



Revision to ASR and/or Exhibits/Attachments

Date: 9/28/07

To: Darlene J. Bloom, Clerk of the Board of Supervisors

CC: County Executive Office

From: Patti Gilbert, Human Resources *Patti*

RE: Agenda Item(s) # 26 for the 10/02/07 Board Meeting

ASR Control #(s): 07-002141

Subject: 2008 Health Plan Rates for Employees Represented by AFSCME

Explanation:

Need to revise ASR #26 due to the Attorneys Unit being included in the 2008 health plan design changes.

Revised Recommended Action(s)

ADD :

2. Adopt the Employee Rate Table and the Group Service Policies with CIGNA and Kaiser Health Plans for 2008 for employees represented by Orange County Attorneys Association.

Make modifications to the:

Subject Background Information Summary

REPLACE:

Subject: 2008 Health Plan Rates for Employees Represented by AFSCME and OCAA

REPLACE:

Summary: On September 11, 2007, your Board approved and adopted wage increase and health plan design changes for employees represented by the American Federation of State, County and Municipal Employee (AFSCME) organization. The Human Resources Department is asking for the Board to now adopt the 2008 Employee Rate Table for employees represented by AFSCME.

Employees represented by the Orange County Attorneys Association (OCAA) will be included in the 2008 health plan design changes. The Human Resources Department is asking for the Board to now adopt the 2008 Employee Rate Table for employees represented by OCAA

Background Information:

ADD after first paragraph under "Health Plan Changes": Employees represented by the Orange County Attorneys Association will be included in the 2008 health plan design changes as outlined below.

REPLACE:

The following details the 2008 employee rates for AFSCME and OCAA for the PPO and HMO health plans.

PPO Health Plan Rates: Premier Wellwise and Premier Sharewell

AFSCME:

There will be a rate decrease of 23% for 2008 for the Premier Wellwise and Premier Sharewell Plans for employees due in part to savings from plan changes to be implemented January 1, 2008 for the Premier Wellwise Plan, and combining AFSCME with the Countywide split pool.

OCAA:

There will be a rate decrease of 26.2% for 2008 for the Premier Wellwise and Premier Sharewell Plans for employees represented by OCAA due to savings from splitting the rates between employees and retirees and plan design changes effective January 1, 2008.

Health Maintenance Organizations (HMO): CIGNA and Kaiser

The value of the Plan changes for the HMO plans is based on CIGNA and Kaiser's actuarially derived pricing factors. Actuaries from Mercer Health and Benefits reviewed the HMOs pricing factors for reasonableness. The 2008 HMO rate increases are as follows:

AFSCME and OCAA:

CIGNA Health Plan: Amount of Increase 3.9%

AFSCME:

Kaiser Health Plan: Amount of Increase 3.7%

OCAA:

Kaiser Health Plan: Amount of Increase 2.8%

Revised Exhibits/Attachments (attached)

ADD Exhibit C - Consultant Report - Active Employees - OCAA

Additional Information and/or Correspondence (attached)

REPLACE:

Current Year Cost: Estimated decrease (\$370,205)

Annual Cost: Estimated decrease (\$740,410)

Funding Source: HMO Plans: ISF 290 \$235,692 (Estimated Increase) and PPO Plans: ISF 292 (\$976,102) (Estimated Decrease)

FINANCIAL IMPACT:

The estimated cost decrease to the County for the 2008 Premier Wellwise Health Plan employee rates is \$946,679.

The estimated cost decrease to the County for the 2008 Premier Sharewell Health Plan employee rates is \$29,424.

The estimated cost increase to the County for the 2008 CIGNA Health Plan employee rates is \$152,267.

The estimated cost increase to the County for the 2008 Kaiser Health Plan employee rates is \$83,426.

September 2007

Exhibit C

Self-funded PPO Health Plan Rate Requirements – Active Employees – Attorney Unit January 1, 2008 - December 31, 2008 The County of Orange

MERCER
Health & Benefits

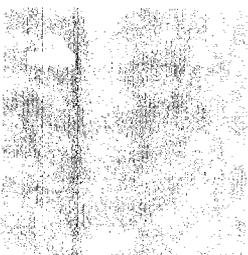
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Introduction

For the plan year January 1, 2008 – December 31, 2008, the County will be transitioning the self-funded rates from the current blended structure to split pool rates for active employees. In addition, the County will be implementing benefit changes for the self-funded PPO plans. The overall rate action proposed for 2008 reflects both unblended rates and new benefit changes.

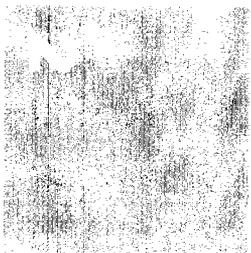
These benefit changes include

- Eliminating the Pre-Existing Condition Clause
- Increasing the Individual Lifetime Maximum from \$1 million to \$3 million
- Increasing the out-of-network co-insurance from 20% to 30%
- Increasing the out-of-network annual deductible from \$300 to \$500 per individual and to a maximum of \$1000 per family

- Increasing the individual annual plan maximum per individual from \$10,000 to \$15,000 for out-of-network providers
- Increasing the preventive benefit from \$250 annually (in-network) only to \$750 in or out of network and remove the preventive care benefit from the Wellness Incentive.

The County maintains a self-funded medical plan in which the Attorney Unit employees participate. Claims utilization experience is blended with all other County active employees and rates are set based on this blended claims experience. Based on the past 12 months of claims data and a 2% annual combined medical and prescription drug trend, the current rate levels for the Wellwise and Sharewell plans will be reduced by 26.2% (average across all rate tiers and plans). Since enrollment for the Attorney Unit differs slightly from the County averages, the impact of the 26.2% decrease translates to a slightly different overall reduction when applied to this Unit's current active enrollment.

We recommend that the County continue the self-funded arrangement of these plans. The low administrative expense, cash flow available to the County, and flexibility of this funding arrangement make self-funding the most advantageous funding vehicle available for these plans.



Rate Adjustment

The most recent twelve months of experience were totaled using paid claims from May 1, 2006 through April 30, 2007 as the beginning claims cost. These paid claims are adjusted to incurred claims by applying an incurral factor. The incurral factor adjusts for the change in the reserve from the beginning of the experience period to the end reflecting changes in paid claim patterns and enrollment. The result is an estimate of claims that were actually incurred from May 1, 2006 through April 30, 2007.

These incurred claims were then projected to 2008 levels using a 2% annual medical and pharmacy cost trend assumption. This 2% trend factor was approved by the Board of Supervisors for projection of the 2008 self-funded rates.

National health trends provided by the major insurance carriers for the first half of 2007 are at 12% for PPO plans and 14% for prescription drug card programs. Self-funded employers similar to the County have generally been using trend factors in the range of 7% - 9% for projection purposes.

The projected incurred claims are then adjusted for the value of the plan design changes effective in 2008. The plan changes are outlined below:

- Eliminating the Pre-Existing Condition Clause
- Increasing the Individual Lifetime Maximum from \$1 million to \$3 million
- Increasing the out-of-network co-insurance from 20% to 30%
- Increasing the out-of-network annual deductible from \$300 to \$500 per individual and to a maximum of \$1000 per family
- Increasing the individual annual plan maximum per individual from \$10,000 to \$15,000 for out-of-network providers
- Increasing the preventive benefit from \$250 annually (in-network) only to \$750 in or out of network and remove the preventive care benefit from the Wellness Incentive.

An administration adjustment of 6.0% was applied to the projected claims for claims administration; utilization review, case management, Disease Management, and PPO network access fees.

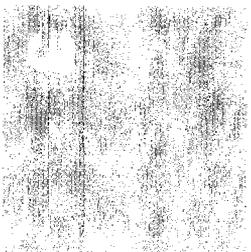
Administrative fees reflect the change to Blue Shield and addition of disease management. Since our projections include no claim fluctuation margin, we did not include any additional adjustment for the change in PPO networks for the first year.

The trended claim costs with administrative fees are compared to the projected accrual premium to determine the necessary rate decrease (24.2%). This projected rate decrease is reduced further by offsetting costs by the expected interest earned from the anticipated fund balance (at a 5% interest rate). This results in an overall decrease of (26.2%) for the Wellwise and Sharewell plans

on average. Since enrollment for the Attorney Unit differs slightly from the County averages, the impact of the 26.2% decrease translates to a slightly different overall reduction when applied to this Unit's current active enrollment.

These exhibits at the end of the report provide the details to the rate calculation:

- Exhibit I Provides the details of the rate calculation
- Exhibit II Presents the paid claims by month
- Exhibit III Details the enrollment by plan



Reserve Fund

The County maintains a surplus of revenue over expenses called the Fund Balance. The purpose of the Fund balance is:

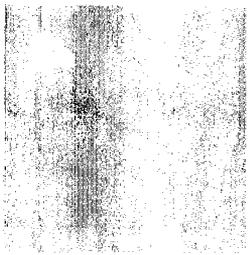
- 1) To act as a Premium Stabilization Reserve (PSR) to serve as a hedge against unfavorable claim fluctuations and to absorb unusually high individual claims which may emerge from time to time
- 2) To be used to fund incurred but not reported (IBNR) claim reserves, claims incurred prior to a potential termination of the plan or portion of the plan.

In the past, the reserve fund has been used to reduce annual required increases and has at times fallen below the necessary IBNR reserve level. Due to favorable experience over the past three years the projected fund balance is more than adequate to cover normal fluctuations in claims and expenses as well as to fully fund the projected IBNR reserve. Per Mercer's calculation of the IBNR presented to the County on July 5, 2007, the calculated IBNR is \$7,100,000 for self-funded medical and pharmacy. Separately by coverage: the medical IBNR is \$6,100,000 and pharmacy IBNR is \$1,000,000. This is a reduction of \$1.3 million from the prior year.

While the IBNR reserve covers the claims runout for claims incurred but not yet paid, the PSR is meant to smooth out premium increases from year to year caused by unfavorable claims fluctuations. A reasonable PSR level for an ongoing self-funded program should represent about 15% of expected annual cost, which translates to approximately \$7.5 million for the County's programs (actives and retirees combined).

Considering the excess reserve levels, the County Board of Supervisors approved the rebate of approximately \$23M of these excess reserves, to be made by April 1, 2008.

As of June 30, 2007 the County maintained a fund balance of \$38,800,000. We project the fund balance will be approximately \$38,000,000 on December 31, 2007. Based on an estimated \$23,000,000 rebate, an expected draw down on the PSR of approximately \$5,000,000 (due to the use of a 2% trend factor) and considering anticipated plan revenue and expenses for 2008, we project the reserve fund to be \$11,400,000 at December 31, 2008. These are estimates based on the transition to split pool rates and assume current enrollment levels. Any projection of the expected fund balance as of December 31, 2008 will be subject to considerable fluctuation due to the changes mentioned above, in addition to the upcoming change in claims administrator, PPO provider network and likely enrollment changes.



Exhibits

Exhibit I

2008 Medical Funding Projection: All Plans and Active Participants

Experience period: May 1, 2006 - April 30, 2007

Projection period: January 1, 2008 - December 31, 2008

	<u>@ 2% Trend</u>
Paid Claims	\$30,635,457
Incurral Factor	1.000
Incurral Claims	<u>\$30,635,457</u>
Trend ¹	1.0336
Projected Incurred Claims	\$31,663,432
Plan Change Factor	0.9305
Adjusted Projected Incurred Claims	\$29,462,823
Less: Rx Rebates	(\$180,000)
Part D Subsidy	\$0
Administration	<u>1.060</u>
2008 Required Premium	<u>\$31,050,593</u>
2007 Adjusted Premium ²	\$40,969,122
2008 Required Increase (before interest or reserve draw down)	-24.2%
Interest from Fund Balance ³	-\$824,000
2008 Required Increase (with interest - prior to draw down)	-26.2%
Impact to Fund Balance	(\$3,121,474)

1. Trend calculated based on 20 months midpoint-midpoint adjustment
2. 2007 adjusted premium is based on April 2007 enrollment.
3. ISF Fund interest calculated at 5.0% on \$22,000,000 expected average during the 2008 year (\$37,900,000 as of May 31, 2007)

Exhibit II

Month	Wellwise			
	Premium	Medical	Rx	Total
May-06	\$3,260,670	\$2,188,267	\$429,275	\$2,617,542
Jun-06	\$3,270,388	\$1,703,201	\$433,001	\$2,136,201
Jul-06	\$3,289,143	\$1,736,435	\$433,332	\$2,169,767
Aug-06	\$3,296,628	\$2,246,513	\$417,523	\$2,664,036
Sep-06	\$3,331,334	\$2,222,759	\$430,117	\$2,652,876
Oct-06	\$3,353,655	\$2,118,645	\$443,352	\$2,561,997
Nov-06	\$3,364,380	\$1,656,476	\$418,693	\$2,075,169
Dec-06	\$3,382,019	\$1,752,841	\$433,999	\$2,186,840
Jan-07	\$3,138,697	\$2,048,106	\$448,417	\$2,496,523
Feb-07	\$3,158,357	\$1,793,150	\$397,251	\$2,190,402
Mar-07	\$3,197,143	\$2,762,858	\$450,809	\$3,213,668
Apr-07	\$3,193,219	\$2,353,953	\$440,382	\$2,794,335
Total	\$39,235,633	\$24,583,205	\$5,176,150	\$29,759,355

Month	Sharewell			
	Premium	Medical	Rx	Total
May-06	\$263,236	\$17,637	\$511	\$18,148
Jun-06	\$262,694	\$205,593	\$511	\$206,104
Jul-06	\$262,764	\$23,100	\$1,277	\$24,376
Aug-06	\$264,776	\$74,244	\$1,277	\$75,521
Sep-06	\$265,584	\$183,329	\$1,277	\$184,605
Oct-06	\$268,139	\$26,138	\$654	\$26,792
Nov-06	\$268,181	\$69,340	\$654	\$69,994
Dec-06	\$268,079	\$19,204	\$654	\$19,857
Jan-07	\$267,236	\$50,769	\$0	\$50,769
Feb-07	\$267,416	\$49,034	\$0	\$49,034
Mar-07	\$268,251	\$42,059	\$0	\$42,059
Apr-07	\$267,314	\$108,843	\$0	\$108,843
Total	\$3,193,669	\$869,289	\$6,813	\$876,102

Month	Wellwise & Sharewell Combined			
	Premium	Medical	Rx	Total
May-06	\$3,523,906	\$2,205,903	\$429,786	\$2,635,689
Jun-06	\$3,533,082	\$1,908,794	\$433,512	\$2,342,306
Jul-06	\$3,551,907	\$1,759,535	\$434,608	\$2,194,143
Aug-06	\$3,561,404	\$2,320,758	\$418,800	\$2,739,557
Sep-06	\$3,596,918	\$2,406,087	\$431,394	\$2,837,481
Oct-06	\$3,621,794	\$2,144,783	\$444,006	\$2,588,788
Nov-06	\$3,632,561	\$1,725,816	\$419,346	\$2,145,163
Dec-06	\$3,650,097	\$1,772,045	\$434,652	\$2,206,697
Jan-07	\$3,405,933	\$2,098,875	\$448,417	\$2,547,292
Feb-07	\$3,425,773	\$1,842,185	\$397,251	\$2,239,436
Mar-07	\$3,465,394	\$2,804,917	\$450,809	\$3,255,727
Apr-07	\$3,460,533	\$2,462,796	\$440,382	\$2,903,178
Total	\$42,429,302	\$25,452,494	\$5,182,963	\$30,635,457

Exhibit III

Premier WellWise Enrollment

Premier Sharewell Enrollment

Month	Actives	Month	Actives
Jan-06	3,533	Jan-06	1,091
Feb-06	3,532	Feb-06	1,082
Mar-06	3,544	Mar-06	1,084
Apr-06	3,518	Apr-06	1,095
May-06	3,533	May-06	1,086
Jun-06	3,543	Jun-06	1,083
Jul-06	3,566	Jul-06	1,083
Aug-06	3,577	Aug-06	1,093
Sep-06	3,627	Sep-06	1,099
Oct-06	3,662	Oct-06	1,108
Nov-06	3,677	Nov-06	1,105
Dec-06	3,703	Dec-06	1,105

Month	Actives	Month	Actives
Jan-07	3,589	Jan-07	1,107
Feb-07	3,613	Feb-07	1,108
Mar-07	3,670	Mar-07	1,109
Apr-07	3,671	Apr-07	1,104
May-07	0	May-07	0
Jun-07	0	Jun-07	0
Jul-07	0	Jul-07	0
Aug-07	0	Aug-07	0
Sep-07	0	Sep-07	0
Oct-07	0	Oct-07	0
Nov-07	0	Nov-07	0
Dec-07	0	Dec-07	0

MERCER

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