

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6a

Date of Meeting May 11, 2010

DATE: May 4, 2010

TO: Tay Yoshitani, Chief Executive Officer

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

SUBJECT: Resolution No. 3636, Second Reading, final passage and adoption of a Self-Funded Health Insurance Program

BACKGROUND

The Port of Seattle has historically fully insured the medical and dental insurance provided to employees and retirees. In early 2009 the Port's benefit consultant, Towers Watson (the firm was known as Watson Wyatt at the time) presented the results of a self-funding feasibility study conducted for the Port. This study showed that self-funding medical and dental benefits was a financially viable option and had the potential to save the Port 6% - 8% (up to \$1 million) of the cost of fully insuring the benefit program.

The savings associated with a self-funded health benefit program come from reduced claims administration fees, less taxes, reduced stop loss insurance costs, direct rebates on pharmacy claims and cash flow earnings resulting from the Port holding the funds to pay claims until they are actually needed. These savings are slightly offset by actuarial costs and state fees that are not required of fully insured programs. The costs and potential savings associated a self-funded medical and dental benefit program were detailed in briefings to the Commission on January 12, 2010 and April 27, 2010.

With a self-funded benefit program the Port will contract with a third party claims administrator to process and administer medical and dental claims. The claims administrator could be an insurance company like Premera or a company whose purpose is to provide claims administration services for self-insured medical and dental programs. The claims administrator will process claims for Port employees and retirees and request funds from the Port on a weekly basis to pay the claims processed for the week. With this arrangement the Port pays only for actual claims rather than paying a premium based on expected claims.

While there is expected cost savings associated with adopting a self-funded medical and dental benefit program, there are some risks associated with a self-funded program. The most significant risk is greater than expected claims costs. Purchasing stop loss insurance will mitigate this risk. Risks and costs associated with a self-funded medical and dental benefit program were detailed at January 12, 2010 and April 27, 2010 Commission Briefings.

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Engaging employees in maintain their health also helps manage the risk of higher than expected claims costs, and ensuring that employees understand what self-funding is, and what is it not, is important. Human Resources and Development will continue its employee outreach program through email communications, updates to the Port's Self-Funding Intranet page and other means to share information and address questions raised by employees as the self-funded medical program is implemented.

RECOMMENDATION:

Self-funding medical and dental benefits is a common practice among mid-size and larger employers, as well as among Washington public employers (see April 27, 2010 Commission briefing memo for details). The self-funding benefits team expects the benefits to outweigh the risks and recommends the Commission adopt a self-funded medical and dental benefit program.

Chapter 82-65 WAC requires Washington public employers to adopt a self-funded program by ordinance or resolution of the entities governing body. Resolution No. 3636 will adopt a self-funded medical and dental benefit program for the Port of Seattle, specify that the program will be administered consistent with Chapter 82-65 WAC, and authorize the Chief Executive Officer to take all steps required and execute all documents necessary to adopt, implement and manage a self-insured health plan for the Port of Seattle.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

January 12, 2010 – Commission briefing on self-funding the Port's medical and dental benefits

January 12, 2010 – Commission authorization for a two-year contract with a benefit consulting firm, and options to renew annually for additional three years.

April 27, 2010 – Updated briefing on self-funding medical and dental benefits

May 4, 2010 – First reading and approval of Resolution 3636 adopting a self-funded benefit program for the Port.

REQUESTED ACTION

Second reading and final passage to adopt Resolution No. 3636, adopting a self-funded medical and dental benefits program for the Port.