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Ms. Sue Goodrick
Benefits Manager
County of Mendocino
579 Low Gap Road
Ukiah, CA 95482

Subject: County of Mendocino Non-Medicare Eligible Retirees Health Coverage Covered Under the Active Health Plan

Dear Sue:

The County has asked Mercer to comment on the potential impact of the Non-Medicare eligible retirees (retirees) being covered under the County of Mendocino's Active employee health plan. This letter serves as an addendum to the letter on this subject dated March16, 2010.

Covering the non-Medicare eligible retirees under the County of Mendocino's Active employee health plan can be done in two ways:

- Blending of the programs including underwriting, reserve sharing, and cross subsidies of cost from the active employees to the retirees.
- Separation of the retiree plan from the active plan, with the intent of only realizing economies of scale for fixed expenses such as claims administration, third-party plan administration, reinsurance, network discounting

The "blended" approach provides rates for active employees and retirees based on blended plan experience, underwriting, expenses and reserve requirements. The blended approach would provide lower retiree rates, while increasing the active employee rates. The blended approach may require the County to meet with its bargaining units to implement this approach.

The "separate" approach provides stand-alone rates for both active employees and retirees. Rates would reflect each groups own plan experience and own associated costs. Economies of scale would be realized based on the two groups coming together for purchasing power for fixed costs. Since the two programs currently utilize the same vendors, minimum leverage would be realized from this alone. Given the fact that the County will be placing their TPA services, networks, and reinsurance coverage out to bid, economies of scale would be realized through the marketing process. Since the separate approach does not adversely impact the active plan, the County may want to consider this approach.

Mercer looks forward to reviewing this with the County. Should you have any questions, please contact me at (916) 286-5403.

Bordan Darm
Principal