

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

DEPT: Chief Executive Office - Risk Management BOARD AGENDA #: *B-3

AGENDA DATE: September 26, 2017

SUBJECT:
Approval of the 2018 Employee Health Insurance Rates

BOARD ACTION AS FOLLOWS:

No. 2017-540

On motion of Supervisor Olsen , Seconded by Supervisor Withrow
and approved by the following vote,

Ayes: Supervisors: Olsen, Withrow, Monteith, DeMartini, and Chairman Chiesa

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:

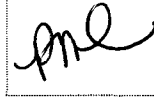
ATTEST: Elizabeth A. King
ELIZABETH A. KING, Clerk of the Board of Supervisors

File No.

**THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
AGENDA ITEM**

DEPT: Chief Executive Office - Risk Management BOARD AGENDA #: *B-3
Urgent Routine AGENDA DATE: September 26, 2017

CEO CONCURRENCE:



4/5 Vote Required: Yes No

SUBJECT:

Approval of the 2018 Employee Health Insurance Rates

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 2018.

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 medical 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 2017 marks the third and final 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. Prior to the start of negotiations for plan year 2018, County benefits consultants completed a Request for Information (RFI) to solicit information from health care organizations doing business in Stanislaus County to consider future strategies for supporting access to high-quality and cost-effective health care services. County staff and benefits consultants met with the leaders of each local health care provider system to seek their engagement in the process, encouraging creativity and innovation. Additionally, staff have worked with representatives from all County labor groups through the required meet and confer process to develop a new Health Insurance Tentative Agreement for employee benefits. A separate agenda item will be forwarded to the Board of Supervisors to consider the

Approval of the 2018 Employee Health Insurance Rates

recommended Health Insurance Agreement for the period of January 1, 2018 through December 31, 2020.

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 Employees	3,290	94%
StanCERA Retirees (up to age 65)	161	5%
COBRA Participants	47	1%
Total	3,498	100%

Premium Cost Sharing

The County currently funds 95% of High Deductible Health Plan (HDHP) premiums and 80% of the Exclusive Provider Organization (EPO) plan premiums. County employees 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 2017-2018 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. The following chart illustrates the difference in annual costs between projected fully-insured rates (what we expect it would have cost to remain fully-insured over time) and actual incurred costs that were paid for the self-insured program from 2012 to 2016:

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Annual Cost Per Employee	2012	2013	2014
Self-Insured (actual cost)	\$13,488	\$14,502	\$13,819
Fully-Insured (projected cost)*	\$15,096	\$16,818	\$18,740
Annual Cost Savings Per Employee	\$1,608	\$2,316	\$4,921
Average # of Employees Enrolled	3,465	3,487	3,437
Estimated Annual Savings	\$5,571,720	\$8,075,892	\$16,913,477

Annual Cost Per Employee	2015	2016
Self-Insured (actual cost)	\$13,395	\$15,752
Fully-Insured (projected cost)*	\$20,882	\$23,263
Annual Cost Savings Per Employee	\$7,487	\$7,511
Average # of Employees Enrolled	3,359	3,518
Estimated Annual Savings	\$25,148,833	\$26,423,698

**Projected fully-insured rates are increased 11.4% per year, consistent with average increases paid by the County from 2005 through 2011.*

The total value and savings (or cost avoidance) realized from the implementation of the self-insured plan continues to grow each year as the overall costs of the program remain far below the cumulative 11.4% average annual cost increases the County experienced in the prior fully-insured model. It should be noted that other variables have also impacted overall program performance, including an increase in the number of members enrolled in high deductible health plans and a decrease in the number of early retirees enrolled in the program.

Recommended 2018 Medical Insurance Rates

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 and develop recommended annual rate adjustments. 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 2018, it is recommended that medical rates increase by 5.2% based on recent actuary projections, which includes adjustments necessary to cover projected claims and fixed costs for 2018.

By the end of plan year 2018, it is estimated that the program will have a fully-funded claim fluctuation reserve of approximately \$4.6 million. This amount reflects the actuarial recommendation for funding claims at nearly an 80% confidence level and represents approximately 7.6% of the annual budget. If the program performs as expected, the County will have met its goals for financial stability 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 2018, it is recommended that "core" dental plan rates decrease 2.63% to fund projected claims and fixed costs. In addition, based on underwriting analysis, it is recommended that "buy-up" dental plan rates decrease 9.93% to fund projected claims and fixed costs in 2018. The dental "buy-up" plan was added in 2015 as a new option for employees who elect to pay higher premiums in exchange for increased benefits. County

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costs are based on the "core" dental plan, and therefore all costs in excess of the "core" amount in the "buy-up" plan are funded entirely by County employees.

Vision Self-Insurance Program

After considering the retained earnings balance in the vision program and the underwriting for the program for calendar year 2018, it is recommended that vision rates decrease 7.5% to fund projected claims and fixed costs.

POLICY ISSUE:

The Board of Supervisors has sole authority and corresponding fiduciary responsibility for setting health insurance rates charged through the County's self-insured medical, dental and vision programs. County staff utilize actuarial evaluations and underwriting analysis provided by vendors and consultants on an annual basis to establish recommended rate adjustments in support of this responsibility.

FISCAL IMPACT:

The fiscal impact of the proposed 2018 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 5.2%. This increase will result in a cost increase to departments of approximately \$2.39 million annually, or \$1.2 million for this fiscal year, and will cost plan participants approximately \$402,000 annually or \$201,000 for this fiscal year. Approximately 33% of County department medical costs are funded by General Fund departments, which will result in a General Fund impact of approximately \$790,000 annually or \$395,000 this fiscal year.

The Medical Self-Insurance Fund had a cash balance of \$13,829,580 as of September 1, 2017. This balance is necessary in order to maintain reserves available to pay for claims that have been Incurred But Not Reported (IBNR) for payment. The County's actuary establishes the minimum level of IBNR reserve necessary to pay for these outstanding claims. The most recent actuarial report has established an IBNR of \$9.4 million for the medical self-insurance program. The difference between the cash balance and the IBNR represents the fund's retained earnings balance, or claims fluctuation reserve. By increasing the rates 5.2% in 2018, the County will fully fund all claims and fixed costs, and will maintain a \$4.6 million claim fluctuation reserve, which represents approximately 7.6% of its annual budget. This claims fluctuation reserve provides a baseline of financial support necessary to support the County's goal for providing departments and employees with stable healthcare rates in future years.

Dental

The proposed rate decrease for the Dental Self-Insurance Program is 2.63% for the "core" program and 9.93% for the "buy-up" program. County Departments pay 80% of the "core" program's rate per the current agreement with labor groups. This will result in a cost decrease to departments of approximately \$78,000 annually, or \$39,000 for this fiscal year. Of this amount, approximately 33% is savings to General Fund Departments, which will result in a positive General Fund impact of approximately \$26,000 annually or \$13,000 this fiscal year.

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The Dental Self-Insurance Fund had a cash balance of \$903,218 as of September 1, 2017, and a retained earning balance (claims reserve) of \$765,720. This means that the fund has sufficient cash to cover its liability for claims that have been incurred but not reported or paid and maintain a reserve for claim fluctuation equal to 16% of its annual budget.

Vision

The proposed rate decrease for the Vision Self-Insurance Program is 7.5%. This will result in a cost decrease to departments of approximately \$22,000 annually, or \$11,000 for this fiscal year. Of this amount, approximately 33% is savings to General Fund Departments, which will result in a positive General Fund impact of approximately \$7,200 annually or \$3,600 this fiscal year.

The Vision Self-Insurance Fund had a cash balance of \$178,614 as of September 1, 2017, and a retained earning balance (claims reserve) of \$139,827. This means that the fund has sufficient cash to cover its liability for claims that have been incurred but not reported or paid and maintain a reserve for claim fluctuation equal to 18% of its annual budget.

Health Savings Accounts

There are no recommended adjustments to the current High Deductible Health Plan (HDHP) deductible amounts of \$1,300 individual/\$2,600 family. The County currently contributes \$1,250 toward individual deductibles and \$2,100 toward employee+1 and family deductibles, which are also not recommended to change. It is estimated that 2018 County-provided Health Savings Account (HSA) contributions will total approximately \$4.1 million.

The total combined fiscal impact to County departments for medical, dental, and vision rate adjustments represents an increase of approximately 4% in overall health insurance costs and is estimated to be \$2.3 million annually, or \$1.15 million for the remainder of Fiscal Year 2017-2018. Approximately 33%, of the County's annual insurance program costs are attributed to General Fund departments with an annual impact to the County General Fund estimated to be \$760,000, or \$380,000 for Fiscal Year 2017-2018. Revenue from County departments outside of the General Fund will fund the remainder of the cost.

The 2017-2018 Proposed Budget instructions advised departments to include a 7.5% increase in health insurance costs for 2018, which included medical, dental, and vision costs. Consistent with past practice, General Fund department budgets were not augmented to include an increase for 2018 and were advised to present funding needs related to health insurance increases, if necessary, during the Mid-Year Budget process.

A summary of the proposed 2018 health insurance premiums is included in Attachment A.

BOARD OF SUPERVISORS' PRIORITY:

Approval of the 2018 Employee Health Insurance Rates meets the Board of Supervisors' priority of A Healthy Community and the Efficient Delivery of Public Services by promoting ways to maintain and improve employee health in a cost effective manner.

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

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consultants and associated vendors to provide ongoing management and oversight of the County's health insurance programs.

CONTACT PERSON:

Patrice Dietrich, Assistant Executive Officer, (209) 525-6333

ATTACHMENT(S):

- A. Stanislaus County Health Insurance Program Recommended 2018 Monthly Health Insurance Premiums

ATTACHMENT A

Stanislaus County Monthly Health Insurance Program

Recommended 2018 Health Insurance Rates

Attachment A

**Stanislaus County Health Insurance Program
Recommended 2018 Monthly Health Insurance Rates**

		SCPH	United Healthcare	Dental - Core	Dental - Buy-Up	Vision
EPO	Employee	\$ 806.92	\$ 806.92	\$ 35.54	\$ 59.26	\$ 7.92
	Employee + 1	\$ 1,613.84	\$ 1,613.84	\$ 71.08	\$ 118.52	\$ 15.30
	Family	\$ 2,178.70	\$ 2,178.70	\$ 121.76	\$ 203.02	\$ 21.60
HDHP	Employee	\$ 674.84	\$ 674.84	\$ 35.54	\$ 59.26	\$ 7.92
	Employee + 1	\$ 1,349.68	\$ 1,349.68	\$ 71.08	\$ 118.52	\$ 15.30
	Family	\$ 1,822.10	\$ 1,822.10	\$ 121.76	\$ 203.02	\$ 21.60