




HISTORIC
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TENNESSEE

ITEM #11
WRKS 06/12/2012

MEMORANDUM

June 1, 2012

TO: Board of Mayor and Aldermen

FROM: Eric S. Stuckey, City Administrator 
Shirley Harmon, Human Resources Director
Tammie Pitts, Benefits Manager
Brian Wilcox, Purchasing Manager

SUBJECT: Results of request for proposals for stop-loss insurance for employee and retiree health and pharmacy programs, for twelve (12) months effective July 1, 2012 (Purchasing Office Solicitation No. 2012-027)

Purpose

The purpose of this procurement is to purchase stop-loss insurance for the City's employee and retiree health and pharmacy programs for a one-year term effective July 1, 2012 (Purchasing Office Procurement Solicitation No. 2012-027).

Background

The City issued a request for proposals for stop-loss insurance for employee and retiree health and pharmacy programs for a one-year term effective July 1, 2012. Stop-loss insurance is reinsurance purchased to protect the City from paying the total cost of either a single large claim over a specific amount for a member or an aggregate (group) claim over a specified amount during a set time period for all members.

The City published on April 12, 2012 a Notice to Proposers in the *Williamson Herald* for stop-loss insurance for employee and retiree health and pharmacy programs. In addition, solicitation documents were sent on or about the same date directly to twelve (12) potential proposers known or thought to be interested in this solicitation. Five (5) proposals were received. Please see attached the May 31, 2012 memorandum on the subject of 2012-2013 Stop Loss Options and Recommendations prepared by Sherrill Morgan, the City's benefit consultant.

Financial Impact

Sherrill Morgan has evaluated the proposals received and has determined that the City will experience a 2% increase over the 2011-2012 fiscal year premium with an estimated annual premium of \$313,538 for the upcoming 2012-2013 fiscal year based on current employee, C.O.B.R.A. (continued insurance benefits provided to former employees at their expenses after leaving employment with the City), and retiree participation levels. This premium is calculated on a per member per month basis and was anticipated within the proposed 2012-13 budget.

Recommendation

Both staff and Sherrill Morgan recommend that the City accept the proposal submitted by HM Insurance Group of Charlotte, NC.



To: Tammie Pitts
From: Lisa Stamm
Date: May 31, 2012
Re: 2012-2013 Stop Loss Options and Recommendations

The following is a summary of the stop loss proposals received through the Request for Proposals for Stop Loss Insurance (RFP).

The City's stop loss renewal for 2012-2013 included a 22% increase in premium over 2011-2012 (current). The City conducted a Request for Proposals seeking competitive stop loss proposals. The City received proposals from five carriers: Blue Re, HM, Humana, IAT, and Symetra.

Recommended Carrier:

Only the incumbent carrier, HM, submitted a proposal that included all of the "minimum stop loss requirements" as stipulated in the Request for Proposals. As such, they obtained both the highest score on the points evaluation and represented the lowest cost on premium for proposals meeting the minimum stop loss requirements. HM is rated A- by A.M. Best.

24/12 Contract Basis for Specific Coverage:

We recommend that the City move to a 24/12 contract basis for specific claims in order to capture claims that may be incurred in the current contract year but not paid before the current contract expires on June 30, 2012. Remaining on a 24/12 contract each year will insure that the City is not exposed to liability for claims that would otherwise fall outside the stop loss contract. The 24/12 contract is more expensive than the City's current 12/12 contract, because the carrier is liable for more claims. Most of the 22% increase on the renewal is attributable to the contract change. This was an anticipated increase. (Please note that the City purchased a 12/12 contract last year as it transitioned from the 12/15 contract it had been on each year previously, and paid less in premium last year than it would have if it had stayed on a 12/15 contract.)

"No New Laser" Contract with a 45% Rate Cap:

We recommend that the City continue the "no new laser with a 45% rate cap" contract features. These features guarantee that the City will not be given a new laser (higher specific deductible on one member) at renewal. We also strongly recommend that the City retain HM's rate cap, which ensures that the City could not have greater than a 45% premium increase at renewal. The combination of these two features provides significant financial protection to the City. For example, if a high claimant emerges in the next year with expected claims of \$1,000,000 in 2013-2014, HM could not assign a laser to that individual, nor could they increase premiums at renewal by more than 45% (approximately \$141,000). Please note that purchasing the rate cap does not mean that the City will get a 45% increase at the next renewal; this is only a maximum on the potential rate increase.

Annual Maximum of \$1,800,000:

Because federal health care reform has mandated the removal of lifetime and annual maximums (except for restricted annual maximums until 2014), stop loss carriers have responded by also offering to cover an unlimited lifetime maximum in claims for each individual they cover. In order to offset the increased cost of covering an unlimited lifetime maximum, the carriers have also begun offering contracts with limited annual benefits per member. The RFP asked for several alternatives in this regard: contracts that cover an unlimited amount of claims per year per person; up to \$1,000,000 per year per individual (effectively \$800,000 after the specific deductible is met); up to \$2,000,000 per year per individual (effectively \$1,800,000 after specific); and up to \$4,000,000 per year per individual (effectively \$3,800,000 after specific).

We believe that an annual policy period maximum of \$1,800,000 will sufficiently protect the City financially because the likelihood of one individual incurring claims of more than \$1,800,000 in the contract period is highly unlikely. The cost of this coverage is approximately \$25,000 less than that for an unlimited amount of coverage per year per individual.

Aggregate Coverage:

The City currently purchases aggregate coverage, which is coverage that protects the City from claims over a maximum level for the entire membership (not per individual, which specific coverage addresses). The maximum is established by the stop loss carrier and on the current contract from HM is set 20% above what HM's underwriters expect the City's claims to be. As a large, mature, self-funded plan with a good deal of claims experience, the underwriters are extremely unlikely to set the maximum at a level which the City will exceed. For this reason, many large, mature, self-funded groups opt to drop aggregate coverage and only keep specific. We recommend that the City do so. The savings in premium would be approximately \$35,000.

Conclusion:

We recommend that the City accept HM's 24/12 no new laser, rate capped option with a \$1,800,000 policy period maximum. We also recommend that the City drop aggregate coverage. The total premium for this option will be approximately \$313,538, which is 2% higher than the total current premium.

The current, renewal, and recommended options are summarized in the attached spreadsheet. We are of course available to speak with you regarding these recommendations at your convenience.

City of Franklin

Stop Loss Recommendation 7/1/12

(Based on enrollment of 200 Single and 417 Family)

	No New Laser 45% Rate Cap Current	45% Rate Cap Renewal	45% Rate Cap Recommended
Stop Loss Carrier	HM	HM	HM
Specific Contract	12/12	24/12	24/12
Coverage	Medical & Rx	Medical & Rx	Medical & Rx
Lifetime Maximum	Unlimited	Unlimited	Unlimited
Annual Maximum	Unlimited	Unlimited	\$1,800,000
Specific Deductible	\$200,000	\$200,000	\$200,000
Single Premium Rate	\$17.45	\$21.61	\$19.99
Employee/Spouse Premium Rate	\$46.43	\$57.37	\$53.07
Aggregating Specific Deductible Rate Cap?	n/a	n/a	n/a
No New Laser?	Yes	Yes	Yes
Aggregate Contract Coverage	87/12 Medical & Rx	99/12 Medical & Rx	n/a
Aggregate Premium Rate	\$4.47	\$4.79	n/a
Monthly Single Aggregate Factor	\$547.04	\$584.72	n/a
Monthly Family Aggregate Factor	\$1,312.89	\$1,403.34	n/a
Annual Specific Premium	\$274,215.72	\$338,943.48	\$313,538.28
Annual Aggregate Premium	\$33,095.88	\$35,465.16	n/a
Total Stop Loss Premium	\$307,311.60	\$374,408.64	\$313,538.28
Maximum Claims	\$7,882,597.56	\$8,425,641.36	n/a
Laser Liability	\$250,000	\$0	\$0
Maximum Liability	\$8,439,909.16	\$8,800,050.00	n/a