

# 2012 Health Benefits

Insured Health Plan vs  
Self-funded Health Plan

# Insured Health Plan

- ▶ Employer pays fixed amount monthly to insurance company regardless of actual claims costs
- ▶ Insurance company pays all claims for each member based on agreed set of benefits
- ▶ Insurance company takes all the risk
  - UHC's claim to premium ratio for the city has been extremely high in past years (i.e. 98% in 2010)

# Self-Funded Health Plan

- ▶ Employer contracts with third-party administrator (TPA) to pay health claims using their discount and provider agreements
- ▶ TPA pays claims and submits totals to employer for reimbursement
- ▶ Employer reimburses TPA for claims costs and pays small administrative fee
- ▶ Employer assumes much greater risk with self-funded plan
  - Health care expenditures may be greater than expected
  - Utilization may be higher than projected

# Health Care Risk

- ▶ Claims experience can vary widely from month to month and it's not unusual to see variations between 25 - 75%
- ▶ Volatility of claims experience can lead to budget variations between 3-4% of gross claims cost
- ▶ The Health Care account has historically relied on carryover funds (from health care and worker's compensation) to offset budgetary shortfalls from year to year and minimize contingent fund exposure
  - In 2010 the Health Care Budget required an \$800,000 contingent fund transfer along with a \$4.8 million transfer from the worker's compensation account because of budget shortfalls
- ▶ A more structured approach for utilizing carryover funds is critical now that the City's health care plans are completely self-funded
- ▶ In 2012 the city's risk exposure is 100% compared to 10% in recent years

# Reserve Fund

- ▶ A reserve fund, adjusted annually, allows the employer to address volatility that can include significant month to month or annual variation in paid claims based on
  - Employee utilization
  - Billing practices of healthcare providers
  - Occurrence of large claims and hospitalizations
  - Economic conditions
  - Benefit design changes
- ▶ Because the City is assuming a much greater risk in 2012, establishing a reserve fund is the responsible and fiscally prudent thing to do
  - A decision to forgo the creation of a reserve fund places much greater stress on the contingent fund

# City Reserve Fund for self-funded Health Care Plan

- ▶ Based on actuarial analysis of prior years claim experience, a reserve account of at least 4% of gross claims costs should be established
- ▶ The reserve fund will protect against unanticipated volatility in the health benefits and worker's compensation accounts
- ▶ The reserve fund will also limit exposure to contingent fund utilization if a budgetary shortfall occurs
  - Without a dedicated reserve fund, adverse variations in claims experience could produce expenditure levels that exceed the contingent fund appropriation

# Health Care Budget & Carryover Funds

- ▶ Year end accruals for the health care account are projected to be at least 2.6% of total claim expenditures
  - Accruals result from claim expenditures that were incurred in 2011 and paid in 2012
  - The comptroller accrues back a large portion of the incurred but not reported expenditures each year
  - Any remaining prior year expenditures, after the accruals, are absorbed in the current year budget
  - 2011 accruals will be significantly higher than the past several years
- ▶ Remaining carryover funds would be used to establish the reserve account
- ▶ The reserve fund would be subject to annual review and adjustment
- ▶ DER and the Budget Office will prepare a resolution for Finance and Personnel to establish a health care reserve fund in the upcoming months