SUMMARY STATEMENT

ITEM NO.: DRPA-11-079

SUBJECT: Active Employees/Under 65 Retiree Health Benefits 2012 (DRPA/PATCO)

COMMITTEE: Finance

COMMITTEE DATE: October 5, 2011

BOARD DATE: October 19, 2011

PROPOSAL: Staff seeks authorization to accept the premium quoted by United Healthcare to provide medical and prescription drug coverage to active benefit-eligible DRPA/PATCO employees, and eligible retirees who are under the age of 65 and their respective eligible dependents.

PURPOSE: To continue to provide a quality healthcare benefits package for active benefit-eligible DRPA/PATCO employees, under the age of 65 retirees, and their respective eligible dependents, including appropriate cost-sharing among plan participants.

BACKGROUND: For 13 years, AmeriHealth had been the insurance carrier for medical and prescription coverage for benefit-eligible employees, under age 65 retirees, and their respective eligible dependents. Last year, as a result of a competitive process the Board voted to move the coverage to CIGNA, effective January 1, 2011.

Health benefits costs comprise a substantial portion of DRPA/PATCO’s annual operating budget. Over the past several years, the cost to provide medical and prescription drug coverage has steadily escalated. In 2011, the DRPA and PATCO will spend approximately $9,184,337 to provide medical and prescription drug coverage for its benefit-eligible employees, under age 65 retirees, and their respective eligible dependents.

Benefits provided to employees represented by the IUOE and Teamsters are prescribed by existing Collective Bargaining Agreements with those Unions, and are provided by their respective health and welfare plans and funded by the Authority. The DRPA/PATCO contributes a monthly premium per union employee to their respective union.

All other employees, including those who are Non-Represented, and those who are represented by the IBEW and FOP, all under age 65 retirees, and their respective eligible dependents are provided benefits through the DRPA/PATCO-sponsored plans.
With the assistance of our broker, Willis of New Jersey, we recently marketed the medical and prescription coverage currently provided by CIGNA. Four carriers, including CIGNA, submitted quotes. They are:

- CIGNA - $11,066,711 (20.50% increase/$1,882,374)
- United Healthcare - $10,814,826 (17.75% increase/$1,630,489)
- Horizon BC/BS NJ - $10,865,747 (18.31% increase/$1,681,409)
- Aetna - $10,956,933 (19.30% increase/$1,772,596)
- AmeriHealth - $11,143,442 (21.33% increase/$1,959,105)

Our broker and staff reviewed the plan designs proposed by each carrier. This review included a line by line comparison of the current plan to those proposed by CIGNA. Differences were minimal.

Willis’ analysis also included a review of the prospective carriers’ physician and hospital networks and a disruption analysis. The network analysis applied an access standard of 2 physicians (broken out between Adult PCPs, Pediatricians, and Ob/Gyns) within 8 miles of each of DRPA/PATCO’s approximately 648 eligible employees and 1 hospital within 15 miles.

The disruption analysis prepared by Willis looked at the healthcare facilities that have been accessed by DRPA/PATCO employees during the period beginning 1/1/2011. The report outlined the number of DRPA/PATCO members serviced, inpatient admissions, outpatient visits and amount paid to each of facilities. It then identified the facilities’ network status (participating or non-participating) for each of the carriers being considered. All local regional hospitals participate in all of the carriers’ network. The one exception is the Atlantic City Medical Center, which is not part of the Aetna network.

Willis surveyed the carriers about their prescription drug formularies. In the past, our plan has provided an open formulary where prescription drugs were available at one of the three co-pay levels. To be clear, some drugs required pre-certification, but none were excluded. The report indicates that 101 prescriptions for Nexium (for 42 members) were processed by CIGNA at tier three (a $50 co-pay); under United Healthcare, coverage for Nexium would be excluded. One other drug (Kadian) was covered under CIGNA, but would be excluded under UHC. Eight drugs that had been used by our employees at level one (a $7 co-pay) or level 2 (a $35 co-pay) will be covered by UHC at a level three ($50 co-pay).

As part of its renewal, CIGNA offered the following rate cap for plan...
year 2013. It is based on the incurred medical and pharmacy cost loss ratio for the period 8/1/2011-7/31/2012.

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Rate Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%-70%</td>
<td>Rate pass</td>
</tr>
<tr>
<td>70%-75%</td>
<td>Increase not to exceed 1.1%</td>
</tr>
<tr>
<td>75%-80%</td>
<td>Increase not to exceed 6.2%</td>
</tr>
<tr>
<td>80-85%</td>
<td>Increase not to exceed 11.3%</td>
</tr>
<tr>
<td>85%-90%</td>
<td>Increase not to exceed 16.5%</td>
</tr>
<tr>
<td>90%-95%</td>
<td>Increase not to exceed 21.6%</td>
</tr>
<tr>
<td>Greater than 95%</td>
<td>No guarantee</td>
</tr>
</tbody>
</table>

CIGNA agreed to remove two provisions from the rate cap letter: (a) requirement of targeted benefit changes equal to 3%, and (2) material change in employee contribution strategy. However, CIGNA did not agree to remove the provision regarding an emerging claim that is projected in excess of the pooling point of $150,000. CIGNA reserves the right to terminate or modify the rate guarantee if there is an enrollment shift of +/- 10% from the projected renewal period.

Horizon offered a flat 14.5% renewal cap for the first year renewal. Horizon reserves the right to reevaluate the rate guarantee if there is an enrollment shift of +/- 10% from the projected renewal period.

AmeriHealth offered a Target Loss Ratio Guarantee which states that there will be a minimum increase of +5% regardless of the Medical Loss Ratio at the time of renewal. The proposed Target Loss Ratio Schedule is as follows:

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Rate Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%-76%</td>
<td>Increase not to exceed 5%</td>
</tr>
<tr>
<td>76.1%-81%</td>
<td>Increase not to exceed 6%</td>
</tr>
<tr>
<td>81.1%-86%</td>
<td>Increase not to exceed 11%</td>
</tr>
<tr>
<td>86.1%-91%</td>
<td>Increase not to exceed 16%</td>
</tr>
<tr>
<td>91.1%-96%</td>
<td>Increase not to exceed 21%</td>
</tr>
<tr>
<td>96.1% or greater</td>
<td>Increase not to exceed 21.6%</td>
</tr>
<tr>
<td>Greater than 95%</td>
<td>5% for every 5% over the 96.1% Claim Loss Ratio</td>
</tr>
</tbody>
</table>

United Healthcare does not offer renewal caps, but agreed to offer either a Renewal Formula Guarantee or a Benefit Care Ratio Guarantee, but not both concurrently. UHC’s Renewal Formula Guarantee provides that if enrollment reaches 600 subscribers a $200,000 pooling point will be used. We currently have 561 subscribers.

In response to Willis’ marketing efforts, United Healthcare offered the lowest quote.
SUMMARY:  Amount:  Approximately $10,814,826  
(Note – This covers both DRPA and PATCO.  
The annual rate is based upon our current  
DRPA/PATCO census of active benefit-eligible  
employees and under age 65 retirees, but subject  
to change as our census changes.)  
Source of Funds:  Revenue Fund, General Fund  
Capital Project #:  N/A  
Operating Budget:  DRPA/PATCO Employee Services Expense  
Master Plan Status:  N/A  
Other Fund Sources:  N/A  
Duration of Contract:  One Year  
Other Parties Involved: United Healthcare
RESOLUTION

RESOLVED: That the Board of Commissioners of the Delaware River Port Authority authorizes staff to accept the quote proposed by United Healthcare for the provision of medical and prescription drug benefits to active benefit-eligible DRPA/PATCO employees, retirees under age 65, and their respective eligible dependents and be it further

RESOLVED: That staff is authorized to work with DRPA/PATCO’s Third Party Administrator to begin the 2012 Open Enrollment Process, and be it further

RESOLVED: The Chair, Vice Chair and the Chief Executive Officer must approve and are hereby authorized to approve and execute all necessary agreements, contracts, or other documents on behalf of the DRPA/PATCO. If such agreements, contracts, or other documents have been approved by the Chair, Vice Chair and Chief Executive Officer, and if thereafter, either the Chair or Vice Chair is absent or unavailable, the remaining Officer may execute the said document(s) on behalf of the DRPA/PATCO, along with the Chief Executive Officer. If both the Chair and Vice Chair are absent or unavailable, and if it is necessary to execute the said document(s), while they are absent or unavailable, the Chief Executive Officer shall execute such document(s) on behalf of the DRPA/PATCO.

SUMMARY: Amount: Approximately $10,814,826 (Note – This covers both DRPA and PATCO. This annual rate is based upon our current DRPA/PATCO census of active benefit-eligible employees and retirees under age 65, but subject to change as our census changes.)

Source of Funds: Revenue Fund, General Fund
Capital Project #: N/A
Operating Budget: DRPA/PATCO Employee Services Expense
Master Plan Status: N/A
Other Fund Sources: N/A
Duration of Contract: One Year
Other Parties Involved: United Healthcare