Title: Creative Sustainable Solutions To The Health Care/Retirement Burden Crisis

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## Synopsis

**Project Overview– Due to rising healthcare costs and growing numbers of retirees covered under the City plan, s**ustainability of the medical insurance plan was in question. Accordingly the City reviewed the current plan design and eligibility to identify steps to sustain the plan and provide quality benefits to employees. BACKGROUND: Per the Kansas Statute, the City provided health coverage for retirees who had 10 years of service up to the age of 65. While the statute allowed the City to charge the **full premium** for retiree coverage, the City generously allowed eligible retirees and their dependent to maintain coverage at the same cost as an active employee.

The health plan model was extremely rich, and included two plans, neither of which had been redesigned for over a decade and is represented as follows:

|  |  |  |
| --- | --- | --- |
|  | **HMO Plan** | **PPO Plan** |
| Deductible | $0.00 | $0.00 |
| Office Visits | $15.00 | $15.00 |
| Prevention | $250.00 annually | $250.00 annually |
| Inpatient Services | 100% | 80% first 30 days then 50% |
| Outpatient Services | 100% 25 visits | 50% 25 visits |
| Out of pocket maximum | None | $500/$1000 |
| 2007 premium-Full/Emp cost | $1067.05/$449.60 | $439.60/$1047.05 |

In 2004 the City’s Finance Department initiated a cost projection analysis to determine the cost associated with the existing retiree health care plan. The analysis projected significant increases in health care costs compounded by an expanding employee base due to Olathe’s population growth that was one of the nations highest.

### Problems Identified:

1. Current health plan design was cost- prohibitive and unsustainable for the long term.
2. Preventative health care was not a primary focus, and HRA participation rates were low.
3. Annual healthcare cost increases ranged 15-20% (Actual numbers will be shown).
4. Employees perceived that they were guaranteed retiree and dependent healthcare at the current employee’s rate, resulting in families or retirees being covered up to 20 years at the active employee’s rate.
5. Any plan design or cost changes could lead to issues with recruitment/retention and morale issues.
6. Employees in the rich plans were shielded from the reality of the costs of medical care, so they did not have a consumer approach when seeking care.
7. The aging workforce would result in a growing number of retired employees and their dependents on the health plan. (average age 40.5)

### Anticipated and Actual Outcomes

The City designed a multi-level health insurance plan with the goal of curbing expenditures, maintaining quality benefits and ensuring high employee morale; while mitigating the 15%-20% annual cost increases. Each of the problems stated above was addressed and resolved with a validated return on investment (ROI). (See savings and innovative characteristics section)

1. In 2004 the City announced that after 12/31/09 retirees would no longer be provided family health coverage at the employee rate. Retirees would however, be allowed single coverage at the employee rate if hired prior to 1/1/04. Retirees hired after 1/1/04 would have single coverage subsidized at 50% of the employee rate. Furthermore, the City committed to designing an insurance plan to assist in off-setting health expenditures during pre-age 65 retirements and a team of employees was set up to formulate a plan. (PROBLEM 4)
2. In 2007 Health Risk Assessments (HRA) were instituted to review the health status of employees with the intent of assessing and creating a benefits program model benefits that fit our population needs. It was made clear to employees that the City would initiate this process on an annual basis. Initially, no incentive to participate in the HRA.(PROBLEM 2)
3. In 2007 the City began offering wellness education classes and wellness education emails on topics relevant to the HRA information.(PROBLEM 4)
4. In 2007 the City began a communication campaign explaining health plan expenses and identified the self-insured health plan as a “community checkbook”. The intent was to drive ownership and appreciation for the need to sustain the plan to employees and away from HR/Finance/Benefits departments. (PROBLEM 6)
5. In 2008 the City instituted a Consumer Involved High Deductible Plan (CIP). The plan consisted of a $1,000 deductible and gained a first year 48% participation rate even though the cost differential was a modest $45 a month from a traditional PPO plan. (PROBLEM 6)
6. In 2008 the City added additional copayments to the traditional plan and added a $300 deductible. Additionally, the City increased wellness benefits from $200 to $1000 annually.(PROBLEM 1)
7. In 2008 a Voluntary Employee’s Beneficiary Association (VEBA) trust authorized by IRC Section 115, was established for CIP participants. The City contributed $1,200/year single and $2,400/year family to assist in offsetting medical expenditures in the new high deductible health plan. VEBA funds are available to employees for health expenditures only. (PROBLEM 5)
8. Results in 2008 from the CIP plan were analyzed and instead of the projected 18% increase in health cost utilization; the City came in with a loss ratio of 99.94% or even to the rate. Surplus funds were used to rebuild the reserve fund from a staggering low of just over $300,000 to nearly $800,000. (Reserves necessary to sustain the health plan are projected to be $1,167,000). At the end of 2008 the results were encouraging, but still short of the plan reserves. (PROBLEM 1)
9. In 2009 rates were held to a monthly increase of $10 which was credited back to the employees if they participated in the Health Risk Assessment (HRA). HRA participation increased from 40% to 66%. The City continued to use the HRA to its model health plan management. ‘Community Checkbook’ communications continued and were expanded by incorporating and communicating to employees the actual dollars expended in the plans on a monthly basis in the City’s newsletter. ((PROBLEM 2)
10. Incorporated a “Your Care” program that assists people in understanding how to take medications and tracks compliance with medications as well as wellness visits using health plan data. (PROBLEM 2)
11. Through July of 2009 the health costs expenditures, including HRA contributions and all expenses, reflected a cost ratio of 82.05%. It is projected that the year end surplus of funds will amount to $2,608,673 if the cost ratio is maintained to year’s end. (PROBLEM 1)
12. In June of 2009 the City engaged WINS, an outside resource, to develop an on-site wellness center staffed with a nurse practitioner utilizing the surplus funds in the plan. This initiative will further provide a significant ROI and further reduce expenditures without cost shifting or eroding benefits. The results of this initiative will provide 1) increased reserve build up, 2) premium relief and 3) wellness advancement, meeting the City’s three primary objectives for benefits and wellness..

### Costs

* HRA initiated - $20,000 in 2007 - Progressively more expensive due to increased utilization by employees and increased sophistication of the tools.
* In 2009 HRA costs will be $75 per participant or approximately $38,000.

2009 costs for on-site wellness center resource: $40,000 for clinic space renovation; estimated $250,000 expenditure for 1st year wellness center operation. Annual Your Care costs $23,000.

### Savings

Return on Investment (ROI) is calculated in two primary categories and three secondary categories:

#### PRIMARY ROI:

1. ROI in reduced fee for service costs. Measured by pricing services from the wellness center against usual customary reasonable pricing with the health plan.
2. ROI in reduced expenditures by driving high medical risk employees to a lowered risk status and therefore lower expense.

#### SECONDARY ROI:

1. Increased employee engagement and enhanced work performance and employee satisfaction in the workplace. Measured by the employee engagement survey bi-annually.
2. Presents a visible sign to employees that the City’s cares about them, thereby keeping employee retention at a high rate and lowering costs of retraining.
3. Healthier employees have fewer accidents and workplace injury thereby lowering worker’s compensation costs.

### Identify innovative characteristics

1. Utilizing High Deductible Health Plan to mitigate future expenses
2. Utilizing VEBA 115 account financing to mitigate future retirees’ concerns about their increased premium costs.
3. Wellness components for wellness center:
   1. Screenings offered free to all employees/retirees
   2. HRA offered free to all employees/retirees
   3. 20-minute consultation for every HRA participant with registered nurse and provide written results, wellness resource guides and supplements as needed based on individual results
   4. Coaching interventions provided onsite (employees slotted into high risk, medium risk and low risk)
      1. High risk participants offered six sessions including: nutritionist, training coach and fitness professionals.
      2. Medium risk participants get one session and options to consult with the coach, nutrition experts, etc. They also receive mid-year testing to assess improvement/set backs
      3. Low risk participants participate at will
4. Four wellness challenge events annually: e.g. walking challenge, sleep challenge, fruit and vegetable challenge, water challenge, etc.
5. Established interactive website to track progress
6. Host quarterly presentations on various wellness topics based on results of HRAs
7. Publish monthly Wellness Newsletters
8. Established on-line participation tracker. Provide participation prizes and awards
9. Using Your Care as an online health coach.

### Obstacles

1. Building employee trust factor concerning plan redesign and cost sharing; modifying a legacy health plan;
2. Modifying a legacy retiree health plan;
3. Developing effective communication plans;
4. Identifying the right partners that can be adaptive to the City’s culture

### Results

The strategic moves made in implementing the consumer involved health plan saved the City $800,000 in its first year of implementation and $1.1M in its second year and health insurance rates with no increase for the past two years.

### Additional Results From The Wellness Center Implementation

1st year results yielding a $650 per employee per year cost savings on medical expenses 2nd year results yielding $800 per employee per year cost savings on medical expenses 3rd year results yielding $1,000 per employee per year cost savings on medical expenses.

The innovative approach adopted by the City will save taxpayers an estimated $550,000-$800,000 annually.

**Additional Information**