

ITEM #: 20  
DATE: 06-13-23  
DEPT: HR

**COUNCIL ACTION FORM**

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

**BACKGROUND:**

For the past eighteen years Wellmark Blue Cross Blue Shield of Iowa has been the City’s provider for administrative services and excess coverage for the self-insured health and pharmacy programs. Wellmark was originally awarded this contract after a competitive Request for Proposals. Since then, 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.

**ADMINISTRATIVE AND ACCESS FEES:**

In renewing the administrative agreement for FY 2023/24, Wellmark will charge \$51.94 per member per month in **administrative and access fees**, effective July 1, 2023. This is a per member per month increase of 3.4% compared to FY 2022/23. However, because the number of covered individuals is projected to be more in FY 2023/24 compared to the current year, the projected total cost for administrative and access fees in FY 2023/24 is expected to increase by 5%, to \$343,427.

**Administrative and Access Fees**

	<b>FY 2022/23</b>	<b>FY 2023/24</b>
# of Covered Members	542	551
Per Member, Per Month Fee	\$50.25	\$51.94
<b>TOTAL COST</b>	<b>\$326,826</b>	<b>\$343,427</b>

**STOP LOSS COVERAGE:**

The City also obtains individual and aggregate stop loss coverage from Wellmark. 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. Effective July 1, 2023, Wellmark will charge \$164.15 per member per month for **specific and aggregate stop loss premiums**.

In FY 2022/23, the stop loss rate charged per member per month was \$133.15. However, the stop loss trend over the past several years has significantly exceeded Wellmark's projections. For that reason, the stop loss premium rates for FY 2022/24 will increase by 23%. In FY 2023/24 the City will pay \$1,085,360 in specific and aggregate stop loss premiums.

**Specific and Aggregate Stop Loss Premiums**

	FY 2022/23	FY 2023/24
# of Covered Members	542	551
Per Member, Per Month Fee	\$133.15	\$164.15
<b>TOTAL COST</b>	<b>\$866,008</b>	<b>\$1,085,360</b>

**OVERALL HEALTH CARE COST PROJECTIONS:**

Gallagher, the City's contracted Health Benefits Consultant, assisted with reviewing the overall administrative fees and services Wellmark presented for FY 2023/24. **The increase for medical health care costs, including projected FY 2023/24 medical (Wellmark) claims and all Wellmark administrative fees, is estimated at 11.6% for FY 2023/24** (a total of approximately \$11,081,030).

**This increase for medical costs, when combined with dental cost projections (which are estimated to remain flat), results in an overall increase to the Health Insurance Fund of 10.6% in FY 2023/24.** This projected increase was reported to City Council at the February 3, 2022 Budget hearing. **At that time, staff reported to Council that an 8% increase in premiums, along with the use of approximately \$353,185 from the available balance in the Health Insurance Fund, would be used to finance these increased costs.** The Health Insurance Fund contains a sizeable unreserved fund balance that has been slowly reduced over the past several years to reduce the impact of large premium increases. Currently, the Health Insurance Fund contains an unreserved fund balance of \$4,983,557.

**This information was anticipated at the time the FY 2023/24 Budget was prepared. Therefore, sufficient funds exist to cover the increase in administrative fees, increase in stop loss premiums, and anticipated increases in claims with the 8% increase in premiums and \$353,185 from the available balance in the Health Insurance Fund.**

**UPCOMING CHANGE TO PHARMACY BENEFIT MANAGER:**

The City has historically included Pharmacy Benefit Manager (PBM) services as part of the bundle of services Wellmark provides. PBMs are third party companies that function as intermediaries between insurance providers, such as Wellmark, and pharmaceutical manufacturers. PBMs negotiate rebates with manufacturers, process claims, create pharmacy networks, review drug utilization, and manage mail-order specialty pharmacies. Since pharmaceutical costs are a significant portion of the overall costs

incurred by the City's Health Insurance Fund, the terms that can be negotiated by a PBM can result in significant impacts to the City's costs.

**Staff has conducted a Request for Proposals (RFP) for a PBM vendor as a service carved out from the bundle of services provided by Wellmark. It is anticipated that a presentation will be made to the City Council later this calendar year with the PBM recommendation.**

**It was originally staff's desire to have a new PBM contract in place for July 1, 2023. However, it has recently become clear that timing will not be possible. Therefore, a separate PBM agreement is expected to be presented at a later date for a start date of January 1, 2024.**

**Therefore, the agreement with Wellmark that is before City Council for approval is a six-month renewal from July 1, 2023 to December 31, 2023. Another contract with Wellmark, including slight administrative fee rate changes, for the final six months of FY 2023/24, will be presented later this calendar year, reflecting adjustments due to the PBM change.**

**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, 2023 to December 31, 2023.
2. Do not renew the City's 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 #1, as described above.