

Everett School Employees Benefit Trust
September 3, 2010
Minutes

Attendance

Molly Ringo
Mike Gunn
John Morrill
David Jones
Betsy Selders
Susan Lindsey

Absent

Also Attending

Darla Van Duren
Randi Seaberg
Gail Buquicchio
Sean White
Arlene Vollema-Rich
Rene Boswell
Christina Garcia

Recorder

Kellee Newcomb

Call to Order

The meeting was called to order by Susan Lindsey at 8:07 a.m.

Adoption of Agenda

A motion was made by Betsy Selders and seconded by John Morrill to approve the agenda as written. The motion passed unanimously.

Approval of Minutes

A motion was made by John Morrill and seconded by Mike Gunn to approve the minutes from the August 9, 2010 meeting as written. The motion passed unanimously.

Financial Report

Darla reported that the financials were not ready at this time. Rather than providing draft July and August financials, she will complete them and provide them with the June financials once the audit is finalized.

Trust Audit Follow-Up

Darla reported that the auditors are in the final stages of the Trust audit. She will have a draft of their findings for the next meeting. She stated she would provide the draft electronically for the Trustees to review prior to the September 20th meeting. Darla will highlight anything that is different or unusual from the previous year. She stated there have been no surprises thus far and the audit is running smoothly.

Consultant Report

• **2010-2011 Budget**

Sean reviewed with the Trustees what had occurred at the August 9, 2010 meeting regarding renewals. Sean provided an overview for the Trustees of options to mitigate the \$3.6 million projected deficit. He included the options that were held in the "parking lot" last year, which were the pharmacy management programs, the VSP program through the WEA, and the Mind and Body weight management program. The other factors built in to the budget are the margin component on the self-insured plan, as well as the level of PacifiCare commissions. Discussion at the last meeting was regarding the level of commission's income that Mercer receives, aligned with the cost for the services that they provide. The last topic reviewed was the levels of Trust subsidy toward the plans. Sean reviewed the variables with the group.

The first option reviewed was to remove the margin component from the self-insured plan projections. Historically, a 3% margin has been included for protection against fluctuation; however, given the level of deficit, Sean felt it might make sense to use a slightly more aggressive approach. When moved to zero, the annual cost reduction is about \$263,000, reducing the projected deficit to \$3.3 million.

Another area of savings discussed at the last meeting was the commission levels on the PacifiCare plan, which have reached a point where commission income exceeds what is needed to provide services to the Trust. The current surplus as of the end of June 2010 was \$99,000. Mercer estimates 2011 commission levels of \$316,000. Assuming there are no changes in 2011, Mercer's expenses would be approximately \$195,000 which would result in a year-end surplus of \$220,000. Sean commented that the issue with the commissions is that as commission levels are reduced, PacifiCare premium levels are reduced. Unless they are reduced significantly to zero it won't have a major budget impact, although it does rectify the situation discussed in terms of the developing surplus with Mercer. They project a year-end deficit for 2011 of \$48,000. Another issue that using zero would have is that the full removal of the commission brings the PacifiCare premiums below Group Health causing the two plans to swap in terms of which one becomes lower cost. Sean suggested 2% or 3% might be a more reasonable scenario. The group discussed the scenario of lowering the percentages.

Another update was regarding the ESI Pharmacy Management Programs discussed at the last meeting. The only change is on the zero dollar generics with the projected savings being quite small. The data in the last report received from ESI represented the maximum potential savings through the program only if all brand name drugs currently purchased were converted to generic. Additional ESI analysis on this program indicated the typical adoption rate is low; it is almost a break even. The money that the Trust would save from employees moving from brands to generics is offset by the reduced co-pay income. However, if the adoption rate was higher the savings would be higher, which might make sense to pursue this option even though the projected savings based on ESI's book of business isn't huge. The other two options received from ESI update savings estimates: the home delivery campaign would produce savings of \$25,000 and the specialty pharmacy program would produce expected savings of about \$10,000. Gail asked if the D2 Hawkeye Report data recommendations were included in the projections. Sean indicated that they were, specifically around the specialty pharmacy program.

Employee contribution levels hold the biggest impact. Sean provided the Trustees with some general market information to provide a sense for how the Trust's plans fit into the broader world of benefit programs. The Trust's current plans are well below the market in terms of contribution levels and Sean reiterated that this is something to keep in mind in determining how to deal with the deficit reduction. And, if the group decided it wished to reduce that level of deficit there certainly is room in the employee contributions against what is seen on average in the market. Even with a significant increase in contribution levels, the Trust would still be well below the market in comparison.

Rene asked Sean about the VSP vision program. He explained that the Trust would pick up 100% of this program. The group discussed the projected surplus. Gail reminded the group of a discussion at the last meeting regarding the Wellness Challenge and the possibility of considering premium contributions as part of the incentive package. She offered a suggestion that the Trustees keep a holistic picture in mind in terms of where they are going with the Wellness Program.

Molly stated there have been indications in the last couple of weeks from the governor's office that she may be looking at across-the-board reductions and how that might potentially impact the Trust in terms of health care for 2011 with regard to possible reductions from the state. The group discussed the status of health care and the state's budget, the idea of deficit spending in the short- and long-term, and future projections of trying to do business today so that there will not be a drastic rate increase in the next couple of years. David commented regarding talk out of Olympia regarding the differential between private sector compensation to employees for health care and public sector compensation. A goal of part of our state government is to bring public sector compensation allocation more in line with private sector compensation.

The group discussed what level of surplus they would be willing to authorize. David asked if there was a standard as to the amount of budget surplus that the Trust would always maintain. Currently there is no policy stating a specified range. The group discussed the possibility of adopting a policy for the future stating a consistent guideline. Having a guideline in place would also assist in communicating with employees. Molly suggested having Melanie and/or Howard draft a policy for the Trust to consider at a future meeting. Darla commented that the Office of Financial Management, who oversees and audits the Trust, may have some RCWs or guidelines for a healthy reserve. Sean said the most recent version he has seen from the Office of Financial Management has some proposed language in the RCW around required reserved levels for local government self-insured groups. He believes they indicate an initial reserve equal either to 8 weeks or an actuarial IBNR recommendation, as well as an additional recommended reserve of another 8 weeks. The Trust is looking at unallocated reserves which exclude the IBNR piece, indicating the official state requirement would be 8 weeks. The 3-6 month reserve that the Trust has talked about is certainly more conservative than that. Sean said he would be a little nervous targeting a 2 month reserve; however, that is ultimately the Trust's decision. Molly will contact Melanie asking her to draft a policy to be discussed at a future meeting.

The group discussed the Free and Clear weight reduction plan and how many employees to offer the incentive to. A suggestion was made to start with 50 for the first year and revisit the number in the future as needed. They also agreed to the \$100 co-pay. Sean will confirm with Free & Clear that they can administer a cost share with this plan. He will also confirm whether the Trust can limit enrollment for the first year to 50 enrollees and report back at a future meeting.

The group continued to discuss possible scenarios. They agreed that they were comfortable with the 2% PacifiCare commissions. Concerns were expressed regarding whether this will be enough for the future. Gail asked about PPO plan employees moving to HMO plans and how they would be affected. Sean stated the biggest change

would be flexibility in terms of provider choice. They most likely would not be able to keep their current doctor. Gail talked about health care consumerism and that for employees, making the hard choices with these changes might make them better consumers for their health care. Arlene commented that when they provide benefit information to employees, they caution them against choosing PPO1. Employees sometimes assume because it is the most expensive plan that it is the best. The group asked how Everett's plans compare with other districts. Sean reported that Everett's Group Health plan is more generous for a lower cost than in other districts. The PPO3 plan is comparable to the WEA plan, offering a similar plan for a similar or lower level of cost. Compared to the WEA, the Trust plans continue to look favorable.

Mike suggested looking at a 2-year budget projection scenario with the best information that they have today of unallocated reserves and employee contributions. In order to alleviate a big surprise in the future, there may be a need to consider communicating with employees in the next year or two that bigger increases are coming. Molly suggested also including information on increasing health care costs and how the Health Care Reform Bill will impact current plans. Sean mentioned that the State auditor's office is surveying districts, such as Tacoma, regarding the last two years of health benefit expense. They may also come to Everett.

A motion was made by David Jones and seconded by Betsy Selders to:

- Decline at this time the WEA VSP coverage;
- Limit the Mind and Body weight reduction plan to covering only the first 50 enrollees, and the Trust would reimburse 25% of that cost once the employees complete that program;
- Leave the self-insured margin at 3%;
- Reduce the PacifiCare commission to 2%;
- Implement the three pharmacy management programs with the savings on the generic at \$2,900, on the home delivery at \$25,000 and on the specialty RX at \$10,000; and
- Reduce by 3% the Trust subsidy in those areas from 98%-95% and so on.

The motion passed unanimously.

David noted that the other things agreed upon today were to ask Melanie to draft a policy for consideration regarding targeted allocation reserves in the future, that Sean would explore other service providers for the vision benefit and report back at the next meeting, and that in general, the Trustees had talked about encouraging PPO1 members to look at PPO2 and/or other levels of coverage.

Sean will provide 2012 budget projections and contribution levels. This will help frame the Trust's thinking and could be part of a communication plan of being fiscally responsible and why these decisions are necessary. Molly asked Randi to come back to the next meeting with some draft plans and communication tools to share for feedback.

- Health Care Reform Update

Sean briefly reviewed the information he provided to the group comparing grandfathered plans. This topic will be discussed at the next meeting.

Wellness Report

Gail invited her new office assistant Christina Garcia to meet the Trustees. She is taking the place of Marie Underwood who retired last year. Christina previously worked at the Center for a few months prior to accepting the Wellness position.

- **2010-2011 Budget Adoption**

The group reviewed the new budget proposal that Gail had previously provided. A motion was made by Molly Ringo and seconded by John Morrill to adjust the overall budget total to \$175,000. The motion passed unanimously.

The Human Resources department will communicate health benefit changes as part of Open Enrollment. A draft letter with talking points will be provided by Randi, as well as an ongoing commitment to the Wellness Program.

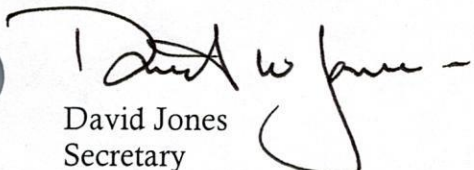
Review of Annual Calendar & Meeting Calendar

No changes at this time.

Adjournment

The meeting was adjourned at 10:53 a.m.

Sincerely,


David Jones
Secretary