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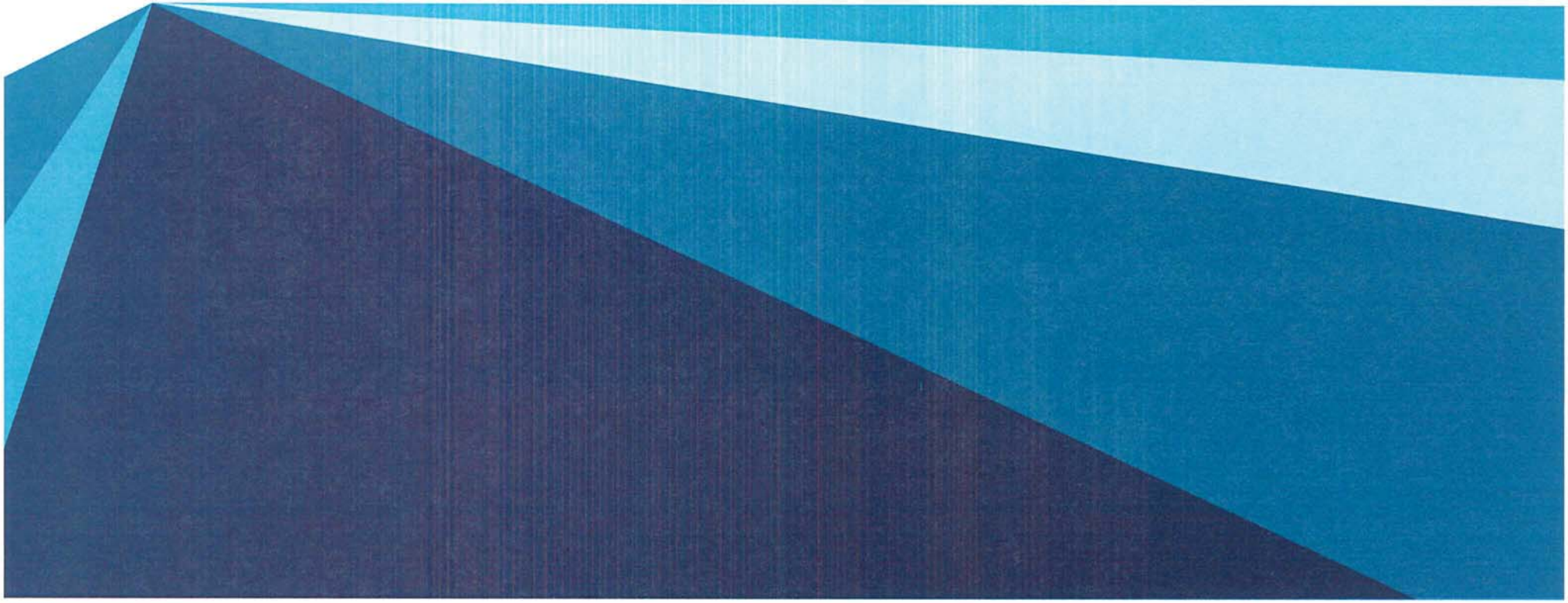
THE CITY OF MEMPHIS
HEALTHCARE COMMITTEE MEETING
JANUARY 23, 2012



MARSH & McLENNAN COMPANIES

Agenda

- Roll Call
- Opening
- Benefits Update
- Quarterly Reporting
  - 2011 Experience through 4th Quarter
  - Large Claims Experience
  - Administrative Experience
  - Future Health Plan Recommendations
- Caremark Pharmacy Report
- Cigna Medical Report
- Committee Vacancies
  - Business
  - Pharmacy
- Questions
- Appendix

Benefits Update

Healthcare Update

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Financial Report – 4th Quarter 2011 Experience

Tony Holmes, Partner, FSA, MAAA, FCA
Atlanta

2011 Experience
2011 Experience – Basic Plan
4th Quarter

	Basic Plan			
	Active	Retiree		Total
2010 (through 4th Qtr.)		Medicare	No Medicare	
PEPM Medical claims	$618.10	$282.91	$851.34	$548.81
PEPM Rx Claims	$156.42	$374.90	$190.45	$260.84
PEPM Claims Administration	$39.08	$39.08	$39.08	$39.08
Total PEPM Cost	$813.60	$696.90	$1,080.88	$848.73
Enrollment				
Employees/Retirees	594	1,005	747	2,346
Members (includes dependents)	1,171	1,408	1,319	3,898
Total - through 4th Quarter	$5,799,311	$8,403,173	$9,690,057	$23,892,541
Budgeted Amount	$669	$669	$694	$19,049,055
Variance	($145)	($28)	($387)	($4,843,486)
2011 (through 4th Qtr.)				
PEPM Medical claims	$482.15	$324.50	$810.76	$510.08
PEPM Rx Claims	$153.80	$395.84	$187.01	$271.33
PEPM Claims Administration	$39.08	$39.08	$39.08	$39.08
Total PEPM Cost	$675.03	$759.43	$1,036.85	$820.49
Enrollment				
Employees/Retirees	573	991	665	2,228
Members (includes dependents)	1,117	1,393	1,196	3,706
Total - through 4th Quarter	$4,638,127	$9,026,549	$8,267,851	$21,932,527
Budgeted Amount	$701	$707	$737	$19,086,528
Variance	$26	($53)	($300)	($2,845,999)
PEPM Change from end of Q4 2010				
Medical	-22.0%	14.7%	-4.8%	-7.1%
Rx	-1.7%	5.6%	-1.8%	4.0%
Total	-17.0%	9.0%	-4.1%	-3.3%

2011 Experience
2011 Experience – Premier Plan
4th Quarter

	Premier Plan			
	Active	Retiree		Total
2010 (through 4th Qtr.)		Medicare	No Medicare	
PEPM Medical claims	$604.25	$416.28	$990.52	$650.07
PEPM Rx Claims	$108.09	$402.65	$222.16	$150.10
PEPM Claims Administration	$39.08	$39.08	$39.08	$39.08
Total PEPM Cost	$751.42	$858.02	$1,251.76	$839.25
Enrollment				
Employees/Retirees	6,065	649	1,262	7,976
Members (includes dependents)	15,620	926	2,550	19,096
Total - through 4th Quarter	$54,690,855	$6,681,382	$18,955,333	$80,327,570
Budgeted Amount	$877	$969	$1,019	$86,790,563
Variance	$125	$111	($232)	$6,462,993
2011 (through 4th Qtr.)				
PEPM Medical claims	$660.41	$455.09	$919.03	$682.85
PEPM Rx Claims	$115.74	$404.19	$224.52	$159.37
PEPM Claims Administration	$39.08	$39.08	$39.08	$39.08
Total PEPM Cost	$815.23	$898.36	$1,182.62	$881.30
Enrollment				
Employees/Retirees	6,129	746	1,302	8,176
Members (includes dependents)	16,171	1,068	2,733	19,972
Total - through 4th Quarter	$59,957,742	$8,040,296	$18,472,590	$86,470,628
Budgeted Amount	$969	$1,069	$1,120	$98,336,712
Variance	$154	$171	($63)	$11,866,084
PEPM Change from end of Q4 2010				
Medical	9.3%	9.3%	-7.2%	5.0%
Rx	7.1%	0.4%	1.1%	6.2%
Total	8.5%	4.7%	-5.5%	5.0%

2011 Experience
2011 Experience – Total
4th Quarter

	Total				
	Active	Retiree		Total	Expense through Q4
2010 (through 4th Qtr.)		Medicare	No Medicare		
PEPM Medical claims	$605.49	$335.25	$938.76	$627.06	$77,670,030
PEPM Rx Claims	$112.40	$385.79	$210.37	$175.27	$21,709,476
PEPM Claims Administration	$39.08	$39.08	$39.08	$39.08	$4,840,605
Total PEPM Cost	$756.97	$760.12	$1,188.21	$841.41	
Enrollment					
Employees/Retirees	6,659	1,654	2,009	10,322	10,322
Members (includes dependents)	16,791	2,335	3,869	22,994	22,994
Total - through 4th Quarter	$60,490,166	$15,084,555	$28,645,390	$104,220,111	$104,220,111
Budgeted Amount	$858	$787	$898	$854	$105,839,618
Variance	$101	$26	($290)	$13	$1,619,507
2011 (through 4th Qtr.)					
PEPM Medical claims	$645.18	$380.59	$882.43	$645.86	$80,634,135
PEPM Rx Claims	$118.99	$399.43	$211.84	$183.34	$22,889,961
PEPM Claims Administration	$39.08	$39.08	$39.08	$39.08	$4,879,060
Total PEPM Cost	$803.25	$819.10	$1,133.36	$868.28	
Enrollment					
Employees/Retirees	6,702	1,736	1,966	10,404	10,404
Members (includes dependents)	17,288	2,461	3,929	23,679	23,679
Total - through 4th Quarter	$64,595,868	$17,066,845	$26,740,441	$108,403,155	$108,403,155
Budgeted Amount	$946	$863	$990	$941	$117,423,240
Variance	$143	$43	($143)	$72	$9,020,085
PEPM Change from end of Q4 2010					
Medical	6.6%	13.5%	-6.0%	3.0%	3.8%
Rx	5.9%	3.5%	0.7%	4.6%	5.4%
Total	6.1%	7.8%	-4.6%	3.2%	4.0%

Large Claims Experience
2011 vs 2010

- 2011 Large Claims Experience through December 2011
  - 65 claimants exceeding $100,000 (12 Active Employees, 24 Retired Employees, 17 Spouses, 12 Children)
  - Large Claims paid by plan
    - Active Premier: $7,269,658
    - Active Basic: $ 138,414
    - Retired Premier: $3,692,850
    - Retired Basic: $1,672,598
  - 10 claimants are enrolled in the Basic Plan; 55 claimants are enrolled in the Premier Plan
  - Total on 65 claimants: $12,773,628
  - Ten (10) claimants exceeding $250,000

- 2010 Large Claims Experience through December 2010
  - 67 claimants exceeding $100,000 (21 Active Employees, 25 Retired Employees, 17 Spouses, 4 Children)
  - Large Claims paid by plan
    - Active Premier: $5,956,303
    - Active Basic: $ 580,149
    - Retired Premier: $3,695,253
    - Retired Basic: $1,883,463
  - 14 claimants are enrolled in the Basic Plan; 53 claimants are enrolled in the Premier Plan
  - Total on 67 claimants: $12,115,167
  - Eleven (11) claimants exceeding $250,000

Administrative Experience

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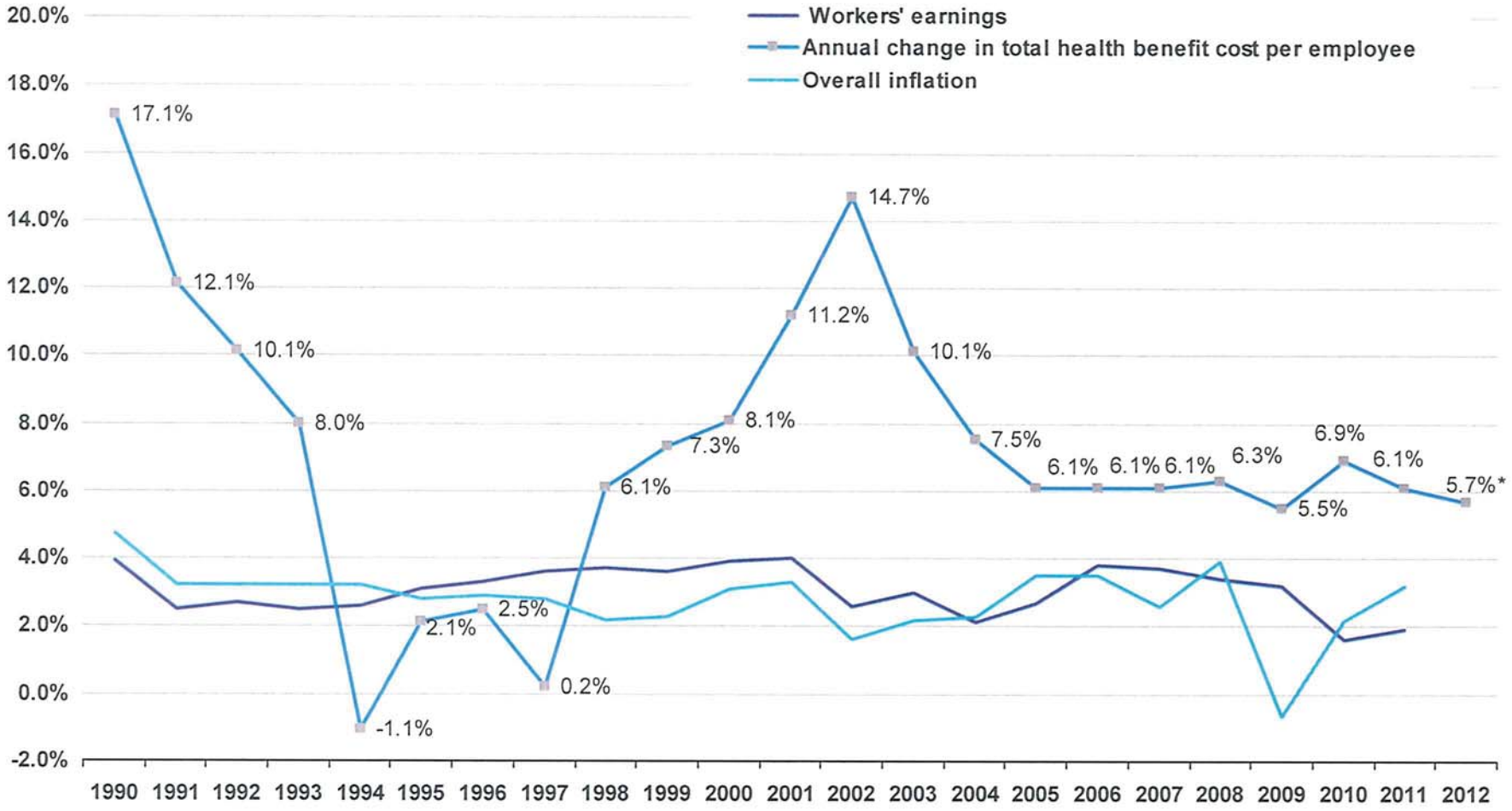
Future Health Plan Recommendations/Considerations

Future Health Plan Recommendations/Considerations

- Mercer Survey of Employer Trends
- Top Employer Strategies to Manage Costs
- High Deductible Health Plans / Consumer Directed Health Plans / HSAs
- Offering Effective Plan Options
- Setting Employee Contributions Effectively by Option and Group
- Health Care Reform Requirements / Impact
- Additional Considerations

Growth in total health benefit cost per employee slows to 6.1% in 2011 with a 5.7% increase expected for 2012



*Projected

Source: Mercer's National Survey of Employer-Sponsored Health Plans; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 1990-2011; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April) 1990-2011.

Top Stories
With Health Reform Bringing New Cost Pressures, Employers Need to Focus on Managing Cost for the Foreseeable Future

- **Health management:** The majority of employers that have invested in health management (HM) are satisfied with their return
  - Employers are increasingly providing meaningful financial incentives for employees to participate in HM programs
  - Significant discussion about pro/cons of activity and outcome based incentives

- **Consumer-directed health plans:** As these plans become more familiar, they are providing a welcome low-cost option
  - With the majority of jumbo employers now offering a consumer-directed health plan (CDHP), this new plan model may be approaching the tipping point
  - Employers with full replacement are well positioned to integrate with HM

- **Advanced strategies** focused on quality and efficiency
  - value-based design, narrow networks, intense case management, ACOs
  - Patient Centered Medical Homes – chronic and general carrier pilots
  - Mercer Health Advantage and general integrated/healthcare reform strategies

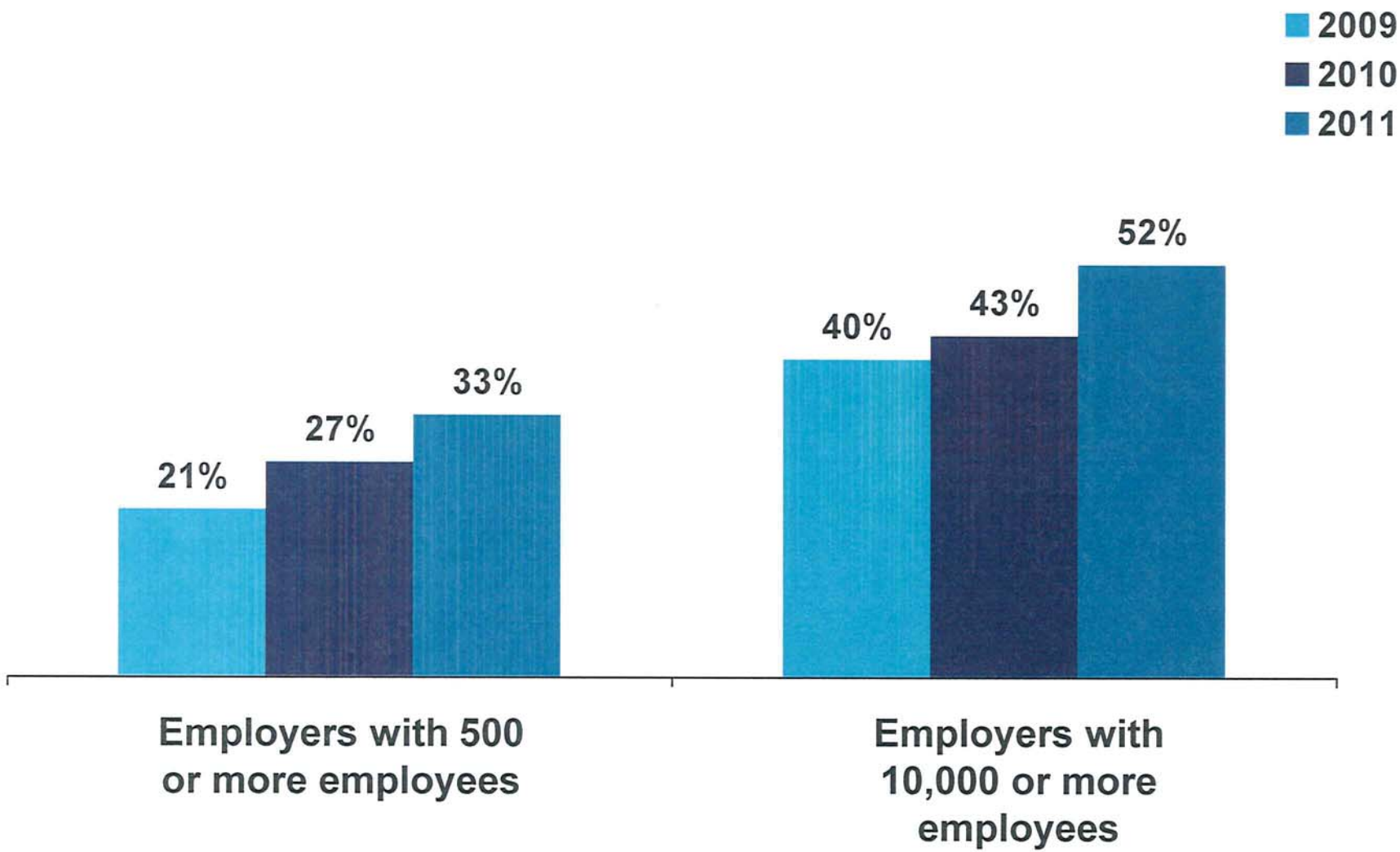
CDHP story - Employers add CDHPs in growing numbers

- Offerings of CDHPs grew sharply in 2011 -- from 23% to 32% of large employers, and from 16% to 20% of small employers.
- Enrollment in CDHPs rose from 11% to 13% of all covered employees; this is up from just 3% in 2006.
- The average per-employee cost of an HSA-based CDHP is almost 20% lower than that of a PPO -- $7,787 compared to $9,385.
- Employers adding CDHPs may be looking ahead to 2014, when many will experience an increase in enrollment due to auto-enrollment and the requirement to extend coverage eligibility to all employees working 30+ hours per week.
- CDHPs would also help employers avoid hitting the threshold for the excise tax, the PPACA provisions that concerns the most employers.

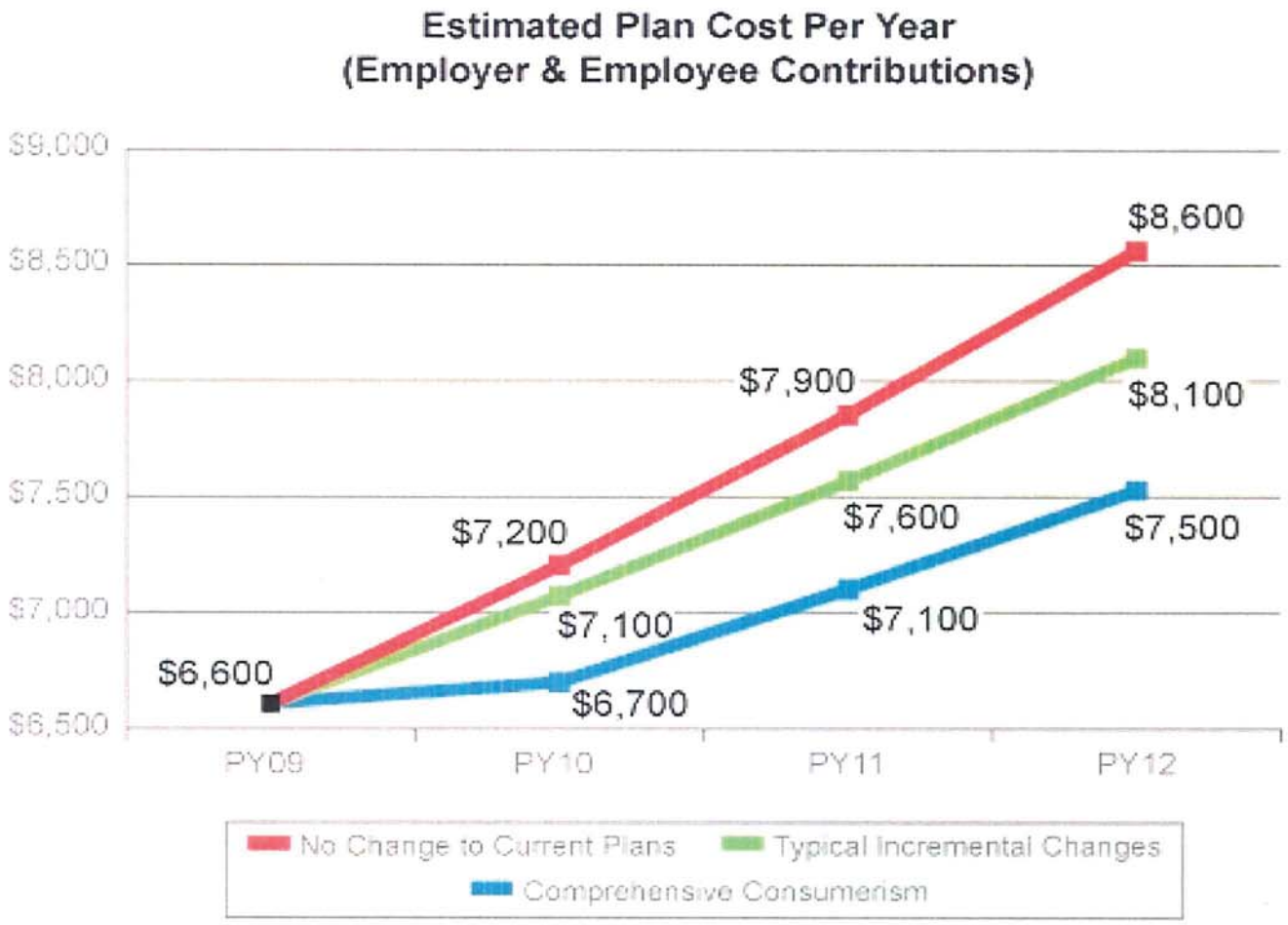
Health management program strategies key to controlling costs

	Jumbo employers (20,000+)	Large employers (500+)	Small employers (10-499 employees)
Case management	96%	83%	35%
Nurse advice line	89%	80%	53%
Health risk assessment	89%	70%	34%
Disease management	86%	82%	42%
Behavior modification	77%	55%	33%
Health portal (w/activity tracking)	65%	52%	41%
Health advocate services	61%	52%	30%
End-of-life case management	47%	47%	22%

Employers add incentives and penalties to boost employee participation in wellness or health management programs



Typical employer cost illustration - projected medical plan costs for next three plan years



Over Three Years, Comprehensive Consumerism:

- **Saves cumulative $millions compared to the no change approach**
- **Reduces plan cost compared to the typical "get to HDHP" incremental approach**

Comprehensive Consumerism
Aligns behavior with health care, creates savings and investments

Behavior is the greatest factor in determining health, which may be changed by providing:

More financial stake in health care choices

- Plan design
- Health accounts
- Incentives
- Transparency to the real cost and quality of treatment

More resources and tools to manage health and wellness

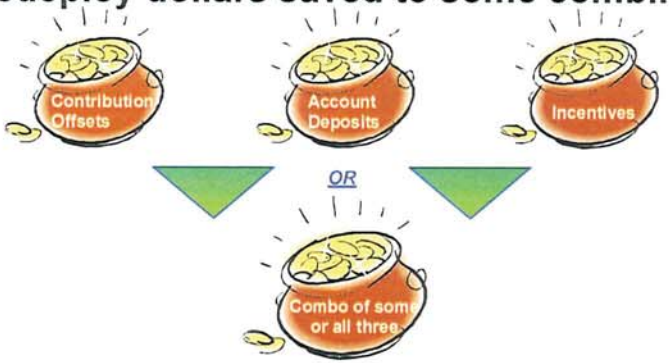
- Curriculum focused on basic health education
- Wellness programs and tools
- Quality assessment tools
- Treatment cost estimators
- Online resource for quickly accessing personalized information

Then,

Employers create plan savings with some combination of…

- Increased deductibles
- Increased coinsurance
- Increased or eliminated copays (in favor of coinsurance)

…to redeploy dollars saved to some combination of:



Account-Based Health Plans
Health Reimbursement (HRA) vs. Health Savings Accounts (HSA)

HRA

- ▲ HRAs are notional accounts or a promise to pay, not cash
- ▲ HRAs generally are not portable nor invested
- ▲ HRAs are only employer-funded
- ▲ HRA employer contributions are not tax-deductible
- ▲ HRAs cannot be invested or earn cash interest
- ▲ HRAs cannot be used for non-health costs
- ● HRA funds roll over from year to year
- ● HRA funds are not taxable when used for health purposes
- ● Employee engaged and educated on costs; self-service focus
- \+ HRAs use flexible employer-defined designs; e.g., Rx copays, covered services, ease of applying employee incentives and contributions, can use with FSA
- \+ HRAs do not require cash flow; allow more "dollars" in account

HSA

- \+ HSAs are funded, individually owned accounts
- \+ HSAs are portable and stay with the employee, retiree health funding
- \+ HSA can be funded by employees and/or employers
- \+ HSA employer and employee contributions are tax deductible (annual 2012 tax deduction limit: $3,100 for Individual $6,250 for Family coverage)
- \+ HSAs earn interest, and can be invested
- \+ HSAs can be used for non-health costs (with tax penalty)
- ● HSA funds roll over from year to year
- ● HSA funds are not taxable when used for health purposes
- ● Employee engaged and educated on costs; self-service focus
- ▲ HSAs have federal mandated design parameters; e.g., no Rx copays, minimum deductible/maximum out-of-pocket limits, no coverage with other plans, employee incentive and contribution limitations, can use with only "limited purpose" FSA.
- ▲ HSA employer deposits require cash flow/risk; $ belongs to employees

\+ Positive ▲ Negative ● Valuable

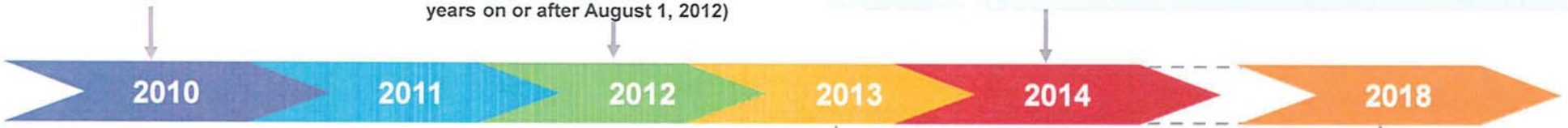
Cost by Option & Setting Employee Contributions

- Illustrative example of employee contributions being set not by the cost of the plan option:

	Plan A	Plan B	Plan C
Actual Claims per Plan	$8,000	$6,000	$4,000
Actuarial True Value of the Plan (based on benefits, not claims)	$6,500	$6,000	$5,500
Annual Contributions	$4,000	$2,000	$0
Net Employer Cost Based on Claims	**$4,000**	**$4,000**	**$4,000**
Actuarial True Cost Based on Benefits	**$2,500**	**$4,000**	**$5,500**
Actuarial "Cost Neutral" Contributions	$2,500	$2,000	$1,500

If employees in Plan A move to Plan B or Plan C, actual costs will dramatically rise (not cost neutral)

Key elements of health reform for employers



- Change in tax treatment for over-age dependent coverage
- Accounting impact of change in Medicare retiree drug subsidy tax treatment
- Early retiree medical reinsurance
- Medicare prescription drug "donut hole" beneficiary rebate
- Break time/private room for nursing moms

- Employers to distribute uniform summary of benefits and coverage (SBC) to participants[3]
- Employers to provide 60-day advance notice of material modifications for mid-year changes[3]
- Form W-2 reporting for health coverage (track in 2012 for W-2 form provided in early 2013)[4]
- Comparative effectiveness group health plan fees begin
- Coverage for additional women's' preventive care services begins (plan years on or after August 1, 2012)

- Health insurance exchanges
- Individual coverage mandate
- Financial assistance for exchange coverage of lower-income individuals
- Medicaid expansion
- HIPAA wellness limit
- Employer shared responsibility
- Additional reporting and disclosure

- Dependent coverage to age 26 for any covered employee's child[2]
- No annual dollar limits[2]
- No pre-existing condition limits[2]
- No waiting period over 90 days[2]
- Additional new standards for new or "non-grandfathered" health plans, including limited cost-sharing and deductibles
- Health insurance industry fees begin

- Dependent coverage to 26 (grandfathered plans may limit to children without access to other employer coverage, other than parent's coverage)[1]
- No lifetime dollar limits[1]
- Restricted annual dollar limits, phased amounts until 2014[1]
- No pre-existing condition limitations for enrollees up to age 19[1]
- No rescissions[1]
- Additional standards for new or "non-grandfathered" health plans, including mandatory preventive care in network with no cost-sharing and non-discrimination provisions for insured plans[3]

- No health FSA/HRA/HSA reimbursement for non-prescribed drugs
- Increased penalties for non-qualified HSA distributions
- Income-based Medicare Part D premiums
- Pharmaceutical importers and manufacturers' fees start
- Medicare, Medicare Advantage benefit and payment reforms to begin
- Insurers subject to medical loss ratio rules

- $2,500 health FSA contribution cap (indexed)
- Employers notify employees about exchanges
- Medical device manufacturers' fees start
- Higher Medicare payroll tax on wages exceeding $200,000/ individual; $250,000/couples
- Change in Medicare retiree drug subsidy tax treatment takes effect
- Exchanges initial open enrollment period to begin
- Auto enrollment likely to begin in 2014

- 40% excise tax on "high cost" or Cadillac coverage

1. *Applies to all plans, including "grandfathered" plans, effective for plan years beginning on or after Sept. 23, 2010 (Jan. 1, 2011, for calendar year plans).*
2. *Applies to all plans, including grandfathered plans, effective for plan years beginning on or after Jan. 1, 2014.*
3. *Delayed until regulations issued/date TBD*
4. *A temporary exemption applies to employers filing fewer than 250 Forms W-2.*

Upcoming health reform mandates and responsibilities
Additional mandates coming up in 2012 & 2013

2012 Mandates	
Form W-2 reporting	• Reporting for 2012 takes place in January 2013 • "Aggregate cost" using methods described in IRS guidance • Actives only generally
Group health plan fee	• Annual fee of $1, $2 in second year and indexed thereafter, assessed per participant until 2019. • Fund federal program on comparative effectiveness research
Uniform summaries of benefits and coverage (SBC)	• Delayed until regulations issued • In addition to SPD and other currently required disclosures • Four pages, 12-point font summary provided at initial and annual enrollment • Includes information about covered benefits, exclusions, cost-sharing and continuation coverage

2013 Mandates	
$2,500 health FSA contribution cap	• CPI adjusted after 2013
Health insurance exchange notice	• Inform employees about health insurance exchanges: and eligibility rules
New taxes for high-income households	• Additional *employee-only 0.9% Medicare* tax on wages exceeding: – $250,000/married filing jointly – $125,000/married filing separately – $200,000 in any other case

2014: Health reform impact for employers that offer benefits
New costs from enrollment increases and taxes

Sources of new costs	Risk factors
✓ More employees enrolling ✓ More dependents enrolling ✓ New benefit requirements may increase plan costs ✓ Raising employer contributions to exceed affordability levels ✓ New taxes ✓ High-cost plan excise tax (2018)	• High employee opt-out/waiver rate • High dependent opt-out rate • Low-value plans • Low employer contributions • High premium tax credit eligibility • High plan costs and trend

Cost impact will vary by industry and workforce segment

Cost mitigating strategies are available

Discussion / Next Steps

Appendix

2011 Experience
2011 Experience – Basic Plan
3rd Quarter

	Basic Plan			
	Active	Retiree		Total
2010 (through 3rd Qtr.)		Medicare	No Medicare	
PEPM Medical claims	$655.13	$289.14	$790.05	$543.34
PEPM Rx Claims	$151.93	$372.46	$187.13	$256.88
PEPM Claims Administration	$39.08	$39.08	$39.08	$39.08
Total PEPM Cost	$846.14	$700.68	$1,016.26	$839.30
Enrollment				
Employees/Retirees	599	1,005	764	2,367
Members (includes dependents)	1,184	1,407	1,348	3,940
Total - through 3rd Quarter	$4,560,714	$6,335,514	$6,985,795	$17,882,023
Budgeted Amount	$655	$656	$681	$14,141,738
Variance	($191)	($45)	($336)	($3,740,285)
2011 (through 3rd Qtr.)				
PEPM Medical claims	$476.01	$329.15	$757.28	$494.72
PEPM Rx Claims	$148.85	$387.04	$186.69	$266.08
PEPM Claims Administration	$39.08	$39.08	$39.08	$39.08
Total PEPM Cost	$663.94	$755.26	$983.05	$799.88
Enrollment				
Employees/Retirees	574	994	668	2,236
Members (includes dependents)	1,119	1,397	1,199	3,715
Total - through 3rd Quarter	$3,427,938	$6,759,601	$5,910,112	$16,097,651
Budgeted Amount	$701	$707	$736	$14,367,285
Variance	$37	($49)	($247)	($1,730,366)
PEPM Change from end of Q3 2010				
Medical	-27.3%	13.8%	-4.1%	-8.9%
Rx	-2.0%	3.9%	-0.2%	3.6%
Total	-21.5%	7.8%	-3.3%	-4.7%

2011 Experience
2011 Experience – Premier Plan
3rd Quarter

	Premier Plan			
	Active	Retiree		Total
2010 (through 3rd Qtr.)		Medicare	No Medicare	
PEPM Medical claims	$608.41	$405.39	$1,058.97	$663.65
PEPM Rx Claims	$105.96	$405.03	$220.47	$148.03
PEPM Claims Administration	$39.08	$39.08	$39.08	$39.08
Total PEPM Cost	$753.45	$849.50	$1,318.52	$850.75
Enrollment				
Employees/Retirees	6,050	635	1,260	7,945
Members (includes dependents)	15,591	904	2,545	19,041
Total - through 3rd Quarter	$41,027,000	$4,854,868	$14,954,697	$60,836,565
Budgeted Amount	$848	$936	$986	$62,725,870
Variance	$95	$87	($332)	$1,889,305
2011 (through 3rd Qtr.)				
PEPM Medical claims	$659.86	$477.27	$918.62	$684.32
PEPM Rx Claims	$112.77	$395.87	$222.01	$155.66
PEPM Claims Administration	$39.08	$39.08	$39.08	$39.08
Total PEPM Cost	$811.71	$912.22	$1,179.71	$879.06
Enrollment				
Employees/Retirees	6,147	740	1,295	8,182
Members (includes dependents)	16,162	1,060	2,702	19,924
Total - through 3rd Quarter	$44,903,094	$6,073,542	$13,751,881	$64,728,517
Budgeted Amount	$968	$1,069	$1,120	$73,747,514
Variance	$157	$157	($60)	$9,018,996
PEPM Change from end of Q3 2010				
Medical	8.5%	17.7%	-13.3%	3.1%
Rx	6.4%	-2.3%	0.7%	5.2%
Total	7.7%	7.4%	-10.5%	3.3%

2011 Experience
2011 Experience – Total
3rd Quarter

	Total				
	Active	Retiree		Total	Expense through Q3
2010 (through 3rd Qtr.)		Medicare	No Medicare		
PEPM Medical claims	$612.62	$334.16	$957.49	$636.03	$59,033,225
PEPM Rx Claims	$110.10	$385.07	$207.89	$173.01	$16,058,153
PEPM Claims Administration	$39.08	$39.08	$39.08	$39.08	$3,627,210
Total PEPM Cost	$761.80	$758.31	$1,204.46	$848.12	
Enrollment					
Employees/Retirees	6,649	1,640	2,024	10,313	10,313
Members (includes dependents)	16,776	2,311	3,893	22,980	22,980
Total - through 3rd Quarter	$45,587,714	$11,190,382	$21,940,492	$78,718,589	$78,718,589
Budgeted Amount	$831	$764	$871	$828	$76,867,609
Variance	$69	$6	($333)	($20)	($1,850,980)
2011 (through 3rd Qtr.)					
PEPM Medical claims	$644.17	$392.33	$863.72	$643.62	$60,345,182
PEPM Rx Claims	$115.85	$390.80	$210.00	$179.36	$16,816,884
PEPM Claims Administration	$39.08	$39.08	$39.08	$39.08	$3,664,102
Total PEPM Cost	$799.10	$822.22	$1,112.80	$862.06	
Enrollment					
Employees/Retirees	6,720	1,734	1,963	10,418	10,418
Members (includes dependents)	17,282	2,457	3,900	23,639	23,639
Total - through 3rd Quarter	$48,331,032	$12,833,143	$19,661,993	$80,826,168	$80,826,168
Budgeted Amount	$946	$861	$989	$940	$88,114,799
Variance	$147	$39	($123)	$78	$7,288,631
PEPM Change from end of Q3 2010					
Medical	5.1%	17.4%	-9.8%	1.2%	2.2%
Rx	5.2%	1.5%	1.0%	3.7%	4.7%
Total	4.9%	8.4%	-7.6%	1.6%	2.7%

Large Claims Experience
2011 vs 2010

- 2011 Large Claims Experience through September 2011
  - 43 claimants exceeding $100,000 (9 Active Employees, 12 Retired Employees, 13 Spouses, 9 Children)
  - Large Claims paid by plan
    - Active Premier: $4,902,052
    - Active Basic: $ 138,303
    - Retired Premier: $2,242,340
    - Retired Basic: $1,123,394
  - Six claimants are enrolled in the Basic Plan; 37 claimants are enrolled in the Premier Plan
  - Total on 43 claimants: $8,406,088
  - Eight (8) claimants exceeding $250,000

- 2010 Large Claims Experience through September 2010
  - 47 claimants exceeding $100,000 (17 Active Employees, 17 Retired Employees, 10 Spouses, 3 Children)
  - Large Claims paid by plan
    - Active Premier: $4,013,595
    - Active Basic: $ 635,239
    - Retired Premier: $3,039,155
    - Retired Basic: $ 806,511
  - Eight claimants are enrolled in the Basic Plan; 39 claimants are enrolled in the Premier Plan
  - Total on 47 claimants: $8,494,500
  - Eight (8) claimants exceeding $250,000

MERCER