

# Self-Insurance Internal Service Fund-Health

## General Government

Ted Cwiek, Human Resources Director

Internal Service Fund	2017-2018 Actual	2018-2019 Adjusted	2019-2020 Requested	2019-2020 Recommended	Increase/ (Decrease)
<b>Expenditures</b>					
Services & Supplies	\$994,627	\$1,474,464	\$1,335,197	\$1,335,197	(\$139,267)
Centrally-Budgeted Expenses	209,233	138,515	12,563	12,563	(125,952)
Medical And Dental Insur ISF Ex	53,071,782	48,183,000	45,016,800	45,016,800	(3,166,200)
<b>Total Expenditures</b>	<b>\$54,275,642</b>	<b>\$49,795,979</b>	<b>\$46,364,560</b>	<b>\$46,364,560</b>	<b>(\$3,431,419)</b>
Expenditure Reimbursements	0	0	49,400	49,400	49,400
<b>Total Appropriations</b>	<b>\$54,275,642</b>	<b>\$49,795,979</b>	<b>\$46,413,960</b>	<b>\$46,413,960</b>	<b>(\$3,382,019)</b>
<b>Earned Revenues By Source</b>					
Interest/Rents	\$325,452	\$250,000	\$250,000	\$250,000	\$0
Miscellaneous Revenues	540,899	400,000	400,000	400,000	0
Self-Insurance Revenue	39,700,163	37,677,900	39,797,920	39,797,920	2,120,020
<b>Total Revenues</b>	<b>\$40,566,514</b>	<b>\$38,327,900</b>	<b>\$40,447,920</b>	<b>\$40,447,920</b>	<b>\$2,120,020</b>
<b>Revenues Over/(Under) Expenses</b>	<b>\$13,709,128</b>	<b>\$11,468,079</b>	<b>\$5,966,040</b>	<b>\$5,966,040</b>	<b>(\$5,502,039)</b>

- Medical and Dental Insurance ISF Expenses includes self-insurance medical claims paid by the Health Insurance budget.

### Purpose

The Health Insurance (#859250000) budget provides for the centralized administration of the County's self-funded employee health insurance benefit program.

The County's self-funded insurance programs provide quality benefits to eligible recipients. In addition to the self-funded plans, County employees have access to a fully-insured Health Maintenance Organization plan offered by Kaiser Permanente (Kaiser).

With the Affordable Care Act (ACA), and discussions over repeal and replace options for the ACA, there has been a measure of uncertainty within the health care industry. These, and other factors, make the marketplace unpredictable. Although influencing factors are beyond the County's administrative control, the County strives to use a combination of cost containment measures, vendor contract analysis, and reserve funds to ensure adequately funded, quality programs. Funding levels and premiums are determined actuarially on an annual basis.

<b>Employee Participation in County-Offered Plans as of July 1, 2018</b>		
<b>Health Plan Enrollment - Employees + Dependents</b>		
<b>Programs</b>	<b>Enrollments</b>	<b>Percentage</b>
Kaiser	9,145	72.44%
Self-Insured Plans	3,479	27.56%
<b>Total</b>	<b>12,624</b>	<b>100.00%</b>
<b>Health Plan Enrollment - Employees</b>		
<b>Programs</b>	<b>Enrollments</b>	<b>Percentage</b>
Kaiser	3,622	70.47%
Self-Insured Plans	1,518	29.53%
<b>Total</b>	<b>5,140</b>	<b>100.00%</b>

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### Major Budget Changes

#### Services & Supplies

- \$64,733 Increase in administration costs.
- \$15,000 Increase in special studies and reports charges.
- (\$219,000) Decrease in professional services reflecting completed one-time projects.

#### Centrally-Budgeted Expenses

- (\$125,952) Cost Allocation Plan adjustment.

#### Other Charges

- \$245,000 Increase in stop loss insurance premiums.
- (\$3,000,000) Decrease in medical claims reflecting actual experience.
- (\$411,200) Decrease in administration fees paid.

#### Expenditure Reimbursements

- \$49,400 Increase in administrative fees collected from General Fund departments.

#### Revenues

- \$1,935,920 Increase in health insurance premiums.
- \$288,100 Increase in pharmacy rebates and refunds.
- (\$100,000) Decrease in stop loss recovery.

### Program Discussion

The 2019-2020 recommended budget for the Health Insurance budget is \$46,364,560, which is a decrease of \$3,431,419 from the 2018-2019 adjusted budget. This reflects staff's efforts to utilize different vendors and negotiate new agreements, which decreases prices and increases rebates. Staff also predicts a decrease in enrollment based on anticipated premium rate increases.

The County operates three self-funded employee health plans. It also contracts with Kaiser for a fully-insured option, which

is not addressed in this budget. For 2019-2020, the annual payments to Kaiser are as follows:

2019-2020 Kaiser Costs	
Payments	Projected
County Payments	\$48,325,056
Employee Deductions	13,675,434
Total Premiums	\$62,000,491
Services Fees	753,197
Total Payments to Kaiser	\$62,753,687

During 2019-2020, the County Administrator's Office will work with the Auditor-Controller to incorporate the fully-insured costs within the Health Insurance budget in 2020-2021.

The majority of the County's self-funded health budget is medical claims. Over the last four years, claim costs have fluctuated between \$30.0 million and \$40.8 million. A four-year average shows annual costs at \$34.6 million.

The County purchases excess insurance (stop-loss) to protect against catastrophic claims. Annually, the County is responsible for the first \$300,000 in liability, which is called an aggregate deductible. Then individual deductibles must be met prior to any reimbursements. Staff, along with its consultant, negotiated to remove the aggregate deductible at renewal in July 2018. Stop-loss reimbursements are now only based on individual deductibles, which increased from \$375,000 to \$400,000.

Effective July 1, 2018, the County engaged the services of a new Third Party Administrator (TPA), Lucent, due to the previous TPA, Pomco being purchased by United Healthcare. United Healthcare is a direct competitor to the County's Anthem provider network, requiring the County to solicit bids and choose a new TPA.

The 2018-2019 budget was approved at \$35.0 million for medical claims. The 2019-2020 recommended budget includes \$32.0 million for medical claims. This decrease is the result of better negotiated contracts and an anticipated decrease in enrollment.

In 2018-2019, staff, along with its consultant, Segal, continued to evaluate the self-funded and Health Maintenance Organization plans. The intent of the evaluation was to offer quality benefits while ensuring cost containment for financially-stable plan offerings. Staff conducted a Request for Proposal and received several bids; the successful bidder was Sutter Health Plus. The County will make this new plan available to non-Medicare retirees and certain employee

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groups effective July 1, 2019. The new plan option will be made the subject of input with the bargaining groups.

Due to the long-term and continuing universal trend of escalating health care costs, the County will continue to work with its consultant/actuary to develop additional plan options for employees and their families. This could include a high deductible plan, a different provider network plan, and other creative health care plan alternatives. The initial review of options may start with unrepresented units, or concurrently with represented and unrepresented units.

The February 2019 actuarial report identified the following:

- Self-insured health plans are required to have reserves on-hand for catastrophic and Incurred But Not Report (IBNR) claims. Approximately \$12.0 million is required to meet these obligations. As of March 31, 2019, the program had a cash balance of \$14,593,388. In March 2018, the balance was at \$22.7 million. This represents a reduction of \$8.1 million to the reserves in a one-year period.
- The actuary recommends a 22.8% premium increase. This is based on the plans' recent claims, medical expenditure trend, pooling the active and retiree population, and holding rates flat for several years. The recommended budget includes the 22.8% premium increase.