

**Lee County Board Of County Commissioners
Agenda Item Summary**

Blue Sheet No. 20041621

1. REQUESTED MOTION: Proposal # P-020559 *c.v.*

ACTION REQUESTED: Approve change to the Health Plan Stop Loss policy: Change the specific deductibles from \$150,000 to \$300,000. Drop the aggregate loss portion which currently reinsures the self funded health plan when the total loss is 125% of the expected loss. Total aggregate is limited to \$3,000,000.

WHY ACTION IS NECESSARY The Board of County Commissioners must approve changes to the Health Plan.

WHAT ACTION ACCOMPLISHES: This action has the potential to save the County significant amounts of money by assuming an increased portion of the risk rather than paying premiums.

2. DEPARTMENTAL CATEGORY:

3. MEETING DATE:

COMMISSION DISTRICT #Countywide *C6B*

12-21-2004

4. AGENDA:

5. REQUIREMENT/PURPOSE:
(Specify)

6. REQUESTOR OF INFORMATION:

CONSENT
 ADMINISTRATIVE
 APPEALS

STATUTE
 ORDINANCE
 ADMIN.
 CODE
 OTHER

A. COMMISSIONER
B. DEPARTMENT Human Resources

PUBLIC
 WALK ON

BY: Dinah Lewis
Human Resources Director

TIME REQUIRED:

7. BACKGROUND: We purchase reinsurance (stop loss) for the health plan from Aetna to ensure our claims do not become so excessive that they are a burden on the General Fund. After research by Human Resources and our benefits consultant (AON), we have found that considerable savings would result by raising the deductibles for the specific (individual) portion of the stop loss policy and dropping the aggregate (total) portion. The health plan has never recently reached a point where it has needed to use the aggregate portion of the policy. The savings are estimated to be within the range of \$300,000 or more, depending on the claims incurred.

8. MANAGEMENT RECOMMENDATIONS:

9. RECOMMENDED APPROVAL:

A Department Director	B Purchasing or Contracts	C Human Resources	D Other	E County Attorney	F Budget Services				G County Manager
<i>Dinah Lewis</i> 12-9-04	<i>Janet Sheehan</i> 12-9-04	<i>Dinah Lewis</i> 12-9-04		<i>Andrea Fraser</i>	OA <i>AS</i> 12/9/04	OM <i>MS</i> 12/9/04	Risk <i>JS</i> 12/9/04	GC <i>MS</i> 12/9/04	<i>[Signature]</i>

10. COMMISSION ACTION:

APPROVED
 DENIED
 DEFERRED
 OTHER



**MEMORANDUM FROM THE
DEPARTMENT OF HUMAN RESOURCES**

DATE: December 10, 2004
TO: William H. Hammond
Deputy County Manager
FROM: Dinah Lewis
Director

RE: Health Plan Stop Loss (Reinsurance)

Human Resources is recommending several significant changes to our stop loss policy. Our benefits consultant, AON, has done background research on this project and recommends the changes outlined below (Attachment A).

Background:

As a self insured health plan, we have in place a reinsurance policy through Aetna to ensure our claims (losses) do not become so excessive that they exceed the health plan's capacity to pay for them. This "stop loss" policy has two parts: Once an individual has more than \$150,000 in claims during a calendar year, the "specific stop loss" policy pays any additional claims. The second part is the "aggregate stop loss" portion of the policy, which pays all claims once the total dollars paid for all of our claims become greater than 125% of the expected amount. It currently pays up to \$3 million above the 125% figure, then the County bears the risk above this level.

For the current calendar year, we will pay an estimated insurance premium of \$1,309,162 for specific stop loss and \$63,231 for aggregate stop loss. The total for 2004 is expected to be \$1,372,393. We have had four claims over the \$150,000 specific threshold. This is expected to allow Aetna a profit of nearly \$800,000. We have not exceeded the aggregate 125% of claims. As an example, for calendar year 2004, we would need over \$8,000,000 in claims during December (we usually have an expectation of about \$2,000,000 in claims each month) to reach trigger the aggregate coverage. The most recent annual financial report of the health plan is included for reference (Attachment B).

For calendar year 2005, Aetna's proposed premium for stop loss coverage with no changes is \$1,628,257.

Recommendation:

- Raise the specific stop loss from \$150,000 to \$300,000: **Premium Savings \$1,094,467**
- Drop the aggregate stop loss portion of the insurance: **Premium Savings \$66,427**

This would result in an expected total premium savings of \$1,160,894 for calendar year 2005. We have researched what other counties are doing, and find that they have a higher dollar amount (\$300,000 or more) for specific stop loss and little or no aggregate insurance. We believe the additional risk to the County for large claims is more than offset by the premium reduction we recommend these changes be adopted.

Cc: Donald D. Stilwell, County Manager

Charlotte Veaux - Revised Aetna Stop-Loss Quote [Virus Checked]

From: <Bill_Sharon@aoncons.com>
To: <veauxcg@leegov.com>
Date: 12/3/2004 10:40 AM
Subject: Revised Aetna Stop-Loss Quote [Virus Checked]
CC: <dllewis@leegov.com>, <hpeterson@leegov.com>, <Linda_H_Davis@aoncons.com>

Charlotte - good news.....Aetna agreed to lower their stop-loss quote again. Their new quote is attached.....

(See attached file: Lee County IOC12-2-04.xls)

This quote lowers their \$300k specific stop-loss rate from \$12.83 pepm to \$11.82 pepm or about \$40,000. Through two rounds of negotiations, Aetna has lowered their \$300k stop-loss quote from \$660,149 to \$470,057 for a total specific stop-loss premium savings of about \$190,000. Other savings may result from increasing the specific stop-loss from \$150k to \$300k and dropping the aggregate coverage.

With this new quote, Aetna is slightly higher than ING. However, Aetna has several features that make them worth the higher premium: immediate reimbursement, unlimited lifetime payment amount, and no interface fee with an outside vendor. Aon recommends you stay with Aetna and purchase \$300k specific stop-loss coverage (no aggregate).

Next year, we hope Aetna will provide a competitive stop-loss quote that will not require us to go out to bid. We have been told by some of the stop-loss vendors that they will not continue to provide a quote in the future because of the frequency of bidding.

C. William Sharon
Senior Vice President
Aon Consulting, Inc.
7650 West Courtney Campbell Causeway
Suite 1000
Tampa, FL 33607-1462

813-636-3022
813-636-3105 fax
Bill_Sharon@aoncons.com

. Attachment A



DEPARTMENT OF FINANCIAL SERVICES
OFFICE OF INSURANCE REGULATION

KEVIN M. McCARTY
COMMISSIONER

FINANCIAL SERVICES
COMMISSION

JEB BUSH
GOVERNOR

TOM GALLAGHER
CHIEF FINANCIAL OFFICER

CHARLIE CRIST
ATTORNEY GENERAL

CHARLES BRONSON
COMMISSIONER OF
AGRICULTURE

November 19, 2004

via email: veauxcg@leegov.com

Ms. Charlotte Veaux
Lee County
Po Box 398
Fort Myers, FL 33902

RE: LEE COUNTY
FORM NUMBER(S): LEE COUNTY-2004
FILE LOG NUMBER: SIP 04-12847
PLEASE REFER TO THIS FILE NUMBER WHEN CORRESPONDING

Dear Ms. Veaux:

The Office of Insurance Regulation has reviewed your annual report for the above referenced plan for plan year ending 2004, including the statement as to the plan's actuarial soundness. Since the liabilities and assets appear to produce adequate positive surplus, your filing is **ACCEPTED** as being in compliance with the requirements of Section 112.08, F.S. We look forward to receiving your plan year 2005 report by 12/29/2005.

Thank you for filing the required information.

Feel free to contact me if you have any questions.

Sincerely,

Daniel J. Keating, FSA, MAAA
Actuary
Dan.Keating@fldfs.com
(850) 413-5144

DJK/dk

Attachment B (1 of 4)

General Information and Surplus Statement For Self-Funded Health Benefit Plans

General Information

	Medical	Dental
1. Type of Benefit		
2. Number of covered employees.	3,281	3,090
a. Single employees	1,509	1,792
b. Employees with dependents	1,772	1,298
3. Claims Incurred	\$ 18,253,305	\$ 1,353,159
4. Annual Claim Cost (3./2.)	\$ 5,563.34	\$ 437.92

Surplus Statement

1. Surplus from prior year (If a deficit, show as negative surplus)	\$ 5,122,586
2. Change in Surplus from fund operations (gain or loss for year)	\$ 1,111,867
3. Change in Surplus due to other factors (contribution, withdrawal)	\$ (850)
4. Overall change in Surplus, present year	\$ 1,111,017
5. Surplus at Year-End, Total lines 1 plus 4	\$ 6,233,603

Note: If line 5. is negative, the plan is not in good standing with the Florida Office of Insurance Regulation. This deficit must be removed by an infusion of an amount at least equal to the deficit. If the deficit is to be liquidated over a period of time, please give the details of this program for consideration, along with supporting actuarial opinion. If the plan's surplus is less than sixty days of anticipated claims, other questions may be asked of the plan as the office sees fit.

November 4, 2004

Ms. Charlotte Veaux
Lee County Human Resources
Post Office Box 398
Fort Myers, Florida 33902

Re: *Incurred But Not Reported Claim Reserves as of September 30, 2004,
for the Lee County Employees' Health Benefit Plan*

Dear Charlotte:

Aon Consulting has calculated the Incurred But Not Reported (IBNR) reserve liability for the above-referenced self-insured Medical, Prescription Drug and Dental plans. The following summarizes Aon's projections for the liability:

Benefit	Medical	Prescription Drug	Dental	Total
IBNR	\$1,840,600	\$220,700	\$171,400	\$2,232,700

Aetna, the County's third-party administrator, provided lag triangles summarizing claims incurred vs. claims paid from January 1, 2003 through September 30, 2004. These items were analyzed and reserves were calculated using an actuarial reserving technique known as the Developmental Method adjusted by the Projection Method and actuarial judgment. The advantage to using this method is that the resulting reserves are mainly based on the County's actual claim incurral and payment patterns.

The IBNR reserve liability decreased from \$2,533,000 as of September 30, 2003, to \$2,232,700 as of September 30, 2004. There are two main reasons for this decrease, the first is that last year's estimate was calculated using completion factors that were not based the County's actual experience (because of the switch to Aetna on January 1, 2003, not enough credible data was available) and second, last year we included a 5% expense estimate to run out claims. Because the administrative service charge to run out claims is included in the prior years fees, no expense adjustment was made for this year.

In performing our valuation, we have relied on data given to us by Aetna and by Lee County. We have reviewed the data for reasonableness but have not audited it; as such, we are not certifying herein as to its accuracy. Subject to this condition, our analysis is complete and accurate. In addition, the techniques and methodologies used are reasonable and reflect our best estimate of the incurred but not report claims (IBNR) calculated in accordance with generally accepted actuarial principles as promulgated by Actuarial Standard of Practice Nos. 5 & 23.

If you have any questions or need additional information, please call me at (813) 636-3079.

Sincerely,

Larry R. Smart, ASA, MAAA
Assistant Vice President

Enclosure

Attachment B (3 of 4)

cc: Mr. Bill Sharon, Aon Consulting
Ms. Linda Davis, Aon Consulting

Operating Projections for Self-Funded Health Benefit Plans

Fiscal Year Report Covering	<u>10/1/2004</u>	thru	<u>9/30/2007</u>
Fiscal Year Ending	Current Year	Year 1 <u>9/30/2006</u>	Year 2 <u>9/30/2007</u>
1. Number of employees	3,314	3,314	3,314
2. Premium Income	\$ 28,747,170	\$ 28,747,170	\$ 28,747,170
3. Other Income (includes investment income)	\$ 574,514	\$ 499,817	\$ 499,817
4. Total Income (2.+3.)	\$ 29,321,684	\$ 29,246,987	\$ 29,246,987
5. Total incurred claims (net of reinsurance)	\$ 22,130,000	\$ 24,896,250	\$ 27,883,800
6. Total Expenses	\$ 4,199,787	\$ 4,630,265	\$ 5,628,117
7. Total Disbursements (5.+6.)	\$ 26,329,787	\$ 29,526,515	\$ 33,511,917
8. Total Gain or (Loss) (4.-7.)	\$ 2,991,897	\$ (279,529)	\$ (4,264,930)
9. Change if Surplus Due to Other Factors (contribution, withdrawal)	\$ -	\$ -	\$ -
10. Surplus beginning of year	\$ 6,233,603	\$ 9,225,500	\$ 8,945,971
11. Surplus end of year (8.+9.+10.)	\$ 9,225,500	\$ 8,945,971	\$ 4,681,041

Based on the assumptions shown below, the County will maintain a surplus in excess of the Plan's reserve over the next three years. The projected surplus at September 30, 2007 is \$4,681,041.

Assumptions

Premium rate increase	12.7%	0.0%	0.0%
Trend (Medical and Expense)	12.5%	12.1%	12.0%
Premium Contribution Single/Family			
Employee	\$0/\$1,200	\$0/\$1,200	\$0/\$1,200
Local Government Unit	\$5,508/\$10,380	\$5,508/\$10,380	\$5,508/\$10,380
Stop Loss minimum attachment point		\$150,000	