

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
ACTION AGENDA SUMMARY

DEPT: CEO-Risk Management Division

BOARD AGENDA # *B-3

Urgent Routine

AGENDA DATE October 29, 2013

CEO Concurs with Recommendation YES NO

4/5 Vote Required YES NO

(Information Attached)

SUBJECT:

Approval of 2014 Employee Health Insurance Rates, Administrative Fees and Authority for Purchasing Additional Stop-Loss Insurance in Support of the Stanislaus County Employee Health Insurance Program

STAFF RECOMMENDATIONS:

1. Approve recommended health insurance rates as provided in Attachment A to be charged in the employee medical, dental and vision self-insurance programs for calendar year 2014.
2. Approve a recommendation to establish a maximum 2% administrative fee that may be equally charged to non-County employee participants in the health insurance program.
3. Authorize the County Risk Manager on an annual basis to evaluate and purchase stop-loss insurance coverage consistent with annual financial goals established for the self-insurance program.

FISCAL IMPACT:

Medical Self-Insurance

Effective January 1, 2012, the County implemented a new program and financial strategy for providing employee medical benefits for all participants enrolled in County- sponsored health plans. This new strategy included moving the County's medical benefits program from a fully-insured program to a partially self-insured program, and implementing a new non-profit health plan alternative developed for the County.

(Continued on Page 2)

BOARD ACTION AS FOLLOWS:

No. 2013-519

On motion of Supervisor Monteith, Seconded by Supervisor O'Brien

and approved by the following vote,

Ayes: Supervisors: O'Brien, Withrow, Monteith, De Martini and Chairman Chiesa

Noes: Supervisors: None

Excused or Absent: Supervisors: None

Abstaining: Supervisor: None

1) Approved as recommended

2) Denied

3) Approved as amended

4) Other:

MOTION:

ATTEST:

CHRISTINE FERRARO TALLMAN, Clerk

File No.

FISCAL IMPACT: (Continued)

With the implementation of a new self-insured financial strategy starting January 1, 2012, the County began to pay for employee medical expenses on a fee-for-service basis, similar to the funding program the County has historically used for employee dental and vision benefit programs.

The County worked with consultants to establish the preliminary insurance rates to be charged for medical benefits in 2012 and 2013. Initial premium rates for the 2012 plan year were based on limited health plan information provided by Kaiser and Anthem Blue Cross in early 2011 during the development of the self-insured program option. While both programs were previously operating in a fully-insured environment, the County did not have access to detailed claim data in order to project future claims costs in a self-insured environment. Although the original plan underwriting utilized all clinical and financial data available from both health plans, the final outcome at the conclusion of 2012 demonstrated the negative fiscal impact the County may experience as a result of not having the transparency in claims data necessary to project claim expenses with a higher degree of certainty. As a result, rates in 2012 and 2013 were set too low to cover the actual expenses of the new program. At the end of Fiscal Year 2012-2013, the Medical Self-Insurance Fund reported a retained earnings deficit of \$6 million, which includes a liability for the program's incurred but not reported (IBNR) claims of \$5.7 million. It is estimated that the fund will end calendar year 2013 with a \$7 - \$8 million retained earnings deficit. In evaluating the initial financial performance of the program over the first two plan years, the County should have set insurance rates 7-9% higher in 2012 and 2013 in order to eliminate the deficit which is projected to materialize over that time and to establish a claims reserve as originally anticipated in the program funding strategy.

While the initial insurance rates were set too low to adequately fund program expenses, the program was successful in substantially reducing the overall cost of medical insurance when comparing actual 2012 costs of \$46.5 million with the total projected premium cost of \$52 million that would have been charged if the County were to have stayed in the prior fully-insured program in 2012. This represents an overall savings of \$5.5 million in total healthcare costs in 2012 as a result of switching to the new self-insured program strategy.

At the same time as the deficit developed in the Medical Self-Insurance Program, departmental budgets experienced significant savings in health insurance costs. At the end of Fiscal Year 2012-2013, savings in departmental budgets for health insurance costs totaled nearly \$3.8 million. General Fund departments were able to carry forward 75% of that savings into Fiscal Year 2013-2014 as part of the County's Net County Cost Savings Program. The savings was generated from an overestimation of rates in 2013. Early estimates of 2013 rates suggested that departments budget a 5-7.5% increase effective January 1, 2013. The actual rate increase was 3.75% for medical plans,

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coupled with reduced rates in the dental and vision programs which generated savings in departmental budgets.

In preparing medical insurance rates for the 2014 plan year, the County now has the benefit of 20 months of paid claims data to provide a higher degree of certainty in establishing future premium rates. The County has engaged the services of a new actuarial consultant to evaluate the County's historical paid claims data and provide actuarially validated rates to be charged in the 2014 plan year. The 2014 proposed medical rates represent a 22.7% increase for the lowest-cost provider, Stanislaus County Partners in Health, with a 36.2% increase proposed for Kaiser and 37.7% for Anthem Blue Cross. A summary of the proposed rates for 2014 is included in Attachment A. Rate increases in the Kaiser and Anthem Blue Cross plans are higher based upon their higher cost of administration and program services.

Contributions to employee health insurance premiums are established through a negotiated agreement with all County labor groups. The current agreement is effective January 1, 2012 through December 31, 2014. The County currently funds 95% of the High Deductible Health Plan (HDHP) premiums and 80% of the Exclusive Provider Organization (EPO) plan premiums for the lowest-cost provider. County employees pay the balance through a pre-tax payroll deduction. County employees who select higher cost health plans (Kaiser and Anthem Blue Cross) pay 100% of the difference in cost between the low cost plan and the plan they have selected. In addition to funding 95% of the premiums for the high deductible health plans, the County will continue to fund employees' health savings accounts. The annual contribution for a single employee is \$1,200 and the contribution for employee plus one dependent and family is \$2,000.

The estimated increase of the proposed rates for County departments is \$7.9 million annually, or approximately \$4 million in Fiscal Year 2013-2014. Approximately one-third of this fiscal impact will be attributed to General Fund departments, or an estimated \$1.3 million in Fiscal Year 2013-2014. It is estimated that sufficient appropriations exist in most departmental budgets to fund this increase. Increases to active and retired employees, special districts and COBRA participants will vary depending upon individual plan selections. The County does not contribute to the cost of insurance premiums for retired employees, special districts and COBRA participants, and therefore individuals enrolled in each of these categories pay 100% of their monthly premiums. It is anticipated that enrollment will change during the County's open enrollment period, beginning October 30, 2013, as employees consider their options and make individual plan selections. In addition, with the emergence of Covered California as an option for health insurance, members of special districts, COBRA participants, and early retirees may choose health insurance outside of the County's offerings. Changes in enrollment, along with the new rates, will require budget adjustments in the Medical Self-Insurance Fund. The Risk Management Division plans to include budget adjustments to the Medical Self-Insurance Fund in the 2013-2014 Mid-Year Financial Report, once open enrollment is complete.

Dental and Vision Self-Insurance

On January 1, 2013, dental rates were reduced by 10% in order to partially offset the medical rate increase. Retained earnings in the dental program were used to fund the 10% rate decrease. At the end of Fiscal Year 2012-2013, the dental self-insurance program had a positive retained earnings balance of \$1,055,482, representing 28% of the total projected expenses in the 2014 plan year. After considering the retained earnings balance in the dental program and the underwriting for the program for calendar year 2014, it is recommended that dental rates remain the same as in 2013. This reflects the continuation of the 10% rate reduction for the dental program.

Also effective January 1, 2013, vision rates were reduced by 50% and retained earnings in the vision program were used to offset the rate decrease. At the end of Fiscal Year 2012-2013, the vision self-insurance program had a positive retained earnings balance of \$682,545, representing 100% of the total projected expenses in the 2014 plan year. After considering the retained earnings balance in the vision program and the underwriting for the program for calendar year 2014, it is recommended that vision rates remain the same as in 2013 which reflects a 50% reduction. Both the dental and vision programs will be evaluated at the end of calendar year 2014 in order to determine the rates needed to sustain the program for 2015 and the future.

DISCUSSION:

MEDICAL SELF-INSURANCE PROGRAM

Background

Stanislaus County has experienced a history of significant increases in employee medical insurance costs well above normal inflationary indexes in our overall economy. Prior to 2012, the County funded employee medical insurance programs each year through a process of seeking proposals and purchasing fully-insured medical plans for employees on an annual basis. This process resulted in the County offering a number of health insurance options over a short period of time with plan selection based on which insurance carrier may provide better pricing in any given year. The County also worked with labor groups to reduce plan benefits and raise employee co-pays in order to control annual cost increases. While this strategy was useful in developing short-term funding solutions to provide a variety of low cost health care options for employees, this short-term strategy did not support an environment of understanding and managing the underlying costs which drive total medical expenditures and premium inflation. This strategy also proved more challenging as fewer insurance carriers were available to offer fully-insured health programs throughout California and in the local community.

Stanislaus County's fully-insured health insurance premium rates increased on average 11.5% annually between 2005 and 2011, and were projected to increase 12% for the

overall employee population in 2012. Actual healthcare claims paid by County health plans had increased cumulatively by more than 45% over the three-year period leading up to 2011 for the average County employee. This growth in claims cost represented a significant factor in the ongoing inflation in the County's insurance premiums. While costs continued to grow, the fully-insured medical plans did not allow the County to fully evaluate those costs through an analysis of changes in unit cost for medical services or increases in employee utilization.

Self-Insured Funding Strategy

In the spring of 2010, staff from the Chief Executive Office initiated a thorough assessment of the efficiency and effectiveness of the County's existing health insurance program. It was determined a detailed analysis needed to occur to support the County in making strategic decisions in regard to its employee health insurance plan. Sidles Duncan & Associates (SDA), a management consulting firm, was engaged as a consultant to implement a multiphase analysis and construction of a health benefit program for the County.

Consistent with the recommendations and conclusions developed throughout the health insurance program evaluation, the Board of Supervisors approved the County's transition to a partially self-insured medical funding strategy and the establishment of a new non-profit health plan option, Stanislaus County Partners in Health (SCPH) effective January 1, 2012. Three self-insured plan options were made available in the initial 2012 plan year: Anthem Blue Cross, Kaiser and the new Stanislaus County Partners in Health plan option. Each plan offered an Exclusive Provider Organization (EPO) option with benefits consistent with the County's prior HMO plans, and a High Deductible Health Plan (HDHP) option with a Health Savings Account. Consistent with the self-insured financial strategy, employees selecting the Anthem Blue Cross and Kaiser medical plans were charged increased medical premiums to reflect the higher base cost of services in those medical plan options.

The program is considered partially self-insured as the County continues to purchase stop-loss insurance with an insurance company to pay for any individual claim costs exceeding \$225,000 in the plan year. For the 2012 plan year, the County paid approximately \$3.3 million for stop-loss insurance coverage. To date, the stop-loss insurance provider has reimbursed the County over \$2.5 million in medical claims costs for 19 individual claims which exceeded the \$225,000 stop-loss retention level in 2012. For 2013, the County is expected to pay approximately \$3.6 million for stop-loss insurance, and has received approximately \$1.1 million to date for paid claims through August 2013. Stop-loss insurance coverage remains an important component of protecting the overall financial exposure of the program and will remain in place for the 2014 plan year. This agenda item includes a recommendation to authorize the Risk Manager to evaluate and purchase stop-loss insurance coverage on an annual basis, consistent with the ongoing financial goals established for the self-insurance program.

Program Census

The County's medical benefits program includes participation from current County employees, retirees from the StanCERA retirement system (up to age 65), local special district employees and non-active or former employees electing coverage under COBRA. The following is a summary of the current plan enrollment:

	# Enrolled	% Enrolled
Current Active County Employees	3,089	88%
StanCERA Retirees (up to age 65)	353	10%
Special District Employees	44	1%
COBRA Employees	30	1%
Total	3,516	100%

2012 and 2013 Financial Performance

Evaluating the financial performance of the program is dependent upon how many members are enrolled in the plan during the entire plan year and what health plan options they have selected. The following is a summary of the medical self-insurance program's total financial performance for 2012 and a projection of its financial performance in 2013 based on the actual enrollment and plan selection of participants:

	2012 Actual	2013 Projected
Program Revenue	\$43,047,247	\$44,500,000
Program Expenditures	\$46,515,814	\$48,000,000
Net Deficit	(\$3,468,567)	(\$3,500,000)

The financial performance of the plan is dependent upon the rate structure put into place for each calendar year. Initial premium rates were derived from limited health plan information provided by Kaiser and Anthem Blue Cross in early 2011 during the development of the self-insured program option. In 2012, the rates recommended by the health insurance consultants represented essentially no increase in costs to County departments, or zero rate inflation from the premiums charged in 2011. If rates were set to completely fund the program's expenses for 2012, they would have been increased by approximately 7% in 2012. While the program generated a cash deficit in the funding of the program in 2012, the program did prove successful in reducing overall medical expenditures from a projected \$52 million in the fully-insured program for 2012 to \$46.5 million in actual expenditures in the new self-insured program.

In the summer of 2012, while claims were still relatively immature, rates for the 2013 calendar year were developed. A modest 3.75% increase in rates was recommended by the health insurance consultants and was implemented for calendar year 2013. Claims continued to develop and mature through the end of calendar year 2012, resulting in the deficit that has been reported for 2012 and the projected deficit for 2013. If rates were set to fully fund projected expenditures for 2013, it is estimated that rates would have been another 7-9% higher. Now, with 20 months of paid claims information, an outside actuarial analysis has been performed on the plan and rates for 2014 have been recommended.

2014 Medical Insurance Rates and Administrative Fees

In August 2013, the County engaged an actuarial firm to perform a separate rating analysis on the County's medical self-insurance program. The County's health insurance consultants, Sidles Duncan & Associates, participated in the process of transmitting data to the actuary and validating data assumptions. The most recent 12 months of paid claims data through August 2013 was used in the analysis, and resulted in recommendations that rated each of the three health plans individually. The plans were rated based solely upon their individual cost structures. The ratings did not take into account the demographics of the population currently enrolled in those plans, as those demographics could shift for 2014. The new rates are more reflective of the true cost of providing medical services under those individual plans, and are anticipated to fully fund the program in 2014.

As part of the process for establishing recommended insurance rates for 2014, the County's actuary has included an additional analysis to project total medical benefit expenditures for each of the three health plans assuming they operated individually with all participants enrolled in each plan. The outcome of this analysis includes the following findings:

- Assuming all participants stay in their current health plan selections in 2014 (65% enrolled in Stanislaus County Partners in Health, 20% enrolled in Anthem Blue Cross and 15% enrolled in Kaiser), the program will generate total expenditures of \$57.5 million in 2014.
- Assuming all participants enrolled in the Stanislaus County Partners in Health program in 2014, the program will generate total expenditures of \$51.4 million in 2014.
- Assuming all participants enrolled in the Anthem Blue Cross program in 2014, the program will generate total expenditures of \$65.1 million in 2014.
- Assuming all participants enrolled in the Kaiser program in 2014, the program will generate total expenditures of \$68.7 million in 2014.

This analysis illustrates the need to charge higher insurance premiums for the Anthem Blue Cross and Kaiser plans, all of which are paid by the employees, retirees, special districts or COBRA participants who have elected the higher cost plan. County department costs are based on the lowest-cost insurance program, and therefore departmental charges will not change based on individual employees who elect to pay higher health insurance premiums to enroll in the Anthem Blue Cross or Kaiser plan options. The final proposed rates as recommended by the actuary are included in Attachment A.

In addition to the recommended rates, plan participants from outside of County employment may be charged administrative fees in order to fund the cost of administering program enrollment, eligibility and billing services. Administrative services for special districts and COBRA participants are currently performed by County staff through the CEO Risk Management Division. Participants are charged an additional 2% in fees to support the cost of administrative services, consistent with the standards provided in federal COBRA regulations. Administration of benefits for retirees is currently provided through Retired Employees of Stanislaus County (RESCO). RESCO has used a variety of administrative fees to support their administration of the program, including developing a fee structure which increased the County's insurance premiums for non-RESCO members and discounted the insurance premiums for RESCO members. This agenda item includes a recommendation to implement a consistent standard for administrative fees that may be charged for any outside entity participating in the medical self-insurance program. Staff is recommending a policy that administrative fees in the program may not exceed 2% of plan premiums and must be applied equally among all plan participants, consistent with the standards provided by federal COBRA regulations. Given the current enrollment of the early retiree population, a 2% administrative fee would generate approximately \$89,000 in revenue annually to support the administration of benefits for that population. Approval of this recommendation will ensure that all early retirees, special districts and COBRA participants pay the same administrative fee structure for participating in Stanislaus County's employee healthcare program.

DENTAL SELF-INSURANCE PROGRAM

The Dental Self-Insurance Program has performed well over the last two years. In 2012, the County changed its program design to the Delta Dental PPO Program. This program change resulted in a savings of approximately 19% in claims costs from 2011. In addition, a significant retained earnings balance had been accumulated in the Dental Self-Insurance Fund. As a result, effective January 1, 2013, dental rates were reduced by 10% and retained earnings were used to offset the rate decrease. It is recommended that the same 10% rate reduction be continued through 2014 to partially offset the medical rate increases.

VISION SELF-INSURANCE PROGRAM

The Vision Self-Insurance Program has also performed well for many years. In 2012, the County changed the vision plan design to the VSP Choice Plan, which increased in-network allowances, added Affiliate Provider Program and Contact Lens Copay, and upgraded to the Diabetic EyeCare Plus Program. Like the Dental Self-Insurance Fund, the Vision Self-Insurance Fund had also developed a significant retained earnings balance. As a result, effective January 1, 2013, vision rates were decreased by 50% and retained earnings were used to offset the rate decrease. It is recommended that the same 50% rate reduction be continued through 2014 to partially offset the medical rate increases.

POLICY ISSUE:

Acceptance of this report on the County's health insurance rates supports the Board's priorities of A Healthy Community, Efficient Delivery of Public Services, and Effective Partnerships by ensuring employees have adequate access to health insurance at a reasonable cost to the County and employees.

STAFFING IMPACT:

There is no staffing impact associated with the acceptance of these rates. Staff from the Chief Executive Office – Risk Management Division continues to work closely with contracted health insurance consultants and associated vendors to provide ongoing management and oversight of the health insurance programs.

CONTACT PERSON:

Jody Hayes, Deputy Executive Officer. Telephone: (209) 525-5714.

Attachment A

**Stanislaus County Health Insurance Program
Recommended 2014 Insurance Premiums**

		SCPH	Kaiser	Anthem	Dental	Vision
EPO	Employee	\$ 720.10	\$ 963.26	\$ 912.38	\$ 34.42	\$ 3.94
	Employee + 1	\$ 1,440.20	\$ 1,926.54	\$ 1,824.76	\$ 68.84	\$ 7.60
	Family	\$ 1,944.26	\$ 2,600.82	\$ 2,463.42	\$ 117.94	\$ 10.78
HDHP	Employee	\$ 602.24	\$ 813.00	\$ 770.14	\$ 34.42	\$ 3.94
	Employee + 1	\$ 1,204.46	\$ 1,625.94	\$ 1,540.26	\$ 68.84	\$ 7.60
	Family	\$ 1,626.04	\$ 2,195.06	\$ 2,079.38	\$ 117.94	\$ 10.78