



TO: Honorable Mayor & Members of the
Fort Lauderdale City Commission

FROM: Lee R. Feldman, ICMA-CM, City Manager

DATE: December 2, 2014

TITLE: Purchase of Reinsurance for Self-Funded Medical Plan - \$808,866

Recommendation

It is recommended that the City Commission approve the purchase of reinsurance with a stop loss level of \$275,000 for the self-funded medical plan from Cigna Health and Life Insurance Company (“Cigna”) in the estimated amount of \$808,866, and determine that Cigna shall best meet the needs of the City with regard to such reinsurance.

Background

The City of Fort Lauderdale’s self-funded health plan design includes a fully-insured specific reinsurance policy that covers all incurred health and pharmacy claims in excess of a designated amount per member per calendar year. This coverage is also known as a specific stop loss policy. These reinsurance policies are only guaranteed for one year at a time and renewals are based on local health care cost trends, policy experience and an insurance company’s overall experience in their reinsurance pool.

The City of Fort Lauderdale’s current reinsurance policy is underwritten by Cigna Health and Life Insurance Company. Cigna’s reinsurance policy was selected two years ago as the result of a Request for Proposal (RFP) process. The current stop loss level is \$250,000.

On October 1, 2014, the Insurance Advisory Board recommended negotiating with the current vendor, Cigna, for a reinsurance premium quote for the 2015 plan year. On October 7, 2014, staff received authorization from the City Commission to permit the City Manager’s designee, Lloyd Rhodes of The Rhodes Insurance Group, to conduct negotiations with Cigna.

Cigna initially notified the City that they would be asking for a 17% increase and subsequently lowered the proposed increase to 10% for the City’s existing stop loss level of \$250,000. The 10% increase is estimated to be an additional \$80,943 in annual premium. They have also offered to maintain the existing premium if the City would increase the stop loss level to \$275,000. The number of claims that would need to be

incurred between \$250,000 and \$275,000 and exhaust the premium savings is 3.24. While the historical data would suggest that maintaining the current stop loss level would be reasonable, an analysis of the current claims indicates a lower probability for this number of claims to exceed \$275,000. The actuarial projections for the 2015 year included an estimated increase of stop loss premiums to be 12%.

This policy is for the period of January 1, 2015 through December 31, 2015. In reviewing the other options, it is staff's opinion that increasing the existing stop loss from \$250,000 to \$275,000 and maintaining the current premium presents the best option. On November 5, 2014 the Insurance Advisory Board, in concurrence with staff and the City's Employee Benefits Consultant, agreed with this recommendation.

Resource Impact

There will be a fiscal impact to the City in the amount of \$808,866.

<i>Funds available as of November 5, 2014</i>					
ACCOUNT NUMBER	INDEX NAME (Program)	OBJECT CODE/ SUB-OBJECT NAME	AMENDED BUDGET (Object Code)	AVAILABLE BALANCE (Object Code)	PURCHASE AMOUNT
545-INS220101-5130	Self-Insured Health Benefits	Health Insurance Administration	\$1,750,000	\$1,750,000	\$808,866
PURCHASE TOTAL ►					\$808,866

Strategic Connections

This item is a *Press Play Fort Lauderdale Strategic Plan 2018* initiative, included within the Internal Support Cylinder of Excellence, specifically advancing:

- Goal 12: Be a leading government organization, managing our resources wisely and sustainably.
- Objective 1: Ensure sound fiscal management.

This item advances the *Fast Forward Fort Lauderdale 2035 Vision Plan: We Are United*.

Attachment: Exhibit 1- Specific Reinsurance Premium Analysis

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