



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Simpson, Helgeson, Manning, Mital and Brown  
FROM: Lena Kostopulos, Human Resources Manager  
DATE: July 8, 2016  
SUBJECT: Employee Benefits RFP/Changes  
OBJECTIVE: Information Only

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## **Issue**

This memorandum is to advise the Board of Commissioners that EWEB has completed an RFP process for employee benefits, including health, dental and vision insurance and that a change in providers has been recommended. In as much as the cost of employee benefits is significant (approximately \$11M in 2016), the following background explanation is submitted for the Board's information in advance of a consent calendar proposal requesting the Board's approval in August.

HR began the RFP process as a proactive measure in response to concerns around Moda's financial stability stemming from the State Insurance Commission's decision in late January to place Moda under its supervision as a result of Moda's failure to maintain required financial thresholds.

## **Background**

Moda has provided EWEB's insurance plans since 2005. In 2014, Moda entered the individual exchange market place, offering aggressive rates which yielded a very high volume of individual healthcare business. Moda's financial projections, based in part on the level of expected ACA risk corridor reimbursements associated with their individual healthcare business, were far less than anticipated resulting in a significant economic shortfall.

Part of Moda's recovery strategy was to withdraw from the individual plan market in both Alaska and Washington. Further, the Insurance Commission conditioned the release of the supervisory restriction on Moda's ability to raise \$179M in minimum operating revenues. Moda sold off some of their business operations and closed facilities outside Oregon.

The RFP was announced in April. Ten (10) proposals were received, including a submission from Moda. The RFP required proposals to comport to EWEB's existing plan design (deductibles, out-of-pocket expenses, co-insurance, etc.) for medical/Rx, dental and vision plans.

The reviewing panel included representatives from HR, Finance and, EWEB's Employee Health Insurance Committee (one IBEW and one MAPT member) as well as representatives from USI, EWEB's Insurance Broker. The panel narrowed the respondents down to four (4) finalists. The panel interviewed those finalists, conducted further proposal review and, issued their recommendation to change benefits providers in late June.

Moda's proposal was not among the finalists for medical or vision coverage but, their dental plan proposal was included in the final group. Moda's dental plan, Delta Dental, is a financially separate entity and was not materially affected by the shortfall in the health plan business.

It's important to note that Moda has been paying and will continue to pay benefits claims submitted by EWEB's active employees and also its covered retirees through the end of the year, when the plan change will take effect. EWEB's insurance broker has closely monitored Moda's situation and has provided regular status updates. Coincident with the timing of the final RFP interviews, it was announced that Moda had satisfied the State's requirements and would shortly be released from any restriction or continuing extraordinary review.

## **Result**

In spite of the release of the State's restrictions, the RFP panel recommended that EWEB change carriers. At present, Moda provides all coverages (medical, dental and vision). The panel determined that EWEB would derive more value by contracting with separate providers for each line of coverage. These benefits will continue to be offered as a package but will be provided as follows:

- Pacific Source Health Plans for Medical/Rx,
- Vision Service Plan (VSP) for vision
- Delta (Moda) for dental

The change will yield considerable additional benefits to employees including expanded provider networks for medical (the Pacific Source plan includes both Sacred Heart and McKenzie Willamette Hospitals, for example), a higher level of vision coverage eliminating the need for EWEB's current vision "buy-up" option and, a better dental benefit in that preventative dental services will not be deducted from the annual maximum benefit.

Budgetary impacts resulting from the change are very positive. In short, if EWEB had remained with Moda, the projected annual rate increase for 2017 is expected to have been 8.6% for a total increase of approximately \$960K (based on their administrative costs schedule and EWEB's plan utilization to date). Adopting the new plans, including the recommended benefits enhancements, yields a 2017 increase of only 2.2%, totaling approximately \$250K, representing avoided costs of over \$700K.

Further, Pacific Source guarantees that increases in administrative expenses will not exceed 3% per year for 2018 and 2019. While claims utilization, which drives rate increases is difficult to project, Pacific Source will base future premium increases on a 2-year claims experience history rather than the current 1-year experience factor with Moda. Vision Service Plan has offered a 2-year rate hold guarantee.

In as much as the enhancements represent plan design changes, the IBEW's consent is still required. However, since the changes are favorable to employees, the matter is not expected to rise to level of opening the recently ratified EWEB/IBEW collective bargaining agreement.

Again, this explanation has been provided for the Board's information only so, no Board action is requested at this time. Rather, the final contracts are being developed and will be submitted, along with a summary of the budget impacts, for the Board's consideration and approval in the Board Run for the August Board Meeting.

**Recommendation**

None. This is an information item only.

**Requested Board Action**

None at this time. A consent calendar item will be presented to Commissioners at the August 2<sup>nd</sup> Board Meeting.

If you have any questions please contact Lena Kostopulos, Human Resources Manager at 541-685-7466 or email [lena.kostopulos@eweb.org](mailto:lena.kostopulos@eweb.org).