County of Mendocino

NON-MEDICARE ELIGIBLE RETIREE HEALTH PLAN

RETIREE HEALTH PLAN WORKGROUP EVALUATION OF ALTERNATIVES FOR PERSERVING RETIREE HEALTH CARE PLAN BEYOND FEBRUARY 29, 2012 TERMINATION DATE

January 18, 2012

Human Resources – Staff Report

Background/Issue

September 21, 2011: The Board received formal notification from the Board of Retirement of its intent to not release the balance of excess earnings ($658,654) that had been set aside to pay for retiree health benefits.

September 27, 2011: The Board of Supervisors authorized the increase in premium levels for the Non-Medicare Eligible Retiree Health Plan to fully fund plan costs in the amount of $922.56 per retiree per month effective January 1, 2012. This increase was the result of the potential loss (or delay) in the receipt of the balance of excess earnings in the amount of $658,654 held by the Board of Retirement, the information provided in the 2012 Non-Medicare Eligible Retiree Premium Renewal Report prepared by Keenan & Associates, and the unanticipated significant increases in recent Non-Medicare eligible retiree claims costs.

In addition staff was directed to send 90-day notification letters of the Retiree Health Fund depletion to Medicare and non-Medicare Eligible retirees. For Medicare eligible retirees, the notification stated the County's intent to discontinue its $104 per month Health Reimbursement Account (HRA) contribution effective December 31, 2011. The notice to Non-Medicare Eligible Retirees identified the increase in their premium rates for 2012 and the County's intent to discontinue its $288 per month contribution towards health plan premiums effective January 1, 2012.

The Board further authorized the Auditor to set up a separate account to fund the Medicare Eligible Retirees HRA contributions in the amount of approximately $107,016 for the County to finance the Medicare Eligible Retirees HRA contributions for the 90-day noticing period.

November 1, 2011: Staff was informed of a letter received by the Board of Supervisors from the Association of Mendocino County Retired Employees (AMCRE) dated October 24, 2011 (attached). The letter requested the Board consider establishing a short-term (60-day) working group to review the alternatives for Non-Medicare Eligible Retirees health care coverage as prepared by Mercer Consulting on April 8, 2011 and presented to the Board on May 23, 2011. On November 1, 2011, the Board directed staff to prepare an agenda report to discuss this request.

November 15, 2011: Staff provided the Board with an update on the status of the Retiree Health Plan. Staff received direction from the Board to terminate the retiree health plan upon giving participants a 90-day termination notice based on the following factors:

- An approximate 45% decrease in plan participants for Plan Year 2012 resulting from the Open Enrollment process
- Assumption that based on the cycle of the diminishing number of non-Medicare eligible retiree health plan participants, a re-evaluation of premium rates would result in increased rates, which then requires a 90 day notice and conducting another open enrollment and possible further reduction in enrollees
- Reduction in anticipated collected premiums
- Anticipated funding levels necessary to pay the full cost of the retiree health plan (based on significant increases in claims experience)
- Current Health Plan fund deficit
- Lack of a Retiree Health Plan Stabilization Reserve
- Potential Impacts to County's General Fund
- Unknown status/ability to collect ERRP funds

Staff also received Board direction to proceed with the formulation of the AMCRE requested working group, reporting back to them on the results of this review/analysis in 60 days.

January 24, 2012: Staff wishes to report to the Board the results of the Retiree Health Plan Workgroup efforts, and, if the Board desires to rescind the retiree health plan termination effective February 29, 2012, make a recommendation (Attachment 2) for retaining the current retiree health plan, allow the retiree representatives an opportunity to present their proposed alternative options (Attachment 1), and obtain Board direction on how to proceed.

Current Premium Rates

Attachment 3 shows the current premium levels of both the Active and Retiree Health Plans for Plan Years 2011 and 2012 and provides an explanation on the determination of the retiree health plan rates for 2012.

Current Status – Enrollment

As reported in November, as the retiree participant pool diminishes so does the ability to market the plan based on the experience and size of the group. Insurance companies have deemed the non-Medicare eligible retiree health plan participant group as a not "credible" group. (Refer to Attachment 1 for explanation of "credible"). In addition, it is unlikely the remaining participants in the plan will be able to continue to pay increased premiums based on the distribution of costs over a smaller base group. Keenan & Associates, the County's Health Plan Consultant, had indicated that rates for 2012 would need to be re-evaluated if 10% (or approximately 11) of the then current participants (in September 2011) dis-enrolled.

Plan Participant Levels:

October 2011:	102	retirees plus 11 dependents (or a total of 113)
January 2012:	52	retirees and 9 dependents (or a total of 61)

Future Enrollment Levels:

Plan Yr 2012:	16	active employees ineligible for retiree health due to Medicare eligibility status by 12/31/12
Plan Yr 2012:	195	active employees eligible if retire by 12/31/12
Plan Yr 2013:	6	active employees ineligible for retiree health due to Medicare eligibility status by 12/31/13
Plan Yr 2013:	8	active employees eligible if retire by 12/31/13
Total Actives:	292	active employees eligible for retiree health plan
Actuarial Analysis:	63	active employees will retiree/enroll in Retiree Health Plan in 2012 & 2013

Keenan has re-evaluated the retiree health plan costs based on the reduction in participants determined by the most recent open enrollment. Since both sized groups (113 in October 2011 as compared to 61 in January 2012) are not credible, it was determined that although the number of participants dropped significantly, the current established rates of $922.56 would most likely continue to provide full program funding.

Current Status - Funding

As identified by the Auditor's Office, as of December 31, 2011 the Retiree Trust Fund showed a deficit of $386,285. However, this deficit does not include the Early Retiree Reinsurance Program (ERRP) funding currently being held in a separate fund in the amount of $402,156. Pending finalization of Keenan's audit of the funds received to date, and the revised federal government guidelines on qualifying for these funds, it is anticipated that the County will be required to return approximately $137,029 of the ERRP funds received. Based on the receipt, deposit, and anticipated return of a portion of these funds, with the transfer of the balance of ERRP funds of $265,127, the Retiree Health Fund presently has a **cash deficit balance ending December 2011 of approximately $121,158**. Keenan has submitted a final ERRP claims reimbursement request in the amount of $151,595. However, the County will be unable to accept this funding if it is received after February 29, 2012 (the termination date of the retiree health plan). Based on December 31, 2011 figures, if the retiree health plan continues, and the County continues to qualify for ERRP funding, the Retiree Health Fund would have a cash balance of $30,437.

Not accounted for in the estimates above is the $5,000 - $10,000 cost incurred for the Other Post Employment Benefits (OPEB) analysis performed by AON Actuarial Consulting Firm on potential OPEB liabilities associated with the various retiree health plan options reviewed by the Workgroup.

The Non-Medicare Eligible and Medicare Eligible Retiree health expenses are maintained and accounted for in separate accounts. The figures above do not account for the approximate $105,432 of County funds necessary to finance Medicare Eligible Retirees HRA contributions during the required 90 day notification period of the County's termination of the program effective December 31, 2011 due to retiree health trust fund depletion. The Executive Office plans to address this unanticipated expense during the mid year budget review scheduled for February 14, 2012.

Retiree Health Plan Workgroup

The Retiree Health Plan Workgroup, facilitated by Pat Meek (HR Director), with Sue Goodrick (HR Benefits Manager), Peter McNamara of Keenan & Associates and retiree representatives (Sue Thornhill, Marsha Wharff, Richard Shoemaker and Carol Mordhorst) has met four times. Meetings were open to the public and attendance was typically between 30 to 35 retirees. In addition, the Workgroup representatives met with the CEO and Human Resources staff to discuss their proposed recommendation to the Board of Supervisors.

The Workgroup focused on addressing the barriers associated with blending the retirees into the active employee health plan to allow for a continuation of health care coverage at an affordable rate. The Workgroup also discussed and reviewed a variety of health plan premium rate scenarios, an actuarial report prepared by AON Consulting on potential Other Post Employment Benefits (OPEB) liability, plan deficit projections, and catastrophic plan proposals with a range of deductibles as prepared by Keenan & Associates.

Human Resources developed an email list of interested retirees and has been providing these retirees with Workgroup meeting dates, times and discussion materials to keep them informed of the workgroup's progress.

Retiree Health Plan Workgroup Recommendation

After careful review of all the options outlined in Attachments 1 and 2, the Retiree Health Workgroup is recommending the Board of Supervisors consider blending the 120 non-Medicare eligible retirees who were participants in the retiree health plan in September 2011 (prior to the notification of the rate increase and elimination of the County subsidy) into the active employee health plan with the County funding 100% of the subsidy or an estimated $293,209 annually. The costs and impacts associated with this recommendation and an alternate proposal where the County funds 75% of the subsidy or an estimated $219,907 annually are identified in Attachment 1.

The recommendation/proposal of the Retiree Health Plan Workgroup as described in Attachment 1 will be presented by a Workgroup spokesperson representing the retirees.

CEO/HR/Keenan Recommended Action

Should the Board desire to rescind the notice of intent to terminate the retiree health plan effective February 29, 2012, based on the joint review with the Retiree Health Plan Workgroup of alternative options (as identified in Attachment 2) to allow for the continuation of health care coverage for the next two years until the Federal Health Care Reform exchange programs are implemented, Human Resources Staff, the County Executive Officer, and the County's Health Plan Consultant recommend:

1) Continue to offer the current plan (at $922.56 per participant fully paid by participant) through December 31, 2012 returning to the Board with quarterly updates on plan experience and funding levels. Refer to Attachment 2.

2) Allow for the approximate 60 non-Medicare eligible retirees who were participants in the retiree health plan in September 2011 (prior to the notification of the rate increase and elimination of the County subsidy) who subsequently dropped from the plan to have the opportunity to re-enroll with an effective date of March 1, 2012 at the same premium rate;

3) Return to the Board in August/September 2012 with a possible renewal option for Plan Year 2013 based on the experience levels of the participant group and status of the Retiree Health Plan Trust fund at that time;

4) Should the Board determine, after review of the proposed renewal rates for Plan Year 2013 (#3 above), its desire to retain the Retiree Health Plan for Plan (Calendar) Year 2013, confirm the Board's original intent to terminate the retiree health plan effective December 31, 2013 at which time the Health Care Reform exchange program is expected to be implemented.

This recommendation is being made based on a number of factors that have changed since the November 2011 report and the recommendation to terminate the plan was made:

- Based on Keenan's analysis/determination that $922.56 per participant in the currently existing non-Medicare Eligible Retiree Health Plan will cover full plan costs for the current participation size (60) or larger group of 120.
- Based on the analysis of options reviewed by the Workgroup, and quantifying the barriers associated with the continuation of a retiree health plan as identified in staff's presentation to the Board on November 15, 2011, it is staff and Keenan's belief that this option will result in the least potential liability and/or adverse impact to the County, with the understanding that the County's potential liability is related to plan run-out expenses, and that liability would be a factor regardless of when the plan ends.
- Keenan's $922.56 rate includes recovering an anticipated $113,000 shortfall expected by December 2011. However, this will only occur if collected over the 12 month plan year.
- Significant claims experience "spike" noted in August/September 2011 has decreased over past 3 months.
- Recent receipt of $10,654 prescription drug formulary rebate from Medco and anticipated future rebates of similar amounts.
- Anticipated receipt of ERRP revenues within the next few months of approximately $151,595 (provided Retiree Health Plan exists at the time these funds are received).
- Anticipation that current legislation extending ERRP funding will occur allowing the County to collect additional revenues to offset plan expenses.
- Stop Loss marketing resulted in a 2% reduction for retirees indicating a higher confidence level by insurers in high claims payout.
- Provides Retirees with continued health care coverage over the next 12 months while researching their own personal options.

Staff would like to acknowledge and express appreciation for Keenan's assistance and timely analysis on this project. While this additional work is not a part of their current contract, our consultant, Peter McNamara, attended all workgroup meetings and graciously offered to perform a number of additional analysis requested by the retiree workgroup at no cost. Keenan's contract for Non-Medicare eligible retiree health plan consulting services is at a not-to-exceed annual amount of $3,000. The amount of additional work performed on the retiree's behalf would typically have equated to a cost between $10,000 and $15,000.

Attachments

Attachment 1 – Retiree Health Plan Workgroup – Retiree Recommendations
Attachment 2 – Retiree Health Plan Workgroup – Alternative Plans Evaluated & CEO Recommendation
Attachment 3 – Active & Non-Medicare Eligible Retiree Health Plans Participation & Rates Calendar (Plan) Years 2011 & 2012