



SELF-FUNDED PPO HEALTH PLAN RATE REQUIREMENTS – RETIREES

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 retirees and annual trends of 7.0% for medical and 10.0% for prescription drug, Mercer recommends the current rate levels for the Wellwise Retiree and Sharewell Retiree plans be increased by 7.4% (with rate adjustments varying by enrollment tier and plan) for the plan year effective January 1, 2023.

Mercer is recommending application of separate rate adjustments by plan and coverage tier to improve consistency and reasonability, better align plan values (including Medicare offsets) and better accommodate Medicare Part D credits. To allocate the increase across retiree rates by enrollment tier and plan, Mercer considers the following factors:

- The value of the plan design differential between Wellwise Retiree and Sharewell Retiree
- The value of Medicare for Medicare eligible retirees
- Claim utilization experience for Wellwise Retiree and Sharewell Retiree participants (Medicare and non-Medicare)
- Number of retirees in the Wellwise and Sharewell plans to determine if claims experience is credible
- Appropriateness of rates compared to other plans offered to retirees
- Appropriately apply Medicare Part D credits anticipated from implementation of Employer Group Waiver Plan (EGWP)

This proposed rate action of 7.4% (in addition to the rate adjustment made for active employees) 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 below the target Fund Balance level. 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.

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 retired 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 retiree claims that were actually incurred from April 1, 2021 through March 31, 2022.

These incurred claims are then projected to 2023 levels using annual cost trend assumptions of 7.0% for medical and 10.0% 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 range from 4.5% - 9% for PPO medical plans and 6.5% - 12% for prescription drug programs. Self-funded employers similar to the County have generally been using trend factors in the range of 4% - 10% for projection purposes.

For 2023, the County will transition from the current Medicare Retiree Drug subsidy approach to take advantage of increased credits available under an EGWP. A claim credit was applied in the amount of \$1,600,000 for the estimated EGWP credit for 2023. Additionally, the 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 has dropped below the target level.

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 overall 2023 calculated premium is compared to the 2022 premium to determine the recommended rate increase of 7.4%, with rate adjustments varying by enrollment tier and plan. The recommended renewal increase of 7.4% assumes no impact to the fund balance.

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

2023 Renewal Adjustments*		
	Pre-65	Post-65
Wellwise	50.0%	-15.0%
Sharewell	25.0%	-10.0%
Overall	7.4%	

*Actual change may vary based on number of dependents and their Medicare status

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

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 rates were set to cover costs and maintain fund balance level. The projected rates have been set to cover the projected costs of the retiree program though retiree claims experience has fluctuated from year to year. 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 – Retirees 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
Retirees

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

	Wellwise Pre-65	Wellwise Post-65	Sharewell Pre-65	Sharewell Post-65	Overall
Medical Paid Claims	\$2,505,985	\$4,682,858	\$10,924,413	\$2,071,342	\$20,184,597
Pharmacy Paid Claims	\$490,079	\$6,380,036	\$1,978,577	\$1,357,970	\$10,206,661
Less: Rx Rebates	<u>(\$153,408)</u>	<u>(\$1,997,122)</u>	<u>(\$619,347)</u>	<u>(\$425,081)</u>	<u>(\$3,194,958)</u>
Total Claims	\$2,996,063	\$11,062,894	\$12,902,989	\$3,429,312	\$30,391,259
Adjusted Medical Paid Claims	\$2,505,985	\$4,682,858	\$10,924,413	\$2,071,342	\$20,184,597
Adjusted Pharmacy Paid Claims	<u>\$336,671</u>	<u>\$4,382,914</u>	<u>\$1,359,229</u>	<u>\$932,889</u>	<u>\$7,011,703</u>
Total Adjusted Claims	\$2,842,656	\$9,065,772	\$12,283,642	\$3,004,231	\$27,196,301
Enrollment (Avg Setback Lives)	64	1,171	658	514	2,407
Claims Per Capita	\$3,695	\$645	\$1,556	\$487	\$942
Current Enrollment	62	1,142	588	502	2,294
Claims Adjusted for Enrollment	\$2,748,800	\$8,840,500	\$10,975,900	\$2,935,900	\$25,501,100
Combined Trend	1.144	1.159	1.143	1.152	
Plan Design Adjustment	1.000	1.000	1.000	1.000	
Margin	1.018	1.018	1.018	1.018	
Adjusted Projected Incurred Claims	\$3,198,300	\$10,428,400	\$12,768,500	\$3,440,900	\$29,836,100
Health Care Reform / Reinsurer Fee	\$0	\$0	\$0	\$0	\$0
Less: EGWP	\$0	(\$1,600,000)	\$0	\$0	(\$1,600,000)
Administration	\$35,935	\$647,802	\$326,582	\$277,052	\$1,287,371
Total Projected Cost	\$3,234,235	\$9,476,202	\$13,095,082	\$3,717,952	\$29,523,471
2022 Premium	\$1,404,939	\$11,326,392	\$9,649,980	\$4,747,563	\$27,128,874
Increase	130.2%	-16.3%	35.7%	-21.7%	
<i>Recommended Increase</i>					
2023 Premium	\$2,107,400	\$9,627,400	\$12,062,500	\$4,272,800	\$29,136,400
2023 Increase	50.0%	-15.0%	25.0%	-10.0%	7.4%

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.

Exhibit II**Wellwise Retiree**

Budget Summary									
Period		Enrollment	Claims		Total		Loss Ratio	PEPM Cost	
Month		EEs	Gross Paid Claims	Adjusted Paid Claims	Fixed Costs	Gross Plan Cost	Gross Budget	Plan Cost / Budget	Plan Cost / EEs
Current Period									
Apr	2021	1,237	\$1,405,722	\$1,405,722	\$55,075	\$1,460,796	\$1,015,010	143.9%	\$1,180.92
May	2021	1,243	\$1,156,729	\$1,156,729	\$55,330	\$1,212,059	\$1,030,728	117.6%	\$975.11
Jun	2021	1,238	\$1,243,238	\$1,243,238	\$55,113	\$1,298,351	\$1,020,524	127.2%	\$1,048.75
Jul	2021	1,245	\$1,544,849	\$1,544,849	\$55,421	\$1,600,270	\$1,026,943	155.8%	\$1,285.36
Aug	2021	1,243	\$998,215	\$998,215	\$55,327	\$1,053,542	\$1,029,055	102.4%	\$847.58
Sep	2021	1,236	\$1,222,412	\$1,222,412	\$55,020	\$1,277,432	\$1,016,743	125.6%	\$1,033.52
Oct	2021	1,248	\$1,038,362	\$1,038,362	\$55,545	\$1,093,907	\$1,032,898	105.9%	\$876.53
Nov	2021	1,237	\$1,077,853	\$1,077,853	\$55,059	\$1,132,912	\$1,019,035	111.2%	\$915.85
Dec	2021	1,233	\$939,737	\$939,737	\$54,881	\$994,618	\$1,014,443	98.0%	\$806.66
Jan	2022	1,209	\$1,174,065	\$1,174,065	\$52,389	\$1,226,453	\$1,067,072	114.9%	\$1,014.44
Feb	2022	1,210	\$1,232,660	\$1,232,660	\$52,432	\$1,285,092	\$1,066,525	120.5%	\$1,062.06
Mar	2022	1,204	\$1,025,116	\$1,025,116	\$52,172	\$1,077,289	\$1,060,944	101.5%	\$894.76
Total Thru Mar		14,783	\$14,058,957	\$14,058,957	\$653,765	\$14,712,722	\$12,399,920	118.7%	\$995.25

Sharewell Retiree

Budget Summary									
Period		Enrollment	Claims		Total		Loss Ratio	PEPM Cost	
Month		EEs	Gross Paid Claims	Adjusted Paid Claims	Fixed Costs	Gross Plan Cost	Gross Budget	Plan Cost / Budget	Plan Cost / EEs
Current Period									
Apr	2021	1,191	\$1,434,881	\$1,434,881	\$51,749	\$1,486,629	\$1,240,899	119.8%	\$1,248.22
May	2021	1,200	\$1,146,680	\$1,146,680	\$52,140	\$1,198,820	\$1,252,151	95.7%	\$999.02
Jun	2021	1,194	\$1,203,196	\$1,203,196	\$51,879	\$1,255,075	\$1,242,293	101.0%	\$1,051.15
Jul	2021	1,185	\$1,898,588	\$1,898,588	\$51,488	\$1,950,076	\$1,231,223	158.4%	\$1,645.63
Aug	2021	1,176	\$1,845,440	\$1,845,440	\$51,097	\$1,896,537	\$1,219,651	155.5%	\$1,612.70
Sep	2021	1,169	\$1,782,977	\$1,782,977	\$50,793	\$1,833,770	\$1,212,758	151.2%	\$1,568.67
Oct	2021	1,167	\$1,607,858	\$1,607,858	\$50,706	\$1,658,564	\$1,210,937	137.0%	\$1,421.22
Nov	2021	1,161	\$1,307,259	\$1,307,259	\$50,445	\$1,357,704	\$1,199,701	113.2%	\$1,169.43
Dec	2021	1,148	\$1,932,856	\$1,932,856	\$49,881	\$1,982,736	\$1,185,198	167.3%	\$1,727.12
Jan	2022	1,096	\$831,213	\$831,213	\$47,626	\$878,839	\$1,209,006	72.7%	\$801.86
Feb	2022	1,092	\$629,456	\$629,456	\$47,452	\$676,908	\$1,202,306	56.3%	\$619.88
Mar	2022	1,090	\$711,897	\$711,897	\$47,365	\$759,262	\$1,199,795	63.3%	\$696.57
Total Thru Mar		13,869	\$16,332,302	\$16,332,302	\$602,620	\$16,934,922	\$14,605,919	115.9%	\$1,221.06

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

Wellwise & Sharewell Retiree

Budget Summary								
Period	Enrollment	Claims		Total			Loss Ratio	PEPM Cost
Month	EEs	Gross Paid Claims	Adjusted Paid Claims	Fixed Costs	Gross Plan Cost	Gross Budget	Plan Cost / Budget	Plan Cost / EEs
Current Period								
Apr 2021	2,428	\$2,840,602	\$2,840,602	\$106,824	\$2,947,426	\$2,255,909	130.7%	\$1,213.93
May 2021	2,443	\$2,303,409	\$2,303,409	\$107,469	\$2,410,878	\$2,282,879	105.6%	\$986.85
Jun 2021	2,432	\$2,446,434	\$2,446,434	\$106,992	\$2,553,426	\$2,262,818	112.8%	\$1,049.93
Jul 2021	2,430	\$3,443,438	\$3,443,438	\$106,909	\$3,550,347	\$2,258,166	157.2%	\$1,461.05
Aug 2021	2,419	\$2,843,655	\$2,843,655	\$106,424	\$2,950,079	\$2,248,706	131.2%	\$1,219.54
Sep 2021	2,405	\$3,005,389	\$3,005,389	\$105,813	\$3,111,202	\$2,229,500	139.5%	\$1,293.64
Oct 2021	2,415	\$2,646,220	\$2,646,220	\$106,251	\$2,752,471	\$2,243,834	122.7%	\$1,139.74
Nov 2021	2,398	\$2,385,112	\$2,385,112	\$105,505	\$2,490,616	\$2,218,736	112.3%	\$1,038.62
Dec 2021	2,381	\$2,872,593	\$2,872,593	\$104,762	\$2,977,354	\$2,199,641	135.4%	\$1,250.46
Jan 2022	2,305	\$2,005,278	\$2,005,278	\$100,015	\$2,105,293	\$2,276,078	92.5%	\$913.36
Feb 2022	2,302	\$1,862,115	\$1,862,115	\$99,884	\$1,962,000	\$2,268,831	86.5%	\$852.30
Mar 2022	2,294	\$1,737,013	\$1,737,013	\$99,538	\$1,836,551	\$2,260,740	81.2%	\$800.59
Total Thru Mar	28,652	\$30,391,259	\$30,391,259	\$1,256,385	\$31,647,644	\$27,005,838	117.2%	\$1,104.55

Exhibit III**Wellwise**

Enrollment by Tier		
Period	Enrollment	Total
Month	Subscriber s	Employees
Current Period		
Apr 2021	1,237	1,237
May 2021	1,243	1,243
Jun 2021	1,238	1,238
Jul 2021	1,245	1,245
Aug 2021	1,243	1,243
Sep 2021	1,236	1,236
Oct 2021	1,248	1,248
Nov 2021	1,237	1,237
Dec 2021	1,233	1,233
Jan 2022	1,209	1,209
Feb 2022	1,210	1,210
Mar 2022	1,204	1,204
Total Thru Mar	14,783	14,783

Sharewell

Enrollment by Tier		
Period	Enrollment	Total
Month	Subscriber s	Employees
Current Period		
Apr 2021	1,191	1,191
May 2021	1,200	1,200
Jun 2021	1,194	1,194
Jul 2021	1,185	1,185
Aug 2021	1,176	1,176
Sep 2021	1,169	1,169
Oct 2021	1,167	1,167
Nov 2021	1,161	1,161
Dec 2021	1,148	1,148
Jan 2022	1,096	1,096
Feb 2022	1,092	1,092
Mar 2022	1,090	1,090
Total Thru Mar	13,869	13,869



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