

City of Minneapolis Health Plan Self-Insurance

April 23, 2014

Agenda

- Insurance principles
- Review 2013 self-insurance discussions
- Multiple Employer Welfare Association (MEWA) / Self-Insurance Pools
- Recommendation and Timeline

Insurance principles

Fully-insured

- The employer pays monthly premiums to an insurance company for each covered employee
- Monthly premiums typically include a standard set of administrative services
- The insurance company assumes the risk of paying claims for covered health services

Self-insured

- The employer assumes the financial risk of providing benefits for its employees
- The cost of self-insurance is comprised of:
 - Fixed administrative fees, *plus*
 - Optional stop-loss insurance premium, *plus*
 - Actual claims up to the liability limit of the stop-loss contract (if stop-loss is purchased).

Self-insured medical

- Reductions in administrative and other claims expenses
 - Self-insurance allows greater transparency of actual plan costs
 - Insurer's explicit and implicit underwriting charges, profit, surplus contributions, etc. are eliminated or reduced
 - State premium taxes are eliminated (2.5% of premium)
 - Patient Protection and Affordable Care Act (PPACA) taxes are lower for self-insured plans (Health Insurance Tax of approximately 2.4% of premium does not apply to self-insured plans - other PPACA taxes and fees do apply)
- Greater flexibility in managing benefit plans
 - More opportunity for customization of networks and plan designs
 - Ability to customize administration and other vendor services. Employer can choose best-of-class in each category; may be more or less costly than bundled services under full-insured plan

Self-insured medical (cont.)

- Increased employer responsibilities
 - Rate setting, cost projections and other financial forecasting exercises are managed by employer with guidance from the carrier and consultants
 - In addition to above; increased responsibility for legal compliance, vendor management, state and federal reporting and notice requirements
 - May involve additional staff
- Greater risk of fluctuating financial results
 - Claim expense is typically more variable than premium expense
 - Loss of pooling benefits and protection from catastrophic case cost (can be mitigated by stop-loss insurance)
- Need to align funding arrangements for claims and other expenses with City budgeting and financial reporting processes

2013 self-insurance discussions

- 2014 medical renewal released at 16.8%
- 2014 self-insurance quote expected to avoid \$4.8M in taxes, assessments and carrier admin costs
- Negotiation combined with benefit changes reduced premium increase to 3.4%; avoided \$6.8M in total premium cost (\$5.3M for City Council departments)
- Fully-insured option accepted for 2014; it no longer made sense to take the risk of being self-insured
- 2014 changes (e.g., increasing plan deductibles) repositioned plan at more reasonable benefit levels

Multiple Employer Welfare Association (MEWA) / Self-insurance pools

- A MEWA is created when an employer allows other employers outside of its “controlled group” to participate in its welfare plans
- Non-City entities covered under the City’s health plan:
 - Minneapolis Public Housing Authority (MPHA) - 244 employees
 - Municipal Building Commission (MBC) - 37 employees
 - Youth Coordinating Board (YCB) - 7 employees
- MEWAs have additional regulatory and compliance issues
- The State of Minnesota regulates MEWAs – rules for “self-insurance pools”

Self-insurance pools

- State requirements for self-insurance pools include:
 - Board of trustees required
 - All plan decisions made by board
 - Each participating entity gets one vote
 - Organizational documents describing purpose, governance and administration must be filed with the State
 - Required aggregate and individual stop-loss insurance
 - Requirements for trust/funding/reserves
 - Asset investment limitations
 - Annual reporting requirements
 - State may issue levies to maintain plan's financial integrity
 - State premium taxes and assessments apply
- As plan sponsor, the City must also ensure that participating non-City entities comply with certain Federal requirements

Recommendation

- Move forward with a single-employer medical plan effective January 1, 2015 providing coverage for City employees and dependents
- Proceed with study of the feasibility of self-insurance for the City including the release of an RFP for the City's medical plan
- Work with YCB, MBC and MPHA to transition benefit plans and develop a process to transition payroll services at an appropriate future date

Timeline

Timing	Tasks
April 23	Committee of the Whole approval to implement a single employer medical plan and study the feasibility of self insurance
May	Amend MPHA ordinance
May 8	PRC approval of medical plan RFP
May 9	City Council approval to release medical plan RFP
May – July	Self insurance feasibility study; carrier selection process
Late July	Vendor(s) selected; recommendation regarding self insurance
January 1, 2015	New plan year begins