



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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15-37 City of Colorado Springs Healthcare Costs Audit

December 2015

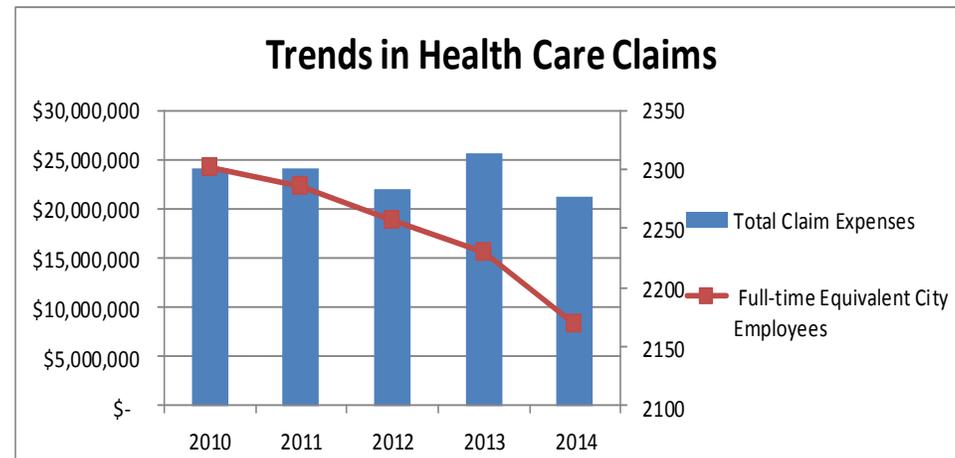
Purpose

The purpose of this audit was to evaluate the cost effectiveness of the City's employee healthcare benefit program and determine if estimated cost savings from 2013 plan changes were realized. We also compared the program to the best practices recommended by the Governmental Finance Officers Association (GFOA). The audit period included January 2010 through December 2014.

Highlights

We conclude that overall, the City's employee healthcare benefit program was administered in a cost effective manner while supporting the goal of attracting and retaining a quality workforce. In 2013, City Human Resources proposed plan changes to reduce healthcare costs by an estimated \$2.4 million for 2014. These changes, including increased enrollment in high deductible health plans, reduced healthcare benefit costs from \$22,970,962 in 2010 to \$20,129,051 in 2014. The City's healthcare benefit program incorporated the majority of the best practice strategies recommended by the Government Financial Officers Association.

In 2013, City Human Resources presented benefits plan changes to reduce costs as recommended in the 2013 City Compensation Study. These included potential savings of \$1.8 million by moving more participants to the City's high deductible Advantage Plan and additional savings of \$835,000 through plan design changes. While the number of full time equivalent city employees decreased 5.8%, we noted that total plan expenses decreased 12.0% from 2010-2014.



Source: City general ledger and Annual CAFR

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Management Response

City Management agreed with our recommendation.

Opportunity for Improvement

1. The City should consider increasing employee education on dependent qualification and asking employees to assert when re-enrolling that dependents are valid participants.

City Council's Office of the City Auditor

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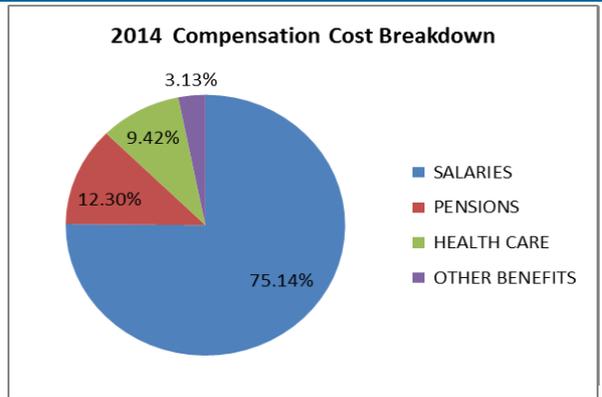
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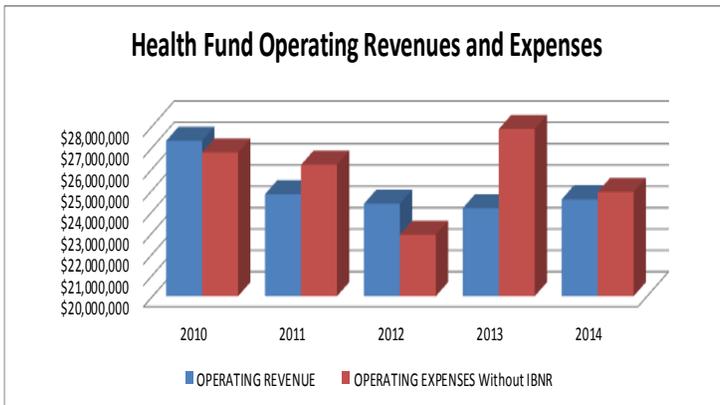
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Health benefit costs have been steadily rising over the past 10 years for most state and local governments. In June 2013, the average cost for healthcare benefits as a percentage of total compensation in private industry was 7.7% while in state and local governments it was 11.8%. The City's healthcare benefit costs as a percentage of total compensation costs declined from 10.81% in 2010 to 9.42% by the end of 2014, or \$2.84M less than in 2010.

The City offers group medical plans to civilian and sworn regular, special, and probationary employees who are employed to work twenty or more hours per week. In addition, under City Code 1.4205, the City must offer medical coverage to eligible sworn (fire and police) retirees



Source: City of Colorado Springs Financial reports until they are Medicare-eligible.



Source: City of Colorado Springs Financial reports

The Employee Benefits Self-Insured Health Fund, an internal service fund, accounts for the revenue and costs of the City's health plan. This fund has had a negative net position since 2008 with a deficit of \$5.89M in 2014. This negative net position included Incurred But Not Reported claims, IBNR, of \$2.84M to \$4.38M for 2010 through 2014. The IBNR is calculated by a third party actuary annually. Since 2010, revenue from premiums generally covered expenses with the exception of 2011 and 2013. Operating expenses declined in three out of the last five years.

If the fund was unable to pay claims, additional funds would be obtained from the City's General Fund. The City

has stop loss coverage in place to limit claims exposure. From 2010 through 2014, only one year (2013) required additional fund transfers from the General Fund in the amount of \$331,809. This was due to unusually large claims for the year and not increasing premiums in 2013 due to the compensation study in progress.

The 2016 Budget Outlook prepared in September 2015 stated that the City's funding strategy is to first build general fund balances, then increase funding to internal service funds such as the employee health benefit and workers' compensation funds.

Government Finance Officers Association (GFOA) Best Practices

The City has made changes to the Benefits Program and Pay practices over the past five years in an effort to contain healthcare plan costs. We compared the City's practices to the recommendations made by the GFOA.

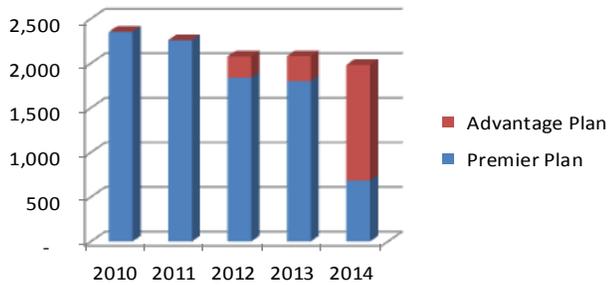
1) Change the level of benefit provided:
Changed retiree health benefits: GFOA suggested the more benefits a plan provides and the greater the number of participants in the plan, the greater the total cost of the plan. Effective January 2011, retirees eligible for Medicare were no longer eligible for the City's plan. Retiree enrollments decreased from 249

GFOA RECOMMENDATIONS	CITY OF COLORADO SPRINGS STRATEGIES
1. Change the level of benefit provided	High deductible plan, sworn retirees over 65 no longer eligible
2. Manage participant's choice of providers	On site medical clinic & pharmacy, higher copay for out of network, change of network providers
3. Share cost with employees	Increase employee share of premium, cost sharing copays and deductibles
4. Reduce use of health benefit services	Wellness program, chronic disease management program
5. Right source health benefit services	Self insurance, stop loss coverage
6. Maximize the value received for the health care dollar	Disease management programs, educate employees

Source: www.gfoa.org

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Employee Enrollment by Health Plan



Source: City of Colorado Springs Human Resources

in January 2010 to 144 in January 2011. By January 2014, there were 121 retirees enrolled in the City's Medical plan.

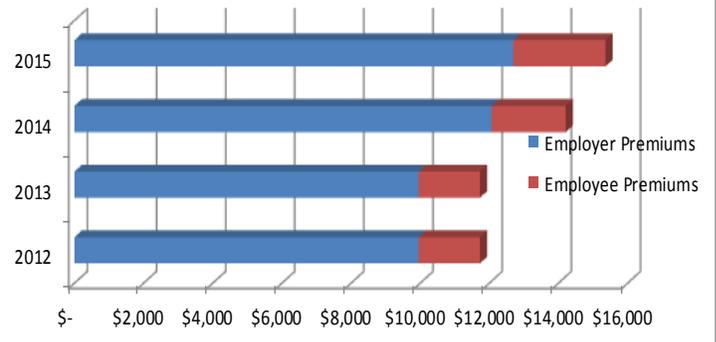
Consumer Driven health plans: GFOA recommends introducing a consumer-driven mentality to employee healthcare to reduce excess usage. The 2013 Compensation Study suggested by increasing enrollment in the high deductible Advantage plan the City could save \$1.8M in 2014. The Advantage plan provided a lower premium but higher out-of-pocket expenses for employees. The chart shows the change in plan enrollment since 2010 from a lower deductible Premier plan to a High Deductible plan.

that they have contracted for the deepest discounts. The City changed networks and in 2014 the new network resulted in \$2.6M savings for the plan due to higher medical discounts.

3) Shared costs with employees: GFOA suggests structuring health plans so that employees bear part of the burden of benefit costs. Since 2010, the City has consistently increased the employee cost share of the premiums on both medical plans. The City also increased deductibles for its Premier Plan from \$50 in 2010 to \$500 in 2015 for single coverage and for family coverage from \$100 to \$1,250. The high deductible Advantage Plan introduced in 2012 has a deductible of \$1,500 for single coverage and \$3,000 for family coverage.

2) Manage participants' choice of providers: GFOA suggests employers verify that providers produce the best outcomes at the lowest price and have their third-party administrator demonstrate

ADVANTAGE Plan - Family Premiums



The chart to the right demonstrates the change in premium cost sharing for family coverage in the Advantage Plan since 2012 when the plan was introduced.

4) Reduce use of health benefit services: GFOA suggests employers offer wellness programs to affect the overall health of participants, decreasing future healthcare costs, and increasing productivity by modifying poor health habits. The City has offered the "Reach Your Peak" wellness program for over ten years to active and retired employees enrolled in the City's medical plans. The voluntary program requires employees to participate in health activities to earn a \$300 annual incentive. The City also offers health management programs for asthma, coronary artery disease, hypertension, depression, and sleep management care.

5) Right source health benefit services:

On-site medical clinic and pharmacy: GFOA research found that on-site clinics offer a substantial return on investment ranging from \$1.60 to \$4 saved for every dollar invested. In 2011, it was estimated the City saved \$354,179 annually through the City Employee Pharmacy program and that pharmacy costs were 25%-59% lower than other municipality populations without an on-site pharmacist.

Self-insurance: GFOA states the largest potential gain from right-sourcing for many employers will come from self-insuring or self-funding the health plans. GFOA states the financial benefits can result in a 10% reduction in healthcare costs by eliminating the profit margin and designing benefit plans which meets the City's needs. The City has been self-insured since 1978. To reduce the risk of high-cost or catastrophic claims, the City purchases stop-loss insurance for claims exceeding \$500,000 as recommended by the GFOA.

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Opportunity 1

The City has not conducted a dependent eligibility audit as it was not considered cost effective. GFOA reports stated that dependent care audits may determine 8% or more of participants are ineligible for coverage.

The City requires proof of eligibility before dependents may be added to the plan. Dependent children were automatically dropped at age 26. These business practices help ensure plan enrollment was limited to qualified participants.

Events such as divorce or loss of guardianship may change plan eligibility. Employees, however, were not required to attest during annual enrollment that dependents qualified to participate in the plan.

Recommendation

The City should consider increasing employee education on dependent qualification and asking employees to assert when re-enrolling that dependents are valid participants.