

COUNCIL ACTION FORM

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

BACKGROUND:

For the past seventeen 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.

In renewing the administrative agreement for FY 2022/23, Wellmark will charge \$50.25 per member per month in **administrative and access fees**, effective July 1, 2022. This is a per member per month increase of 2.3% compared to FY 2021/22. However, because the number of covered individuals is projected to be less in FY 2022/23 compared to the current year, the projected total cost for administrative and access fees in FY 2022/23 is expected to decrease by 0.01%, to \$326,826.

Administrative and Access Fees

	FY 2021/22	FY 2022/23
# of Covered Members	558	542
Per Member, Per Month Fee	\$49.11	\$50.25
TOTAL COST	\$328,841	\$326,826

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, 2022, Wellmark will charge \$133.15 per member per month for **specific and aggregate stop loss premiums**.

In FY 2021/22, the stop loss rate charged per member per month was \$105.65. However, the stop loss trend over the past several years has significantly exceeded Wellmark's

projections. For that reason, the stop loss rates for FY 2022/23 will increase by 26%. In FY 2022/23 the City will pay \$866,008 in specific and aggregate stop loss premiums.

Specific and Aggregate Stop Loss Premiums

	FY 2021/22	FY 2022/23
# of Covered Members	558	542
Per Member, Per Month Fee	\$105.65	\$133.15
TOTAL COST	\$707,432	\$866,008

Gallagher, the City’s contracted Health Benefits Consultant, provided assistance with reviewing the overall administrative fees and services Wellmark presented for FY 2022/23. **The increase for medical health care costs, including projected FY 2022/23 medical (Wellmark) claims and all Wellmark administrative fees, is estimated at 10.6% for FY 2022/23** (a total of approximately \$10,255,752).

This increase for medical costs, when combined with dental cost projections (which are estimated to remain flat), result in an overall increase to the Health Insurance Fund of 9.7% in FY 2022/23. This projected increase was reported to City Council at the February 3, 2022 Budget hearing. **At that time, staff reported to Council that a 7% increase in premiums, along with the use of approximately \$289,000 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 \$4,657,445.

This information was anticipated at the time the FY 2022/23 Budget was prepared. Therefore, sufficient funds exist to cover the slight decrease in administrative fees, increase in stop loss premiums, and anticipated increases in claims with the 7% increase in premiums and \$289,000 from the available balance in the Health Insurance Fund.

It should be noted that for this renewal, Wellmark requested the inclusion of a provision that allows for certain claims to be denied if the covered individual is not “actively at work.” Staff had several discussions with Wellmark regarding this language, which staff is not supportive of including in the agreement. Wellmark has provided written assurances that this provision will not be applied to a potential claim without City staff’s approval. This assurance has been reviewed by the City Attorney and has been found to be acceptable.

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, 2022 to June 30, 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.