

Date: April 4, 2019

To: JLMBC

From: Staff

Subject: **Health, Dental, and Vision Provider Contract Extensions**

**JLMBC MEMBERS**

Employee Organizations  
**David Sanders, Chairperson**  
 Paul Bechely  
 Chris Hannan  
 Steve Koffroth  
 William Violante

Management  
**Wendy G. Macy, Vice-Chairperson**  
 Neil Guglielmo  
 Rich Llewellyn  
 Tony Royster  
 Matthew Rudnick

## **RECOMMENDATION**

That the JLMBC direct staff to proceed with developing and returning to the JLMBC with recommended provisions for two-year contract extensions with LAwell Program health, dental, and vision providers for contract years 2020-2021.

## **DISCUSSION**

### **A. Background**

At its February 7, 2019 meeting, the JLMBC reviewed a report and recommendations from staff and as a result (a) adopted a proposed procurement schedule for 2019-23 and (b) directed staff to engage Kaiser, Anthem, Delta, and EyeMed regarding proposed terms of two-year contract extensions and report back with recommendations. In its February report, staff noted that Los Angeles Administrative Code (LAAC) Division 10, Section 10.5 provides the Personnel Department with five-year contracting authority for LAwell Program service providers. Staff further noted that initial contracts with Kaiser, Anthem, Delta, and EyeMed were established for the period beginning January 1, 2017 and ending December 31, 2019. Staff indicated that initial three-year terms provide an opportunity for staff and the JLMBC to consider the vendor’s performance during the initial contracting period as well as refinements to the procured services for the final two years of the contract, which support and enhance the City’s service mission and objectives. Staff indicated that each incumbent provider had partnered effectively with City staff to execute its service mission and objectives. Staff further indicated that opportunities for refining the services agreement over the remaining two years of the contract could include the following:

- Improving premium/rate stability (e.g. by extending or adding premium and rate guarantees)
- Refining and/or expanding performance guarantees and metrics reflective of the City’s evolving means of measuring success
- Formalizing service execution that may have evolved since implementation of the contract

Following the JLMBC’s direction, staff, with the assistance of the JLMBC’s consultants at Segal Consulting (Segal), engaged in discussions with each service provider regarding the potential terms applying to a contract extension. Following are the results of discussions with each service provider.

## B. Kaiser

In 2016, following a procurement process, the City selected Kaiser to be the provider of the LAwell Program's Staff Model Health Maintenance (HMO) plan. As part of its response to that procurement, Kaiser proposed premiums for 2017 but did not provide rate caps for subsequent years.

On April 13, 2018, in connection with the annual health plan renewal process, Kaiser indicated it was offering two options for its renewal for Plan Year 2019:

- **Option A** proposed a 0.0% renewal in 2019 with an accompanying 3.5% rate cap in 2020.
- **Option B** proposed a -3.13% premium reduction in 2019 with no rate cap in 2020.

Following review of these options, the JLMBC and the City chose Option A for the following reasons:

- (1) **City Premium Stability** - A second-year rate cap for Kaiser in 2020 provided stability and predictability in planning for future City benefits costs.
- (2) **Member Premium Stability** – As the Kaiser family rate represents the maximum subsidy for all City plans, any premium reduction would have reduced the subsidy provided to non-Kaiser plans and thus magnify the impact of rate increases for plans or tier levels involving a member contribution.
- (3) **Multi-Year Rate Arrangements** – Considering that the JLMBC had implemented multi-year rate guarantees with all other LAwell Program benefit service providers (Anthem, Delta, EyeMed, the Standard and WageWorks), instituting a multi-year arrangement with Kaiser established an important precedent in support of ongoing pricing stability for the LAwell Program.

As part of final adoption of the 2019 LAwell Benefits Program, Kaiser renewed at 0.0% for 2019 and committed to a 2020 rate cap of 2.5% plus an additional 1% for the Affordable Care Act Health Insurers Providers Fee (ACA fee) if that fee was required. (The ACA fee was suspended in 2019 but will resume in 2020 unless Congressional action is taken to suspend or eliminate it. Although ACA fee suspension was previously anticipated it now appears unlikely; Kaiser, as a non-profit entity, pays a lower ACA fee than for-profit health insurance providers.)

Following the JLMBC's February 7, 2019 action directing staff to engage in discussions with Kaiser regarding the final two contract years, staff and Kaiser have held multiple conversations regarding implementing a rate cap in 2021. Kaiser indicates that their current pricing model includes a rate capping feature to reduce the volatility of renewal rates from one year to the next, with a floor of negative 5.0% up to an increase ceiling of 15.0%. Kaiser further indicated that as an integrated health care delivery system they have a unique budgeting process in that they have a combination of both fixed costs to run their medical facilities as well as variable costs that reflect the utilization of services by members. Kaiser indicated that they believe there is inherent risk to both the customer as well as Kaiser when entering multi-year rate guarantees. They indicated that consideration of a multi-year rate guarantee involving 2021 would be connected to the renewal for 2020 and take several factors into consideration such as premium contribution structure; stability of the membership risk pool and

the inherent risk to both Kaiser and the City for changes in utilization; and Affordable Care Act taxes and fees.

Kaiser indicated it would be willing to offer the City a rate guarantee for the 2021 renewal but that the City would need to fund a “risk charge” in an amount yet to be determined by Kaiser which would be added to 2020 premiums. Both staff and Segal Consulting (Segal) find that Kaiser’s proposal for a 2021 rate cap that would require the City to pay a higher premium in 2020 provides no material benefit to the City and should be rejected. Staff and Segal also find that the alternative effective rate cap of 15% (which does not require that the City pay a risk charge) also appears to be significantly beyond recent historical and average changes in premium costs (see **Attachment A**) and does not reflect favorable trends over multiple years for the Kaiser member population including:

- Increases in total membership
- Decreases in the average number of members per subscriber (which for Kaiser’s underwriting model is regarded to be more stable)
- Decreases in the average age per member

However, after multiple discussions and extensive internal review, Kaiser has indicated it is unwilling to provide or further negotiate a rate cap for 2021 in the absence of a risk charge added to the 2020 premium. Absent a 2021 rate cap, staff’s focus would therefore be on refining and/or expanding performance guarantees and metrics. Staff recommends that, in connection with evaluation of its 2020 proposed renewal, the JLMBC direct staff to proceed with developing and returning to the JLMBC with recommended provisions for a two-year contract extension with Kaiser for contract years 2020 and 2021.

### C. Anthem

In 2016, following a procurement process, the City selected Anthem to be the provider of the LAwell Program’s Preferred Provider Option (PPO), Narrow Network HMO, Full Network HMO, and Vivity HMO plans. In connection with that procurement, Anthem proposed premiums for 2017 as well as rate caps for 2018 and 2019. Anthem’s 2018 and 2019 renewals were at or below the contractually guaranteed rate caps. The JLMBC, as part of its recommended adoption of the 2019 LAwell Benefits Program, recommended to the General Manager Personnel Department approval of the following renewal rates in 2019:

Plan	2019 Adopted Premium Change
Anthem PPO	7.28%
Anthem Narrow Network	2.44%
Anthem Full Network	2.44%
Anthem Vivity	-9.79%

Following the JLMBC’s February 7, 2019 action directing staff to engage in discussions with Anthem regarding the final two contract years, Anthem initiated an accelerated review process for the City’s 2020 renewal as well as consideration of a rate cap for 2021. Anthem has come forward with what staff and Segal regard to be favorable terms for both the 2020 renewal as well as rate caps for 2021.

**2020 Renewal** - For 2020, Anthem is offering a rate pass (no change in premium levels) excluding the for-profit health insurance provider ACA fee of 2.78%. This means all Anthem plan premiums would increase by the ACA fee amount only. Anthem’s proposed rate changes for 2020 are provided below:

Plan	2020 Proposed Premium Change
Anthem PPO	2.78%
Anthem Narrow Network	2.78%
Anthem Full Network	2.78%
Anthem Vivity	2.78%

**2021 Rate Caps** - In addition, Anthem has proposed rate caps for 2021 (which include the ACA fee) and which are indicated as follows:

Plan	2021 Proposed Rate Cap
Anthem PPO	7.0%
Anthem Narrow Network	7.0%
Anthem Full Network	7.0%
Anthem Vivity	7.0%

Anthem’s proposed 2020 renewal rates represent a positive development for the LAwell Program as they are well below recent historical and average changes in premium costs (see **Attachment B**); Anthem’s proposed rate caps for 2021 are also lower than the rate caps they provided for 2018 and 2019 (rate cap details are provided in Attachment B). The details of the renewal, once submitted by Anthem, will be reviewed further by staff and Segal and discussed in greater detail prior to or during the JLMBC’s normal renewal evaluation meetings. In the interim, staff will also further negotiate with Anthem regarding refining and/or expanding performance guarantees and metrics as well as formalizing certain service enhancements that have been incorporated into the Anthem plans since they were originally launched in January 2017. Staff recommends that, in connection with evaluation of its 2020 proposed renewal, the JLMBC direct staff to proceed with developing and returning to the JLMBC with recommended provisions for a two-year contract extension with Anthem for contract years 2020 and 2021.

**D. Delta**

In 2016, following a procurement process, the City selected Delta to be the provider of the LAwell Program’s HMO, PPO, and Preventive Care (Preventive) options. Delta’s proposal included a multi-year rate guarantee (no change in premiums) for plan years 2017, 2018, and 2019. Following the JLMBC’s February 7, 2019 action directing staff to engage in discussions with Delta regarding the final two contract years, Delta initially proposed a 2.7% rate increase for the PPO and Preventive options and 0% for the HMO option for 2020. After review and negotiation with staff and Segal, Delta subsequently agreed to extending the current rates with multi-year rate guarantee to years 2020 and 2021.

Staff and Segal have further been reviewing with Delta options for allocating a Premium Stabilization Reserve (PSR) amount from a prior contracting period in the amount of \$964,055. Options for allocating these funds include but are not limited to applying it to 2020 and 2021 premiums, adding new services, or modifying current benefit levels. These options will be further explored in connection with the 2020 renewal and LAwell Program plan design process (which launches with the JLMBC's May 2, 2019 meeting).

Delta's proposed extension of the multi-year rate guarantees to 2020 and 2021 represents a positive development for the LAwell Program. Staff and Segal will continue discussions with Delta and recommendations for action will be incorporated into analysis of the formal renewal. In the interim, staff will also further negotiate with Delta regarding refining and/or expanding performance guarantees and metrics and addressing options for the PSR funds. Staff recommends that, in connection with evaluation of its 2020 proposed renewal, the JLMBC direct staff to proceed with developing and returning to the JLMBC with recommended provisions for a two-year contract extension with Delta for contract years 2020 and 2021.

#### E. EyeMed

In 2016, following a procurement process, the City selected EyeMed to be the provider of the LAwell Program stand-alone vision plan. EyeMed's proposal included a multi-year rate guarantee (no change in premiums) for plan years 2017, 2018, and 2019. Following the JLMBC's February 7, 2019 action directing staff to engage in discussions with EyeMed regarding the final two contract years, EyeMed initiated a review process and subsequently proposed extending its multi-year rate guarantee to years 2020 and 2021. EyeMed is also proposing to add a new benefit for LAwell Program members who have been diagnosed with either Type I or Type II diabetes. These members would be provided with the following additional benefits:

- An office visit and diagnostic testing once every 6 months
- Diagnostic tests such as gonioscopy, extended ophthalmology, fundus photography, and scanning laser

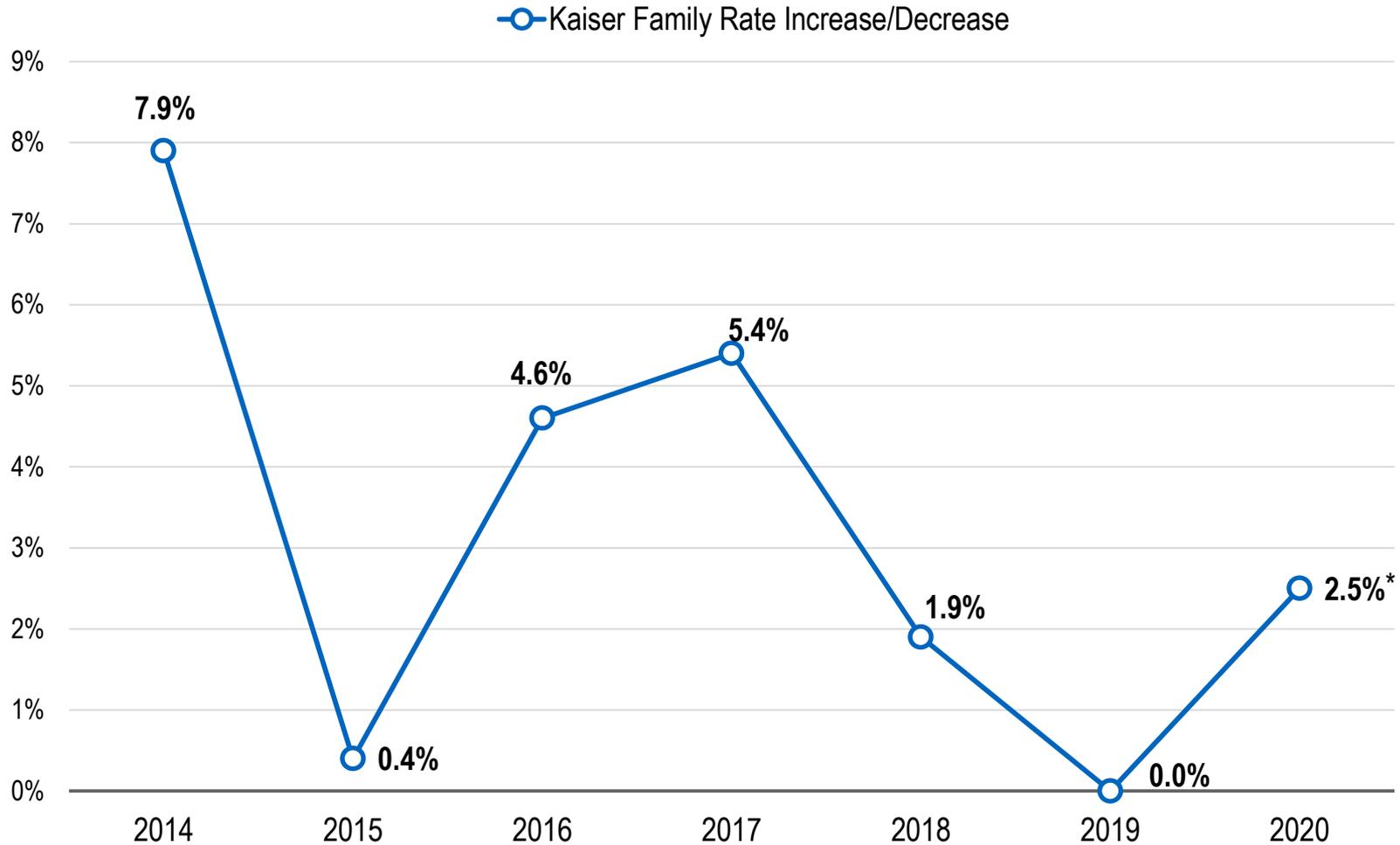
EyeMed's proposed extension of the multi-year rate guarantees to 2020 and 2021 represents a positive development for the LAwell Program. Staff and Segal will continue discussions with EyeMed and recommendations for action will be incorporated into analysis of the formal renewal. In the interim, staff will also further negotiate with EyeMed regarding refining and/or expanding performance guarantees and metrics and evaluating its benefit enhancement proposal. Staff recommends that, in connection with evaluation of its 2020 proposed renewal, the JLMBC direct staff to proceed with developing and returning to the JLMBC with recommended provisions for a two-year contract extension with EyeMed for contract years 2020 and 2021.

Submitted by: \_\_\_\_\_  
Steven Montagna

# Premium Rate Increase History

## Kaiser

Premium rates include the ACA Health Insurer fee for all years, except 2017 and 2019.

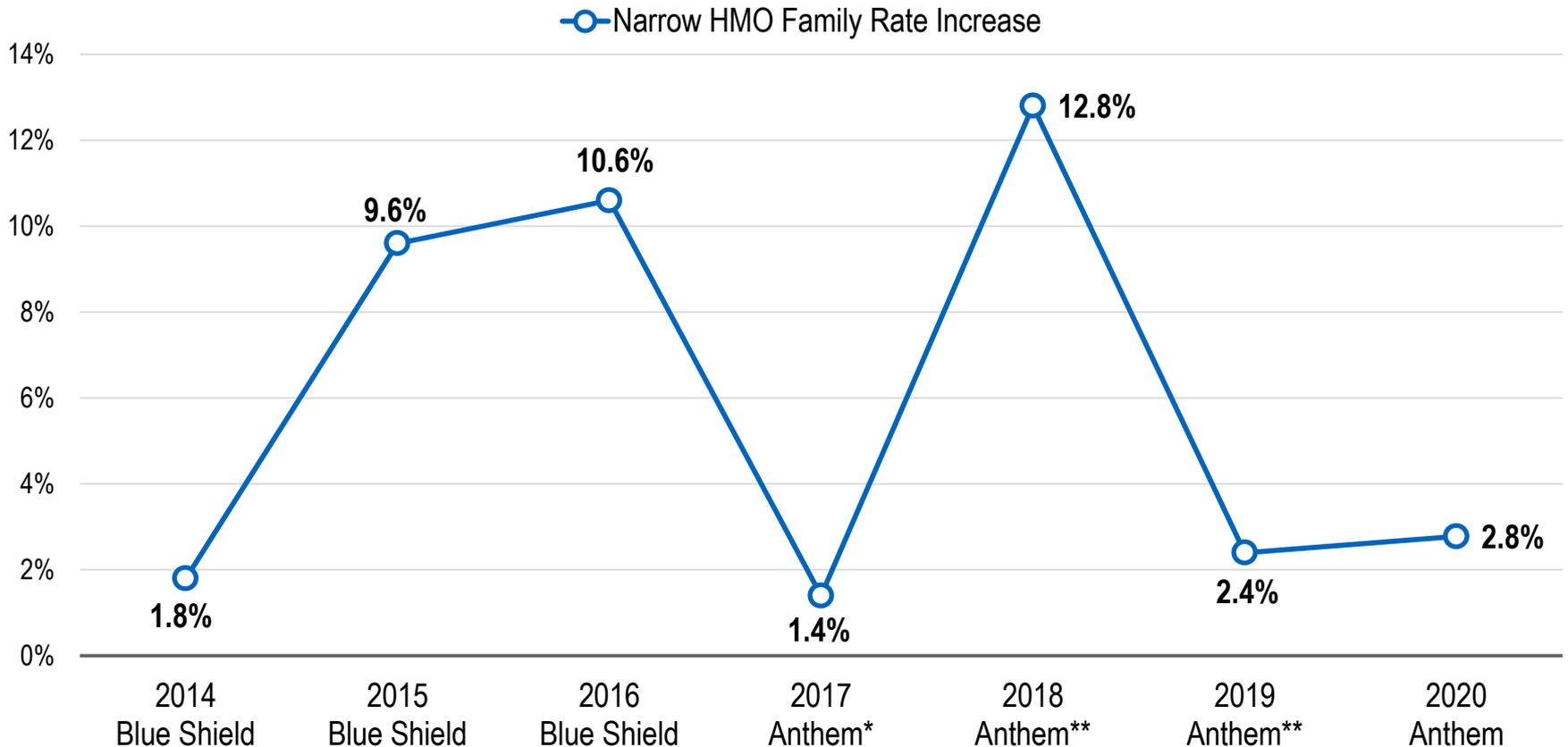


\* The 2020 increase is a rate cap, not the proposed rate change, and does not include the ACA Insurer Fee.

# Premium Rate Increase History

## Narrow HMO

Premium rates include the ACA Health Insurer fee for all years, except 2017 and 2019.



**Narrow HMO coverage was moved from Anthem to Blue Shield effective 1/1/2014.**

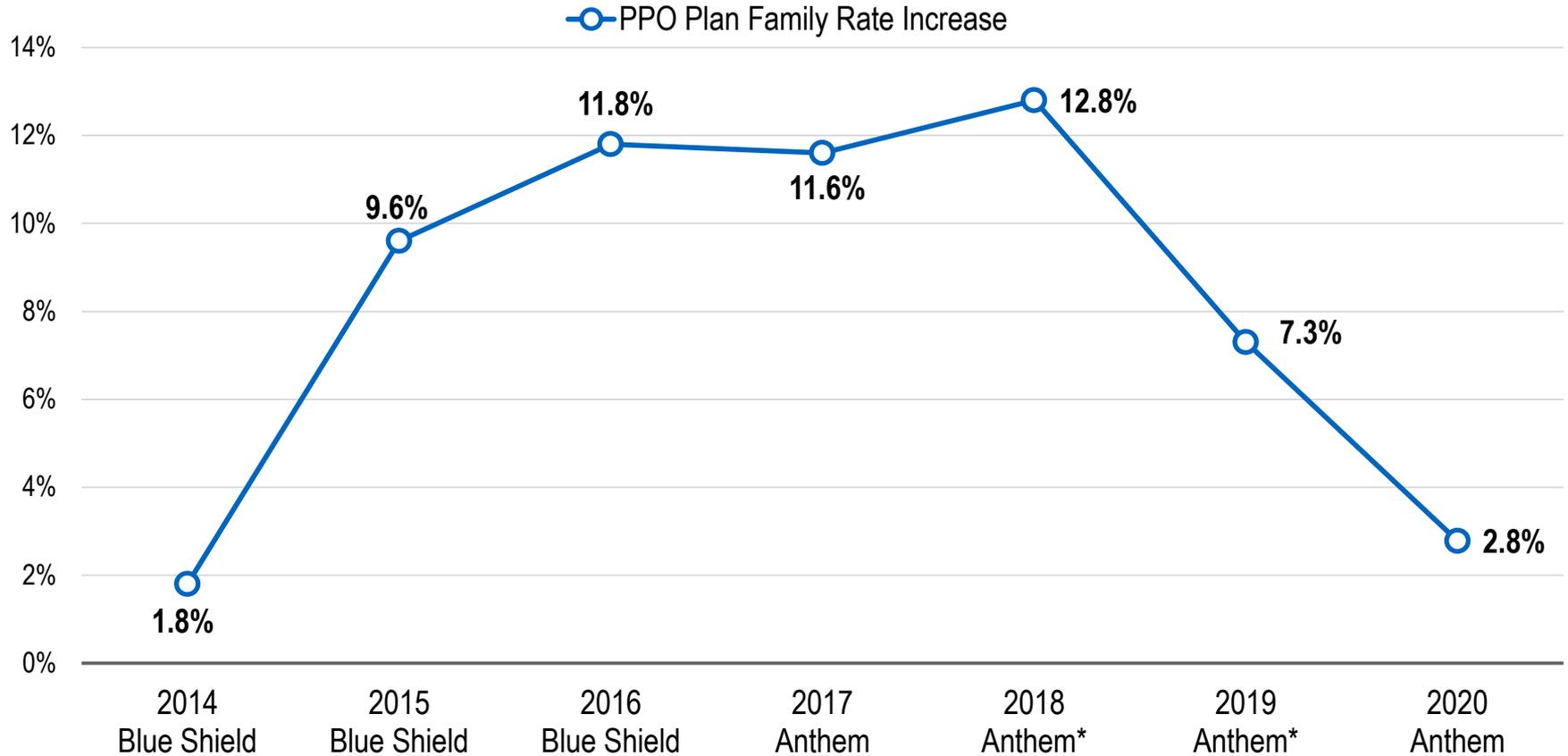
\* The 2017 rate increase for the Narrow HMO plan ranged from 1.4% for family coverage to 6.7% for employee plus spouse coverage.

\*\* The aggregate rate cap was 9% for 2018 and 13% for 2019 plus ACA fees.

# Premium Rate Increase History

## PPO

Premium rates include the ACA Health Insurer fee for all years, except 2017 and 2019.



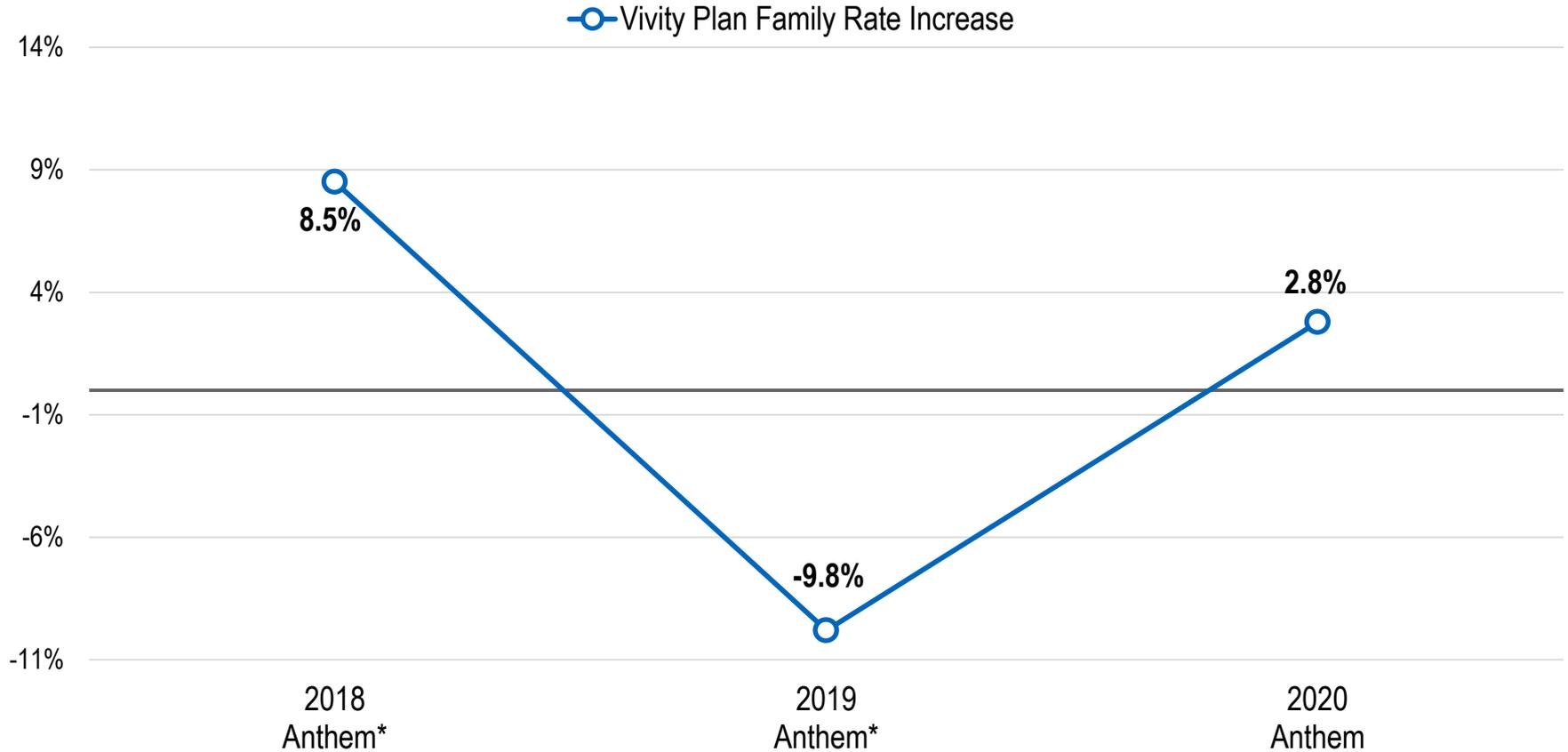
**PPO coverage was moved from Anthem to Blue Shield effective 1/1/2014.**

\* The aggregate rate cap was 9% for 2018 and 13% for 2019 plus ACA fees.

# Premium Rate Increase History

## Vivity

Premium rates include the ACA Health Insurer fee for all years, except 2017 and 2019.



**Vivity coverage from Anthem was a new plan added effective 1/1/2017.**

\* The aggregate rate cap was 9% for 2018 and 13% for 2019 plus ACA fees.