those guidelines according to City Commission directives and input from City management and employees.

The City of Lawrence Health Care Committee is chaired by the Human Resources Manager and consists of City employees from each department. The objectives of the Health Care Committee are:

1. To submit annual budget recommendations to the City Commission regarding funding for the health care plan;
2. To review, evaluate, and determine plan design;
3. To identify, review, and address utilization trends;
4. To monitor current national health care trends;
5. Through partnership with the Wellness Committee (CHAMP), provide health education and wellness interventions to employees and their immediate family members so that they might fulfill their responsibilities as covered plan participants.

Statement of Plan Participant Responsibilities

While it is the right of plan participants to use the Plan to the fullest, and to take advantage of everything it offers, it is also their responsibility to maximize healthy habits, to become knowledgeable about his or her health plan coverage, and to consume health care services in a responsible manner in order to reduce his or her lifetime cost for health care coverage.

Annual Funding Guidelines

Annual budget recommendations will be submitted to City management in May for the next plan year using the most current national industry cost trend projections available at the time.

City funding means annual funding. Employee contributions mean payroll deductions for health care premiums. The City will fund health care for current employees on a per FTE basis and new positions on a per contract basis.

Recommended levels of 16% of projected costs will be maintained in retained earnings for at least one year beyond the year for which the budget is being prepared. Retained earnings fund the cost of catastrophic

claims, which is defined by the claims administrator each year not to exceed 120% of projected expenses. Interest earned on retained earnings will be used to offset the budget request to fund retained earnings.

The City will fully fund the monthly premium equivalent of a single membership for employee coverage. The City will fund an equal dollar amount toward the monthly premium equivalent for a family membership.

The cost to cover eligible dependents under the health care plan is the difference between the monthly premium equivalent for a family membership and the monthly premium equivalent for a single membership.

To keep revenues proportional between City funding and employee contributions, the City will contribute 55-75% of the funding necessary to generate revenue toward the cost of dependent coverage; the employee will contribute 25-45%. Ideally, revenues will be split 65/35 between the City and employees toward the cost of dependent coverage.

Eligible employees receiving a retirement or disability benefit through KPERS will pay 80% of the monthly premium equivalent for their health care membership. The City will fund the remaining 20%.

COBRA participants will pay 102% of the monthly premium equivalent for their health care membership.

The Health Care Committee will work to moderate increases in City funding and employee contributions in order to smooth out the peaks and valleys of actual health care consumption. When increases in health care utilization have depleted retained earnings for future years below recommended levels, changes regarding retained earnings funding parameters will be implemented. When decreases in health care utilization are maintained for multiple years, the health care committee will recommend plan design enhancements.

Plan Design Guidelines

Covered services under the health care plan should satisfy the needs of the majority of employees, which can be identified by annually collecting aggregate data through:

1. Wellness tools;
2. Health care plan utilization reports;
3. Disability and worker's compensation claims; and
4. Periodic employee surveys.

Ideally, the plan design should enable plan expenses to be at or below national industry cost trends. This will be accomplished in part by:

1. Maintaining a plan design that enables and encourages plan participants to make wise consumer choices;
2. Maintaining a plan design that enables and encourages plan participants to utilize preventative services;
3. Educating plan participants on how to be wise consumers of health care services; and
4. Through the Wellness Committee, utilizing intervention programs for employees to use in order to individually examine and improve their overall lifestyle.