ITEM #:	**17**
DATE:	**05-28-24**
DEPT:	**HR**

COUNCIL ACTION FORM

SUBJECT: **HEALTH INSURANCE ADMINISTRATIVE SERVICES CONTRACT RENEWAL**

BACKGROUND:

For the past 19 years Wellmark Blue Cross Blue Shield of Iowa has been the City's provider for administrative services and excess coverage for the self-insured health and pharmacy programs. Wellmark was originally awarded this contract after a competitive Request for Proposals. Wellmark also has advantageous contractual relationships with medical providers in Ames and throughout Iowa that allow the City to receive significant discounts on services received. **Wellmark has a proven record of being able to administer the existing plans and has been a willing and capable partner in our efforts to improve the health status of employees and their families through quality programs and health promotion.**

In renewing the administrative agreement for FY 2024/25, Wellmark will charge $54.96 per member per month in **administrative and access fees,** effective July 1, 2024. This is a per member per month increase of 5.8% compared to FY 2023/24. However, because the number of covered individuals is projected to be more in FY 2024/25 compared to the current year, **the projected total cost for administrative and access fees in FY 2024/25 is expected to increase by 7.7%, to $369,991.**

Administrative and Access Fees

	FY 2023/24	FY 2024/25
# of Covered Members	551	561
Per Member, Per Month Fee	$51.94	$54.96
TOTAL COST	**$343,427**	**$369,991**

The City also obtains individual and aggregate stop loss coverage from Wellmark. The individual stop loss coverage protects the City from specific claims that exceed $125,000 incurred in one year, while the aggregate stop loss protects the City in the event that total claims exceed 120% of projected losses. In FY 2023/24, the stop loss rate charged per member per month was $164.15. However, the stop loss trend over the past several years has significantly exceeded Wellmark's projections. For that reason, the stop loss rates for FY 2024/25 will increase by 9%. Effective July 1, 2024, Wellmark will charge $179.43 per member per month for **specific and aggregate stop loss premiums**.

The increased premium is again compounded by an increase in the projected number of covered members. In FY 2024/25 the City will pay $1,207,923 in specific and aggregate stop loss premiums, an 11.3% increase over the total amount paid in FY 2023/24.

Specific and Aggregate Stop Loss Premiums

	FY 2023/24	FY 2024/25
# of Covered Members	551	561
Per Member, Per Month Fee	$164.15	$179.43
TOTAL COST	**$1,085,360**	**$1,207,923**

Gallagher, the City's contracted Health Benefits Consultant, provided assistance with reviewing the overall administrative fees and services Wellmark presented for FY 2024/25. **The increase for medical health care costs, including projected FY 2024/25 medical (Wellmark) claims and all Wellmark administrative fees, is estimated at 8.3% for FY 2024/25** (a total of approximately $11,736,899).

This increase for medical costs, when combined with dental cost projections, result in an overall increase to the Health Insurance Fund of 7.9% in FY 2024/25. This projected increase was reported to City Council at the February 8, 2024 Budget hearing. At that time, staff reported to Council that an 8% increase in premiums could cover the increased expenses, without having to use any available balance in the Health Insurance Fund to finance these increased costs. The Health Insurance Fund contains a sizeable unreserved fund balance that has been slowly decreased over the past several years to reduce the impact of large premium increases. **Currently, the Health Insurance Fund contains an unreserved fund balance of $5,536,237.**

Since this information was anticipated at the time the FY 2024/25 Budget was prepared, sufficient funds exist to cover the slight increase in administrative fees, increase in stop loss premiums, and anticipated increases in claims with the 8% increase in premiums. By the end of calendar year 2024, staff is anticipating a partial offset to this increase with the implementation of the new Pharmacy Benefit Manager (PBM) vendor as of January 1, 2024 that is expected to yield savings to the City.

ALTERNATIVES:

1. Accept the renewal documents from Wellmark for administrative services, specific and aggregate excess insurance, and access fees for benefits effective from July 1, 2024 to June 30, 2025

2. Do not renew the City's health insurance administrative services contract with Wellmark and direct the staff to seek other companies to perform these services.

CITY MANAGER'S RECOMMENDED ACTION:

Wellmark has been an effective administrator of the City's health care administrative services. Wellmark's services are cost-effective, and they have a strong working relationship with the City's other health care partners. Renewal of this contract will provide the best value to the City in administering its health insurance program. Therefore, it is the recommendation of the City Manager that the City Council adopt the suggested action.