LOCEY & CAHILL, LLC

WWW.LOCEYCAHILL.COM

120 WALTON STREET, SUITE 500
SYRACUSE, NY 13202
TEL. 315-425-1424
FAX. 315-425-1394

MEMORANDUM

DATE: JANUARY 4, 2011

TO: PARTICIPATING SUFFOLK COUNTY SCHOOLS

FROM: LOCEY & CAHILL, LLC

RE: THE SUFFOLK COUNTY SCHOOLS SHARED MUNICIPAL SERVICES GRANT CONSOLIDATED HEALTH INSURANCE PROJECT

This memorandum is designed to provide the findings to date relative to the analysis we are conducting on behalf of the various school districts of Suffolk County with regards to the Suffolk County Schools Shared Municipal Services Grant Consolidated Health Insurance Project. These districts to date include 51 school districts (72% of the Suffolk County Districts) that have contributed information into this project all of which has been used to help form our conclusions and recommendations. The goal of this process is to identify pathways to gain efficiencies, reduce costs, improve outcomes, and maintain a high quality benefits plan which is essential to the ongoing operation of a school district in today's highly complex and challenging environment.

Based on the aforementioned, we have been working on the feasibility of developing a model which would allow the various districts to pool their resources to achieve the goals and objective as described above. While we will present and review a tremendous amount of information in this Report, it is our professional opinion that, at this particular point in time, there are some significant challenges facing such a project including a somewhat negative result with regards to what the overall cost structure of school district consortium would be. ***In short, based on our assumptions, applications and analysis, the bottom line associated with a large school based health insurance consortium for Suffolk County would result in anticipated savings for the 2011 calendar year of only 0.2% when compared with the anticipated costs of individual continued enrollment in either the Empire Plan or the various smaller school district consortium based plans such as the East End Health Plan or the Suffolk Schools Employee Health Insurance Plan.***

In our model, the school districts of Suffolk County would establish a shared municipal based health insurance consortium specifically for the provision of providing health insurance benefits to the district's enrollees and retirees. This municipal consortium would receive any premium and other income related to the operations of the shared health plan and would be used to pay any expenses associated with the plan, including the payment of all claims incurred by its members and any associated administrative costs associated with the ongoing management of the Plan. Excess funds would be maintained and invested to produce investment earnings and to protect the districts from the adverse effects of catastrophic claims either on an individual or group basis. Of course, other protections would be built into the process to ensure the fiscal integrity of the plan, including but not limited to the purchasing of stop-loss insurance.

We have structured this memorandum into several major categories to assist in the organization of topics to review and discuss relative to matters such as employer liabilities, plan oversight, financial structure, and benefit design.

With the submission of information from 51 school districts, which represents approximately 70% of the Suffolk County School Districts, we feel we have more than enough information to provide some meaningful observations and recommendations regarding this project. If additional data is submitted, we will update our analysis and report back to the combined group. But with receiving data from over 50 districts and having a potential membership base of over 31,000 employees and retirees, the results of our analysis and the recommendation flowing from them are highly credible in today's health insurance context.

PAID CLAIMS AND DEMOGRAPHIC INFORMATION

The process that we followed in determining the results of our analysis involved the gathering of some very basic, yet important, financial and enrollment data from each of the school districts. Since the overwhelming majority of school districts in Suffolk County share the exact same type of benefit structure, an opportunity existed to gather this data and reach very sound conclusions. Specifically with almost all districts being enrolled in The NY State Health Insurance Plan, commonly known as the Empire Plan, the basics of our analysis involved gathering and analyzing information regarding the claims paid for each district under the Empire Plan (Paid Claims) and the enrollment base for each district under the Empire Plan (Demographic Information). Should the total cost of all the expenses associated with the claims incurred by the district's collective enrollment base, adjusting for all other costs (i.e. administrative) be less than the premiums paid by the districts collectively, there would be an opportunity for the districts to save money while providing the same level of benefits for their enrollees.

To accomplish the above stated analysis, we worked very closely with the Western Suffolk BOCES in requesting some very specific information from the districts in Suffolk County. Through an information request we asked each of the districts to provide to us a copy of their most recent bill from the Empire Plan so that we would know closely what the district's enrollment base is under the Empire Plan. Specifically we needed to know exactly how many people were enrolled in each of the five premium categories that exist with the Empire Plan. This would give us an excellent understanding of the collective premium base for the group as a whole.

We also needed to make determinations regarding the expenses that were incurred by each district. To accomplish this we were very fortunate that the Empire Plan provides very specific utilization data for each component municipality that belongs to the Empire Plan. We asked each district to send in a specific request to receive two years worth of utilization data and all the districts that sent the request were provided that information with a little collective communication between the parties involved with the analysis and the administrators of the Empire Plan. We should be very grateful of the assistance that they provided us in this project.

METHODOLOGIES AND ASSUMPTIONS USED IN THE ANALYSIS

Once we had received the requested data, our office accumulated the data so that it would be useful in our actuarial models. Some basic assumptions that we used in our analysis included the following:

- It was assumed that the collective enrollment base remained fairly constant over the time period analyzed (the calendar years of 2008 & 2009). While each district may very well had slight changes in the enrollment base throughout these two years, given the rather difficult budgeting times that existed during this period we assumed that there were no significant increases in enrollment. Furthermore, while many districts did tighten their number of people employed, many of these reductions were achieved through the non-replacement of retiring employees. These retirees would, for the most part, remain on the district's health insurance enrollment rolls so we did not make any adjustments for the reduction in enrollment numbers either.

- The medical trend facing district health insurance plans between the two years of the study and the projections for 2010 and 2011 was 7.5%. This is based on the actual cumulative difference in paid claims between the two base years in the study and then adjusted for industry norms. The 2009 paid claims costs, for the cumulative districts that provided information, were 5.89% more than 2008. This trend, or rate of increase in claims cost for the collective health plan, is slightly below national averages for this type of benefit program for the years involved, so the trend was adjusted up to 7.5% for the purposes of estimating paid claims expenses for the 2010 and 2011 calendar years.

- The 7.5% increase in claims costs was also used as the base for our 2010 and 2011 projections. While some in the industry are worried about the upward forces on health insurance costs due to the recent federal legislation, we believe that the main impact of the legislation will be felt in future years as the health care industry adopts its practices and procedures to take advantage of these rules. So while there will most certainly be significant costs associated with the legislation, the real impact will begin to be felt as we progress into the 2012 calendar year and beyond.

- Many districts also provided information regarding HIP based HMO policies. However, the total enrollment in these plans was minor in comparison to the Empire Plan enrollment. Due to the small number we worked under the assumption that if a group of districts were to move towards a consortium based plan that we would leave the few HIP contract enrolled in the same community rated HMO policy that is now in place.

- The administrative costs associated with a potential municipal consortium based plan would be $61.71 per covered contract per month. This compares to the actual cumulative administrative fee paid by the districts for the period of 2009 of $74.30. It should also be noted that during a rather strict financial environment in 2008 into 2009, the total administrative costs paid by the districts to the Empire Plan increase by 12.55% between 2008 & 2009. These costs would include all the administrative costs associated with the plan such as the monthly fee paid to the administrator of the plan, the plan consultant, attorney and auditor, miscellaneous costs that would most certainly arise with the management of a plan of this size and the costs associated with a rather conservative stop-loss policy with a high annual deductible.

- The premiums quoted below are actual estimated premiums for the 2010 calendar year based on the enrollment data submitted by each of the districts. The totals for 2008 & 2009 were estimated based on the rather small premium adjustments that the Empire Plan made in each of those two years. The estimate for 2011 is based on the recently published 2011 Empire Plan Rates for the Core Plan with Enhancements in which the actual rates for 2011 increased on average by 7.5%.

SUMMARIZED FINANCIAL DATA & ANALYTICAL RESULTS

The collected data was then accumulated and the above assumptions were applied to it. Based on the school district's enrollment in the Empire Plan, the actual cumulative costs for the districts compared with the premiums paid by all the districts are summarized below:

2008 / 2009 Combined Actual Experience Under Current Administrative Structure					
	Paid Claims	**Administration**	**Total Costs**	**Premium**	**Loss Ratio**
2008	$293,279,100	$24,476,112	$317,755,212	$334,030,608	95.13%
2009	$310,617,574	$27,987,701	$338,605,275	$340,711,220	99.38%

2010/11 Estimated Experience Under a Combined Consortium Structure					
	Paid Claims	**Administration**	**Total Costs**	**Premium**	**Loss Ratio**
2010	$333,913,892	$23,242,701	$357,156,593	$350,932,557	98.26%
2011	$358,957,434	$24,404,836	$383,362,270	$382,516,487	99.78%

In examining the above chart, let us make certain points in order to assist people in understanding the above summarized cumulative data for over 51 Suffolk County School Districts:

- The figures for 2008 & 2009 represent a very good estimate of the total premium dollars spent by those districts that submitted data and the paid claims and administrative costs are interpreted directly from the utilization reports supplied by the districts. The Loss Ratios of 95% and 99% represent that premiums paid in excess of the actual costs that existed for those districts in those specific years. In other words, the actual expenses paid by the Empire Plan for these districts accounted for 95.13 % of the total premiums paid by the districts in 2008 and 99.38% in 2009.

- The premiums for 2010 are based on the enrollment figures from the current year for the districts involved times the monthly premium rates for the Empire Plan for 2010 and then annualized. The paid claims and administration costs are estimates based on the actual data supplied for 2008 & 2009 and trended forward based on the trend assumptions explained earlier.

  This discrepancy exists even with the substantial decrease in administrative costs associated with our estimates for 2010. The reason for the large decrease in administrative costs is due to our adjustment for the change in plan structure for 2010 and 2011. Our findings for 2010 & 2011 are based on an assumption that the districts would be operating under a self funded model for the provision of the health insurance plan for 2010 and 2011. The primary difference in cost associated with converting that Empire Plan model to a self funded model would be the difference in administrative costs associated with the two different models. Based on our knowledge of the current self funded environment for self funded municipal plans throughout NY State and the assumptions detailed above regarding administrative costs, we anticipate that there is 20.4% decrease in administrative costs associated with a self funded plan as opposed to the Empire Plan structure.

The fact that the loss ratio in 2010 is less than either 2009 or 2011 by itself is not that surprising. It is a well known fact that the Empire Plan deliberately budgeted for a loss in the past two years due to a critical audit of the Plan's Fund Balance by the NYS Comptroller. Based on the audit, the Empire Plan kept rate increases down to a low level in each of the past two years in order to spend down, or refund back, the fund balance that it had accumulated in previous years. Therefore, the Plan specifically had set it rates at a level that was not high enough to meet the expenses of the Plan. While not specifically addressed in the public information released regarding the 2010 rate promulgations, many estimated this rate inadequacy to be approximately 6% for 2010 meaning that the Empire Plan expected to operate at an approximate 6% loss on the 2010 calendar year.

- The 2011 projections reinforce the same findings as presented in 2010. In 2011, with the large increase in their rates, it is anticipated that the Empire Plan will go from a position where their rates are underfunded to a position where there rates will be fully adequate, plus we anticipate that they will include some portion of their rates to help build up some of the Fund Balance that they had spent down over the past two years. As a result, the anticipated loss ratio of less than 1% remains in line with the anticipated spread in costs between the Empire Plan and the Suffolk County School Districts.

The 99.78% loss ratio means that based on all the data we have received through this process and applying all the assumptions reviewed earlier regarding that data, that it is our best estimate that if the Suffolk County Schools were to progress forward under the concept of a self funded municipal consortium that the operating costs for this group would be 0.22% lower than the premiums the district would pay into the Empire Plan in 2011. The total dollar savings associated with this scenario would amount to $842,536 for calendar year 2011. While the dollar amount of this savings is significant and may draw attention to itself, it is very important to put it in a proper perspective. This savings is in relationship to a total premium budget of $382 million. The savings reflect about a quarter of a percent of the overall budget associated with this project.

A different way of looking at the potential savings associated with this project is in relationship to the degree of certainty associated with the paid claims projection. If our analysis would be able to predict the health care expenses of this group to within a ¼ of a percent, we would have a far greater outlook on this project. The reality is that if our paid claims projections are off by even 2%, then the combined group could end up spending $8.5 million more in expenses than the premiums that would be paid under the Empire Plan.

<u>INITIAL CONCLUSIONS & RECOMMENDATIONS</u>

The initial results of this analysis are disappointing. As stated above, based our best models and assumptions we believe that from a strictly operational standpoint there is about an ongoing differential in cost between the school districts reviewed in this process should they come together to form a municipal consortium for the provision of health insurance as opposed to remaining in the NYS Empire Plan of far less than 1%. This cost differential is based purely on an operating budget perspective. There are even other additional financial considerations to be made when considering the formation of a municipal consortium such as the up-front costs associated with developing a Fund Balance and organizational struggles of pulling together a group of this size. Mindful of the less than promising operational perspectives, we did not even include these additional financial, organizational and reserving questions as part of the analysis in that they add even additional financial pressures on the analysis.

In reaching our conclusions it is very important to note that this analysis applies specifically to the Suffolk County School Districts that participated in this analysis AS A COMBINED GROUP. The actual experience for a single district or a smaller group of districts that combine for either single entity or multiple district health plans could vary from the findings for the group as a whole. Each of the smaller self insured, multiple district health plans such as the Suffolk Schools Employee Health Plan or the East End Health Plan have loss patterns and budgets that apply specifically to them and should not be evaluated based on the data presented in this Report. Much the same way, any district that were to examine a single entity self insured plan needs to base that decision specifically on the merits as it applies to their own school district.

So while the results of this analysis are not encouraging in the current environment regarding saving school districts money through a combined consortium, the information is important for the districts to have as they progress through the coming months and the deal with the budgetary considerations that will surface with regards to the health insurance packages that they offer their employees and retirees. Mindful of the current financial situation, it must be noted that this position may change in the future. In consideration of potential changes, we have included in this Report details regarding many of the issues that the districts would have to deal with should they wish to consider a municipal based health insurance plan in the future.