MEMORANDUM

To: Tom Foley, County Executive
Pam Moran, Superintendent

From: Health Care Executive Committee

RE: 2014-2015 Medical and Dental Insurance Programs

Date: April 2014

The Health Care Executive Committee (HCEC), the members of which represent several departments in the School Division and Local Government, as well as other affiliated organizations who participate in our health and dental plans, develops recommendations for our medical and dental plans based on the following objectives:

- offer affordable options that meet varying needs of employees and their families
- maintain reserves at approximately 25% of claims
- ensure plans are in compliance with Health Care Reform
- maintain our competitive position for benefits (slightly above market)

Plan Review Process

The HCEC works routinely with KSPH Employee Benefit Management, to review our health care plan. This includes:

- Detailed reviews of claims utilization with Coventry/Aetna's medical director
- Analysis of market information on plan design and employee/employer premiums.
    - Plan design includes: inpatient/outpatient coinsurance, co-payments, annual deductibles, out-of-pocket maximums, emergency room co-payments, prescription drug co-payments
- Employee Feedback- input from employees via focus groups and surveys
- Review and projections of reserve balance.

Health Care Reserve Fund

As our medical plan is self-insured, the County is responsible for all claims. Reserve funds serve to cover any difference between claims paid, but not covered by the revenues (employee premiums collected & Board contributions). If claims exceed our revenue collections, the difference is paid from our reserves; if revenue exceeds claims, the difference is added to our reserves. Ideally, a reserve balance of at least 25% of total claims should be maintained. To protect the plan against potentially devastating single large claim(s), the County continues to purchase reinsurance, referred to as *Specific Stop Loss reinsurance*. This type of coverage limits our liability for a single claim to $200,000 (*Specific Stop Loss*).

Background:

Medical Scoring Analysis

The adopted benefits strategy is to target benefits slightly above market (105th percentile). The benefits package is reviewed comprehensively and the medical plan is the cornerstone of that strategy. In order to evaluate the plan design and premium costs to employees and Board contributions, staff worked with Tom Mackay, our benefits consultant with KSPH Employee Benefit Management, to develop a model quantifying those elements. Based on this model, last year we were slightly above our target.

FY12-13 Plan Year (Plan year is October through September)

Three plans with varying co-pays and premiums had been offered for several years. A review of national survey data of government employer-sponsored health plans indicated that we were above market in terms of our high option plan design. The high option health plan was also well above market in regard to employee cost-sharing. In order to maintain comparability with other

health plans and for cost savings, the HCEC recognized that we could not continue to offer the high plan without significantly increasing the monthly premium rates to the point where they would not remain affordable for our employees. Accordingly, we moved to a two plan option structure and the following plan changes were made effective October 1, 2012:

- Plan names were changed to Plus Plan (former Middle Plan) and Basic Plan
- Enhanced women's preventive and contraceptive coverage added (in accordance with Health Care Reform)
- The changes from the former High option plan to the new Plus plan were as follows:
    - Change in coinsurance from 95% to 90% (in-network) for inpatient admissions, specialty diagnostic services (CAT scans, MRIs, etc.), and outpatient surgeries
    - Change in out of pocket maximums from $1500/$3000 to $2000/$4000 (individual/family)
    - Employees on the High plan at employee only and employee + child continued to pay the High plan premium with the move to the Plus plan; those at employee + spouse/children or family levels saw reduced premium rates with the move to the Plus plan. This was done to keep our premiums at each level in line with our market.
- No changes to the low plan design/premiums.

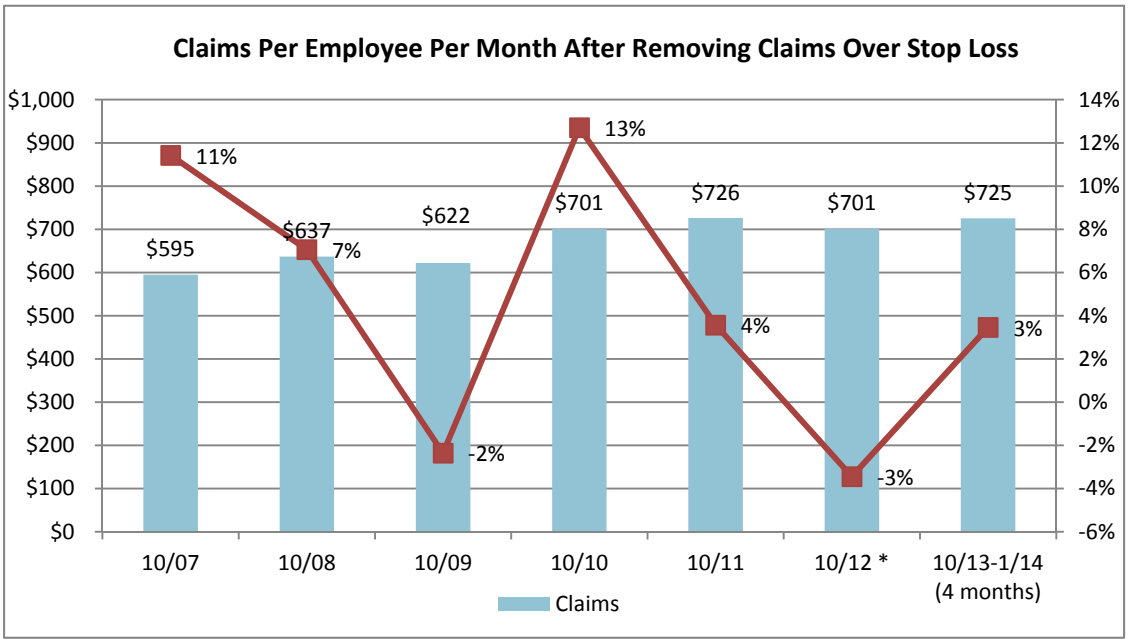
As we had communicated earlier in the year that premium rates would not change for the upcoming plan year, we **temporarily** allowed those currently on the Middle plan at employee only and employee + child tiers to continue paying the same premiums. The balance of the premium cost was supplemented for one year by funds from the health care reserve.

FY13-14 Current Plan Year

Two plans (Basic and Plus) plans are offered through Coventry with the same benefit coverage, but differ in cost sharing (co-pays, co-insurance, out-of-pocket maximums, deductibles) and employee premium requirements. Both the employee and Board contributions were increased by 7% this year. Because of the significant plan design changes implemented in the past two years and in light of the premium increase, no plan design changes were made for this year.

Claims

The following chart illustrates our medical and prescription drug claims trend.



* Eliminated high plan.

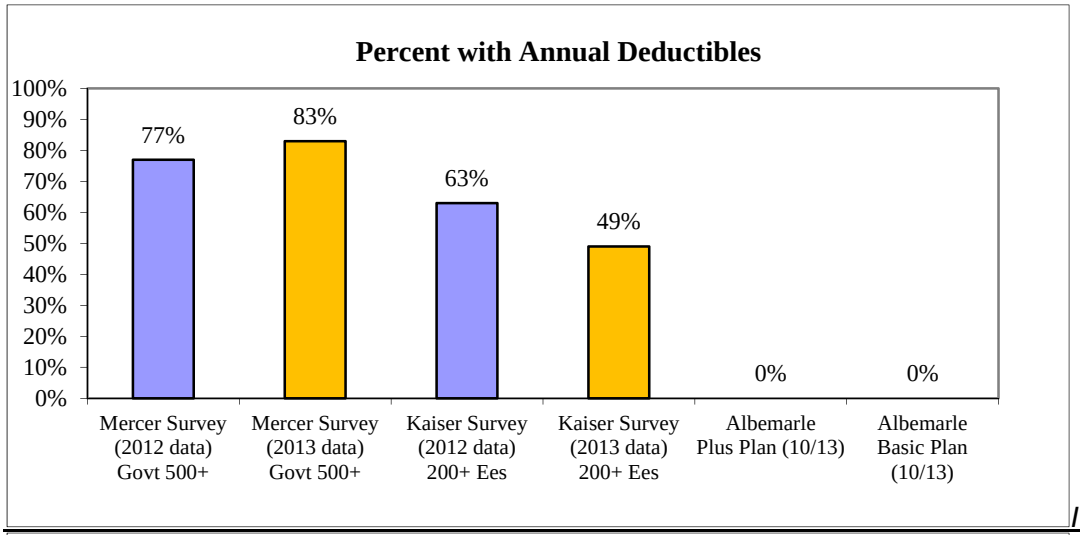
Claims Increase/Decrease

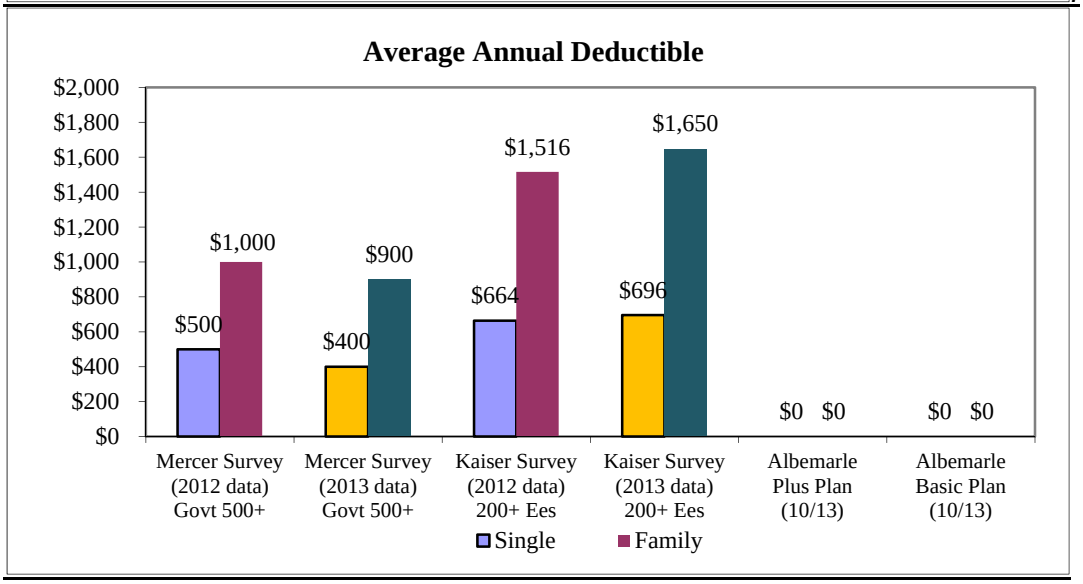
Average last six years	3%
Average last five years	3%
Average last four years	4%
Average last three years	1%
Average last two years	0%

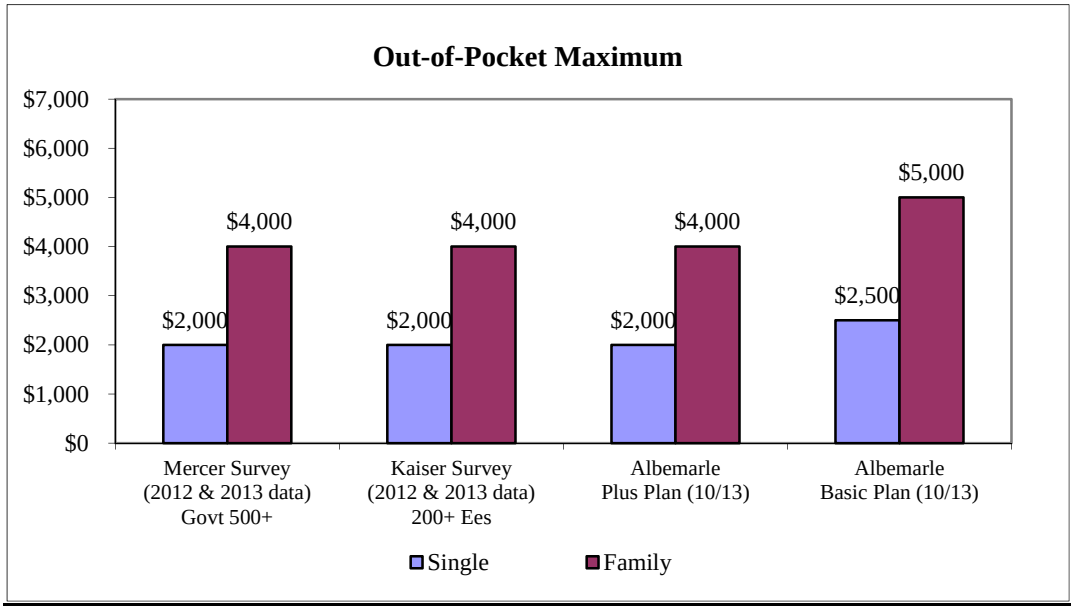
Market Competitiveness

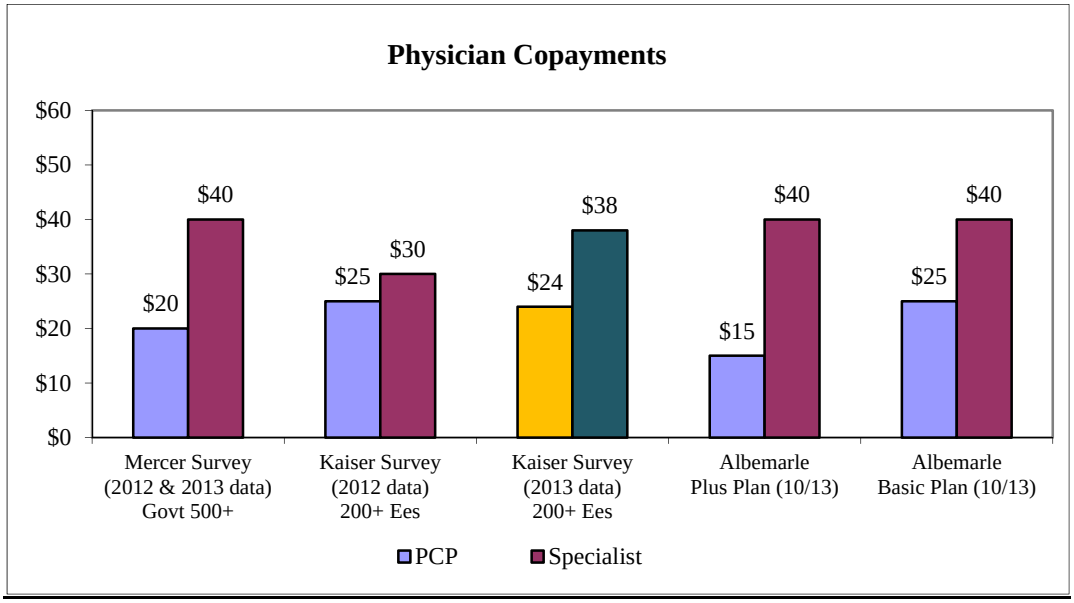
Offering a competitive medical plan that balances the benefit design against the cost to fund the program is a major consideration each year. The benchmark data, while not an exclusive comparison with our adopted market is used by the HCEC is developing recommendations consistent with our strategy.

Plan Design



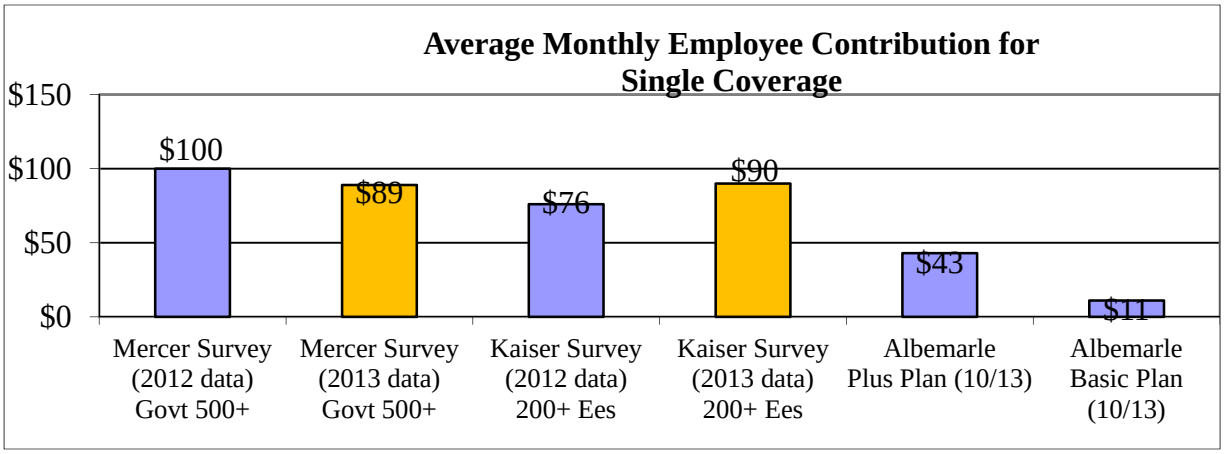


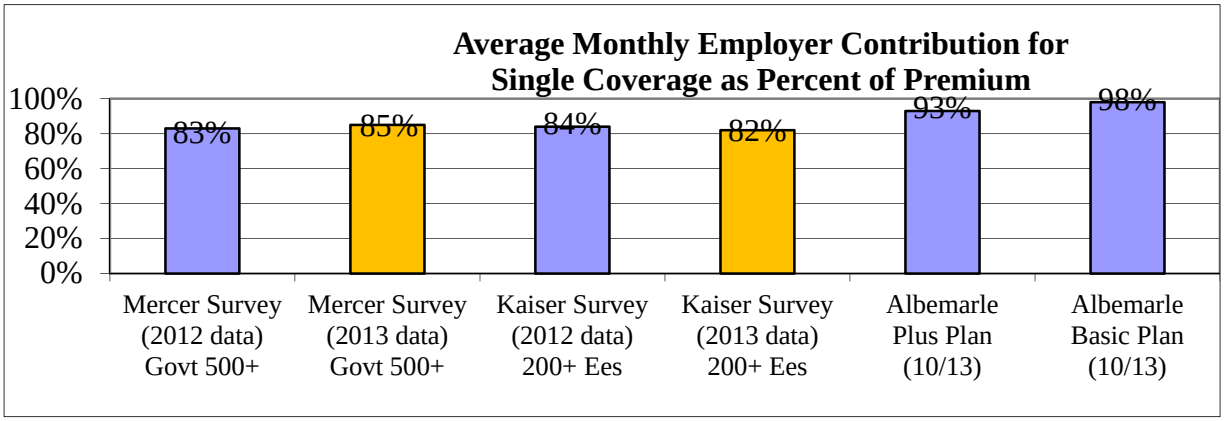




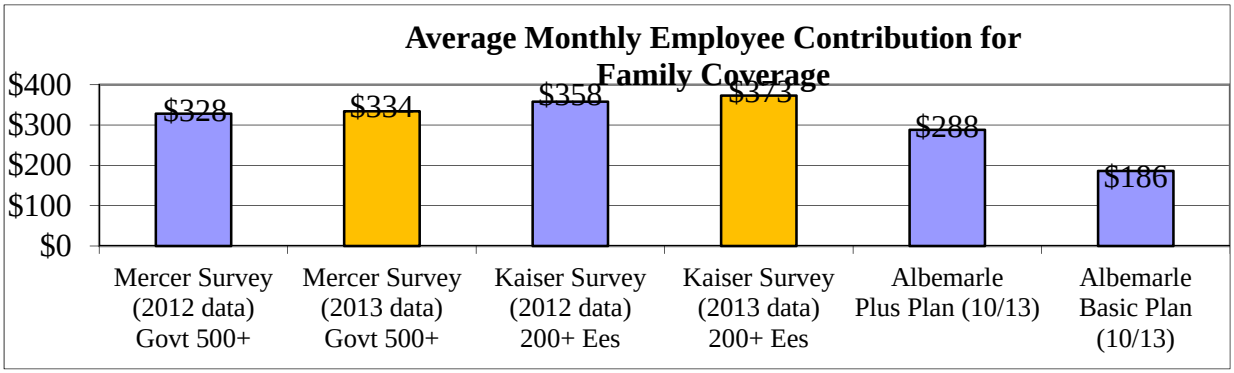
Total Cost- Employee Premiums and Board Contribution Amounts

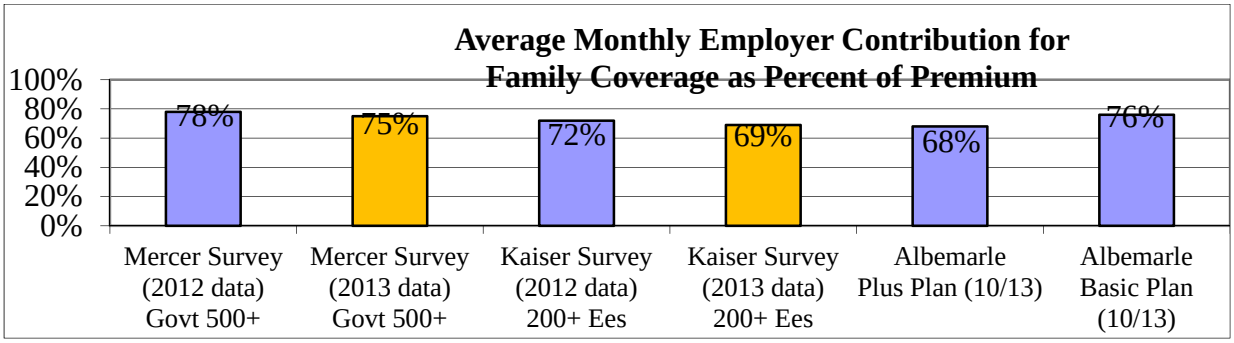
Our employee contributions to single coverage remain above market.





Our employee contributions as a dollar amount to family overage remain above market, while as a percentage paid by employer is comparable.





Adopted Market Data

The benchmark data collected from our adopted market indicated that the total premiums (Plus plan) compare as follows:

Survey Average Cost for Individual Premium:	**$6,705.75**
Survey Average Cost for Family Premium:	**$17,388.21**
Albemarle Cost for Individual Premium:	**$7,733.16**
Albemarle Cost for Family Premium:	**$10,673.16**

Our average cost for individuals in slightly above our adopted market, while our average cost for family premiums is significantly below market.

Considerations for FY14-15:

Although we have made plan design changes resulting in cost shifting to employees, we have only had one employee premium increase since 2008. The HCEC is sensitive to the impact that out-of-pocket costs have on our covered members. Due to good performance within our self-insured pool, we are able to maintain high value plan for a low total cost to employees and the Board. We are particularly fortunate in both these circumstances, given the recent increases many employers have been faced with implementing.

However, this year, we are faced with increased costs. To manage our overall health care costs and prepare for provisions of the Affordable Care Act (ACA), the HCEC evaluated plan design changes to include increasing co-pays, out-of-pocket costs, implementing deductibles, increasing prescription co-pays. The HCEC also evaluated different premium structures. Upcoming fees required by ACA include:

- Patient Centered Outcomes Research Institute (PCORI) fee- this funds the Patient Centered Outcomes Research Institute, which is intended to assist patients, clinicians and policymakers in making informed health decisions through evidenced based medicine. This fee is based on covered members and is due July 2014. Our PCORI fee is $14,075.
- Reinsurance fee-a transitional reinsurance feel must be established in every state to help stabilize premiums for coverage in the individual market from 2014 through 2016. This program will provide payments to insurers that cover higher-risk populations to more evenly spread the financial risk. This fee is based on covered lives and is due after January 2015. Our reinsurance fee is $328,138.

Two options were presented:

	Option 1		Option 2	
Plan Design Changes Per ACA, pharmacy copays must be included in the out of pocket maximum. Therefore, OOP threshold needs to be increased.	*Increase out of pocket $500/$1000 to include Rx* *Add 20% to self-administered injectables*		*Increase out of pocket $500/$1000 to include Rx* *Add 20% to self-administered injectables*	
	Add $250 Deductible to High and $500 deductible to Basic		Add $500 Deductible to High and $500 deductible to Basic	
Dollar Change to Employee Premium Increases per month	Option 1 Plus	Basic	Option 2 Plus	Basic
Employee	$12	$1	$3	$1
Employee + Child	$26	$3	$7	$3
Employee +Children or Spouse	$62	$11	$17	$11
Family	$82	$15	$23	$15

The HCEC recommends Option 2.

Over the next several months, the HCEC will meet to evaluate contribution strategies for the future. The Cadillac tax (effective January 2018) is based on total plan cost for individual coverage. We may need to change strategy and subsidize the dependent portion and consider the subsidy formula, the rate for children and spouses, the subsidy provided to part-time employees and retirees. The HCEC will present recommendations in the fall.

Dental Insurance

FY12-13 Plan Year
There were **no** changes to our current dental plan premiums from that of the previous year. The coverage of both the High and Basic plan options was enhanced by: increases to the amount the plans pay annually, an increase to the amount covered for orthodontia (which is covered under the High plan only), and an increased amount covered for major services, like crowns.

FY 13-14 Current Plan Year
Two plans (Basic and High) are offered through United Concordia. As our dental reserve balance was favorably above the target, a dental premium holiday was given from March 2013 until September 2013 for all dental enrollees and from February 2014- September 2014.

FY14-15 Plan Year
Continue to offer two plans with no coverage changes and decrease current premiums by 5%.

Recommendations:
The HCEC considered a number of options in continuing to offer medical and dental plans that balance the needs of employees with the fiscal realities of funding the plans, particularly given the continuing escalation in costs for medical care. The recommendations:

Medical Plan:

1. Continue to offer the Basic and Plus plans through Coventry/Aetna
    a. Both plans are Point-Of-Service Plans with the same benefit coverage
    b. There are differences in cost sharing (co-pays, co-insurance, out-of-pocket maximums, deductibles) and employee premium requirements
2. Increase the Board contribution by 8% for the new plan-year starting October 1st
3. Retain a self-insured medical plan with Specific-Claim-Stop-Loss insurance to limit our liability against any single large claim

Dental Plan:

1. Continue the contract with United Concordia
2. Continue to offer the Basic and High Options with no change in benefit design
3. Reduce the current rates by 5% for the new plan year starting October 1st