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TRANSMITTAL LETTER FOR BOARD MEETING OF DECEMBER 18, 2014

COMMITTEE ON PENSION, HUMAN RESOURCES AND CIVIL SERVICE

Mr. David St. Pierre, Executive Director

Requesting Approval to Implement Health Care Benefit Changes for Non-represented Employees

Dear Sir:

The District is continuously evaluating the health care benefits it offers its employees to ensure it is providing high quality benefits at an affordable cost. Recent evaluations have focused on upcoming provisions imposed by the Patient Protection and Affordable Care Act (PPACA) and their potential impacts on plan costs. The District has been working with its benefits consultant, Deloitte Consulting, to develop a strategy that addresses these provisions. The goal is to maintain a level of benefits comparable to the current plan design while not significantly increasing the cost to employees. The resulting strategy recommends the following:

Change the co-insurance under the PPO plan to 85% for non-represented employees
The current PPO plan design for non-represented employees includes a co-insurance of 90% for in-network services provided under the plan. Under this plan design, the plan pays 90% of the cost of services rendered by in-network providers with the remaining 10% paid by the employee. The co-insurance for represented employees is already at 85% for the PPO plan. This change will result in a cost savings to the plan of approximately $405,000.00 per year.

Increase the deductibles for the PPO plan to $350.00/$700.00/$1050.00 for non-represented employees effective January 1, 2016
The current deductibles for the PPO plan are $300.00 for individual coverage, $600.00 for employee plus one coverage and $900.00 for family coverage for non-represented employees. The deductibles for non-represented employees have been at the current levels since January 1, 2011. As a result of collective bargaining, the deductibles for represented employees enrolled in the PPO will be increased to these new levels on January 1, 2016. These changes to non-represented and represented employee deductibles will result in a cost savings to the plan of approximately $96,830.00 per year beginning in 2016.

Change contribution rates for non-represented employees to 14% for both the PPO and HMO plans
The current contribution rate for non-represented employees is 16% of the total cost of the benefits for both the PPO and HMO plans. These contribution rates are scheduled to increase to 17% for non-represented employees effective January 1, 2015 in accordance with the contribution rate policy passed by the Board of Commissioners on September 15, 2011. The contribution rate policy was enacted in 2011 along with several other changes to benefits, compensation and staffing to address budget shortfalls being experienced at that time.

The changes to the co-insurance and the deductibles for non-represented employees recommended above result in the overall value of the health care benefits being reduced slightly with some additional cost being shifted to the employee. These costs are estimated to be approximately $501,830.00 per year. To achieve the goal of minimizing the increase in health care costs for employees, it is recommended that the contribution

rate for non-represented employees be reduced to 14% for both the PPO and HMO plan effective January 1, 2015 to counter these cost increases. This would be in line with the contribution rates of represented employees which are currently 14% for the PPO plan and 13% for the HMO plan.

The change would result in an estimated $468,113.00 of additional health care expense for the District. However, this additional cost is less than the expected savings of $501,830.00 per year for implementation of the co-insurance and deductible changes. The net result of these changes is a reduction in the District health care costs of $33,717.00 per year. In addition to these savings, it is estimated that the District would reduce its exposure to the excise or "Cadillac" tax imposed by PPACA by 19.1% or $169,910.00 in 2018 alone.

Increase the emergency room co-pay for the HMO plan to $100

The current emergency room co-pay for the HMO plan is $50. The co-pay helps ensure that members are utilizing these services for emergencies as intended and not for services that could be better provided by a primary care physician. This co-pay is refunded if the employee is admitted to the hospital as a result of the emergency room visit. The PPO plan currently includes a $100 emergency room co-pay. The change is expected to provide the District with cost savings of approximately $20,289.00 per year. This provision has already been added to the benefits for represented employees as part of the collective bargaining agreements signed November 20, 2014.

Establish a specialty drug tier under the prescription drug plan with a co-pay of $100

The District currently has the following three-tier co-pay structure for its prescription drug benefits: $9.00 for generic drugs, $25.00 for formulary brand drugs and $45.00 for non-formulary brand drugs. The current recommendation is to add a fourth tier to this structure for specialty drugs. Specialty drugs are high-cost, highly complex pharmaceuticals, often developed through biotech research, that are used to treat serious medical conditions including cancer, multiple sclerosis, rheumatoid arthritis and other diseases. The cost of these drugs often ranges from $1,000.00 to $10,000.00 per month or more. The District is recommending that this specialty tier be added to the prescription drug plan with a co-pay amount of $100.00 to combat these rising costs. This change would result in a cost savings of approximately $15,375.00 per year for the District prescription drug plan. This provision has already been added to the benefits for represented employees as part of the collective bargaining agreements signed November 20, 2014.

Establish an annual out-of-pocket limit for the HMO plan

PPACA requires that all non-grandfathered health plans comply with a new annual limit on cost-sharing, also known as an out-of-pocket maximum. These limits provide employees with some protection from high medical costs by placing a cap on the expenses an employee is subject to in a given year. The District HMO plan does not currently include an annual out-of-pocket maximum.

In order to comply with this regulation, the District will establish an annual out-of-pocket maximum for the HMO plan. It is recommended that the annual limits for the HMO plan be set at $1,500.00 for individuals and $3,000.00 for families. This is consistent with the limits currently in place under the PPO plan for non-represented employees. This provision has already been added to the benefits for represented employees as part of the collective bargaining agreements signed November 20, 2014.

Establish a separate annual out-of-pocket limit for prescription drug benefits

Since the prescription drug plan is carved-out of the medical plan and administered separately, it is also subject to the annual out-of-pocket maximum limits under PPACA. For plans that are carved-out, the regulations require that the combination of the limits for the medical and prescription drug plan be less than the limits established under the law ($6,350.00 for individuals or $12,700.00 for families). The District prescription drug plan does not currently include an annual out-of-pocket maximum.

In order to comply with this regulation, the District will establish a separate annual out-of-pocket maximum for the prescription drug plan. It is recommended that the annual limits for the prescription drug plan be set at

$1,000.00 for individual coverage, $2,000.00 for employee plus one coverage and $2,700.00 for family coverage. The District evaluated the current plan utilization to determine where these limits should be set. This provision has already been added to the benefits for represented employees as part of the collective bargaining agreements signed November 20, 2014.

Approval is requested to revise the health benefits for non-represented employees as described above. All changes would be implemented on January 1, 2015 except the deductible change which would be implemented on January 1, 2016. Approval is also requested to terminate the contribution rate policy passed by the Board of Commissioners on September 15, 2011 for non-represented employees and set the contribution rates for non-represented employees at 14% for both the PPO and HMO plans effective January 1, 2015.

Requested, Denice E. Korcal, Director of Human Resources
Respectfully Submitted, Barbara J. McGowan, Chairman, Committee on Pension, Human Resources & Civil Service
Disposition of this agenda item will be documented in the official Regular Board Meeting Minutes of the Board of Commissioners for December 18, 2014