City of Carroll

627 N. Adams Street Carroll, Iowa 51401 (712) 792-1000 FAX: (712) 792-0139

MEMO TO: Honorable Mayor and City Council Members

FROM: Mike Pogge-Weaver, City Manager MSPW

DATE: May 5, 2021

SUBJECT: Policy 0317 - Health Insurance Reserves and Medical Insurance Premiums Rates

The City has operated a partially self funded health plan for a number of year and since 2013 has held the health insurance funds in a separate "Medical Insurance Fund". Overall this arrangement has worked very well for the City and has helped to keep our insurance rates stable.

At the end of March of 2021, the City has a balance of $1,002,314.75 in the Medical Insurance Fund. At this point it is prudent to understand what level of reserves the City should hold and to limit growth of the Medical Insurance Fund to that level.

A new policy (Policy 0317) has been developed specific for the City based on models used in other jurisdictions. This policy set three reserves that should be held in the in the Medical Insurance Fund, including:

1) Runout liability reserve
    a. Used to pay claim if the City would choose to transition to another type of plan in the future. This is needed since there is delay between when a medical services are received and when the City would reimbursement an employee for that service.
2) Maximum liability reserve
    a. Used to pay the maximum liability the City would incur in the partially self funded portion of the health plan in a worse case scenario.
3) Rate stabilization reserve
    a. The goal of moving to a partially self-insured model is to ultimately maintain stable health insurance costs from year to year. To that end, it is important to fund the rate stabilization reserve in good years and to spend down the rate stabilization reserve in bad years. This reserve allows rates to fluctuate in a more predictable manner from year to year.

Based on this policy, the City would fully fund the reserve in the Medical Insurance Fund at $910,071.46, which the City has achieved.

This policy also sets out how rates will be set from year to year. The policy also sets out how excess balances in the Medical Insurance Fund will be spent down, specifically via premium holiday. The idea behind the premium holiday is to keep rates at a level recommended by our

insurance brooker yet when reserves are sufficiently funded, a premium holiday is used to spend down excess reserve and then return the rates back to the recommended levels. This keeps rates predictable and stable over the long term for our employees who pay premium and for the City. Additionally, while the City could lower rates as oppose to implementing a premium holiday, if rates would be lowered in one year and then we would face a substantial increase the next this increase would only be compounded by the previous year's decrease.

If the Council would choose to implement this proposed policy, staff would recommend implementing a premium holiday in June of 2021 to be part of the current fiscal year.

RECOMMENDATION: Staff recommends approval of 1) a resolution approving Policy 0317 - Health Insurance Reserves and Medical Insurance Premiums Rates and 2) a resolution setting a premium holiday of June of 2021.

RESOLUTION NO. _____

A RESOLUTION APPROVING POLICY NO. 0317 – HEALTH INSURANCE RESERVES AND MEDICAL INSURANCE PREMIUM RATES

WHEREAS, City Staff has prepared the attached new policy for health insurance reserves and medical insurance premium rates as they recognize the need to provide health insurance benefits to its employees in order to retain and attract a high-quality workforce; and

WHEREAS, it is determined that the approval of the attached Policy No. 0317 – Health Insurance Reserves and Medical Insurance Premium Rates is in the best interest of the City of Carroll, Iowa;

NOW, THEREFORE, BE IT RESOLVED that new Policy No. 0317 – Health Insurance Reserves and Medical Insurance Premium Rates be authorized and approved.

PASSED AND APPROVED this 10th day of May, 2021.

CITY COUNCIL OF THE
CITY OF CARROLL, IOWA

_____
Eric P. Jensen, Mayor

Attest:

_____
Laura A. Schaefer, City Clerk

CITY OF CARROLL

POLICIES AND PROCEDURES MANUAL

Subject	Policy No.
Health Insurance Reserves and Medical Insurance Premiums Rates	0317
Responsible Division(s), Office(s)	**Related Policies & Procedures**
All	
Effective/Revision Date	**Approval(s)**
05/10/2021	Mike Pogge-Weaver

Purpose: The City of Carroll recognizes the need to provide health insurance benefits to its employees in order to retain and attract a high quality workforce. In order to maintain a health insurance benefit that is affordable and sustainable over the long term, the City of Carroll has moved to a partially self-insured model for its health insurance benefits.

In our partially self-insured model, the City purchases a high deductible fully funded health insurance plan from Wellmark Blue Cross and Blue Shield. The City then self-funds a Health Reimbursement Arrangement that "buys down" the health insurance plan to a $500 ($1,000 family) annual deductible with $1,000 ($2,000 family) maximum out of pocket expense. It is important to provide adequate reserves in order to minimize risk to the City and our employees. To minimize risk, the City Council finds it necessary to have the following reserves: 1) run out liability reserves; 2) maximum liability reserves; and 3) a rate stabilization reserves. The conservative nature of this policy will work to meet the City's goal of limiting overall risk and for stable rates over the long term.

Policy: **Run out liability reserve**

Purpose: As a partially self-funded plan, the City pays the actual claims as they are processed up to the limits of the fully insured high deductible health insurance plan that the City purchases. There is delay between when a service is received and an employee submits a claim for reimbursement. A run out liability reserve is used to pay claims if the City would change to another type of plan in the future.

Funding Requirement: On March 31st of each year, the plan shall hold 25% of the expected annual claims for the upcoming plan year in reserves. If the plan fails to hold the required reserves, the plan rates for the following year shall increase to a level sufficient to fund the run out liability.

Maximum liability reserve

Purpose: As a partially self-funded plan, the City purchases a fully insured high deductible health insurance plan in order to limit the City's liability. In order to plan for catastrophic losses, the plan needs to charge a premium or carry sufficient reserves to cover the maximum liability should that occur.

Funding Requirement: Based on reserve balances as of March 31st of each year, the plan shall hold 100% of the maximum liability for the upcoming plan year in reserves. If the plan fails to hold the required reserves, the plan rates for the following year shall increase to a level sufficient to fund 100% of the maximum liability for the upcoming year.

Rate stabilization reserve

Purpose: The goal of moving to a partially self-insured model is to ultimately maintain stable health insurance costs from year to year. To that end, it is important to fund the rate stabilization reserve in good years and to spend down the rate stabilization reserve in bad years. This will allow rates to fluctuate in a predictable manor from year to year. When funding allows it, it is the goal of the City is to carry a rate stabilization reserve equal to 50% of the expected annual claims and 50% of the annual Wellmark premiums.

Developing and using the rate stabilization reserve: Once the run out liability reserve and the maximum liability reserve have both been full funded, any excess funds shall be placed in the rate stabilization reserve.

Setting Premium Rates

Annually, the City will receive the annual expected claims for the upcoming year from our benefit consultant. The annual expected claims data from our benefit consultant will also include rate information for the various plans provided by the City. The City will base the upcoming year's rates using the following steps:

1. Rates shall be increased to fund any deficiency created in the run out liability and maximum liability reserves.

2. After any rate increases are applied based on Step 1, then the tables in Appendix A shall be used as a guide in developing the upcoming year's rates. In all cases, the City Council may deviate from these guidelines, if justifiable.

Excess Reserve Balances – Premium Holidays

When the run out liability reserve, maximum liability reserve, and rate stabilization reserve are fully funded, the City Council may authorize a health insurance premium holiday to reduce the balance of the Medical Insurance Fund. During a premium holiday the City will pay premiums and other costs out of the Medical Insurance Fund and not charge employees or departments the normal premiums. A premium holiday could be as little as a half-month. When a premium holiday is authorized, it should not cause the overall balance of the Medical Insurance Fund to drop below fully funding the various reserves.

During a premium holiday, the City will continue to pay 30% of the lowest cost monthly single health insurance premium to employees that waive medical insurance coverage through the City as if the premium holiday is not occurring.

During a premium holiday, the City will continue to contribute 80% of the cost of the lowest cost health insurance plan the City has available toward the Alliance Select Alternate Plan as if the premium holiday is not occurring.

Appendix A

The following tables are to be used as guides in developing health insurance rates for future years. In all cases, the City Council could deviate from these guidelines when it is found justifiable.

Expected annual claims and premium costs increase less than 5%:

Rate stabilization reserve funded at:	Rates:
Less than 25%	shall increase to fully fund the rate stabilization reserve but not exceeding 10% previous year's rates.
25.1 to 50%	shall increase to fully fund the rate stabilization reserve but not exceeding 5% previous year's rates.
50.1% or more	shall be set at expected annual claims and premium costs.

Expected annual claims and premium costs increase by 5.1% to 10%:

Rate stabilization reserve funded at:	Rates:
0 to 25%	shall increase to fully fund the rate stabilization reserve but not exceeding 12.5% over previous last year's rates.
25.1 to 35%	shall increase to fully fund the rate stabilization reserve but not exceeding 10% over previous last year's rate.
35.1% to 50%	shall increase to fully fund the rate stabilization reserve but not exceeding 5% over previous year's rates.
50.1% or more	shall be set at expected annual claims and premium costs.

Expected annual claims and premium costs increase by 10.1% to 15%:

Rate stabilization reserve funded at:	Rates:
0 to 10%	shall increase the expected annual claims and premium costs plus 1% but not exceeding 10% over previous last year's rates
10.1% to 25%	shall be set at expected annual claims and premium costs.
25.1% to 50%	shall increase 10% over last year's rate.
50.1% or more	shall be set at expected annual claims and premium costs.

Expected annual claims and premium costs increase by 15.1% to 25%:

Rate stabilization reserve funded at:	Rates:
0 to 10%	shall be set at expected annual claims and premium costs level.
10.1% to 15%	shall be set at 5% less than the expected annual claims and premium costs increase.
15.1 to 20%	shall be set at 7.5% less than the expected annual claims and premium costs increase but not less than a 10% increase.
20.1 to 25%	shall be set at 10% less than the expected annual claims and premium costs increase but not less than a 10% increase.
25.1 to 30%	shall be set at 12.5% less than the expected annual claims and premium costs increase but not less than a 10% increase.
30.1% or more	shall be set at 15% less than the expected annual claims and premium costs increase but not less than a 10% increase.

Expected annual claims and premium costs increase by more than 25.1%:

Rate stabilization reserve funded at:	Rates:
0 to 10%	shall be set at expected annual claims and premium costs.
10.1% to 15%	shall be set at 5% less than the expected annual claims and premium costs.
15.1 to 25%	shall be set at 10% less than the expected annual claims and premium costs but not less than a 10% increase.
25.1 to 30%	shall be set at 17.5% less than the expected annual claims and premium costs but not less than a 10% increase.
30.1% or more	shall be set at 20% less than the expected annual claims and premium costs but not less than a 10% increase.

RESOLUTION NO._____

A RESOLUTION SETTING A HEALTH INSURANCE PREMIUM HOLIDAY

BE IT RESOLVED BY THE CITY OF CARROLL:

WHEREAS, the City Council for the City of Carroll has adopted Policy 0317 - Health Insurance Reserves and Medical Insurance Premiums Rates; and,

WHEREAS, said policy sets out targets reserve levels for the City's Medical Insurance Fund, and,

WHEREAS, the targeted reserve levels have been exceeded and following Policy 0317 a premium holiday should be triggered following said policy.

NOW, THEREFORE, BE IT RESOLVED a premium holiday following Policy 0317 is set for the entire month of June of 2021 and the City will pay premiums and other costs out of the Medical Insurance Fund and not charge employees or departments the normal medical insurance premiums in the month of June of 2021.

PASSED AND APPROVED by the City Council of the City of Carroll, Iowa, this 10th day of May, 2021.

CITY COUNCIL OF THE
CITY OF CARROLL, IOWA

BY:_____
Eric P. Jensen, Mayor

ATTEST:

By:_____
Laura A. Schaefer, City Clerk