

SELF-FUNDED PPO HEALTH PLAN RATE REQUIREMENTS – ACTIVE EMPLOYEES

JANUARY 1, 2023 – DECEMBER 31, 2023

COUNTY OF ORANGE

JUNE 8, 2022

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Introduction

Based on the past twelve months of claims data for employees, annual trends of 4% for medical and 7% for prescription drug and current fund balance, Mercer recommends the current rates for the Wellwise and Sharewell plans be increased by 20% (average across all enrollment tiers and all plans) for the plan year effective January 1, 2023.

The proposed rate action of a 20% increase (in addition to the rate adjustment made for retirees) is expected to result in a projected Fund Balance of about \$17,000,000 to \$19,000,000 as of December 31, 2023. The current Fund Balance is expected to be below the target at the end of the current year, and the proposed renewal is projected to raise the level to be closer to the target Fund Balance barring any significant adverse event impacting claims over the next 18 months. The Fund Balance is for both active and retiree PPO plans and is in place to cover all incurred but not reported claims (the IBNR should the County terminate the self-funded arrangement of these plans), the cost of administering these claims and unusually high cost claims that may emerge.

The County has two self-funded plans: Wellwise Choice and Sharewell Choice. We recommend the County continue the self-funded arrangement of these plans for next year. The low administrative expense, cash flow available to the County, and flexibility of this funding arrangement makes self-funding the most advantageous funding vehicle available for these plans.

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Rate Adjustment

The most recent twelve months of experience are totaled using paid claims of active employees from April 1, 2021 through March 31, 2022 as the beginning claims cost. These paid claims are adjusted for plan design and/or contract changes. Next, the paid claims are converted to incurred claims by lagging enrollment by 2 months for medical claims and 0 months for pharmacy claims. This adjusts for the change in the incurred but not reported (IBNR) claim reserve liability from the beginning of the experience period to the end reflecting changes in paid claim patterns and enrollment. The result is an estimate of active employee claims that were incurred from April 1, 2021 through March 31, 2022.

These incurred claims are then projected to 2023 using annual cost trend assumptions of 4% for medical and 7% for pharmacy. These trend levels are based on a combination of historic County medical and prescription drug claim experience of the self-funded plans and general industry trend factors used by similar plan sponsors.

National health trends provided by the major insurance carriers for 2022 are at 4.5% - 9% for PPO medical plans and 6.5% - 12% for prescription drug programs. The County's own trend outlook may be viewed more favorably than survey data based on better PPO network discounts and historic claims experience that has outperformed insurance carrier trend rates, partially driven by the County's wellness program, although COVID has impacted claims experience in a variety of ways for all payors. Self-funded employers similar to the County have generally been using trend factors in the range of 4% - 10% for projection purposes.

Pharmacy rebates expected in 2023 were applied proportionately to active employees and retirees based on claim utilization.

A 1.75% margin is included due to COVID to adjust for the temporary reduction of deferred care and the anticipated increase as health care use returns to pre-COVID activity levels. In addition, including margin is appropriate as the fund balance currently sits below the target level.

Attachment B: Mercer Self-Funded PPO Health Plan Rate Requirements – Active Employees Report

An administration adjustment was applied to the projected claims for claims administration; utilization review, case management, disease management, and PPO network access fees. Administration also reflects the claims administration fees associated with the pharmacy contract with OptumRx.

The recommended PPO renewal increase of 20% is expected to cover projected claims and expenses and raise the Fund Balance closer to the target reserve.

The exhibits at the end of the report provide the details to the rate calculation and plan changes:

Exhibit I	Provides the details of the rate calculation
Exhibit II	Presents the premium and paid claims by month
Exhibit III	Details the enrollment by plan

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Reserve Fund

The County maintains a surplus of revenue over expenses called the Fund Balance. Based on Mercer and County staff recommendations, and as determined by the Board of Supervisors, the Fund Balance:

1. Acts as a Premium Stabilization Reserve (PSR), to serve as a hedge against unfavorable claim fluctuations and to absorb unusually high individual claims that may emerge from time to time
2. Funds *Incurred But Not Reported* (IBNR) claim reserves, claims incurred prior to a potential termination of the plan or portion of the plan.

Mercer recommends the self-funded PPO reserve target be set to cover 100% of the IBNR reserve and an additional amount as a Premium Stabilization Reserve (PSR). The IBNR reserve is estimated to be 15% of the annual projected claims and the basis for the PSR component is 15% of projected annual claims. Therefore, Mercer continues to target reserve level of 30% of annual claims, with a margin of +/- 3% to accommodate fluctuations in experience consistent with the target policy established by the Board of Supervisors in 2011 for the Self-Funded PPO reserve. The target fund level for 2023 is about \$22,000,000.

The County currently does not purchase stop loss insurance for the self-funded programs since the reserve fund balance has been above the target level, when excess funds are available to cover volatility and unexpected claim events. However, as the reserve fund balance declines, stop loss insurance may be evaluated for inclusion in future contracts.

The current fund balance is approximately \$15,000,000, \$7,000,000 below the 2023 target fund level. The 2022 active rates were set to cover costs and maintain fund balance level. The projected rates have been set to cover costs and raise the balance to reduce the gap between current and the target reserve level by the end of 2023. These are estimates based on the current benefit plans remaining in place and assume a continuation of current enrollment levels and emerging claims experience consistent with projections.

Attachment B: Mercer Self-Funded PPO Health Plan Rate Requirements – Active Employees Report

While the IBNR reserve covers the claims runout for claims incurred but not yet paid, the PSR is used to smooth out premium increases from year to year caused by unfavorable claims fluctuations. A reasonable PSR level for an ongoing self-funded program should represent about 15% of expected annual claim cost, which translates to approximately \$11,000,000 for the County's programs (actives and retirees combined) as of December 31, 2023.

Any projection of the expected fund balance as of December 31, 2023 is subject to considerable fluctuation due to changing claim trends and utilization patterns as well as the timing of payments from the fund. In particular, the potential impact from adverse experience as the result of COVID-19 increases the chance of unusual fluctuations in claim patterns.

All estimates are based upon the information available at a point in time, and are subject to unforeseen and random events. Therefore, any projection must be interpreted as having a likely range of variability from the estimate. Any estimate or projection may not be used or relied upon by any other party or for any other purpose than for which it was issued by Mercer. Mercer is not responsible for the consequences of any unauthorized use.

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Exhibits

Exhibit I

County of Orange
2023 PPO Budget Projection
Actives

Most Recent 12 Months Experience
Experience Period: April 1, 2021 - March 31, 2022
Projection period: January 1, 2023 - December 31, 2023

	Wellwise / Sharewell
Medical Paid Claims	\$35,071,600
Pharmacy Paid Claims	\$8,558,500
Less: Rx Rebates	<u>(\$2,679,000)</u>
Total Claims	\$40,951,100
Adjusted Medical Paid Claims	\$35,071,600
Adjusted Pharmacy Paid Claims	<u>\$5,879,500</u>
Total Adjusted Claims	\$40,951,100
Enrollment (Avg Setback Lives)	3,279
Claims Per Capita	\$1,041
Current Enrollment	3,307
Claims Adjusted for Enrollment	\$42,054,900
Combined Trend	1.085
Plan Design Adjustment	1.000
Margin	1.018
Adjusted Projected Incurred Claims	\$46,424,200
Health Care Reform / Reinsurer Fee	\$0
Administration	\$1,823,100
Total Projected Cost	\$48,247,300
2022 Premium	\$41,931,200
Increase	15.1%
<i>Recommended Increase</i>	
2023 Premium	\$50,317,440
2023 Increase	20.0%

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Attachment B: Mercer Self-Funded PPO Health Plan Rate Requirements – Active Employees Report

Exhibit II
Active Wellwise

Budget Summary										
Period	Enrollment		Claims		Total			Loss Ratio	PEPM Cost	PMPM Cost
Month	EEs	Mbrs	Gross Paid Claims	Adjusted Paid Claims	Fixed Costs	Gross Plan Cost	Gross Budget	Plan Cost / Budget	Plan Cost / EEs	Plan Cost / Mbrs
Current Period										
Apr 2021	2,130	3,963	\$2,964,601	\$2,964,601	\$92,784	\$3,057,385	\$2,603,340	117.4%	\$1,435.39	\$771.48
May 2021	2,165	3,987	\$3,251,410	\$3,251,410	\$94,309	\$3,345,718	\$2,630,154	127.2%	\$1,545.37	\$839.16
Jun 2021	2,184	4,013	\$2,639,436	\$2,639,436	\$95,137	\$2,734,573	\$2,649,909	103.2%	\$1,252.09	\$681.43
Jul 2021	2,206	4,009	\$3,174,973	\$3,174,973	\$96,095	\$3,271,068	\$2,674,005	122.3%	\$1,482.80	\$815.93
Aug 2021	2,213	4,039	\$2,845,930	\$2,845,930	\$96,400	\$2,942,330	\$2,675,709	110.0%	\$1,329.57	\$728.48
Sep 2021	2,209	4,045	\$3,452,569	\$3,452,569	\$96,226	\$3,548,795	\$2,669,665	132.9%	\$1,606.52	\$877.33
Oct 2021	2,218	4,049	\$3,375,921	\$3,375,921	\$96,618	\$3,472,538	\$2,681,307	129.5%	\$1,565.62	\$857.63
Nov 2021	2,217	4,032	\$3,903,301	\$3,903,301	\$96,574	\$3,999,875	\$2,675,141	149.5%	\$1,804.18	\$992.03
Dec 2021	2,231	4,052	\$3,305,489	\$3,305,489	\$97,184	\$3,402,672	\$2,683,903	126.8%	\$1,525.18	\$839.75
Jan 2022	2,223	4,094	\$2,729,014	\$2,729,014	\$96,818	\$2,825,832	\$2,945,975	95.9%	\$1,271.18	\$690.24
Feb 2022	2,204	4,069	\$2,512,663	\$2,512,663	\$95,991	\$2,608,654	\$2,938,988	88.8%	\$1,183.60	\$641.10
Mar 2022	2,271	4,132	\$4,363,561	\$4,363,561	\$98,909	\$4,462,470	\$2,986,742	149.4%	\$1,964.98	\$1,079.98
Total Thru Mar	26,471	48,484	\$38,518,867	\$38,518,867	\$1,153,043	\$39,671,910	\$32,814,837	120.9%	\$1,498.69	\$818.25

Active Sharewell

Budget Summary										
Period	Enrollment		Claims		Total			Loss Ratio	PEPM Cost	PMPM Cost
Month	EEs	Mbrs	Gross Paid Claims	Adjusted Paid Claims	Fixed Costs	Gross Plan Cost	Gross Budget	Plan Cost / Budget	Plan Cost / EEs	Plan Cost / Mbrs
Current Period										
Apr 2021	1,101	1,859	\$274,556	\$274,556	\$47,893	\$322,448	\$476,374	67.7%	\$292.87	\$173.45
May 2021	1,098	1,874	\$278,751	\$278,751	\$47,762	\$326,514	\$474,313	68.8%	\$297.37	\$174.23
Jun 2021	1,101	1,878	\$297,261	\$297,261	\$47,893	\$345,154	\$476,309	72.5%	\$313.49	\$183.79
Jul 2021	1,097	1,872	\$674,115	\$674,115	\$47,719	\$721,833	\$475,855	151.7%	\$658.01	\$385.59
Aug 2021	1,093	1,860	\$694,966	\$694,966	\$47,545	\$742,510	\$473,778	156.7%	\$679.33	\$399.20
Sep 2021	1,086	1,857	\$435,410	\$435,410	\$47,240	\$482,650	\$471,327	102.4%	\$444.43	\$259.91
Oct 2021	1,083	1,851	\$428,840	\$428,840	\$47,110	\$475,950	\$470,467	101.2%	\$439.47	\$257.13
Nov 2021	1,091	1,864	\$390,304	\$390,304	\$47,458	\$437,761	\$475,595	92.0%	\$401.25	\$234.85
Dec 2021	1,088	1,881	\$515,388	\$515,388	\$47,327	\$562,716	\$474,751	118.5%	\$517.20	\$299.16
Jan 2022	1,037	1,868	\$364,717	\$364,717	\$45,149	\$409,866	\$508,460	80.6%	\$395.24	\$219.41
Feb 2022	1,038	1,863	\$374,737	\$374,737	\$45,193	\$419,929	\$510,530	82.3%	\$404.56	\$225.40
Mar 2022	1,036	1,867	\$382,208	\$382,208	\$45,106	\$427,314	\$507,523	84.2%	\$412.47	\$228.88
Total Thru Mar	12,949	22,394	\$5,111,251	\$5,111,251	\$563,395	\$5,674,646	\$5,795,282	97.9%	\$438.23	\$253.40

Attachment B: Mercer Self-Funded PPO Health Plan Rate Requirements – Active Employees Report

Active Wellwise & Sharewell

Budget Summary										
Period	Enrollment		Claims		Total			Loss Ratio	PEPM Cost	PMPM Cost
Month	EEs	Mbrs	Gross Paid Claims	Adjusted Paid Claims	Fixed Costs	Gross Plan Cost	Gross Budget	Plan Cost / Budget	Plan Cost / EEs	Plan Cost / Mbrs
Current Period										
Apr 2021	3,231	5,822	\$3,239,157	\$3,239,157	\$140,677	\$3,379,834	\$3,079,714	109.7%	\$1,046.06	\$580.53
May 2021	3,263	5,861	\$3,530,161	\$3,530,161	\$142,071	\$3,672,232	\$3,104,467	118.3%	\$1,125.42	\$626.55
Jun 2021	3,285	5,891	\$2,936,697	\$2,936,697	\$143,029	\$3,079,726	\$3,126,218	98.5%	\$937.51	\$522.79
Jul 2021	3,303	5,881	\$3,849,087	\$3,849,087	\$143,814	\$3,992,901	\$3,149,860	126.8%	\$1,208.87	\$678.95
Aug 2021	3,306	5,899	\$3,540,895	\$3,540,895	\$143,945	\$3,684,840	\$3,149,486	117.0%	\$1,114.59	\$624.65
Sep 2021	3,295	5,902	\$3,887,979	\$3,887,979	\$143,466	\$4,031,444	\$3,140,992	128.3%	\$1,223.50	\$683.06
Oct 2021	3,301	5,900	\$3,804,760	\$3,804,760	\$143,727	\$3,948,488	\$3,151,774	125.3%	\$1,196.15	\$669.24
Nov 2021	3,308	5,896	\$4,293,605	\$4,293,605	\$144,032	\$4,437,637	\$3,150,736	140.8%	\$1,341.49	\$752.65
Dec 2021	3,319	5,933	\$3,820,877	\$3,820,877	\$144,511	\$3,965,388	\$3,158,654	125.5%	\$1,194.75	\$668.36
Jan 2022	3,260	5,962	\$3,093,730	\$3,093,730	\$141,968	\$3,235,698	\$3,454,435	93.7%	\$992.55	\$542.72
Feb 2022	3,242	5,932	\$2,887,400	\$2,887,400	\$141,184	\$3,028,583	\$3,449,518	87.8%	\$934.17	\$510.55
Mar 2022	3,307	5,999	\$4,745,770	\$4,745,770	\$144,015	\$4,889,785	\$3,494,265	139.9%	\$1,478.62	\$815.10
Total Thru Mar	39,420	70,878	\$43,630,118	\$43,630,118	\$1,716,438	\$45,346,556	\$38,610,119	117.4%	\$1,150.34	\$639.78

Exhibit III

Wellwise

Enrollment by Tier		
Period	Enrollment	Total
Month	Subscriber s	Employees
Current Period		
Apr 2021	2,130	2,130
May 2021	2,165	2,165
Jun 2021	2,184	2,184
Jul 2021	2,206	2,206
Aug 2021	2,213	2,213
Sep 2021	2,209	2,209
Oct 2021	2,218	2,218
Nov 2021	2,217	2,217
Dec 2021	2,231	2,231
Jan 2022	2,223	2,223
Feb 2022	2,204	2,204
Mar 2022	2,271	2,271
Total Thru Mar	26,471	26,471

Sharewell

Enrollment by Tier		
Period	Enrollment	Total
Month	Subscriber s	Employees
Current Period		
Apr 2021	1,101	1,101
May 2021	1,098	1,098
Jun 2021	1,101	1,101
Jul 2021	1,097	1,097
Aug 2021	1,093	1,093
Sep 2021	1,086	1,086
Oct 2021	1,083	1,083
Nov 2021	1,091	1,091
Dec 2021	1,088	1,088
Jan 2022	1,037	1,037
Feb 2022	1,038	1,038
Mar 2022	1,036	1,036
Total Thru Mar	12,949	12,949