

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

DEPT: CEO - Risk Management

BOARD AGENDA: 5.B.4
AGENDA DATE: September 25, 2018

SUBJECT:

Approval of the 2019 Employee Health Insurance Rates

BOARD ACTION AS FOLLOWS:

RESOLUTION NO. 2018-0471

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

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

Noes: Supervisors: None

Excused or Absent: Supervisors: None

Abstaining: Supervisor: None

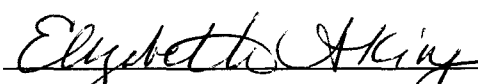
1) Approved as recommended

2) Denied

3) Approved as amended

4) Other:

MOTION:

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

File No.

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

DEPT: CEO - Risk Management

BOARD AGENDA:5.B.4
AGENDA DATE: September 25, 2018

CONSENT:

CEO CONCURRENCE: YES

4/5 Vote Required: No

SUBJECT:

Approval of the 2019 Employee Health Insurance Rates

STAFF RECOMMENDATION:

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 2019.

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 (Health Partners of Northern California) as part of a new strategy for providing medical insurance benefits to all enrolled participants on County-sponsored health plans. 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 Health Partners of Northern California (HPNC) and UnitedHealthcare insurance programs. This strategy continues to allow the County to provide access to high-quality and cost-effective health care services for all participants.

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 agreements with Stanislaus Sworn Deputies Association (SSDA) and Service Employees International Union Local 521 (SEIU) were implemented effective January 1, 2018, and expire December 31, 2019. The current health insurance agreements with the remaining ten County labor groups were implemented effective January 1, 2018, and expire December 31, 2020. Plan year 2019 will mark the second year of the health insurance agreements for all labor groups.

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 as of August 15, 2018:

	# Enrolled	% Enrolled
Current Active County Employees	3,402	95%
StanCERA Retirees (up to age 65)	153	4%
COBRA Participants	36	1%
Total	3,591	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 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, thus individuals enrolled in each of these categories pay 100% of their monthly premiums plus an administration fee of 2%.

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 for the 2019 plan year. 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 2018-2019 Midyear 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 significant difference in annual costs between projected fully-insured rates (what we expect it would have cost if we had remained fully-insured over time) and actual incurred costs that were paid for the self-insured program from 2012 to 2017:

Annual Cost Per Employee	2012	2013	2014	2015	2016	2017
Self-Insured (actual cost)	\$13,488	\$14,502	\$13,819	\$13,395	\$15,752	\$14,972
Fully-Insured (projected cost)*	\$15,096	\$16,818	\$18,740	\$20,882	\$23,263	\$25,915
Annual Cost Savings Per Employee	\$1,608	\$2,316	\$4,921	\$7,487	\$7,511	\$10,943
Average # of Employees Enrolled	3,465	3,487	3,437	3,359	3,518	3,530
Estimated Annual Savings	\$5,571,720	\$8,075,892	\$16,913,477	\$25,148,833	\$26,423,698	\$38,628,726

**Projected fully-insured rates are increased 11.4% per year, consistent with average increases paid by the County from 2005 through 2011. Plan benefits (deductibles, co-payments, coinsurance levels) are largely unchanged between 2012 and 2017. Minor changes were made in 2015 to provide parity of co-pays between the HDHP and EPO plans.*

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. The five-year average annual increase in the self-insured plan actual costs per employee is 2.5% as of calendar year 2017.

Recommended 2019 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 independent evaluation is complete, Risk Management staff, in partnership with the County Health Plan Consultants, considers the actuarial recommendations inclusive of actual plan performance, plan changes in the upcoming year, and the goal to minimize fluctuations in cost impacts to the employees and the organization. The final recommended rate information is shared with all County labor groups and is provided to the Board of Supervisors for approval. For plan year 2019, it is recommended that medical rates increase 5.5% based on recent actuary projections, plan performance and goals, which includes adjustments necessary to cover projected claims and fixed costs for 2019.

Dental Self-Insurance Program

After considering the retained earnings balance in the dental program and the underwriting for the program for calendar year 2019, it is recommended that “core” dental plan rates decrease 5% to fund projected claims and fixed costs. In addition, based on underwriting analysis, it is recommended that “buy-up” dental plan rates decrease 1.4% to fund projected claims and fixed costs in 2019. 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 costs are based on the “core” dental plan, and 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 2019, it is recommended that the 2019 vision rates increase 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 2019 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 5.5%. This increase will result in a cost increase to departments of approximately \$2.8 million annually, or \$1.4 million for this fiscal year, and will cost plan participants approximately \$438,000 annually or \$219,000 for the remainder of 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 \$920,000 annually or \$460,000 this fiscal year.

The Medical Self-Insurance Fund had a cash balance of \$13.9 million as of September 1, 2018. 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 \$9.8 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 margin reserve.

By the end of plan year 2019, it is estimated that the program will have a claim fluctuation reserve of approximately \$2.9 million, or a claims margin reserve of approximately 40%. This amount is approximately half of the amount required to meet the actuarial recommendation for funding claims at an 80% confidence level and represents approximately 4.9% of the annual budget. If the program performs as expected, the County will continue to experience financial stability in the medical plan while mitigating fluctuations in rate increases through Fiscal Year 2018-2019. The County goal for financial stability is set to achieve an 80% confidence level in the claims margin reserve over the next three fiscal years; it is anticipated that rate increases consistent with the County Long-Range Model could be between 7.5% and 10% in each of the upcoming three years. Even with the possibility of such rate changes, the County continues to average overall annual increases significantly below those experienced under the fully insured program.

Dental

The proposed rate decrease for the Dental Self-Insurance Program is 5% for the "core" program and 1.4% 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 \$150,000 annually, or \$75,000 for this fiscal year. Of this amount, approximately 33% represents savings to General Fund Departments, which will result in a positive General Fund impact of approximately \$50,000 annually or \$25,000 this fiscal year.

The Dental Self-Insurance Fund had a cash balance of \$1.1 million as of September 1, 2018, and a retained earnings balance (claims margin reserve) of \$932,970. 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 20% of its annual budget.

Vision

The proposed rate increase for the Vision Self-Insurance Program is 5%. This will result in a cost increase to departments of approximately \$28,000 annually, or \$14,000 for this fiscal year. Of this amount, approximately 33% is funded by the General Fund Departments, which will result in a General Fund impact of \$9,000 annually, or \$4,500 this fiscal year.

The Vision Self-Insurance Fund had a cash balance of \$189,500 as of September 1, 2018, and a retained earnings balance (claims reserve) of \$124,400. 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.

Health Savings Accounts

The County will be required to apply the IRS inflation adjusted limits to the minimum annual deductible for high deductible health plans (HDHP) that were mandated for 2018. Because the plan year for the County's health plan begins on December 31, we are required to make the change effective for 2019. The deductible for individual coverage will be \$1,350, an increase of \$50. The deductible for family coverage will be \$2,700, an increase of \$100. The County currently contributes \$1,250 towards individual deductibles and \$2,100 toward employee+1 and family deductibles. Per the agreement negotiated with labor, the County health savings account (HSA) contributions are fixed during the term of the agreement so no additional County contribution to the HSA is recommended. It is estimated that 2019 County-provided HSA contributions will total approximately \$4.3 million.

Total Impact

The total combined fiscal impact to County departments for medical, dental, and vision rate adjustments represents an increase of approximately 5% in overall health insurance costs and is estimated to be \$2.6 million annually, or \$1.3 million for the remainder of Fiscal Year 2018-2019. 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 \$880,000, or \$440,000 for Fiscal Year 2018-2019. Revenue from County departments outside of the General Fund will fund the remainder of the costs.

The 2018-2019 Proposed Budget instructions advised departments to include a 5% increase in health insurance costs for 2019, which included medical, dental, and vision costs. Consistent with past practice, General Fund Department budgets were not augmented to include an increase for 2019 and were advised to present funding needs related to health insurance increases, if necessary, during the Midyear Budget process.

A summary of the proposed 2019 medical insurance rates is included in Attachment A.

BOARD OF SUPERVISORS' PRIORITY:

Approval of the 2019 Employee Health Insurance Rates supports the Board of Supervisors' priorities of *Supporting Community Health* and *Delivering Efficient Public Services* by promoting programs 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 consultants and associated vendors to provide ongoing management and oversight of the County’s health insurance programs.

CONTACT PERSON:

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

ATTACHMENT(S):

1. ATTACHMENT A - Stanislaus County Health Insurance Program Recommended 2019 Monthly Health Insurance Premiums

ATTACHMENT A

Stanislaus County Monthly Health Insurance Program

Recommended 2019 Health Insurance Rates

Attachment 1

**Stanislaus County Health Insurance Program
Recommended 2019 Monthly Health Insurance Rates**

TIER	HDHP	EPO	Dental Core	Dental Buy-Up	Vision
Employee	\$711.96	\$851.30	\$33.76	\$58.44	\$8.32
Employee + 1	\$1,423.92	\$1,702.60	\$67.52	\$116.86	\$16.06
Family	\$1,922.32	\$2,298.54	\$115.66	\$200.18	\$22.68