Recommendation of Medical Benefit Option Selection

TAM Board Meeting
December 11, 2017

Board Actions Needed

As recommended by the TAM Human Resources Ad Hoc Committee (Chair Moulton-Peters, Commissioners Fredericks, Kuhl, McInerney, Rodoni) and staff, approve the selection of the CalPERS Health Benefit Program (PEMHCA) as TAM's medical benefit program and direct staff to move forward with the contracting process.

Authorize staff to finalize the selection of all ancillary benefits under the direction of the Ad Hoc Committee by the end of December 2017 and implement them by January 1, 2018.

Background

- TAM/CalPERS retirement contract is expected to be effective as of January 1, 2018. TAM needs to be its own employer of record when the contract becomes effective.
- A suite of benefits needs to be designed and offered to all TAM direct hires, as early as January 1, 2018.
- Selection of the medical benefit program is the most critical decision in the benefit design process.
- Keenan Associates, a company that provides innovative insurance and financial solutions for schools, public agencies and health care organizations, was engaged in July 2017 as the broker to help staff navigate through this process.

Process Taken – Study of Options

- ❑ LGS/RGS Medical Plan with an administration fee
  - ✓ Suggested by the Broker and explored the option of staying under the current PACE (Public Agency Coalition Enterprise), a medical purchasing JPA, through LGS/RGS, with 3% administration cost
  - ✓ Deemed not feasible by staff and Ad Hoc Committee after legal determination that formation of a JPA is needed by LGS and broker
- ❑ Affordable Care Act (ACA) Age-Rated Medical Plan Option
  - ✓ Initial process started in July 2017
  - ✓ Four proposals with various versions for each were reviewed
- ❑ Public Employees' Medical and Hospital Care Act (PEMHCA) Option, also known as CalPERS Health Plans
  - ✓ Extensive discussion with CalPERS Health Benefit Program started in October 2017
  - ✓ Reviewed 2018 monthly premium and plan information for contracting information
  - ✓ Conducted study to understand the impact of potential Other Post-Employment Benefits (OPEB) liability

Process Taken – HR Ad Hoc Committee Review

- The HR Ad Hoc Committee started the initial review of the information collected on August 21, 2017.
- Received updates on October 19, 2017.
- Reviewed the draft report along with supporting documents on November 7 and November 27, agreed with staff's recommendation of selecting the PEMHCA Option.
- Confirmed its recommendation to the Board to select the PEMHCA option, after further review of all information presented by staff on December 5, 2017.

Comparison of the ACA and PEMHCA Option

The two options are compared based on the following criteria:

- ❑ Premium Rates
- ❑ Benefit Designs
- ❑ Health Plan Availability
- ❑ Availability of Ancillary Benefits
- ❑ Other Major Factors to Consider

Premium Rates Comparison

- Under the current LGS/RGS plan, monthly premium cost for 2018 (including both employee and employer contributions) is about $14,000.
- Under the ACA option, the plans that cost the same have a much reduced medical benefit level, which could cause significant financial burden to the employees, and potentially, the agency as well. Available plans that are closest to the current benefit levels offered would cost 30% more.
- With the 1.4 million member participating in PEMHCA, it can offer plans with matching benefit levels but more affordable rates in most cases. Assuming employees will select plans most similar to what they have now, the premium cost is slightly lower at about $13,800 for 2018.

Benefit Design Comparison

- Benefit designs of the two options were compared according to the following list:
  - ✓ 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 deductible 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
- Benefit levels under the ACA option are much reduced for most of the items. For some plans, under the same premium cost, Out-of-Pocket Maximum more than doubled.
- Benefit levels under the PEMHCA option are very similar to the current medical option.

Health Plan Availability – ACA Option

Limitation of Health Plan Availability under ACA:

- Brokers usually limit the plans that employers, especially small employers, can offer to their employees.
- Premium rates are often based on number of enrollments, especially for non-Kaiser Plans.
- Only two Kaiser plan options and two PPO options are offered in all ACA proposals.

Health Plan Availability – PEMHCA Option

Variety of Health Plan Availability under PEMHCA:

- Employees can select any plan that is available in their home and/or work ZIP code.
- In 2018, up to 10 plans are available to TAM employees, with 7 HMO plans and 3 PPO plans.
- Premium rates are based on regions, not number of enrollments.
- With the 1.4 million members in PEMHCA, it offers much more affordable PPO plans compares to other providers.

Availability of Ancillary Benefits

Ancillary benefits refer to other benefit such as dental, vision, short-term and long-term disability, Employee Assistance Program (EAP), etc.

- ❑ PEMHCA doesn’t offer ancillary benefits.
- ❑ Broker can provide ancillary benefits proposal with or without the purchase of medical benefit under ACA.
  - ✓ As of November, staff has worked with the broker and reviewed various proposals of all ancillary benefits.
  - ✓ Staff would continue to work with the Ad Hoc Committee and make final selection of ancillary benefits by the end of December so they can be implemented as January 1, 2018 once the separation takes place.

Other Major Factors Considered – ACA Option

- Significantly reduced benefit level for some of the benefit categories listed under Benefit Design, which potentially could have major negative financial on both the employees and the agency.
- 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. Rates will increase more significantly as employees age, usually much more than the typical increase associated with a pooled plan like PEMHCA.

Other Major Factors Considered – PEMHCA Option

- Potential liability from OPEB is the major factor that needs to be considered during the review of the PEMHCA option. Participation in PEMHCA requires the Minimum Employer Contribution (MEC) for both eligible active employees and retirees.
- To provide the Board with accurate and complete information for the decision process; staff engaged Bickmore Risk Management Consulting in October and conducted a projection of potential OPEB liabilities for the agency.

Bickmore Report – Potential OPEB Liability

- Based on TAM's employee census and the assumptions used for the actuarial model, 10 various liability scenarios are provided for review.
- The worst and best scenarios are presented to help better understand the different assumptions and liability numbers.
  1. Worst Case Scenario: equal MEC for active and retiree, no prefunded trust fund, 3.1% discount rate, 100% retiree Participation
  2. Best Case Scenario: unequal MEC for active and retiree, prefunded trust, 6% discount rate, 60% retiree participation by the end of in 20-year phase in period

Bickmore Report – Worst Case Scenario

Equal MEC for active and retiree, no prefunded trust account, 3.1% discount rate, 100% future retiree Participation

	MEC Liability Equal Basis A	Excise Tax Liability B	Implicit Subsidy C	Total
Present Value of Future Benefits	587,964	63,424	453,926	1,105,314
1. Actuarial Accrued Liability	242,759	20,903	173,342	437,004
2. Normal Cost	39,225	3,797	30,633	73,655
3. Present Value of Future Normal Costs	305,980	38,724	249,951	594,655

- ✓ Present Value of Future Benefits is the discounted projected benefit of cost of all future MEC contribution for retirees, which is the sum of Line 1, 2 and 3: $1,105,314
- ✓ Reporting $ required under GASB (Governmental Accounting Standards Board) is essentially the sum of Line 1 and 2: $510,659
- ✓ Actual $ liability that needs to be funded: sum of Column A & B under Line 1 & 2: $306,684
- ✓ Normal cost is the annualized liability amount for the agency: $43,022

Bickmore Report – Best Case Scenario

Unequal MEC for active and retiree, prefunded trust account, 6% discount rate, 60% retiree participation by the end of a 20 year phase in period

	MEC Liability Equal Basis A	Excise Tax Liability B	Implicit Subsidy C	Total
Present Value of Future Benefits	133,749	15,147	146,649	295,545
1. Actuarial Accrued Liability	65,892	6,165	66,871	138,928
2. Normal Cost	8,753	990	9,940	19,683
3. Present Value of Future Normal Costs	59,104	7,992	69,838	136,934

- ✓ Present Value of Future Benefits is the discounted projected benefit of cost of all future MEC contribution for retirees, which is the sum of Line 1, 2 and 3: $295,545
- ✓ Reporting $ required under GASB (Governmental Accounting Standards Board) is the sum of Line 1 and 2: $158,611
- ✓ Actual $ liability that needs to be funded: sum of Column A & B under Line 1 & 2: $81,800
- ✓ Normal cost is the annualized liability amount for the agency: $9,743

Benefit Concessions Employees Offered

- LGS/RGS elected PEMHCA prior to 2014, which meant retirees have access to CalPERS Health Benefit Program and also received the MEC towards premium cost.
- A $2,500 annual contribution into a Health Reimbursement Account (HRA) for employees, which can be used upon termination or retirement from LGS/RGS were offered to compensate for the benefit reduction when LGS/RGS joined PACE.
- Employees are willing to give up the $2,500 annual HRA benefit if the Board approves the PEMHCA option to share the cost of the potential OPEB liability.
- Employees will also not request annual TAM employer contribution increase or cost sharing arrangement in 2018 if PEMHCA will be the approved option since it offers a variety of quality benefit plans with the lower cost plans fully covered by the employer contribution.