

To: Village Clerk

Date: November 21, 2013

From: Mike Harrington, Chairman – Insurance Committee

cc: Board of Trustees

Robert Kosin

Subject: Insurance

Michael Murphy

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### Summary

The Insurance Committee recommends the following:

1. 2014 budgets reflect renewal of existing P&C insurance policies with premiums as quoted or estimated by Lundstrom Insurance brokers, which reflect an approximate increase of 17% over 2013;
2. A 2014 budget that reflects the selection of the BCBS Blue PPO Gold health policy at about a 20% premium reduction, offset by higher expected costs for deductibles;
3. Implementation of employee sharing in health premiums at the 5% level for 2014 as well as an increase in employee sharing in the deductible to levels of \$500 and \$1,000 for single and family coverage, respectively;
4. A 2014 budget that reflects the renewal of the Ameritas Group dental plan with Pediatric Dental at premium levels quoted by Lundstrom, which reflect an increase of about 10% over 2013;
5. Consistent with the collective bargaining agreement, provide health benefits to MAP union members that are “substantially similar” to current benefits.

### Background

In a series of meetings, the Insurance Committee reviewed insurance policy renewals for the coming year, 2014. Insurance coverage for the Village of Barrington Hills (“Village”) can be classified into two general categories: 1) Property and Casualty (“P&C”); and 2) Health Insurance.

### Property & Casualty

The P&C policies for the Village cover risk of loss related to property damage, personal injury and liability. The Village maintains a number of policies, including Property, Commercial General Liability, Umbrella Liability, Excess Liability, Commercial Automobile, Employment Practices Liability, Public Officials Liability, Law Enforcement Liability, and Workers Compensation. Other forms of P&C insurance are available but we believe the policies we have in place are sufficient to manage the reasonably expected risks that the Village faces. Unfortunately, with the exception of Workers Compensation, loss ratios have been trending higher in recent years, which is driving a significant premium increase for 2014. Overall we expect total premiums will increase about 17% over 2013 levels, which is reflected in the 2014 budget.

### Health Insurance

The second category of insurance is Health Insurance. The Village has historically provided its employees with Health Insurance benefits, including a dental policy. Health insurance for 2014 was

impacted by the Affordable Care Act (“ACA”), most of which officially takes effect on January 1, 2014. Managing health insurance for 2014 has also been complicated by the recently adopted collective bargaining agreement with Metropolitan Alliance of Police (“MAP”).

Several alternative health insurance carriers and insurance options were considered. The policies we reviewed differed by carrier, pricing, coinsurance, size of provider network, deductibles, and other features. For 2014 the Committee is recommending that the Village purchase the Blue Cross Blue Shield of Illinois (“BCBS”) policy known as Blue PPA Gold – G513PPO. We believe this policy is the best choice for employees and the Village for the following reasons:

- 1) BCBS is our current provider and offers the largest network of doctors and providers, which minimizes the chance that our employees would have to change doctors or providers or use higher-cost out-of-network providers;
- 2) The Village and its employees have been satisfied with BCBS;
- 3) The new BCBS policy offers benefits that are very similar to the prior policy;
- 4) The new BCBS policy allows the Village to reduce its overall health insurance costs while maintaining benefits and services for employees.

The cost savings of the proposed plan are due to higher deductibles and provisions of the Affordable Care Act (“ACA”), which becomes effective January 1, 2014. Under the ACA, for policies covering employers with fewer than 50 employees, health insurers are no longer permitted to rate employee pools according to individual health history or criteria. Instead, the underwriting process is strictly required to be age-based and the age-based approach resulted in lower premiums for the village in 2014.

Under Section 10.1 of the recently adopted collective bargaining agreement with MAP, the Village is required to provide covered police officers with insurance benefits that remain “substantially similar” to benefits currently in place. This can be a challenge when major legislation such as the ACA mandates significant changes and/or when insurance companies elect to discontinue or change certain policies or policy features/benefits. The Village can manage this for 2014 because almost all features of the selected policy are substantially similar to the current policy. The major difference is the new policy has higher deductibles. However, the Village currently reimburses for deductibles above minimum levels and that practice will continue in 2014 (with some changes for non-union employees, to be discussed below).

#### Employee Cost Sharing

An investigation of insurance benefits offered for similar sized employers, and specifically similar sized municipal employers, revealed that our health insurance benefits were not in balance with the marketplace. Specifically, the Village’s practice of paying 100% of the health insurance premium is not common; typically most employers require their employees to share in the payment of the premium. According to the Kaiser Family Foundation 2013 Employer Health Benefits Survey, 86% of all firms with employer-sponsored health benefit plans require some employee premium cost sharing for single

coverage, and the percentage increases to 94% for family coverage. Moreover, covered workers contributed on average 18% of the premium for single coverage and 29% of the premium for family coverage. Accordingly, in order to begin to bring the Village more in line with the marketplace, the Insurance Committee is recommending that employee contributions be gradually phased in over each of next three years. We recommend that employees contribute 5% of health premiums for 2014, increasing to 10% for 2015 and to 15% for 2016. This phased-in approach will allow employees to adjust their budgeting gradually over a three year period while also gradually bringing the health insurance benefit in line with the marketplace. Employee cost sharing of the Health insurance premium for MAP union member employees will be determined under the collective bargaining process for the next contract, which is scheduled to be negotiated in 2014 and completed for 2015.

The Village has also been subsidizing the payment of deductibles. Currently the Village pays all deductibles for employees above the first \$250 for single coverage and \$500 for family coverage. Current health policy deductibles are \$2,500 and \$5,000, for single and family coverage, respectively, and these deductibles will be increasing to \$4,000 and \$8,000 under the new policy. In line with the higher deductibles, the Insurance Committee recommends that the employee portion of the deductible be increased to \$500 and \$1,000 for single and family coverage, respectively, for 2014. This increase in the employee's responsibility for the deductible will also begin to move this portion of the benefit to a level that is more in line with the marketplace.

The health insurance budget for 2014 reflects premium savings of about 20%. Premium savings will be offset by expected increased outlays for higher deductibles but we are able to reduce some of the impact of the higher deductibles by requiring employees to pay more of the deductible and we are further able to manage Village costs by implementing employee cost sharing of the premium.

#### Dental

The Committee recommends that the Village continue offering Dental coverage from Ameritas Group. Under the ACA, we are required to include pediatric dental benefits. This contributes to a higher renewal premium of about 10% for 2014 and we are budgeting accordingly.