

Plan for Conversion to Self Insurance

2013 Employee Health Insurance Recommendation

Presentation to Management Committee

9-12-2012



Items

- Approve resolution to:
 - Self insure employee medical healthcare (HC) benefits
 - Establish a health care cash flow and contingency reserve fund
- Extend amended HealthPartners contract through 2014

Why now?

- Achieves significant long term savings
 - \$7 M in total expected 2013 savings (prior to funding reserves)
 - Projected savings sufficient to fund reserve target by 2014
 - Premiums projected to remain flat from 2012-2015
- Provides for seamless transition for employees
 - Continues current plan design
 - Continues current clinic and provider network
 - Employer / employee premiums shared per labor agreements
- Governs risk to meet Council interests (stop loss / reserves)
- Executes transition within 2013 open enrollment timeframes

Insurance Options Considered

- Continue under fully insured plan
- Pooled self insurance plans:
 - State Employee Group Insurance Plan
 - Public Employee Insurance Plan
- Metropolitan Council self insurance

Unique Features of Self Insurance

- Exemption from health care taxes and fees
- Assumption of immediate risk for employee health care claims
- Control over risk mitigation and management strategies
- Control over reserve requirements and ownership
- Greater influence over plan design and clinic network
- Greater influence over programs (disease mgmt / wellness)
- Full access to claims data

Mechanisms to Manage and Mitigate Risk

- Specific stop loss coverage
 - Caps liability for an individual's annual health care costs
- Aggregate stop loss coverage
 - Caps liability for the Council's aggregate annual health care cost
- Health care contingency reserves
 - Funded at a level chosen to mitigate risk (% of expected claims)
 - Dedicated to health care purposes
 - Available for claims exceeding premium coverage, mitigation of premium volatility, or for other employee health care interests

Examples of Stop Loss Options Considered

Options	Specific Stop Loss	Aggregate Stop Loss	2013 Total Expected Costs	2013 Total Maximum Cost
A	\$400,000	110%	\$56,707,535	\$62,062,525
B	\$400,000	125%	\$56,497,019	\$69,884,491
C	\$500,000	110%	\$56,705,526	\$62,091,631
D	\$500,000	125%	\$56,487,502	\$69,952,763
E	\$600,000	110%	\$56,679,789	\$62,076,028

Recommendations for Stop Loss Coverage and Contingency Reserves

- 125% aggregate stop loss
- \$500,000 specific stop loss
- Contingency reserves at 15% of “expected” claims

“Expected” 2013 Self Insurance Savings

- 2013 fully insured total premiums: \$64.0 M
- Less total “expected” claims: (\$53.9 M)
- Less external (HP) admin costs: (\$ 2.6 M)
- Less SI internal admin cost: (\$ 0.3 M)
- Expected SI net savings: **\$ 7.2 M ***

* All 2013 savings and a portion of 2014 savings used to fund reserve targets

Contingency Reserve Financing Strategy Under “Expected Scenario”*

- Set contingency reserve target at 15% of annual claims
- Apply savings in 2013 and 2014 to meet reserve benchmarks:
 - 10% of claims by end of 2013
 - 15% of claims by end of 2014
- Set 2013 total premiums at \$64 M
- Maintain 2013 HC budget at preliminary budget levels
 - \$2 M above expected Council premium contribution
 - Mitigates 2013 risk until reserve target (15%) is reached in 2014

* Assumes 2013 claims costs at actuarially projected levels and 6% annual growth

Premium Reserve Contributions Under “Expected Scenario”*

- 2013 = \$7.2 M (12.6% of 2014 “expected” claims)
 - \$2 M additional budgeted increases 2013 total to \$9.2 M or 17%
- 2014 = \$1.9 M (15% of 2015 “expected” claims)
- 2015 = \$0.5 M (15% of 2016 “expected” claims)

*Assumes 2013 claims costs at actuarially projected levels with 6% annual growth

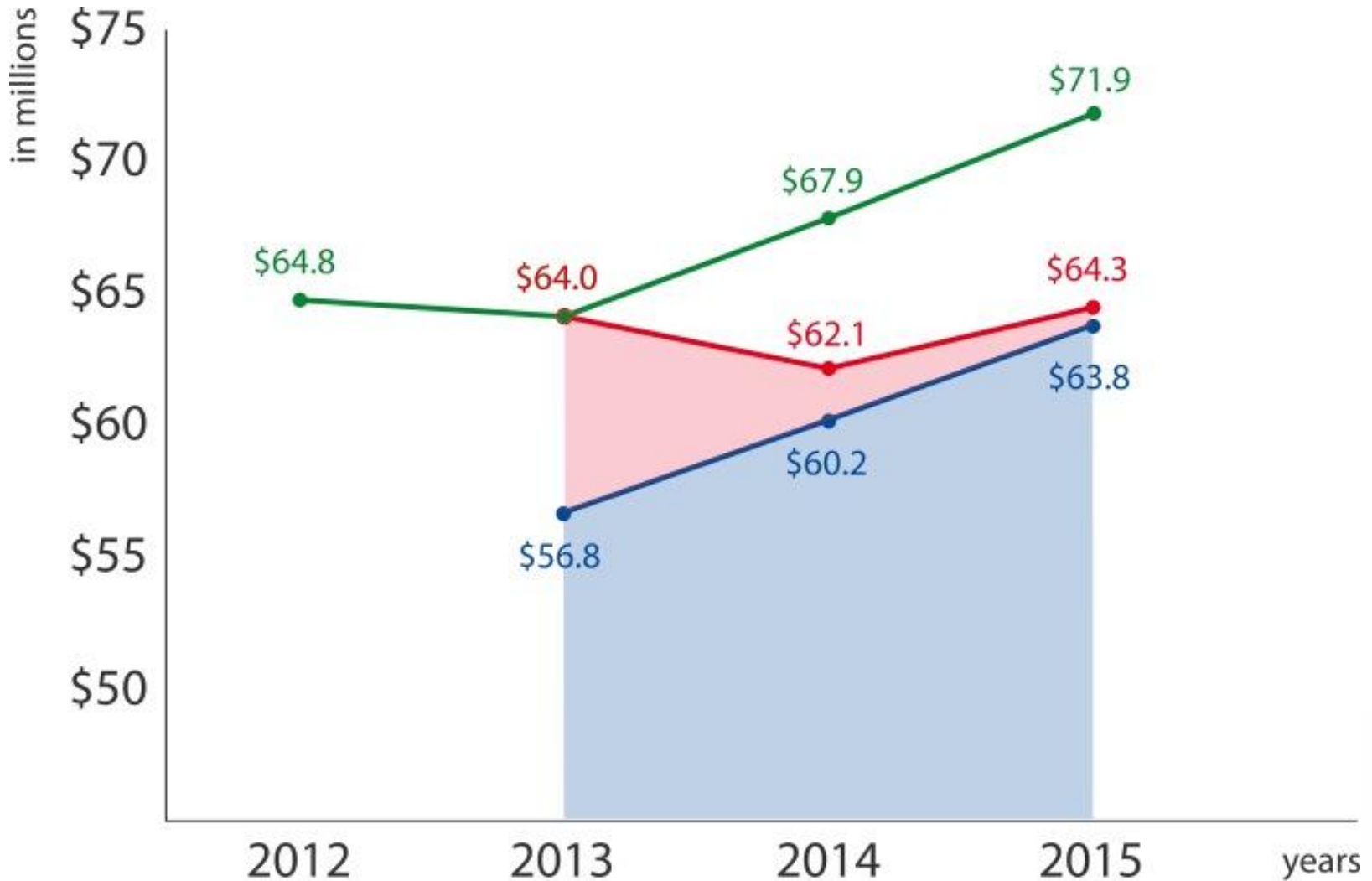
Summary of “Expected” Health Care Premium and Budget Impacts

- 2013 HC premiums slightly less than 2012 premiums
- Reductions in reserve deposits offset 2014-15 HC inflation
- Premiums held flat through 2015
- 2013 HC budget kept at preliminary operating budget level
- 2014 HC budget may be reduced with reserves funded

Expected Premiums and Costs 2012-15



Expected Premiums and Costs 2012-15



- Projected Fully Insured Premiums
- Self Insurance Expected Total Cost (Claims + Admin)
- Self Insurance Expected Total Premiums (Total Cost + Reserves)

Extension of Health Partners Contract

- Allows immediate execution to realize savings
- Maintains current plan design and clinic network
- Avoids contract cancellation penalty
- Administrative Products and Services:
 - Specific and aggregate stop loss coverage
 - Claims processing and adjudication
 - Appeals
 - Pharmacy benefit management
 - Disease management
 - Customer service

Labor Response

- Joint meeting with representatives of all labor units
- Support expressed by all reps
- Labor interests:
 - Structure for on-going communication
 - Progress updates
 - Information and analysis of claims data
 - Limit reserve uses to employee health care purposes
 - Transparency on reserve uses and balances
 - Input on the management and design of benefits and services

Questions...