From: Curtice, Melanie K. [mailto:MKCURTICE@stoel.com]
Sent: Tuesday, September 18, 2012 11:29 AM
To: Ringo, Molly
Cc: Bye-Torre, Howard D.
Subject: 2013 Trust Fund Expenditures and Balance

Dear Trustees of the Everett School Employee Benefit Trust, care of Molly Ringo:

At the August 29, 2012 meeting of the Trustees of the Everett School Employee Benefit Trust you asked us to review the Everett School Employee Benefit Trust ("Trust") policies 220 Investment Guidelines and Rules and 250 Fund Balance and Solvency to determine whether changes need to be made to the policies in light of the change from self-funding medical benefits to purchasing group medical insurance through Premera. For the reasons explained below, we are not recommending changes to these policies at this time.

We also understand that you are looking at the Trust balance in connection with the 2013 health insurance renewal. We outline below why we suggest that the Trustees exercise restraint when considering any reduction in the Trust Fund balance for the 2013 plan year.

The Policies

Policies 220 Investment Guidelines and Rules ("Policy 220") and 250 Fund Balance and Solvency ("Policy 250") were developed to serve as a guide, or road map, for making decisions related to the Trust fund balance and how and when Trust fund assets are invested, taking into account the Trust's liquidity needs. With respect to Policy 250, because the Trust is still paying run-out claims related to the self-funded plan(s) that were in place until January 1, 2012, we do not recommend a change until all of those claims are satisfied. In the meantime, the Trustees should follow the basic mandate of Policy 250, which is to ensure that the Trust fund is managed effectively and prudently, retaining sufficient funds to meet the Trust's liquidity needs. "Liquidity needs" at this time means, in addition to paying run-out claims, retaining sufficient reserves to pay the Trust's portion of the medical insurance premiums on behalf of Trust participants and beneficiaries now and into the future. Once the self-funded run-out claims have been paid, you should review Policy 250 with the Trust's investment advisors, consultants and us to determine what changes may be necessary as a result of the changed circumstances.

For the same reasons, we do not recommend a change to Policy 220 at this time, but recommend revisiting it at the same time you revisit Policy 250.

Uncertainty Caused by Federal Law Changes

In 2014, almost all of the benefit mandates and other rules of federal healthcare reform will be required in the health insurance policies offered by insurance companies. Included in these benefit mandates are requirements for expanded preventive care benefits, coverage for clinical trials and new rules on the maximum deductibles and out-of-pocket expenses which can be imposed on plan participants. In addition, a new federal transitional reinsurance program fee will be imposed on all health insurance, and this fee is expected to be $60 to $100 per employee and family member participating in the plan in 2014 (for example, for an employee with 3 dependents on the plan, the fee for that family would be between $240 and $400). We expect that insurance companies will pass this fee directly on to policyholders, rather than paying the fee out of the pockets of the insurance companies.

Given these facts, it is reasonable to believe that there may be a spike in insurance premiums for 2014 and beyond, and it seems prudent to have additional options available for the Trust to respond in the event of this type of large premium increase. For example, the Trust may wish to pay a greater subsidy for premiums in 2014 to offset the anticipated premium increase or have the possibility of considering offering self-funded health benefits once again.

Uncertainty Caused By State Law

Added to this uncertainty is the fact that the level of state funding for 2014 is unknown. For the 2011-2013 fiscal biennium, the state provides $768 per full-time equivalent employee. At this point in time, it is impossible to know whether this amount will be increased, decreased or remain the same for the next fiscal biennium. If the state-provided funding is reduced, the difference between the $768 and the reduced amount will need to be funded, either by the District or by participants. Again, for these reasons, it seems prudent to not reduce the Trust fund balance during the 2013 plan year in connection with 2013 health insurance renewal.

Please let us know if you have questions or would like to discuss further.

Regards,
Melanie Curtice and Howard Bye-Torre

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