Memorandum

MIAMI-DADE COUNTY

Date: January 12, 2012

To: Honorable Joe A. Martinez, Chairman
And Members, Board of County Commissioners

From: Carlos A. Gimenez
Mayor

Subject: Health Insurance Trust Fund

The purpose of this memorandum is to correct misinformation that has been provided over the past few days regarding the Health Insurance Trust Fund. Much of the incorrect information, I am sure, was not intentionally inaccurate, but rather as a result of an interpretation of data without complete understanding and knowledge of the health insurance trust fund, its uses, and its requirements.

The health insurance trust fund is funded by contributions from the County as the employer, contributions from the employees, and premiums paid by employees for dependent coverage. In FY 2010-11, employer contributions made up 72 percent of total revenues, not including dependent premiums. For FY 2011-12, this was expected to be 50 percent, assuming employees contributed 10 percent of salary. On an annual basis, claims expenditures total approximately $350 million.

Attached is a summary of the financial position of the health insurance trust fund. As you can see, the ending cash balance anticipated for FY 2011-12 is $102 million. This has been asserted as being excess funding that should be returned to the employees.

While this is the ending cash balance, against that balance it is required that the County reserve the value of short-term expenses "incurred but not reported" (IBNR) which is essentially expenses that will be coming for that financial period but have not been applied. That is calculated at $32.8 million for the period and leaves an available balance of $69.534 million.

In order to provide a self-insured medical plan for our employees, which has saved us over $100 million since implemented in 2008, we are required by State Statute to reserve the value of 60 days worth of paid claims. Attachment 2 is a letter from our health insurance consultants indicating our plan should have in reserve between $56.7 million and $100.2 million.

In addition to the reserve required by the State, pursuant to GASB 45, which was implemented after the spectacular failures in the late 1990s of large organizations such as Enron whose employees were left without benefits, we are required to reserve the value of one year's worth of "other post employment benefits" (OPEB). Simply stated, we provide retirement benefits for our retirees. While they must pay both the employer and the employee portion of those benefits, it is at a cost that is calculated as lower than the cost for accessing health insurance elsewhere. This has a value and is processed on a pay-as-you-go basis. For FY 2009-10, that value was $20.5 million and has grown each year.

Once this information is taken into account, it is clear that we do not have excess funding in the health insurance trust fund. If you have any questions, please contact Deputy Mayor Edward Marquez at 305-375-1451.

Attachments

c: Robert A. Cuevas, Jr., County Attorney
Office of the Mayor Senior Staff
Jennifer Moon, Budget Director
Lester Sola, Director, Internal Services
Charles Anderson, Commission Auditor

mayor05512

Miami-Dade County Health Insurance Trust Fund
PROJECTED THROUGH 09-30-2012 (as at 09-01-2011)

	ACTUAL FY 2010-11	PROJECTED FY 2011-12
Beginning Cash Balance	$ 55,291,216	$ 91,487,701
Revenues	$ 427,905,775	$ 437,253,100
Expenditures	$ (391,709,290)	$ (426,407,100)
Ending Cash Balance	$ 91,487,701	$ 102,333,701
Risk Management Reserves/Estimated Liabilities	$ 97,927,323	$ 106,601,775
% Funded by cash balance	93%	96%
CAFR		
Short-term IBNR	$ 32,600,000	$ 32,800,000
SURPLUS	58,887,701	69,533,701

Healthcare Analytics
A Division of Gallagher Benefit Services, Inc.

November 23, 2011

Beth Wininger
Director
ISD - Risk Management Division
Miami-Dade County
111 NW First Street, Suite 2340
Miami, FL 33128

Dear Beth:

You have requested that we review the Florida Statues and provide you with an estimate of the minimum and maximum amount of funds Miami-Dade County Government's (MDC) benefit plan fund is required to hold as of September 30, 2012, for their self-insured medical benefits provided by AvMed Health Plan.

We have reviewed the regulation and the plan experience and our analysis is provided below:

Summary

MDC's benefit plan should have surplus funds of between $56.7 and $100.2 million. A description of the process used to develop this range is provided below.

This estimate is based on a preliminary high level analysis and assumes the MDC plan design, claim administration and covered membership are stable during fiscal year 2012.

Florida Statues, Regulations and Guidance:

The requirements for self-funded health plans sponsored by local governments in Florida are set out in Florida Statute 112.08. The Statute sets out requirements for an annual filing that must include a series of prescribed forms and a statement by a qualified actuary regarding the actuarial soundness of the plan, but it does not specify a required surplus amount.

Several years ago, the Florida Office of Insurance Regulation (OIR) adopted a safe harbor surplus threshold of 60 days of paid claims. If the supporting exhibits included in the filing show that a plan has a surplus that satisfies the 60-day safe harbor, the financial portion of the OIR's review is satisfied with no further questions. To that end, one of the prescribed forms that must be included in the annual filing that shows the plan surplus, Florida Form OIR-B2-574, includes the following language:

> "NOTE: IF LINE 5 [SURPLUS, END OF CURRENT YEAR] IS NEGATIVE, THE PLAN IS NOT IN GOOD STANDING WITH THE FLORIDA OFFICE OF INSURANCE REGULATION. THIS DEFICIT MUST BE REMOVED BY AN INFUSION OF AN

AMOUNT AT LEAST EQUAL TO THE DEFICIT. IF THE DEFICIT IS TO BE LIQUIDATED OVER A PERIOD OF TIME, PLEASE PROVIDE THE DETAILS OF THIS PROGRAM FOR CONSIDERATION, ALONG WITH A SUPPORTING ACTUARIAL OPINION. IF THE PLAN'S SURPLUS IS LESS THAN SIXTY DAYS OF ANTICIPATED CLAIMS, OTHER QUESTIONS MAY BE ASKED OF THE PLAN AS THE OFFICE SEES FIT.'

In order to satisfy the 60-day safe harbor threshold, the plan would have assets equal to at least the sum of the claim reserve plus 60 days of expected claim payments. For MDC, using our estimate of the required IBNR, this would require total assets of approximately $100.2 million.

Development of Recommended Surplus Levels

Because the department guidance does not have the same force of law as the Statute or Regulations and the Statute's language requires that an actuary certify the actuarial soundness of the plan based on actuarial techniques and standards of practice, we have developed an estimate of the required surplus for the plan on the basis of these techniques and standards. Because this is a preliminary estimate for planning purposes, for this analysis we have relied on a high level review of the risk factors for the plan and have not performed a detailed study.

We have reviewed the MDC plan experience and rating history and also considered Gallagher's experience with other benefit plans of similar size, demographics and design to determine the types of events that have resulted in rates that were not adequate to cover actual incurred claims and expenses during the plan year. We have also reviewed the historical required claim reserves based on actual claim payments through September 30, 2011 to see how much variation there has been in the required reserve in recent years. For a plan such as the MDC plan with a large population, stable plan design and no changes in plan administration in the past 12 months, the biggest risk to the plan is that medical claim trend varies significantly from the expected level. The risk of random fluctuations in claims is very small due to the size of the plan.

Medical claim trend has several components including;

- Increases in charges for medical procedures
- Increases in utilization for medical procedures
- Increases in technology and intensity of medical procedures
- The impact of healthcare reform

Each of these components is driven by factors that are not entirely predictable, but trends have been reasonably stable in recent years and our expectation is that they will continue to be so in the next year. While there are forces at work in the local health care market that might eventually lead to an increase in actual medical trend, we believe that it is very unlikely that our estimate will be understated by any more than 5% in the coming year. Accordingly, we recommend the MDC plan hold a minimum surplus at least equal to 5% of expected annual claims in addition to the IBNR. Note that this is considerably lower than the 60-day safe harbor threshold established by the OIR, which equates to 16.7% of expected annual claims.

The chart below shows the development of the range for the minimum and maximum surplus for the MDC plan:

	Estimated FY12 Fund Requirement	
	Minimum (5% of Paid Claims)	Maximum (60 days of Paid Claims
FY11 Paid Claims	$306,179,000	$306,179,000
Estimated Claim Trend	10.5%	10.5%
Enrollment Adjustment	1.103	1.103
FY12 Estimated Claims	$373,107,000	$373,107,000
FY12 Required Surplus	$18,655,000	$62,185,000
FY12 IBNR	$38,062,000	$38,062,000
Total Required Funds	**$56,717,000**	**$100,247,000**

These numbers are up from last year due primarily to normal medical trend. They include an adjustment for the assumption that the JMH lives will return to the AvMed plan in 2012.

Data Utilized

The following data has been used for this analysis:

- Paid claims from October 210 through September 2011 provided by AvMed
- Gallagher IBNR Analysis from September 2011 adjusted to September 30, 2012 for both assumed medical inflation and the enrollment increase due to the JMH lives.

I am a member of the American Academy of Actuaries and am qualified to prepare this analysis. Please let me know if you have questions or need additional information.

Glen Volk, FSA, MAAA
Consulting Actuary

cc: Barbara Crowe, GBS
Mark Rosenberg, HCA