HEALTH WEALTH CAREER

2017 RENEWAL PLANNING

EVERETT SCHOOL EMPLOYEE BENEFIT TRUST

April 20, 2016

AGENDA

- Compliance update
- Market update
- Benchmarking
- 2017 vendor renewals
- Renewal calendar and next steps

COMPLIANCE UPDATE

KEY ELEMENTS OF HEALTH CARE REFORM FOR EMPLOYERS

2015 & 2016

- Employer shared responsibility; child coverage to end of month of 26th birthday[6]
- Transitional reinsurance fees first due in early/late 2015
- Additional employer and insurer reporting and disclosure (reporting due in early 2016)
- Broad expatriate plan relief available for qualifying plans.
- Auto enrollment some time after 2014 (effective date TBD)

2020

- 40% excise tax on "high cost" or Cadillac employer-sponsored health coverage

2010

- Change in tax treatment for over-age child coverage
- Early retiree medical reinsurance
- Accounting impact of change in Medicare retiree drug subsidy tax treatment
- Medicare prescription drug "donut hole" beneficiary rebate
- Break time/private room for nursing moms

2011

- No lifetime dollar limits on essential health benefits[1]
- Restricted annual dollar limits on essential health benefits; phased amounts until 2014[1]
- Child coverage to age 26 (grandfathered plans may limit to children without access to other employer coverage, other than parent's coverage)[1]
- No pre-existing condition limitations for enrollees up to age 19[1] and no rescissions[1]
- No health FSA/HRA/HSA reimbursement for non-prescribed drugs (except insulin)
- Increased penalties for non-qualified HSA distributions
- Additional standards for non-grandfathered health plans, including preventive care in-network with no cost-sharing, coverage of emergency services in- and out-of-network, appeal and external review, provider choice, and non-discrimination rules for insured plans[3]
- Income-based Medicare Part D premiums
- Pharmaceutical importers and manufacturers' fees start
- Medicare, Medicare Advantage benefit and payment reforms
- Insurers subject to medical loss ratio rules

2012

- Employers to distribute uniform summary of benefits and coverage (SBC) to participants
- 60-day advance notice of mid-year material modifications to SBC content
- Form W-2 reporting for health coverage (track in 2012 for W-2 form provided in early 2013)[4]

2013

- $2,500 (indexed for inflation) per plan year health FSA contribution cap (plan years on or after January 1, 2013)
- Comparative effectiveness research fees first due (7/31) for calendar year plans (and 11/1 and 12/1 plans)
- Employers notify employees about exchanges by Oct. 1, 2013; to new hires thereafter
- Medical device manufacturers' fees start
- Higher Medicare payroll tax on wages exceeding $200,000/individual; $250,000/couples
- Change in Medicare retiree drug subsidy tax treatment takes effect
- Health Insurance exchanges initial open enrollment period (10/1/13 – 3/31/14)

2014

- Health insurance exchange coverage begins
- Individual coverage mandate[5]
- Financial assistance for exchange coverage of low- and middle-income individuals
- State Medicaid expansion (only in some states)
- Child coverage to age 26[2]
- No annual dollar limits on essential health benefits[2] (generally banning stand-alone HRAs for active employees)
- No pre-existing condition limits[2]
- No waiting period over 90 days (plus 1-month employment-based orientation period)[2]
- Wellness limit increase allowed[2]
- Health insurance industry fees
- Additional standards for non-grandfathered health plans, including limits on in-network out-of-pocket maximums, provider nondiscrimination, and coverage of routine patient costs of clinical trial participants
- Small market, non-grandfathered insured plans must cover essential health benefits using a form of community rating
- Insurers must apply guaranteed issue and renewability to non-grandfathered plans of all sizes
- Health Insurance exchanges 2015 open enrollment period (11/15/14 – 2/15/15)
- Comparative effectiveness research (PCORI) fees first due (7/31) for non-calendar year plans (except 11/1 and 12/1 plans)

1. *Applies to all plans, including grandfathered plans, effective for plan years beginning on or after 9/23/2010 (1/1/2011, for calendar year plans).*
2. *Applies to all plans, including grandfathered plans, effective for plan years beginning on or after 1/1/2014.*
3. *Applies to non-grandfathered plans, effective for plan years beginning on or after 9/23/2010, except that insured plan discrimination ban is delayed until regulations issued.*
4. *A temporary exemption applies to certain categories of employers.*
5. *A temporary exemption applies to employees of employers with non-calendar-year plans , as well as individuals who enroll in an Exchange plan by 3/31/2014. Other exemptions may also apply.*
6. *Effective 2015 for applicable large employers with 100 or more full-time employees; effective 2016 for applicable large employers with 50 or more full-time employees. Transition relief for non-calendar year plans may apply.*

LATE 2015 DEVELOPMENTS

Two-year Cadillac tax delay

- Congress postponed the tax until 2020
- Delay may signal bipartisan support and momentum toward further amendment or repeal of the tax
- Projected indexed 2020 thresholds: single, $10,750; other-than-self-only (family), $28,950. Assuming CPI of 2.15%.
- Excise tax payments will now be deductible — marginal tax rate of (and possible gross-up to employer by) the paying entity will no longer be relevant
- Agencies will study suitable benchmarks to use for age and gender adjustments to the thresholds triggering the tax

Play-or-pay reporting delay

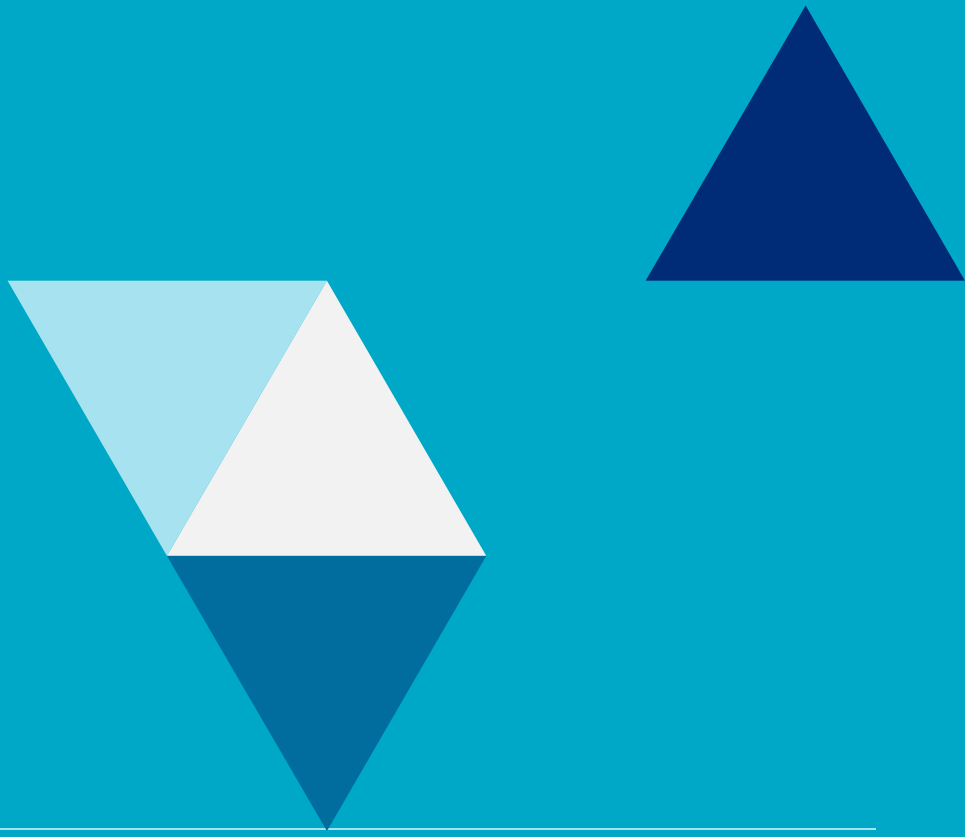
- *Form 1095-C Individual Statement:*
  - Old deadline: February 1, 2016
  - New deadline: March 31, 2016
- *Form 1094-C IRS Transmittal Form (electronic filers):*
  - Old deadline: March 31, 2016
  - New deadline: June 30, 2016
- No additional extensions of deadlines
- Individuals can file their personal tax returns (Form 1040s) before receiving a 1095-C

ESSB 5940 UPDATE

- The table below lists some of the primary requirements of ESSB 5940, the current status for the plans offered by ESEBT, and potential next steps.

Requirement	Current Status	Next Steps
• Offer a plan with high deductible and health savings account	• ESEBT offers an HSA-eligible HDHP through UHC	• Maintain compliance
• Offer a plan with full-time premium the same as that for state employees (15% FT contribution initially)	• The plan with the lowest employee premium cost share (GHC HMO) ranges between 18% and 22%. • OSPI has not updated what the current target is.	• Consider this requirement when making ESEBT subsidy decisions for 2016
• Must make progress toward more affordable full family insurance coverage; ratio of 3:1	• All current ratios are within the accepted range (between 2.5 & 2.8)	• Maintain compliance
• Each K-12 public school employee pays a minimum premium charge	• All plans require a contribution	• Determine whether current contributions are an appropriate “minimum contribution”
• Employee premiums are structured to ensure that employees who select richer benefit plans pay the higher premium	• Current contribution structure is in compliance	• Maintain compliance
• Follow responsible contracting standards and open competitive bidding	• ESEBT conducted competitive marketing bids for their 2015 medical, dental, vision, life and disability coverages	• Continue to ensure that programs in place are cost effective and delivering market competitive value
• Promote health care innovation and cost savings and significantly reduce administrative expense	• Wellness program can provide progress toward this requirement	• Consider additional means of improving health of members

MARKET UPDATE



THE YEAR'S TOP STORIES

1. **Cost growth moderate, at 3.8% in 2015 with 4.3% projected for 2016**
   But while large employers held increase to 2.9%, small employers saw cost rise 5.9%

2. **One in four covered employees is now in a CDHP**
   Consumerism tools are helping employees make the best plan choice.

3. **Analysis: 25 strategies that helped employers achieve lower cost and trend in 2015**
   Successful practices spanned program design, care delivery, workforce health

4. **Consumer empowerment is building, supported by new programs and technology**
   Telemedicine, cost transparency tools and mobile devices are all on the rise.

5. **New clinical models—ACOs and medical homes—lead the evolution to value-based care**
   Centers of Excellence and narrow networks are first steps for some employers

6. **Private exchanges will be used by 6% of large employers for 2017 open enrollment, with rapid growth expected to continue through 2020**
   Employers seek to add choice, ease administration, manage cost, and more easily transition to CDHPs

WHAT'S WORKING TO HOLD DOWN COST?

RESPONDENTS' COSTS WERE ANALYZED BASED ON THEIR USE OF MORE THAN 25 COST-MANAGEMENT BEST PRACTICES

Plan design and delivery infrastructure

- Contribution for family coverage in primary plan is 20%+ of premium
- PPO in-network deductible is $500+
- Offer CDHP
- HSA sponsor makes a contribution to employees' accounts
- Voluntary benefits integrated with core
- Mandatory generics or other Rx strategies
- Steer members to specialty pharmacy for specialty drugs
- Reference-based pricing
- Data warehousing
- Collective purchasing of medical or Rx benefits
- Transparency tool provided by specialty vendor and/or used by 10% of members
- Use private health benefits exchange

Employee well-being

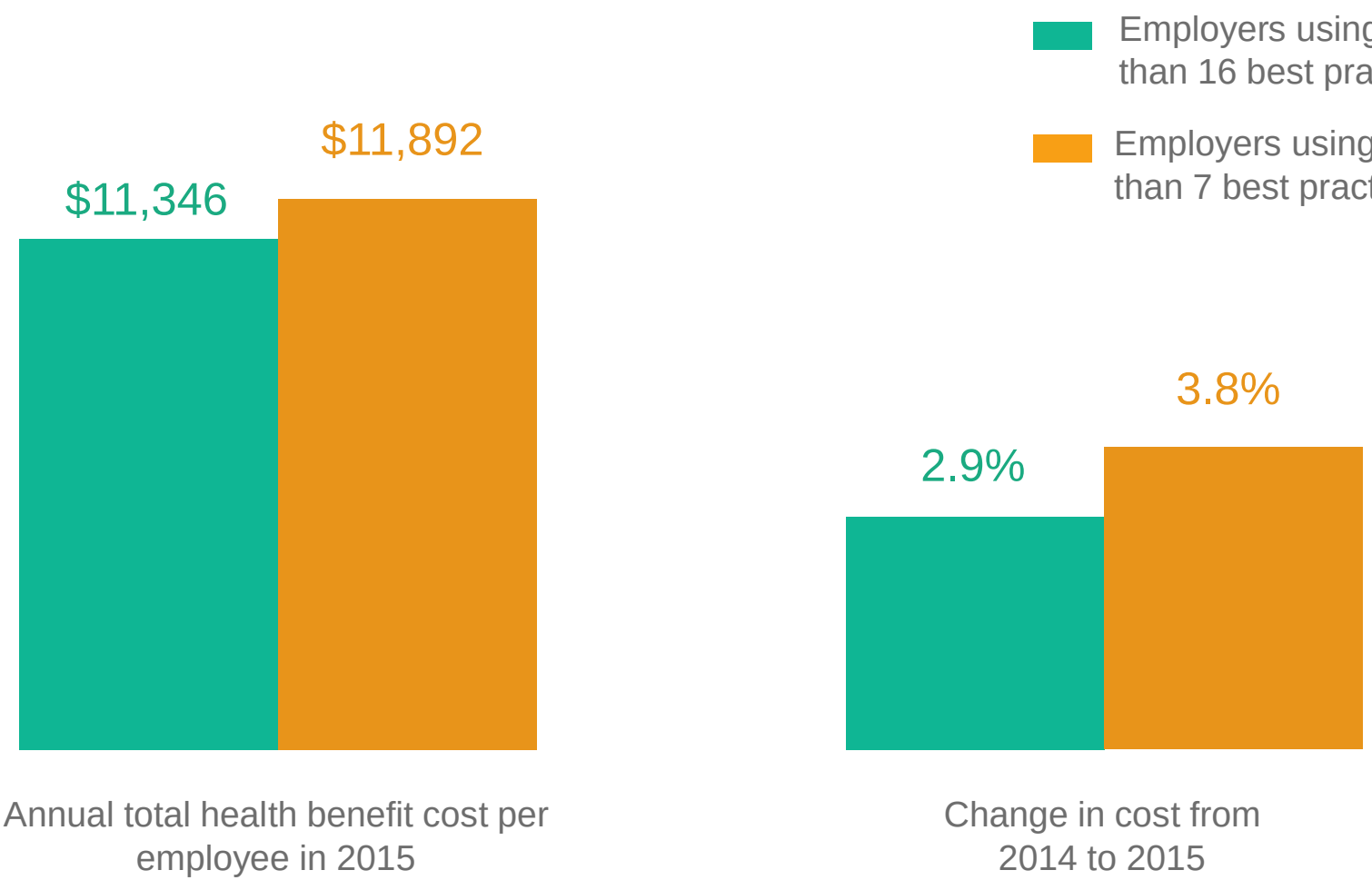
- Offer optional (paid) well-being programs through plan or vendor
- Provide opportunity to participate in personal/group health challenges
- Offer technology-based well-being resources (apps, devices, web-based)
- Worksite biometric screening
- Encourage physical activity at work (gym, walking trails, standing desks, etc.)
- Use incentives for well-being programs
- Spouses and/or children may participate in programs
- Smoker surcharge
- Offer EAP

Care delivery

- High-performance networks
- Surgical centers of excellence
- On-site clinic
- Telemedicine
- Value-based design
- Medical homes
- Accountable care organizations

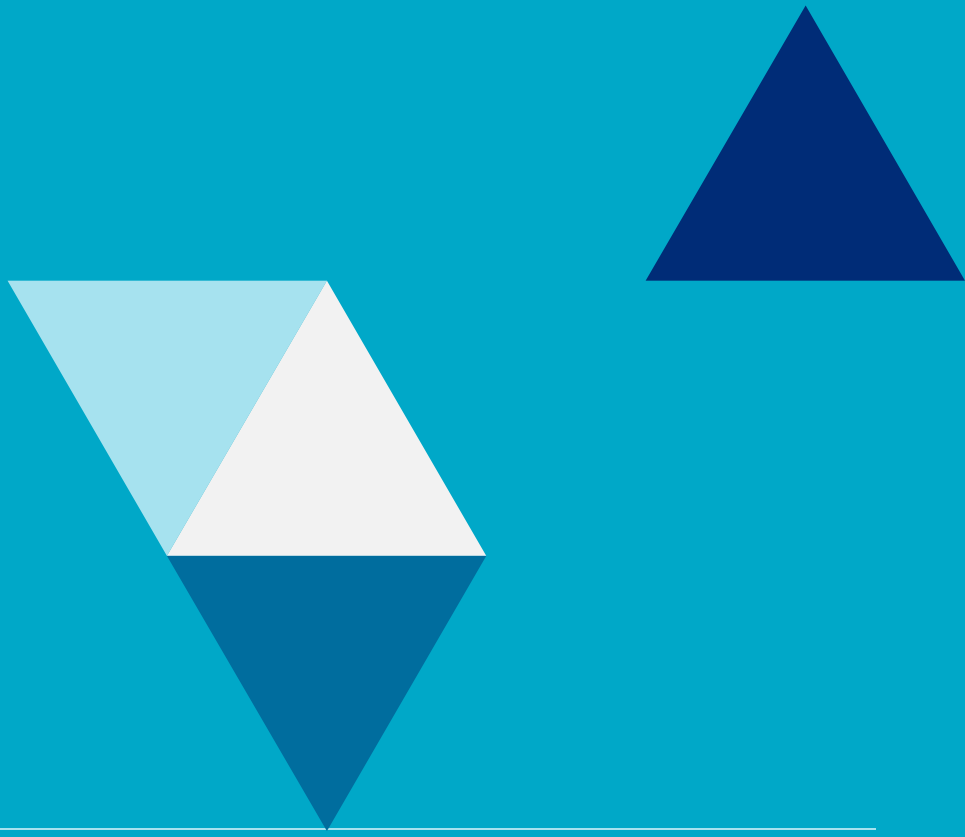
COMPARISON OF EMPLOYERS USING THE MOST VS. THE FEWEST BEST PRACTICES AGAIN FINDS DIFFERENCES IN COST AND COST GROWTH

LARGE EMPLOYERS



* Analysis based on unweighted cost data from respondents providing cost for both 2014 and 2015.

BENCHMARKING



BENCHMARKING ANALYSIS
PPO

Above Market | In Line | Below Market

PPO	ESEBT		Mercer 2015 Employer Survey		
Plan Design	**UHC Option 3**		**School Boards and Other Institutions 500+**	**Washington 500+**	**National 500+**
% Employers Offering			85%	97%	84%
Average Age	N/A		43	45	44
Median Deductible (IN / OON)					
Individual	$300 / Shared		$500 / $750	$400 / $675	$500 / $1,000
Family	$900 / Shared		$1,000 / $1,650	$1,000 / $1,700	$1,500 / $3,000
Out-of-Pocket Maximum (IN)					
Individual	$2,750 / Shared		$6,000	$6,000	$6,000
Family	$8,250 / Shared		$10,000	$9,688	$11,000
Rates and Contributions					
Individual Coverage Contribution	$164		$136	$75	$130
Individual Contribution as % of Premium	21%		21%	15%	24%
Family Coverage Contribution	$441		$525	$338	$472
Family Contribution as % of Premium	25%		36%	28%	32%
Cost-sharing (IN / OON)					
Physician	$30 / $40 copay		$25 / 35%	$25 / 40%	$25 / 40%
Specialist	$30 / $40 copay		$35	$30	$40
Lab and X-Ray/Radiology	20% / 40%		20% / 30%	20% / 40%	20% / 40%
Hospital	20% + $300 copay / 40%		20% / 40%	20% / 40%	20% / 40%
Emergency Room Copay	$100		$100	$150	$150
Emergency Room Coinsurance	20%		20%	20%	20%

Source: 2015 Mercer National Survey of Employer-Sponsored Health Plans

BENCHMARKING ANALYSIS
HEALTH MAINTENANCE ORGANIZATION (HMO)

Above Market | In Line | Below Market

HMO	ESEBT		Mercer 2015 Employer Survey		
Plan Design	**GHC HMO**		**School Boards and Other Institutions 500+**	**Washington 500+**	**National 500+**
% Employers Offering			42%	50%	34%
Average Age	N/A		43	43	42
Median Deductible (IN)					
Individual	$0		$825	$250	$500
Family	$0		$1,650	$600	$1,000
Rates and Contributions					
Individual Coverage Contribution	$146		$111	$99	$127
Individual Contribution as % of Premium	18%		18%	16%	23%
Family Coverage Contribution	$412		$585	$308	$476
Family Contribution as % of Premium	22%		36%	20%	32%
Cost-sharing					
Physician	$20		$20	$20	$20
Specialist	$20		$40	$30	$35
Inpatient	0%		$250	$175	$250
Emergency Room Copay	$75		$100	$100	$100

Source: 2015 Mercer National Survey of Employer-Sponsored Health Plans

BENCHMARKING ANALYSIS
HDHP WITH HSA

Above Market | In Line | Below Market

HSA	ESEBT	Mercer 2015 Employer Survey		
Plan Design	**UHC HDHP Option 7**	**School Boards and Other Institutions 500+**	**Washington 500+**	**National 500+**
% Employers Offering		41%	43%	59%
Average Age	N/A	41	43	41
HSA Employer Contribution				
% Contributing	No	16%	33%	29%
Median Contribution - Individual		$690	$800	$500
Median Contribution - Family		$879	$1,500	$1,000
Median Deductible (IN / OON)				
Individual	$1,500 / $3,000	$2,600 / $4,250	$1,500 / $1,500	$1,800 / $3,000
Family	$3,000 / $6,000	$5,000 / $6,500	$3,000 / $3,000	$4,000 / $6,000
Out-of-Pocket Maximum (IN / OON)				
Individual	$4,000 / unlimited	$4,500 / $6,750	$3,500 / $6,000	$3,600 / $6,000
Family	$8,000 / unlimited	$9,000 / $13,500	$1,500 / $3,000	$3,000 / $6,000
Rates and Contributions				
Individual Coverage Contribution	$91	$84	$51	$85
Individual Contribution as % of Premium	21%	17%	13%	20%
Family Coverage Contribution	$245	$590	$308	$338
Family Contribution as % of Premium	25%	55%	26%	27%
Physician cost-sharing (IN / OON)	20% / 50%	15% / 30%	20% / 40%	20% / 40%

Source: 2015 Mercer National Survey of Employer-Sponsored Health Plans

BENCHMARKING ANALYSIS
PRESCRIPTION DRUG

Above Market | In Line | Below Market

Prescription Drug	ESEBT	Mercer 2015 Employer Survey		
Plan Design	UHC Option 3 Plan	School Boards and Other Institutions 500+	Washington 500+	National 500+
Retail - 30 Day				
Generic	$15	$9	$10	$11
Brand-name Formulary	$25	$28	$32	$31
Brand-name Non-Formulary	$40	$48	$56	$52
Mail-Order - 90 Day				
Generic	$15	$19	$22	$21
Brand-name Formulary	$25	$58	$71	$66
Brand-name Non-Formulary	$40	$99	$118	$109

Source: 2015 Mercer National Survey of Employer-Sponsored Health Plans

BENCHMARKING ANALYSIS
DENTAL

Above Market | In Line | Below

Dental	ESEBT				Mercer 2015 Employer Survey		
Plan Design	**Delta Dental**		**Willamette Dental**		**School Boards and Other Institutions 500+**	**Washington 500+**	**National 500+**
Median Deductible (IN)							
Individual	$0		$0		$50	$50	$50
Family	$0		$0		$150	$150	$150
Rates and Contributions[1]							
Individual Coverage Contribution	$0.00		$0.00				
Individual Contribution as % of Premium	0%		0%				
Family Coverage Contribution	$0.00		$0.00				
Family Contribution as % of Premium	0%		0%				
Annual Maximum Benefit	$2,000		None		$1,500	$2,000	$1,500
Orthodontic Lifetime Maximum	N/A		N/A		$1,250	$1,500	$1,500
Services Covered							
Preventive services (Type A)	70% - 100%		$15 copay		100%	100%	100%
Basic restorative services (Type B)	70% - 100%		$15 copay		80%	80%	80%
Major restorative services (Type C)	50%		$50 copay		50%	50%	50%

Source: 2015 Mercer National Survey of Employer-Sponsored Health Plans

[1]Contributions to dental coverage are included in the medical contributions.

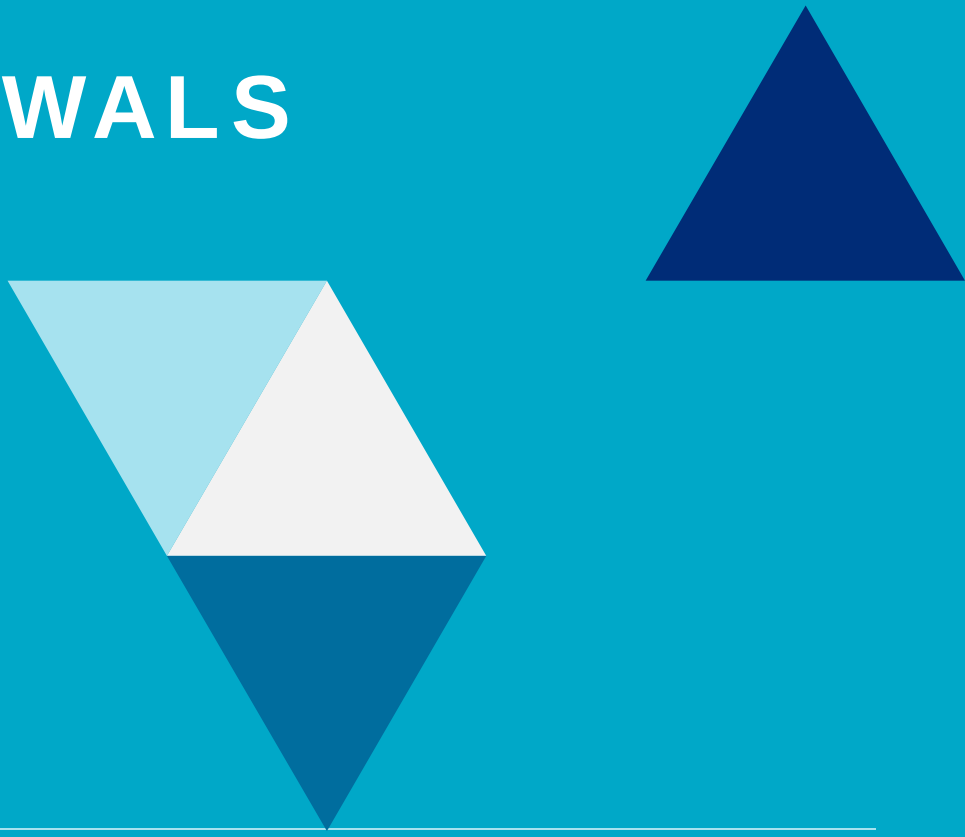
BENCHMARKING ANALYSIS
VOLUNTARY

Above Market | In Line | Below Market

Voluntary Benefits	ESEBT	Mercer 2015 Employer Survey		
Coverages		School Boards and Other Institutions 500+	Washington 500+	National 500+
Accident	Yes	61%	57%	81%
Cancer / critical illness	No	62%	33%	45%
Disability	Yes	72%	73%	61%
Whole / universal life	No	57%	37%	43%
Hospital indemnity	No	51%	13%	21%
Long-term care	Yes	38%	23%	25%
Auto / homeowners	No	7%	20%	20%
Telemedicine	Yes	13%	30%	18%
Health Care FSA				
% offering health care FSA	Yes	89%	90%	85%
Average employee participation	No data available	15%	20%	20%
Average annual contribution	No data available	$1,341	$1,177	$1,356
Dependent Care FSA				
% offering dependent care FSA	Yes	85%	90%	85%
Average employee participation	No data available	5%	7%	6%
Average annual contribution	No data available	$3,133	$3,100	$3,270

Source: 2015 Mercer National Survey of Employer-Sponsored Health Plans

2017 VENDOR RENEWALS

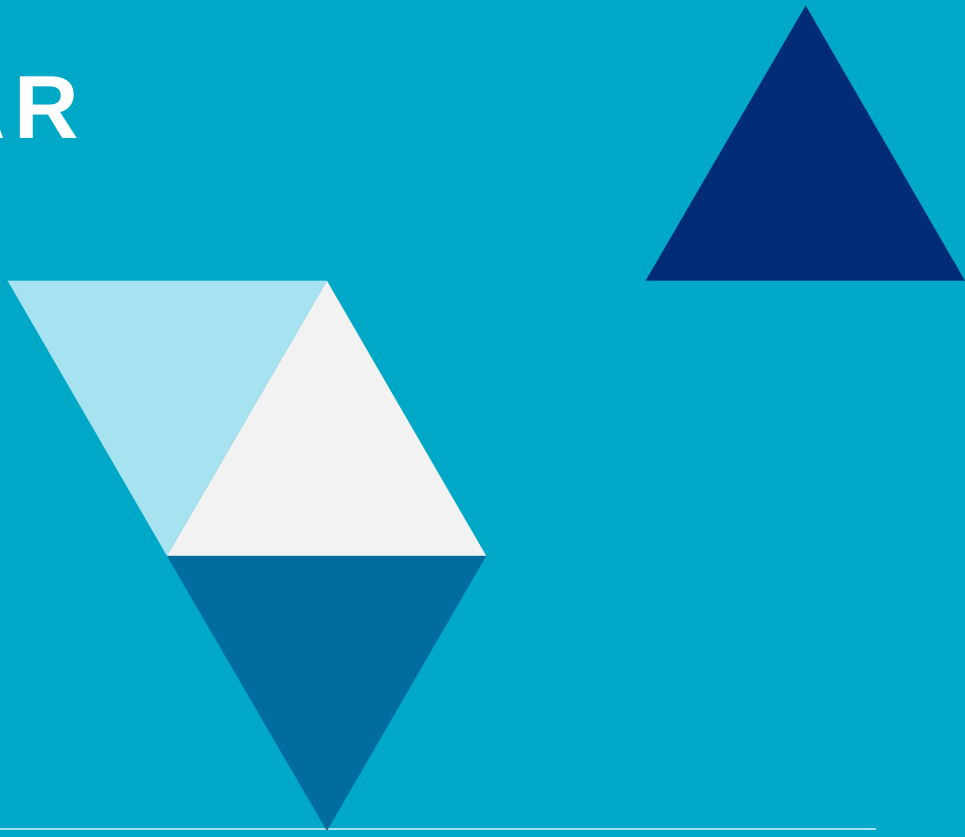


2016 RENEWAL RECAP AND 2017 PLANNING

The following table summarizes the 2016 rate adjustments and renewal decisions:

Coverage	Funding	2016 Renewal	Comments
Medical	Fully-Insured	UHC +12% (capped)	Explore marketing for 2017?
Dental	Fully-Insured	WEA Delta Dental -3% WEA Willamette +5%	Rates will renew effective 11/1/2016 Review WEA carve-out options for 1/1/2017?
Vision	Fully-Insured	MetLife 0%	Three-year rate guarantee through 2017
HMO Medical	Fully-Insured	GHC +6.8%	
Basic and Supplemental Life	Fully-Insured	MetLife +0%	Three-year guarantee through 2017
Basic AD&D	Fully-Insured	MetLife +0%	Three-year guarantee through 2017
Long-Term Disability	Fully-Insured	MetLife +0%	Three-year guarantee through 2017
Voluntary Short-Term Disability	Fully-Insured	MetLife +0%	Three-year guarantee through 2017
EAP	Service Contract	Magellan +0%	Renewed for one year with no rate change
Voluntary Long Term Care	Fully-Insured	UNUM +25%	Will review for 2017
Health Programs	Service Contract	Alere +0%	Renewed for one year with no rate change
Health Programs	Service Contract	Simply Engaged (UHC)	Simply Engaged wellness included with UHC

RENEWAL CALENDAR



2016 RENEWAL CALENDAR

January 2016	February 2016	March 2016	April 2016
		• Request employee census data from district	• Renewal planning kickoff meeting on 4/8 • Discuss renewal strategy with trustees on 4/20
May 2016	**June 2016**	**July 2016**	**August 2016**
• Issue renewal requests to carriers • Receive vendor renewal offers by end of the month	• Review and negotiate vendor renewals	• Develop budget projections	• Renewal review meeting including budget projections • Finalize renewal decisions and issue renewal confirmation letters
September 2016	**October 2016**	**November 2016**	**December 2016**
• Deliver final projections, employee contributions, and rate sheets • Begin development of open enrollment communications		• District holds open enrollment	• Renewal effective date on 1/1/2017

MERCER

MAKE TOMORROW, TODAY