



TO: Jim Scholl, City Manager

FROM: Mark Finigan, Assistant City Manager
Sandy Gilbert, Human Resources Director

DATE: August 25, 2011

RE: Executive Summary, Employee Insurance Program

ACTION STATEMENT

The purpose of this resolution is to request City Commission approval of the negotiated contract for employee insurance benefits between the City of Key West and CIGNA for the fiscal year 2011-12 and renewal for a period up to five years, subject to annual review and negotiation, and to authorize the City Manager to execute said contract, subject to legal review of said contract.

BACKGROUND

The City of Key West (City) currently offers group medical, dental, vision, life insurance to current employees, retirees and dependents (subject to eligibility guidelines). The City also allows employees to purchase life insurance for their dependents through the City's group life policy. Currently the City's medical, dental and vision plan is fully insured with the Florida Municipal Insurance Trust (FMIT) and provides coverage through the First Health network. Currently there are 466 employees and retirees enrolled in the single option PPO plan for both medical and dental insurance coverage. The City utilizes the services of the Gehring Group as broker/agent for employee benefits.

This spring FMIT notified the City and Gehring Group that it would no longer be offering the existing medical program through First Health effective October 1, 2011. The program that FMIT is transitioning to is through United Healthcare. Unfortunately, United Healthcare does not have a localized provider network in Monroe County; therefore, the City had no other option but to request proposals for its employee benefits package.

The Request for Proposals (RFP) was submitted to the market during the months of May & June, 2011. Proposers were asked to provide proposals with plan designs that match the current PPO schedule of benefits as closely as possible in addition to providing alternate funding options that included both fully-insured and self-insured models. As a result of the competitive bid process, the City received responses from several proposers on the City's employee benefits package including medical, dental, vision and life insurance; following is a breakdown of those responses.

Currently the City pays 100% of employee coverage for employees hired prior to October 1, 2010. All general employees hired on or after October 1, 2010, pay a monthly contribution of \$54.17 for medical coverage. The City does not contribute to the cost of dependent coverage, except for approximately 26 employees (hired prior to December 1, 1990) who receive \$155.00 per month toward dependent coverage.

Medical Insurance Evaluation

Proposers were asked to provide the City with proposals with plan designs that match the current PPO schedule of benefits as closely as possible in addition to providing alternate funding options that included both fully-insured and self-insured models. As a result of the competitive bid process, the following proposers (listed in alphabetical order) responded to the RFP for group medical insurance:

- AETNA
- BlueCross and BlueShield of Florida
- CIGNA HealthCare
- Wells Fargo

Additional carriers were also solicited to provide quotes but elected not to respond to the RFP due to uncompetitive rates or lack of provider network in the area.

After initial review of the proposals received it was determined that it would be in the best interest of the City to remain fully insured as the self insured options lead to significantly higher exposure than the fully insured options (approximately \$500,000). BlueCross BlueShield of Florida and CIGNA HealthCare were chosen to be finalists to provide the City's medical insurance based on proposals that would reduce the City's current rates. AETNA's proposal provided for an increase over current rates.

BlueCross and BlueShield of Florida (BCBSFL) submitted the City's proposal based upon the current plan design. The initial offer from BCBSFL represented an overall decrease of 2.6%, or \$125,587 based on current enrollment. The Gehring Group was subsequently able to negotiate this down to a decrease of 7.3%, or \$347,576 assuming the City purchased their dental, vision and life insurance programs as well.

CIGNA HealthCare provided the City's proposal based upon the current plan design. The initial offer from CIGNA represented an overall decrease of 5.9%, or \$280,571 based upon current enrollment. The Gehring Group was subsequently able to negotiate this down further to a decrease of 6.8% or a savings of \$325,636 assuming the City purchased their dental, vision and life insurance programs as well.

Both BCBSFL and CIGNA proposed programs that provided packaged savings. Packaged savings is defined as bundling products together in order to receive an overall savings. As you will see in further proposals for dental, vision and life; BCBSFL and CIGNA may not be the overall lowest cost except when blended with the medical insurance achieves the most prudent choice.

Dental Insurance Evaluation

The City released an RFP for group dental insurance to the market within the RFP for the medical insurance program. As a result of the competitive bid process, the City received proposals from the following dental insurance carriers (listed in alphabetical order):

- AETNA
- Advantica
- Ameritas
- Assurant
- BlueCross BlueShield of Florida
- CIGNA HealthCare
- Concordia United
- MetLife
- The Standard
- Wells Fargo

The most competitively priced proposal received was provided by CIGNA HealthCare at a decrease of 13.5%, or \$29,464 when compared to current rates.

Vision Coverage Evaluation

In addition to the medical and dental insurance, the City released an RFP to the market which included group vision coverage. As a result of the competitive bid process, the City received proposals from the following vision insurance carriers (listed in alphabetical order):

- AETNA
- Advantica
- Ameritas
- BlueCross BlueShield of Florida
- CIGNA HealthCare
- MetLife
- Superior Vision
- The Standard
- Wells Fargo

Advantica provided the City with the most cost advantageous proposal at a savings of \$8,600 per year. There were other proposals that saved similar amounts as well. The proposal from CIGNA, in order to receive the medical insurance packaged savings, is an overall decrease of \$2,327 per year.

Life Coverage Evaluation

In addition to the medical, dental and vision insurance, the City released an RFP to the market which included group life insurance coverage. As a result of the competitive bid process, the city received proposals from the following life insurance carriers (listed in alphabetical order):

- AETNA
- BlueCross BlueShield of Florida
- CIGNA Group Benefits
- The Hartford (incumbent)
- MetLife
- Symetra Financial
- The Standard

CIGNA provided the City with the most cost advantageous proposal at a savings of 28% or, \$9,434 per year.

SUPPLEMENTAL LIFE INSURANCE

In addition, it is recommended that the City offer voluntary, supplemental life insurance through CIGNA. Employees have been requesting the option to purchase additional life insurance, which previously has not been offered. Employees (no city contribution) will be able to purchase \$100,000 in coverage without having to provide evidence of insurability (i.e. no medical examination). Employees opting to apply for over \$100,000 coverage will have to complete evidence of insurability which may include a physical examination. Employees will be able to take this policy with them upon separation of employment or retirement.

FINANCIAL IMPACT

In summary, as a result of the best and final offer requests from BCBSFL and CIGNA, the financial impact to the City would be:

- Combining all benefits (medical, dental, vision and life insurance) the overall City decrease with BCBSFL is \$327,780 and with CIGNA is \$326,353 a difference of \$1,427 per year.

While financially the cost proposal from BCBSFL is lower than CIGNA, there are other significant benefit features that need to be considered in the final determination:

- CIGNA is offering the city a participatory contract in year one which allows the City to be reimbursed 100% of any underwriting gains subject to deficit carry-forwards, if any. BCBSFL is offering a participatory contract but the City will only be reimbursed 50% of the underwriting gains after year two. In this scenario the City would have to renew with BCBSFL for three years in order to obtain surplus, if any.
- CIGNA is willing to offer the City a Client Specific Network in which providers that are not currently in the CIGNA network could be added as an in-network provider exclusively for the City at pre-determined negotiated rates and fully covered under the fully insured funding arrangement. CIGNA will initially offer the provider the option to join the network which will allow for even greater claims savings for both the City and the employee. BCBSFL cannot offer this arrangement due to their existing provider contract arrangements.
- CIGNA will provide the City up to \$20,000 per year in a wellness fund. The wellness fund will allow the City to sponsor wellness related events in order to improve the overall health of employees (i.e. flu shots, biometric screenings, health risk assessments).
- CIGNA average discounts for provider services are generally higher than BCBSFL.
- BCBSFL & CIGNA confirmed they will provide COBRA services for all lines of coverage at no additional cost.
- BCBSFL and CIGNA both confirmed they will accept a deductible and out of pocket maximum expense accumulator file from FMIT so employees and dependents do not have to re-establish their deductibles already paid this calendar year.
- BCBSFL and CIGNA both confirmed that all services incurred at an in-network facility (i.e. hospital) all charges rendered are billed as in-network and employees will not be balanced billed for any out of network providers' services at the in-network facility.

RECOMMENDATION

Upon review of the costs and benefits provided, City staff in conjunction with the Gehring Group has determined the most viable proposal for the City is the negotiated proposal provided by CIGNA Health Care for the upcoming year.