

**EMPLOYEE HEALTH PLAN RENEWAL 2012**  
**Report to the Mendocino County Board of Supervisors**  
**From the Human Resources Department**  
**September 27, 2011**

**Background**

The County of Mendocino provides health benefits to its employees and their dependents. The Mendocino County Employee Health Plan is self-insured and is administered by the Human Resources Department as directed by the Chief Executive Officer. The Plan provides coverage for medical, dental, vision, prescription drugs and an Employee Assistance and Wellness program. The Plan is 75% funded by the County and 25% by employee contributions. Benefits are negotiated and are subject to inclusion in County agreements with bargaining units. Approximately 93% of total qualifying employees participate in the Health Plan.

**Plan Costs/Premium Rates**

On December 11, 2007, the Board approved a premium increase of 17.59% which included increases in the costs of providing services, contributions to building reserves and enhancements to dental and vision benefits. In addition, the Board agreed to return the County/Employee funding ratio to 75%/25% for overall plan premiums as agreed upon by all bargaining unit MOUs.

On October 28, 2008, the Board directed that it wished to fully fund the past accumulated health plan deficit, the Incurred But Not Paid Liability (IBNP) and a stabilization reserve equivalent to 3 months of plan expenditures over the next few years. The Board then approved a funding/premium increase of 16% to cover increases in costs of providing medical services, payment of the deficit carried over from previous fiscal years and contributions to building reserves.

On October 27, 2009, the Board approved a 14% funding/premium increase for the Employee Health Plan for the Calendar Year 2010 to fully fund health plan costs and with the goal to meet all reserve requirements by December 31, 2011.

On September 14, 2010, the Board approved the Fiscal Year 2010/11 budget which included a 10% reduction in health plan premiums based on an anticipated 5.7 month stabilization reserve due to favorable claims experience and increased contributions of both the employees and the County. On September 28, 2010, the Board approved an additional 5% funding/premium decrease (for a total of 15%) effective the first full pay period after January 1, 2011 based on the Health Plan Consultant's (Mercer) recommendation that such a decrease would continue to provide solvency of the plan, provide rate stability through 2013 and provide some financial relief to employees through reduced premiums.

On September 27, 2011, staff in concurrence with Keenan & Associates recommendation, proposes the Board agree to retain funding/premium levels at the 2011 rates.

Prior to 2007 rates had not changed for approximately 2 years.

**Review & Oversight of Employee Health Benefits & Plan**

The Human Resources Department performs the administrative functions for the Health Plan. In addition, plan oversight is performed on a regular basis by the County's Health Plan Consultant. This oversight includes: conducting strategic planning sessions with County staff to review the performance of the employee benefits coverage, establishing future objectives and strategies for managing benefits coverage, informing the County of significant changes and/or trends in the benefits marketplace, and providing cost and funding analysis based on actual claims experience and future projections. For the past 7 years, the County has contracted with Mercer to perform these functions. However in July 2011, after an extensive Request for Proposal and evaluation process, Human Resources (at the recommendation of an advisory panel consisting of the General Services Director/Risk Manager, Assistant Auditor/Controller and Sheriff's Department representative/former Retirement Board member) awarded the contract for Health Plan Consultant and Brokerage services to Keenan & Associates. As presented to the Board on June 14, 2011, staff believes Keenan and Associates will best suit the County's future needs as we move forward with Healthcare Reform and Health Plan Design changes to

reflect Wellness incentives for the purpose of improving employee/dependent health and reducing rising medical costs to both the employees and County.

Additionally, the County's Auditor-Controller performs on-going internal audits of the Employee Health Plan Trust fund and, for the past 3 years, an independent third-party actuary (AON) has been acquired to review and evaluate the projected renewal figures, health plan revenues and costs, and any projected/proposed increases in the healthcare premiums.

### **Funding/Financial Overview**

It is projected that by December 31, 2011, the County's Health Plan will be in a surplus position at \$5,968,970, fully funding the Incurred But Not Reported (IBNR) liability and three months of stabilization reserve. As of December 31, 2011, the Health Plan Reserve is estimated to contain an excess surplus (beyond the required reserve set aside for the IBNR and 3 month stabilization) of \$1,378,273. As of December 31, 2012, it is estimated that the excess surplus will be \$365,422.

Projected Incurred But Not Reported (IBNR) claims are estimated at \$1,465,114 which is a decrease of \$15,931 from last year's estimate of \$1,481,045.

### **2012 Employee Health Plan Report**

Keenan's 2012 Active Employees Benefit Coverage Renewal Projection Report will be provided on or before the date of the Board meeting. Of significant importance is that historically over the past 2 1/2 years, the monthly enrollment from January 2009 to July 2011 has decreased by 20% while the average total program cost increased by almost 70% over that same time period.

Total program costs are projected to increase approximately 5.92% from Plan Year 2011 to 2012 (January – December) equating to \$1,069.60 per employee per month, an increase of \$59.81 per employee per month over the prior year. Our ability to recommend retaining rates at their current levels, even though we are seeing increases in program/claims costs, is due to the accumulated excess surplus (above the reserve set aside for the IBNR and 3 month stabilization). Keenan and staff recommend the application of excess surplus to offset this increase in program costs.

It is anticipated that we will experience an 8.19% increase in program costs for Plan Year 2013 and another 8.39% for Plan Year 2014.

An informational meeting was held on September 14, 2011 with representatives from the various bargaining units and Keenan & Associates to present the findings of the Health Plan projections and the proposed recommendation to retain premium levels at the 2011 rates. Potential premium increases in Plan Years 2013 and 2014 were also discussed including staff's cost containment efforts presently under review and described below.

### **Cost Containment Efforts**

With the possibility of up to a 18% increase in program/premium costs over the next few years, staff in conjunction with Keenan & Associates, is looking at a number of cost saving measures.

1. Our newly enhanced and initiated Wellness Program will begin its second year in 2012, and while we do not anticipate seeing a return on our investment until the 3<sup>rd</sup> year of the program, we are hopeful to see some very minor reductions in claims costs.
2. Additionally, the projected increases in Plan Years 2013 and 2014 do not take into account any fund balance carry forward which may occur in the event actual costs are less than projected/budgeted.
3. At staff's request, prior to the end of their contract, a study was performed by Mercer (June 23, 2011) which indicated the County could realize an approximate \$155,139 savings annually by implementing the Anthem Blue Cross PPO contract with our three local hospitals or by re-negotiating current hospital contracts. Currently the County has direct contracts with each hospital that have not been reviewed or negotiated in a number of years. Keenan & Associates will be participating in the evaluation and potential negotiation of these contracts.

4. At staff's request, prior to the end of their contract, a second study was performed by Mercer (June 23, 2011) comparing the continued use of the Foundation for PPO Network services to that of Anthem Blue Cross (within Mendocino and Lake County). The results of that report identified an estimated savings potential of approximately \$37,482 annually. Keenan & Associates will be participating in the evaluation of PPO network services.
5. Keenan will be marketing the County's Stop Loss Coverage in November. It is anticipated that they may be successful in reducing our current premium estimates which include an assumed 5% increase for 2012.

### **RECOMMENDATION**

It is recommended that the Board of Supervisors recommend a zero rate increase for Plan Year 2012 while recognizing that the plan's claim costs and expenses are expected to increase in 2012. It is believed that the Health Plan has sufficient excess surplus to cover the increase in claim costs, plan expenses, and the reserve requirements for the upcoming year. This action will continue to support the solvency of the Plan.

In addition, staff anticipates continuing its evaluation of program cost saving measures as identified above, reporting back to the Board any findings/recommendations.

Just beginning our relationship in July, staff would like to express our appreciation and gratitude to our new consultants, Keenan & Associates, for their very thorough and quick analysis of the County's Health Plan renewal process and willingness to meet the challenge of meeting our short time frame for implementing a Plan Renewal for 2012. Based on their initial efforts we are confident that we have a reliable and competent partner in moving forward with the many changes occurring through health care reform.