

DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: September 22, 2010

Board Item: 2-B-1

2011 Employee Benefit Plans

Action by Consent

Action

Information

This Board Item recommends 2011 plan design changes and renewal rates for Denver Water's employee benefit plans. If adopted, the recommended changes will become effective January 1, 2011.

Medical Plan

Each year, Denver Water works with its benefits consultants, Leif Associates, to develop rates and plans for employees' healthcare programs. Claim costs were up in 2009 and 2010 with several large claims that did not hit the stop-loss amount of \$200,000. Board costs (net of employee contributions) through July 2010 are approximately \$7,000,000.

The Cigna renewal for 2011 includes a 3% guaranteed maximum increase in administrative expenses from the last market bid, and a 19% increase in individual stop loss (ISL) premium for the current \$200,000 ISL threshold. The recently enacted Health Care Reform legislation will also have a financial impact on Denver Water's medical plan effective January 1, 2011.

Using a prediction of 13.3% annual increases, Leif Associates projects a 14.1% increase in 2011 premiums for the Board and for employees if no changes, other than those required by Health Care Reform, are made in plan design (Scenario A).

Staff is proposing an alternative plan design (Scenario B) that keeps the Board costs in line with the \$15.3 million proposed budget figure and increases premiums 4.3% for the Board and 4.2% for employees. Scenario B places the increase in health care costs on those using the plan. The cost to employees of office co-pays, emergency room visits and deductibles will be increased from 25% to 50%. Out-of-pocket maximums would be doubled or tripled. Proposed changes also include the addition of a third plan design with higher out-of-pocket costs, but much lower premium rates.

These changes continue to shift Denver Water's medical program to a consumer-directed health model and encourages employees to become more conscientious consumers of their medical benefits. The proposed changes also aim to promote wellness and control the rising costs of health care.

A copy of the proposed 2011 plan designs and the proposed rates for active employees, part time employees, retirees and those on COBRA are attached.

Medical Stop-Loss Coverage

The Board approved the purchase of stop loss coverage in 2007 to reduce Denver Water's liability for catastrophic medical claims. The coverage purchased through CIGNA provides 100% reimbursement to Denver Water for any claims that exceed the individual stop loss threshold in one year. In 2007, the stop loss level was \$150,000, and for 2008 and 2009 the stop loss threshold was increased to \$165,000.

For 2010, CIGNA required a 36% increase in the stop loss premium at the \$165,000 ISL. Denver Water avoided that increase by changing the level in 2010 to \$200,000. Leif Associates does not recommend taking on more risk at this point by raising the stop loss level, and recommends that the Board maintain the stop loss threshold of \$200,000 in 2011 at a premium cost of approximately \$1,293,112. This increase is 19% higher than 2010 costs and partially attributable to the removal of lifetime limits through Healthcare Reform.

Dental Rates

The dental plan continues to run well. Leif Associates suggests no changes in cost for the Board or employees to cover the expected claims in 2011.

Vision Rates

The vision plan is fully employee paid. The plan is financially sound and does not need an increase in premium rates for 2011.

Other Renewals

The fully insured Basic Life Insurance, AD&D and Long Term Disability (LTD) insurance with Lincoln Financial Group was renewed January 1, 2010 with no increase in premium for 2 years. Annual premium costs for Life/AD&D and LTD are approximately \$252,000 and \$410,000, respectively.

Lincoln also administers an Advice to Pay arrangement for Denver Water's former self-funded LTD program. The administrative expense is continuing at the current fee level through 2012. The number of LTD claimants, and related Board expense, decrease each year since coverage terminates at age 65. Board expense is estimated to be \$6,000 in 2011.

Flexible Spending Account

The Flexible Spending Account (FSA) administration and COBRA and retiree billing services are renewing with PayFlex at no additional cost. Fees for 2011 will be approximately \$30,000.

Recommendations

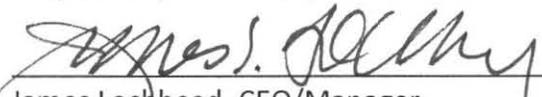
It is recommended that the Board approve:

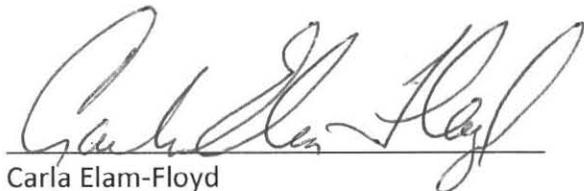
1. Plan design changes in the High and Low Premium medical plan deductibles, copayments and out-of-pocket maximums for employees, retirees and COBRA participants for 2011.

2. Addition of a Basic Premium Plan Choice for employees, retirees and COBRA participants for 2011 with lower premiums and higher out-of-pocket costs.
3. No changes to Delta Dental published premium rates by tier for the Board and for employees, retirees, and COBRA participants for 2011.
4. Continuation of the Superior Vision plan at the current published premium rates for employees, retirees and COBRA participants for 2011.
5. Continuation of coverage by Lincoln Financial Group for Life, AD&D, STD and LTD at the current rates in 2011, as well as the Advice to Pay administrative services fee for the former self-funded LTD program in 2011 and 2012.
6. Continuation of PayFlex administrative services for FSA, COBRA and retiree billing at the current fee levels for 2011 with no increase.

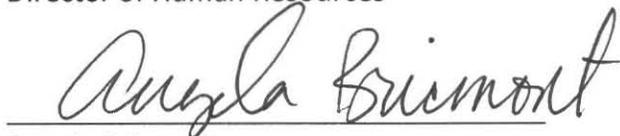
Approvals:

Respectfully submitted,


James Lochhead, CEO/Manager



Carla Elam-Floyd
Director of Human Resources



Angela Bricmont
Director of Finance