Transportation Authority of Marin

DATE: December 11, 2017

TO: Transportation Authority of Marin Board of Commissioners

FROM: Dianne Steinhauser, Executive Director
Li Zhang, Chief Financial Officer

SUBJECT: Acceptance of the Recommended Medical Benefit Option Selection (Action), Agenda Item No.7

RECOMMENDATION:

The TAM Board reviews and accepts the selection of the CalPERS Healthcare Program (PEMHCA) as the medical benefit program offered to all TAM employees, and authorizes staff to finalize the selection of all ancillary benefits under the guidance of the Ad Hoc Committee by the end of December 2017.

BACKGROUND:

With the anticipated separation from LGS, TAM has to design and set up its own benefit package, of which medical coverage is the most critical component. While comparing various benefit options for TAM under the guidance of the Human Resources (HR) Ad Hoc Committee, the principle that staff has been operating under is to ensure that the new benefit package offered maintains similar benefit levels to the employees and minimizes the financial impacts on the Agency.

In July 2017, staff reached out to Howell Southmayd, Vice President of Keenan Associates, who specializes in municipalities' service needs in northern California. Keenan Associates is a company that provides innovative insurance and financial solutions for schools, public agencies and health care organizations. Local Government Services (LGS) and Regional Government Services (RGS) have been utilizing Keenan's services to provide benefit packages to all employees hired for TAM over the past four years. Using Mr. Southmayd's expertise to explore various medical benefit options has proven to be most beneficial for TAM, since he is part of the team that has developed the current medical benefit program and has extensive knowledge about the needs of a public agency.

Over the past 5 months, with assistance from Mr. Southmayd and the broker service team he brought in from Warner Pacific Insurance Services, staff conducted extensive research on potential options. However, being a small agency with fewer than 20 employees, only two viable options are available by the end: the Age-Rated ACA (Affordable Care Act) Option and the Public Employees' Medical and Hospital Care Act (PEMHCA) Option, also known as CalPERS Health Plans

The HR Ad Hoc Committee, whose membership consists of Chairperson Stephanie Moulton-Peters, Commissioners Alice Fredericks, Beach Kuhl, Tom McInerney, and Dennis Rodoni, has been guiding staff in this research, review and selection process over the last six months. The HR Ad Hoc Committee started the initial review of the information collected on August 21, received updates on October 19, reviewed the draft report along with supporting documents on November 7, and confirmed its recommendation to select the PEMHCA option on December 5, with further review of all information presented by staff.

DISCUSSION/ANALYSIS:

Detail Comparison of the Two Options

Staff has compared the two medical benefit options that are available to TAM at this time based on the following criteria: Premium Rates, Benefit Designs, Plan Availability, and Optional plans.

Premium Rates:

The ACA option offers a total of 4 plans, including two Kaiser and two PPO plans. When Keenan presented plan options, it became clear that the highest benefit level of plan available on the market still would not replicate the current benefit level offered to employees through LGS/RGS. Also, the total premium cost will be at least 30% higher than the current cost under the highest level plan.

The PEMHCA option offers a total of 11 plans, with 7 HMO and 4 PPO plans. With the exception of one plan, which is only available to certain policy and firefighter groups, employees have access to all other 10 plans. With the 1.4 million member PEMHCA has, it can offer all those plans with matching benefit levels of what currently are being offered to employees by LGS/RGS at more affordable rates in most cases. The premium rates for 3 of the 4 PPO plans are lower than the current plan offered because PEMHCA is able to self-fund those plans due to its significant buying power. Since half of the employees utilize PPO plans, the estimated total premium cost for the agency will be slightly lower than the current cost.

Benefit Design

No two medical plans are the same and the comparison can be very complicated. The comparisons are based on the following benefit design elements:

- Annual Deductible - individual and family
- Annual Out-of-Pocket Maximum - individual and family
- Physician Services – including office visits, preventive care, diagnostic lab/X-Ray, Imaging (CT/PET scans, MRIs)
- Prescription Drugs – including total deductible and deducible for various tier drugs
- Hospital Facility Services – including inpatient hospital services and outpatient surgery in a hospital
- Emergency Services – including emergency room, ambulance and urgent care

As stated under the Premium Rates comparison section, the benefit level under the ACA option is much reduced compared to current medical plan options and the PEMHCA option.

Health Plan Availability

One important difference between the ACA and PEMHCA options is the availability of health plan selection. Under the ACA option, brokers usually limit the plans that employers, especially small employers, can offer to their employees. They can also sometimes provide rates based on the number of enrollments in a specific plan.

Under PEMHCA, employers cannot exclude any plan that is available in the employer's ZIP code or the employee's residential ZIP code. This is called the "Live/Work" rule. PEMHCA premium rates are also set based on regions, not number of enrollments.

Though the Agency can't exclude a plan, TAM has the option to put a "cap" on the amount of the employer share, as we are doing under the TAM/LGS arrangement.

Availability of Ancillary Benefits

Another difference between the ACA and PEMHCA option is that PEMHCA does not offer dental or vision plans to contracting agency employees while the broker has been helping staff find suitable ancillary benefits, including dental, vision, short-term and long-term disability, employee assistance program (EPA), etc.

The broker has already provided staff with a number of options for those ancillary plans. After the medical option has been selected, staff can then review the ancillary plans under the direction of the Ad Hoc Committee and finalize the selection by the end of December.

Major Factors to Consider:

Major Factors to Consider under ACA Option

1. Reduced benefit level for some of the benefit categories listed under Benefit Design. One example that employees are most concerned with is the increase of "Out-of-pocket" maximum.

2. Potential rate volatility: Rates are quoted based on the age and gender of each employee. The average age of the current employee group is 48.7 as shown in Attachment 1. Rates will increase more significantly as employees age, usually much more than the typical increase associated with a pooled plan like PEMHCA.

Major Factors to Consider under PEMHCA Option

Potential liability from Other Post-Employment Benefits (OPEB):

OPEB liability is a major factor that needs to be considered during the review of the PEMHCA option. Since all of the cities/towns in the County, with the exception of Mill Valley, are in PEMHCA, most of the Board members are aware of the minimum employer contribution (MEC) required for participation in PEMHCA, for both eligible employees and retirees. To make sure the Board has accurate and complete information for its decision making process, staff engaged Bickmore Risk Management Consulting in October and conducted a projection of potential OPEB liabilities for the agency.

The projection provided TAM with ten potential liability scenarios depending on the different retiree medical benefit levels offered, with the $43,022 annual normal cost under the worst case scenario and $9,743 under the best case scenario. If the Board decides to go with the PEMHCA option, staff will propose that the agency joins the program under the "unequal MEC", which is the least expensive option that phases in the PEMHCA MEC benefit over a 20 year period for retirees. The Board does have the option to increase contributions if so desired. Nevertheless, the requirement to participate in PEMHCA would necessitate that TAM:

1. Provides a minimum monthly lifetime payment for all employees who qualify for PERS retirement from TAM and elect to continue PERS medical coverage, and

2. Establishes a pre-tax flexible benefit (i.e., Section 125) plan to provide its current medical plan contributions for active employees in excess of the minimum employer contribution (MEC) required for participation in PEMHCA.

Benefit Concessions Employees Offered under the PEMHCA Option:

LGS/RGS was in PEMHCA prior to 2014, which meant retirees have access to CalPERS medical plans and are eligible to receive the MEC towards premium cost. When LGS/RGS left PEMHCA and joined the PACE (Public Agency Coalition Enterprise) medical benefit pool in 2014, LGS/RGS offered $2,500 annual Heath Reimbursement Account (HRA) benefit because PACE doesn't offer retirees access to the pool nor provides the minimum premium coverage required by PEMHCA.

Employees are willing to give up the $2,500 annual HRA benefit in the future if the Board approves the PEMHCA option to share the cost of the potential OPEB liability.

Employees will also not request the annual TAM employer contribution increase or cost sharing arrangement in 2018 if the Board approves the PEMHCA option, since it offers a variety of quality benefit plans with the lower cost plans fully covered by the employer contribution.

Timing and Temporary Option

If the Board determines that PEMHCA is the better option for the Agency, TAM will need 3-6 months after the effective date of TAM's CalPERS Retirement Plan Contract to implement the plan. In this case, COBRA under the current LGS/RGS plan can be utilized as the temporary option until PEMHCA is in place. The COBRA option is available for up to 18 months. The premium will be the same but a 2% administration fee will be charged by LGS/RGS.

HR Ad Hoc Committee Discussion and Recommendation:

The HR Ad Hoc Committee reviewed the full package and staff's recommendation at its November 7 and December 5 meetings. The Committee fully understands that the potential cost increases, due to benefit reduction that each employee will experience, could vary dramatically under the ACA option, and the cost-sharing proposals the Agency would have to develop to mitigate those negative impacts. The Committee also discussed the concerns and potential OPEB liabilities that it would be exposed to with the PEMHCA option as well as ways to fund the liabilities. Staff also shared with the Ad Hoc Committee the two benefit concessions that employees are willing to make if the Board approves the PEMHCA option.

With all information provided, the HR Ad Hoc Committee agreed to recommend the PEMHCA option for the TAM Board's approval at its November 7 meeting, and confirm that recommendation again at its December 5 meeting.

FISCAL CONSIDERATION:

There may be some short-term, up-front costs associated with the funding of an OPEB trust, but based on the study results and benefit concessions employees agreed to, staff believes the PEMHCA option will have positive long-term financial impacts and definitely help the Agency retain and attract a quality workforce.

NEXT STEPS:

With the approval of the Board, after the CalPERS Retirement Benefit Contract takes effect, staff will start the contract process with CalPERS Healthcare Program. The process is expected to take three to five months. Employees will receive medical benefits under COBRA during that gap period. Staff will also finalize the selection of all ancillary benefits under the direction of the Ad Hoc Committee by the end of December 2017.

Under the guidance of the HR Ad Hoc Committee, staff will also set up trust funds to address both the CalPERS retirement and OPEB liabilities. Various funding options will be presented to the Board for consideration in the near future.

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