To: City Council Members

From: Nick Stroot – Healthcare Committee Chairperson

Date: October 21, 2020

RE: City Healthcare rates and plans for 2021

As you might know, the City of Rapid City has a self-insured healthcare plan. That means that we collect the funds necessary (through the premiums paid by employees and the City) to pay all of the claims that are filed to our insurance. We partner with Wellmark Blue Cross Blue Shield to manage the plan so we can take advantage of their network savings, negotiated discounts, and having the most options for in-network providers, clinics, and pharmacies.

Our fund balance has been going down since the high point of March of 2018 when we reached a high point of $9.2 million in the account and as of August (last full month available at this time) we have $4.9 million. That means we have lost $4,260,708 in the last 2.5 years. That is around 46% of the total fund balance. The Healthcare committee also has determined what our ideal fund balance should be, which is set at 6 months of expected claims. For 2020 our ideal fund balance is $5.79 million. We are currently $848,851 below our ideal fund balance.

The question then becomes how did we get here? There are many reasons to answer this:

- We have not been raising premiums at a rate that has kept up with our claims. By keeping our premiums low, we are not generating enough revenue to keep up with our rising healthcare costs.
- The generous benefits offered by our plan put a great strain on the amount the City pays for each claim made. With our low deductible, low co-pay and low out of pocket maximum it does not take a lot of usage to put the majority of claims solely on the City’s fund balance to cover.
- General usage of the plan has been a factor lately. During our 2020 renewal our costs had gone up 15.8% over the previous year. We are currently on track to have another double digit increase in usage this year as well
- We have had an unusual amount of high dollar claimants in the past few years. Currently we have 16 claimants who have health and pharmacy claims over $100,000 (which is the definition of high dollar claimants). Claims paid for large claimants increased from $2.5M to $3.3M, or $791,000 over the last year comparison.

We can’t control when our members get sick or have a need for our health and pharmacy benefits, that is part of the risk in being self-insured. But all of these factors have gone into us needing to look at changes.

It is our intention to offer two different healthcare plans in 2021. The City has traditionally only offered one plan. The philosophy behind this is to continue to meet our union contractual obligation to offer our employees a no-cost plan, but balance that offering a more robust plan that our employees will have to pay more of a premium to enroll. We are also looking at the tiers that our employees pay in regards to their dependents. We have done a lot of research into the members of our plan that are higher user groups and build our premium structures around having high dollar users pay more in premiums. The result of this was that we raised the premiums of our employee spouses and lowered some premium increases for our children.
dependents on our plan. We found that children are not cost drivers to our plan. By us focusing our premium increases on the user groups that drive the cost we have the ability to ensure the rates for our employees with families to not bear the large brunt of the premium increases.

If we do not start to act now, this trend is likely to continue based on the continually rising health care cost. We have been working with the Mayor on developing a four-year plan that will slow the draining of the fund and ultimately turn this around and start growing our fund balance in the future. What is before you right now is just the first step in our plan. The Human Resources team and the Healthcare Committee will work starting in early in 2021 researching different options we have to continue to make changes to help our fund balance. Some of the early research we are doing now is looking at other publicly available plans and see where we could find different options for our health insurance offerings, looking at the contractual obligations we have with our employees and see if we can negotiate modifications that help the fund balance and looking at incentives to have spouses enroll in healthcare offering at their place of employment if applicable. All of these things are being looked at to keep the necessary funds available to meet our healthcare financial obligations. It is important that we continue to offer a competitive benefit package which will help us attract and retain top level talent, but we also must be good stewards of the healthcare fund balance.

I would ask that you approve the two plan designs with the applicable tiers and rates for our employee healthcare offering in 2021. Please let me know if you have any questions.

Nick Stroot
HR Director/Healthcare Committee Chair
City of Rapid City