

RESOLUTION NO. 1991- 223

AUTHORIZING A CONTRACT WITH BLUE CROSS/BLUE SHIELD OF OHIO FOR THE FURNISHING OF HEALTH CARE BENEFITS COVERAGE FOR A PERIOD OF THREE YEARS COMMENCING ON JANUARY 1, 1992 (EST. \$21,209,000.00 GENERAL FUND - FRINGE BENEFITS ACCOUNT)

WHEREAS, the proposal of Blue Cross/Blue Shield of Ohio to provide administration of the Authority's indemnity medical, dental and prescription drug health care program for a three (3) year period was received on October 21, 1991;

WHEREAS, negotiations with Blue Cross/Blue Shield of Ohio have resulted in an estimated price of twenty-one million two hundred nine thousand dollars (\$21,209,000.00); and

WHEREAS, the General Manager deems the offer of Blue Cross/Blue Shield of Ohio to be the most advantageous and finds the negotiated price to be reasonable and, therefore, recommends the same for acceptance by the Board of Trustees.

NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees of the Greater Cleveland Regional Transit Authority, Cuyahoga County, Ohio:

Section 1. That the proposal submitted by Blue Cross/Blue Shield of Ohio be and it is hereby accepted as the most advantageous offer to provide the Authority's indemnity medical, dental and prescription drug health care programs for a three (3) year period.

Section 2. That the General Manager of the Authority be and he is hereby authorized to enter into a contract with Blue Cross/Blue Shield of Ohio for the furnishing of health care insurance, on an administrative services only basis, for a period of three (3) years, commencing January 1, 1992 and ending December 31, 1994.

Section 3. That said contract shall incorporate and be consistent with the proposal dated October 21, 1991, and subsequent pricing negotiations.

Section 4. That said contract shall be payable out of the General Fund in an estimated amount not to exceed twenty-one million two hundred nine thousand dollars (\$21,209,000.00).

Section 5. That said contract shall be binding upon and an obligation of the Authority contingent upon appropriations for future years; compliance by the contractor to bid Specification and Addenda, if any; the Affirmative Action Plan adopted by the Board of Trustees in Resolution 1985-87; bonding and insurance requirements, and all applicable laws relating to the contractual obligations of the Authority.

Section 6. That this resolution shall become effective immediately upon its adoption.

Attachment A: Summary of Healthcare Proposals

Adopted: November 19, 1991



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President

Attest: Ronald J. Lee  
General Manager/Secretary-Treasurer

ATTACHMENT A

November 12, 1991

SUMMARY OF HEALTHCARE PROPOSALS

GCRTA received proposals to administer healthcare coverage that can be divided into four separate categories: 1) proposals to administer the GCRTA's group indemnity medical and dental coverages and 2) proposals to provide HMO coverage, 3) proposals to provide prescription drug coverage, and 4) proposals to provide vision care coverage.

The Authority received two proposals to administer the GCRTA's indemnity medical and dental coverages.

In addition to the two carriers submitting proposals to administer the indemnity medical and dental program, three HMO's submitted proposals.

Three companies submitted proposals to provide prescription drug benefits to the GCRTA's employees and three companies submitted proposals to provide vision care benefits. The proposals are summarized as follows:

INDEMNITY MEDICAL AND DENTAL COVERAGES

Under the current administrative arrangement, the GCRTA pays full billed charges for covered hospital services. However, Blue Cross reimburses the providers for their services based on the negotiated "Super Blue" discounts. Blue Cross retains the difference between the full billed charges and the applicable "Super Blue" hospital discounted amount. In exchange for the right to retain the difference between the full billed charges and the discounted amount, Blue Cross has reduced its combined ASO service fee and specific and aggregate stop loss charges for the calendar year 1991 to \$2.50 per employee per month.

Tables 1 and 2 outline projections of the calendar year 1991 and 1992 indemnity medical and dental plan costs under various administrative arrangements. As shown in Table 1, GCRTA's calendar year 1991 plan costs, which we have defined as incurred claims plus administrative fees and stop-loss charges, for the indemnity medical and dental coverages are projected to be

\$5,450,000. If the current administrative arrangement were maintained in 1992, the GCRTA's projected calendar year 1992 plan costs would increase by approximately \$620,000 or 11.4% over the projected calendar year 1991 plan costs.

Of the two proposals submitted, and after a series of negotiations, the Blue Cross plan cost increase of \$352,000 or just 6.5% over the projected calendar 1991 plan cost is the most attractive. This arrangement as described in Table 1, Number IIA4, eliminates specific stop loss insurance, a reduction of \$89,000.

#### HEALTH MAINTENANCE ORGANIZATION COVERAGE

With regard to the HMO proposals submitted, the two incumbent HMO's, HMO Health Ohio, an Individual Practice Association (IPA) model HMO, and Kaiser, a federally qualified Group Practice model HMO, should remain as medical options. HMO Health Ohio, the Blue Cross HMO, has proposed to maintain the GCRTA's HMO rates at their current levels through December 31, 1992. While a separate RFP was distributed for the prescription drugs and an Invitation for Bids was distributed for the life and short-term disability insurance, a 3% reduction to HMO rates would be applied if Blue Cross were independently selected to provide each of coverages listed above. The 3% reduction would save the GCRTA approximately \$35,000 in 1992 HMO premiums.

Kaiser has proposed a 23.1% rate increase effective January 1, 1992. However, because Kaiser postponed a rate increase at August 1, 1991, which was the termination date of the current contract, and extended the inforce rates through December 31, 1991, this rate increase is overstated.

A possible third HMO alternative is Personal Physician Care of Ohio. Personal Physician Care, which is an IPA model HMO and is not federally qualified, was established in 1987 and has enrolled over 17,000 members in the greater Cleveland area. A privately owned company, managed under contract by the United American Health Care, Personal Physician Care has contracts with 250 physicians and 26 hospitals. It has had financial difficulties in its short history, but, this is not unexpected of a new HMO in today's market.

If Personal Physician Care is deemed financially satisfactory by the GCRTA, it offers the following potential enhancements to the Authority's current medical program:

- 1) The Personal Physician Care network of hospitals and physicians provides a good compliment to the HMO providers currently available through HMO Health Ohio and Kaiser.
- 2) A third HMO option might attract more individuals into the managed care environment with its lower per capita costs relative to the indemnity medical plan.
- 3) Personal Physician Care is a minority owned HMO.
- 4) Rates for this HMO are less than Kaiser and more than HMO Health Ohio.

#### PRESCRIPTION DRUG COVERAGE

Of the three companies submitting proposals for prescription drug coverage, it is in the best interest of the GCRTA to maintain the current self-insured arrangement with Blue Cross. Blue Cross essentially submitted two proposals: 1) the current arrangement, under which prescription drug claims are self insured under the indemnity medical plan by the GCRTA and 2) a fully-insured arrangement. There is no logical reason to fully-insure the prescription drug plan with Blue Cross, while at the same time self-funding the remainder of the indemnity medical coverage.

#### VISION CARE COVERAGE

Three companies submitted proposals to provide vision care coverage to the GCRTA's employees. Union Eye Care's proposed cost to insure the GCRTA's vision care program is substantially less than the other two proposals. In addition, the Union Eye Care program is the most attractive proposal due to the ease in administration compared to current administrative procedures. For the 1992 contract, Union Eye Care has proposed a single vision rate and a family vision rate and will be responsible for verification of eligibility which will provide the necessary administrative procedures ensuring payment of the benefit to only those employees and dependents who are eligible.

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Summary of Healthcare Proposals

### THREE YEAR RATE GUARANTEE

On the indemnity medical, prescription, dental and vision coverages, the Authority has solicited and received three year rate guarantees. Union Eye Care has agreed to hold and guarantee their rate for three years. Because the other plans are self-insured, the guarantee is offered on the administrative services cost component only. The Authority's claims liability is limited in the first year only by stop loss insurance.

**Indemnity Medical and Dental Coverages**

**Calendar Year 1991 and 1992 Liability Projections**

	<u>Projected Incurred Claims</u>	<u>Projected Retention</u>	<u>Projected Plan Costs</u>	<u>Projected Plan Cost Increase from CY1991</u>	<u>Projected Percentage Plan Cost Increase from CY1991</u>
<b>I. Calendar Year 1991</b>	\$5,410,000	\$40,000	\$5,450,000	\$0	N/A
<b>II. Calendar Year 1992</b>					
<b>A. Blue Cross/Blue Shield of Ohio</b>					
1. Current Administrative Arrangement	6,030,000	40,000	6,070,000	620,000	11.4%
2. Current Administrative Arrangement except All Retention Charges are Eliminated	6,030,000	0	6,030,000	580,000	10.6%
3. Alternative Administrative Arrangement with Hospital Discounts Passed on to the GCRTA	5,006,000	885,000	5,891,000	441,000	8.1%
4. Alternative Administrative Arrangement with Hospital Discounts Passed on to the GCRTA and Elimination of Specific Stop-Loss Insurance	5,203,000	599,000	5,802,000	352,000	6.5%

Table 2

THE GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY

Indemnity Medical and Dental Coverages

Projected Savings Generated by Switching from the Current BCBSO Administrative Arrangement to the Alternative BCBSO Administrative Arrangements

	<u>Projected Incurred Claims</u>	<u>Projected Retention</u>	<u>Projected Plan Costs</u>	<u>Projected Savings Compared to Current Arrangement</u>
1. Current Administrative Arrangement	\$6,030,000	\$40,000	\$6,070,000	N/A
2. Current Administrative Arrangement except All Retention Charges are Eliminated	6,030,000	0	6,030,000	40,000
3. Alternative Administrative Arrangement with Hospital Discounts Passed on to the GCRTA	5,006,000	885,000	5,891,000	179,000
4. Alternative Administrative Arrangement with Hospital Discounts Passed on to the GCRTA and Elimination of Specific Stop-Loss Insurance	5,203,000	599,000	5,802,000	268,000