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milliman.com

July 1, 2013

Mr. Paul Lemle
President
Howard County Education Association
5082 Dorsey Hall Dr., #102
Ellicott City, MD 21042

Re: Commentary on HCPSS Self-Insured Employee Benefits Program

Dear Paul:

Howard County Education Association (“HCEA”) engaged Milliman to perform a review of information pertaining to the Howard County Public School System (“HCPSS”), and provide HCEA with our observations and comments based upon the information received.

As background, Milliman was engaged because HCEA wanted a review of the employee benefits program to determine if HCPSS and their broker, Bolton Partners (“Bolton”), have been operating and administering the program in good faith or are there areas that Milliman could identify where certain improvements might be warranted.

Based on various email exchanges and phone conversations, Milliman has focused our review on the following items:

1. Bolton’s renewal methodology
2. Guidelines for a Benefits Committee
3. Financial analysis of projected to actual annual expense and employee contributions

We have completed the review of the information provided and are outlining our findings in this correspondence. We have attempted to not only provide a summary of the actual information received, but also to provide our comments and observations to the best of our professional ability based only on received information.

Based on the information Bolton and HCPSS provided Milliman, we have the following observations:

BOLTON’S RENEWAL METHODOLOGY

Documents: Bolton Renewal Methodology February 8 2012 and HCPSS 2013 Renewal and Claims Used

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In reviewing these documents, we strongly feel that the renewal methodology used by Bolton is not appropriate for the complexity of the HCPSS and increases the likelihood of inaccurate projections. We feel this way for the following reasons:

- The paid claims experience was not evaluated separately for:
 - medical and prescriptions claims
 - the different carriers / networks
 - the different HMO and PPO style plans
 - a per employee or a per member basis

In our experience, not evaluating the paid claims experience in a detailed manner may lead to inaccurate projections and inappropriate rates by carrier and plan. Further, high performing plans subsidize the low performing plans which could lead to adverse selection.

- The documents conflict each other regarding whether the paid claims experience was adjusted for individual large claims either prior to projecting the claims or adding the amount back in after trend. Based on the method utilized, the claims projection could be overstated.
- There is data representing the use of a large claim reserve (separate from the IBNR reserve) in addition to the HCPSS purchasing reinsurance coverage. This is not standard practice because both forms of risk management are not normally necessary and increases the projected budget.
- It appears that the paid claims experience was not adjusted for trend using the mid-point of the experience period to the mid-point of the projection period. In our experience, this is the most accurate projection methodology.
- A single trend factor was applied regardless of carrier and plan type. This is not standard practice because trend may vary by material amounts with different networks and between HMO and PPO plans.
- The single trend factor applied appears high compared to actual claims utilization. Milliman was informed by the HCEA that Bolton stated they used the BCBS book of business trend factor. This is not standard practice because the HCPSS is highly credible based on the membership size and relatively stable enrollment.
- There is a line item for Plan Design and Discount Adjustment, but once again this was a single item regardless of carrier and plan type. We would expect that a different amount would apply based on the variations of prior plan components to each of the future plan components.
- The year-to-year rate change percentage result was applied to the existing “rates” and “price tags” regardless if those existing “rates” and “price tags” were appropriate / accurate compared to the actual experience and related expenses. We would normally develop rates based on the detailed claims projection by carrier and by plan because that more closely represents the projected expense to projected funding.

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GUIDELINES FOR A BENEFITS COMMITTEE

We would recommend that HCEA be more involved and informed with respect to critical aspects of the HCPSS employee benefits program.

The most productive way for this to happen, in our opinion, is with the formation of a benefits committee, working group, joint board, or some similar type structure where all interested parties have a role, representation and decision input. In our work with other large employers and our work with collective bargaining groups, this is prevalent and leads to improved working relationships, better outcomes and member buy-in.

Please see Appendix A for a sample Benefits Committee structure.

FINANCIAL ANALYSIS OF PROJECTED TO ACTUAL EXPENSE AND EMPLOYEE CONTRIBUTIONS

Based only upon the information received, as requests for additional information and clarification were not responded to, Milliman has noted on the Fiscal 2014 Superintendent's Budget for the Health & Dental Self-Insurance, Health Insurance Fund, Program 9715 ("Health Fund") certain comments and observations.

Please note that Milliman received minimal usable information with respect to the Insurance Fund and no accounting of the Insurance Fund itself as an entity. Therefore, despite our attempts to do so, we cannot determine with confidence the level of surplus or deficit, past usage of any surplus amounts or the percentage of costs that your members have paid for coverage.

Nevertheless, based on our review, understanding and analysis of the data provided, it appears that any surplus has been applied to offset the expected HCPSS employer contribution and not the overall gross renewal amount. The effect of this, in years where there was a surplus, means that your members paid a higher percentage of the actual cost than what was projected when the contribution amounts were originally calculated. Then, in the next year, if there was a projected increase in overall costs that increase was added on top of rates that were already inflated.

We cannot quantify or comment with certainty the employee contribution percentage or dollar amount and if the employee contribution is in accordance with the collective bargaining agreement(s). Additional financial analysis would be necessary along with additional knowledge regarding the specifics of the collective bargaining agreement(s).

Please see Appendix B for the Fiscal 2014 Superintendent's Budget, Health Fund section with Milliman's comments and observations.

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Milliman's review was based upon, and limited to, the information and data as provided to Milliman by Howard County Public School System, Bolton Partners, Howard County Education Association and National Education Association. No other information was supplied nor taken into consideration regarding this effort.

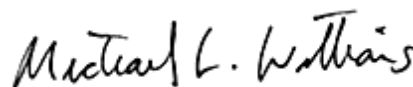
Please note this report has been prepared solely for the internal business use of Howard County Education Association (HCEA) and is only to be relied upon by the management of HCEA. This report may not be provided to any other party without Milliman's consent. In the event such consent is provided, the report must be provided in its entirety.

If you have any questions or desire further details or explanation of any of the items contained in this correspondence, please do not hesitate to contact us.

Sincerely,



Stuart D. Rachlin, FSA, MAAA
Consulting Actuary



Michael L. Williams, CEBS
Senior Consultant

Appendix A

Benefits Oversight Committee

PURPOSE

To provide opportunities for a collaborative, multi-perspective partnership in which all parties are knowledgeable about the plan benefits, financials, issues and concerns as well as any possible alternatives. Approval by the Benefits Oversight Committee must be obtained before any changes or modifications can be implemented to the employee benefit plans, programs, vendors, policies and cost.

CHARGE

The Benefits Oversight Committee is charged with:

- Providing integrated oversight of all employee benefits matters including cost, funding, programs, carriers / vendors, professional service providers, competitiveness, employee rates, and benefits philosophy.
- Advising on employee benefit matters and recommends policies and programs, monitors trends and regulatory changes, and identifies and analyzes critical issues and priorities.
- Reviewing reports on historical and projected costs, funding, reserves, risk management, employee benefit rate impacts, and the competitiveness and utilization of programs.
- Evaluating proposals, addendums and bids for all aspects of any benefits programs.
- Creating working groups to address specific topics as appropriate to include, but not limited to:
 - Benefit coverage and member appeals
 - Administrative and plan exceptions
 - Ad hoc items (technology, legislation, etc.)

STRUCTURE

The Benefits Oversight Committee shall be composed of fairly equal members with the plan sponsor / employer having majority representation. Fiduciary Liability coverage with a \$1 million limit will be provided to the representatives at no cost to the representatives.

The Benefits Oversight Committee shall exercise all of its rights under the third party contracts to assure that all specifications are satisfactorily met.

The Benefits Oversight Committee will have access to carrier / vendor generated and professional service provider third party financial data, plan experience, utilization reports, including actuarial reports and all information that could potentially affect the employee benefit plans and programs.

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Association representatives on the Benefits Oversight Committee shall be released from school duties for meetings of the Benefits Oversight Committee without loss of salary whenever it is jointly decided to hold such meetings during the school day.

SCHEDULE

The Benefits Oversight Committee shall provide for regular meetings. The date, time, and place at which regular meetings will be held will be agreed upon by the Benefits Oversight Committee. The next scheduled date will be confirmed in the prior meeting. Schedule is subject to change. Further, the Benefits Oversight Committee shall meet within a reasonable time after a request of either party to discuss, study, and report on suggestions pertaining to the employee benefit plans and costs.

Minutes of all meetings shall be available to all members of the Benefits Oversight Committee.

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Appendix B

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Fiscal 2014 Superintendent's Budget

Restricted Funds

Milliman comments, areas of emphasis and notes in red.

Health & Dental Self-Insurance

Health Insurance Fund Program 9715

Overview and Objectives

The Health & Dental Self-Insurance Fund accounts for all school system employee health, dental, life, and disability insurance expenses and related administrative costs. Government Accounting Standards allow for the use of Internal Service Funds for risk-financing activities. **The internal service fund is a proprietary fund**, which utilizes the accrual method of accounting. **The use of a separate fund for self-insured benefit activities can help smooth the impact of severe claim fluctuations which could adversely impact the General Fund.**

The fund's revenues come from payments by the General Fund (Fixed Charges Category), Food and Nutrition Services Fund, employee, bus driver, COBRA and retiree contributions and reimbursements for grant-funded employees. This self-insurance fund is required to maintain adequate reserves to cover potential medical claims liability.

Benefit plans are administered by the Benefits Office within the Finance Department.

The objectives of the Health and Dental Self-Insurance Fund are to:

- Maintain the Fund at an actuarially sound funding level.
- Provide high level health insurance coverage, life insurance and voluntary benefits while monitoring and controlling overall costs to the system and its employees.
- Continue to improve the effects of medical and pharmaceutical cost inflation by adjusting plan design, promoting preventative care over remedial care, and promoting the use of generic drugs in lieu of brand-name prescriptions.

Program Contact

Beverly Davis
Jeeni Griffin

Program Highlights

In January 2012, Howard County Public Schools consolidated health plans, implemented a prescription benefit manager program, and began full implementation of a comprehensive employee wellness program. It is anticipated that these initiatives will contain health care costs now and in the future.

The Health Insurance Fund balance increased in previous years due to cost saving measures, additional funds from the Education Job Fund Grant and prepaying contributions by using available prior year end funds. By the end of fiscal 2011, the fund balance had reached \$21.6 million.

In fiscal 2012 and 2013, the fund balance in the Health Insurance Fund was used to reduce the amount of contributions needed from the General Fund.

In fiscal 2014, due to the depletion of the fund balance, the General Fund contribution must be increased to provide for projected Health Insurance Fund costs.

The fiscal 2014 budget increases General Fund contributions by \$15,464,350, which also includes medical coverage for new positions, while moving 1.0 Project Assistant from Accounting Services (Administration, program 0206).

Personnel Summary

	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>
Benefits Specialist	1.0	1.0	1.0
Benefits Assistant	1.0	1.0	1.0
Benefits Clerk	1.0	1.0	1.0
Project Assistant	<u>0.0</u>	<u>0.0</u>	<u>1.0</u>
Total	3.0	3.0	4.0



Fiscal 2014 Superintendent's Budget

Restricted Funds

Milliman comments, areas of emphasis
and notes in red.

Health & Dental Self-Insurance

Health Insurance Fund Program 9715

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	
	Actual	Actual	Authorized	Superintendent	Board Request
Salaries and Wages					
Salaries	\$ 172,790	\$ 197,044	\$ 202,410	\$ 269,920	
Wages-Temporary Help	984	6001	0	6000	
Wages-Overtime	100	3227	0	0	
Subtotal	173,874	206,272	202,410	275,920	
Contracted Services					
Technology ISF Services	159,030	182,890	182,890	182,890	
Contracted -Virgin Health	134,885	1,143,720	192,000	1,398,000	
Contracted-Consultant	459,295	244,447	200,000	250,000	
Contracted-Labor	22,764	36,963	30,000	35,000	
Subtotal	775,974	1,608,020	604,890	1,865,890	
Supplies and Materials					
Printing-ISF Services	18,300	18,300	18,300	840	
Supplies-General	9,933	8,187	10,000	10,000	
Subtotal	28,233	26,487	28,300	10,840	
Other Charges					
Benefitfocus	148,716	362,715	342,650	350,000	
Dues & Subscriptions	520	912	1,250	1,400	
Training	1,927	4,445	4,000	6,000	
Other Miscellaneous Charges	9,998	9,074	10,000	10,000	
Travel-Mileage	205	0	0	0	
Wellness		139,681		200,000	
Non-Election-Benefits	3,669,992	3,688,474	3,833,160	3,888,930	
Administrative Fees	5,164,508	4,717,321	(1) 3,620,790	3,790,900	
Stop Loss Insurance	1,581,787	1,938,965	(1) 2,785,670	1,865,200	
Payment of Claims	71,423,543	86,335,679	(2) 93,585,010	99,536,330	
Subtotal	82,001,196	97,197,266	104,182,530	109,648,760	
Program 9715 Total	\$82,979,277	\$99,038,045	\$105,018,130	\$111,801,410	

(1) Does not reconcile with Bolton's 2013 renewal projection and is less than the projection amount.

(2) Less than Bolton's 2013 renewal projection amount, but more than the amount on page 18.



Fiscal 2014 Superintendent's Budget

Restricted Funds

Milliman comments, areas of emphasis and notes in red.

Health & Dental Self-Insurance

Health Insurance Fund Program 9715

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Salaries and Wages

Salaries	Positions to help administer health plans.
Temporary Help	Provides support for the Benefits Office.
Contracted Services	
Technology ISF Services	Payment to the Information Management Fund for data processing services.
Contracted-Virgin Health	Funds to provide employee wellness program.
Consultant Fees	Consulting service to support changing health care regulations.
Contracted Labor	Provides temporary assistance to support the health plan administration.
Supplies and Materials	
Printing ISF Services	Payment to the Printing and Duplicating Fund for printing services.
General Supplies	Consumable supplies and materials.
Other Charges	
Benefitfocus	Fees for online enrollment system.
Dues and Subscriptions	Subscriptions to work-related publications and associated dues.
Training	Funds to provide training for health care administration.
Other Miscellaneous Charges	Case management fees and hospital admission reviews.
Wellness	Funds to support the employee wellness program.
Non-Election Benefits	Flexible benefit credits for individuals participating in the Variety of Insurance Program (VIP).
Administrative Fees	Fees related to third party claims administration.
Insurance-Stop Loss	Stop loss insurance caps the maximum amount the Health and Dental Fund must pay for any single claim and the maximum paid for all claims in any plan year.
Payment of Claims	Self-insured health, dental and vision claims coverage.



Fiscal 2014 Superintendent's Budget

Restricted Funds

Milliman comments, areas of emphasis and notes in red.

Health Insurance Fund

Program 9715

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	
	Actual	Actual	Estimated	Superintendent	Board Request
Sources of Funds					
Beginning Fund Balance	\$11,537,600	\$ 21,642,934	\$ 16,342,111	\$ 4,861,900	
Employee withholdings (A)	13,075,497	14,502,479	15,807,820	15,807,820	
Retiree payments	4,306,278	3,807,397	4,200,000	4,200,000	
COBRA, leave, refunds, etc.	164,604	188,818	200,000	200,000	
Payment from Food Services	2,076,890	1,955,913	2,007,000	2,007,000	
Payment from Transportation	227,366	570,164	555,000	555,000	
<u>Payment from General Fund</u>	69,938,024	70,646,703	68,277,160	82,741,510	
Medicare Part D-Rebate	2,071,283	691,168	500,000	500,000	
Miscellaneous Revenue		129,806			
Payment from Grants	1,224,669	1,244,774	1,155,000	1,155,000	
Subtotal User Charges	93,084,611	93,737,222	92,701,980	107,166,330	
Total Sources of Funds	\$104,622,211	\$115,380,156	\$109,044,091	\$112,028,230	
Uses of Funds					
Non-Election Benefits	\$ 3,669,992	\$ 3,688,474	\$ 3,833,160	\$ 3,888,930	
Administrative Fees	6,746,295	6,656,286	(3) 5,793,910	5,656,100	
Payment of claims	70,833,889	85,298,358	(4) 92,273,348	99,536,330	
Accrued reserve adjustment	589,654	1,037,321	(119,417)		
<u>Other Expenses</u>	<u>962,117</u>	<u>2,156,416</u>	<u>2,200,000</u>	<u>2,536,320</u>	
Payment to Technology Fund	159,030	182,890	182,890	182,890	
Payment to Printing Fund	18,300	18,300	18,300	840	
Total Uses of Funds (B)	\$82,979,277	\$ 99,038,045	\$104,182,191	\$111,801,410	
Ending Fund Balance	\$21,642,934	\$ 16,342,111	\$ 4,861,900	\$226,820	
Accrued Reserves (set aside)	\$ 8,806,438	\$ 9,843,759	\$ 9,724,342	\$ 9,724,342	
B / A =	15.75%	14.64%	15.17%	14.14%	
<p><i>Fund is shown on generally accepted accounting procedures (GAAP) basis. Fund balances in the revolving fund are based on the report of the school system's independent auditors. Claims reserves are required to operate this fund on a self-insured basis.</i></p>					

(3) Less than Bolton's 2013 renewal projection amount ≈ \$2.2 million.
 (4) Less than Bolton's 2013 renewal projection amount ≈ \$3.7 million.