



Town Council Agenda Report

Date: March 26, 2019 Item No. 4

To: Honorable Mayor and Town Council

Subject: APPROVE RATIFICATION OF ADDITIONAL APPROPRIATIONS TO COVER COSTS SWITCHING MEDICAL PLANS TO CIGNA FROM NEXGEN OPERATED BY RIVERSTONE CAPITAL INSURANCE SERVICES, LLC.

From: Douglas Robertson, Town Manager

Submitted by: Douglas B. Robertson, Town Manager

Budgeted Item: Yes No N/A

RECOMMENDED ACTION:

That the Town Council ratify actions of the Town Manager to enter into a new health care plan with Cigna and approve an additional appropriation in the amount of \$78,000 to cover the increase in cost for the current fiscal year.

BACKGROUND:

The Town entered into a Service and Consulting agreement with Riverstone Capital, LLC on July 1, 2016 as one of the Town's medical plans to complement and give employees options to the existing Kaiser plan. Over the years, staff became aware of occasional complaints of Riverstone not paying claims within a timely manner and stepped in as necessary to press Riverstone for action. In early January 2019, the Town Manager received a notice of cancellation of the excess coverage portion of the insurance plan, for claims above \$150,000, effective January 31, 2019. Staff directed our broker to seek quotes for this excess coverage as well as for a new insurance carrier and to pursue all potential options for new insurance.

SUMMARY:

On January 28, 2019 staff met with our broker to evaluate options and get an update on the status of coverage. At that meeting, staff discussed slow/no payment concerns and learned an investigation into Riverstone had been started. It became clear a new

insurance provider would be the best option, given the risk involved in staying with the current plan and an unknown growing liability for unpaid claims.

Due to the potential for additional claims activity, staff quickly evaluated options, from Cigna, CalPERS, and SDRMA-CSAC EIA. Even at a 61% rate increase, the Cigna plan was selected due to it being the cheapest total cost and least disruption. When compared to all other the options, the Riverstone plan saved money but did not or could not provide complete coverage at those rates. The other two options were similarly priced but would have required transitioning all employees, including those with Kaiser, whereas the Cigna option was for only non-Kaiser insureds. As a final negotiation request, staff asked Cigna to transition all affected insureds by February 1, 2019, which was seemingly impossible. Cigna agreed, earned the business, and worked with staff to complete the transition in less than 48 hours.

Meanwhile, parallel investigations were conducted by the California Department of Insurance (CDI) and the U.S. Department of Labor (DOL). The investigation revealed that NexGen and Riverstone have been operating as an unauthorized MEWA (Multiple Employer Welfare Association), an arrangement that offers or provides health and welfare benefits to employers and their employees. On February 15, 2019, a Cease and Desist was ordered by the CDI, effective immediately against NexGen Insurance Services, Inc., Riverstone Capital, LLC dba Riverstone Capital Insurance Services, LLC and its owner/operators Travis O. Bugli, James C. Kelly, and Robert M. Clarke.

The Cease and Desist Order alleges that NexGen and Riverstone were marketing, soliciting, and selling purported “self-insured” health plan arrangements to employers, not health insurance, which is a violation of California law. NexGen and Riverstone have since failed to pay medical provider claims totaling approximately \$24 million dollars, exposing employers and their employees to risks and significant financial liabilities. It is unknown how much of these unpaid claims are from Apple Valley claimants. At this time. Staff is aware of less than \$200,000 in unpaid claims affecting employees.

Riverstone has been placed into receivership by the Department of Labor. On their order, medical providers and collections agencies must stop all attempts at collecting unpaid medical claims for insureds previously covered by Riverstone. It is unknown if the state or federal government will provide any relief to those agencies and businesses affected by the unpaid claims. At this time, staff continues to compile any unpaid claims and has urged employees and their family members to report any such issues. Staff will continue to monitor the court processes for dissolution of any assets identified and seized as a result of the actions of the CDI and DOL.

FISCAL IMPACT:

Additional appropriations in the amount of \$78,000 (across various funds) to cover the cost increase of switching all enrollees to CIGNA From February 2019 to June 2019.