



THE SCHOOL BOARD OF SARASOTA COUNTY, FLORIDA

FINANCIAL SERVICES DEPARTMENT

1960 Landings Boulevard Sarasota, Florida 34231
Telephone: (941) 927-9000 • Fax: (941) 927-4017
Email: mitsi_corcoran@sarasota.k12.fl.us

MEMORANDUM

TO: School Board Members
Lori White, Superintendent

FROM: Mitsi Corcoran, Chief Financial Officer

RE: Self-Insurance Discussion

DATE: March 12, 2015

Enclosed please find the presentation on self-insurance we will be discussing during the School Board workshop on March 17, 2015. We will be discussing the District's historical medical trend and plan performance, including plan stability. In addition we will review the benefits received by self-funding as well as the additional responsibilities and risk assumptions that come with bringing our health insurance plans in-house.

I have also enclosed a copy of a letter sent by John Cranor, Chair of the Financial Advisory Committee which outlines the review and analysis performed by the committee on the viability of self-insurance for the School District. It also reflects the Financial Advisory Committee's unanimous recommendation to proceed with a transition from a fully insured program to self-insuring our healthcare benefits.

I look forward to our discussion and am happy to address any individual questions you may have in advance of our workshop.



Sarasota Schools Self-Insurance Discussion

March 17, 2015

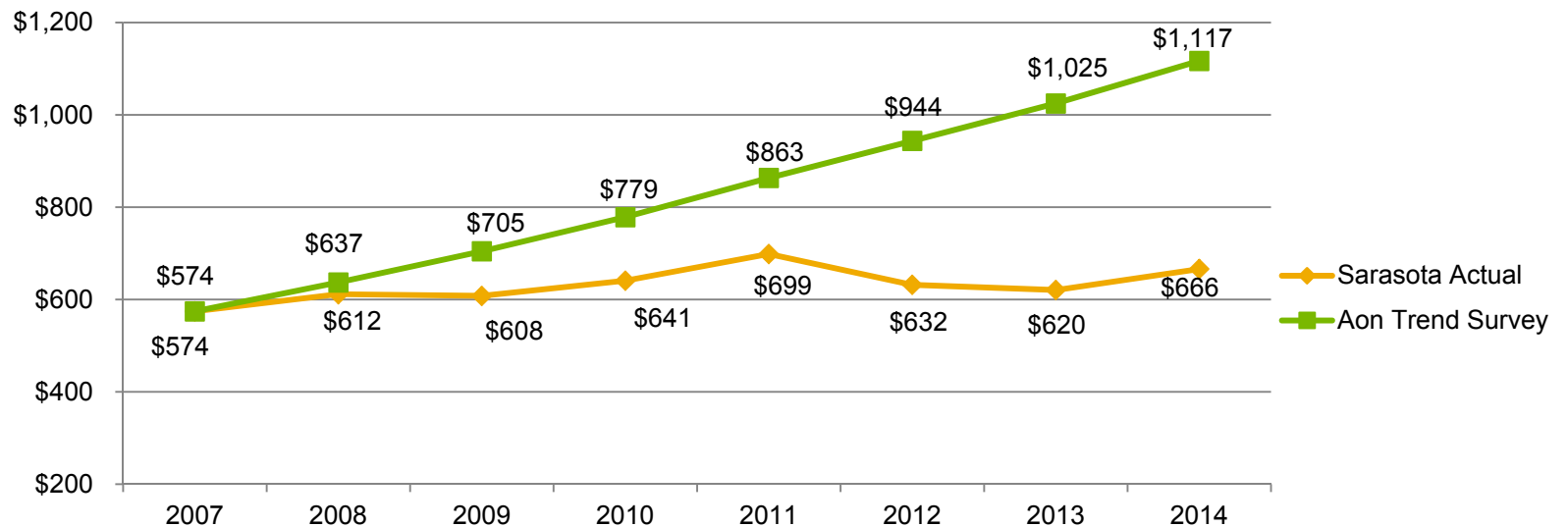
Topics for Discussion

- Sarasota Schools Medical Trend
- Medical Plan Performance
- Self Insured Considerations
- Next Steps

Sarasota Schools Medical Trend

Aon Consulting surveys the medical markets regarding trend rates they are experiencing in their current book of business, which impacts their future pricing on upcoming renewals. Our survey includes 44 of the top medical insurers including Blue Cross Blue Shield.

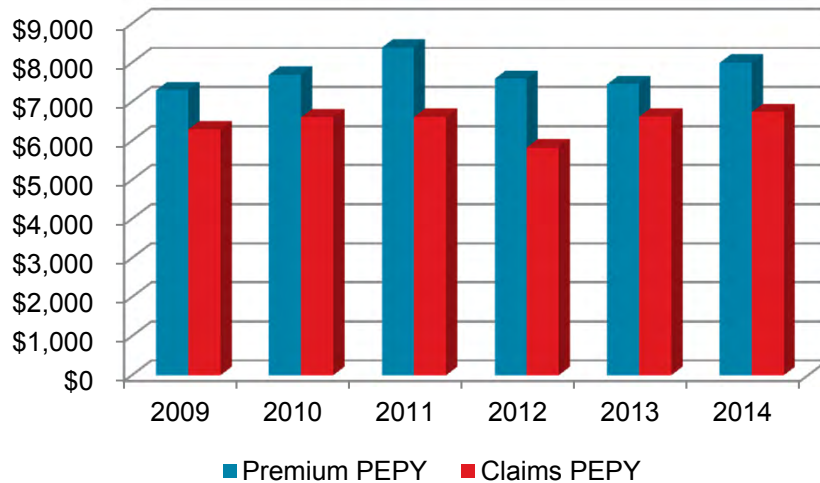
The chart below illustrates the impact of the market trend rate over the past 5 years without strategic adjustment relative to the actual premium costs PEPM that Sarasota Schools has paid over the same time period.



	2007	2008	2009	2010	2011	2012	2013	2014
Sarasota Actual	9.8%	6.0%	5.0%	7.5%	10.5%	-8.9%	-2.0%	8.7%
Aon Trend Survey	12.2%	10.9%	10.6%	10.5%	10.9%	9.3%	8.6%	9.0%
Cumulative Savings PEPM	\$0	\$25	\$97	\$138	\$165	\$312	\$404	\$451

Sarasota Schools Historical Medical Plan Performance

Year	Average Employees	Premium PEPY	Claims PEPY
2009	5,609	\$ 7,293	\$ 6,289
2010	5,449	\$ 7,689	\$ 6,601
2011	5,326	\$ 8,384	\$ 6,608
2012	5,200	\$ 7,581	\$ 5,825
2013	5,219	\$ 7,446	\$ 6,615
2014	5,291	\$ 7,994	\$ 6,730



- 2012 Medical RFP and the FAC recommended plan design changes resulted in a 14% drop in claim costs.
- 2014 total claims increased 3% over 2013, standing only 0.9% over 2009 total claims paid.
- Since 2009, overall enrollment has dropped by 6%.

Benefits of Self-Funding: Reduced Taxes and Increased Flexibility

Financial Impact – Tax Savings

- 0.5% - 3% State Premium Tax
- 2% - 3% PPACA Carrier Premium Tax
- 0% - 3% Carrier Margin (risk and profit)
- **District holds the reserves** instead of the carrier, and **can earn interest income** - income that would be otherwise generated by an insurance carrier through the investment of premium dollars.

Plan Flexibility

- **Do not have to comply with State mandated benefits** (such as covering dependents to age 30 versus the federal age limit of 26).
- **Not restricted to “off-the-shelf” plan designs** offered by carrier (fully insured plan designs must be filed and approved by the state department of insurance).
- District may **separate the administration** of Medical and Rx by using different vendors.
- Ability to **incorporate innovative health promotion**, disease management and care delivery models (telemedicine, clinics, etc.) and **recognize immediate financial impact**.

Employee Impact

- Since the central feature of moving to self-funding is financial and administrative, there is nothing inherent to self-funding that would cause significant employee disruption (unless there is a concurrent vendor change).

Administrative Responsibilities of Self Insured Plan Sponsors

- Sarasota County Schools would be the **plan fiduciary**, subject to liability for legal actions against the plan.
- Sarasota County Schools would be responsible for **paying all PPACA fees** (excluding the Health Insurer Fee, which is for fully-insured plans only) and **reporting all plan participation** to employees and the IRS.
- A separate bank account would be setup to pay claims, requiring **regular funding** and reconciliation.
- Cash flow is not as predictable as a set premium cost on a month-to-month basis. Therefore, Sarasota County Schools should **review the financials of the plan more frequently**.
- Sarasota County Schools would need to determine the level of Personal Health Information (PHI) staff would be able to access and ensure that security procedures mandated under the federal law called “Health Insurance Portability & Accountability Act” (HIPAA) were documented and in place. Staff would need to be **properly trained for handling PHI**.
- A **Third Level Appeals Committee** would need to be established to review claims denied at the First and Second Appeals levels by the claim administrator.
- Claims above the individual limit would have to be monitored; with requests for reimbursement generated to the **stop-loss carrier** (this may be automated in some cases to be a seamless process).
- Sarasota Schools would be **responsible for producing all plan documents**, Summary Plan Descriptions, and Summary of Benefit Coverage, as required by PPACA. Most administrators, including Florida Blue provide a template to be used by self-insured clients.

Self-Funding – 112.08 Reserve

FL Code Section 112.08: Florida requires additional reserves (in addition to IBNR) to assure the solvency of the plan.

- In order to obtain approval from the Office of Insurance Regulation of any self-insured plan, the District submits its plan along with a **certification as to the actuarial soundness of the plan** (prepared by an actuary who is a member of the Society of Actuaries or the American Academy of Actuaries).
- The Office of Insurance Regulation will not approve the plan unless it determines that the plan is designed to **provide sufficient revenues** to pay current and future liabilities, as determined according to generally accepted actuarial principles.
- After implementation of an approved plan, the District must annually submit to the Office of Insurance Regulation a report, which includes a **statement prepared by an actuary** as to the actuarial soundness of the plan. The report is due 90 days after the close of the fiscal year of the plan.
- The District must **provide annual notices** to plan participants regarding the funding status of the plan (highlighting if the plan has not satisfied the reserve requirement).

Financial Analysis Assumptions

Fully Insured Assumptions

- 8% trend on medical and Rx claims

Self-Funded Assumptions

- 8% trend on medical and Rx claims
- Reserve funds (IBNR and 112.08) accrue evenly throughout the year
- 3% trend on administration expenses
- 20% trend on stop loss premium
- \$500,000 individual stop loss level
- 112.08 margin is equal to two months of incurred claims

PPACA (Health Care Reform) Fees

- Transitional Reinsurance Fee: \$44 PMPY in 2015
- Patient Centered Outcomes Research Institute (PCORI): \$2.06 PMPY in 2015 and increased by inflation after 2015

Expected Scenario

The exhibit below reflects the expected financial impact to SBSC if the medical plan was self-funded. This exhibit has been updated with claims and enrollment data through December 2014. Self-insured costs fluctuate with claims experience and a monthly review of projected vs. actual claims paid is recommended.

	Fully Insured			
	2015*	2016	2017	2018
Claims	\$ 39,324,800	\$ 42,792,600	\$ 46,216,000	\$ 49,913,300
Retention	\$ 6,757,289	\$ 6,312,700	\$ 6,592,500	\$ 7,119,000
Needed Premium	\$ 46,082,089	\$ 49,105,300	\$ 52,808,500	\$ 57,032,300

	Self Insured		
	2016	2017	2018
Claims	\$ 42,474,100	\$ 45,872,000	\$ 49,541,700
Expenses**	\$ 3,830,000	\$ 3,863,800	\$ 4,216,800
Total Costs Pre 112.08	\$ 46,304,100	\$ 49,735,800	\$ 53,758,500
Annual Total (Cost) / Savings	\$ 2,801,200	\$ 3,072,700	\$ 3,273,800
Prior Year (Cost) / Savings Carry forward	\$ -	\$ (4,065,400)	\$ (1,338,100)
112.08 Requirement**	\$ 6,866,600	\$ 345,400	\$ 373,200
Accumulated Total (Cost) / Savings	\$ (4,065,400)	\$ (1,338,100)	\$ 1,562,500

* 2015 "Needed Premium" is equal to 2015 annualized rates multiplied by December 2014 enrollment

** Includes interest credit for holding additional funds, ACA fees, and administrative expenses

112.08 Funding Approach

The exhibit below depicts alternative funding methods for the 112.08 reserve.

2016 Funding Approach	100% General Assets	100% Medical Rates	Split Funding	2016 Rate Hold
Description	No 112.08 funding included in rates	112.08 funded 100% through medical rates	112.08 funded 50% from medical rates, 50% general assets	Rates match 2015 fully-insured rates
Premium Collected / Budgeted	\$46,304,100	\$53,170,700	\$49,737,400	\$46,082,100
Less: Plan Costs ¹	\$46,304,100	\$46,304,100	\$46,304,100	\$46,304,100
Premium to Fund 112.08	\$0	\$6,866,600	\$3,433,300	-\$222,000
112.08 Requirement**	\$6,866,600	\$6,866,600	\$6,866,600	\$6,866,600
Premium to Fund 112.08	\$0	\$6,866,600	\$3,433,300	-\$222,000
Additional Funds Needed for 112.08	\$6,866,600	\$0	\$3,433,300	\$7,088,600

** Includes interest credit for holding additional funds, ACA fees, and administrative expenses

Self-funding Preliminary Notice to the State

- There is no specific deadline for the preliminary filing, but it cannot be later than September.
- Preliminary filing requires a description of the plan for building the 60-day required surplus. The State will not provide specific guidelines. However, Aon's past experience indicates a 3 year plan of funding is sufficient. The plan will be detailed numerically within the 3-year projection page of the filing, but Sarasota Schools will also need to provide a letter detailing their plan/intent for building the 60-day surplus.
- State requires SPD for all plan designs.
- State has requested:
 - Proposed reserving method
 - Calculation of projected premiums using rates/enrollment by tier/plan in Excel format
 - Identification of any other projected income to the plan
 - Expected Loss Ratio for 2016 plan year
- The first official filing will only include a half-year of actuals (thru 6/30/16 - end of fiscal year) in addition to an updated 3-year projection. The filing will be due on 9/30/16.

Next Steps

The following tasks represent the next steps to transition from a fully insured to a self insured medical plan.

Immediate – Target completion by September 2015

- Select ASO Vendor and negotiate terms of the service contract
- Establish banking arrangements for claims payments and fund with minimum impress balance
- Set rates and contributions based on 2016 plan designs, finalized fixed costs and updated claim projections
- Establish accounting process to review carrier funding requests and frequency of claims account funding
- Draft and finalize plan documents and legal notices
- Preliminary 112.08 filing

Ongoing

- Adopt HIPAA Privacy Policy and procedures, conduct training and designate officer for staff who may have access to PHI
- Calculate, file, and pay the PCORI (7/2016) and Transitional Reinsurance Fee (11/2016)
- 112.08 annually (9/2016)



SARASOTA
COUNTY SCHOOLS

1960 Landings Blvd., Sarasota, FL 34231
Telephone: 941-927-9000
Web site: www.SarasotaCountySchools.net

FINANCIAL ADVISORY COMMITTEE

February 17, 2015

Mr. Frank Kovach, Chairman
The School Board of Sarasota County, FL
1960 Landings Blvd.
Sarasota, FL 34231

Dear Mr. Kovach:

At the May 20, 2014 School Board workshop on Health and Wellness, staff was directed to review the viability of Sarasota County Schools moving from a fully insured to a self-insured healthcare benefit model. In addition, it was requested that the Financial Advisory Committee review and analyze the healthcare program and make a recommendation to the School Board on the matter.

At our regularly scheduled meeting on February 12, 2015, the Financial Advisory Committee members, Superintendent White, School Board staff, and broker of record, AON Hewitt, analyzed the pros and cons of self-insuring the employee healthcare benefit program. Savings on taxes incorporated into fully insured health insurance premiums were compared to the additional administrative burden and regulatory filing requirements on District staff; financial analysis was conducted to determine annual savings and the payback period to the General Fund of statutorily required reserves; and finally the question of assumption and mitigation of risk was considered.

After thoughtful deliberation, the Financial Advisory Committee unanimously recommends that the School Board move forward with the transition from a fully insured to a self-insured healthcare program with full implementation to take place in the next plan year beginning January 1, 2016.

Thank you for allowing the Financial Advisory Committee the opportunity to serve the School Board and provide a community perspective on an area of expenditure that has a large impact on the financial status of the School District.

Respectfully submitted,

John Cranor
Chair, Sarasota County Schools Financial Advisory Committee

cc: Lori White, Superintendent, Sarasota County Schools
Mitsi Corcoran, Chief Financial Officer, Sarasota County Schools