



# Report to the Human Resources Committee

## Recommendation to Exercise an Option Year for the Medical and Dental Benefit Plans for Employees and Retirees

September 2018



## Purpose

Staff requests that the Human Resources Committee approve and recommend that the Board of Directors (Board) approve exercising an option year for contracts providing Medical and Dental Benefits for active employees and retirees of the Airports Authority.



## Background

- The Airports Authority competitively procured Medical and Dental Benefits contracts for employees and retirees in 2014.
- Each contract has additional unpriced option years, exercisable at the discretion of the Airports Authority:
  - Preferred Provider Option (PPO) and Exclusive Provider Option (EPO) Medical Benefits Plans for active employees and non-Medicare retirees.
  - Medicare Advantage (MA) for Medicare retirees. This is a fully-insured arrangement through UnitedHealthcare.
  - Staff Model Health Maintenance Organization (HMO) Medical and Prescription Drug Benefits Plan for active employees and retirees. This is a fully-insured arrangement through Kaiser Permanente.
  - Dental Benefits Plan for active employees and retirees. This is a fully-insured arrangement through Metropolitan Life Insurance Company.



## Discussion

- The Board understood at the time of the award in January 2015 that option years were unpriced.
- In the healthcare marketplace, providers do not generally provide pricing for healthcare contracts beyond an initial three-year term. Option years are only priced one year at a time.
- The Airports Authority Contracting Manual addresses any unpriced option years as a sole-source procurement action which requires Board approval if the cost of exercising the option exceeds \$200,000.
- Calendar year 2019 will be the second unpriced option year for the contracts providing Medical and Dental Benefits for active employees and retirees.



## Discussion (continued)

- The projected costs of these contracts for the 2019 option year include estimates of future incurred claims for those coverages that are self-insured, as well as projections of insured components of the plans. Projected costs are as follows:

Coverage	Budgeted Total Cost of 2018 Option Year	Projected Total Cost of 2019 Option Year	Budgeted 2018 Airports Authority's Share	Projected 2019 Airports Authority's Share
UnitedHealthcare	\$20,371,251	\$24,287,629	\$16,297,001	\$19,430,103
Kaiser	\$3,768,564	\$4,088,841	\$3,014,851	\$3,271,072
Dental	\$1,770,373	\$1,920,478	\$796,668	\$864,215
Subtotal	\$25,910,188	\$30,296,948	\$20,108,520	<b><u>\$23,565,390</u></b>
CVS Caremark Prescription Drug *	\$7,823,015	\$8,314,095	\$6,258,412	\$6,651,276
Total	\$33,733,203	\$38,611,042	\$26,366,932	<b>\$30,216,666</b>

\* In December 2017, the Board approved the extension of the CVS Caremark contract through 2019.



## Discussion (continued)

- The Airports Authority's health plan vendors are effectively managing health care costs, and employees are satisfied with their health plan choices.
- Staff is projecting the Airports Authority's share of medical and dental plan costs to total \$23.6 million, an increase of \$3.5 million from budgeted calendar year 2018.
- Including pharmacy plan costs, staff is projecting overall costs to the Airports Authority of \$30.2 million in calendar year 2019, an increase of \$3.8 million from budgeted calendar year 2018.
- The increase in cost is due to a combination of factors; the covered population has increased 6.89 percent over the previous year and the forecasted increase in cost on a per member basis is expected to be 7.5 percent, higher than recent increases. The total cost increase is 14.39 percent overall.



## Discussion (continued)

Factors contributing to total cost increase:

Cost Element	Percentage
Medical Cost Inflation	7.50%
Increase; Retirees	1.85%
Increase; New Hires	4.80%
Plan Choice	.24%
<b>Total</b>	<b>14.39%</b>



## Recommendation

Staff recommends that the Human Resources Committee approve and recommend that the Board approve the exercise of a one-year option for calendar year 2019, for the Medical and Dental Plans for active employees and retirees of the Airports Authority.





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## **REPORT TO THE HUMAN RESOURCES COMMITTEE**

### **RECOMMENDATION TO EXERCISE AN OPTION YEAR FOR THE MEDICAL AND DENTAL BENEFITS PLANS FOR EMPLOYEES AND RETIREES**

**SEPTEMBER 2018**

#### **ACTION RECOMMENDED**

Staff requests that the Human Resources Committee approve and recommend that the Board of Directors (Board) approve exercising an option year for contracts providing Medical and Dental Benefits for active employees and retirees of the Airports Authority.

#### **BACKGROUND**

The Airports Authority competitively bid Medical and Dental Benefits contracts for employees and retirees in 2014. The contracts listed below were awarded effective January 1, 2015 for a three-year term, and each contract has additional unpriced option years, exercisable at the discretion of the Airports Authority:

- Preferred Provider Option (PPO) and Exclusive Provider Option (EPO) Medical Benefits Plans for active employees and non-Medicare retirees. Claims are paid through a self-insured arrangement through UnitedHealthcare.
- Medicare Advantage (MA) for Medicare retirees. This is a fully-insured arrangement through UnitedHealthcare.
- Staff Model Health Maintenance Organization (HMO) Medical and Prescription Drug Benefits Plan for active employees and retirees. This is a fully-insured arrangement through Kaiser Permanente.
- Dental Benefits Plan for active employees and retirees. This is a fully-insured arrangement through Metropolitan Life Insurance Company.

#### **DISCUSSION**

The Board understood at the time of the award in January 2015 that option years were unpriced. In the healthcare marketplace, providers do not generally provide pricing for healthcare contracts beyond an initial three-year term. Option years are only priced one year at a time. The Airports Authority Contracting Manual addresses any unpriced option years as a sole-source procurement action which requires Board approval if the cost of exercising the option exceeds \$200,000. Calendar year 2019 will be the second unpriced option year for the contracts providing Medical and Dental Benefits for active employees and retirees.

The projected costs of these contracts for the 2019 option year include estimates of future incurred claims for those coverages that are self-insured, as well as projections of insured components of the plans. Projected costs are as follows:

Coverage	Budgeted Cost of 2018 Option Year	Projected Cost of 2019 Option Year	Budgeted 2018 Airports Authority Share	Projected 2019 Airports Authority Share
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\* In 2017, CVS Caremark contract was extended through December 2019.

**DISCUSSION:**

The Airports Authority’s health plan vendors are effectively managing health care costs, and employees are satisfied with their health plan choices. Staff is forecasting the Airports Authority’s share of medical and dental plan costs is projected to total \$23.6 million, an increase of \$3.45 million from budgeted calendar year 2018. Including pharmacy plan costs, staff is forecasting overall costs of \$30.2 million in calendar year 2019, an increase of \$3.8 million from budgeted calendar year 2018. The increase in cost is due to a combination of factors; the covered population has increased 6.89 percent over the previous year and the forecasted increase in cost on a per member basis is expected to be 7.5 percent, higher than recent increases. The total cost increase is 14.39% overall.

**RECOMMENDATION**

Staff recommends that the Human Resources Committee approve and recommend that the Board approve the exercise of a one-year option for calendar year 2019, for the Medical and Dental Plans for active employees and retirees of the Airports Authority.

Prepared by:  
Office of Human Resources  
September 2018

## Proposed Resolution

### Exercising an Option Year for the Medical and Dental 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, which includes a pharmacy plan, for the provision of Group Medical insurance plans, 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 such 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 their option years;

WHEREAS, The exercise of a contract's unpriced option years is viewed as a sole-source procurement action under the Airports Authority's Contracting Manual and requires Board of Directors' approval if the cost of exercising the option exceeds \$200,000; and

WHEREAS, The Airports Authority's estimated cost of exercising a one-year option under all of the Contracts is \$30.3 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, 2019, consistent with the terms and conditions presented to the Human Resources Committee at its September 2018 meeting.

*For Consideration by the Human Resources Committee  
September 18, 2018*

NOTE: A recorded vote is required.