

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
ACTION AGENDA SUMMARY

DEPT: CEO-Risk Management Division

BOARD AGENDA # B-10

Urgent ☐

Routine ☒

AGENDA DATE October 20, 2015

CEO Concurs with Recommendation YES ☒ NO ☐
(Information Attached)

4/5 Vote Required YES ☐ NO ☒

SUBJECT:

Approval of 2016 Employee Health Insurance Rates and County-Funded Health Savings Account Contribution Changes

STAFF RECOMMENDATIONS:

1. Approve recommended health insurance rates as provided in Attachment A to be charged in the employee medical, dental, and vision self-insurance programs for calendar year 2016.
2. Approve recommended County-Funded Health Savings Account Contribution changes effective January 1, 2016.

FISCAL IMPACT:

Effective January 1, 2012, the County transitioned from a fully-insured medical program to a partially self-insured program and implemented a new non-profit health plan alternative developed for the County. With the implementation of a new self-insured financial strategy, the County began to pay for employee medical expenses on a fee-for-service basis, similar to the funding program the County historically used for employee dental and vision benefit programs.

(Continued on Page 2)

BOARD ACTION AS FOLLOWS:

No. 2015-482

On motion of Supervisor Chiesa, Seconded by Supervisor Monteith
and approved by the following vote,

Ayes: Supervisors: O'Brien, Chiesa, Monteith, DeMartini, and Chairman Withrow

Noes: Supervisors: None

Excused or Absent: Supervisors: None

Abstaining: Supervisor: None

1) X Approved as recommended

2) Denied

3) Approved as amended

4) Other:

MOTION:

ATTEST:

Christine Ferraro
CHRISTINE FERRARO TALLMAN, Clerk

File No.

FISCAL IMPACT: (Continued)

Insurance rates are evaluated each year with the input of actuarial evaluations and underwriting analysis provided by vendors and consultants working in the various health insurance programs. The fiscal impact of the proposed 2016 rates for the medical, dental, and vision programs is detailed in each section below.

Medical

The proposed rate increase for the Medical Self-Insurance Program is 1%. This increase will result in a cost increase to departments of approximately \$420,000 annually, or \$210,000 for this fiscal year, and cost plan participants approximately \$80,000 annually, or \$40,000 for this fiscal year. Of the County department costs, approximately 33% is funded by General Fund Departments, which will result in a General Fund impact of approximately \$140,000 annually or \$70,000 this fiscal year.

The Medical Self-Insurance Fund had a negative retained earnings balance as of the end of Fiscal Year 2014-2015 of approximately \$1.2 million. This balance reflects an accounting transaction at year-end that increased the fund's liability for claims that had been incurred but not yet reported or paid (IBNR). As a comparison, the cash balance in the fund as of June 30, 2015 was nearly \$7 million. This means that the fund has nearly reached the point mid-way through calendar year 2015 where its cash balance is sufficient to cover its IBNR liability (currently \$7.8 million) and operate in a surplus position for the first time since 2012.

Financial projections for the Medical Self-Insurance Program through the end of calendar year 2015 are expected to completely eliminate the fund's retained earnings deficit and contribute nearly \$2 million towards a reserve for claim fluctuation. By increasing the rates 1% in 2016, it is anticipated that the fund will accumulate a \$6 million claim fluctuation reserve (surplus) at calendar year-end, which represents approximately 12% of its annual budget. The 1% increase and claim fluctuation reserve has been recommended during an actuarial review of the program to support rate stabilization in future years.

Dental

The proposed rate increase for the Dental Self-Insurance Program is 3.89% for the "core" program and 15% for the "buy-up" program. County Departments will only pay 80% of the "core" program's rate increase, per the current agreement with labor groups. This will result in a cost increase to departments of approximately \$110,000 annually, or \$55,000 for this fiscal year. Of this amount, approximately 33% is funded by General Fund Departments, which will result in a General Fund impact of approximately \$36,000 annually or \$18,000 this fiscal year.

The Dental Self-Insurance Fund had a positive retained earnings balance as of the end of Fiscal Year 2014-2015 of approximately \$700,000. This balance reflects an accounting transaction at year-end that increased the fund's liability for claims that had been incurred but not yet reported or paid (IBNR). In addition, the cash balance in the fund as of June 30, 2015 was nearly \$1.1 million. This means that the fund has sufficient cash to cover its IBNR liability and maintains a surplus reserve for claim fluctuation equal to 18% of its annual budget.

Vision

There is no proposed 2016 rate increase for the Vision Self-Insurance Program. The Vision Self-Insurance Fund had a positive retained earnings balance as of the end of Fiscal Year 2014-2015 of approximately \$150,000. This balance reflects an accounting transaction at year-end that increased the fund's liability for claims that had been incurred but not yet reported or paid (IBNR). In addition, the cash balance in the fund as of June 30, 2015 was nearly \$240,000. This means that the fund has sufficient cash to cover its IBNR liability and maintains a surplus reserve for claim fluctuation equal to 20% of its annual budget. While the vision rate sufficiently funds vision claims, it is anticipated that approximately \$20,000 in retained earnings may be needed to fund administrative costs.

Health Savings Accounts

Based on recent Internal Revenue Service mandates, the County must adjust the annual deductible amounts for its High Deductible Health Plan (HDHP) from \$1,250 individual/\$2,500 family to \$1,300 individual/\$2,600 family. To account for the increase in HDHP deductibles, County staff, with labor group agreement, recommends increasing County-provided Health Savings Account (HSA) contributions from \$1,200 individual/\$2,000 family to \$1,250 individual/\$2,100 family. It is estimated that 2016 County-provided HSA contribution will total approximately \$3.8 million. The recommended HSA contribution increase represents approximately \$176,000 of this amount, which will be offset in part by the increase in deductibles that plan members pay in 2016 instead of being paid by the plan as a self-insured claim cost. With an average of 50% of plan participants reaching the maximum deductible, the net cost impact of this recommendation is approximately \$88,000 for all funds and \$29,000 in the General Fund.

The 2015-2016 Proposed Budget instructions advised departments to include an 8-10% increase in health insurance costs for 2016, which included medical, dental, and vision costs. Consistent with past practice, General Fund Department budgets were not augmented to include an increase for 2016, and were advised to present funding needs related to health insurance increases, if necessary, during the Mid-Year Budget process. It is unlikely that significant funding requests will materialize due to the nominal rate increases. On the contrary, non-General Fund departments that used the 8-10% projection should experience significant budget savings in the current fiscal year.

A summary of the proposed 2016 medical insurance rates is included in Attachment A.

DISCUSSION:

Background

On January 1, 2012, the County transitioned its medical benefits program from a fully-insured program to a partially self-insured program and implemented a new non-profit health plan (Stanislaus County Partners-In-Health) as part of a new strategy for providing medical insurance benefits to all enrolled participants on County sponsored health plans. Benefit plan changes and contributions to employee health insurance premiums are established through a negotiated health insurance agreement with all County labor groups and approved by the Board of Supervisors. The current health insurance agreement with all County labor groups was implemented effective January 1, 2015 and expires December 31, 2017. Consistent with the recommendations and conclusions initially developed for the self-insured health insurance program, the County continues to maintain a partially self-insured medical funding strategy, which includes using the Stanislaus County Partners-in-Health (SCPH) and Anthem Blue Cross insurance programs.

Plan year 2016 will mark the second year of a three-year health insurance agreement that continues to focus on improving the financial health of the program based on participant plan changes that became effective in 2015. As such, there will be no non-legally mandated plan changes to any employee benefits for 2016. During the final year of the health insurance agreement in 2017, County staff and benefits consultants will re-evaluate the local medical insurance market to consider future strategies for supporting access to high quality and cost-effective health care. Once the market evaluation is complete, the information will be shared with all County labor groups during negotiations for a new health insurance agreement that will become effective in 2018. To ensure that health insurance premium rates are adequately set each year, the County uses an actuary to complete a comprehensive financial analysis of the program in order to ensure adequate funding of the medical insurance program. Once this evaluation is complete, the information is shared with all County labor groups and is provided to the Board for approval.

For plan year 2016, it is recommended that medical rates increase by 1% based on recent actuary projections, which includes adjustments necessary to cover projected claims and fixed costs for 2016, and rate adjustments to account for IBNR claims and a Claim Fluctuation Margin. County staff has shared the proposed 2016 health insurance rates with all County labor groups and are now providing the information to the County Board of Supervisors for approval.

In addition to requesting approval for proposed 2016 health insurance rates, County staff is recommending changes to County-funded Health Savings Account (HSA) contributions to correspond with 2016 High Deductible Health Plan (HDHP) deductible

changes. Recent Internal Revenue Service provisions required the County to adjust its annual HDHP deductible amounts from \$1,250 individual/\$2,500 family to \$1,300 individual/\$2,600 family no later than January 1, 2016. To account for the increase in HDHP deductibles, County staff, with concurrence from all County labor groups, recommends increasing County-funded HSA contributions from \$1,200 individual/\$2,000 family to \$1,250 individual/\$2,100 family.

Program Census

The County's medical benefits program includes participation from current County employees, retirees from the StanCERA retirement system (up to age 65), and non-active or former employees electing coverage under COBRA. The following is a summary of the current plan enrollment:

	# Enrolled	% Enrolled
Current Active County Employees	3,205	94%
StanCERA Retirees (up to age 65)	181	5%
COBRA Employees	39	1%
Total	3,425	100%

The County currently funds 95% of HDHP premiums and 80% of the Exclusive Provider Organization (EPO) plan premiums. County employees will pay the balance through a pre-tax payroll deduction. The County does not contribute to the cost of insurance premiums for retired employees and COBRA participants, so individuals enrolled in each of these categories pay 100% of their monthly premiums.

It is anticipated that enrollment will change during the County's upcoming open enrollment period as plan participants consider their options and make individual plan selections. Changes in enrollment, along with the new rates, may require budget adjustments in the Medical Self-Insurance Fund. The Risk Management Division plans to include budget adjustments to the Medical Self-Insurance Fund in the 2015-2016 Mid-Year Financial Report, if necessary, once open enrollment is complete.

Financial Performance

The primary reason the County transitioned its medical insurance program to a partially self-insured model in 2012 was due to high premium increases that averaged 11.4% each year from 2005 to 2011. In 2012, the County was facing an additional 12% premium increase to the overall cost of providing fully insured medical benefits to participants with an estimated additional cost to the program of approximately \$5.5 million. With the implementation of the new self-insured financial strategy in 2012, the County began to pay for employee medical expenses on a fee-for-service basis, similar to the funding process historically used to pay for employee dental and vision costs.

Approval of 2016 Employee Health Insurance Rates and County-Funded Health Savings Account Contribution Changes Page 6

The following chart illustrates the significant difference in costs between projected fully-insured rates and actual incurred costs for the self-insured program from 2012 to 2014:

Health Plan Total Cost	Calendar Year 2012	Calendar Year 2013	Calendar Year 2014	Accumulative
Fully Insured (Pro Forma)	\$52,040,750	\$58,640,696	\$64,406,326	175,087,772
Self-Insured (Actual Incurred)	\$46,515,814	\$50,566,997	\$47,493,536	\$144,576,347
\$\$ Difference	(\$5,524,936)	(\$8,073,699)	(\$16,912,790)	(\$30,511,425)

* Fully Insured rates reflect a 12% rate increase for 2012 and an approx. 11.4% increase for 2013 and 2014, which were adjusted for covered population growth.
 - Self Insured rates reflect reported information as of September 2015.

Although the County and subscribers saved approximately \$30.5 million from 2012 to 2014, medical insurance rates were set too low with the implementation of the program in 2012. The initial goal of the program in 2012 was to set rates that would fund the program's claims and administrative costs, as well as the liability for claims that were incurred but not yet reported or paid. In addition, it was anticipated that a Claim Fluctuation Margin would be established over a period of five years that would allow the program to provide funds for plan years that have unfavorable claim experience. Initial premium rates for plan years 2012 and 2013 were based on limited health plan information and rates were set too low to cover the actual expenses of the new program. In total for plan years 2012 and 2013, the County incurred an approximate \$9.1 million budget deficit due to higher than forecasted self-insured medical plan costs.

The 2014 plan year represented a turning point in the program from a financial standpoint. The County hired an actuary to reestablish the baseline for medical insurance rates using in-depth program financial information acquired from plan years 2012 and 2013. This was the first year since becoming self-insured in 2012 that the County had sufficient transparent information to evaluate. As a result, it was identified that the County needed to make a bigger than usual rate adjustment so the program could realign with the budget. The County adjusted rates by 22.7% for the lowest-cost provider Stanislaus County Partners-in-Health (SCPH), with a 36.2% increase for Kaiser and 37.7% for Anthem Blue Cross (Anthem). This adjustment enabled the County to reduce the existing budget deficit by \$5.7 million with a remaining estimated aggregate deficit of \$3.4 million.

For plan year 2015, the County made a number of strategic plan configuration changes that saved the medical insurance program approximately \$3.8 million in negotiated contract savings and resulted in a minimal blended rate decrease of 1.1%. In addition to funding projected annual claims and fixed costs for the medical insurance program, the 2015 rate adjustments were also developed with the goal of reducing the program budget deficit by \$2 million. Based on recent cost projections, it is estimated that the rate adjustments will exceed the \$2 million deficit recovery goal and will completely eliminate any remaining self-insured medical program deficit from 2012 and 2013.

By the end of plan year 2016, it is estimated that the program will have a fully-funded Claim Fluctuation Margin of approximately \$6 million. This amount reflects the actuarial recommendation for funding claims within a 95% confidence level and represents approximately 12% of the annual budget. If the program performs as expected, the County will have met its goals set at the inception of the program in 2012, while averaging overall annual increases significantly below those experienced under the fully insured program.

DENTAL SELF-INSURANCE PROGRAM

After considering the retained earnings balance in the dental program and the underwriting for the program for calendar year 2016, it is recommended that “core” dental plan rates increase 3.89% to fund projected claims and fixed costs. This recommendation does not include continuation of the current 10% rate reduction for the dental program. In addition, based on underwriting analysis, it is recommended that “buy-up” dental plan rates increase 15% to fund projected claims and fixed costs in 2016.

VISION SELF-INSURANCE PROGRAM

After considering the retained earnings balance in the vision program and the underwriting for the program for calendar year 2016, it is recommended that the 2016 vision rates remain the same as 2015 to fund projected claims costs.

POLICY ISSUE:

Approval of the County’s 2016 health insurance rates and increased County-funded HSA contributions supports the Board’s priorities of A Healthy Community, Efficient Delivery of Public Services, and Effective Partnerships.

STAFFING IMPACT:

There is no staffing impact associated with this report. Staff from the Chief Executive Office, Risk Management Division, continues to work closely with contracted health insurance consultants and associated vendors to provide ongoing management and oversight of the County’s health insurance programs.

CONTACT PERSON:

Jody Hayes, Assistant Executive Officer. Telephone: (209) 525-5714.

Attachment A

Stanislaus County Health Insurance Program Recommended 2016 Monthly Health Insurance Premiums

		SCPH	Anthem	Dental - Core	Dental - Buy-Up	Vision
EPO	Employee	\$ 731.22	\$ 731.22	\$ 35.76	\$ 55.06	\$ 8.30
	Employee + 1	\$ 1,462.44	\$ 1,462.44	\$ 71.52	\$ 110.12	\$ 16.06
	Family	\$ 1,974.31	\$ 1,974.31	\$ 122.53	\$ 188.67	\$ 22.66
HDHP	Employee	\$ 611.53	\$ 611.53	\$ 35.76	\$ 55.06	\$ 8.30
	Employee + 1	\$ 1,223.07	\$ 1,223.07	\$ 71.52	\$ 110.12	\$ 16.06
	Family	\$ 1,651.17	\$ 1,651.17	\$ 122.53	\$ 188.67	\$ 22.66



County Health Insurance

2016 Rate Recommendations and Changes to High Deductible Health Plans

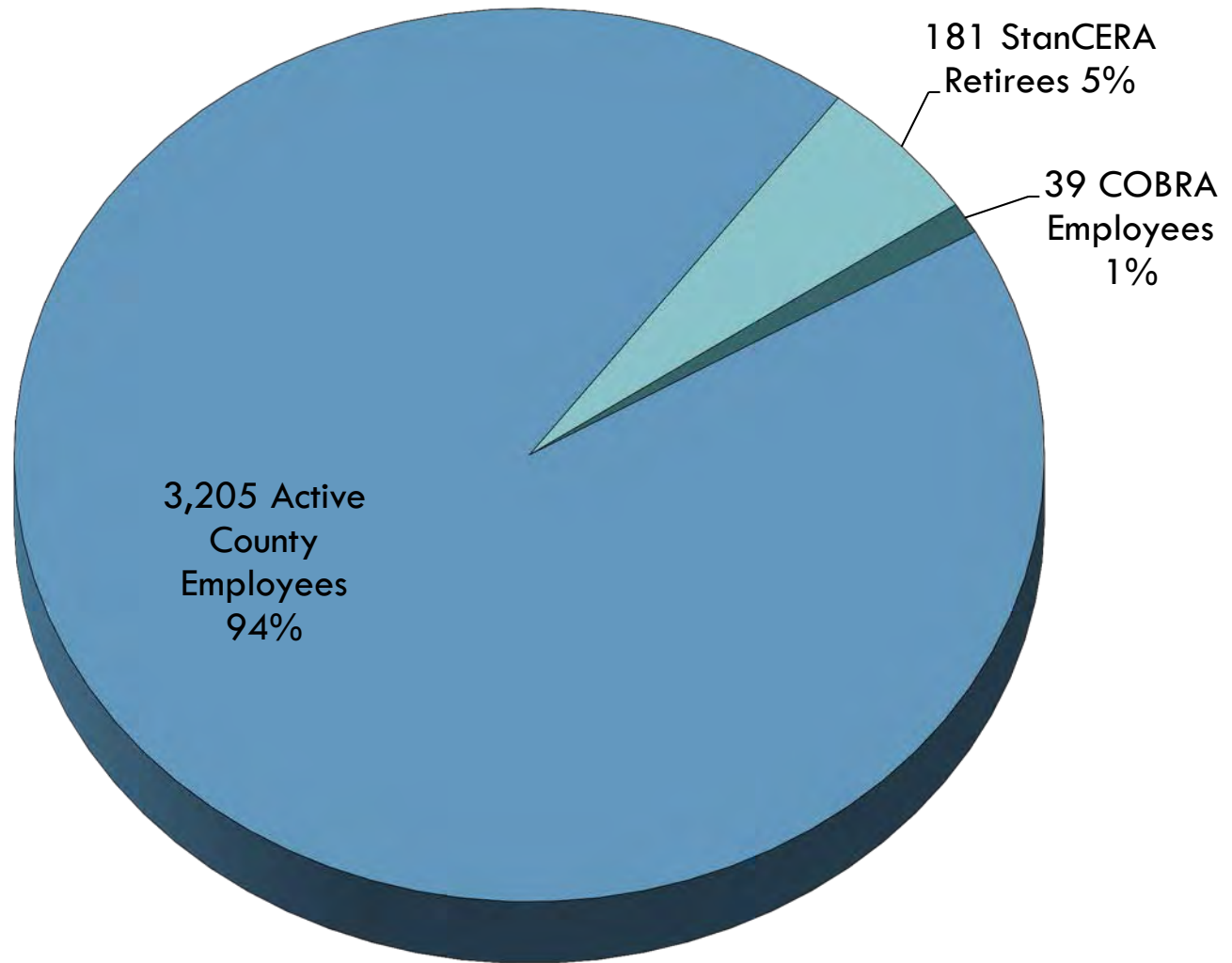
October 20, 2015

Stanislaus County Medical Insurance Program

3,425 Current
Total Enrollment

Approximately
4,950 Dependents
Covered

Total Approximate
Lives = 8,375



Health Insurance Background

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- Medical, Dental and Vision insurance programs are all self-insured, County pays for services on a fee-for-service basis
 - “Stop-loss” insurance in place for medical insurance program
- Insurance rates are analyzed each year by contracted actuaries, consultants and vendors
- Rates are recommended to Board of Supervisors for approval

Health Insurance Background

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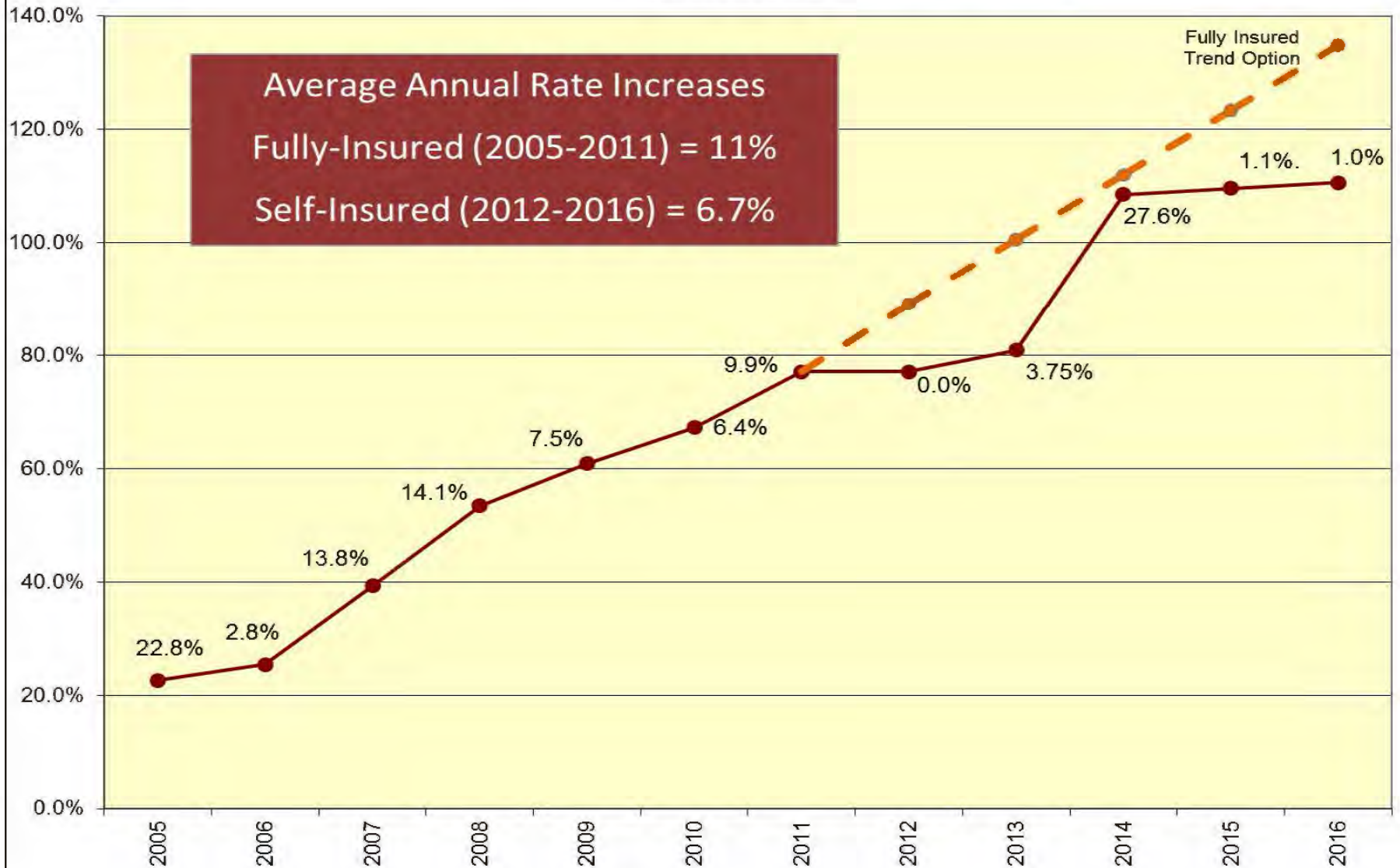
- Health insurance benefits are negotiated collectively with all County bargaining units
- Current labor agreement for health insurance covers plans years 2015, 2016 and 2017

Recommended 2016 Rate Increases

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- Medical 1.00%
- Dental 3.89% “Core” plan
 15.00% “Buy-up” plan
- Vision No increase

Cummulative Annual Medical Insurance Rate Inflation 2005 to 2016



Estimated Savings in Medical Insurance PEPM (Per Employee Per Month)

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Health Plan Total Cost	Calendar Year 2012	Calendar Year 2013	Calendar Year 2014
Fully Insured (Pro Forma)	\$1,258	\$1,401	\$1,562
Self-Insured (Actual Incurred)	\$1,124	\$1,209	\$1,152
\$\$ Difference	(\$134)	(\$193)	(\$410)

- Fully Insured rates reflect a 12% rate increase for 2012 and an approx. 11.4% increase for 2013 and 2014, which were adjusted for covered population growth.
- Self Insured rates reflect reported information as of September 2015.

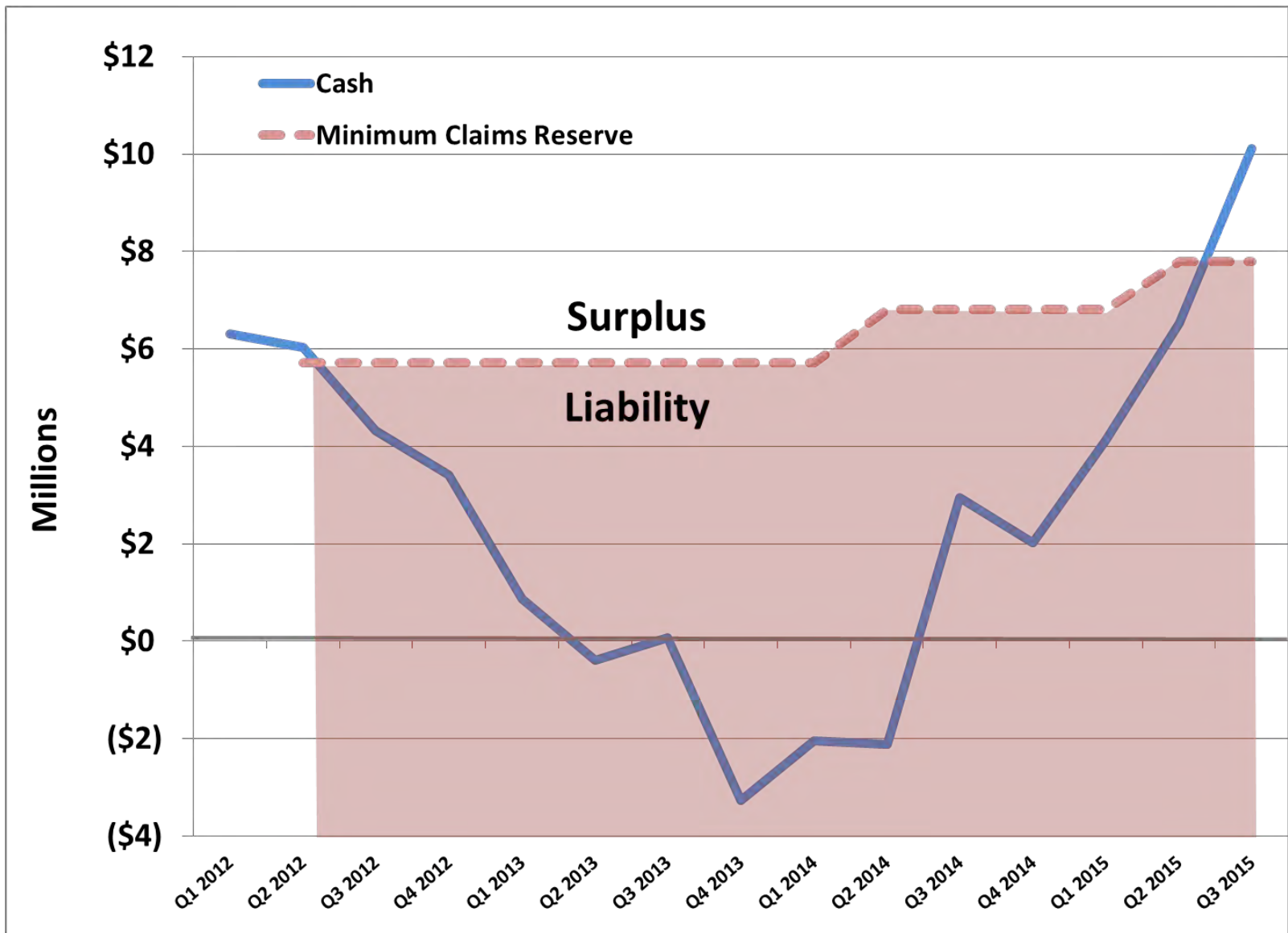
Estimated Savings in Medical Insurance

Annual Estimated Cost Savings

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Health Plan Total Cost	Calendar Year 2012	Calendar Year 2013	Calendar Year 2014	Accumulative
Fully Insured (Pro Forma)	\$52,040,750	\$58,640,696	\$64,406,326	\$175,087,772
Self-Insured (Actual Incurred)	\$46,515,814	\$50,566,997	\$47,493,536	\$144,576,347
\$\$ Difference	(\$5,524,936)	(\$8,073,699)	(\$16,912,790)	(\$30,511,425)

- Fully Insured rates reflect a 12% rate increase for 2012 and an approx. 11.4% increase for 2013 and 2014, which were adjusted for covered population growth.
- Self Insured rates reflect reported information as of September 2015.



Medical Self-Insurance Program
Cumulative Financial Performance 2012 to 2015

Medical Self-Insurance Summary

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- Program should end the year in a positive position
- 2016 rates are projected to develop a Claim Fluctuation Reserve (projected \$6 million surplus) to stabilize rate increases in future years

Dental Self-Insurance Summary

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- “Core” program performing well; 2015 is the last year of using surplus funds to subsidize rates
- “Buy-up” introduced in 2015; need more data to establish historical claim trends and better forecast rates
- Self-insured fund is operating in a positive position

Vision Self-Insurance Summary

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- Program performing well; new contracted discounts introduced in 2015 have had a favorable impact
- Self-insured fund is operating in a positive position

High Deductible Health Plans

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- IRS Regulations require the County to increase the minimum deductibles in High Deductible Health Plans
 - Current \$1,250 Single \$2,500 Employee +1 or Family
 - 2016 \$1,300 Single \$2,600 Employee +1 or Family
- Recommend increasing annual County contributions to Health Savings Accounts
 - Current \$1,200 Single \$2,000 Employee +1 or Family
 - 2016 \$1,250 Single \$2,100 Employee +1 or Family

Looking Forward

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- Ongoing monitoring of health plan performance
 - Quarterly Health Strategy Team monitors financial and clinical performance, and provides strategic direction on program initiatives

Looking Forward

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- Supplemental healthcare delivery
 - On-site/near-site medical clinics
 - Telemedicine
- Wellness Blueprint
 - An integrated wellness plan which provides support, services and care management for plan participants throughout the continuum of healthcare needs

Looking Forward

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- Evidence-based referrals
 - Utilizing nationally recognized Centers of Excellence for the treatment of complex conditions
- Behavioral health access
 - Finding ways to better deploy the community's limited mental health resources to improve access to services

Looking Forward

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- Clinical data integration with the County's claim data warehouse
 - Adding participant lab values to the claim data warehouse allows the plan's clinical resources to more effectively manage care
- Potential changes in Federal health reform?

Recommendations

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1. Approve recommended health insurance rates as provided in Attachment A to be charged in the employee medical, dental, and vision self-insurance programs for calendar year 2016.
2. Approve recommended County-Funded Health Savings Account Contribution changes effective January 1, 2016.



County Health Insurance

2016 Rate Recommendations and Changes to High Deductible Health Plans

October 20, 2015