# *City of Alexandria, Virginia*

## MEMORANDUM

DATE: APRIL 25, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #73: COST OF PROVIDING EMPLOYEES AN ADDITIONAL HEALTH CARE CHOICE

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This memorandum is in response to Vice Mayor Macdonald's request for the cost and feasibility of providing employees more choice with regard to their health care options to address the concerns about the number of physicians who are no longer participating in our health plan (Mamsi/United Healthcare). In recent years, the City has offered individual and family coverage in either the Health Maintenance Organization (HMO) or Point-of-Service (POS) plans. The POS plan design is similar to the HMO, and participants are permitted to use a non-preferred provider at an extra cost to participants.

As a result of Vice Mayor Macdonald's request, staff consulted with the City's health insurance consultant and researched options for providing more choice that could be implemented in the upcoming plan year. Since the Virginia General Assembly changed the legislation from requiring a physician to belong to all plans offered by an insurer to allowing physicians to pick and choose, many have dropped out of HMO and POS, but stayed in what is known as a Preferred Provider Option, or PPO. The PPO pays a higher reimbursement to primary care physicians, fee for services, instead of a fixed monthly fee or capitation.

In order to provide a wider range of choice at no cost to the City, we are now planning on implementation of a PPO for FY 2008 through a current provider (Mamsi/United Healthcare). This would be in addition to the current HMO and POS offerings by Mamsi/United Healthcare and Kaiser Permanente. It appears that PPO plans are rapidly shrinking and PPOs are becoming more relevant, so it appears timely to offer City employees a PPO option in FY 2008. It may make sense to eventually drop the POS option, but by offering both the PPO and POS options in FY 2008, we can gauge employee's satisfaction with the PPO option. The Schools are also considering offering a PPO to their employees with the same employee payment arrangement. The PPO option is about 6% more expensive than the City's POS plan.

This new PPO plan is similar to the POS plan in design and co-payments, except that it includes a much wider network of preferred "in-plan" doctors.

- Many of the non-preferred doctors that participants pay extra for under the POS plan may well be preferred doctors under the PPO. The PPO network to which participants would have access is a nationwide network and the plan encourages members to

receive covered services from preferred physicians, health care practitioners and facilities.

- Employees may still use out of network health care practitioners or facilities, but then employees will have higher out-of-pocket costs and will need to file a claim for reimbursement if they use services out-of-network.
- In the PPO, a member does not need a referral to see a specialist, one reason the plan is more expensive. In the HMO plan, employees must first see a much less expensive primary care provider to be referred to a specialist (the gatekeeper approach), and most data show that 75% of all physician visits can be handled on the primary care level.
- Also, in the HMO and POS plans, the primary care physician is responsible for obtaining authorizations for hospitalization, outpatient surgery and other expensive procedures; and some imaging expenses like MRIs and PET scans. However, in the PPO, the participant is responsible for obtaining these authorizations, and reimbursement could be denied by Mamsi if this is not done. These procedures are not unique to Mamsi/United; they are universal in the health insurance industry.

The Mamsi/United PPO primary care network is much larger than the current Optimum Choice HMO network, again as a result of a change in Virginia legislation. A PPO primary care network would afford employees more access to physicians they used to see who dropped out of the HMO/POS networks. Based on a current review, the number of physicians in the City accepting the Mamsi/United PPO option is more than twice the number who accept the Optimum Choice HMO - making the PPO network substantially larger than the current HMO network. This PPO can be implemented for the upcoming City plan year. Other insurers, Blue Cross, Aetna, and Cigna could not offer a PPO in such short order; and they would be likely to require the City to replace Mamsi/United with their programs.

The cost of the United PPO option is 6.2% more than the cost of the City's POS option. The POS also allows employees to use providers out-of-network, however, the "in-plan" benefits are based on the limited HMO network of providers. Implementing the PPO option would provide employees with additional options to continue using their established physicians with a co-pay instead of having to file claims and be reimbursed at a much later time. The rates for the PPO option as well as all of the other options the City offers are shown below. It should be noted that there are no deductibles for either the POS plan or the PPO plan and co-pays are identical.

**FY 2008 Monthly Premiums and Employee Share**

| FY 2008 | Kaiser | | Optimum Choice | | |
|---|---|---|---|---|---|
| | HMO | POS | HMO | POS | PPO |
| **Total Monthly Premium** | | | | | |
| Individual | **$377** | **$436** | **$397** | **$459** | **$487** |
| Family | **$889** | **$1,020** | **$936** | **$1,073** | **$1,139** |
| **Employee Share** | | | | | |
| *FT Pre- 7/01/06* | | | | | |
| Individual | $25 | $84 | $26 | $88 | $117 |
| Family | $59 | $189 | $62 | $199 | $265 |
| *FT Post- 7/01/06* | | | | | |
| Individual | $38 | $97 | $40 | $102 | $130 |
| Family | $89 | $220 | $94 | $231 | $297 |
| *Part-Time* | | | | | |
| Individual | $188 | $247 | $198 | $261 | $289 |
| Family | $445 | $575 | $468 | $605 | $671 |

The City's longstanding policy has been to have the City employer-paid subsidy be based on the HMO rate; in other words the employee pays the difference between the HMO rate subsidy and the POS rate. We would continue to follow this policy and the higher cost of the PPO premium would be completely borne by the employees who selected to participate in the PPO plan. The City would face no immediate cost impact by offering this option to City employees[1].

[1] There is some possibility that future costs could rise an undetermined amount due to the availability of a national PPO network of providers for retirees who move away from the local area. Currently, retirees who move away from the local area lose access to the Optimum Choice HMO network of providers, which is only available in this area. These employees then have to join other health care plans available to them in their new location and they would be subsidized by the City at a maximum rate of $260 a month. However, those retirees who move away in the future might continue to be served by the national Mamsi/United PPO network. Because their higher medical costs would be included in the calculations of the plan premiums, the City might pay higher future premium costs. If as a result of the expanded network, a far greater number of retirees stay in the City plans, their cost may have to be separately calculated to reduce the City's liability. Under current City policies, any retiree who has already left the area and the City's health plan may not rejoin it. This policy would limit any potential cost impact from offering a nationwide PPO network.

The effects in FY 2008 on the employee share of health care premiums per month for those switching from Mamsi HMO and POS to Mamsi PPO would be as follows:

**FY 2008 Employee Share[2, 3, 4, 5]**

| | HMO | POS | PPO | Extra Cost of PPO above POS | Extra Cost of PPO above HMO |
|---|---|---|---|---|---|
| *Mamsi/United* | | | | | |
| Individual - Monthly | $26 | $88 | $117 | $28 | $90 |
| Individual - Biweekly | $13 | $44 | $58 | $14 | $45 |
| Family - Monthly | $62 | $199 | $265 | $66 | $204 |
| Family - Biweekly | $31 | $100 | $133 | $33 | $102 |
| *Kaiser* | | | | | |
| Individual - Monthly | $25 | $84 | N/A | N/A | N/A |
| Individual - Biweekly | $12 | $42 | N/A | N/A | N/A |
| Family - Monthly | $59 | $189 | N/A | N/A | N/A |
| Family - Biweekly | $29 | $95 | N/A | N/A | N/A |

We plan to announce these changes as part of open enrollment which starts in May 2007 and then implement this option for employees effective July 1, 2007. We anticipate that less than 100 enrollees or approximately 5% will switch to the PPO Plan.

**Current # of Enrollees in the City's Health Plans**

| | Kaiser | | Optimum Choice | |
|---|---|---|---|---|
| | HMO | POS | HMO | POS |
| Active | | | | |
| Individual | 403 | 6 | 343 | 125 |
| Family | 656 | 3 | 517 | 178 |
| Retiree | | | | |
| Individual | 69 | - | 77 | 54 |
| Double | 31 | - | 50 | 30 |
| Family | 8 | 1 | 6 | 3 |

[2] For full-time employees hired before 7/1/2006. Full-time employees hired after 7/1/2006 pay higher rates.
[3] Retiree plans and costs differ based on maximum $260 per month employer subsidy or retiree health care costs.
[4] Reflects 10% increase in Mamsi/United Healthcare HMO and POS premiums, a 9% increase in Kaiser HMO premiums and about a 14.5% decrease in Kaiser POS premiums.
[5] Employee paid premiums are deducted pre-tax, as such, all post-tax premium costs would be less based on the employee's tax bracket.