PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA – STAFF BRIEFING

Item No.	7e
Date of Meeting	January 5, 2010

DATE: December 28, 2009

TO: Tay Yoshitani, Chief Executive Officer

FROM: Jeff Hollingsworth, Risk Manager
Tammy Woodard, Sr. Manager, Total Compensation

SUBJECT: Briefing – Self-Funding of Port Medical and Dental Benefits

INTRODUCTION

The Port is moving towards a self-funded approach for its medical and dental benefits. The Port of Seattle has approximately 1,700 employees, and slightly less than half are represented by a labor union. Approximately 1,000 employees (all non-union and approximately 200 union) are covered by the Port's medical and dental plans that are being proposed for self-funding. The self-funded approach will require several procurements, which the Port will do under the guidance of the Central Procurement Office. This briefing outlines the overall plan to move to a self-funding program and the self-funding benefits team will be returning to request Commission authorization to execute these procurements. The move to self-funding benefits will allow the Port to achieve savings and it also supports overall cost containment efforts in the area of health care. In accordance with the Port's Salary and Benefit Resolution Section IX, this memo serves as notice to the Commission of the Port's move to implement a self-funding program for medical and dental benefits.

BACKGROUND

The Port of Seattle has historically fully insured its medical and dental benefits. Insurance plans are renewed annually with the calendar year as the plan year. In recent years the coverage has been with Premera, Group Health, and Washington Dental Service. Benefits were procured by Mercer through 2008 when the Port retained Watson Wyatt (through a competitive selection process) to procure and negotiate insurance on behalf of the Port.

Historically, the Port has paid 100% of premium cost for employees and dependents. Beginning in 2008, employees who participated in the Port Wellness Rewards Program and earned a targeted 1000 points continued to receive their health insurance in 2009 without paying a portion of their premiums. Employees who earned the target 1000 points in 2009 will receive a significant reduction in their 2010 medical insurance premiums although all employees will be paying some portion of their premium.

Through 2009 the Port subsidized retiree insurance premiums. Eligible retirees in 2010 may continue their Port medical coverage however they will be paying the full cost of their medical coverage. Retire coverage is available for both pre- and post-Medicare eligible retirees. Approximately 180 retirees and surviving spouses are covered on the Port's retiree plans.

The Port's 2009 Premera premiums (Heritage and Foundation) were $14.1 million covering 1,127 active and retired employees. The fully insured 2010 premiums for this same group will be approximately $14.8 million (a 4.2% increase). In 2010, employees will be contributing about 5% of total premium, or roughly $700,000. Dental premium for 2010 will be approximately $1,582,750 and rates will be unchanged from 2009. The Port's Group Health Cooperative members (274) would not be impacted by a switch to self-funding of benefits as the Group Health coverage will remain fully insured. Group Health premium for 2010 will be approximately $ 2,000,000. In addition to Group Health, the Port purchases insurance for life insurance, accidental death and dismemberment, and long-term disability. The premiums for these three insured programs totaled $1,400,000 in 2009. These programs will remain insured and will not be impacted by the self-funding of medical and dental benefits.

BENEFITS:

The positive factors associated with a self-funded approach include:

1. Direct cost savings versus paying a fully loaded premium. Studies show this can result in Port savings of 6% - 8% (of total premium dollars). This is the most significant benefit of a self-funded approach. Annual savings could be as much as $1 million, and even more savings may be possible depending on the actual claims levels and if the Port chooses to self-fund pharmacy claims. These cost savings (compared to a fully insured model) can be sustained on an annual basis. [1]

2. Direct negotiations with the selected claims administrator (medical/dental).

3. Direct rebates from the pharmacy manufacturers; (currently do not get).

[1] Watson Wyatt completed a self-funded feasibility study on March 25, 2009 that provided a financial analysis on the costs and savings of a self-funded approach.

4. Future inclusion of employee Health Savings Accounts (HSA) or Health Reimbursement Accounts (HRA) in conjunction with a high deductible plan offering.

5. Port Spirit and Wellness initiatives could link directly with plan design and funding, including employee incentives in which the Port would contribute to a potential employee Health Savings Account.

6. The Port would achieve a tax savings since as a self-funded entity the Port avoids paying the 2.5% premium tax that is included in its current fully insured premium it pays to Premera.

RISKS AND CHALLENGES:

There are also some risks and challenges the Port would have to address in adopting a self-funded model. These include:

1. The risk of being underfunded in the event actual claims experience is worse than the projected for a given year. This is mitigated by stop loss and aggregate stop loss insurance as well as conservatively projecting future claims.

2. Regulatory conditions imposed upon self-insurers in Washington as defined in RCW 48.60 and WAC 82-60 including annual reports to the State Office of Financial Management.

3. Additional contracts to administer in addition to the overall benefits consultant. These include the selected third party claims administrator and the stop-loss insurer. The current fully insured model requires only one contract with a benefits broker who negotiates renewal rates directly with insurers on behalf of the Port.

4. There would be new demands on Port staff related to the procurement processes to select the various contactors/vendors, overseeing the contracts, monitoring the financing to ensure solvency for claims payments, ensuring proper benefits accounting, and establishing funding rates for each forthcoming (or renewal) year. The new demands on staff will handled by a team approach consisting of staff from Human Resources, Risk Management, Accounting, Health/Safety, and Legal. No additional staff will be hired.

POTENTIAL SAVINGS:

The annual potential fixed cost savings by adopting a self-funded approach are shown in the table below. [2] These costs do not reflect the additional potential savings in the event actual claims in a given year are below the actuarially determined forecast.

Table One – Fixed Cost Savings			
Item	**Fully Insured**	**Self-Funded**	**Fixed Costs Savings Per Year**
Premera Admin Fee	$1,620,000	$970,000	$650,000
Dental Admin Fee	$220,000	$140,000	$80,000
Stop Loss Coverage	$980,000	$730,000	$250,000
Pharmacy RX Rebate	$0	($114,000)	$114,000
Cash Flow	$0	($22,000)	$22,000
Actuarial Services	$0	$15,000	($15,000)
State Fees	$0	$13,000	($13,000)
Consultant Fees	$150,000	$150,000	$0
Total	**$2,970,000**	**$1,882,000**	**$1,088,000/Year**

Note 1: Port would receive a rebate of about $1,000,000 in 2012 from Premera to cover the remainder of the IBNR (see footnote) reserve and the balance owed from the premium stabilization reserve for both dental and medical.

Note 2: In 2010, the Port would still be under a fully insured plan and continue the existing contract with Watson Wyatt (which is paid on commission) and a separate contract will be executed with a consultant to cover the transition items and other procurements needed relative to starting the self-funded model in 2011.

Note 3: Reference Watson Wyatt: Self Insurance Feasibility Study March 25, 2009.

Note 4: The Premera and Washington Dental Administration fees includes premium taxes.

Note 5: Actuarial service fees are for other benefit related programs.

Footnote : IBNR stands for Incurred But Not Reported claims, meaning claims that have happened in the calendar year, but have not yet been reported to the insurer (or self-funding entity).

[2] Reference the Watson Wyatt feasibility study of March 25, 2009

REGULATORY REQUIREMENTS:

Several key items required by the Revised Code of Washington (RCW) 48.62.071 will be needed by the State Office of Financial Management for the initial review and approval of the Port's application to become a self-funded employer. Annual reports must be submitted in subsequent years. These are highlighted below.

Table Two – Regulatory Requirements Summary			
Item	**Who To Provide**	**WAC or RCW Reference**	**Notes**
Description of how program will be administered internally;	Port with the assistance of the selected benefits consultant	RCW 48.62.071 and RCW 48.62.091	To be submitted with the application to the State OFM and annually thereafter;
Description of self insured program elements including coverage, claims handling, and appeals process	Port with assistance of selected benefits consultant	RCW 48.62.071 and RCW 48.62.091 and WAC 82-60-050	To be submitted with the application to the State OFM and annually thereafter;
Listing of all consultants, stop loss provider, actuary, and claims administrators	Port with assistance of selected benefits consultant	RCW 48.62.071 and RCW 48.62.091	To be submitted with the application to the State OFM and annually thereafter;
Financial analysis of funding, claims projections, and funding reserve policy.	Port with assistance of selected benefits consultant and actuary	RCW 48.62.071 and RCW 48.62.091	To be submitted with the application to the State OFM and annually thereafter;
Annual summary of plan and funding to be submitted to the State OFM	Port with assistance of general consultant and actuary	RCW 48.62.071	Annual application must be submitted to the State.
Annual Fees To State	Port pays these direct to the State.	WAC 82-60-100	The fees are assessed on self funded entities by the State.

KEY PROCUREMENTS NEEDED:

There are several procurements needed to adopt a self-funded model effective on January 1, 2011. Work has already begun with the Central Procurement Office on the selection of a benefits consultant to assist with the transition year in 2010 and the first four years of the self-funded program, through 2014.

Table Three – Procurement Costs					
Procurement	**Resource Type**	**Date Needed**	**Start CPO Work**	**Estimated Cost**	**Duration**
Select **Benefits Consultant** to assist with transition and initial coverage plan documents and procurements and to negotiate future coverage for the non self funded plans. Will also consolidate all actuarial work for benefit program.	Outside consultant to assist with: third party claims administrator selection; actuarial work for setting funding, state application, and selection process for a stop loss provider.	January 1, 2010 is when RFP is to be released	October, 2009	$150,000 2010 $165,000 2011 $165,000 2012 $165,000 2013 $165,000 2014 $810,000 **Note** – Current contract with Watson Wyatt (in force for 2010) does not include these services in its scope.	5 years
Select **Third Party Medical Claims Administrator**	Claims management services such as Premera	January 1, 2011	April 2010	$970,000 2011 $970,000 2012 $970,000 2013 $970,000 2014 $3,880,000	4 years
Select **Third Party Dental Claims Administrator**	Claims management services such as Washington Dental Service	January 1, 2011	April 2010	$140,000 2011 $140,000 2012 $140,000 2013 $140,000 2014 $560,000	4 years
Select **Stop Loss Provider**	Stop loss protection is needed to protect against large single claims.	January 1, 2011	May 2010	$730,000 2011 $730,000 2012 $730,000 2013 $730,000 2014 $2,920,000	4 years
Totals				$150,000 2010 $2,005,000 2011 $2,005,000 2012	

Table Three – Procurement Costs					
				$2,005,000 2013 $2,005,000 2014 **$ 8,170,000 Total**	
Note: The current cost of these services is included in the premiums paid to Premera and Washington Dental Service (Refer to Table One). The costs for these services if paid over four years through Premera and Washington Dental Service would be approximately $11,880,000 (excludes $150,000 of fees in 2010 and cash flow savings on projected reserves held by the Port). Starting in 2011, the consultant fees shown above include the $15,000 in actuarial service fees identified in Table One.					

SCHEDULE

The table below lists the tentative schedule for the work to be done in 2010 in order to meet the project timeline required to implement a self-funded program on January 1, 2011.

Activity	Date
RFP Issued for a Self-Funding Benefits Consultant	January, 1, 2010
Commission Briefing on Overall Self Funding Plan	January 5, 2010
Commission Request to Execute Self-Funding Benefits Consultant	January 12, 2010
Proposal Submission Deadline for Self-Funding Benefits Consultant	January 31, 2010
Written Proposals Scored by Port for Benefits Consultant	February 14, 2010
Interviews with Finalists Completed for Benefits Consultant	February 28, 2010
Contract Effective Start Date for Benefits Consultant	April 1, 2010
Issue RFP for Dental/Medical Claims Administrators	May 1, 2010
Issue RFP for Stop Loss Provider	June 1, 2010
Select Dental and Medical Claims Administrator	July 1, 2010
Select Stop Loss Provider	August 1, 2010
Self Funding Rates Established for 2011	September 1, 2010
Application Document Submitted to State Office of Finance	October 1, 2010

CONCLUSION

The move to a self-funded plans for medical and dental benefits will allow the Port achieve direct savings compared to the current fully insured approach. At the same time, the Port will assume additional risk in ensuring its self-funded rates remain adequate to cover projected claim costs. This risk is mitigated by purchasing stop loss insurance. The State Office of Financial Management, which requires annual documentation to ensure the plan is solvent and has the money to play claims, will provide oversight of the program. A self-funded approach is common among public entities and during the analysis phase of this project site visits were made to the City of Bellevue, the City of Kent, and the City of Everett to learn from these public employers how they have set up and manage their self-funded medical and dental programs. The self funding benefits project team believes the Port of Seattle is a good candidate for using this approach which will achieve cost savings not only in the first year of the program, but on a sustainable basis in future years.