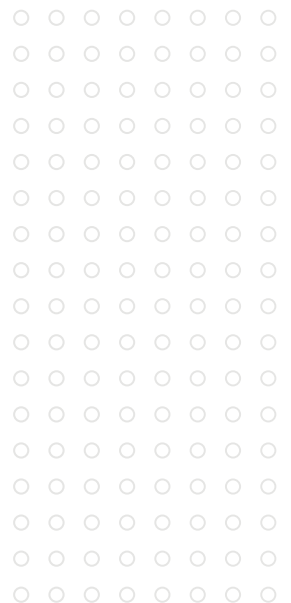




CASE STUDY

Doing Self-Funding Right

How the City of Arvada transformed access to healthcare and improved outcomes



Arvada's new city manager challenged his team to get creative with healthcare benefits strategies to relieve the pain of soaring costs. The City's HR and finance teams, with strategic guidance from HUB International's advisors, started thinking outside the box and succeeded beyond everyone's expectations.

Been there. Done that.

That was the City of Arvada leadership's tacit response to HUB International's recommendation that it shift its employee health plan from being fully insured to self-funded. The City's first self-funding adventure in the 1990s had not gone well. And no one was eager to repeat the experience.

It was one of the recommendations that sprang from events of 2011, after Arvada's then-new city manager, Mark Deven, had sat through his first renewal meeting. The session reportedly went as usual: The budget came up short against double-digit premium increases. And debate on how to close the gap landed on employees. It was a painful exercise.

Deven was concerned and suggested to his HR and finance teams that it was time for a different approach.

“Mark introduced us to the practice of long-term financial modeling. This shed a lot of light on the unsustainability of our healthcare costs and how increases of anywhere from 10 to 20 percent would blow up everything else. He urged us to get creative and think outside of the box to find better ways to rein in our healthcare costs. Our first goal would be to keep increases at 8 percent or lower. And, by the way, he told us – do it without sacrificing quality of care or access to it.”

— Gabriella Bommer
Arvada Deputy Director of Human Resources



\$800k

COST SAVINGS IN
FIRST FEW YEARS

\$500k

ANTICIPATED
FUTURE SAVINGS

1:1

MEDICAL CLINIC
ROI

70%

MEMBER ENROLLMENT
IN CLINIC

Creative Cures for Arvada's Healthcare Pain Points

Arvada, Colorado is located seven miles northwest of Denver. It's a city of some 118,000 people and is the state's seventh most populous municipality. At the time of the push to creatively rethink benefits, the City's employee population was almost 700 in total. The City was experiencing a high number of large, catastrophic claims, and was also dealing with the common chronic conditions of an aging workforce, like hypertension. These were among the issues that needed to be factored in as creative healthcare solutions were being weighed.

For the 2013 renewal, HUB took a different approach with the City and created two specific proposals to address Arvada's points of pain - short and long-term healthcare costs as well as the employee conditions and behaviors that were influencing them.

The proposals centered on two paired initiatives. One might have been undertaken without the other, but doing so would have considerably blunted their long-term positive impact together. First, HUB proposed that Arvada move away from the more traditional, fully insured health insurance structure to become self-funded, or operating and funding its own health plan. The second recommendation was that the City open an on-site health clinic as one of its health plan options.

This solution was just becoming available to mid-sized clients and was ideal for a contained group of employees like Arvada's. It would facilitate access to care and foster a wellness environment – and better manage costs, too.

Doing Self-Funding Right

The self-funding proposal met with resistance. Arvada's previous experience on that front was negatively embedded in the City's institutional memory. It had been poorly structured and a costly lesson in how not to do it.

Yet HUB persisted. The clinic proposal had been well-received. But it wouldn't render the kind of financial results Arvada was looking for under the current, fully insured structure.

According to Shawne Cihak, Account Executive, HUB Employee Benefits: "By itself, the clinic would result in healthier employees and definitely save in benefits costs, too. But the whole purpose of this exercise would be defeated if those savings just went back into the insurer's pocket and not Arvada's. And that's exactly what would have happened if the City had remained fully insured."

Arvada Director of Finance Bryan Archer recalls that Cihak pushed long and hard to convince the city's leaders. "Shawne really worked it: 'I promise...I swear...this is going to be good!'" he laughs. "She showed us that by setting it up properly with the right safeguards in place, self-funding made sense from a financial and control perspective. And she was right."

Arvada's Gabriella Bommer adds that there was a lot of financial analysis involved in order to get the self-funding structure right, with considerations around a conservative upfront funding strategy, stop-loss options, and reserve goals.

"We also took a hard look at the benefits side. We needed a goal for the health plan. And as part of the process, what we learned about being able to control our own options and outcomes through self-funding helped us to understand the weaknesses in our self-funded program so we could avoid similar mistakes in the future."

**— Gabriella Bommer
Director of Human
Resources**

Fostering a Culture of Health with an On-Site Clinic

The second recommendation was to offer an on-site health clinic for plan members. The Arvada team was enthusiastic about the concept and particularly impressed with the proposal submitted by Paladina Health.

Paladina's innovative model and philosophy of care tie in with Arvada's values. Paladina is also relationship focused. It led to a structure under which staff physicians are salaried, not paid on a fee-for-service basis. That gives them the luxury of time to really delve into individual patients' concerns and issues – and develop relationships.

Arvada was sold.

Today, the main Arvada clinic is conveniently located five minutes from City Hall, and employees are happy with the arrangement. Karen Smiddy, former Benefits Specialist with the City's HR team, says, "They find this arrangement much better than a traditional doctor relationship. There's almost no wait time. The doctors take time to visit and learn more about each patient's whole lifestyle. The low cost helps, too."

High Participation in Better Health Keeps Costs Down

The clinic has proven to be an ideal solution for Arvada. "We didn't have to increase co-pays or deductibles and money for the HSAs stayed the same," Bommer recounts.

The expectation was that 50 percent of the City's 1,500 eligible employees and dependents would join the clinic, but nearly 75 percent enrollment was achieved instead. And clinic membership has stayed in the 70 percent range since the clinic opened in 2014.

The City saved over \$800,000 in health costs in the first few years, but what excites CFO Bryan Archer just as much as the dollars, cents and returns, are the participation rates and health outcomes.

"Employees and the City share the premium costs, typically with an 80/20 split, though that varies according to the coverage they choose. We did a lot of employee education on the clinic and its innovative model, and got very high engagement – much higher than we'd anticipated."

— Gabriella Bommer
Director of Human Resources

"We never thought we'd get this level of buy-in from a voluntary effort," he says. And the outcomes...we're having fewer heart attacks and cholesterol levels are under control. Plus, it's not costing us money – we're close to a 1:1 return on investment."

— Bryan Archer, CFO

Bommer also points to the longer view: “Our risk scores are on the decline and chronic conditions are much better managed – all positive results.”

And Arvada, not an insurer, is benefiting financially, thanks to its self-insured status. In 2014, the plan was budgeted for a 10 percent increase, but came in at 12 percent. (Leeway was granted as the clinic had just opened.) For 2015, though, increases came in at 5.5 percent, and in 2016 (causing much celebration), they didn’t move at all. “They were back at 6 percent last year,” says Bommer, but she notes that the bar was reset as Arvada has continued its benefits innovation journey.

And the Forward Motion Continues

The HUB team continues to provide guidance to Arvada. As self-funding and the clinic program stabilized, the HUB team started thinking about enhancements.

To that end, 2018 has been almost as big a year for Arvada’s benefits program as 2014, Bommer notes. Among the City’s most significant moves, it took on a third party administrator and undertook a pharmacy benefit carve-out. The TPA frees Arvada’s HR team from some of the more routine plan administrative functions in order to focus on big picture and longer term initiatives. Among other things, unbundling the pharmacy contract means the City can shop for the best prescription prices. Bommer says the move could produce as much as \$500,000 in savings.

Just as rewarding as the improved financial performance, though has been Arvada’s success in growing a culture of health. “Mark Deven is our biggest supporter, giving the kind of top-down support that results in success,” says Karen Smiddy. “But bottom up buy-in was important, too, as our people got smarter about their health. It’s made a win/win for great healthcare.”

A True Strategic Partnership between HR and Finance

Arvada’s leaders — city manager, finance and HR heads — have forged a strong relationship over the years to meet shared goals for improved physical and financial health.

“In finance, we tend to see the numbers and forget there’s a human element. And HR people may not appreciate the numbers. But we’ve come to achieve balance in our relationships, and better appreciate the broader perspective. That makes it easier to have hard conversations.” — **Bryan Archer, CFO**

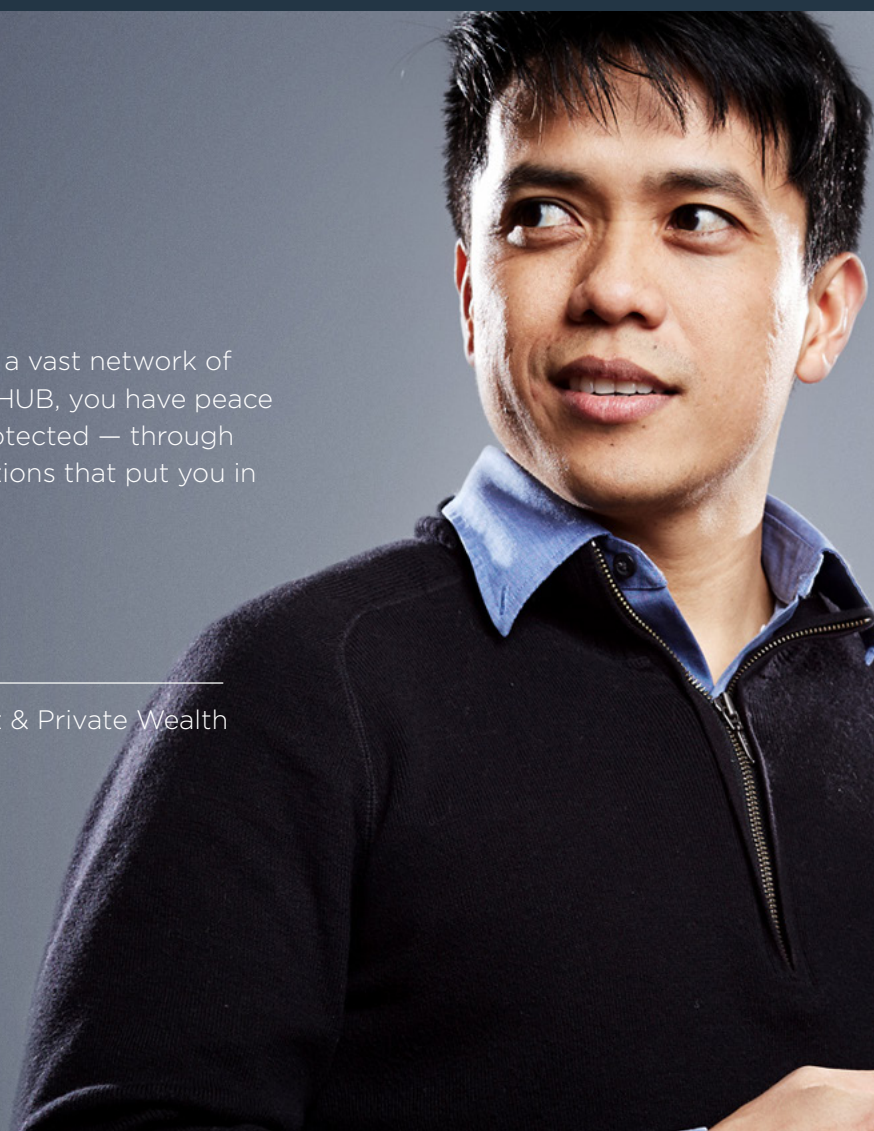
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