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CITY OF RAPID CITY

RAPID CITY, SOUTH DAKOTA 57701-2724

City Finance Office

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Rapid City, South Dakota 57701
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TO: Council Members
FROM: Jim Preston
SUBJECT: Health Plan Coverage for Council
DATE: September 14, 2001

I recommend that the option allowing Council Members, the Golf Professional and their dependents to elect coverage under the City Health Insurance program be eliminated.

The Health Insurance Committee consisting of members from various Departments, Unions, and City Council has done an excellent job of developing and maintaining a fiscally strong Health Care Plan. This has been done through health screenings, healthwise incentives, controls on Emergency Room use, vigilantly insuring that claims are eligible, and by striving for larger discounts from providers. The Committee wants to be proactive in preventing a situation that could potentially harm the plan.

The Health Committee is proposing to eliminate the option for Council Members and the Golf Pro to join the City Health Care Plan because the committee wants to reduce the risk of bringing someone into the City Health Care Plan who may have costly medical conditions which could threaten the financial condition of the Plan. Council Members and the Golf Pro are even eligible to continue to receive health care coverage after leaving the City under the guidance of COBRA.

Council Members and the Golf Pro have the option to join or decline coverage under the City Plan. This means that someone from this group could obtain coverage without requiring all members of this group to pay premiums. This is referred to as adverse selection and the risks associated with this arrangement are discussed in greater detail on the attached sheet.

The Health Insurance Committee believes that it is important to keep our Health Insurance Plan financially strong. It is beneficial to all City taxpayers to do everything possible to keep the medical costs low.

Thank you for your consideration.

cc: Mayor Munson, Health Insurance Committee

SELF FUNDED HEALTHCARE PLANS
Should Avoid Temporary Staff Risks

Self-funded plans have the best opportunity to provide a benefit plan for the least amount of dollars; unfortunately, with opportunity comes responsibility and that is many times difficult to keep in mind as opportunities present themselves.

One of the opportunities that presents itself to employers is deciding who can participate in their Plan.

There always needs to be a relationship between the employer and the person allowed on the Plan. The best example is the employee who works for the employer. This employee is legally affiliated with the employer. The employer can allow or disallow the employee to participate in its plan by establishing criteria for participation. This criteria usually defines a minimum number of hours and a minimum number of days worked before the employee is eligible to participate in the plan.

Insurance companies are masters at avoiding risk so they have established eligibility criteria protecting their plans from adverse selection. Therefore for their insurance plan they establish a minimum number of hours of employment. The self-funded employer needs to do the same thing, avoid offering coverage to any group of individuals who would only select coverage if it were to serve their purpose and not yours. Typically part-time positions are not offered coverage because the employer knows this person may be in this position for a short period of time.

Providing benefits for part-time staff promotes and solicits adverse selection for your plan. If you expand thinking to the worst-case scenario a person with an illness could actually pick up health care coverage options in 18 month increments by working a minimum number of days every 18 months. They could work long enough to get on that employer's plan and then quit and keep that employer's plan for 18 months under COBRA and then move to the next part-time job and pick up benefits again for 18 months. No gap in coverage would ever exist because this person would have prior creditable coverage from his former employer and could access the new employers plan with full coverage. The new employer just picked up the next 18 months of claims for a minimum financial contribution.

Self-funded employers really can avoid risk by implementing and maintaining sound benefit practices.