# Creative Local Government Solutions to Healthcare

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**International City/County Management Association**
**2012 Annual Awards Program**

Community Health and Safety Award Submission

March 16, 2012

## City of Olathe, Kansas

City of Olathe
100 E. Santa Fe
P.O. Box 768
Olathe, KS 66051

J. Michael Wilkes
City Manager

ICMA
Leaders at the Core of Better Communities

# 2012 Annual Awards Program

# Program Excellence Awards Nomination Form

**Deadline for Nominations: March 16, 2012**

Complete this form (sections 1 and 2) and submit with your descriptive narrative.

## SECTION 1: Information About the Nominated Program

Program Excellence Award Category *(select only one)*:

- ☒ Community Health and Safety
- ☐ Community Partnership
- ☐ Community Sustainability
- ☐ Strategic Leadership and Governance

| | |
|---|---|
| Name of program being nominated: | Olathe Works Well |
| Jurisdiction(s) where program originated: | City of Olathe, Kansas |
| Jurisdiction population(s): | 125,872 |

Please indicate the month and year in which the program you are nominating was fully implemented. (Note: All Program Excellence Award nominations must have been fully implemented by or before January 31, 2011, to be eligible. The start date should not include the initial planning phase.)

| | | | |
|---|---|---|---|
| Month: | October | Year: | 2008 |

Name(s) and title(s) of individual(s) who should receive recognition for this award at the ICMA Annual Conference in Phoenix, Arizona, October 2012. (Each individual listed MUST be an ICMA member to be recognized.):

| | | | |
|---|---|---|---|
| Name: | J. Michael Wilkes | | |
| Title: | City Manager | Jurisdiction: | City of Olathe |
| Name: | Mary Miller | | |
| Title: | Human Resources Manager | Jurisdiction: | City of Olathe |

## SECTION 2: Information About the Nominator/Primary Contact

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|---|---|---|---|
| Name of contact: | Amanda Kaufman | | |
| Title: | ICMA Management Fellow | Jurisdiction: | City of Olathe |
| Street address: | 100 E. Santa Fe | | |
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# Creative Local Government Solutions to Healthcare
**City of Olathe, Kansas**

## Background

Due to rising healthcare costs and growing numbers of retirees covered under the City's plan, sustainability of the medical insurance plan was in question. Accordingly, the City reviewed its current plan design and eligibility to identify steps to sustain it and provide quality benefits to employees.

Per the Kansas Statute, the City provided health coverage for retirees who had 10 years of service up to the age of 65. While the statute allowed the City to charge the *full premium* for retiree coverage, the City generously allowed eligible retirees and their dependents to maintain coverage at the same cost as active employees. The health plan model was very rich and included two plans—neither of which had been redesigned for over a decade. In 2004 the City's Finance Department initiated a cost projection analysis to determine the cost associated with the existing retiree health care plan. The analysis projected significant increases in health care costs, compounded by an expanding employee base, due to Olathe's population growth—one of the nation's highest.

## Problems Identified:

1) Current plan design was cost- prohibitive and unsustainable for the long term.
2) Preventative health care was not a primary focus; low HRA participation rates
3) Annual healthcare cost increases ranged between 15 and 20%
4) Employees perceived they were guaranteed retiree and dependent healthcare at the current employee rate, resulting in families or retirees being covered up to 20 years at the active employee's rate.

5) Any plan design or cost changes could lead to issues with recruitment/retention and morale issues.

6) Employees in the rich plans were shielded from the reality of the costs of medical care, so they did not have a consumer approach when seeking care.

7) The aging workforce would result in a growing number of retired employees and their dependents on the health plan. (average age 40.5)

## Anticipated and Actual Outcomes

The City designed a multi-level health insurance plan with the goal of curbing expenditures, maintaining quality benefits and ensuring high employee morale—while mitigating the 15%-20% annual cost increases. Each problem was addressed and resolved with a validated return on investment (ROI).

1. In 2004 the City announced that retirees would no longer be provided family health coverage at the employee rate after 12/31/09. Retirees would, however, be allowed single coverage at the employee rate if hired prior to 1/1/04. Retirees hired after 1/1/04 would have single coverage subsidized at 50% of the employee rate. Furthermore, the City committed to designing an insurance plan to assist in off-setting health expenditures during pre-age 65 retirements; a team of employees was created to formulate a plan.

2. In 2007 Health Risk Assessments (HRA) were instituted to review the health status of employees with the intent of assessing and creating a benefits program model that fit the City's needs. It was made clear to employees that the City would initiate this process on an annual basis. Initially, there was no incentive to participate.

3. The City began offering wellness education classes in 2007, accompanied by wellness education emails on topics relevant to the HRA information.

4. The City began a communication campaign in 2007, explaining health plan expenses and identified the self-insured health plan as a "community checkbook". The intent was to drive ownership and appreciation for the need to sustain the plan to employees and away from HR/Finance/Benefits departments.

5. The City instituted a Consumer Involved High Deductible Plan (CIP) in 2008. The plan, which included a $1,000 deductible, gained a 48% participation rate in the first year, even though the cost differential was $45 from a traditional PPO plan.

6. Additional copayments were added to the traditional plan in 2008 with a $300 deductible. Wellness benefits were also increased from $200 to $1,000 annually.

7. A Voluntary Employee's Beneficiary Association (VEBA)[1] trust was established for CIP participants in 2008. The City contributed $1,200/2,400 annually for single and family participants, respectively, to assist in offsetting medical expenditures with the new high deductible plan. VEBA funds are available to employees for health expenditures only.

8. Results from the 2008 CIP plan showed the City had a loss ratio of 99.94%, instead of the projected 18% increase in health costs. Surplus funds were used to rebuild the reserve fund from approximately $300,000 to nearly $800,000.

9. In 2009 rates were held to a monthly increase of $10 which was credited back to the employees if they participated in the HRA; participation increased from 40 to 66%. The City continued to model its health plan management through the HRA.

10. The "Your Care" program, which assists people in understanding how to take medications and tracks compliance, was incorporated.

11. Through July of 2009, total expenditures, including HRA contributions, reflected a cost ratio of 82.05%.

12. Utilizing surplus funds in the plan, the City contracted with WINS—an outside resource—in June 2009 to develop an on-site wellness center, staffed with a nurse practitioner. The results of this initiative will provide 1) increased reserve build up, 2) premium relief and 3) wellness advancement, meeting the City's three primary objectives for benefits and wellness.

13. The City partnered with WINS and Olathe Medical Center in 2010 to expand wellness initiatives, including challenges, PSA screenings, and cardio scans.

## Costs

- HRA initiated - $20,000 in 2007 - Progressively more expensive due to increased utilization by employees and increased sophistication of the tools.
- In 2009 HRA costs will be $75 per participant or approximately $38,000. 2009 costs for on-site wellness center resource: $40,000 for clinic space renovation; estimated $250,000 expenditure for 1st year wellness center operation.

[1] Authorized by IRC Section 115

- The cost for the clinic in 2010 was $284,455.

## Savings

ROI calculated in three primary categories and four secondary categories:

## Primary ROI

1) ROI in reduced fee for service costs.[2]
2) ROI in reduced expenditures by driving high risk participants to a lowered risk.
3) ROI in reduced time off by providing onsite care for illness and injury.

## Secondary ROI

1) Increased employee engagement; enhanced work performance and employee satisfaction in the workplace.[3]
2) Presents a visible sign to employees that the City cares about them, thereby keeping retention high and lowering costs of rehiring and retraining.
3) Healthier employees have fewer accidents and workplace injuries.
4) Olathe's brand was enhanced from its positive press from Olathe Works Well.

## Identify innovative characteristics

1) Utilizing High Deductible Health Plan to mitigate future expenses
2) Utilizing VEBA 115 account financing to mitigate future retirees' concerns about their increased premium costs.
3) Wellness components for wellness center:
    a. Screenings offered free to all employees/retirees

[2] Measured by pricing services from the wellness center against usual reasonable pricing with the health plan.
[3] Measured by the bi-annual employee engagement survey.

b. HRA offered free to all employees/retirees, including 20-min. consultation

c. Coaching interventions provided onsite (employees slotted into high risk, medium risk and low risk)

   i. High risk participants offered six sessions, including: nutritionist, training coach, fitness professionals.

   ii. Medium risk participants get one session and mid-year testing with options for consultations.

   iii. Low risk participants participate at will

4) Four wellness challenge events annually

5) Established interactive website to track progress

6) Host quarterly presentations on wellness topics based on HRA results

7) Publish monthly Wellness Newsletters

8) Using Your Care as an online health coach.

9) In 2010 $100 was awarded to each participant who completed all challenges.

## Obstacles

1. Building employee and retiree trust factor when modifying a legacy health plan
2. Developing an effective communication plans
3. Identifying the appropriate partners that can be adaptive to the City's culture

## Results

The City's strategic decisions saved it $800,000 in its first year, $1.1M in its second, and most recently $2.8M in 2011.