
C O U N C I L C O M M U N I C A T I O N

TO: THE CITY COUNCIL
FROM: THE CITY MANAGER'S OFFICE

COUNCIL MEETING DATE
AUGUST 17, 1988

SUBJECT: ACCEPT CONCEPT OF SELF-INSURING MEDICAL BENEFITS

PREPARED BY: Assistant City Manager

RECOMMENDED ACTION: That the City Council authorize the establishment of a medical self-insurance program and authorize the transfer of funds to establish a reserve pool.

BACKGROUND INFORMATION: The City of Todi has been fully insured for medical insurance by Pacific Mutual Life Insurance since 1958. During that period of time, we have enjoyed a good relationship and have never had a reason to shop for medical insurance. This policy was initially brokered by Bill Stemler. About 10 years ago, Mr. Stemler sold his business to William McCormack, DBA: Delta Benefit Plans.

For the past four years, our premiums have remained constant except for specific changes made to the plan. This, in large part, was due to favorable claims experience. In 1985, because of Federal law and the desires of our employees, we gave our employees an option to be insured with the Foundation Health Plan, a health maintenance organization (HMO). This resulted in a number of people leaving the fully-funded plan.

There are some significant differences in the plans which made the HMO more appealing to people with young families.

The net result is that presently, less than 50% of the City employees subscribe to the fully-funded plan. By the same token, over 50% of the retirees subscribe to the fully-funded plan. This selection has had an adverse impact on our experience. For instance, between April 1987 and April 1988, paid claims totalled \$409,476. Five persons, three of whom were retirees, had claims paid in excess of \$196,000.

This bad experience caused a rate increase of over 85% from \$196.40 per family per month, to \$364.58 per family per month. We asked Pacific Mutual to review this increase, but received a negative response. We attempted to market our insurance plan with other insurers and again, received less than favorable responses. At the same time, we received notification from Foundation Health Plan that premiums increased from \$205.05 per month per family to \$234.55, an increase of just over 14%.

After discussion with our broker and the General Manager of the Foundation for Medical Care, it was determined that it was feasible and practical to self-insure our medical plan.

Self insurance is not new to the City of Lodi. We have been self-insured for a number of years for Workers' Compensation, for employee dental benefits, and for public liability.

Where available, we have purchased excess insurance to provide protection against the catastrophic incident. In the medical insurance field, there are two types of excess coverage: an individual stop loss, and an aggregate stop loss. The individual stop loss provides protection when an individual's claims reach a particular point. Aggregate stop loss provides protection for the entire group against a large number of small losses. We propose to purchase individual stop loss at \$25,000 and an aggregate stop loss at \$500,000.

Costs will be controlled in two ways. The first and most important way is through the use of preferred provider organizations (PPO). If these facilities or doctors are used, a lesser rate is charged. In the case of hospitalization, this can amount to significant savings. Secondly, for doctor care, we are doing away with 100% coverage and requiring a 20% co-payment up to \$5,000 of covered expenses. By the same token, we are eliminating the present \$100 deductible. We are also adding coverages which should make the plan more appealing to younger families in order to increase the size of the group.

We feel confident that financially, this plan is feasible. Using the premiums schedule submitted by the Foundation Health Plan and the number of enrollees, the plan will generate over \$400,000 in premiums.

Stop loss insurance will cost approximately \$88,000 and administrative fees will cost approximately \$10,000, leaving just over \$300,000 for claims. Last year, the City had paid claims of \$409,476, however, five individuals accounted for over \$196,000 of these expenses. If these five cases are eliminated from our experience, the paid claims for the remainder of the group was approximately \$213,000. Stop loss insurance, lower costs due to using preferred providers, additional co-payments and good luck should allow this project to be successful.

in order to have funds available to pay claims, a reserve fund should be established. In order to be on the safe side, a fund of \$100,000 seems prudent. Therefore, Council is requested to transfer the following funds to the Medical Insurance Reserve from:

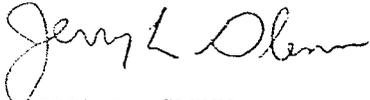
General Fund Operating Reserve	\$ 78,000
Sewer Operating Reserve	4,000
Water Operating Reserve	2,000
Electric Operating Reserve	13,000
Library Operating Reserve	<u>3,000</u>
TOTAL	\$100,000

These allocations are based on proportion of payroll.

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The changes in plans have been presented to employee groups with an explanation of benefits for both the HMO and the Lodi Health Plan.

Respectfully submitted,



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JLG:vc

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