



CITY COUNCIL REPORT

December 14, 2009

TO: John Szerlag, City Manager

FROM: John M. Lamerato, Assistant City Manager/Finance & Administration
James A. Nash, Financial Services Director
Stephen Cooperrider, Risk Manager

SUBJECT: Agenda Item – City Employees' Dental Insurance Coverage

The City of Troy has consistently acted to provide insurance benefits to its employees' at a reasonable cost. City administration has always selected the insurers for this coverage based on cost and coverage required by collective bargaining agreements. Over the years, differences in coverage developed from one employee group to another. The administrative burden of handling dozens of plan options did not benefit either the employees or the City. To that end, and through the interest based bargaining format, the City of Troy proposed to all union groups the creation of an employee insurance benefits committee. All union groups at that time agreed to the creation of this committee. The committee consists of a representative from each union, a classified group employee, and City management. The mission of the committee is to develop a common insurance benefits platform for all full-time employees, and to investigate and evaluate ways to reduce costs, recommend appropriate coverage for employees, evaluate insurance carriers, and provide an open forum to exchange ideas with regard to insurance benefit information, and other related matters.

In early fall of 2009, the Risk Manager inquired of our insurance broker, Ms. Stephanie Sorenson of Willis of Michigan, what the dental coverage rates for 2010 were projected to be. The City is currently insured through MetLife. Our broker found that MetLife was indicating an 8.2% increase was projected. The Risk Manager did not find this acceptable given the City's current economic climate. The Risk Manager asked our broker to put the dental coverage out to the marketplace, and asked for a three-year rate guarantee. Ms. Sorenson requested quotes from fourteen nationally recognized dental insurance companies and third party administrators. They included: American Dental Network, Assurant, Aetna, Blue Cross Blue Shield, Delta Dental, Fort Dearborn, Guardian, Humana, Lincoln Financial, Mutual of Omaha, The Principal, Reliance Standard, The Standard Insurance Company, and Sun Life Financial.

We received nine quotes offering a one year rate guarantee, one did not respond, and four declined to quote for various reasons. The quotes were as follows:

<u>Carrier</u>	<u>Annual Cost</u>
Sun Life	\$485,756
Aetna	\$485,791
Delta Dental	\$485,802
Lincoln Financial	\$493,278
Humana	\$494,966
BCBSM	\$522,252
MetLife	\$528,369
Fort Dearborn	\$548,632
Reliance Standard	\$556,996
The Standard	\$631,176

We also received quotes from four of the same carriers offering a two-year rate guarantee. The quotes are as follows:

<u>Carrier</u>	<u>Annual Cost 1st yr</u>	<u>Annual Cost 2nd yr</u>
Humana	\$494,966	\$494,966
Aetna	\$499,006	\$499,006
Delta Dental	\$485,802	\$512,856
Sun Life	\$502,772	\$502,772

In addition, we received quotes from six of the carriers offering a self-insured arrangement where they would act as a third party administrator. The administrative fees, and projected claims based on current claims experience, network discounts and trends provided by each, provided an overall annual cost. First year quotes are provided which are based on the current number of employees. Those quotes are as follows:

<u>Carrier</u>	<u>Annual Cost</u>
Sun Life	\$432,189
American Dental Network	\$456,801
Delta Dental	\$459,975
Humana	\$489,191
BCBSM	\$565,427

There are advantages and disadvantages to a self-insurance program. The advantage to self-insuring is there is no premium. Your cost is for claims in addition to an administrative fee per covered employee. Payments are based only on our employees' claims experience and not on a wider pool of other insured. We keep any savings. Disadvantages include; the City would assume the risk of dental claims, and claims are somewhat unpredictable, adding more fluctuation to cash flow.

We reviewed our claims for the past three years. Claim totals for 2006, 2007, and 2008 were \$370,388, \$396,472, and \$400,163 respectively. This information was provided by Willis of Michigan upon review of MetLife claims data. After conducting a review of recent years' annual premium paid verses the annual claims paid we determined that we should select the self-insured Sun Life program for the City employees.

Ms. Sorenson presented the Sun Life program to the employee Committee for review and questions. The Sun Life quote was the lowest. In addition, the benefit level is the same as what is currently being provided to employees. All current collective bargaining agreements indicate the City

may purchase at least equivalent coverage. Ms. Sorenson is recommending the Sun Life self-insured dental program to City Management. The savings in the first year is estimated at \$68,629 compared to the estimated premium to be paid if we remain with MetLife.

Sun Life (self-insured program) is proposing a three-year rate guarantee on their administrative fees. Reasonable and customary costs are to be based on the 90th percentile. In addition, Sun Life has more providers participating within their network, compared to the current plan. Employees using providers within the network will experience an average 20% discount, and dentists participating in the network cannot balance bill. By having more providers within the network more discounts may be utilized. If employees utilize providers within the network, paid claims could be reduced resulting in lower costs to the City and cost savings to employees.

The Risk Management Department has contacted several municipalities in Michigan for references on the Sun Life dental program. All are pleased with the service and cost savings they have experienced through Sun Life.