



### Market Study

Given the Affiliation's desire to impact costs longer term, Gallagher Benefit Services conducted a self funded market assessment for the Affiliation's fully insured medical programs (both the Keystone HMO/POS and Personal Choice PPO). Proposals were requested from seven vendors- Aetna, CIGNA, CoreSource, HealthAmerica, Independence Blue Cross, Loomis Company, and United Healthcare.

The primary objectives for this RFP process included:

- Ensuring competitiveness of fees and discounts
- Assessing the feasibility of moving to a self funded trust arrangement
- Maintaining strong network and provider matches
- Maintaining or improving current medical management capabilities

This review focused on the following areas:

- Access to network providers and match with currently utilized providers
- Administrative capabilities including ability to maintain current programs/designs
- Medical Management ( Wellness and Condition Management )
- Financial Proposal
  - Administrative fees (*Fees charged by the administrator to pay claims*)
  - Network discounts (*The negotiated discount arrangements with hospitals, physicians and other providers*)
  - Performance Guarantees (*The amount of the carrier's fee at risk based on pre-determined performance measures*)
  - Overall program costs relative to the first look fully insured renewal

**THE WORK GROUP**  
 Representatives from each of the Districts and the IU, including Board Members, Administration and Labor have participated in the Work Group that reviewed various options and benchmarked other successful Affiliation programs within Pennsylvania and nationally.

From this market analysis, it was determined that the most competitive offer was provided by IBC for the following reasons:

- Their financial proposal was the most competitive given their discounts
- Self funding with IBC eliminates any disruption to members since the plans and networks would remain the same

### The Proposed Solution –Self Funded Trust

The Trust builds on the success that the Districts have had working together to purchase and manage health insurance for over 20 years. The move to self-insurance is a natural evolution in our efforts to take greater control of our current and future expenditures. The Trust brings a credible number of employees and dependents together and allows the Affiliation to share risk, reduce costs paid to outside vendors and invest in a manner consistent with School code, but for the benefit of the member districts – not an insurance company.

Goals of the Trust	Participating Entities Definition	Board of Trustees
<ul style="list-style-type: none"> <li>• Manage costs through effective claims management and wellness</li> <li>• Transition to a self-insured funding approach</li> <li>• Streamline plan offerings</li> <li>• Shared governance</li> </ul>	<ul style="list-style-type: none"> <li>• Any school district, intermediate unit, or vocational-technical school established by the laws of the Commonwealth of Pennsylvania in the administration of the school law thereof or the Delaware County Community College which is employer of persons and provides public education within Delaware or Chester County.</li> <li>• Charter schools are not eligible to participate in the Trust.</li> </ul>	<ul style="list-style-type: none"> <li>• Each participating entity may appoint a Trustee.</li> <li>• Employer trustees may be administrators or school board members.</li> <li>• There will be an equal number of union appointed trustees.</li> <li>• Decision making requires a majority of the Trustees.</li> <li>• A super majority (66 2/3%) is needed to change major trust provisions.</li> </ul>



**Initial Commitment to the Trust**

- Participating entities must make an initial commitment to participation in the Trust of at least 3 years.
- Participating entities must prepay 12 months of premium based on the IBC second look fully-insured rates.

**Financial Analysis**

**Trust Expense Components**

Claims are estimated at \$84 million and comprise approximately 80% of the total cost of healthcare benefits. The other expense components of the Trust are listed below. These costs are included in the financial analysis.

Component	Description	Entity	\$ Amount	% of Overall Cost
Third Party Administrator	Processes claims, negotiates and maintains provider network, provides customer service and utilization	Independence Blue Cross	\$5.9M	5%
Stop Loss Carrier	Reimburses for catastrophic claims above a specific threshold	TBD – Based on RFP Process	\$2.3M	2%
Actuarial Services	Monitors claims and provides reserving estimates.	Gallagher Benefit Services	\$100,000	<1%
Banking /Accounting	N/A	TBD	\$100,000	<1%
Consulting Services	Market Studies, Benchmarking, Funding Analysis, Vendor Negotiations, Legislative Guidance, Wellness Consulting	Gallagher Benefit Services	\$105,000- \$120,000	<1%
Taxes	Mandated Healthcare Reform Taxes	N/A	\$1.3M	<2%

A customized financial comparison is included. These exhibits highlight the following options:

- Current State:** District remains fully-insured with the Affiliation
- Option 1:** District remains fully-insured but as its own entity (no longer share experience with the Affiliation)
- Option 2:** District is self-insured as its own entity (no longer shares experience with the Affiliation)
- Option 3 (recommended option):** District joins the self funded Trust.

Highlighted are the estimated renewal increases under each option.

**Overall Assumptions/Caveats**

- Claims Experience Period: Utilized claims incurred 8/1/11-7/31/12 and paid 8/1/11-8/31/12
- Renewal Period: 7/1/13-6/30/14
- IBC Trend: 9.79% for Affiliation
- The fully-insured scenarios are the first look renewals developed by IBC.
- **The Consortium costs assume all Districts elect to participate.**

**Self Insured Scenario Assumptions/Caveats:**

- In Option 2, the retention fee and stop loss costs are estimated based on a self-funded IBC client with 470 lives.
- In Option 3, the retention fee is based on IBC's administrative fee offered to other School Affiliations. The stop loss cost is estimated based on a \$250,000 Specific (Individual) Deductible. This has been used as a conservative figure, as it is anticipated the Trust will choose a higher deductible, which will increase the claims line and decrease the expense line.
- **The Patient Protection Affordable Care Act (PPACA) Fees:**
  - Patient Centered Outcomes Research Fee Trust Fund: \$2 per member per year (not pro-rated)
  - Transitional Reinsurance Program Funding: \$63 per member annually
  - The Health Insurer Fee: Eliminated in a self insured arrangement

# Delaware County Schools

Method of Rating: **Prospective** <sup>a</sup>

<b>Claims Experience Period</b>	
Incurred:	08/01/2011 -07/31/2012
Paid:	08/01/2011 -08/31/2012
<b>Renewal Period:</b>	
	07/01/2013 -06/30/2014
Contract Months:	101,625
Member Months:	241,490

	Fully Insured w/Affiliation	Self Insured w/ Trust
Allowable charges	\$270,257,082	\$270,257,082
- Discount savings	\$182,778,916	\$182,778,916
- Subscriber responsibility	<u>\$5,332,865</u>	<u>\$5,332,865</u>
= Net payment	<u>\$82,145,301</u>	<u>\$82,145,301</u>
- Stop loss claims	\$3,253,099 <sup>b</sup>	\$3,253,099
+ Incurred but not reported claims	\$2,562,533	\$2,562,533
+ Capitation \ Network Operating Expense	<u>\$2,537,947</u> <sup>c</sup>	<u>\$2,537,947</u>
= Incurred claims & Capitation \ Network Operating Expense	<u>\$83,992,682</u>	<u>\$83,992,682</u>
Incurred claims & Capitation \ Network Operating Expense (PMPM)	\$347.81	\$347.81
Incurred claims adjusted for credibility (PMPM)	\$347.81	\$347.81
x Demographic adjustment factor	1.004	1.004
+ Benefit adjustment (PMPM)	\$0.02	\$0.02
+ Adjustment for mandated benefits (PMPM)	<u>\$0.00</u> <sup>d</sup>	<u>\$0.00</u>
= Claims adjusted to current benefit and demographic level (PMPM)	<u>\$349.22</u>	<u>\$349.22</u>
Annual trend	9.79% <sup>e</sup>	9.79%
Number of months midpoint to midpoint	<u>23</u>	<u>23</u>
= Projected incurred claims (PMPM)	<u>\$417.65</u>	<u>\$417.65</u>
+ Charge for stop loss claim provision (PMPM)	<u>\$22.44</u>	<u>\$9.54</u>
= Projected incurred claims and stop loss (PMPM)	<u>\$440.09</u>	<u>\$427.19</u>
Estimated Retention (PMPM)	94.41% <sup>f</sup>	\$24.59
PPACA PCOR Trust Fund (PMPM)	<u>\$0.17</u>	<u>\$0.17</u>
PPACA Reinsurance Program Funding (PMPM)	<u>\$5.71</u>	<u>\$5.25</u>
PPACA HIF	2.50%	0.00%
x Pro-rated for Months in 2014	<u>6</u>	<u>6</u>
Impact of PPACA Taxes	<u>\$9.07</u>	<u>\$2.80</u>
+ PPACA Taxes + Premium tax (PMPM) *	<u>\$16.37</u>	<u>\$2.80</u>
+ Broker Commission (PMPM)	<u>\$0.00</u>	<u>\$0.00</u>
= Required premium (PMPM)	<u>\$483.47</u>	<u>\$454.58</u>
+ Charge for retrospective refund provision (PMPM)	\$0.00	\$0.00
= Adjusted required premium (PMPM)	<u>\$483.47</u>	<u>\$454.58</u>
Premium at current benefit level (PMPM)	\$438.59	\$438.59
<b>Estimated Renewal Action</b>	<b>10.24%</b>	<b>3.65%</b>
<b>Required Premium (PMPM)</b>	<b>\$483.47</b>	<b>\$454.58</b>
<b>Annual Required Premium</b>	<b>\$ 116,753,170</b>	<b>\$ 109,776,524</b>
<b>\$ Difference</b>		<b>\$ (6,976,646)</b>
<b>% Difference</b>		<b>-5.98%</b>

<sup>a</sup> Prospective method of rating: rates are based on account specific experience with no annual financial settlement.

<sup>b</sup> Projected stop loss claims limit (per member for all claims) is \$250,000.

<sup>c</sup> Charges may include additional service provider access fees and provider quality incentives.

<sup>d</sup> Includes the impact of both state and federal mandates.

<sup>e</sup> The annual trend of 9.79% is all-inclusive and considers claim utilization and inflation.

<sup>f</sup> Pricing includes Standard Reporting Package. Please consult with your Marketing Representative for Non Standard reporting services and pricing.

\* No Premium Tax Included in the Self Funded Projections.

# William Penn School District

Method of Rating: Prospective <sup>a</sup>

<b>Claims Experience Period</b>	
Incurred:	08/01/2011 -07/31/2012
Paid:	08/01/2011 -08/31/2012
<b>Renewal Period:</b>	
	07/01/2013 -06/30/2014
<b>Contract Months:</b>	
	7,084
<b>Member Months:</b>	
	15,268

	Fully Insured w/Affiliation	Fully Insured Stand-Alone	Self Insured Stand-Alone	Self Insured w/ Trust
Allowable charges	\$18,761,650	\$18,761,650	\$18,761,650	\$18,761,650
- Discount savings	\$13,301,822	\$13,301,822	\$13,301,822	\$13,301,822
- Subscriber responsibility	\$253,381	\$253,381	\$253,381	\$253,381
= Net payment	<b>\$5,206,447</b>	<b>\$5,206,447</b>	<b>\$5,206,447</b>	<b>\$5,206,447</b>
- Stop loss claims	\$0 <sup>b</sup>	\$0	\$0	\$0
+ Incurred but not reported claims	\$166,010	\$166,010	\$166,010	\$166,010
+ Capitation \ Network Operating Expense	<b>\$308,917</b> <sup>c</sup>	<b>\$308,917</b>	<b>\$308,917</b>	<b>\$308,917</b>
= Incurred claims & Capitation \ Network Operating Expense	<b>\$5,681,374</b>	<b>\$5,681,374</b>	<b>\$5,681,374</b>	<b>\$5,681,374</b>
Incurred claims & Capitation \ Network Operating Expense (PMPM)	\$372.11	\$372.11	\$372.11	\$372.11
Incurred claims adjusted for credibility (PMPM)	\$372.11	\$372.11	\$372.11	\$372.11
x Demographic adjustment factor	1.003	1.003	1.003	1.003
+ Benefit adjustment (PMPM)	\$0.00	\$0.00	\$0.00	\$0.00
+ Adjustment for mandated benefits (PMPM)	\$0.00 <sup>d</sup>	\$0.00	\$0.00	\$0.00
= Claims adjusted to current benefit and demographic level (PMPM)	<b>\$373.23</b>	<b>\$373.23</b>	<b>\$373.23</b>	<b>\$373.23</b>
Annual trend	9.50% <sup>e</sup>	9.50%	9.50%	9.50%
Number of months midpoint to midpoint	<u>23</u>	<u>23</u>	<u>23</u>	<u>23</u>
= Projected incurred claims (PMPM)	\$444.11	\$444.11	\$444.11	\$444.11
+ Charge for stop loss claim provision (PMPM)	\$22.29	\$25.63	\$24.02 <sup>f</sup>	\$9.54
= Projected incurred claims and stop loss (PMPM)	<b>\$466.40</b>	<b>\$469.74</b>	<b>\$468.13</b>	<b>\$453.65</b>
Estimated Retention (PMPM)	\$37.83 <sup>f</sup>	\$39.72	\$28.75	\$24.59
PPACA PCOR Trust Fund (PMPM)	\$0.17	\$0.17	\$0.17	\$0.17
PPACA Reinsurance Program Funding (PMPM)	\$5.71	\$5.71	\$5.25	\$5.25
PPACA HIF	2.50%	2.50%	0.00%	0.00%
x Pro-rated for Months in 2014	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>
Impact of PPACA Taxes	\$9.52	\$9.58	\$2.80	\$2.80
+ PPACA Taxes + Premium tax (PMPM) *	\$15.01	\$15.12	\$2.80	\$2.80
+ Broker Commission (PMPM)	\$0.00	\$0.00	\$0.00	\$0.00
= Required premium (PMPM)	<b>\$519.24</b>	<b>\$524.58</b>	<b>\$499.68</b>	<b>\$481.04</b>
+ Charge for retrospective refund provision (PMPM)	\$0.00	\$0.00	\$0.00	\$0.00
= Adjusted required premium (PMPM)	<b>\$519.24</b>	<b>\$524.58</b>	<b>\$499.68</b>	<b>\$481.04</b>
Premium at current benefit level (PMPM)	\$466.90	\$466.90	\$466.90	\$466.90
<b>Estimated Renewal Action</b>	<b>10.73%</b>	<b>12.35%</b>	<b>7.02%</b>	<b>3.34%</b>
<b>Required Premium (PMPM)</b>	<b>\$517.00</b>	<b>\$524.58</b>	<b>\$499.68</b>	<b>\$482.49</b>
<b>Annual Required Premium</b>	<b>\$ 7,893,556</b>	<b>\$ 8,009,287</b>	<b>\$ 7,629,114</b>	<b>\$ 7,366,657</b>
<b>\$ Difference</b>		<b>\$ 115,731</b>	<b>\$ (264,442)</b>	<b>\$ (526,899)</b>
<b>% Difference</b>		<b>1.47%</b>	<b>-3.35%</b>	<b>-6.68%</b>

<sup>a</sup> Prospective method of rating: rates are based on account specific experience with no annual financial settlement.

<sup>b</sup> Projected stop loss claims limit (per member for all claims) is \$250,000.

<sup>c</sup> Charges may include additional service provider access fees and provider quality incentives.

<sup>d</sup> Includes the impact of both state and federal mandates.

<sup>e</sup> The annual trend of 9.50% is all-inclusive and considers claim utilization and inflation.

<sup>f</sup> Pricing includes Standard Reporting Package. Please consult with your Marketing Representative for Non Standard reporting services and pricing.

<sup>g</sup> For the Self Insured Stand-Alone option, the charge for stop loss claims assumes a limit (per member for all claims) of \$175,000.

\* No Premium Tax Included in the Self Funded Projections.

## Self Funded Trust

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- Each District has been provided a document that includes the following:
  - ✓ Five-year history of claims by District
  - ✓ Five-year history of high dollar claims by District
  - ✓ Market Study Summary
  - ✓ Background on the Trust
  - ✓ Initial Commitment for Joining the Trust
  - ✓ Financial Analysis

## Self Funded Trust

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- The financial analysis is specific to each District and provides a comparison highlighting these options:
  - ✓ **Current State:** District remains fully-insured with the Affiliation
  - ✓ **Option 1:** District remains fully-insured but as its own entity (no longer shares experience with the Affiliation)
  - ✓ **Option 2:** District is self-insured as its own entity (no longer shares experience with the Affiliation)
  - ✓ **Option 3 (recommended option):** District joins the self funded Trust.
- Based on the first look renewal from IBC specific to each District, every District benefits from moving from the current fully-insured arrangement to a self-insured arrangement through the Trust. The charts on the following two pages summarize each District's renewal action under each of the four scenarios.