



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
**EXECUTIVE PERSONNEL
AND COMPENSATION COMMITTEE**

Item No.
4

MEETING DATE: September 16, 2009

Subject:

**San Diego County Regional Airport Authority Health & Welfare
Employee Benefits Renewal Strategy for January 1, 2010**

Recommendation:

Direct staff to forward this item to the Board and recommend the approval of the renewal of the employee benefits program(s) for 2010.

Background/Justification:

Through our broker of record, Alliant Insurance Services, the Authority solicited bids and considered renewal options for employee benefit program(s) for the coverage period of January 1, 2010 and lasting through December 31, 2010. After an extensive evaluation of the various bids and available plan options and with assistance and the expertise of Alliant Insurance services the following information was presented to the Authority:

- Medical: 8 carrier quotes requested – none competitive with Anthem Blue Cross (current carrier)
- Dental: 13 carrier quotes requested – none competitive with Delta Dental (current carrier)
- Vision: 4 plan carrier quotes requested – none competitive with VSP (current carrier)
- 3 employee assistance plan carrier quotes requested – Anthem Blue Cross (current carrier) most competitive
- Short Term Disability (STD); Long Term Disability(LTD); Accidental Death & Dismemberment(AD&D); and Basis Life Insurance policies were competitively bid: The Hartford is most competitive
- Flexible Spending Account(FSA)/COBRA Third Party Administrators: multiple options considered; synergies and cost competitiveness exist with Genesis

In support of the Authority's strategy of healthcare consumerism and employee wellness, the provisions of the proposed benefit plans are intended to maintain comparable year to year benefits coverage for employees and maintain cost effectiveness for the Authority. Staff is recommending that the following Authority benefit programs be approved for 2010:

- Maintain current Medical HMO & PPO plans (current carrier: Anthem Blue Cross)

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- Continuation of Employee Assistance Program and Health Advocate resources for all employees
- Continuation of Health Risk Assessments and incentives in order to utilize data to address organizational employee wellness and health opportunities
- Maintain current Dental and Vision plan providers with changes in benefit plan designs for Out of Network services (current carriers: Delta Dental & VSP)
- Change carriers for Authority paid Basic Life, Accidental Death & Dismemberment (AD&D), and Short-Term Disability (STD) Plans
- Change carrier for Third Party Administration of Flexible Spending Account (FSA) and COBRA administration

The Authority will continue to offer additional voluntary benefits products where 100% of the premium costs are paid by employees, including:

- Long-Term Disability/Supplemental AD&D
- Voluntary Term Life Insurance
- Whole Life Insurance
- Critical Illness/Accident Insurance
- Pre-Paid Legal

Fiscal Impact:

Nationally and locally, healthcare costs are continuing to rise at rates above expectation. On an annualized basis, for the recommendations being made by Staff, the total anticipated employer benefits cost (Medical w/Employee Assistance, Dental, Vision, Life/AD&D, Disability, Health Advocacy, COBRA & Flexible Spending Account administration) for the 2010 plan year is \$3,610,464 compared to \$3,116,139 for the 2009 plan year, an increase of \$494,325 or 15.86%. The cost assumes a constant number of plan participants with the current employee elections and contribution. A 10% increase in cost was anticipated and budgeted. Staff plans on making other adjustments to the operating budget in order to absorb the unanticipated additional increase in cost.

Environmental Review:

A. This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act (CEQA), as amended. 14 Cal. Code Regs. Section 15378. This Board action is not a "project" subject to CEQA. Pub. Res. Code Section 21065.

B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act Pub Res. Code Section 30106.

Equal Opportunity Program:

Not applicable.

Prepared by:

JEFFREY WOODSON
VICE PRESIDENT, ADMINISTRATION



ITEM 4

San Diego County Regional Airport Authority Health & Welfare Employee Benefits Renewal Strategy January 1, 2010

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September 16, 2009

Alliant

Agenda

- Market updates and trends
- Authority Wellness Initiatives
- Renewal process
- 2010 Benefits renewal costs
- 2010 renewal options
- Recommendations & Next Steps

Introducing Alliant

Alliant has an 80 year history in San Diego. Alliant entered the public entity insurance sector in the early 70's. This division has become the recognized leader in California in this specialized market. We are gaining prominence on a national scale as well through a growing number of out-of-state agency client relationships. Alliant provides brokerage and consulting services to over 6,000 public entities.

Alliant has developed customized insurance/risk management programs for our public agency clients listed below.

- **56 of the 58 California Counties**
- **Over 500 Cities**
- **Over 1,000 Special Districts**
- **Over 200 School Districts**
- **Over 75 Ports**
- **Over 50 Joint Powers Authorities**
- **Over 100 Hospitals**
- **The State of California and other states**

Alliant Public Sector Experience

Proven Track Record

Partial listing of local public agency clients

- San Diego County Regional Airport Authority
- City of Oceanside
- City of La Mesa
- City of El Centro
- City of Encinitas
- City of Coronado
- City of Del Mar
- City of Imperial Beach
- City of Lemon Grove
- City of National City
- City of Escondido
- City of Victorville
- County of San Diego
- City of San Diego
- North County Transit
- San Diego State University Foundation
- San Diego Medical Services Enterprise
- San Diego Unified School District
- San Diego Metropolitan Transit District
- San Diego Housing Commission
- San Diego IHSS Public Authority
- SANDAG
- SANDPIPA
- San Elijo JPA

Legislative Update

- **HEART Act – effective June 18, 2008**

Permits plan sponsors to amend their Cafeteria and Health FSA plans to allow for qualified reservists to make a cash distribution of unused health FSA benefits, when called to active duty

- **Family Medical Leave Act – effective January 16, 2009**

Increased leave for families of military service members (up to 26 weeks if caring for a family member injured in service)

- **Mental Health and Substance Abuse Parity – effective October 3, 2009**

Requires that all Mental Health and Substance Abuse claims be treated as any other medical condition with same cost and limitations

- **Michelle's Law – effective on or after October 9, 2009**

Prohibits termination of coverage for a dependent child that would lose their required student status due to a medical condition

- **Genetic Information Nondiscrimination Act (GINA)**

Broadly prohibits discrimination based upon genetic information, inclusive of plan administration, premiums, and contributions



Legislative Update

The American Recovery and Reinvestment Act of 2009 (“Stimulus Bill”) signed into law February 17, 2009

- **Significant modifications to HIPAA’s Privacy and Security Rules**
 - Business Associate requirements
 - Model notice changes
- **Expansion of COBRA rights**
 - Affects terminated employees between September 1, 2008 through December 31, 2009
 - Terminated employee may continue coverage by paying 35% of the coverage cost for up to 9 months. Employers are responsible for the 65% balance (tax credit can be taken)
- **Worker, Retiree, Employer Recovery Act of 2008 (WRERA)**
 - Provides temporary relief to certain defined benefit plan funding requirements which arose under the Pension Protection Act of 2006 (PPA) during calendar year 2009.
- **Children’s Health Insurance Program Reauthorization Act of 2009 (SCHIP)**
 - Designed to subsidize state programs that provide health care coverage to uninsured children.
- **American With Disabilities Amendment Act of 2008 (ADAA)**
 - Expands definition of “major life activity” to include reproductive activities, walking, eating, sleeping, standing, lifting, and concentrating.

Health Care Reform

Latest News

- **Public option may be off the table**

- **Co-op's still being considered**

- **Opposition on the rise**

- **Does reform discussion address the real issues?**
 - Americans are increasingly unhealthy
 - Treating lifestyle induced chronic conditions cost more than random catastrophic events
 - Insurance intended to cover unpredictable and infrequent events
 - Both supply and demand side of health care system are distorted

Impact of Economic Crisis on Use of Health Care

- **Cost increases in 2009 and 2010 may turn out to be higher than predicted**
 - Change in demographics due to layoffs
 - Eliminating younger / healthier workforce could increase projected medical costs
 - Increase in COBRA population (NEW legislation)
 - Increase in provider costs
 - Suffered investment losses
 - Increase in newly uninsured patients
 - Current experience
 - HMO: 14%-19% increases
 - PPO: 18%-25% increases

- **While some employees may avoid care in an attempt to save money, those employees fearing lay-offs tend to increase use of services**
 - Discretionary services such as dental, vision, prescription refills, preventive care exams, screenings and lab tests utilization increase before coverage terminates or changes
 - For those employees remaining on the plan, plan sponsors will often see an increase in stress-related and Workers' Compensation claims as well as disability absences
 - Presenteeism (employees coming to work ill for fear of losing the job) affect the general employee population



Impact of Economic Crisis on Use of Health Care

- **In general, behavior changes occur during any economic downturn in an effort to save money and cut out extra or luxury spending**
- **Past recessions show an initial cost spike followed by a significant decline in trend**
- **The impact of employees' changes in behavior could have far reaching, long term ramifications**
 - Employees may avoid seeking care, except for mental health and substance abuse
 - They may cut back on medications
 - And employees could make unhealthy changes in their diet as they perceive healthy foods as unaffordable
- **Failure to detect diseases at an early stage or to control current diseases leads to more serious health problems**
- **Forgoing care yields short term savings but increases long term expenses**

Trends

What's next?

- **High deductible plans with Health Savings Accounts intended to correct imbalance**
- **Result – cost shifting to consumer does reduce costs but many consumers are left underinsured**
- **Unclear future of tax favored accounts due to health reform**
- **New products coming that reduce fully insured premiums for certain wellness initiatives such as HRA's**

Cost Trends in Health Care – What's Driving Health Care Spending?

WHY ARE PREMIUMS INCREASING?

Primary

1. Cost shifting from government programs and uninsured
2. Higher priced technology
3. Medical Inflation
4. High cost of regulation
5. Patient Lifestyle

Secondary

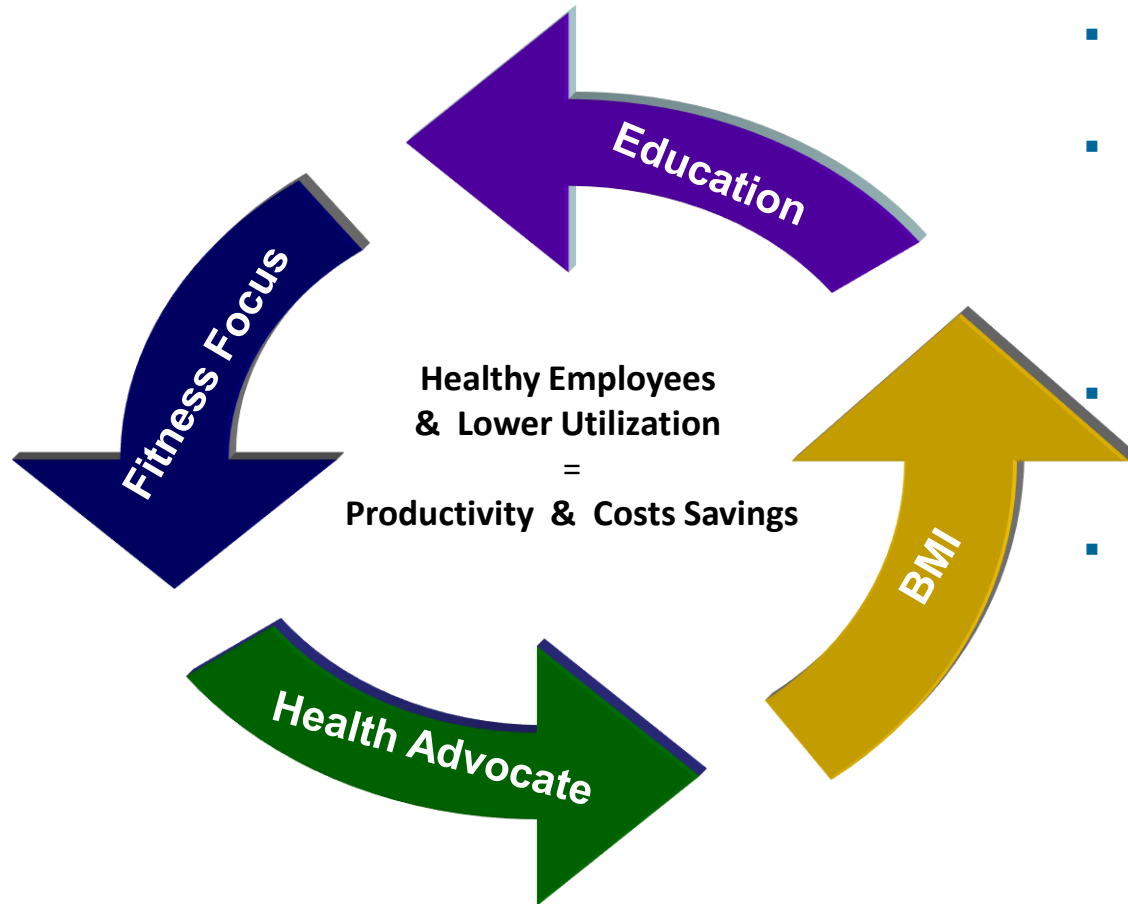
- A. Aging Population
- B. Prescription Drugs
- C. Consolidation of Health Care Providers
- D. Premiums for Malpractice Insurance
- E. Shortage of Nurses/Pharmacists
- F. Reduction of hospital beds

Authority Wellness Initiatives

- **Focus on a healthy and sustainable workforce**
- **Continue to increase employee engagement in healthy activities**
- **Use Health Risk Assessment data to identify trends and measure success**
- **Long term goal of reducing chronic conditions and associated claims resulting in overall slowing of claim activity**
- **Challenge – tying wellness success to reduced premiums**



Education and Lifestyle Change



- **Education:** Sanformation Meetings, Email, Staff Meetings and Direct Mail.
- **Fitness Focus:** The Fitness Focus program encourages employees of the Airport to adopt lifestyles by facilitating the attainment of personal health goals with targeted milestones levels.
- **Employee Engagement:** Engaging employees to be informed consumers and develop healthy life styles.
- **BMI:** Health Risk Assessments and including biometric screenings, create a baseline for the Authority to measure wellness and creates a tool to measure a return on investment



Renewal Process

- **Marketing analysis conducted by Alliant**

- **Carrier proposals illustrated along with renewal options**
 - 8 medical carrier quotes were requested – none competitive with Anthem Blue Cross (in-force carrier)
 - 13 dental carrier quotes were requested – none competitive with Delta Dental (in-force carrier)
 - 4 vision plan carrier quotes requested – none competitive with VSP (in-force carrier)
 - 3 employee assistance plan carrier quotes requested – Anthem Blue Cross (in-force carrier) most competitive
 - Short Term Disability; Long Term Disability; Accidental Death & Dismemberment; and Basis Life Insurance policies were competitively bid – The Hartford most competitive
 - Flexible Spending Account/COBRA Third Party Administrators – multiple options considered; synergies and cost competitiveness exist with Genesis

- **Medical carrier options limited due to current claims situation**

- **Plan design change options considered**



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

2010 Renewal Cost Summary



	AUTHORITY ANNUAL COST	AUTHORITY Difference from CURRENT	\$	AUTHORITY % Difference from CURRENT
CURRENT	\$3,116,139			
RENEWAL <i>No Changes to any plan or provider</i>	\$3,649,088	\$532,949		17.10%
OPTION #1 (Staff Recommendation) <u>(No Change to Medical HMO or PPO)</u> , Dental PPO & Vision, The Hartford Basic Life AD&D, STD, Voluntary LTD & Supplemental Life and AD&D	\$3,610,464	\$494,325		15.86%
OPTION #2 Medical PPO 80/60 \$250 Ded, <u>(No Change to Medical HMO)</u> , Dental PPO & Vision, The Hartford Basic Life AD&D, STD, Voluntary LTD & Supplemental Life and AD&D	\$3,440,509	\$324,370		10.41%

Plan Comparison/PPO Examples

	Option #1 2010		Option #2 2010	
MEDICAL HMO HIGHLIGHTS	2009		No Change to HMO/PPO	
Calendar Year Copay Max			No change to HMO, Only change PPO	
Individual	\$1,500		\$1,500	\$1,500
Family	\$4,500		\$3,000	\$3,000
Office Visit Copay				
Primary Care Physician	\$15 Copay		\$15 Copay	\$15 Copay
Specialist	\$15 Copay		\$15 Copay	\$15 Copay
Hospitalization				
Inpatient	No Charge		No Charge	No Charge
Outpatient Surgery	No Charge		No Charge	No Charge
Emergency Room	\$100 Copay		\$100 Copay	\$100 Copay
Urgent Care	\$15 Copay		\$15 Copay	\$15 Copay
Prescription Drugs	\$200 Brand-Name Deductible		\$200 Brand-Name Ded, Mandatory Generic Substitution	
Generic	\$10 Copay		\$10 Copay	\$10 Copay
Brand-Name	\$20 Copay after Deductible		\$20 Copay after Deductible	\$20 Copay after Deductible
Non-Formulary	\$40 Copay after Deductible		\$40 Copay after Deductible	\$40 Copay after Deductible
MEDICAL PPO HIGHLIGHTS	2009		Proposed	
			No Change to HMO/PPO	
Summary	90/70, \$250 Ded, \$15 OV		90/70, \$250 Ded, \$15 OV	
Network	In-Network	Out-of-Network	In-Network	Out-of-Network
Deductible			Change Only PPO	
Individual	\$250		\$250	\$750
Family	\$750		\$750	\$2,250
Annual Out-of-Pocket Max			80/60, \$250 Ded, \$20 OV	
Individual	\$2,000	\$6,000	\$2,000	\$6,000
Family	N/A	N/A	\$4,000	\$12,000
Office Visit Copay				
Primary Care Physician	\$15 Copay	30% after Ded	\$15 Copay	30% after Ded
Specialist	\$15 Copay	30% after Ded	\$15 Copay	30% after Ded
Hospitalization	Add'l \$500 Deductible		Add'l \$500 Deductible	
Inpatient	10% after \$100	30% after Ded + \$500	10% after \$100	30% after Ded + \$500
Outpatient Surgery	10% after \$100	30% after Ded + \$500	10% after \$100	30% after Ded + \$500
Emergency Room	10% after \$100 Copay	10% after \$100 Copay	10% after \$100 Copay	10% after \$100 Copay
Prescription Drugs	\$200 Brand-Name Deductible		\$200 Brand-Name Deductible	
	N/A		Mandatory Generic Substitution	
Generic	\$10 Copay	\$10 Copay after 50%	\$10 Copay	\$10 Copay after 50%
Brand-Name	\$20 Copay after Ded	\$20 Copay after 50%	\$20 Copay after Ded	\$20 Copay after 50%
Brand-Name Non-Formulary	\$40 Copay after Ded	\$50 Copay after 50%	\$40 Copay after Ded	\$50 Copay after 50%
Examples	In-Network	Out-of-Network	In-Network	Out-of-Network
			Option #1 No Change to HMO/PPO 2010	
			Option #2 Change PPO, No Change HMO	
Standard delivery	\$5,500	\$5,500	\$5,500	\$5,500
Negotiated fee (in/UCR (oon))	\$1,980	\$4,400	\$1,980	\$4,400
Deductibles	\$250 + \$100	\$250 + \$500	\$250 + \$100	\$250 + \$500
Coinurance	\$198	\$1,320	\$198	\$1,320
member out of pocket	\$548	\$3,170	\$548	\$3,170
Surgery, 5 day hospital stay	\$7,500	\$7,500	\$7,500	\$7,500
Negotiated fee (in/UCR (oon))	\$2,700	\$6,000	\$2,700	\$6,000
Deductibles	\$250 + \$100	\$250 + \$500	\$250 + \$100	\$250 + \$500
Coinurance	\$270	\$1,800	\$270	\$1,800
member out of pocket	\$620	\$4,050	\$620	\$4,050
ER Visit and 2 Office visits	\$540	\$540	\$540	\$540
Negotiated fee (in/UCR (oon))	\$265	\$432	\$265	\$432
Deductibles	\$250 + \$100	\$250 + \$100	\$250 + \$100	\$250 + \$100
Coinurance	\$26	\$130	\$26	\$130
member out of pocket	\$376	\$588	\$376	\$588

Anthem discounts: 64% inpatient, 58% outpatient, 51% professional

Assumes 80% UCR

Assumes avg hospital charge per day of \$1,500; ER visit avg of \$250; office visit avg of \$145

Recommendation for Authority funded plans

Staff Recommends Option #1

- Maintain current Medical HMO & PPO plans with EAP and Health Advocate
- Continue to offer Health Risk Assessments and incentives as well as to utilize data to address organizational opportunities
- Change deductions for Out of Network services on Dental and Vision Care plans
- Change carriers for Authority paid Basic Life, Accidental Death & Dismemberment (AD&D), and Short-Term Disability (STD) Plans
- Change carrier for Third Party Administration of Flexible Spending Account (FSA) and COBRA administration



Non-Authority funded plans

Authority will continue to offer additional voluntary Products (100% of premiums paid by employees):

- Long-term Disability/Supplemental AD&D
- Voluntary Term Life Insurance
- Whole Life Insurance
- Critical Illness/Accident Insurance
- Prepaid Legal



Summary of Next Steps

- Obtain Board Approval on 2010 Benefit plan(s)
- Enroll employees in selected plan(s)
- Conduct Health Risk Assessments to identify trends and future opportunities
- Continue to engage the population in Fitness Focus activities and an overall healthier lifestyle
- Increase employee health to reduce the number of claims
- Continue Authority's strategic shift toward healthcare consumerism

Staff's Request and Discussion/Questions

- Staff is requesting that the Executive Personnel Committee recommend to the full Board the renewal of Employee Benefit Plan Option #1

- Discussion/Questions