

COUNCIL ACTION FORM

**SUBJECT: HEALTH INSURANCE ADMINISTRATIVE SERVICES CONTRACT
RENEWAL**

BACKGROUND:

For the past 16 years, the City has contracted with Wellmark Blue Cross Blue Shield of Iowa to provide health insurance administration and excess insurance coverage. In that time, Wellmark has provided good customer service and has had a commendable record of accurate and timely claims payments. Wellmark also has advantageous contractual relationships with medical providers in Ames and throughout Iowa that allow the City to receive significant discounts on services received. Wellmark has a proven record of being able to administer the existing plans and has been a willing and capable partner in our efforts to improve the health status of employees and their families through quality programs and health promotion.

Wellmark has provided renewal terms for services in FY 2021/22. Effective July 1, 2021, Wellmark will charge \$49.11 per employee per month in **administrative and access fees** for a yearly total of \$328,841. This is an increase of 2.3% over 2020/21.

Wellmark has also provided a quote for stop loss protection. The individual stop loss protects the City from specific claims that exceed \$125,000 incurred in one year, while the aggregate stop loss protects the City in the event that total claims exceed 120% of projected losses. In FY 2020/21 the stop loss rate charged per employee per month was \$85.13. However, the stop loss trend over the past several years has significantly exceeded Wellmark's projections. Effective July 1, 2021, Wellmark will charge \$105.65 per employee per month for **specific and aggregate stop loss premiums**. This is a 24% increase in stop loss premiums. In FY 2021/22 the City will pay \$707,432 in specific and aggregate stop loss premiums.

The request before City Council is to approve the terms of service for the administrative and access fees and stop loss premiums, which are estimated in total to cost \$1,036,273. Expenses paid will reflect the actual numbers of employee members on the plans throughout the year.

OVERALL HEALTH INSURANCE COSTS:

Gallagher, the City's contracted Health Benefits Consultant, assisted with reviewing the overall administrative fees and services Wellmark presented for FY 2021/22. The overall change (increase) for health care costs, including FY 2021/22 projected claims and all of

the Wellmark administrative fees, is estimated at 5.7% for FY 2021/22 (a total of approximately \$9,729,276).

The FY 2021/22 Budget included a 5% increase for health insurance premiums. The increase incorporated into the budget was intentionally set to be slightly less than the anticipated 5.7% expense increase to allow a portion of the available Health Insurance Fund balance to be drawn down. This accomplishes two objectives: 1) maintaining an adequate fund balance that is not excessive, and 2) moderating the impact of premium increases to department budgets and employees.

The required contribution from the Health Insurance Fund balance is projected to result in a net reduction of the fund balance of \$242,449 in FY 2021/22. The ending fund balance for FY 2021/22 is therefore projected to be \$5,843,413. This ending balance exceeds the fund's minimum balance targets by over \$4.2 million, providing ample reserves for the future.

ALTERNATIVES:

1. Accept the renewal documents from Wellmark for administrative services, specific and aggregate excess insurance, and access fees for benefits effective from July 1, 2021 to June 30, 2022.
2. Do not renew the health insurance administrative services contract with Wellmark.

CITY MANAGER'S RECOMMENDED ACTION:

Wellmark has been an effective administrator of the City's health care administrative services. Wellmark's services are cost-effective, and they have a strong working relationship with the City's other health care partners. Renewal of this contract will provide the best value to the City in administering its health insurance program.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No.1, as described above.