

County of Mendocino

2012 Non-Medicare Retiree Benefit Coverage Renewal Projection Report

Presented by:

E. Peter McNamara, Sr. Vice President

Jovita “JJ” Juanillo, Sr. Vice President

Michael Ahn, Asst. Vice President

Christine Hough, Vice President, FSA, MAAA



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Data Sources

- *Delta Health Systems* – Self-Funded Medical Experience, Enrollment Information, Large Claims Data, Claims Lag Reports, Early Retiree Reinsurance Program Subsidy Data, and Utilization Reports
- *Medco Prescription Plan Data and Information* – Prescription Plan Enrollment, Experience Data, Utilization Data, and Rebate Information
- *County of Mendocino Human Resources Department* – Census Data, PPO Plan Descriptions, Stop Loss Contract, Provider Network Agreements, and Budget and Expense Reports

Scope of Work

- As part of Keenan & Associates' ("Keenan") benefit consulting agreement with the County of Mendocino ("County"), Keenan is hereby providing the renewal cost projections for the plan year 2012 for Non-Medicare retiree benefit coverages. This report also includes the incurred but not reported (IBNR) claim reserve projections.

Executive Summary

- This report presents the benefit coverage renewal projections and reserve estimates for the plan year starting January 1, 2012 for the County of Mendocino's Non-Medicare retiree segment.
- Based upon our analysis of the overall plan experience and expenses, we recommend a 12.68 percent rate increase in 2012. The total projected per retiree per month cost is \$922.56 versus \$818.78 in 2011 plan year. It is important to note that the plan's claim costs and expenses are expected to increase in 2012.
- With the recommended 2012 increase, the Non-Medicare retiree's out-of-pocket increases from \$530.78 to \$922.56 or 73.8% increase. This reflects the cost increase from 2011 plan year where the County contributed \$288.00 of \$818.78 Non-Medicare retiree monthly plan cost.
- For the Plan Year 2011, we estimated the plan will be in deficit by approximately \$98,292 as of December 31, 2011.

Executive Summary

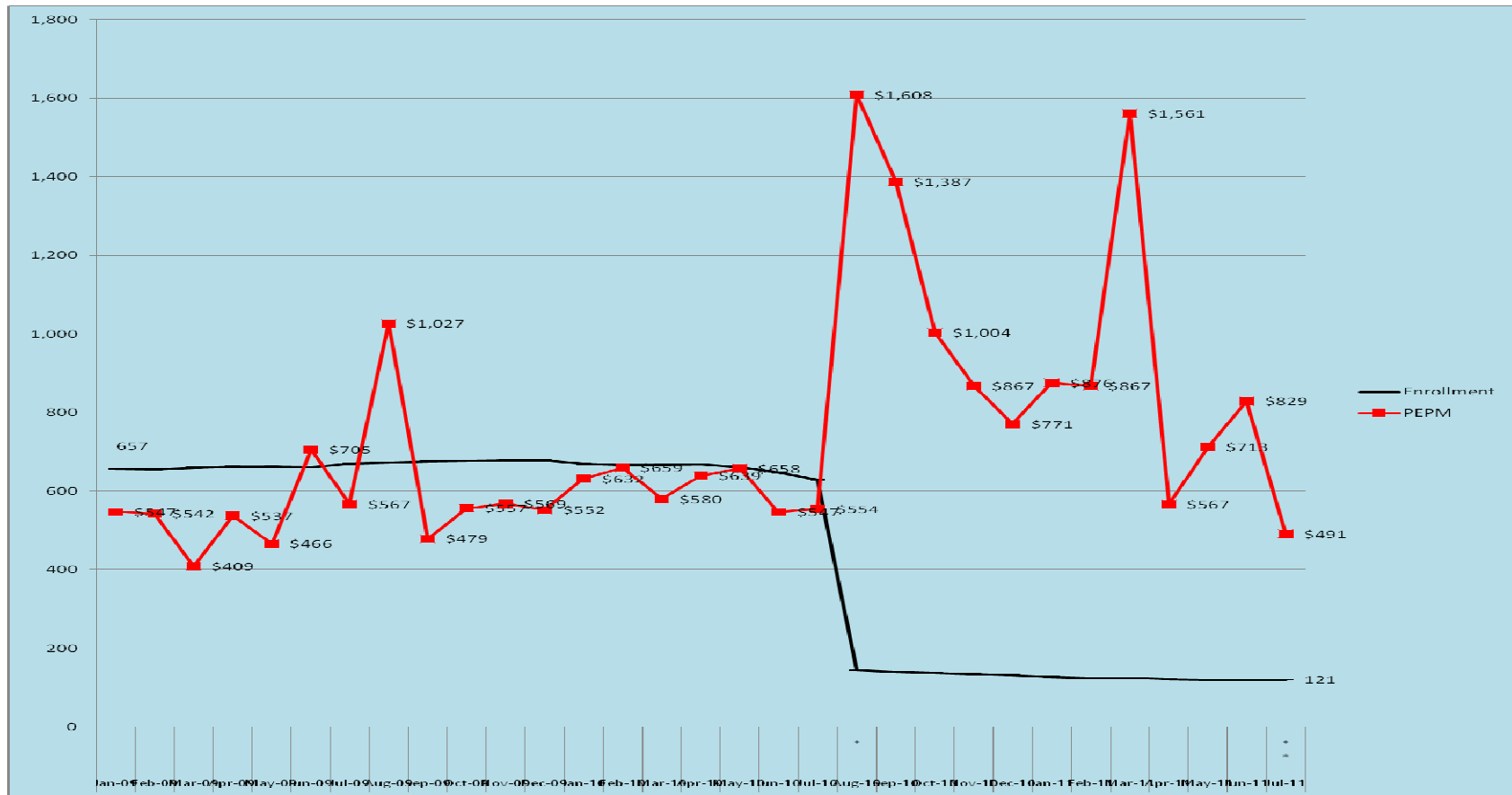
- Based on our analysis, the estimated incurred but not reported (IBNR) claims is approximately \$125,788 as of December 31, 2011.
- We conclude, based upon our analysis and without recommended plan changes, that the County of Mendocino implement a 12.68% rate increase for the Plan Year 2012.
- We recommend the County of Mendocino to implement the recommended plan changes to mitigate the 12.68% rate increase in 2012 Plan Year. If the County accepted all the recommended plan changes, it allows for a no rate increase and the Non-Medicare retiree's out-of-pocket will increase from \$530.78 per month to \$818.78 or 54.2% increase.

Enrollment & Claim Cost Overview

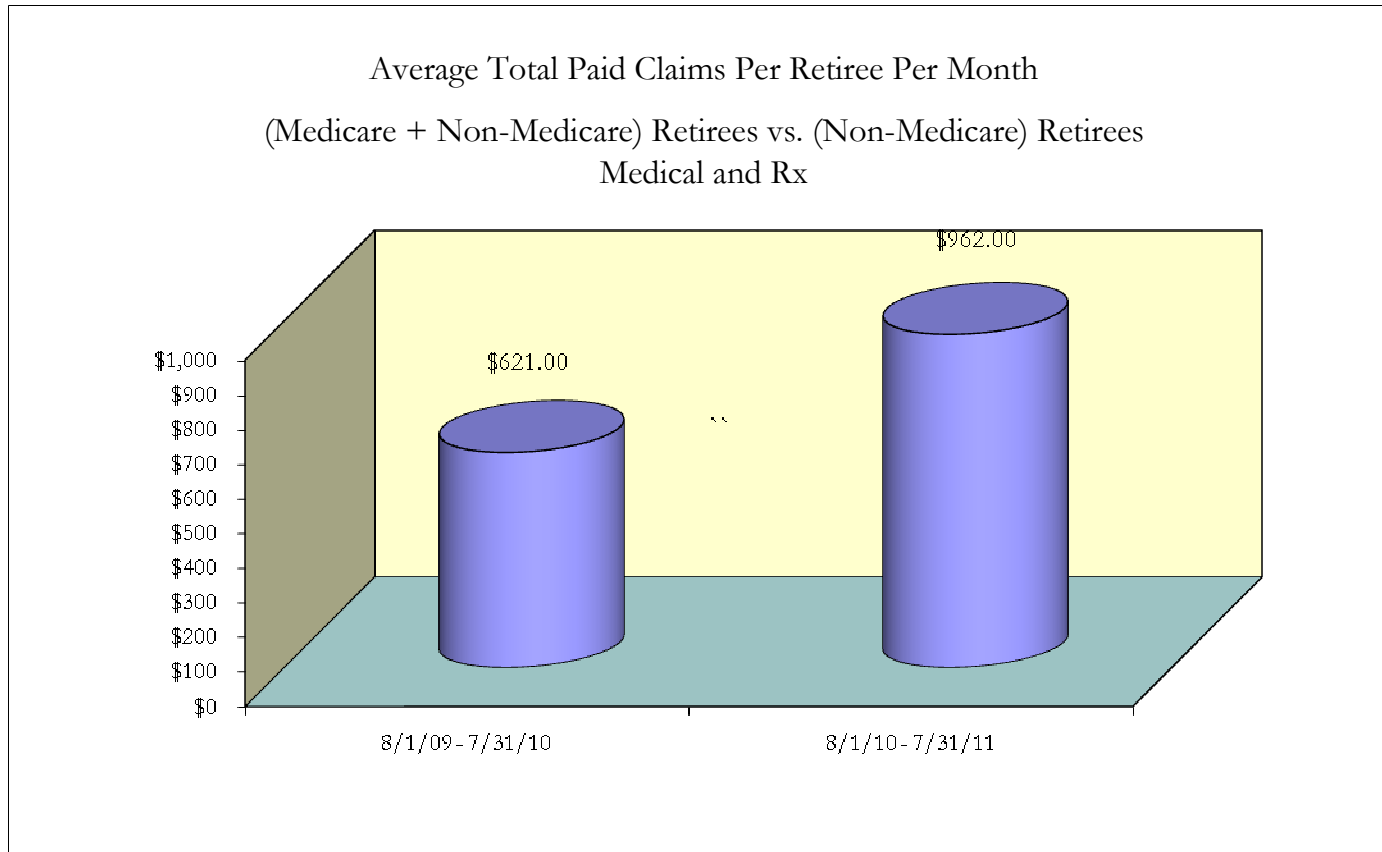
- The enrollment for the County of Mendocino has dropped significantly over the past two years while the claims on an average basis continue to increase.
- The average retiree monthly enrollment for the County of Mendocino dropped 82 percent from 657 total retirees (Medicare and Non-Medicare) in January 2009 to 121 Non-Medicare retirees in July 2011 (page 8).
- The monthly claim cost per Non-Medicare retiree during the recent 12 months, 8/1/10 - 7/31/11, is \$962. This compares to the prior 12 months, 8/1/09 - 7/31/10, retiree (Medicare and Non-Medicare) monthly claim cost of \$621. This represents a monthly increase of \$341 per covered retiree or 55 percent over the past two years (page 9).

Enrollment & Claim Cost Overview (continued)

Monthly Enrollment & Per Retiree Per Month (PRPM) Claim Cost



Enrollment & Claim Cost Overview (continued)



Renewal Projections

Total Cost Projection Overview

- Keenan applied a standard experience rating methodology in developing the Claims Projection for Plan Years 2012. This methodology is similar to what has been applied by the prior consultant in the previous years. The calculation development and detail are provided in the following pages.

Total Cost Projection Detail

- The components of the claim projection development are described below:
 - ***Paid Claims.*** We utilized data from the most recent twelve months of paid claims for each coverage as the basis of our projections. These are provided on a month-by-month basis so that we can determine any significant patterns or trends that might impact the projection. The Non-Medicare retiree enrollment corresponding to the claim experience period is also utilized to develop per retiree funding levels.
 - ***Large Claims Adjustment.*** The paid claims were adjusted to extract claims in excess of the Specific Stop-Loss level: \$125,000.
 - ***Non-Medicare Retiree Exposure.*** We utilized the most recent 12 months enrollment, lagged two months, to determine the per Non-Medicare retiree paid claims for each coverage.
 - ***Plan Design Adjustment.*** Adjustments were made to reflect Health Care Reform changes for the Plan Year 2012: i.e. extended children coverage to age 26; no lifetime maximum, 100% preventive care coverage, etc

Total Cost Projection Detail (continued)

- ***Trend Factor.*** We applied a trend factor to the Incurred Claims based on Keenan & Associates’ “book of business” trend factors in the Northern California region. Trend is a percentage increase used to reflect the projected rise in healthcare costs. Calculation factors include inflation, utilization, technology and geographic area. The result is the Projected Claims for the upcoming policy year.
- ***Projected Monthly Enrollment.*** The most recent enrollment as of July 2011 was used to project the aggregated claims for the future period starting January 1, 2012.

Total Cost Projection Detail (continued)

- The components of the expense projection development are described below:
 - **County Costs.** This data and assumed future costs of three percent were included in the calculation and discussed with the County.
 - **Reinsurance Costs.** We assumed that reinsurance or excess stop loss coverage for 2012 will be marketed and negotiated with existing and potential vendors. An increase of ten percent was included in the expense illustration.
 - **Plan Administration and Cost Containment.** The plan administration and cost containment increase included is three percent (0 percent for FSA).

Total Cost Projection Detail (continued)

- *PPO Network.* The PPO Network increase included is three percent.
 - *Health Plan Consulting.* No increase is assumed for 2012 and succeeding years.
 - *Prescription Drug Rebate.* The rebate amount included is 7.59 percent of total prescription claims and \$82,964 received September 2011.
 - *Wellness Program.* There is no cost increase anticipated for the wellness program.
- The above components of the claims and expense projection were added to determine the total plan expenses for the Plan Year 2012.
 - A reserve requirement was added to the plan costs.
 - ERRP credit of \$334,168 was applied to the 2011 Plan Year accounting.

Total Cost Projection Detail (continued)

- The projected Total Non-Medicare Retiree Cost is determined using the various components of claims and expenses. The Total Current Non-Medicare Retiree revenue is applied against the Total Non-Medicare Retiree cost resulting in a rate action of 12.68 percent increase (page 18 and 19).
- The Reserve Projection was included in the calculation of Total Non-Medicare Retiree Costs.
- The Total Non-Medicare Retiree Cost Without Fund Transfer requires a 12.68 percent increase for Plan Year 2012. This includes the Incurred But Not Reported claims reserve. A deficit amount of \$98,292 is expected by December 31, 2011.

Total Cost Projection Detail (continued)

- A Fund Balance Exhibit (page 20) is provided to show the impact of with and without \$658,653 fund transfer to the total costs and plan position by December 31, 2011.

Total Cost Projection Detail – Without Fund Transfer

Non-Medicare Eligible Retirees	Medical	Rx	Total
Paid Claims (8/1/10 - 7/31/11)	\$ 1,143,887	\$ 364,914	\$ 1,508,801
Large Claims Credit	\$ -	\$ -	\$ -
Plan Adjustment Factor	0.71%	0.71%	0.71%
Overall Adjusted Paid Claims	\$ 1,151,990	\$ 367,499	\$ 1,519,488
Retirees Exposure ¹	2,583	2,583	2,583
Paid Claims/EE/Month	\$ 445.99	\$ 142.28	\$ 588.26
Trend	9.50%	9.00%	
Months of Trend	17	17	17
Trend Factor	1.1372	1.1299	
Claims Fluctuation Margin ²	1.0500	1.0500	
2012 Projected Claims PRPM	\$ 532.54	\$ 168.79	\$ 701.33
Projected Monthly Retirees ³	121	121	121
2012 Projected Claims	\$ 773,244	\$ 245,080	\$ 1,018,325
Expenses ⁴			
- Stop Loss (\$125,000 Specific; 125% Aggregate)	\$ 284,004	-	\$ 284,004
- County of Mendocino - Administration	\$ 29,355	-	\$ 29,355
- DHS Administration	\$ 27,225	-	\$ 27,225
- Foundation - PPO Access	\$ 2,178	-	\$ 2,178
- Blue Cross - PPO Access	\$ 20,517	-	\$ 20,517
- DHS Cost Containment	\$ 5,082	-	\$ 5,082
- DHS Nurseline	\$ 1,379	-	\$ 1,379
- Consulting Fees	\$ 3,000	-	\$ 3,000
- Prescription Drug Rebates ⁵	-	\$ (101,557)	\$ (101,557)
Total Expenses	\$ 372,740	\$ (101,557)	\$ 271,183

Total Cost Projection Detail (continued)

Total Claim Costs & Expenses	\$ 1,145,984	\$ 143,523	\$ 1,289,508
2012 Reserve Requirement	\$ 103,686	\$ 14,139	\$ 117,825
Stabilization Reserve - 3 Months	-	-	-
ERRP Reimbursement Revenue ⁶	-	-	-
2012 Total Retiree Projected Cost	\$ 1,249,670	\$ 157,663	\$ 1,407,333
Estimated Deficit @ 12/31/2011 without \$658,653 Transfer ⁷			\$ 98,292
Adjusted 2012 Total Retiree Projected Cost			\$ 1,505,625
Adjusted 2012 Total Retiree Projected Cost Per Retiree Per Month (PRPM) ⁸			\$ 922.56
2011 Current Retiree Budget Revenue ⁹			\$ 1,336,249
Projected Rate Increase			12.68%

¹ Retirees Exposure is for the period 6/1/10 - 5/31/11: 2-months lagged.

² Claims Fluctuation Margin is to account for Retiree health plan changes on 8/1/10 and lack of experience credibility.

³ Projected Monthly Retirees is July 2012.

⁴ Per C. Mendocino projected 2012 expenses.

⁵ Per C. Mendocino Rx rebates include 2012 projected amount (\$18,593) and current rebate (\$82,964) as of September 2011.

⁶ ERRP Reimbursement is assumed not to be made in 2012.

⁷ Per C. Mendocino's Request, assume transfer is not approved in 2011.

⁸ Adjusted 2012 Total Retiree Projected Cost Per Retiree Per Month (PRPM) includes: 121 retirees + 15 dependents.

⁹ 2011 Current Retiree Budget Revenue per C. Mendocino - Retiree monthly budget rate is \$818.78 per Retiree members. Revenue through premium payments received at \$530.78 with dependents paying \$818.78.

Fund Balance

Excess Surplus / (Deficit) Fund Balance Estimated by 12/31/2011	2011 With Fund Transfer	2011 Without Fund Transfer
Projected Paid Claims	\$ 1,106,753	\$ 1,106,753
Projected Plan Expenses	\$ 330,568	\$ 330,568
Total Health Plan Cost	\$ 1,437,321	\$ 1,437,321
2010 ERRP Reimbursement ¹	\$ 334,168	\$ 334,168
Projected Plan Revenue	\$ 1,336,249	\$ 1,336,249
Projected Surplus / (Deficit) 12/31/2011	\$ 233,096	\$ 233,096
Beginning Plan Surplus / (Deficit) Position ²	\$ (331,388)	\$ (331,388)
Ending Plan Surplus / (Deficit) Position	\$ (98,292)	\$ (98,292)
2011 Retiree Fund Transfer (\$658,653) ³	\$ 658,653	\$ -
Excess Surplus / (Deficit) Fund Balance By 12/31/2011	\$ 560,361	\$ (98,292)

¹ 2010 ERRP Reimbursement was received March 2011 and is applied to Retiree Fund in 2011 plan year.

² Beginning Plan Surplus / (Deficit) Position per C. Mendocino.

³ Per C. Mendocino for approved Retiree plan fund transfer in 2011.

Plan Change Recommendations

- Non-Medicare Retiree Medical Plan Changes
 - Increase plan year deductible from \$500 to \$1,000:
Reduce 2012 renewal by 3.9%: $12.68\% - 3.90\% = 8.78\%$ Increase.
2012 Plan Year monthly Non-Medicare retiree cost is \$890.67.
 - Increase plan year out-of-pocket maximum from \$4,000 to \$6,000:
Reduce 2012 renewal by 2.1%: $12.68\% - 2.10\% = 10.58\%$ Increase.
2012 Plan Year monthly Non-Medicare retiree cost is \$905.41.
 - Decrease coinsurance from 80% In-net and 60% Out-net to 70% and 50%:
Reduce 2012 renewal by 3.2%: $12.68\% - 3.20\% = 9.48\%$ Increase.
2012 Plan Year monthly Non-Medicare retiree cost is \$896.40.

Plan Change Recommendations

- Non-Medicare Retiree Prescription Drugs Plan Changes

- Prescription Drugs copays:

Current Plan: Retail \$10 or 10% (greater of two) generic; \$20 or 20% (greater of two) brand; \$30 or 30% (greater of two); Mail Order 2 times Retail

Proposed Plan: Retail \$20 or 10% (greater of two); generic \$40 or 20% (greater of two); \$60 or 30% (greater of two); Mail Order 2 times Retail

Reduce 2012 renewal by 3.1%: $12.68\% - 3.10\% = 9.58\%$ Increase.

2012 Plan Year monthly Non-Medicare retiree cost is \$897.22.

Appendix

Acknowledgement

- Keenan & Associates would like to thank Ms. Sue Goodrick at the County of Mendocino Human Resources Department for in providing the necessary data for this renewal projection within a limited time frame. Her cooperation and guidance has been extremely valuable to our team.

Disclaimer

Disclaimer

Keenan & Associates is an insurance brokerage and consulting firm. It is not a law firm nor an accounting firm. We do not give legal advice or tax advice and neither this report, the answers provided as part of this report, nor the documents accompanying this presentation constitutes or should be construed as legal or tax advice. You are advised to follow up with your own legal counsel and/or tax advisor to discuss how this information affects your organization.