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Inspiring Hope and Purpose

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To: All Employees

From: Jim Mitchell, Administrative Director of Business Operations

Date: November 21, 2019

Re: Renewal of Group Health Plan for January 1, 2020

At its regular meetings in October and November, the St. James Parish School Board (The Board) unanimously approved Insurance Committee recommendations to renew its partially self-insured group health plan. The renewed plan goes into effect January 1, 2020.

For the first time since 2008, the plan renewal includes a premium increase for employee plan members. The entire rate structure has been increased by nine percent which equates to an additional \$642,000 in plan funding necessary to meet projected cost increases in medical claims, prescription claims, stop-loss insurance, and administrative costs.

GROUP HEALTH PLAN OPERATIONS

In 2003 The Board implemented a partially self-insured group health plan that currently covers the first \$155,000 of a member's individual claim. The plan is operated as its own unique accounting fund and is reported in The Board's financial statements as a component of the General Fund.

The plan is funded by Board contributions and employee payroll withholdings determined by each employee's voluntary selection of coverage category (employee only, employee and one, employee and two plus, etc.). The sum of The Board's contribution and the employee withholding for the particular category are transferred into the group health care fund each month; the aggregate monthly contribution to the fund is currently in the \$625,000 range.

Medical and prescription claims are processed and paid by Blue Cross, The Board's third-party administrator (TPA) for the plan. The TPA is selected for a multi-year stint based primarily on their provider network with claims processing protocol and experience and price being secondary factors. Blue Cross provides a weekly check run for the medical claims paid and The Board remits that amount to Blue Cross for payment of the claims. Prescription costs are paid monthly following the same process.

Costs that exceed \$155,000 for individual claims are paid by the stop-loss carrier, which is selected each year based on competitive proposals received. For the upcoming plan year the excess cost number will

increase to \$175,000 for each individual claim.

The financial advantage of a partially self-insured plan compared to a fully-insured plan is that the profit layer is removed from the traditional market prices of a fully-insured plan. A graphic depiction of the competing plan types follows:

<u>Fully-Insured Plan</u>	<u>Partially Self-Insured</u>
Profit	-
Medical Claims	Medical Claims
Prescription Claims	Prescription Claims
Stop-Loss Insurance	Stop-Loss Insurance
Processing Costs	Processing Costs
TOTAL PLAN COSTS	TOTAL PLAN COSTS

Mercer is The Board's group health care consultant and provides services out of its New Orleans office. A worldwide firm specializing in employee benefits, Mercer provides industry and market expertise, handles competitive pricing and recommendations for TPA and stop-loss insurance carriers, and makes financial recommendations based on their market research.

Mercer performs the actuarial calculations used to forecast upcoming claims activity and makes rate structure recommendations designed to keep the plan funding sufficient to pay anticipated medical, prescription, and administrative costs. As you can see from the table below, medical costs continue to rise and have eaten into the reserve funding available in the group health care fund:

	<u>Group Health Care Costs</u>			<u>Fund Balance</u>
	<u>Medical</u>	<u>Prescription</u>	<u>Total</u>	
2015	4,019,315	1,375,413	5,394,728	5,337,853
2016	3,310,621	1,325,655	4,636,276	5,366,925
2017	4,153,975	1,472,995	5,626,970	2,095,876
2018	5,101,289	1,658,913	6,760,202	1,343,008
2019 *	5,021,614	1,457,752	6,479,366	1,227,082
2020 *	5,400,000	1,500,000	6,900,000	637,082

* Estimated

(1) Decrease in 2016 is first full year implementation of Humana plan.

(2) Medical and prescription costs have increased 49% from 2016-2020.

Based on their employee benefits research, Mercer each year establishes a number referred to as "trend", which is in essence the percentage increase Mercer expects in medical and prescription claims costs. The

current trend is 9.1, meaning that Mercer expects medical costs to rise by 9.1 percent in the upcoming year. For the first three months of The Board's fiscal year, claims costs are rising far in excess of even that projection. A comparison of claims costs paid in July, August, and September of the past two years:

July, August, September 2018	1,445,260
July, August, September 2019	<u>1,655,151</u>
Dollar Increase	209,891
Percentage Increase	14.52%

When applying the trend to the current financial status of the group health reserve fund, it is very apparent that the current track is not sustainable financially. As with every negative financial equation, there are two options to remedy the situation – increase inflow of funds and / or reduce outflow of funds.

Administration recommended and the Board approved increases to premium contribution rates and did not recommend plan changes that would reduce plan expenditures. The potential plan changes – increases in deductible and out-of-pocket maximums for example – were considered but not recommended at this time.

PREMIUM CONTRIBUTION RATES

The premium contributions rate schedule provides for both School Board and employee contributions that are withheld from employee payroll based on the selections made by the employee; i.e. employee only coverage, employee and spouse, etc. Over the years the rate schedule has been modified to accommodate situations as they arise and this approach has resulted in a rate schedule that has 31 separate coverage categories.

For a group plan that has some 800 members – not a large group by industry standards - that number is entirely too high and creates unnecessary administrative burdens for both human resources and payroll personnel.

By contrast, the Louisiana Office of Group Benefits (OGB) that insures some 247,000 active and retired state employees and retirees, has five coverage categories. Administration will be making recommendations in the future to condense the current rate structure and bring it more or less into line with the basic coverage categories listed here:

- Employee
- Employee and Spouse
- Family

As you're no doubt aware, virtually every insurance plan is different due to the wide variety of parameters included in each plan – deductibles, out-of-pocket maximums, coverage category, etc. While there is no true apples to apples comparison for varying plans, the table below presents some comparative information from surrounding school systems and their premium contribution rates:

Group Health Plan
November 20, 2019
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	<u>Employee Only</u>			<u>Family</u>		
	<u>ER</u>	<u>EE</u>	<u>Total</u>	<u>ER</u>	<u>EE</u>	<u>Total</u>
Assumption	532	177	709	972	617	1,589
St. Charles	656	45	701	1,076	466	1,542
St. John	455	73	528	1,021	432	1,453
St. James	584	77	661	1,383	392	1,775
Terrebonne	614	0	614	446	446	892

The ER and EE abbreviations used above are also used in the detailed spreadsheet included herein. The ER designation is for Employer (The Board) while the EE designation is for Employee. Administration recommended and The Board approved Mercer's proposed nine percent rate increase with The Board absorbing 85 % of the cost increase and employees absorbing 15 % of the premium increase. In the aggregate, this 85 / 15 split means that the premium rate increase is split accordingly:

	<u>Premium Increase</u>	
<u>Additional Funding Provided by:</u>	<u>Total</u>	<u>Percentage</u>
School Board	545,620	85.00%
Employees	96,286	15.00%
TOTAL INCREASE	641,906	100.00%

A breakdown of the annual increase to The Board and the annual and monthly increases to employees is itemized in the table below:

		<u>EMPLOYER</u>	<u>EMPLOYEE</u>	
		<u>ANNUAL</u>	<u>ANNUAL</u>	<u>MONTHLY</u>
<u>COVERAGE CATEGORY</u>		<u>INCREASE</u>	<u>INCREASE</u>	<u>INCREASE</u>
A2	Employee Only	606.34	107.00	8.92
A3	Employee and One	1,157.25	204.22	17.02
A4	Employee and Two Plus	1,629.58	287.57	23.96
A4M	Employee and Two Plus, Both Employed	1,629.58	287.57	23.96

Group health plan membership is included in The Board's IRS Section 125 plan (cafeteria plan) and as such, group health plan premiums are tax-sheltered. With the exception of IRS-determined qualifying events – marriage, divorce, birth of a child, death of a plan member, etc. – employees must make an election to participate in group health plan coverage during the open enrollment period and are not allowed to add or drop coverage during the plan year unless one of the specifically delineated qualifying events has occurred. The open enrollment period is in progress and ends December 31, 2019 so no changes to group health plan membership can be made after that date. The full spreadsheet of The Board's premium rate structure has been included in this package. Thank you for your consideration of this information and please contact the Human Resources or Business departments should you need additional information pertaining to The Board's group health plan.

NINE PERCENT RATE INCREASE SPLIT 85/15 BY SCHOOL BOARD AND EMPLOYEES

[illegible]