

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA – STAFF BRIEFING

Item No.

7a

Date of Meeting

April 27, 2010

DATE: April 15, 2010

TO: Tay Yoshitani, Chief Executive Officer

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

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

INTRODUCTION:

The Port is continuing to explore the possibility of adopting a self-funded approach for the Port sponsored Premera medical and Washington Dental Service dental plans as a cost containment strategy. These plans cover approximately 1020 of the Port's 1580 current employees as well as approximately 163 retired employees or surviving spouses. All non-union and approximately 120 union employees are covered by these plans; remaining employees are covered by other plans as specified in collective bargaining agreements of union employees. Under this approach, the Port would not make any changes to the existing Group Health medical benefits plan.

This briefing will summarize the costs, benefits and risks of self-funding the Port's Premera and Washington Dental Service plans, provide an update on the work of the self funding benefits team since the January briefing, and detail the remaining work and decisions necessary to move the Port to a self-funded arrangement for these plans.

BACKGROUND:

The Port of Seattle currently maintains a fully insured medical and dental benefits program. Adopting a self-funded approach would mean that a claims administrator would process claims, determine appropriate payment to providers, and then pay claims with funds provided by the Port. In this type of funding arrangement the Port will assume some risk (currently assumed by insurance carriers) that actual claims are greater than expected and conversely realize the benefit of claims that are less than expected. This risk can be mitigated through the purchase of stop loss insurance coverage. Adopting a self-funded medical benefits program also permits the Port to realize savings on claims administration costs as described more fully below.

Self-funding health benefits is fairly common among mid-sized to large employers. Data from the Kaiser Family Foundation's 2009 survey indicates that 48% of employers with 200 to 999 employees self-fund their benefits programs while 80% of employers with 1000 to 4,999 employees

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self-fund their programs. The same survey indicates that self-funding is common among employers in industries similar to the Port – 76% of employers in transportation/communication/utilities self-fund their benefit programs while 59% of state and local government employers self-fund theirs. Overall, this survey indicates that 57% of all employers self-fund their benefit programs. Within Washington State, the Office of Financial Management – Risk Management Department’s web site lists 16 cities, 6 counties, as well as multiple school districts, public utility districts, and public hospitals that self-fund at least a portion of their health insurance programs.

Self funding is ultimately a cost containment strategy. The Port previously implemented a cost savings strategy utilizing the Wellness Rewards Program which offered employees covered by the Port plans an opportunity to earn a 10% reduction in their share of annual medical premiums. The 10% reduction in 2009 permitted employees to receive their medical insurance with no premium sharing. Beginning in 2010 all employees covered by the Port plans pay a portion of their medical premiums and those participating in the Wellness Rewards Program still earn a 10% discount on the premium they pay. Another cost containment strategy implemented in 2010 was the elimination of the subsidy for retiree medical premiums.

Adopting a self-funding program for medical and dental benefits will have minimal impact on employees covered by the Port’s plans. If the Port contracts with Premera for medical claims processing and administration services and Washington Dental Service for dental claims processing and administration services, employees’ claims will be processed like they are with the current fully insured plans. Decisions about plan design changes like increasing or decreasing deductibles and co-pays will be carefully considered and made independently from a change to a self-funded program.

ADVANTAGES:

A significant advantage of self funding medical and dental benefits is cost savings compared to fully insured plans. Cost savings generally result from the elimination or reduction of charges embedded in insurance premiums to cover overhead, profit and taxes. Comparing fully insured to self-funded programs, if claim payments were equal in both scenarios, the Port could realize savings in the following ways.

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Estimated Self-Funding Savings (does not include any potential savings from lower than expected claims costs)				
Item	Fully Insured	Self-Funded	Potential Annual Savings	Comments
Medical Claims Administration Fee	\$1,230,000	\$970,000	\$260,000	Fully Insured amount is included in our premium; Self-Funded amount would be paid in lieu of the premium
Dental Claims Administration Fee	\$220,000	\$140,000	\$80,000	Fully Insured amount is included in our premium; Self-Funded amount would be paid in lieu of the premium
Premium, High Risk, and B&O Taxes	\$390,000	\$10,000	\$380,000	Port would pay \$10,000 B&O tax only
Stop Loss Coverage	\$980,000	\$730,000	\$250,000	Fully Insured amount is included in our premium; Self-Funded amount will be paid directly to a selected insurer
Pharmacy RX Rebate	\$0	-\$114,000	\$114,000	Premera currently shares the pharmacy rebate with all their customers as part of their administration fee. With a Self-Funded arrangement we expect to receive all of the rebate associated with Port claims
Cash Flow	\$0	-\$22,000	\$22,000	Savings result from the Port holding claim payment funds until they are actually needed to pay claims
Actuarial Services	\$0	\$15,000	-\$15,000	Additional cost – needed to establish expected claims and required reserve amounts
State Fees	\$0	\$13,000	-\$13,000	Additional cost with a Self-Funded arrangement – fees required by the State of self-funded public employers
Total	\$2,820,000	\$1,742,000	\$1,078,000	

It should be noted, however, that even with these cost savings relative to a fully insured plan, the Port expects to face continued increases in healthcare costs over the foreseeable future.

A self-funded program would also permit the Port to link the Wellness Rewards Program with plan design components in ways that could reward employees for activities or actions that are proven to directly affect claims costs and result in improved employee health.

Additional cost savings may be realized if actual claims are below expected levels as the Port would pay only actual claims. With a fully insured program any savings resulting from lower than expected claims are maintained by the insurance company. Although lower than expected claims in a fully insured program may be passed on to the Port in future years through lower premium

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increases, this savings would be less than the savings the Port could realize with a self-funded program.

COSTS AND RISKS:

The principal risk of a self-funded benefit program is the risk that actual claims in any year are greater than anticipated. The Port plans to purchase stop loss insurance to mitigate this risk (under an insured plan the insurer purchases stop loss coverage). The Port also plans to continue promoting and enhancing the Wellness Rewards Program as a way of supporting healthy employees and families. The expectation is that, over time, this emphasis will have a positive impact on health insurance claims.

A self-funded benefit program also increases the number of contracts to administer. The Port currently administers one contract with a benefits consultant. In addition to this contract, a self-funded arrangement will require contracts with medical and dental claims administrators and the stop loss insurance provider.

There will also be somewhat more time required of Port staff beyond the time required to administer additional contracts.

In addition, the self-funded benefits team has confirmed with the Port's legal staff that the Port will not be exposed to any further legal liability with a self-funded benefit program than currently exists.

ACTIONS SINCE JANUARY COMMISSION MEETING:

Meetings with Other Employers:

Since the January 12 Commission meeting Port staff have been continuing to explore aspects of self funding. Staff attended a meeting of the State Employer Advisory Board to understand the revised WAC regulations that will guide administration of self-funded health insurance plans by public employers as well as the perspective of other public employers who are currently self insured. Port staff also met with benefit managers at King County, the City of Seattle and the City of Tacoma to understand how they manage their self-funded benefit programs, and how these organizations' work varies from the Port's current benefit management processes.

Meetings with Impacted Port Departments:

Members of the benefits self funding team met with representatives from Accounting and the Port Treasurer to discuss processes necessary to manage cash flow and fund claims payments.

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These meetings and discussions indicate that some new tasks will need to be performed requiring additional time from Port staff. These new tasks will include:

- Weekly review and payment of medical and dental claims,
- Monitoring claims reserves,
- Preparing and filing annual self-funded reports to the State, and
- Payment of stop loss premiums.

The additional time required to complete these tasks will be partially offset by simplified reporting to claims administrators compared to current reporting to insurers. The net additional time required to administer a self-funded benefit program is estimated at 10 hours per month once new processes are fully implemented and have been performed for several months.

Commission Resolution:

Port staff has also begun drafting the self-funding resolution required as part of the state self-funding application process. The Commission will consider the self-funding resolution at the May 4 and May 11 meetings.

Benefits Consultant Selection:

The self-funding benefits team also selected, through a competitive process, a benefits consultant and has begun negotiating with the selected consultant.

Timeline Review and Claims Administration Competition Waiver:

The self-funding team has also reviewed the self-funding conversion timeline. The original timeline was quite aggressive. The additional time required to complete the benefit consultant contract (it was targeted for completion by April 1st) together with a greater appreciation of the complexity of the competitive selection process for the self-funded claims administrators resulted in a decision to request a competition exemption under RCW 53.19.020(5) for the 2011 claims administration contracts on the basis that competition will not be cost effective. The Commission will consider this request at the May 11 meeting.

If the exemption is granted, one year claims administration contracts will be negotiated with Premera and Washington Dental Service, the Port's current medical and dental insurance providers. Modifying our current arrangements with Premera and Washington Dental Service to a claims administration arrangement will permit the Port to begin realizing savings associated with self-funded benefits program while minimizing the potential impact of changing firms on Port processes and communications. This approach will also minimize potential impacts on employees by maintaining the existing provider networks for at least one more year. A competitive process to select medical and dental claims administrators will be initiated late in 2010 and completed in 2011 with sufficient time to implement any changes that may be required as a result of selecting claims administrators other than Premera and Washington Dental Service.

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Impact of Health Care Reform:

Port staff has also been reviewing health care reform legislation. While a few provisions will take effect in January 2011, many provisions of the new legislation will not become effective until 2014 or later. The information available at this point indicates that the impacts to the Port will be the same regardless of whether the Port adopts a self-funded benefit program or stays with the fully insured program.

REMAINING SCHEDULE:

Several actions are still required to adopt a self-funded program for the current Premera and WDS plans. The following is the proposed schedule.

Action	Proposed Date	Who
First reading, Self-Funded Resolution	May 4, 2010	Commission
Second reading, Self-Funded Resolution	May 11, 2010	Commission
Competition exemption request and authorization to execute one year claims administration contracts with Premera and WDS	May 11, 2010	Commission
Complete negotiations with selected benefits consultant and finalize contract	May 15, 2010	Self-funded benefits team
Negotiate and execute one year claims administration contracts with Premera and WDS	June 15, 2010	Self-funded benefits team
Select stop-loss insurance provider	August 1, 2010	Self-funded benefits team
Complete and file self-funded application with the State of Washington	October 1, 2010	Self-funded benefits team
Finalize self-funded processes	October 15, 2010	Self-funded benefits team
Convert to self-funded program	January 1, 2011	

CONCLUSION:

Self-funding the Port's Premera and Washington Dental Service plans continues to a viable alternative to the current fully insured program. The savings, primarily in administration costs, should be sustainable over time. It will likely take three to five years to before sufficient data is available to substantiate the savings associated with a self-funded program. Port staff will, if self-funding is adopted, conduct an analysis of the Port's self-funded benefits program after three to five years and report the findings of the analysis to the Commission. In the unlikely event that savings are not realized, the Port can return to a fully insured program at any time. The self-funding benefits team recommends the Port adopt a self-funded benefit program effective January 1, 2011, negotiate one year claims administration contracts with Premera and Washington Dental Service, select a stop loss insurer and begin a competitive claims administration selection process late in 2010 for contracts to be effective January 1, 2012.