

**Metropolitan King County Council**

**Committee of the Whole**

## STAFF REPORT

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| **Agenda Item:** | 5 | **Name:** | Nick Wagner |
| **Proposed No**.: | 2015-0345 | **Date:** | September 2, 2015 |

SUBJECT

Approval of King County health benefits plan design changes for the 2016 benefit year.

SUMMARY

Proposed Ordinance 2015-0345 (Att. 1) would approve a July 16, 2015, memorandum of agreement (MOA) between King County and the Joint Labor Management Insurance Committee (JLMIC) that makes the following changes in the JLMIC Benefits Agreement:

1. Benefit Access Fee. The Benefit Access Fee (the fee charged to employees for KingCare coverage of their spouses who have other coverage available, but who choose to use KingCare coverage instead) would be raised from $75 per month to $100 per month.
2. Preventive Services. The JLMIC agrees to cover preventive services in accordance to the Affordable Care Act (ACA) for “non-grandfathered plans,”[[1]](#footnote-1) as amended, at no cost to employees, including but not limited to contraceptives.
3. New Services Offered by KingCare and/or SmartCare. When new services are offered by KingCare and/or SmartCare, the JLMIC agrees to consider, evaluate, and negotiate, and when agreed add new services to the insured plans, such as palliative care on KingCare.

BACKGROUND

The JLMIC consists of representatives of the county and all the labor unions that represent county employees except the Amalgamated Transit Union (ATU), the Technical Employees Association (TEA), and the King County Police Officers Guild (KCPOG). King County and the JLMIC are parties to an agreement ("the JLMIC Benefits Agreement") that provides medical, dental, vision, and life insurance benefits for the years 2014 through 2016 to:

1. All represented county employees, except those represented by ATU, TEA, or KCPOG; and
2. All non-represented county employees who are eligible for benefits.

**Protected Fund Reserve (PFR)**

For a number of years, the health benefit plan for the majority of county employees has been negotiated through the JLMIC. The current JLMIC Benefits Agreement, which expires at the end of 2016, established a Protected Fund Reserve [PFR] of almost $26 million "for the purpose of funding, providing and maintaining insured benefits, and providing a reserve fund to self-insure against unanticipated increases in the cost of those benefits, for JLMIC-Eligible Employees." (JLMIC Benefits Agreement § 2)

The agreement provides that the county's per-employee contribution toward benefit costs (also known as the "flex rate") will be increased by 4% each year and that if benefit costs increase at a rate greater than that, the difference will be made up by drawing down the PFR and/or negotiating changes in benefits to keep the cost increase from exceeding the flex rate increase.

The agreement further provides: "If at any time during the term of this Agreement, the PFR is projected to fall below ten million dollars ($10,000,000), the JLMIC must consider plan changes and may consider other funding options to be implemented by the following January 1." (JLMIC Benefits Agreement § 10 (Att. 1-B, p. 3) The agreement requires the JLMIC to convene an "annual reconciliation meeting" no later than April 15 of each calendar year for the purpose of projecting the future level of the PFR (among other purposes).

**Status of the PFR**

According to the August 14, 2015, forecast, the PFR will be at about $38.3 million by the end of 2015 and about $42.4 million by the end of 2016. These amounts are substantially higher than the County had projected two years ago. According to executive staff, the increase is due to the annual increase in the County’s actual health care costs being less than the four percent annual increase in the flex rate, which is attributable primarily to the following factors:

* Lower employee benefit claims than expected;
* A lower rate of increase in medical costs than expected;
* Improved financial terms in the County's contract with Express Scripts, the KingCare pharmacy benefit manager; and
* Agreed changes to the benefit plan.

ANALYSIS

The proposed MOA includes the following changes to the JLMIC benefits plan:

1. Benefit Access Fee

The Benefit Access Fee is the fee charged to employees who choose KingCare coverage for themselves and their spouses although their spouses have other coverage available. The MOA would raise the fee from $75 per month to $100 per month.[[2]](#footnote-2) This is expected to produce an annual savings of about $600,000.

1. Preventive Services

The ACA requires “non-grandfathered” benefit plans to cover certain preventive services at no cost to employees—i.e., without application of deductibles, copayments, or co-insurance. Plans are grandfathered if, like King County’s, they existed before 2012 and have not been amended in a manner that increases the cost to individual employees by more than five percent. Although the County’s benefit plan is grandfathered, the proposed MOA nevertheless provides that the plan will cover “preventive services in accordance to the Affordable Care Act (ACA) for non-grandfathered plans, as amended, at no cost to employees, including but not limited to contraceptives.”

According to executive staff, the County already covers these services, but in some instances charges copays for them, and the list of ACA-mandated preventive services was recently expanded. The estimated annual cost of providing the services at no cost to employees is about $400,000 for contraceptives and about $300,000 for other ACA-mandated preventive services, for a total annual cost of about $700,000.

1. New Services Offered by KingCare and/or SmartCare.

Section 3 of the proposed MOA provides: “When new services are offered by KingCare and/or SmartCare, the JLMIC agrees to consider, evaluate, and negotiate, and when agreed add new services to the insured plans, such as palliative care on KingCare.” Pursuant to this provision, the KingCare plan would cover additional palliative care at an annual cost of about $19,000.

FISCAL IMPACT

The fiscal impact of the proposed MOA is summarized in the Fiscal Note (Att. 3) and is estimated to be a net increased cost of about $119,000 per year. This consists of:

* Benefit Access Fee increase: $600,000 annual savings;
* Preventive Services: $700,000 annual cost increase; and
* Palliative Care: $19,000 annual cost increase.

INVITED

1. Patti Cole-Tindall, Director of Labor Relations, King County Executive Office
2. Dustin Frederick, Co-Chair, Joint Labor Management Insurance Committee
3. Spencer Nathan Thal, Co-Chair, Joint Labor Management Insurance Committee

ATTACHMENTS

1. Proposed Ordinance 2015-0345

Att. A: MOA Regarding Health Benefits, dated July 16, 2015

1. Transmittal letter
2. Fiscal note
1. Because King County’s benefit plan was in existence before the effective date of the ACA and has not been amended in a manner that increases the cost to individual employees by more than five percent, the King County plan is exempt from certain ACA requirements. Nevertheless, the proposed new MOA provides that the County plan will cover the same preventive services that are required of non-grandfathered plans. [↑](#footnote-ref-1)
2. The fee was increased from $50 per month to $75 per month with Council approval in 2014 (Ordinance 17901). [↑](#footnote-ref-2)