

Minutes from January 5th, 2011
Special Fire Board Meeting
Black Canyon Fire District

ITEM I: *Call to Order:* The January 5th, 2011 Special Fire Board Meeting was called to order at 2:00PM

ITEM II: *Roll Call of Board Members:* Present: Chairperson Marilyn Forsythe, J. Coslett, D. Kenson, and S. McMahon; R. Pendergast is absent. Also present: Chief Birch, E. Caldwell, A. Carnes and K. Shoemaker

ITEM III: *Discuss and/or vote on employee insurance provider; Principal Financial Healthcare or United Healthcare. Dotan Lior with Sedona Financial & Insurance will be in attendance to answer your questions.* <J. Coslett> inquired if someone could give a brief overview of the issues. <D. Lior >agreed to do so and provided the following information: The issue in front of the District is really tough due to the several factors. First, Principal Financial, in part due to health care reform, made the decision several months ago to pull out of the health insurance business and focus only on financial services. Over the next 36 months everyone using Principal will have to go elsewhere. They are not forcing anyone, and that is the nice thing, as evidenced by the 16.9% increase. If they wanted the District to do elsewhere now, the renewal rate would have been much, much higher this year. They are allowing current clients to stay with them for up to the next 12 months and the District has already completed its renewal. That allowed the District to know exactly what the renewal rate would be and lock it in. Twelve months from now however, we will be shopping out from scratch; we will have to go somewhere and could likely face a tremendous rate increase at that time. What Principal Financial did was cut a deal with United Healthcare, allowing them to exclusively absorb the current contracts, without going through the usual underwriting, sharing their claims experience with United, and allowing United to determine the risk and come up with a rate. What the District needs to decide is whether it is better to stick with Principal, the current provider for another year and take a chance on finding affordable coverage next year, or take the bite now with United and have next year's renewal locked in. The thing to keep in mind is that the District has had some very large claims over the past year and it is likely to continue into the current year. The problem is when there are such high claims on such a small District, the risk is spread out over only a few, and we become very high risk. That being said, he did shop around and it is fairly safe to say that next year we are looking at some very, very high rates. <E. Caldwell> Attempted to come up with accurate figures based on both current number of employees enrolled and the potential of 2 additional employees (Karen comes on in March and another employee may come on at a later date). <D. Lior> For 2010, the cost of insurance was \$3900.00 a month. With the current 16.9% increase, the cost has gone up to \$4560.00 a month. The quote he got from Blue Cross Blue Shield was \$7700.00 a month, a considerable increase and in fact, some companies declined after reviewing the health histories and potential for additional claims. The risk was too great to make an offer. He believes that although we will not be declined by every insurance company next year, the potential for very high premiums, such as the one quoted by Blue Cross Blue Shield, is quite high. Underwriters look for at least a 3 year absence of high-risk medical issues when they review risk assessment and that is just not going to be the case here. So, rolling the dice, we are probably looking at paying \$7000 - \$8000 a month, a considerable jump from the current premium, even with the almost 17% increase. The second option, going with United is a tough decision as well. It is difficult because a comparable plan with United is going to run around \$5700. The only advantage about potentially switching to United now is that when it comes to renewal time, the increase will be less. The renewal percentage consists of 3 or 4 components. They look at *claims, trend*, which is the insurance companies name for inflation and generally adds around 10%, *demographic changes*, which really haven't affected the District as we have been quite stable for some time, the *average age of insured's and their*

dependents, and *ratio of males to females*. Demographics and trend are not really going to be an issue here. What will be an issue are medical claims. By law that is capped at 15% and that is important. They are not capped on a fresh quote. What that means is that if a move is made to United now, even with the higher premium, the most the increase will be at renewal time is 30% – 35%, basically bringing the total to still less than the \$7700 quote Blue Cross Blue Shield gave right now. If the District goes out and shops for new insurance next year, heaven for bid, we may be looking at an increase of around 300% to 400%! The advantage of moving now is that the major component of a major increase is capped. <D. Lior> reviewed the prices again; current Principal plan at \$4600 monthly, quote from United at \$5600 per month and Blue Cross Blue Shield at \$7700 per month. Each will increase at renewal time; the question is how much of a risk is the District willing to take? If the District decides to stay with Principal, it will be only for this year and the District will have to shop for health insurance next year. No doubt United will continue to make us offers, but it is doubtful any offer will be as good as the one they currently made. This is probably the best offer we will get from United. The advantage to moving to United now is it will be done without underwriting. <D. Kenson> How smooth will the claim transition would be between Principal and United? <D. Lior> Current insured's with pre-existing conditions cannot be excluded. Everyone will have continuous coverage. As far as how smoothly the transition would go, as of this date, we can only hope it would be smooth. Both Principal and United have things in place to make sure that happens. <J. Coslett> You said that coverage is comparable which means it is not exact. Are there differences such as deductibles? <D. Lior> The current deductible is \$3250. With United that amount goes down to \$3000. His understanding is United will grant a credit for some portion of the deductible currently met. Should we make the switch now, the plan would be retroactive to Jan. 1, 2011. Prescriptions are treated a little bit different in that they are self pay up to the deductible, then paid at 100%. He always likes to remind people of the availability of the \$4 generic prescriptions. The United Plan is healthcare reform compliant in that it covers 100% coverage for preventive care without co-pays. The plan does have office visit co-pays. It is a very comparable plan. <J. Coslett> Assumes it costs more for females? It includes maternity? <D. Lior> Agreed. The other difference is the current plan bases their premiums on individual age. Every employee has a different rate based on their age. With United, it is going to be a composite rate, which is administratively easier. With composite rates it is a standard four-tier system (Employee only, employee plus spouse, employee plus children, and family). Everyone within a category will pay the same. This is not an easy decision. To clarify even further, we shop for you every year to make sure that your current insurance is still the best thing on the market. Also, APEHP (Arizona Public Employees Health Plan) was another option I looked into. This is essentially a trust and it is growing – it works for some fire Districts and not for others. <M. Forsythe> So you believe that United is the best plan for us right now. <D. Lior> Yes. <D. Kenson> There are not a lot of plans available in Yavapai Co. <M. Forsythe> I think United is a good healthcare. I think they are tops. <D. Lior> They are very good national carrier. You know they are not going to go away. I shopped it out with 6 carriers and every year there seems to be fewer and fewer. I shopped with Blue Cross Blue Shield, United, Aetna, Health Net, APAHP, Star Mark, and Humana. Cigna flat out declined. Blue Cross was in the high \$7700's. Aetna was in the high \$7000's. Star Mark declined. <J. Coslett> Will there be coverage for individuals while they are traveling? <D. Lior> Yes. And this ties in to Diana's good point about the network. One of the things we have to look at is not just the best dollar but also the availability of services, Dr.'s, pharmacy, etc. United is one of the better providers in this State. The top networks in rural Arizona, good providers are Aetna, United, Blue Cross and Principal. United is an excellent network for coverage within the state. If you are traveling out of state and it isn't an emergency, look on the internet and find a Dr. that contract with United. Now, in the event of an emergency and with the healthcare reform bill, even emergencies will be covered as if it were in-network. Even if that hospital was not contracted with your insurance company. <Chief> The reality of the situation is no matter how good or bad the insurance is, how are we going to pay for it? I contacted the county to see if I could get a better idea of the projected tax losses and the best I could get was a figure that starts around 25%. I

just want to be sure that everyone understands is, it's all about the money. <D. Lior> One thing to keep in mind that if you stick with Principal and the lowest rate right now, for 12 months out, that is a significant saving. If that is what is necessary, then we will do whatever it takes to get the best deal we can get under whatever the circumstances. If you stick it out now and next year the best deal we find is in the high \$7000's, then that is what it would have been anyway. <Chief> Even there, the bottom line is where are we going to get the money? <J. Coslett> If I am not mistaken, on a budget issue, we would be looking at this for Jan thru June, so we would be looking at this for 6 months, so we start budgeting in March, the budget process for next year, we will have a better idea of where we will stand, so we are probably just looking at a 6 month issue. <E. Caldwell> Yes, that is correct. It is difficult to make logic of this because there are so many variables. We don't know how much of a hit we will take decrease in tax revenue, we don't know how high we will have to project for next year, and then how much will the renewal rate be after that? I took a guess and used 30% as the projected increase off of United Healthcare's quote, and then an 18% increase for a renewal the following year. I was just going off of what Dotan told me. So that is how I came up with the figures. The scary part, when Chief called the County to get figures, he was told that 25% was a good place to "start." The push for the United Healthcare in this board meeting is if the Board decides to go with United Healthcare, we have to do this by Monday. We have already signed the contract and enrolled with Principal. It is done. <J. Coslett> I'll tell you what scares me the most about this. If we stay with Principal this year, we will be in a position that we will have to take whatever is available. Coverage may not be comparable and that would hurt our FF and their families in offering group health. We have a financial obligation to the District obviously, but we also have an obligation to our FF and their families in offering group health. <Chief> One of the concepts in the thought process in pulling out of Principal, is within the next 12 months, find another District or Community that is going to go into the Az. Public Health Plan, it may be more affordable. The other thing is if we decide to go elsewhere, it gives us 6 months. Something is going to give. Right now, the District pays for my whole family. The Board approved that. We are at a point I am going to have to give up something to. I have to have health insurance as well. Things may have to go away, maybe the HSA account. Instead of just cutting it short and not having time to prepare for that, staying with Principal now gives us time to prepare for that. <J. Coslett> has any leg work been done to contact other Districts like Mayer or Sedona, etc.? <Chief> we just got the information. <E. Caldwell> we have just started looking at it. Some of the things we have heard are not so good, and others are okay. We are trying to look at all the alternatives; as I am on the phone with Dotan, Chief is on the phone with you trying to get this meeting together so we can offer you these alternatives. With the APHP, Candice- from Daisy FD and AFDA sent out an email to all Fire Districts to see if anyone was interested in it and she only had 3 bites. Two looked into it and opted not to use it and the other is considering it. Mayer isn't going to. <D. Kenson > who does Mayer use? <E. Caldwell> They use Blue Cross Blue Shield. So have we really investigated it heavily? No. Are we going to? Yes. <J. Coslett> Is there anything stopping us from going ahead and shopping while we are with Principal? <D. Lior> No. We are perpetually shopping. You are not locked in to a contract. What you are saying, should we stay with Principal now or move, that is a strategical decision, it is 50/50. I understand what Chief is saying about staying with Principal allows time to explore. We don't know how things will pan out. I brought this to Elaine's attention because I knew this was not a good situation. <J. Coslett> If we don't go with United by Monday and this doesn't pan out, then we are in a position where the premiums could sky rocket out the window. <D. Lior> It could. We probably will get additional offers from United over the next 12 months, but the offer won't be as low as the initial one. <M. Forsythe> Claims that are being filed for this month. How is that going to work, especially since we are so late in the game? <D. Lior> As of right now, Principal will be paying for claims. If the Board decides to go with United and it is 3 to 4 weeks later and now it is United's job to pay claims, it may mean that myself and my office will have to step in to make sure claims are paid. It is likely that services received in early January will not yet be processed through Principal and can go through United. Any services rendered in January will ultimately be paid by United. <Chief> And we know that going with United will bring us a 30%

increase. <D. Lior> We know that the premium will go up to \$5700 immediately with potentially a 25% – 40% increase at the time of renewal. <Chief> The bottom line is, the District can't afford it. We can't afford a 35% increase; we can't afford a 45% increase. There is more to this than just medical insurance, something is going to have to give. <J. Coslett> The agreement that Principal made with United, that is good only for 12 months? <D. Lior> United will be making additional offerings through the year. The issue is, Principal and United be will sharing data and that will be factored in when they make another offer. <S. McMahon> I am inclined to stay with Principal for now until we have time to look into this further. <J. Coslett> I don't like being pushed into things on the QT. I would prefer to stay with Principal for the next 3 – 4 months at least. <Chief> This will give us time to consider what the employees may be willing to give up in order to afford health insurance. <D. Lior> We are seeing a trend with our Fire District clients where District's are no longer paying 100% of the premium. You may have to look into maybe a 75/25 split. <J. Coslett> The property valuation has been dropping. There is no industry here in Black Canyon City and our tax base has decreased. The firefighters may just have to do that, like the Chief said. <Chief> If the employees have to give up, then I have to give up. But, there may be some other things we can look into before we give up paying 100% for insurance. We have a HSA account, vision and dental. I really don't want to see us get to the point where the employee has to pay. There are some other things that can be done. I just wanted you to see that things are serious. <D. Kenson> Originally I was leaning towards United, having shopped recently for insurance and what I hear about making sure you are tied into a plan for a set period of time, If we had to start over again with someone other than United, the other Company would be making you start from scratch so that would not be a good thing, which is why United felt good to me. But saving the money feels better. I would feel really good about APHP if you said there were 300 people involved and it was working really well. That is not what I heard. <D. Lior> It is something we can look into over the next 6 months or so. It may be a viable option in the future but not right now. A. Carnes. Do we have to go with another fire District or can we go in with another entity? <D. Lior> The trust is just open to Fire Districts and there is a minimum to the number of employees which is why we would have to look into going in with another entity. It sounds like it has to be another District but we will find out. But it opens up another whole slew of possibilities. <D. Kenson> So at this point I would be looking towards waiting it out and seeing what was at the AFDA Conference. <D. Lior> I will be attending the conference this year, I am at every AFDA Conference. <M. Forsythe> I would like to continue to Principal. <S. McMahon> The offer from United, if we wait we will have to get a new quote, right? <D. Lior> Yes. <D. Kenson> Are you okay with that? <E. Caldwell> It's a gamble, we just don't know. <D. Lior> I don't want to get into politics but what I am hearing is happening is that insurance companies wanted to appear they were on board with Obama's health care plan but at the same time were hoping it wouldn't pass. So now, they are sticking it to the Administration. Obama may have the last laugh and in 3 or 4 years prices may be down but I just don't see anything in that Bill that creates a mechanism to that end. Unfortunately the model the Bill is based on it that everyone has healthcare through their employer. It is really only larger businesses that will benefit from this Bill. The whole law didn't address the other reason healthcare costs are out of control. It is litigation, people are sue-happy. Dr's. are paying huge malpractice insurance premiums. On top of that, most hospitals are for-profit and if they want to charge \$1500 for a 20 minutes MRI, they will get it. I don't think the current healthcare bill will really help anyone at all. <M. Forsythe> Do I have a motion? <J. Coslett> **Motions the District stay with Principal Insurance with the direction to continue to search other options.** <D. Kenson> **Seconds the motion. Motion carries unanimous 4-0.**

Meeting adjourns at 3:20pm



Authorized Signature

2/2/11

Date