Revision to ASR and/or Exhibits/Attachments

Date: September 28, 2007

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

CC: County Executive Office

From: Patti Gilbert, Human Resources

RE: Agenda Item(s) # 27 for the October 2, 2007 Board Meeting

ASR Control #(s): 07-001742

Subject: 2008 Employee Health Plan Rates for Designated Employees

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Explanation:

Need to revise ASR # 27 due to the Orange County Attornys Unit being included in the 2008 Health Plan desgin changes

☒ Revised Recommended Action(s)

Adopt the Employee Rate Tables and the Group Service Policies with CIGNA and Kaiser Health Plans for 2008 for employees in the Operations and Service Maintenance Unit, and authorize the Director of Human Resources or his designee to sign the Group Service Policies with CIGNA and Kaiser for 2008 after approval by the State of California's Department of Managed Care and direct the Assistant Director of Human Resources to report back if the Department of Managed Care requires any material changes to the policies.

☒ Make modifications to the:

☒ Subject ☒ Background Information ☒ Summary

REPLACE SUBJECT:

2008 Employee Health Plan Rates for Employees in the Operation and Service Maintenance Unit

REPLACE SUMMARY:

Adopt Health Plan Rates for 2008 and authorize the Human Resources Director or his designee to sign the Group Service Policies with Kaiser and CIGNA for 2008 for employees in the Operations and Service Maintenance Unit.

REPLACE: BACKGROUND INFORMATION:

The following details the 2008 Operations and Service Maintenance Unit employee rates for the PPO and HMO health plans.

PPO Health Plan Rates: Premier Wellwise and Premier Sharewell

There will be a rate decrease of 21.6% for 2008 for the Premier Wellwise and Premier Sharewell Plans for employees due to savings from splitting the rates between employees and retirees effective January 1, 2008.

Health Maintenance Organizations (HMO): CIGNA and Kaiser

The 2008 rate increases are summarized below.

CIGNA Health Plan: Amount of Increase 6.0%

Kaiser Health Plan: Amount of Increase 2.5%

CIGNA and Kaiser's Group Service Policies for the Operation and Service Maintenance are not subject to the County's Purchasing policies. They are documents that outline the health benefits coverage offered to employees enrolled in the CIGNA and Kaiser plans through the County of Orange. These documents are subject to final approval by the State of California's Department of Managed Care. Approval by the State is anticipated in December of this year for a January 1, 2008 effective date.

Copies of the HMO Group Service Policies are on file in the Office of the Clerk of the Board.

☒ Revised Exhibits/Attachments (attached)

REPLACE:

Exhibit A – 2008 Employee Health Plan Rate Table for Employees in the Operation and Service Maintenance Unit

Exhibit B – Consultant Report

☒ Additional Information and/or Correspondence (attached)

REPLACE:

Current Year Cost: Estimated decrease ($41,113)

Annual Cost: Estimated decrease ($82,226)

Funding Source: HMO Plans: ISF 290 $98,008 (Estimated Increase) and PPO Plans: ISF 292 ($180,313) (Estimated Decrease)

FINANCIAL IMPACT:

The estimated cost decrease to the County for the 2008 Premier Wellwise Health Plan employee rates is $176,608. The annual 2008 decrease in the Premier Wellwise premium costs are estimates due to the fact the actual total annual premium will vary in accordance with actual enrollment.

The estimated cost decrease to the County for the 2008 Premier Sharewell Health Plan employee rates is $3,705. The annual 2008 decrease in the Premier Sharewell premium costs are estimates due to the fact the actual total annual premium will vary in accordance with actual enrollment.

The estimated cost increase to the County for the 2008 CIGNA Health Plan employee rates is $78,287. The annual 2008 increase in the CIGNA premium costs are estimates due to the fact the actual total annual premium will vary in accordance with actual enrollment.

The estimated cost increase to the County for the 2008 Kaiser Health Plan employee rates is $19,801. The annual 2008 increase in the Kaiser premium costs are estimates due to the fact the actual total annual premium will vary in accordance with actual enrollment.

Exhibit A

2008 Employee Health Plan Rate Table
for Employees in the Operations and Service Maintenance Unit

HEALTH PLAN AND ENROLLMENT STATUS	FULL TIME EMPLOYEES			PART TIME EMPLOYEES	
	MONTHLY RATE	MONTHLY COUNTY COST	EMPLOYEE BIWEEKLY DEDUCTION	MONTHLY COUNTY COST	EMPLOYEE BIWEEKLY DEDUCTI0N
PREMIER WELLWISE**					
EMPLOYEE ONLY	$494.64	$476.16	$11.41	$250.45	$115.59
EMPLOYEE / 1 DEPENDENT	$915.09	$697.57	$105.59	$347.38	$267.21
EMPLOYEE W/TWO OR MORE DEPENDENTS	$1,236.60	$941.20	$142.68	$468.88	$360.68
PREMIER SHAREWELL***					
EMPLOYEE ONLY	$184.11	$253.13	($31.86)	$184.11	$0.00
EMPLOYEE / 1 DEPENDENT	$322.18	$380.84	($27.07)	$120.82	$92.94
EMPLOYEE W/TWO OR MORE DEPENDENTS	$423.44	$473.30	($23.01)	$158.79	$122.15
KAISER					
EMPLOYEE ONLY	$321.97	$305.88	$7.43	$160.99	$74.30
EMPLOYEE / 1 DEPENDENT	$643.94	$482.96	$74.30	$241.48	$185.76
EMPLOYEE W/TWO OR MORE DEPENDENTS	$911.20	$683.40	$105.14	$341.70	$262.85
CIGNA					
EMPLOYEE ONLY	$377.40	$358.53	$8.71	$188.70	$87.10
EMPLOYEE / 1 DEPENDENT	$745.94	$559.46	$86.07	$279.73	$215.18
EMPLOYEE W/TWO OR MORE DEPENDENTS	$1,037.91	$778.44	$119.76	$389.22	$299.40

** County cost includes Wellwise incentive

*** County cost includes Sharewell credits (bi-weekly pay credits instead of deductions)

(Effective every pay period beginning with pay period 01'08, January 11, 2008)

September 2007

Exhibit B

Self-funded PPO Health Plan Rate Requirements – Active Employees – Operations and Service Maintenance Unit
January 1, 2008 - December 31, 2008

MERCER
Health & Benefits

Contents

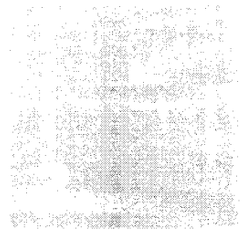
1. Introduction 1
2. Rate Adjustment 3
3. Reserve Fund 5
4. Exhibits 7

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.

The County maintains a self-funded medical plan in which the Operations and Service Maintenance 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 20.6% (average across all rate tiers and plans) for the plan year effective January 1, 2008. Since Operations and Service Maintenance Unit enrollment differs slightly from the County averages, the impact of the 20.6% reduction translates to a slightly different figure when applied to this unit's current enrollment by plan.

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.

For 2008 there will be no plan design changes for Operations and Service Maintenance Unit employees.

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 (18.5%). This projected rate decrease is reduced further by offsetting costs by the expected interest earned from the expected fund balance (at a 5% interest rate). This results in an overall decrease of (20.6%) for the Wellwise and Sharewell plans (on average). Since Operations and Service Maintenance Unit enrollment differs slightly from the County averages, the impact of the 20.6% reduction translates to a slightly different figure when applied to this unit's current enrollment by plan.

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:

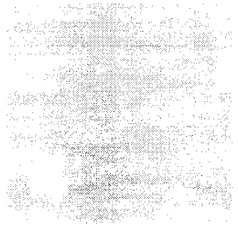
1) To act as a Premium Stabilization Reserve (PSR) to serve as a hedge against unfavorable claim fluctuations and to absorb unusually high individual claims which may emerge from time to time
2) To be used to fund incurred but not reported (IBNR) claim reserves, claims incurred prior to a potential termination 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 approximately 15% of expected annual claim cost, which amounts to approximately $7.5 million for the County's programs (actives and retirees combined).

Considering the current 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 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

	@ 2% Trend
Paid Claims	$30,635,457
Incurral Factor	1.000
Incurred Claims	$30,635,457
Trend [1]	1.0336
Projected Incurred Claims	$31,663,432
Plan Change Factor	1.0000
Adjusted Projected Incurred Claims	$31,663,432
Less: Rx Rebates	($180,000)
Part D Subsidy	$0
Administration	1.060
2008 Required Premium	$33,372,438
2007 Adjusted Premium [2]	$40,969,122
2008 Required Increase (before interest or reserve draw down)	-18.5%
Interest from Fund Balance [3]	-$824,000
2008 Required Increase (with interest - prior to draw down)	-20.6%
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 Actives				
	Premium	Medical	Rx	Total	Loss Ratio
May-06	$3,260,670	$2,188,267	$429,275	$2,617,542	80.3%
Jun-06	$3,270,388	$1,703,201	$433,001	$2,136,201	65.3%
Jul-06	$3,289,143	$1,736,435	$433,332	$2,169,767	66.0%
Aug-06	$3,296,628	$2,246,513	$417,523	$2,664,036	80.8%
Sep-06	$3,331,334	$2,222,759	$430,117	$2,652,876	79.6%
Oct-06	$3,353,655	$2,118,645	$443,352	$2,561,997	76.4%
Nov-06	$3,364,380	$1,656,476	$418,693	$2,075,169	61.7%
Dec-06	$3,382,019	$1,752,841	$433,999	$2,186,840	64.7%
Jan-07	$3,138,697	$2,048,106	$448,417	$2,496,523	79.5%
Feb-07	$3,158,357	$1,793,150	$397,251	$2,190,402	69.4%
Mar-07	$3,197,143	$2,762,858	$450,809	$3,213,668	100.5%
Apr-07	$3,193,219	$2,353,953	$440,382	$2,794,335	87.5%
Total	$39,235,633	$24,583,205	$5,176,150	$29,759,355	75.8%

Month	Sharewell Actives				
	Premium	Medical	Rx	Total	Loss Ratio
May-06	$263,236	$17,637	$511	$18,148	6.9%
Jun-06	$262,694	$205,593	$511	$206,104	78.5%
Jul-06	$262,764	$23,100	$1,277	$24,376	9.3%
Aug-06	$264,776	$74,244	$1,277	$75,521	28.5%
Sep-06	$265,584	$183,329	$1,277	$184,605	69.5%
Oct-06	$268,139	$26,138	$654	$26,792	10.0%
Nov-06	$268,181	$69,340	$654	$69,994	26.1%
Dec-06	$268,079	$19,204	$654	$19,857	7.4%
Jan-07	$267,236	$50,769	$0	$50,769	19.0%
Feb-07	$267,416	$49,034	$0	$49,034	18.3%
Mar-07	$268,251	$42,059	$0	$42,059	15.7%
Apr-07	$267,314	$108,843	$0	$108,843	40.7%
Total	$3,193,669	$869,289	$6,813	$876,102	27.4%

Month	WellWise & Sharwell Combined Actives				
	Premium	Medical	Rx	Total	Loss Ratio
May-06	$3,523,906	$2,205,903	$429,786	$2,635,689	74.8%
Jun-06	$3,533,082	$1,908,794	$433,512	$2,342,306	66.3%
Jul-06	$3,551,907	$1,759,535	$434,608	$2,194,143	61.8%
Aug-06	$3,561,404	$2,320,758	$418,800	$2,739,557	76.9%
Sep-06	$3,596,918	$2,406,087	$431,394	$2,837,481	78.9%
Oct-06	$3,621,794	$2,144,783	$444,006	$2,588,788	71.5%
Nov-06	$3,632,561	$1,725,816	$419,346	$2,145,163	59.1%
Dec-06	$3,650,097	$1,772,045	$434,652	$2,206,697	60.5%
Jan-07	$3,405,933	$2,098,875	$448,417	$2,547,292	74.8%
Feb-07	$3,425,773	$1,842,185	$397,251	$2,239,436	65.4%
Mar-07	$3,465,394	$2,804,917	$450,809	$3,255,727	93.9%
Apr-07	$3,460,533	$2,462,796	$440,382	$2,903,178	83.9%
Total	$42,429,302	$25,452,494	$5,182,963	$30,635,457	72.2%

Exhibit III

Premier WellWise Enrollment

Month	Actives
Jan-06	3,533
Feb-06	3,532
Mar-06	3,544
Apr-06	3,518
May-06	3,533
Jun-06	3,543
Jul-06	3,566
Aug-06	3,577
Sep-06	3,627
Oct-06	3,662
Nov-06	3,677
Dec-06	3,703

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

Premier Sharewell Enrollment

Month	Actives
Jan-06	1,091
Feb-06	1,082
Mar-06	1,084
Apr-06	1,095
May-06	1,086
Jun-06	1,083
Jul-06	1,083
Aug-06	1,093
Sep-06	1,099
Oct-06	1,108
Nov-06	1,105
Dec-06	1,105

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

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