Report to the Human Resources Committee

Recommendation to Exercise an Option Year for the Medical, Dental, and Prescription Drug Benefit Plans for Employees and Retirees

October 2017
Background

• The Airports Authority competitively bid the Medical, Dental, and Prescription Drug Plan contracts for active employees and retirees in 2014.
• Contracts were awarded, effective January 1, 2015 for a three-year term with option years exercisable at the discretion of the Airports Authority. The Board understood at the time of the award that option years were unpriced.
• In the healthcare marketplace, providers do not generally price the fixed price components of healthcare contracts beyond the initial three-year base period. Therefore, option years are only priced one-year at a time.
• Unpriced option years are viewed as sole-source procurement actions under the Contracting Manual and require Board action.
Calendar year 2018 will be the first unpriced option year for the following contracts:

- Preferred Provider Option (PPO) and Exclusive Provider Option (EPO) Medical Benefits Plans. These are self-insured arrangements through UnitedHealthcare.
- Medicare Advantage (MA) Plan. This is a fully-insured arrangement through UnitedHealthcare.
- Staff Model Health Maintenance Organization (HMO) Medical and Prescription Drug Benefits Plan. This is a fully-insured arrangement through Kaiser Permanente.
- Prescription Drug Benefits Plan for participants in the PPO, EPO and MA Medical Plans. This is a self-insured arrangement through CVS Caremark.
- Dental Benefits Plan. This is a fully-insured arrangement through Metropolitan Life Insurance Company.
The cost of each of the contracts for calendar year 2018 is shown below. The costs include estimates of future incurred claims for those coverages that are self-insured, as well as projections of insured components of the plans.

<table>
<thead>
<tr>
<th>Contract</th>
<th>Coverage</th>
<th>Cost of 2018 Option Year</th>
<th>Projected 2018 Airports Authority Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>UnitedHealthcare</td>
<td>Medical</td>
<td>$19,009,735</td>
<td>$15,207,788</td>
</tr>
<tr>
<td>Kaiser Permanente</td>
<td>Medical</td>
<td>$3,768,564</td>
<td>$3,014,851</td>
</tr>
<tr>
<td>CVS Caremark</td>
<td>Prescription Drug</td>
<td>$9,184,531</td>
<td>$7,347,625</td>
</tr>
<tr>
<td>Metropolitan Life</td>
<td>Dental</td>
<td>$1,770,373</td>
<td>$796,668</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$33,733,203</td>
<td>$26,366,932</td>
</tr>
</tbody>
</table>
Discussion

• The Airports Authority’s health plan vendors are effectively managing health care costs and employees are satisfied with their plan choices.

• Forecasted costs of $33.7 million is an increase of $1.9 from calendar year 2017.

• The increase in cost is due to a combination of factors:
  – an increase in enrollment of 5.2 percent; mainly in the retiree population; and
  – and medical trend of 4.9 percent, which is below the industry projected trend of 6.5 percent for 2018.
Recommendation

Staff recommends that the Human Resources Committee approve and recommend that the Board approve the exercise of a one-year option period for calendar year 2018, for the Medical, Dental, and Prescription Drug Plans for active employees and retirees of the Airports Authority.
Proposed Resolution

Exercising an Option Year for the Medical, Dental, and Prescription Drug Benefit Plans for Employees and Retirees

WHEREAS, The Airports Authority competitively bid the Medical, Dental, and Prescription Drug Plans for active employees and retirees in 2014;

WHEREAS, Contracts were awarded, effective January 1, 2015, for a three-year base term, with additional option years exercisable at the Airports Authority’s discretion;

WHEREAS, These contracts are with UnitedHealthcare and Kaiser Permanente for the provision of Group Medical insurance plans, with CVS Caremark for the provision of a Prescription Drug coverage plan, and with Metropolitan Life Insurance Company for the provision of Dental insurance plans for Airports Authority employees and retirees (collectively, Contracts);

WHEREAS, Providers in the healthcare marketplace do not generally provide a fixed price for healthcare contracts beyond the contracts’ initial base period;

WHEREAS, Consistent with this industry practice, the Contracts that were awarded effective January 1, 2015, do not contain a fixed, or any other, price for its option years;

WHEREAS, The exercise of a contract’s unpriced option years are viewed as sole-source procurement actions under the Airports Authority’s Contracting Manual and require Board of Directors’ approval if the cost of exercising the option exceeds $200,000;

WHEREAS, The Airports Authority’s estimated cost of exercising a one-year option under all of the Contracts is $26.4 million, thereby requiring Board approval of extending the Contracts for an additional year; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized to execute a one-year extension for each of the Contracts, effective January 1, 2018, consistent with the terms and conditions presented to the Human Resources Committee at its October 2017 meeting.

For Consideration by the Human Resources Committee and Board of Directors on October 18, 2017

NOTE: recorded vote is required.