Response to Questions on the FY 2016 Budget

Request By: Supervisor Foust

Question: In prior years, additional funding has been available at mark-up for restorations and adjustments by reducing the estimated increase in health insurance premiums. Is it appropriate to reduce the projected 10 percent increase for health insurance plans in the FY 2016 Advertised Budget Plan and make any savings available for restorations and adjustments?

Response: The estimated health insurance premium increases that are included in the Advertised Budget each year are based on early projections of cost growth in the plans, taking into account current plan surpluses or deficits and the current level of reserves in the fund. In recent years, the estimated premium increases have been reduced as part of mark-up in recent years to allow for restorations and adjustments, based on the expectation that cost growth might be more moderate than the initial estimate. However, actual cost growth has often been higher than the initial estimate, requiring premium increases at or above the estimated premium increases included in the Advertised Budget. The table below provides a comparison of the Advertised and Adopted premium increase estimates, actual cost growth experience across the self-insured health plans, and the actual premium increase for the Cigna Co-Pay Plan (formerly the Cigna OAP High Plan), the County's self-insured health plan with the highest enrollment, for each of the past four fiscal years.

	Advertised Premium Estimate	Adopted Premium Estimate	Actual Cost Growth (FY)	Cigna Co-Pay: Actual Premium Increases (CY)
FY 2012	10%	10%	11.4%	10.0%
FY 2013	10%	8%	(0.1%)	13.6%
FY 2014	8%	7%	11.9%	2.0%
FY 2015	8%	6%	7-10% (est.)	8.0%

As shown in this table, cost growth has fluctuated but has typically been higher than the premium estimate included in the Advertised Budget. Cost growth has often ranged between 10 and 12 percent in recent years, though it can vary greatly. The high level of variability in cost growth, which in recent years have ranged from essentially flat in FY 2013 to as high as 13.6 percent in FY 2011, is due to both trends in healthcare costs, such as the expiration of patents on prescription drugs or the development of new high-cost drugs targeted to specific diseases, and the utilization of the healthcare system by the County's covered population.

It is important that premium increases keep pace with cost growth so that plan revenues are sufficient to cover plan expenses. However, premium increases must also take into account any current surplus or deficit experienced by the health plans. In the case of the Cigna Co-Pay Plan, there is currently a deficit as the current premium levels are not sufficient to cover expenses. In FY 2015, a portion of the Premium Stabilization Reserve is being used to cover this deficit. However, premiums must be increased in the future to fully cover plan expenses as reserve funds are depleted.

The FY 2016 Advertised Budget Plan includes a premium increase estimate of 10 percent, and it is recommended that this estimate be maintained. Due to the current deficit in the Cigna Co-Pay Plan, it is anticipated that this level of premium increase will be required even if cost growth is more moderate than the recent trend of 10 to 12 percent. Staff continues to pursue cost-saving strategies in the County's approach to health care. While a reduction in the premium increase estimate is not recommended, savings may be realized in FY 2016 through other plan design changes such as the introduction of a lower cost health plan.