MERCER

CONSULTING. OUTSOURCING. INVESTMENTS.

2013 RENEWAL STRATEGY RECOMMENDATIONS
EVERETT SCHOOL EMPLOYEE BENEFIT TRUST

APRIL 30, 2012

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Seattle

Agenda

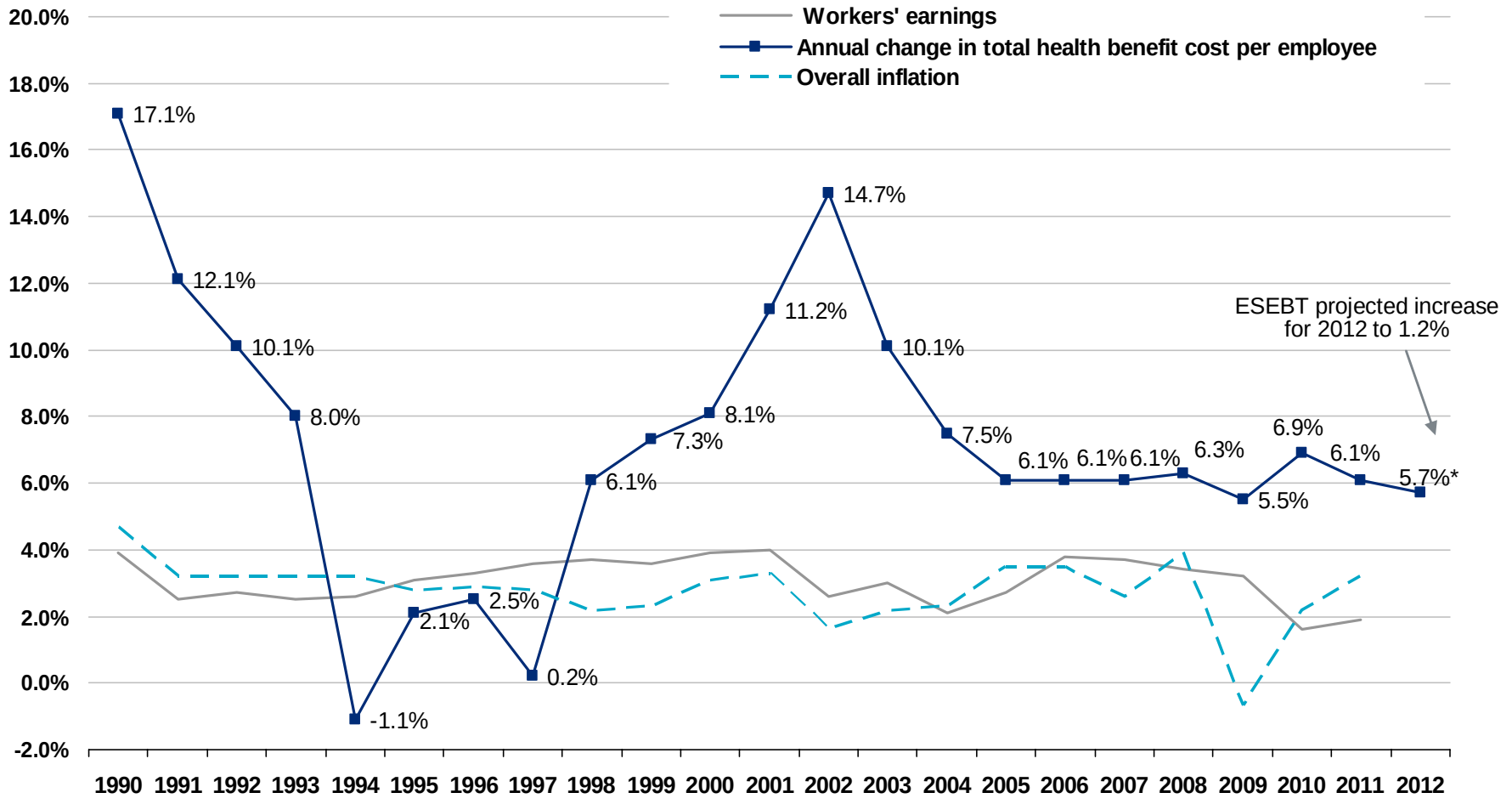
- Mercer Survey Results
- Health Care Reform
- Benchmarking Summary
- Legislative Update
- 2013 Vendor Renewal Planning
- Wellness Strategy
- 2013 Renewal Calendar

MERCER SURVEY RESULTS

About the survey

- The largest and most comprehensive annual survey on the subject
- Established in 1986, national probability sample used since 1993
- 2,844 employers with 10 or more employees completed the survey in 2011
- The national, regional and major industry group results are weighted to represent all US employers. However, results for smaller groups – city, state and other special employer groups – are unweighted and represent only the respondents in the group

Growth in total health benefit cost per employee slows to 6.1% in 2011 with a 5.7% increase expected for 2012

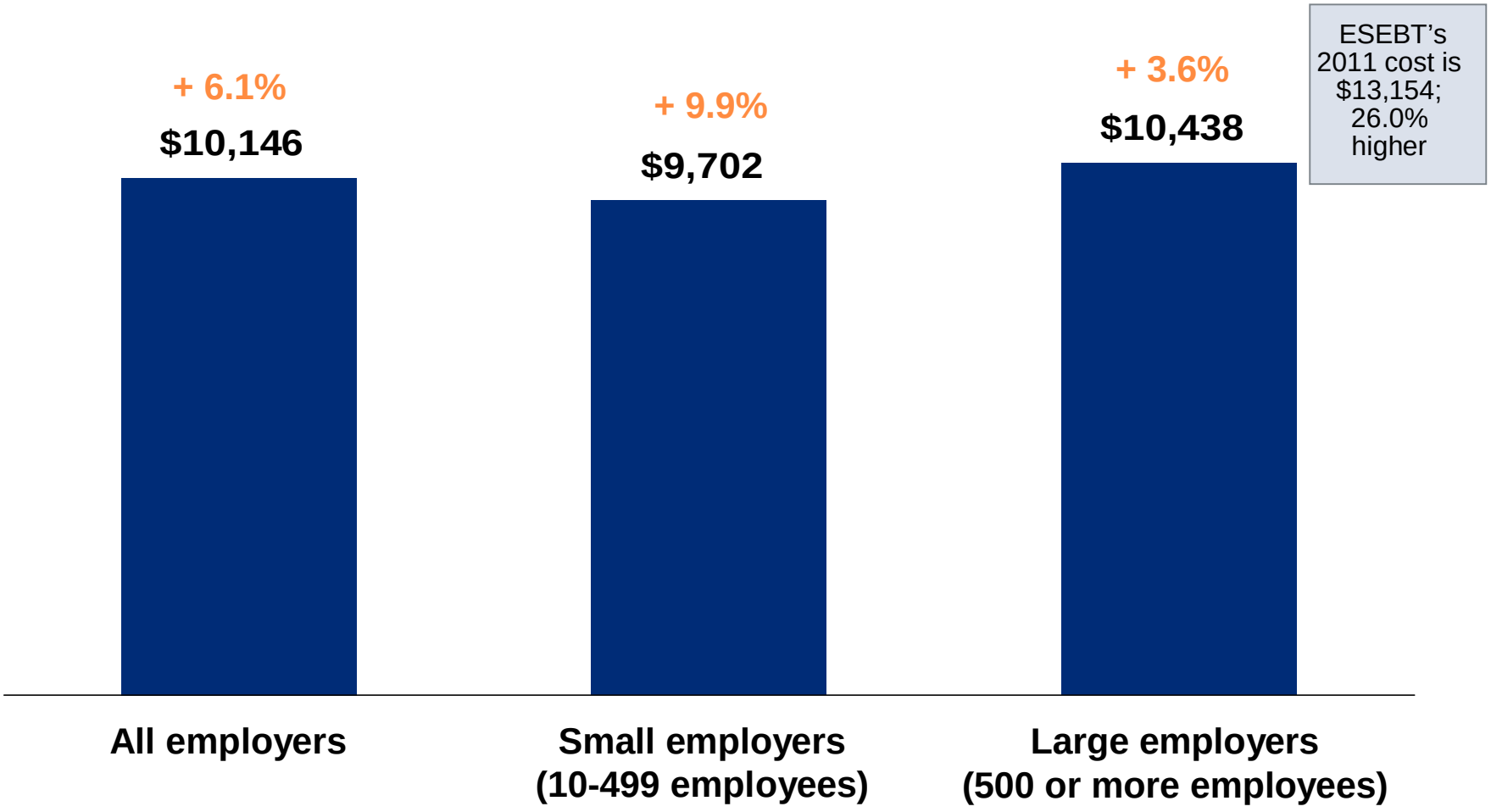


* Projected

Source: Mercer's National Survey of Employer-Sponsored Health Plans; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 1990-2011; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April) 1990-2011.

Average cost tops $10,000 per employee

Total health benefit cost per employee in 2011, by employer size

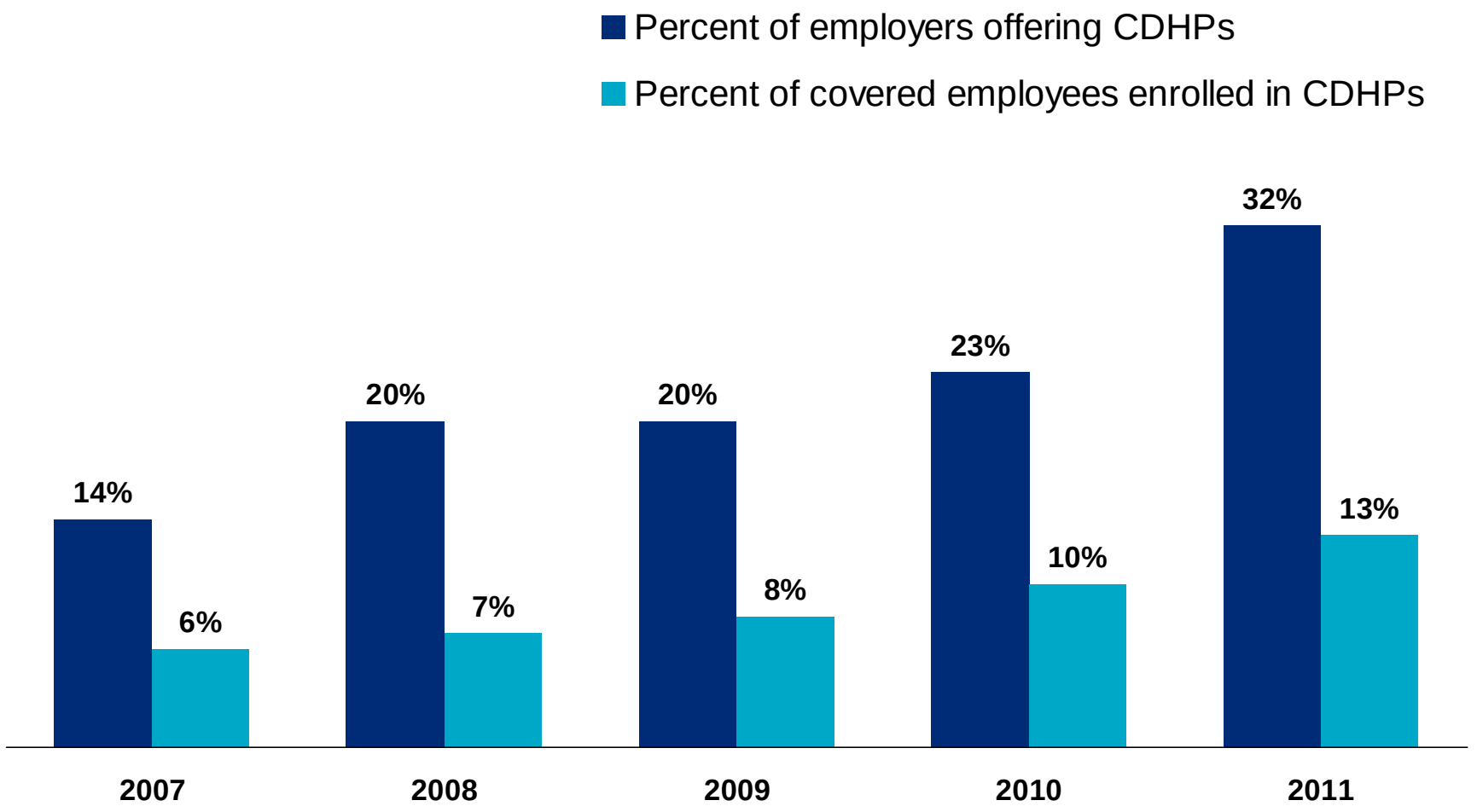


ESEBT's 2011 cost is $13,154; 26.0% higher

ESEBT's 2012 costs are projected at $13,313; a 1.2% renewal increase

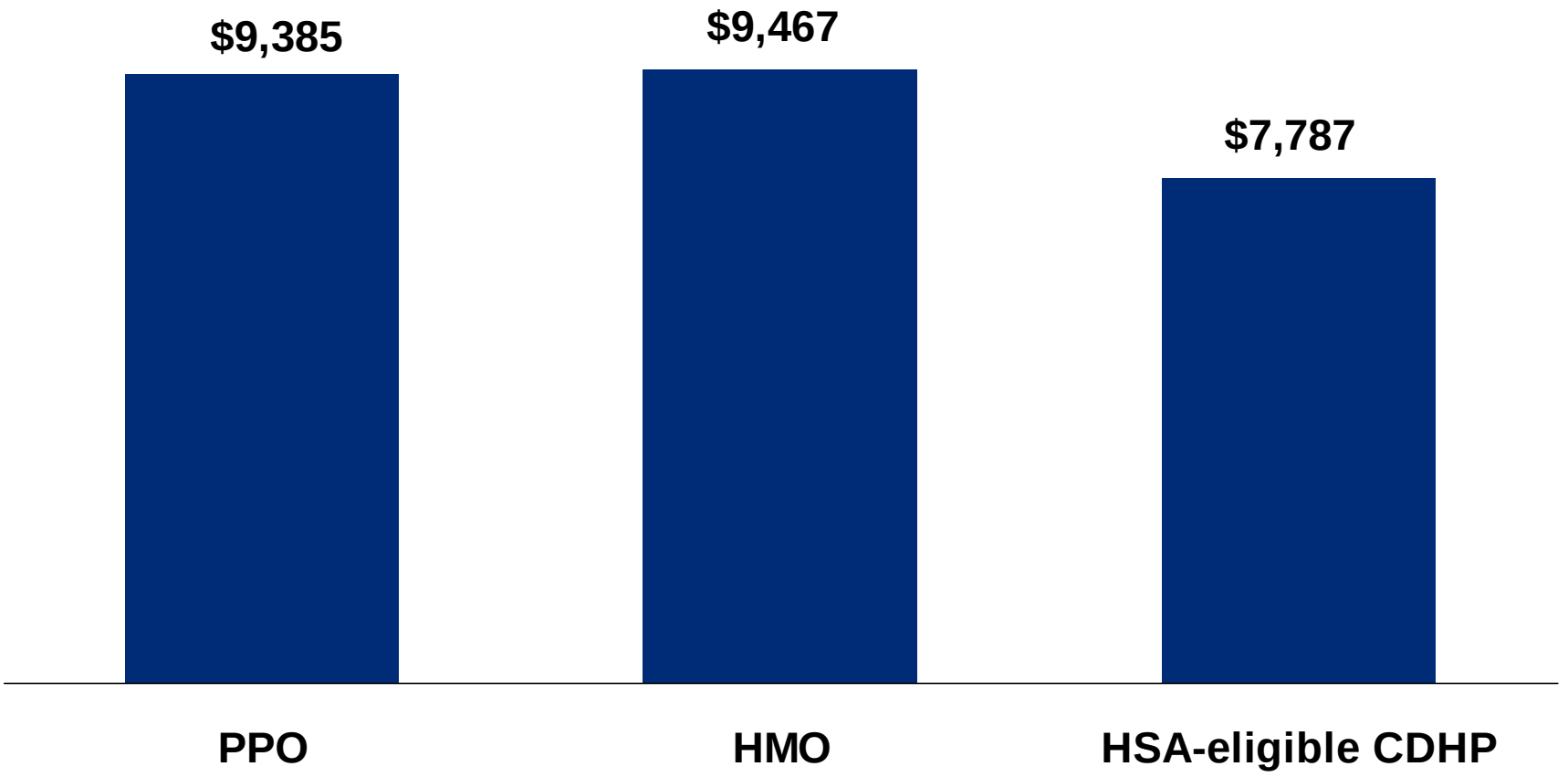
Sharp increase in CDHP offerings among large employers in 2011

Percent of employers with 500 or more employees

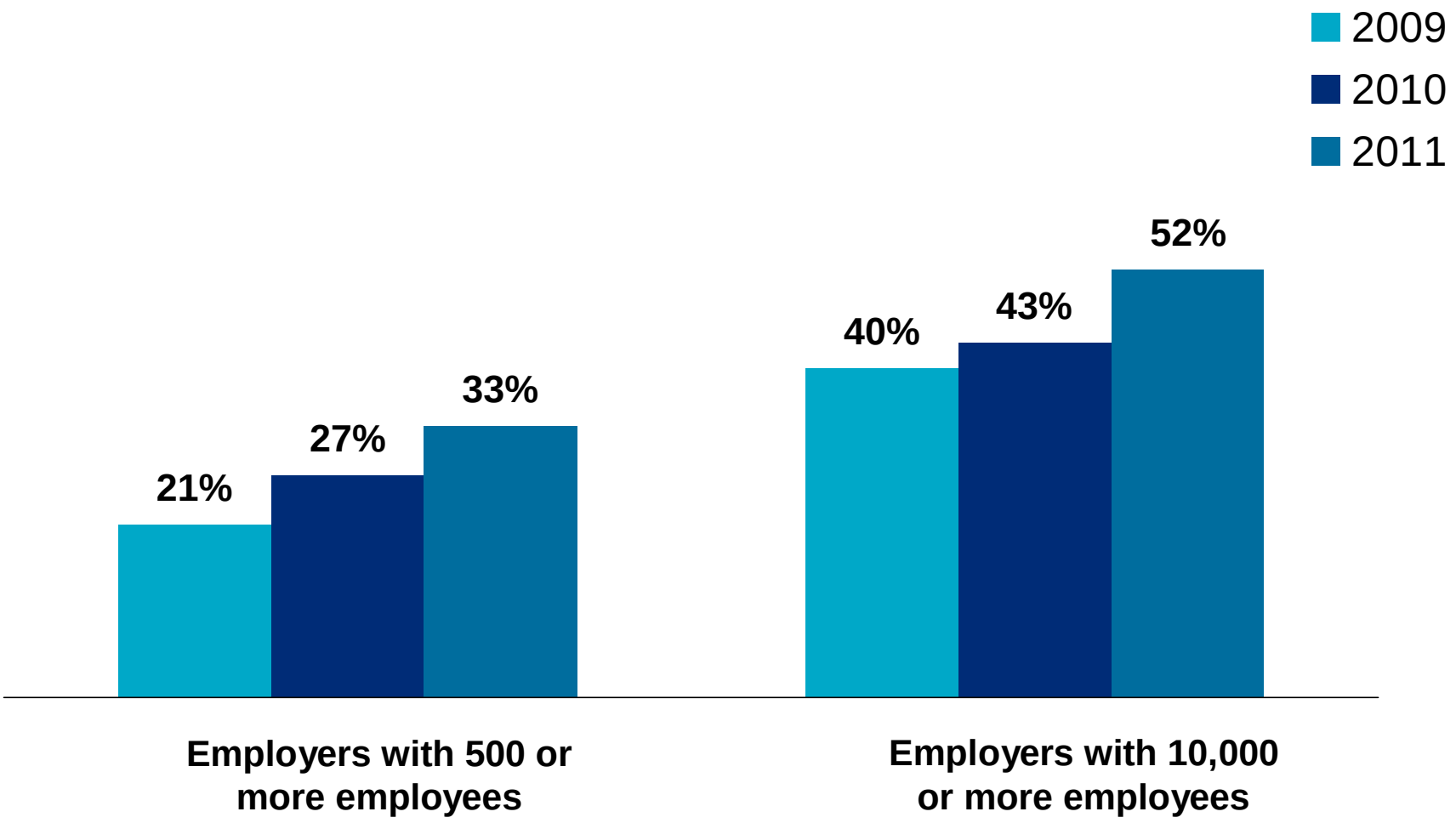


HSA-based CDHPs cost nearly 20% less than other medical plan types in 2011

Medical plan cost per employee (includes employer contributions to HSA accounts)



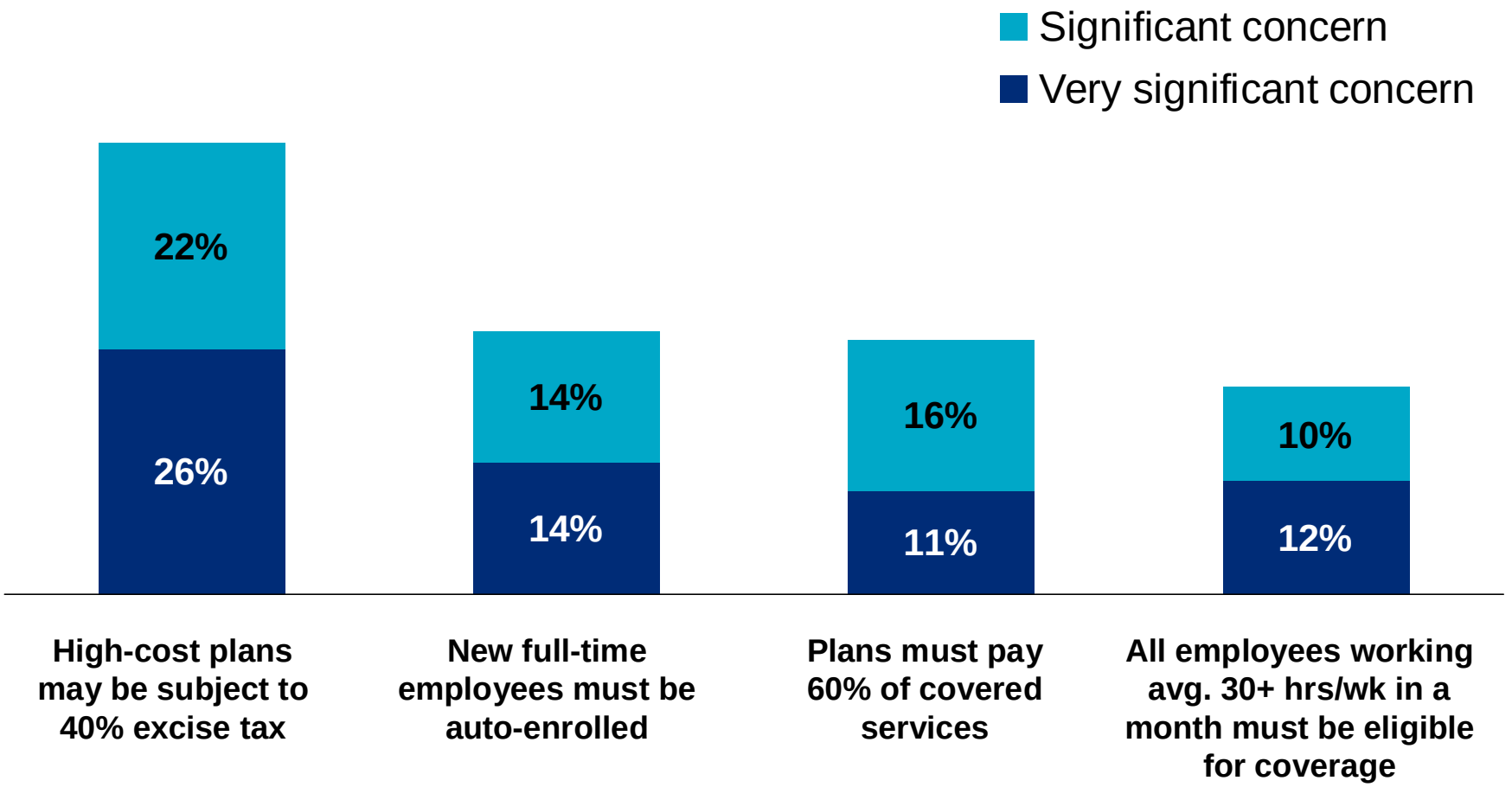
Employers add incentives and penalties to boost employee participation in wellness or health management programs



HEALTH CARE REFORM
EMPLOYER RESPONSE

Employers fear additional cost pressures as new PPACA provisions kick in

Level of concern regarding PPACA provisions, given potential impact on cost, administrative burden or employee relations

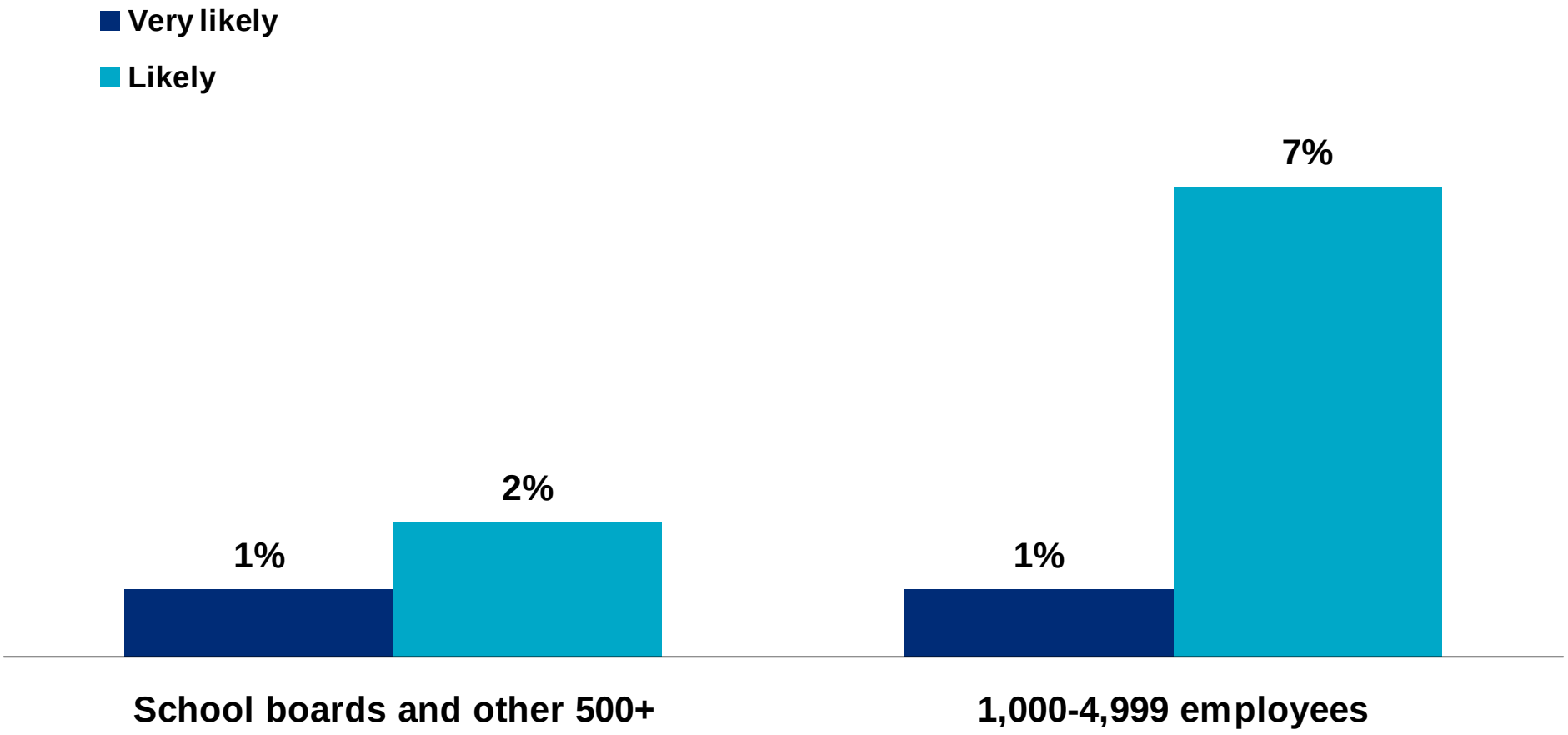


Data based on employers with 50+ employees

Likely long-term strategies in response to health care reform

	School Boards and other 500+	1,000-4,999 employees
Reduce spending on dependent coverage relative to employee coverage	20%	32%
Add voluntary benefits or transition some employer-paid, non-medical benefits to voluntary	33%	39%
Add / strengthen programs or policies to encourage more health-conscious behavior	85%	88%
Outsource benefits administration to a third-party vendor	15%	11%

Likelihood of terminating medical plan(s) after some or all PPACA provisions go into effect



BENCHMARKING SUMMARY

2012 health plan offerings
Understanding ESEBT's current market position

Plan component	Current Position to the School Boards Benchmark	Commentary
Medical/Rx plan design	Varies	• WEA Plan 3 (most prevalent) – Lower deductible – Higher out-of-pocket maximum – Higher copay for PCP – Higher inpatient hospital copay • Group Health HMO – Competitive – Lower copay for specialist
Medical/Rx ee contributions	Above median	Significantly lower contributions for ee coverage and dependent coverage (all WEA plans except 1 and 5) Markedly lower contributions for both ee and dependent coverage for GHC HMO
Dental plan design	Above median	No deductible required More generous annual maximum No orthodontia benefit
Dental ee contributions	Above median	No employee contribution required

Market position based on comparison to results from the 2011 Mercer National Survey of Employer-Sponsored Health Plans.

See the "Benchmarking" section of the Appendix for detailed comparisons.

LEGISLATIVE UPDATE

Legislative update
Washington State K-12 benefits consolidation

- Engrossed Substitute Senate Bill (ESSB) 5940 passed the Senate and the House on April 11
  - While ESSB 5940 does not go so far as to mandate a state takeover of K-12 benefits, the provisions will impact ESEBT
- The bill establishes guidelines for employee contributions
  - Limiting contributions for family coverage to 3.0× the contribution for employee only coverage
    - ESEBT is in compliance except on the GHC plan (ratio of 4.4) necessitating an increased employee only or a decreased family contribution; employees pay 7% of the premium for EO coverage and 12% for the incremental dependent coverage for a ratio of 1.7
    - Balance of the plans range between ratios of 2.4 and 2.8
- Includes a minimum employee premium charge, but does not define what that minimum is; depending on where that is set, it could have impact.

Legislative update
Washington State K-12 benefits consolidation

- Appears to maintain current pooling requirements; prior versions sought to limit the number of pools
- Significant reporting requirement, which would appear to require Premera and the WEA to release school district specific claims, admin, and reserve information by benefit plan offering
- Must offer a High Deductible Health Plan with a Health Savings Account; presumably, the WEA will make such a plan available
- Must offer at least one non-HDHP with the "employee share of the premium" below the levels set in the prior year for non-HDHP coverage under the PEBB.
  - UMP current contributions for coverage are $82/$174/$144/$236
  - ESEBT contributions for WEA Plan 3 are below that, so presumably you would be in compliance

Legislative update
Washington State K-12 benefits consolidation

- All contracts or agreements for ee benefits must go through an open competitive process; no specifics around timing requirements
- Includes a plan for the HCA to once again report back to the legislature on the progress made toward the goals of the current legislation, including commentary and recommendations on whether state wide consolidation of K-12 benefits would be a better approach
- Establishes a $5M performance fund
  - In the 2015-2016 school year, the joint committee will rank order school districts in their progress toward the goals of this legislation and provide performance grants to the top districts, to be used to reduce employee health insurance cost

Preceding commentary on ESSB 5940 is not intended to be comprehensive, does not address every issue in the legislation and should not be construed as legal interpretation nor advice.

2012 and 2013: Upcoming mandates and responsibilities

2012 Mandates	
Form W-2 Reporting	• Reporting for 2012 takes place in January 2013 • "Aggregate cost" using methods described in IRS guidance • Actives only
Women's Preventive Services	• Cover with no cost sharing for non-grandfathered plans (WEA and GHC plans are non-grandfathered) • Effective first plan year after 8/1/2012
Group Health Plan Fee	• Annual fee of $1, $2 in second year and indexed thereafter, assessed per participant until 2019 • Funds federal program on comparative effectiveness research
Uniform Benefit Summary **(Open enrollments starting on or after 9/23/2012)**	• Can be included in the beginning of the SPD • Four pages, 12-point font summary provided at initial and annual enrollment • Includes information about covered benefits, exclusions, cost-sharing and continuation coverage

2013 Mandates	
$2,500 Health FSA Contribution Cap	• CPI adjusted after 2013
Health Insurance Exchange Notice	• Inform employees about health insurance exchanges and eligibility rules in March 2013
New Taxes For High-income Households	• Additional *employee-only 0.9% Medicare* tax on wages exceeding: – $250,000/married filing jointly – $125,000/married filing separately – $200,000 in any other case • New 3.8% tax on investment income for taxpayers with incomes exceeding levels described above

2013 VENDOR RENEWAL PLANNING

Recommended Renewal Strategy

Plan	2012 Renewal Result	2013 Recommendation
WEA – Medical and dental	• Implementation of fully-insured plans through the WEA, termination of self-funded plans administered by HMA/Express Scripts, and termination of UHC HMO • WDS rate decrease of 3.0% • Willamette rate decrease of 4.9%	• Renew plans • Consider change in plan year, see next page for details
Group Health Cooperative	• 0.1% rate decrease with loss of grandfathered status and other plan changes	• Renew plan • Ask for quote on the Alliant product
MetLife	• 9.2% rate decrease for basic life and AD&D, rate pass for optional coverages	• No renewal – guaranteed through 2014
Standard	• Rate guarantee	• Renew plans
Magellan	• Rate pass with elimination of the nurse line	• No renewal – guaranteed through 2013
Alere	• Rate pass • 50 participant limit for Mind & Body	• Renew plan • Explore tobacco surcharge?
HealthForce Partners	• Conversion to a “per registered user” pricing • Wellsource HRA terminated	• Terminate plan • See wellness strategy section for other recommendations

Potential change in plan year

- ESEBT's plans renew on January 1 of each year while the WEA plans renew on October 1 of each year
- Most school districts participating in the WEA program align their plan year with the WEA plan year (10/1), although some do not
- Pros and cons of a change in plan year are included below

Pros	Cons
• Avoid the financial impact of "floating" the premium increase from 10/1 to 1/1 – Total 2012 premium approximately $15.8M – An 8% increase funded by the Trust for 3 months is $300,000 • More support from Premera during open enrollment (OE), since the majority of districts observe a 10/1 plan year	• Timing issues – OE in August, renewal decisions made by end of June or into early July • Collective bargaining ramifications • Less support from Premera during OE • Two OEs in a shorter time period – Short plan year from 1/1 through 9/30, then new plan year runs 10/1 through 9/30

ESEBT wellness program
Where do we go from here?

- The move to the WEA has an impact on the wellness program
  - Limited ability to impact ESEBT-specific health care costs as a participant in a very large pool
  - Potential impact on absence and productivity, while positive for the District, is likely out of the purview of the Trust's bylaws
- May be appropriate to refresh the goals and expectations of the program to focus on making tools and resources available for the benefit of employees, as opposed to a focus on health care cost savings
  - Under this scenario, use of significant incentives or penalties to drive participation may be inconsistent with the overall program goal
- Recommended approach for consideration:
  - Continued focus on the grass roots, on the ground programming that Gail has led successfully
  - Terminate HealthForce Partners and reallocate expenses in other areas
    - Key question: maintain an HRA or not?
  - Continue to encourage program engagement, but do not explore significant incentives or penalties
    - Key question: reallocate current incentive funds in other program areas, maintains some form of incentive, or eliminate incentive expense as a cost savings measure?
    - Key question: continue to fund onsite programming (e.g. flu shots, Weight Watchers, etc.)?

2013 RENEWAL CALENDAR

Renewal calendar

January 2012	February 2012	March 2012	April 2012
		• Renewal planning kickoff meeting	• Present renewal strategy recommendations to trustees for approval
May 2012	**June 2012**	**July 2012**	**August 2012**
• Request employee census data from District • Issue renewal requests to carriers	• Receive, review, and negotiate vendor renewals	• Develop budget projections	• Renewal review meeting including budget projections • Finalize renewal decisions and issue renewal confirmation letters
September 2012	**October 2012**	**November 2012**	**December 2012**
• Deliver final projections, employee contributions, and rate sheets • Begin development of open enrollment communications	• WEA renewal effective date on 10/1/2012	• District holds open enrollment	• Renewal effective date for other plans on 1/1/2012

APPENDIX

BENCHMARKING

Employee contributions for PPO coverage

	School Boards and other 500+		1,000-4,999 Employees		ESEBT 2012	
	Average monthly $ amount	Average contribution as a % of premium	Average monthly $ amount	Average contribution as a % of premium	Monthly $ amount*	Contribution as a % of premium
PPO						
Employee-only	$146	23%	$107	22%	$322/129/62/48/237*	39/20/11/11/32%
Family	$474	38%	$367	29%	$778/328/177/134/664*	41/23/14/14/38%

* WEA Premera Plan 1 / Plan 2 / Plan 3 / EasyChoice/Plan 5

Employee cost-sharing requirements for PPO
Most prevalent plan, WEA Plan 3

	School Boards and Other 500+ In-network	1,000-4,999 Employees In-network	ESEBT 2012 In-network
Deductible			
Require deductible	65%	82%	Yes
Individual amount (median)	$500	$420	$200
Family amount (median)	$1,000	$1,000	$600
Primary care physician's office visit			
Require copay	83%	82%	Yes
Copay amount (median)	$20	$20	$30
Require coinsurance	17%	22%	Yes
Coinsurance amount (median)	20%	20%	20%
Specialist's office visit			
Require higher copay for specialist visit	41%	52%	No
Copay amount, when higher (median)	$35	$35	N/A
Lab tests / X-rays			
Require copay	18%	16%	N/A
Require coinsurance	45%	61%	Yes
Coinsurance amount (median)	20%	20%	20%

Employee cost-sharing requirements for PPO, continued
Most prevalent plan, WEA Plan 3

	School Boards and Other 500+ In-network	1,000-4,999 Employees In-network	ESEBT 2012 In-network
Out-of-pocket maximum			
Individual OOP max (median)	$2,000	$2,750	$2,750
Hospitalization			
Require per-admission copay	16%	19%	Yes
Copay amount (median)	$250	$250	$300/day
Require coinsurance	53%	74%	Yes
Coinsurance amount (median)	20%	20%	N/A
Emergency room visits			
Require separate copay	82%	80%	Yes
Copay amount (median)	$100	$100	$100

Employee contributions for HMO coverage

	School Boards and Other 500+		1,000-4,999 Employees		ESEBT 2012	
	Average monthly $ amount	Average contribution as a % of premium	Average monthly $ amount	Average contribution as a % of premium	Monthly $ amount	Contribution as a % of premium
HMO						
Employee-only	$111	21%	$101	22%	$34	7%
Family	$476	38%	$350	27%	$151	10%

Employee cost-sharing requirements for HMOs
Most prevalent plan

	School Boards and Other 500+	1,000 – 4,999 Employees	ESEBT 2012
Doctor's office visit			
% requiring copay	95%	97%	Yes
% requiring coinsurance	0%	0%	No
Median copay for physician visit	$15	$20	$15
% requiring higher copay for specialist visit	40%	51%	No
Median copay for specialist visit, when higher than PCP	$30	$35	N/A
Hospitalization			
Employers requiring deductible	28%	ID	Yes
Median deductible	$250	$250	$100/day Max $300
Emergency room copayment			
Require per-admission copay	81%	88%	Yes
Median copayment	$100	$100	$100

Employee contributions for dental coverage

	School Boards and Other 500+		1,000-4,999 Employees		ESEBT 2012	
	Average monthly dollar amount	Average contribution as a % of premium	Average monthly dollar amount	Average contribution as a % of premium	Monthly dollar amount	Contribution as a % of premium
Employee-only	$23	68%	$17	48%	$0	0%
Family	$72	73%	$56	55%	$0	0%

Dental plan design*

	School Boards and Other 500+ In-network	1,000-4,999 Employees In-network	ESEBT 2012 In-network
Deductible			
Require deductible	60%	83%	No
Individual amount (median)	$50	$50	N/A
Annual benefit maximum			
Plan includes annual benefit maximum	90%	94%	Yes/No**
Individual maximum (median)	$1,250	$1,500	$2,000/unlimited
Orthodontia			
Plan includes separate max for orthodontic	79%	91%	No
Individual ortho lifetime max (median)	$1,250	$1,500	N/A

* Based on dental PPOs and fee-for-service plans
** WDS/Willamette