Retired Employees Association of Orange County, Inc.

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July 26, 2010

County of Orange Board of Supervisors
Janet Nguyen, Board Chair
10 Civic Center Plaza 5th Floor
Santa Ana, CA

<u>RE</u>: Board Hearing of July 27, 2010 Agenda Item #41

On July 21, 2010 the Retired Employees Association of Orange County (REAOC) received an e-mail notifying us of the 2011 health insurance rate increases and health plan changes that had just been placed on the Board's agenda for July 27, 2010. This letter addresses Agenda Item #41 entitled 2011 Retiree Self-Funded PPO Health Plan Rates.

We were shocked to see that over 2,500 retirees were required to pay an additional 24.6% in premiums in 2011. A look at the table showed rates increasing up to $6,597 over 2010 rates. The total retiree premium with two dependents will increase to $34,000 per year.

Once again, very short notice was provided to REAOC despite the potentially devastating financial impact to retirees. Sufficient notice was not provided to enable a thorough review and analysis of the information used to calculate a 24.6% increase in the Premier Wellwise and Premier Sharewell plans. Based on our review of materials provided, we have many issues regarding the accuracy of the recommended increase.

County staff has not met with REAOC to discuss this proposed increase. The numbers are very troubling and omit significant elements that should be considered in a rate change. Retirees are not part of this rate setting process and have no prior knowledge of this action.

Retiree living expenses are negatively impacted by rate increases beyond the stated increase in the plan. This occurs because the retirees' annual grant does not increase nearly as much as the rate increase. If the rate increase exceeds 3%, the grant does not pay for any of the increase beyond the first 3% ($9 a month or $108 a year) for 2011. Retirees will pay $4,854 more to have themselves and spouse covered than they currently do. If the rates recommended are implemented the actual increase to retirees will be in the 30% to 50% range, not the 24.6% stated. This does not happen with employer payments for employees, which are uncapped and if the rate for employee coverage goes up 18%, so does the County's expense.

A key element for consideration for 2011 rates is the 6 month rate holiday implemented for employees in FY 2009-2010 which, according to the program budget, was valued at $18 million. No such holiday was implemented for retirees. The Board previously directed the Auditor-Controller to conduct a forensic audit of Fund 292 prior to the establishment of the rate holiday and to make that audit available to REAOC. REAOC has never received a copy of this forensic audit even though multiple requests have been made to CEO staff. Neither REAOC nor its members can have any confidence in the PPO rate setting process until this audit (if it was, in fact, conducted) sees the light of day. We are, hereby, again requesting a copy of this audit.

In 2008 the Board of Supervisors directed a return of excess premiums to employees and retirees alike. They also directed staff to work with retirees to determine what the correct amount should be and how that should get distributed. Employee Benefits and the Auditor Controller abandoned the notion of rebating premiums and recommended that the Board replace that plan with a rate holiday which would have the Employee Benefits desired effect of reducing the fund balance closer to industry standards for reserves. The rate holiday was applied to those employees currently enrolled in the health plan regardless of prior contributions. It would have been appropriate to have the same rate holiday for retirees but this was not done. Had the retirees received a 6 month rate holiday the savings to retirees would have been between $9 to $10 million depending on enrollment. We now request that you implement the rate savings retirees would have received through a premium rate holiday through lower premiums.

Another factor to consider is the Patient Protection and Affordable Care Act. This act provides for reinsurance for group health plans for insurance claims between $15,000 and $90,000 per year for retirees from age 55 through 64. On June 30, 2010 we made a request of Employee Benefits for the potential savings of this new law. We have yet to receive an answer to that request; although the consultant did indicate verbally that the amount could be considerable In a letter dated July 21, 2010 from Carl Crown, REAOC was informed that retirees will get credit for the savings in the year following receipt of the reimbursement. However based on item 41, premiums will not be adjusted for reimbursements received by the County on behalf of retirees until at least 2012, a full 18 months following implementation. This delay in crediting savings has the impact of driving many retirees out of coverage and renewed growth of the reserve fund beyond levels that the consultant says are necessary. Further it gives more weight to an assumed increase in rates (7.5% or 11.9%) than a law already passed, funded with $5 billion of assets presumably subject to additional Federal funding if needed.

Retirees need the help now to avoid thousands of dollars in increased premiums. The facts in this case show that the Health Plan has sufficient resources and a prior commitment to retirees that if honored would cover the entire increase for calendar year 2011 and likely for the following year as well.

Letter to Janet Nguyen
Orange County Board of Supervisors
Board Meeting July 27, 2010, Agenda Item #41
July 26, 2010

We respectfully request that you continue Agenda Item 41 to allow our issues to be addressed. We are available to discuss these concerns.

Yours Truly,

Linda Robinson and Doug Storm
Co-Presidents, REAOC

Cc: Bill Campbell, 3rd District Supervisor & Vice Chairman
John M. W. Moorlach, 2nd District Supervisor
Shawn Nelson, 4th District Supervisor
Patricia C. Bates, 5th District Supervisor
Tom Mauk, CEO
Carl Crown, HR Director
Darlene Bloom, Clerk of the Board
Nicholas S. Chrisos, County Counsel
Michael Brown, Moscone, Emblidge & Sater, LLP