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## MEMORANDUM

**TO:** School Board Members  
Dr. Todd Bowden, Superintendent

**FROM:** Mitsi Corcoran, Chief Financial Officer

**DATE:** September 28, 2017

**RE:** **Workshop Discussion – Medical Self-Insurance Update**

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Enclosed please find the presentation on medical self-insurance we will be discussing during the School Board workshop on October 3, 2017. We will be reviewing the District's strategies to reduce claims and costs, the results of the onsite clinic feasibility study, the district's rate history and a comparison of surveyed District's on 2018 projected rate changes, and finally an update on the financial condition of the medical insurance fund and its ability to repay the transfer to fund the state mandated reserve requirement.

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



# **Sarasota County Schools Medical Self-Insurance Update**

October 3, 2017

## Sarasota County Schools Medical Self-Insurance Program Strategies to Reduce Claims and Costs

### Pharmacy Spend

- Pharmacy spend through June of this calendar year is averaging over **28%** of claims expense. This is caused predominately by the use of high cost specialty drugs such as Humira Pen, Tecfidera, Copaxone, Harvoni, and Enbrel.
- Currently exploring opportunities in this area to reduce spend.

### Medicare and Medicare Supplement Education for Retirees

- Continue to educate those planning to retire or current retirees covered by the District's medical plan about moving to the Group Medicare Supplement Insurance plan.

### Wellness

- The Wellness Program added new classes and programming to their current offerings to educate, support and assist employees with getting healthy. Classes and programs include diabetes education classes, smoking cessation, weight management, exercise classes, walking challenges, dermatology screenings, flu vaccinations, and additional health screening opportunities.
- Continuing to look for expansion locations for another Wellness Center in South County.

# Onsite Medical Center Feasibility Study Conducted by Arthur J. Gallagher & Company

## Study Methodology

### Three Main Components

- Cost of operating the center
  - Administrative fees charged by a vendor to manage the center
  - Professional fees paid for the medical professional to staff the center
- Potential reduction in claims paid under the health plan
  - Services provided directly at the center
  - Reduction in unnecessary services
- Potential savings
  - Improved health of covered members from Wellness and disease management initiatives supported by the center
  - Improved productivity related to the center.

# Onsite Medical Center Feasibility Study

## Data Provided

- 5 years of claims data from Florida Blue
- 4 years of pharmacy experience from Florida Blue
- Plan designs
- Cost of drug testing and employment physicals
- The data regarding the cost of operating centers was taken from vendor's experience with clients who have opened a center and from RFP's and RFI's the vendor has been involved on behalf of their clients.
- Employee census of zip codes was provided to determine access to a center.

# Key Assumptions Used in Feasibility Study

- What portion of primary care medical services can be redirected to the center.
  - **“Moderate”** utilization scenario used assumes **20%** of primary care services redirected
  - **“High”** utilization scenario used in study assumes **35%** of primary care services redirected
- How effectively the center will serve as a “gatekeeper” for specialists referrals and diagnostic testing to reduce unnecessary utilization.
- Impact the center will have on future medical trends.

# Cost of Operating a Medical Center

## ➤ Professional Staffing Costs

- Under the **Moderate utilization** scenario it is projected at total of 2,466 appointment hours will be needed, resulting in 49 hours per week for the center to be open.
- Under the **High utilization** scenario, it is projected to be 90 hours per week for the centers to be open.
- Each location would have an MD., an RN or PA and a Medical Assistant (MA)
- 3 office visits per hour
- Optimal utilization of available appointments 80%-90%.

## ➤ Administrative Expenses

- Vendors who administer medical centers charge an administrative fee for service.
- The fee covers hiring professional staff, obtaining insurance, communication services, reporting, maintaining systems, integrating data to the plan's TPA and other services.

## ➤ Drugs and Supplies

- Generic drugs and supplies

## ➤ Rent

- Based on \$2 per month per square foot one 3,000 sq. ft. location and two 2,500 sq. ft. locations.

## ➤ Other Expenses

- Licenses, insurance, cleaning, utilities, etc.

## ➤ Start Up Expenses

# Summary of Expenses

Administrative Fee Assumption	Moderate Utilization		High Utilization	
	Low	High	Low	High
Professional Salaries	\$ 468,573	\$ 468,573	\$ 850,406	\$ 850,406
Administrative Fees	\$ 855,518	\$ 1,311,795	\$ 855,518	\$ 1,311,795
Equipment and Supplies	\$ 147,116	\$ 147,116	\$ 232,254	\$ 232,254
Rent	\$ 75,000	\$ 75,000	\$ 125,000	\$ 125,000
X-Ray Machine	\$ 0	\$ 0	\$ 0	\$ 0
Other	\$ 7,500	\$ 7,500	\$ 12,500	\$ 12,500
<b>Total Annual Expense</b>	<b>\$ 1,553,707</b>	<b>\$ 2,009,983</b>	<b>\$ 2,075,679</b>	<b>\$ 2,531,955</b>
Start up Expense	\$ 50,000	\$ 50,000	\$ 100,000	\$ 100,000
<b>Total First Year Expense</b>	<b>\$ 1,603,707</b>	<b>\$ 2,059,983</b>	<b>\$ 2,175,679</b>	<b>\$ 2,631,955</b>

# Potential Direct Claim Savings

- Primary care and preventive care visits provided at the center and generic drugs
- Reduction in unnecessary utilization of specialists, diagnostic tests and brand name drugs
- Based upon Gallagher's experience and responses to RFP's and RFI's to arrive at utilization assumptions along with SCS's data, it is projected the District could save **\$1.2 - \$2.0 million per year in claims expense.**

# Potential Indirect Savings

- Reduced absenteeism
  - Employees can receive treatment without being away from work for long periods
- Enhanced productivity
- Reduced employee turnover and recruiting costs by conducting employee physicals, test for physical job requirements and drug testing
- Increased compliance with treatment plans
- Center can be used to promote employee participation in both wellness and disease management programs
- Reduce Workers Compensation costs by using the center for treatment for first report of injury.

# Conclusions of the Feasibility Study

- Arthur J. Gallagher & Company's study concluded the District is large enough to support operating a clinic. Although getting to the breakeven point is possible, they feel it would be difficult to get center utilization high enough that the "pure redirections of services from physician offices to the center would generate significant savings to SCS."
- Assuming the administrative expenses at the lower end of the assumed range, they estimate that the District would break even on hard dollar savings if 1/3 of the primary care visits could be redirected to the center.
- Gallagher also concluded the critical factor in the success of the center is utilization and SCS would need to extensively communicate and educate employees on the center to reach the necessary utilization for financial success of the center.

# Results of Feasibility Study

	Moderate Utilization		High Utilization	
<b>Administrative Fee Assumption</b>	Low*	High**	Low*	High**
Estimated Direct Claim Savings	\$1,226,038	\$1,226,038	\$2,050,777	\$2,050,777
Projected Clinic Expense	\$1,603,707	\$2,059,983	\$2,175,679	\$2,631,955
<b>Total First Year Savings/(Cost)***</b>	<b>(\$377,669)</b>	<b>(\$833,945)</b>	<b>(\$124,902)</b>	<b>(\$581,178)</b>

\*One Center

\*\*Two Centers

\*\*\*Does not include cost associated with readying facilities and marketing

# Sarasota County Schools Rate History

Year	Average No. of Subscribers	Rate Increase (Decrease)
2009	5,609	5.00%
2010	5,449	7.50%
2011	5,326	10.50%
2012*	5,200	-8.90%
2013	5,219	-2.00%
2014	5,291	8.70%
2015	5,211	8.00%
2016**	5,261	2.70%
2017	5,356	3.96%
2018	5,410 est.	1.90% proposed

*\*2012 Medical RFP and plan design changes*

*\*\*2016 became self-insured for Medical*

## 2018 Projected Rate Increase Comparison

District	2018 Projected Rate Increase	Employee Contribution Required for Coverage
Sarasota	1.90%	No
Brevard	No Change	Yes
Charlotte	9.00%	Yes
Citrus	8.00%	District provides a flat dollar contribution. Plan selection determines employee contribution amount.
Columbia	9.60%	District provides a flat dollar contribution. Plan selection determines employee contribution amount.
Escambia	No Change	Yes
Monroe	5.00%	Yes
Orange	3.50%	1 Plan = No; 2 Plans = Yes
Pinellas	5.20%	Yes

# Updated Financial Analysis

	Actual 1/1/2016 thru 06/30/2016	Actual 7/1/2016 thru 06/30/2017	Projected Plan Year 2017*	Budgeted Fiscal Year 2017 – 2018	Projected Plan Year 2018*
<b>Average Enrollment</b>	5,261	5,356	5,410	5,451	5,535
<b>Self-Insured Revenues</b>					
<b>Premiums</b>	\$23,693,821	\$49,614,573	\$50,590,866	\$52,215,023	\$52,756,876
<b>Interest Income</b>	<u>44,759</u>	<u>173,368</u>	<u>0</u>	<u>182,036</u>	<u>0</u>
<b>Total Revenues</b>	<u>\$23,738,580</u>	<u>\$49,787,941</u>	<u>\$50,590,866</u>	<u>\$52,397,059</u>	<u>\$52,756,876</u>
<b>Self-Insured Expenditures</b>					
<b>Claims</b>	\$20,590,851	\$41,096,304	\$43,616,014	\$45,000,000	\$47,138,069
<b>Expenses</b>	<u>1,455,019</u>	<u>3,117,957</u>	<u>3,028,973</u>	<u>3,453,648</u>	<u>3,470,384</u>
<b>Total Expenditures</b>	<u>\$22,045,870</u>	<u>\$44,214,261</u>	<u>\$46,644,987</u>	<u>\$48,453,648</u>	<u>\$50,608,452</u>
<b>Operating Gain/(Loss)</b>	<u>\$ 1,692,710</u>	<u>\$ 5,573,680</u>	<u>\$ 3,945,879</u>	<u>\$ 3,943,411</u>	<u>\$ 2,148,424</u>

\* Projections do not include Interest Income or Staff Salary and Benefit Expenses (AON's documents attached)

Notes: No claims incurred in excess of the \$500K individual stop loss limit for 2016 or 2017 YTD; Pharmacy Claims currently average 28.3% of the total gross claims paid, predominately caused by specialty drugs

# Updated Financial Analysis 112.08 Reserve

	Actual 1/1/2016 thru 06/30/2016	Actual 7/1/2016 thru 06/30/2017	Budgeted Fiscal Year 2017 – 2018
<b>Available Funds for 112.08 Reserve:</b>			
Carryforward from Prior Year	N/A	\$8,505,677	\$14,079,357
Transfer for Reserve (temp)	\$6,812,967		
Operating Gain/(Loss)	<u>\$1,692,710</u>	<u>\$5,573,680</u>	<u>\$3,943,411</u>
<b>Total Available for 112.08</b>	<b><u>\$8,505,677</u></b>	<b><u>\$14,079,357</u></b>	<b><u>\$18,022,768</u></b>
<b>112.08 Reserve Requirement:</b>			
Incurred Claims	<u>\$20,590,851</u>	<u>\$41,096,304</u>	<u>\$45,000,000</u>
60 Day Reserve Requirement	<u>\$6,769,595</u>	<u>\$6,755,557</u>	<u>\$7,397,260</u>
<b>Available to Repay Transfer</b>	<b>\$1,736,082</b>	<b>\$7,323,800</b>	<b>\$10,625,508</b>
<b>Transfer made for Reserve</b>	<b><u>\$6,812,967</u></b>	<b><u>\$6,812,967</u></b>	<b><u>\$6,812,967</u></b>
<b>Remaining after Repayment</b>	<b><u>\$(5,076,885)</u></b>	<b><u>\$ 510,833</u></b>	<b><u>\$ 3,812,541</u></b>

As of 6/30/18, available fund balance to pay for the start up costs of an onsite clinic and to meet unexpected claim trends will be less than one month of claim costs (August 2017 claims = \$4,144,923 as compared to August 2016 = \$3,715,760, an 11.5% increase).

Next Steps...