

## COUNCIL WORKSHOP ITEM

**ITEM:** Recommendation for Renewal of Benefit Programs  
**DATE:** April 2, 2002  
**PREPARED BY:** Mary LaLonde  
**PURPOSE:** To recommend contracts for the administration of the Village's benefit programs.

### DISCUSSION:

#### Administration of Medical, Traditional Dental, Vision Programs (Humana, Inc.)

The Village of Downers Grove utilizes the services of a third party claims administrator (TPA) to administer the Village's self-funded medical, traditional dental and vision programs. It is our practice to obtain alternative quotes for this type of service every three to five years to make certain that fees and services are competitive. This process was conducted this year with quotes being obtained from the following companies:

- Humana, Inc.
- Allied Benefit Administrators of Chicago Illinois
- Professional Benefit Administrators of Hinsdale Illinois
- Wausau
- CIGNA
- United Health Care

Each quote was reviewed for competitiveness in the areas of customer service, cost for claim administration and the level of discounts provided through each company's association with a preferred provider (PPO) network. For the reasons set forth below, it is recommended that Humana, Inc., the current TPA, continue to provide administrative services for these programs.

One of the primary reasons the Village of Downers Grove first contracted with Humana was due to the significant savings received from discounts obtained through ChoiceCare, the PPO network utilized by Humana. While both Allied Benefit Administrators and Professional Benefit Administrators were able to offer slightly more competitive administrative fees, discounts provided through their PPO network (PHCS) were \$176,000 lower than those obtained through ChoiceCare. The other vendors, Wausau, CIGNA, and United Health Care submitted quotes substantially higher than those of Humana.

Although, Humana Inc. has proposed an overall increase of 25% in their administrative fees for the year 2002/03, the Village will continue to experience substantial discounts received through the ChoiceCare PPO network. Additionally, staff is currently evaluating alternatives to entice employees to further expand the use of the PPO network, enabling the Village to realize additional savings. Based on Humana continuing to provide significant savings through provider discounts, staff recommends that the Village of Downers Grove contract with Humana, Inc. for

an additional one-year period effective May 1, 2002.

### **Specific Stop Loss Insurance (Humana, Inc.)**

Specific stop loss is the point at which the single year claims for an individual are reimbursed to the Village from an outside insurance company. Currently the specific stop loss point is at \$75,000. Should an individual's annual claims exceed this point, the Village of Downers Grove would be reimbursed for that amount over and above the \$75,000.

Due to the competitive nature of the stop loss industry, quotes for this coverage are obtained on an annual basis. This year quotes were sought from 12 companies with six responding to our request. The following are companies, which provided quotes on the Village's group:

- Humana, Inc. (current carrier) \$ 223,574/annually
- Cressend-Paradigm \$ 488,750/annually
- Cairnstone \$ 294,602/annually
- EBU \$ 395,574/annually
- RE Moulton \$ 341,192/annually
- Allied Benefit Systems-Reliastar \$ 269,140/annually

Humana, Inc., the Village's current stop loss carrier has provided the most competitive quote. This represents an approximate 30% increase over last year's cost. Although an increase, Humana continues to provide the lowest cost for this coverage. Therefore, it is recommended that the Village contract with Humana, Inc. for stop loss coverage for an additional one-year period beginning May 1, 2002.

### **Delta Dental Plan of Illinois (Preferred Provider Organization (PPO) Dental Program)**

The Village of Downers Grove utilizes the services of Delta Dental Plan of Illinois (DDPI) for the administration of the Village's self-funded PPO dental program. Under this program employees are able to obtain 100% coverage on the majority of dental services by utilizing a Delta Dental provider. Quotes for this service were obtained from several companies; however, none of these companies were able to provide the same level of benefit as those received through DDPI. It is recommended, therefore, that DDPI who has proposed a 6.8% increase in fees, continue to provide administrative services for this program for an additional one-year period beginning May 1, 2002.

### **Fortis Benefits Insurance Company (Long Term Disability)**

The Village implemented its first Long-Term Disability (LTD) program in September of 1995 contracting with Fortis Benefits Insurance Company to administer this program. Quotes were requested this year from eight companies, with only three companies responding. These companies were Fortis Benefits, Standard Life and Sun Life. A review of the proposals received from Sun Life and Standard Life indicated a reduced benefit level under the Sun Life contract, and a substantially higher premium under the Standard Life contract. The Village's current carrier, Fortis Benefits Insurance Company, is proposing a 15% increase in premium. This

increase is based on a loss ratio over the past four years of 407.6%, with an additional two claims still pending. Although this is a significant premium increase, Fortis continues to offer the most comprehensive long-term disability package, at the most competitive cost. Additionally, this program continues to be an extremely valued part of the overall employee benefit package. Based on these factors, it is recommended that the Village renew its contract with Fortis Benefits Insurance Company for one additional year to become effective May 1, 2002.

### **National Insurance Services (Life/Accidental Death & Dismemberment) Insurance**

The Village of Downers Grove provides term life and accidental death and dismemberment (AD&D) insurance to all personnel who are budgeted to work 1000 hours or more per year. Additionally, life insurance only is provided to Village retirees at a reduced level of benefit.

This year quotes were requested from nine companies for life/AD&D coverage, with only three companies responding. These were AIG Life Insurance Company (current carrier), National Insurance Services and Standard Life. Both AIG Life and National Insurance Services quoted a rate of \$.20 per thousand dollars of coverage for life insurance and \$.03 per thousand dollars of coverage for AD&D. Standard Life was slightly higher at \$.22 per thousand dollars of coverage for life insurance and \$.04 per thousand dollars of coverage for AD&D. The rates provided by both AIG and National Insurance Services represent an increase over last year's rates of approximately 35%. This increase is due to the fact that the Village experienced four death claims last year resulting in \$191,000 paid out in benefits. While both companies quote the same cost for benefits, National Insurance Services has offered to provide the Village with a two year rate guarantee, with no increase in year three, as long as experience does not exceed 80%. AIG Life would not offer such a guarantee. Based on this information, staff recommends that the Village of Downers Grove contract with National Insurance Services to provide life/AD&D coverage effective May 1, 2002.

### **Flexible Benefits Program – (Health Plan Management)**

The Village contracted with Health Plan Management (HPM) in February 1993 to administer the Village's Section 125 - flexible benefits program. Under this program employee's are able to take certain deductions from their paycheck on a before-tax basis. HPM provides the Village with expedient processing of claims, quick response to questions, timely processing of reports, and assistance in communicating the flexible benefits program to employees. HPM has proposed a one-year renewal contract with a 6% increase in their administrative fee. Based on satisfaction with the services provided by HPM, it is recommended that the Village of Downers Grove retain the services of this company for one additional year effective May 1, 2002.

### **Creative Care Management (Employee Assistance Program)**

The services of Creative Care Management were initially retained by the Village of Downers Grove in 1990 to provide an Employee Assistance Program (EAP) to Village employees. In addition to providing EAP services to employers, CCM also provides pre-certification and medical case management on mental/nervous cases. This has enabled CCM to immediately begin managing the case, which oftentimes can be treated on an outpatient basis versus the more

costly in-patient basis. Evidence that this program is successful can be seen in the level of program utilization which is currently at 7%. The national average used to determine a successful EAP is between 4 and 6%. CCM has proposed an additional one-year contract at no increase in administrative costs. It is recommended that based on the success of this program as evidenced by our group's level of utilization, along with no increase in administrative costs, that the Village of Downers Grove retain the services of CCM for EAP services for one additional year.

All of these recommendations are based on current benefit levels. While there will be no immediate change in benefits, other than premium increases, staff will continue to work with the Village's insurance consultant during the next several months to review these programs for potential plan modifications. Areas to be reviewed are fully insured options for the medical, dental and vision programs, reduced benefit levels, incentives to increase employee utilization of the PPO network, and significant increases in the cost share between the employee and the Village. Should plan modifications be made, these would be communicated to employees this fall for a January 1, 2003 effective date. While we are recommending one year contracts at this time, we have been advised by our insurance consultant that a 60 day notice would be sufficient should the Village decide to make significant changes mid-year in any of their contracts.

It is recommended that the contracts outlined in this correspondence be placed on a consent agenda for approval prior to the May 1, 2002 contract renewals.

**ATTACHMENT:**

None

**RECOMMENDATION:**

Staff is recommending a one-year contract with the following companies to become effective May 1, 2002:

- Humana, Inc. (Health Insurance Program Administration) for an estimated annual cost of \$172,796.
- Humana, Inc. (Specific Stop Loss Insurance) for an estimated annual cost of \$223,574.
- Delta Dental Plan of Illinois (PPO Dental Program) for an estimated annual cost of \$8,844.
- National Insurance Services (Life/Accidental Death & Dismemberment Insurance) for an estimated annual cost of \$61,461.
- Fortis, Inc. (Long Term Disability Insurance) for an estimated annual cost of \$47,340.
- Health Plan Management (Flexible Benefits Program) for an estimated annual cost of \$12,500.

- Creative Care Management (Employee Assistance Program) for an estimated annual cost of \$17,268.

Overall costs for the above contracts total \$543,783. This represents an overall increase of approximately 18.6% over last year's costs, which were at approximately \$458,594.

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