

CITY COUNCIL/REDEVELOPMENT AGENCY

AGENDA ITEM 6.08

June 21, 2011

TO: Mayor and City Council

FROM: Teresia Haase, Human Resources Director

SUBJECT: **ACCEPT THE ANNUAL ACTUARY REPORT ON THE CITY'S SELF-FUNDED MEDICAL PLANS AND ADOPT THE RECOMMENDATIONS OF THE SEGAL COMPANY FOR CONTRIBUTION RATES**

RECOMMENDATION

It is recommended that the City Council accept the annual actuary report for the City's self-funded medical, dental, and vision plans for 2010/11 as presented in the Segal Company report dated March 22, 2011 and adopt the recommended monthly premium rates for the City's current self-funded medical plan for fiscal year 2011-12 (effective July 1, 2011) for medical coverage offered to City employees, COBRA participants, and retirees (see Attachment A).

Summary

In the actuary report dated March 22, 2011, Segal provided a comprehensive review of the financial status of the current self-funded health benefit plan being offered to City employees and retirees. The report included cost projections for Fiscal Year 2011-12 and recommendations for premium rates to ensure that the health program is adequately and prudently funded. The 2011/12 rates reflect an approximate 30% increase over the 2010/11 rates. This rate increase is a result of the increased cost of claims experience projected for 2011/2012, medical trend and the negative reserve status of the fund. Segal, also at the City's request, has proposed benefit design changes that would reduce the plan cost by 30%, for consideration by the City and its employees, but this agenda item does not implement those plan design changes.

DISCUSSION

Background

The City has had a self-funded medical, dental, and vision plan since May 1, 1988. In addition to the self-funded medical plans, the City also contracts for a fully insured dental plan. The City annually hires an independent actuary to perform an annual valuation to determine the financial position (funding, expenditures, and liabilities) of the self-funded health benefit plans. Part of this evaluation includes recommendations by the actuary for funding and premium rates to maintain plan benefits, provide for claims payment, administrative expense, purchase of excess insurance, and to provide for

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adequate claims reserves. The actuary also identifies which plan costs are attributable to the employees and which are incurred by retirees. The annual actuarial report is submitted to the Human Resources Department and the Budget office for review and comment, and final approval.

The purpose of the actuary report is to have a professional qualified actuary determine the Plan's financial status and to recommend the total revenues or "Premiums" that would adequately fund the plan's obligations. The cost sharing between the City and the individual employees or retirees of the Plan's costs is not set by the actuary. The method of cost sharing, if any, is set by collective bargaining in the Memorandum of Understandings between the City and the employee organization that represents the employee. The City's contribution for retiree medical benefits is also established in the Memorandum of Understandings. Further, the actuary does not determine the Plan design or benefits that the Plan provides to its members. These are also set by collective bargaining and by the City's Plan document. The actuary's responsibility is to calculate the costs of claims, medical trends, and the necessary funding to pay the Plan's obligations and to maintain adequate Plan reserves according to industry standards.

The cost to provide healthcare benefits under the current health plan being provided to the City's employees/retirees has increased significantly over the last few years, due to high utilization of the plan and the escalating rate of inflation for healthcare. In order to address this issue, the City Council authorized the City Manager to enter into an agreement with Segal (Council Resolution No. 10-0396, adopted on December 14, 2010), to evaluate the City's current health benefit program.

Present Situation

Segal is known in the employee benefits industry for its experience with public sector employee health benefits and retirement plans. They offer actuarial services, plan auditing, plan administration, as well as assistance in the development and implementation of benefit plan solutions, to assist employers struggling with the ever increasing cost of employee benefit programs.

As part of their valuation, Segal was asked to review an actuarial valuation completed by another firm in late 2010, and to conduct its own actuarial analysis to determine whether the health plan cost projections and premium contribution rate recommendations were an accurate reflection of the actual cost for benefits under the current health plan. Staff has reviewed the report and concurs with its findings. Staff

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now recommends that the City Council accept the Segal Company annual actuary study and implement its premium rates for the 2011-12 fiscal year.

The monthly premium rates for the City's current Modified Medical Plan and the City's Original Medical Plan (closed group) for Fiscal Year 2011-12 were developed using actual claims experience and administrative expenses for the last two fiscal years (2008-2009 and 2009-2010), as well as expected inflationary trends (see Page 8, Table 3 of Segal's report). Listed below is a summary of the premium rates recommended in the report for 2011/12:

Rate Tier	Modified Medical Plan			Original Plan**	
	Active*	Retiree Under 65	Retiree Over 65	Retiree Under 65	Retiree Over 65
Employee only	\$788.97	\$1,302.74	\$420.64	\$1,636.41	\$544.46
Employee + One	\$1,433.11	\$2,344.93	\$757.15	\$2,945.53	\$950.03
Employee + family	\$1,906.49	\$3,126.58	\$1,009.54	\$3,927.39	\$1,306.72

* Active rates include dental and vision benefits.

** The Original Plan is a closed plan, covering only retirees. Enrollment is declining and there are currently 56 enrollees.

Due to the increased costs of the current medical Plan, the City requested that Segal also provide a Plan design that would reduce the total plan premiums by 30%. Plan benefit design impacts the total cost or premium of the Plan. The cost sharing of that premium, if any, between the City and the individual employee/retiree, is set by Memorandum of Understanding. A comparison of the current plan design and the alternative design medical plan that would lower the total premiums is on Page 25 (Table 11) of the actuary report. The inclusion of that plan design is for information only. This agenda item does not adopt those changes.

The Segal actuary report has been provided to all employee groups and the City has made a Segal representative available to answer questions about the current plan and the alternative design option. The City staff has proposed that the alternative design changes be made to the Modified City Plan. Those discussions with employee groups are still in process.

FINANCIAL SUMMARY

Historically, premium rates have been set based on actual plan expenditures and expected inflationary trends, similar to other internal service fund programs, without

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formal City Council action. To ensure that the City charges rates that reflect the true cost of health care expenses for both employees and retirees, staff is submitting the actuary report and proposed premium rates for Council approval.

Implementation of health plan premium rates that accurately reflect the cost of medical benefits is critical in the City's effort to correctly budget and finance the cost of the health plan coverage provided to employees and retirees. The proposed premium rates are reflected in the 2011-12 Health Internal Service Fund expenditure budget.

Respectfully submitted,

APPROVED



TERESIA HAASE
DIRECTOR OF HUMAN RESOURCES



LAURIE MONTES
DEPUTY CITY MANAGER

DS/TRM/TEM

Attachment A – Health Plan Cost Projection for July 1, 2010 – June 30, 2011 and
July 1, 2011 – June 30, 2012

City of Stockton

Annual Report as of June 30, 2010

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THE SEGAL COMPANY
380 North Brand Blvd., Suite 1100
Glendale, CA 91203

March 22, 2011

*Mr. Bob Deis
City Manager
City of Stockton
425 N. El Dorado Street
Stockton, CA 95202*

Dear Mr. Deis:

We are pleased to present the City Health Plan Cost Projection for July 1, 2010 - June 30, 2011 and July 1, 2011 - June 30, 2012. This report also reviews the medical plan experience through June 30, 2010.

We look forward to reviewing this report with you and answering any questions you may have.

Sincerely,

THE SEGAL COMPANY

*By: _____
Thomas M. Morrison, Jr.
Senior Vice President*

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This report reviews the projected costs for the City's medical, dental and vision benefits for fiscal years 2010/2011 and 2011/2012.

The City offers two medical plans to its active and retired employees. The City's "Original" plan is a closed plan with an enrollment of 52 Medicare retirees and 7 non-Medicare retirees. The City's predominant plan is the "Modified" plan, which is offered to both active and retired employees. As of December 2010, there were 1,352 actives, 628 non-Medicare retirees, and 289 Medicare retirees enrolled in the Modified plan.

All benefits provided by the City are self-funded with the exception of one fully insured dental plan with a closed enrollment of 20 participants. This report does not include any cost for the fully insured dental plan.

Provided below is our projection methodology and assumptions used in the cost projection for these plans.

Medical

- > Active rates are based on two years of claims experience from July 2008 to June 2010.
- > Retiree rates are based on blended claims for the Original and Modified plans, segregated by under age 65 and over age 65 retirees. Two years of claims experience from July 2008 to June 2010 was used to develop rates.
- > Blending more than one year of data is usually employed for smaller groups as it provides a more reliable base for cost estimates. In the City's case, all three plans, the active, under 65 and over 65 plan enrollments are below the enrollment threshold required to rate based on one year of experience.
- > The weight assigned to each year of experience is dependent on enrollment in the plan. The following weights were used to project the rates with the higher weight being assigned to the most recent year of claims experience:

Actives	65% / 35%
Under 65	60% / 40%
Over 65	55% / 45%
- > The relative value of the original and modified plan designs was developed using Segal's underwriting model. This relative value was applied to calculate the retiree rates for the Original and Modified plans.

Prescription Drug

Prescription drug costs are projected using claims experience from July 2008 through June 2010 broken down by active employees, under age 65 retirees and over age 65 retirees. As with the medical plan, the difference in plan values between the Original and Modified plans is based on Segal's underwriting model.

Dental and Vision

Rates are based on claims experience from January 2009 through December 2010. The dental projection includes 21 retirees currently enrolled in the plan.

Data Source

- > Medical and prescription drug paid claims and stop loss reimbursement information as provided by the City of Stockton,
- > The City's TPA Delta Health Systems,
- > Reports from prior TPA Zenith,
- > Medco, the pharmacy benefit manager
- > Dental and Vision claims from Delta Dental and VSP

Enrollment

- > The average active enrollment for the year ending June 30, 2010 declined by 10.5% from the prior year's average, while the retiree enrollment increased by 17%.
- > There was a further decline of 5% in active enrollment from June 2010 to December 2010 and an increase of 3% in retiree enrollment for the same period.
- > The active and retiree enrollment as of December 2010 was used in the rate projections for 2010-2011 and 2011-2012. Dental and vision plan enrollments were also based on data as of December 2010.
- > The following table summarizes the change in enrollment from the most recent claims experience period used in the projection compared to December 2010, which was used to project enrollment for the 2010-2011 and 2011-2012 fiscal years.

	As of December 2010	Average enrollment 2009/2010	Percent Increase / Decrease from Projected 09/10
<u>Modified Plan</u>			
Actives	1,352	1,463	-7.6%
Non-Medicare Retirees	628	587	7%
Medicare Retirees	289	264	9.5%
<u>Original Plan</u>			
Non-Medicare Retirees	7	8	-12.5%
Medicare Retirees	52	54	-3.7%
Total	2,328	2,376	-1.6%
Dental	1,409	1,526	-7.6%
Vision	1,406	1,527	-7.9%

Trend

The following annual trend assumptions were used:

Medical Claims	10%
Prescription Drug Claims	10%
Dental Claims	6%
Vision Claims	4%

Margin

The financial projections include a claims margin of 10% for reserve accumulation.

Incurred But Not Reported Reserves (IBNR)

This was calculated based on lag data provided by Zenith Administrators and Delta Health Systems and standard Segal Company methodologies and factors. The IBNR estimates do not include any estimate for claims processing or administrative fees and do not include any amounts known to be payable. The claims lag data has been included in Table 9. The lag data that was provided combined both medical and prescription drug claims information. The reserves were developed taking into account the differences in payment pattern between medical and prescription drug claims.

Medicare Part D Subsidy

The City participates in the Retiree Drug Subsidy program and these subsidy credits have not been included in the projections.

Prescription Drug Rebates

No reduction for rebates has been included.

Administrative Expenses

2010/2011 administrative services only fees for Delta Health Systems, Vision and Dental were provided by the vendors. Internal administrative expenses were taken from the City's actuarial report for fiscal year ended June 30, 2010.

We have assumed the following increases for 2011/2012:

- > 0% for Delta Health Systems (current fees are guaranteed through June 30, 2012)
- > 3% increase in the Blue Cross PPO network fees
- > 3% increase in Delta's ASO fee
- > 0% increase in VSP's ASO fee (current fees are guaranteed through December 31, 2012)

Tables

Attached are the following table exhibits:

- > Table 1 - Rate projections for the two fiscal years 2010-2011 and 2011-2012. Segal has developed four separate categories of rates for the retiree plans as follows:
 - Under 65 Modified.
 - Under 65 Original,
 - Over 65 Modified, and
 - Over 65 Original.

The current actuarial report has two categories of rates -- one for the retiree Modified plan and one for the Original plan.

- > Table 2 - Three tier rates for active and retired plans for the 2010-2011 year.
- > Table 3 - Three tier rates for active and retiree plans for the 2011-2012 year.

Supporting documents:

- > Table 4A - Cost Projection Actives 2010/2011
- > Table 4B - Cost Projection Actives 2011/2012
- > Table 5A - Cost Projection Retirees Under 65 2010/2011
- > Table 5B - Cost Projection Retirees Under 65 2011/2012
- > Table 6A - Cost Projection Retirees Over 65 2010/2011
- > Table 6B - Cost Projection Retirees Over 65 2011/2012
- > Table 7A - Cost Projection Dental and Vision 2010/2011
- > Table 7B - Cost Projection Dental and Vision 2011/2012
- > Table 8A - Self-Funded Medical Claims Experience
- > Table 8B - Self-Funded Prescription Claims Experience
- > Table 8C - Vision and Dental Claims Experience
- > Table 9 - Lag Data for Paid Period July 2008 through June 2010

Absent more recent data, the three tier rates were calculated using the same enrollment splits (single, two-party and family coverage) that were contained in the City's actuarial report for fiscal year ended June 30, 2010. In light of the changes in enrollment over the last twelve months, we recommend reviewing actual enrollment splits based on more recent data to ensure that the tiered rates accurately reflect current conditions.

TABLE 1
Summary of Projected Self-Funded Costs - Excludes Impact of Changes Required by Health Care Reform Effective 7/1/11

Benefit	7/1/10-6/30/11					7/1/11-6/30/12				
	Active Plan	Modified Plan	Modified	Original	Original	Active Plan	Modified	Modified	Original	Original
		- Under 65 Retirees	Plan - Over 65 Retirees	Plan - Under 65 Retirees	Plan Over 65 Retirees		Plan - Under 65 Retirees	Plan - Over 65 Retirees	Plan - Under 65 Retirees	Plan Over 65 Retirees
Medical Plan - Based on Active Plan Experience and Blended Original and Modified Plan Experience for Retirees										
Medical incurred claims	\$988.30	\$1,258.00	\$216.20	\$1,232.84	\$216.20	\$976.77	\$1,383.29	\$237.73	\$1,255.62	237.73
Rx incurred claims	\$187.92	\$432.71	\$297.98	\$488.56	\$337.10	\$204.78	\$471.63	\$326.07	\$532.82	\$361.66
Stop loss premium	\$50.68	\$50.68	\$15.75	\$51.24	\$15.92	\$60.82	\$60.82	\$18.90	\$61.49	\$19.10
Claims administration	\$19.36	\$19.36	\$19.36	\$19.36	\$19.36	\$19.00	\$19.00	\$19.00	\$19.00	\$19.00
Eligibility administration	\$1.25	\$1.25	\$1.25	\$1.25	\$1.25	\$1.25	\$1.25	\$1.25	\$1.25	\$1.25
Internal administration/consultants	\$25.19	\$25.19	\$25.19	\$25.19	\$25.19	\$25.19	\$25.19	\$25.19	\$25.19	\$25.19
PPO network access	\$12.86	\$12.86	\$12.86	\$12.86	\$12.86	\$13.25	\$13.25	\$13.25	\$13.25	\$13.25
Total - no claims margin	\$1,185.56	\$1,800.05	\$588.57	\$1,832.29	\$627.88	\$1,301.06	\$1,974.43	\$541.39	\$2,008.62	\$677.18
Total - 10% claims margin	\$1,304.52	\$1,980.05	\$647.43	\$2,012.29	\$690.87	\$1,431.17	\$2,185.83	\$595.53	\$2,218.62	\$747.18
Projected Enrollment	1,352	638	289	7	52	1,352	638	289	7	52
Dental										
Incurrd claims	\$95.96	\$95.96	\$95.96			\$101.86	\$101.86	\$101.86		
Claims administration	\$7.56	\$7.56	\$7.56			\$7.79	\$7.79	\$7.79		
Eligibility administration	\$0.50	\$0.50	\$0.50			\$0.50	\$0.50	\$0.50		
Internal administration/consultants	\$2.07	\$2.07	\$2.07			\$2.07	\$2.07	\$2.07		
Total - no claims margin	\$106.09	\$106.09	\$106.09			\$112.22	\$112.22	\$112.22		
Total - 10% claims margin	\$116.69	\$116.69	\$116.69			\$123.44	\$123.44	\$123.44		
Projected Enrollment	1,388	21				1,388	21			
Vision										
Incurrd claims	\$11.08	N/A	N/A	N/A	N/A	\$11.82	N/A	N/A	N/A	N/A
Claims administration	\$1.65					\$1.65				
Eligibility administration	\$0.25					\$0.25				
Internal administration/consultants	\$0.26					\$0.26				
Total - no claims margin	\$13.24					\$13.98				
Total - 10% claims margin	\$14.53					\$15.38				
Projected Enrollment	1,406					1,406				

Notes: 1. Projected costs for the original retiree plan are based on the assumption that the September 1, 2010 benefit changes did not apply to this group.
 2. The projected costs do not take into account any Medicare Part D reimbursement that may be made.

TABLE 2
Tier Rate Development
 Based on Enrollment Assumptions from the City Actuarial Report ending June 30, 2010 (Issued November 30, 2010)
 2010/2011 Monthly Premium Rates

Active				
Active Monthly Premium Rates (Fiscal Year 2010/2011)	Medical	Vision	Dental	Total
Employee only	\$659.81	\$6.76	\$54.54	\$721.11
Employee plus spouse	\$1,187.67	\$13.52	\$109.06	\$1,310.26
Employee plus child(ren)	\$1,187.67	\$13.52	\$109.06	\$1,310.26
Employee plus spouse and child(ren)	\$1,583.56	\$17.58	\$141.78	\$1,742.92

Retiree Under 65 & Over 65		
Retiree Monthly Premium Rates (Fiscal Year 2010/2011)	Original	Modified
Employee only	\$621.04	\$937.58
Employee plus spouse	\$1,117.86	\$1,687.65
Employee plus child(ren)	\$1,117.86	\$1,687.65
Employee plus spouse and child(ren)	\$1,490.49	\$2,250.21

Retiree Under 65		
Retiree Under 65 Monthly Premium Rates (Fiscal Year 2010/2011)	Original	Modified
Employee only	\$1,492.74	\$1,187.65
Employee plus spouse	\$2,686.92	\$2,137.77
Employee plus child(ren)	\$2,686.92	\$2,137.77
Employee plus spouse and child(ren)	\$3,582.58	\$2,850.38

Retiree Over 65		
Retiree Over 65 Monthly Premium Rates (Fiscal Year 2010/2011)	Original	Modified
Employee only	\$504.64	\$385.80
Employee plus spouse	\$908.36	\$694.45
Employee plus child(ren)	\$908.36	\$694.45
Employee plus spouse and child(ren)	\$1,211.15	\$925.93

TABLE 3
Tier Rate Development
 Based on Enrollment Assumptions from the City Actuarial Report ending June 30, 2010 (Issued November 30, 2010)
 2011/2012 Monthly Premium Rates

Active				
Active Monthly Premium Rates (Fiscal Year 2011/2012)	Medical	Vision	Dental	Total
Employee only	\$724.12	\$7.14	\$57.71	\$788.97
Employee plus spouse	\$1,303.43	\$14.28	\$115.40	\$1,433.11
Employee plus child(ren)	\$1,303.43	\$14.28	\$115.40	\$1,433.11
Employee plus spouse and child(ren)	\$1,737.90	\$18.58	\$150.02	\$1,906.49

Retiree Under 65 & Over 65		
Retiree Monthly Premium Rates (Fiscal Year 2011/2012)	Original	Modified
Employee only	\$673.09	\$1,027.64
Employee plus spouse	\$1,211.56	\$1,849.75
Employee plus child(ren)	\$1,211.56	\$1,849.75
Employee plus spouse and child(ren)	\$1,615.42	\$2,466.35

Retiree Under 65		
Retiree Under 65 Monthly Premium Rates (Fiscal Year 2011/2012)	Original	Modified
Employee only	\$1,636.41	\$1,302.74
Employee plus spouse	\$2,945.53	\$2,344.93
Employee plus child(ren)	\$2,945.53	\$2,344.93
Employee plus spouse and child(ren)	\$3,927.39	\$3,126.58

Retiree Over 65		
Retiree Over 65 Monthly Premium Rates (Fiscal Year 2011/2012)	Original	Modified
Employee only	\$544.46	\$420.64
Employee plus spouse	\$980.03	\$757.15
Employee plus child(ren)	\$980.03	\$757.15
Employee plus spouse and child(ren)	\$1,306.72	\$1,009.54

TABLE 4A

COST PROJECTION ACTIVES 2010/2011

	Medical		Prescription Drug	
	June-2009	June-2010	June-2009	June-2010
Paid Claims	\$ 14,938,891	\$ 15,283,530	\$ 2,564,373	\$ 3,410,511
Large Claim/Stop-loss Adjustments	\$ (579,682)	\$ (1,316,858)	-	-
Adjusted Paid Claims	\$ 14,359,209	\$ 13,966,672	\$ 2,564,373	\$ 3,410,511
Ending IBNR Reserves	\$ 1,833,400	\$ 2,372,000	\$ 154,000	\$ 205,000
Beginning IBNR Reserves	\$ 2,401,800	\$ 1,833,400	\$ 161,000	\$ 154,000
Adjusted Incurred Claims	\$ 13,790,809	\$ 14,505,272	\$ 2,557,373	\$ 3,461,511
Member months	19,535	17,551	19,535	17,551
Adjusted Incurred Claims PEPM	\$ 705.95	\$ 826.46	\$ 130.91	\$ 197.23
Trend Factor at 10% Annual	1.21	1.10	1.21	1.10
Projected PEPM	\$ 854.20	\$ 909.11	\$ 158.40	\$ 216.95
Weight	35%	65%	35%	65%
Weighted PEPM	\$ 298.97	\$ 590.92	\$ 55.44	\$ 141.02
Blended PEPM		\$ 889.89		\$ 196.46
Plan Change Factor (Med: Deductible Increased; Rx: Brand Copay Increased Effective 9/1/2010)		0.9982		0.9565
Projected Medical Incurred Claims PEPM 7/10-6/11		\$ 888.30		\$ 187.92

TABLE 4B

COST PROJECTION ACTIVES 2011/2012

	Medical	Prescription Drug
7/10-6/10 Blended PEPM before plan change adjustments	\$ 889.89	\$ 196.46
Trend Factor at 10% Annual	1.10	1.10
Plan Change Factor (Med: Deductible Increased; Rx: Brand Copay Increased Effective 9/1/2010)	0.9978	0.9476
Projected Eligibles	1,352	1,352
Projected Claims 7/11-6/12	\$ 15,847,106	\$ 3,322,310
Projected Medical Incurred Claims PEPM 7/11-6/12	\$ 976.77	\$ 204.78

TABLE 5A

COST PROJECTION RETIREES UNDER 65 2010/2011 (Blended Modified and Original Plan Experience)

	Medical		Prescription Drug	
	June-2009	June-2010	June-2009	June-2010
Paid Claims	\$ 6,160,642	\$ 8,191,422	\$ 2,026,045	\$ 3,085,466
Large Claim/Stop-loss Adjustments	\$ (52,759)	\$ (148,323)	-	-
Adjusted Paid claims	\$ 6,107,883	\$ 8,043,099	\$ 2,026,045	\$ 3,085,466
Ending IBNR Reserves	756,100	1,271,200	122,000	185,000
Beginning IBNR Reserves	909,600	756,100	97,000	122,000
Adjusted Incurred Claims	\$ 5,954,383	\$ 8,558,199	\$ 2,051,045	\$ 3,148,466
Member months	6,152	7,136	6,152	7,136
Adjusted Incurred Claims PEPM	\$ 967.88	\$ 1,199.30	\$ 333.39	\$ 441.21
Trend Factor at 10% Annual	1.21	1.10	1.21	1.10
Projected PEPM	\$ 1,171.13	\$ 1,319.23	\$ 403.40	\$ 485.33
Weight	40%	60%	40%	60%
Weighted PEPM	\$ 468.45	\$ 791.54	\$ 161.36	\$ 291.20
Blended PEPM		\$ 1,259.99		\$ 452.56
Plan Change Factor (Med: Deductible Increased; Rx: Brand Copay Increased Effective 9/1/2010)		0.9982		0.9575
Projected Medical Incurred Claims PEPM 7/10-6/11 Blended Plans		\$ 1,257.74		\$ 433.33
Adjustment for Benefit Variation - Modified Plan		1.0002		0.9986
Projected Medical Incurred Claims PEPM 7/10-6/11 Modified Plan		\$ 1,258.00		\$ 432.71
Adjustment for Benefit Variation - Original Plan		0.9802		1.1297
Projected Medical Incurred Claims PEPM 7/10-6/11 Original Plan		\$ 1,232.84		\$ 489.55

TABLE 5B

COST PROJECTION RETIREES UNDER 65 2011/2012 (Blended Modified and Original Plan Experience)

	Medical	Prescription Drug
7/10-6/10 Blended PEPM before plan change adjustments	\$1,259.99	\$452.56
Trend Factor at 10% Annual	1.10	1.10
Plan Change Factor (Med: Deductible Increased; Rx: Brand Copay Increased Effective 9/1/2010)	0.9978	0.9488
Projected Eligibles	645	645
Projected Claims 7/11-6/12	\$ 10,704,435	\$ 3,655,712
Projected Medical Incurred Claims 7/11-6/12	\$ 1,383.00	\$ 472.31
Adjustment for Benefit Variation - Modified Plan	1.0002	0.9986
Projected Medical Incurred Claims PEPM 7/10-6/11 Modified Plan	\$ 1,383.29	\$ 471.63
Adjustment for Benefit Variation - Original Plan	0.9802	1.1281
Projected Medical Incurred Claims PEPM 7/10-6/11 Original Plan	\$ 1,355.62	\$ 532.82

TABLE 6A

COST PROJECTION RETIREES OVER 65 2010/2011 (Blended Modified and Original Plan Experience)

	Medical		Prescription Drug	
	June-2009	June-2010	June-2009	June-2010
Paid claims	\$ 582,480	\$ 796,480	\$ 756,258	\$ 1,179,912
Ending IBNR Reserves	71,500	123,600	45,000	70,000
Beginning IBNR Reserves	147,600	71,500	42,000	45,000
Adjusted Incurred Claims	\$ 506,380	\$ 848,580	\$ 759,258	\$ 1,204,912
Member months	3,368	3,811	3,368	3,811
Adjusted Incurred Claims PEPM	\$ 150.35	\$ 222.67	\$ 225.43	\$ 316.17
Trend Factor at 10% Annual	1.21	1.10	1.21	1.10
Projected PEPM	\$ 181.92	\$ 244.94	\$ 272.77	\$ 347.79
Weight	45%	55%	45%	55%
Weighted PEPM	\$ 81.86	\$ 134.72	\$ 122.75	\$ 191.28
Blended PEPM		\$ 216.58		\$ 314.03
Plan Change Factor (Med: Deductible Increased; Rx: Brand Copay Increased Effective 9/1/2010)		0.9982		0.9679
Projected Medical Incurred Claims PEPM 7/10-6/11		\$ 216.20		\$ 303.93
Adjustment for Benefit Variation - Modified Plan		1.000		0.9804
Projected Medical Incurred Claims PEPM 7/10-6/11 Modified Plan		\$ 216.20		\$ 297.96
Adjustment for Benefit Variation - Original Plan		1.000		1.109
Projected Medical Incurred Claims PEPM 7/10-6/11 Original Plan		\$ 216.20		\$ 337.10

Note: As a result of Medicare coordination, benefit values between the Modified Plan and Original Plan are assumed to be equal for medical coverage.

TABLE 6B

COST PROJECTION RETIREES OVER 65 2011/2012 (Blended Modified and Original Plan Experience)

	Medical	Prescription Drug
7/10-6/10 Blended PEPM before plan change adjustments	\$ 216.58	\$ 314.03
Trend Factor at 10% Annual	1.10	1.10
Plan Change Factor (Med: Deductible Increased; Rx: Brand Copay Increased Effective 9/1/2010)	0.9978	0.9613
Projected Eligibles	341	341
Projected Claims 7/11-6/12	\$ 972,769	\$ 1,358,780
Projected Medical Incurred Claims PEPM 7/11-6/12	\$ 237.73	\$ 332.06
Adjustment for Benefit Variation - Modified Plan	1.000	0.9820
Projected Medical Incurred Claims PEPM 7/10-6/11 Modified Plan	\$ 237.73	\$ 326.07
Adjustment for Benefit Variation - Original Plan	1.000	1.089
Projected Medical Incurred Claims PEPM 7/10-6/11 Original Plan	\$ 237.73	\$ 361.66

Note: As a result of Medicare coordination, benefit values between the Modified Plan and Original Plan are assumed to be equal for medical coverage.

TABLE 7A

COST PROJECTION DENTAL AND VISION 2010/2011

	Dental		Vision	
	December-2009	December-2010	December-2009	December-2010
Paid Claims	\$ 1,732,553	\$ 1,616,814	\$ 221,006	\$ 189,442
Ending IBNR Reserves	\$ 170,000	\$ 159,000	\$ 22,000	\$ 19,000
Beginning IBNR Reserves	\$ 168,000	\$ 170,000	\$ 21,000	\$ 22,000
Adjusted Incurred Claims	\$ 1,734,553	\$ 1,605,814	\$ 222,006	\$ 186,442
Member months	19,204	17,449	19,177	17,478
Adjusted Incurred Claims PEPM	\$ 90.32	\$ 92.03	\$ 11.58	\$ 10.67
Annual Trend Factor at 6% for Dental and 4% for Vision	1.11	1.04	1.07	1.03
Projected PEPM	\$ 100.02	\$ 96.14	\$ 12.40	\$ 10.99
Weight	35%	65%	35%	65%
Weighted PEPM	\$ 35.01	\$ 62.49	\$ 4.34	\$ 7.14
Blended PEPM 1/11-6/11		\$ 97.50		\$ 11.48
Average Projected Eligibles 1/11-6/11		1,403		1,391
Projected Incurred Claims 1/11-6/11		\$ 820,755		\$ 95,812
Estimated Incurred Claims 7/10-12/10		\$ 801,745		\$ 91,231
Total Projected Claims 7/10-6/11		\$ 1,622,500		\$ 187,043
Projected Eligibles 7/10-6/11		1,409		1,406
Projected Incurred Claims PEPM 7/10-6/11		\$ 95.96		\$ 11.08

TABLE 7B

COST PROJECTION DENTAL AND VISION 2011/2012

	Dental	Vision
Projected Blended PEPM 1/11-6/11	\$ 97.50	\$ 11.48
Annual Trend Factor at 6% for Dental and 4% for Vision	1.04	1.03
Projected Eligibles	1,409	1,352
Projected Claims 7/11-6/12	\$ 1,722,200	\$ 191,800
Projected Incurred Claims PEPM 7/11-6/12	\$ 101.86	\$ 11.82

TABLE 8A

SELF-FUNDED MEDICAL CLAIMS EXPERIENCE (Before Stop Loss Claims Adjustments)

Period	Active Employees			Retirees Under 65 (Original and Modified Plans)			Retirees Over 65 (Original and Modified Plans)		
	Enrollment	Paid Claims	PEPM	Enrollment	Paid Claims	PEPM	Enrollment	Paid Claims	PEPM
Jul-08	1,693	\$1,318,570	\$778.84	505	\$381,340	\$755.13	246	\$33,103	\$134.56
Aug-08	1,704	\$1,175,367	\$689.77	507	\$592,327	\$1,168.30	248	\$31,463	\$126.87
Sep-08	1,712	\$1,548,943	\$904.76	508	\$757,566	\$1,491.27	249	\$31,613	\$126.96
Oct-08	1,705	\$1,660,949	\$974.16	507	\$403,841	\$796.53	251	\$59,821	\$238.33
Nov-08	1,656	\$892,033	\$538.67	515	\$625,070	\$1,213.73	251	\$28,204	\$112.37
Dec-08	1,646	\$1,213,580	\$737.29	516	\$411,443	\$797.37	251	\$40,878	\$162.86
Jan-09	1,577	\$689,981	\$437.53	518	\$340,049	\$656.47	309	\$23,854	\$77.20
Feb-09	1,579	\$1,801,461	\$1,140.89	515	\$431,736	\$838.32	310	\$40,115	\$129.40
Mar-09	1,577	\$1,093,709	\$693.54	515	\$505,066	\$980.71	313	\$45,558	\$145.55
Apr-09	1,567	\$1,240,742	\$791.79	515	\$495,886	\$962.89	313	\$83,695	\$267.39
May-09	1,562	\$1,001,795	\$641.35	515	\$539,155	\$1,046.90	313	\$91,242	\$291.51
Jun-09	1,557	\$1,301,759	\$836.07	516	\$677,163	\$1,312.33	314	\$72,934	\$232.27
Total	19,535	\$14,938,891	\$764.72	6,152	\$6,160,642	\$1,001.40	3,368	\$582,480	\$172.95
Jul-09	1,524	\$1,250,332	\$820.43	546	\$463,784	\$849.42	315	\$44,154	\$140.17
Aug-09	1,507	\$1,101,472	\$730.90	557	\$578,433	\$1,038.48	315	\$102,292	\$324.74
Sep-09	1,499	\$1,021,481	\$681.44	559	\$312,443	\$558.93	316	\$34,837	\$110.24
Oct-09	1,497	\$874,350	\$584.07	563	\$671,025	\$1,191.87	316	\$84,993	\$268.97
Nov-09	1,491	\$1,017,465	\$682.40	568	\$610,942	\$1,075.60	317	\$59,145	\$186.58
Dec-09	1,485	\$1,003,328	\$675.64	570	\$916,748	\$1,608.33	317	\$113,096	\$356.77
Jan-10	1,425	\$1,625,351	\$1,140.60	626	\$618,026	\$987.26	321	\$52,288	\$162.89
Feb-10	1,425	\$1,206,091	\$846.38	628	\$634,360	\$1,010.13	321	\$39,827	\$124.07
Mar-10	1,425	\$1,610,554	\$1,130.21	629	\$617,472	\$981.67	319	\$56,915	\$178.42
Apr-10	1,425	\$1,483,251	\$1,040.88	629	\$662,939	\$1,053.96	319	\$39,791	\$124.74
May-10	1,425	\$1,433,744	\$1,006.14	629	\$1,122,048	\$1,783.86	318	\$53,195	\$167.28
Jun-10	1,423	\$1,656,110	\$1,163.82	632	\$983,201	\$1,555.70	317	\$115,947	\$365.76
Total	17,551	\$15,283,530	\$870.81	7,136	\$8,191,422	\$1,147.90	3,811	\$796,480	\$209.00
Percent Change	-10.2%	2.3%	13.9%	16.0%	33.0%	14.6%	13.2%	36.7%	20.8%