



CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: Kurt Triplett, City Manager
From: Tracey Dunlap, Director of Finance and Administration
Date: July 20, 2011
Subject: **SELF INSURED MEDICAL PROGRAM FINANCIAL STATUS REPORT**

RECOMMENDATION:

Council receives an update on the status of the self insured medical program.

BACKGROUND DISCUSSION:

At the July 19 City Council meeting, Council requested staff to prepare a status report on the financial performance of the self insured medical program ("Kirkland Prime") to date. The City implemented a self-insured health care program at the beginning of 2011. The City receives monthly financial reports from Clearpoint, the third party administrator (TPA), and the reports through June are included as Attachment A. The following observations are based on the information received to date:

- "Kirkland Prime" package costs were set to substantially match the cost of the AWC package. Budgeted 2011 benefit costs included assumption of a 10% AWC rate increase for medical; the actual AWC increase was 10.23%.
- Third Party Administrator (TPA) and stop-loss insurance costs are also included in the premium equivalent analysis.
- The budget and medical plan rates also included the assumption of an additional \$500,000 rate stabilization reserve accumulation in 2011, over and above the required reserve amount calculated by the TPA stop-loss carrier and Clearpoint (the "basic" claims reserve).
- The June Clearpoint assessment indicates full funding of the "basic" claims reserve for 2011, which represents half the reserve amount required by the end of 2012. This means we are already making progress on accumulating the 2012 required balance.
- Budget for 2012 benefit rates assumes an aggregate 9.3% increase (10% medical, 5% dental, 0% vision) based on the anticipated 2011 AWC rates.
- 2011 "Kirkland Prime" rates include an additional \$500,000 in rate stabilization contributions in the cost. Depending on the year-end 2011 results, staff will evaluate whether the additional \$500,000 in rate stabilization reserve for 2012 is necessary.
- These results are based on 6-months of actual medical and pharmacy claims data, so it is difficult to assess the long-term trend (this usually takes at least 18 months of data). A full actuarial analysis will take place this fall to determine a more accurate assessment of the fund reserves and to set "premium equivalent" amounts for 2012.

In summary, the City's self-insured medical program appears to be performing well from a financial perspective after the first 6 months. If the early trends continue, we may consider adjusting the budget and rates for 2012, which may help compensate for some of the impacts of inflation coming in higher than projected (3.7%). Further information on the program status will be included in the mid-biennial budget update.



Executive Summary – City of Kirkland

Enrollment Summary

For June 2011, there were 487 employees enrolled in the Medical/Vision plan, and 10 subscribers enrolled in the Medical/Vision plan under COBRA.

Claims Summary

| Claim Type | Paid in Current Month | Average Paid (past 12 months) |
|---------------|-----------------------|-------------------------------|
| Medical | \$244,692 | \$265,664 |
| Rx (Caremark) | \$63,249 | \$60,249 |

Claims per Member per Month (Updated Monthly)

| PMPM* | Through Mar. '11 | Prior Year |
|---------|------------------|------------|
| Medical | \$279.80 | n/a |

*Based on incurred dates.

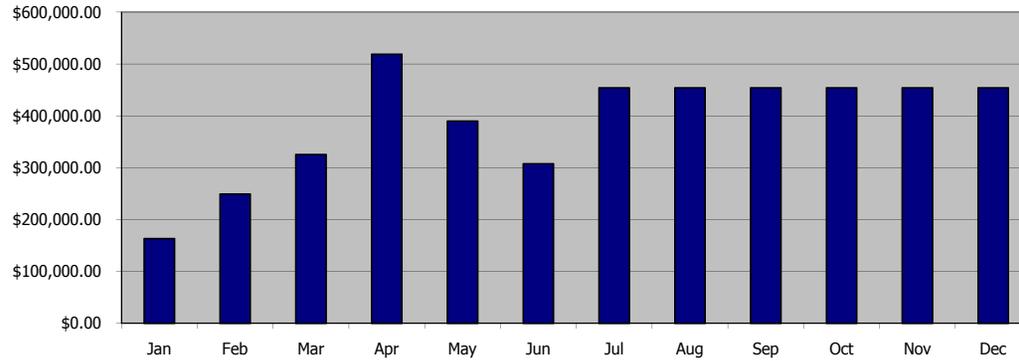
Administrative Fees and Stop Loss

Administrative fees paid during the month totaled \$19,185. Stop loss fees paid during the month totaled \$61,695. Retroactive fees totaled \$1,860. There was \$0 in stop loss recoveries received in the month of June. There is currently 1 member with claims totaling more than half of the individual stop loss deductible amount for the current contract year.

**City of Kirkland
Estimated Self-Funded Claims Reserves
Fully Insured Transition to Self-Insured Health Plan
2011 Year Plan**

| | | | |
|----------------------------|------------|--------------|----------------|
| Participating Employees | 472 | | |
| | PEPM | Per Month | Per Year |
| Fixed Costs | \$168.54 | \$79,609.38 | \$955,312.57 |
| Expected Claims | \$825.52 | \$389,920.61 | \$4,679,047.36 |
| Maximum Claims | \$990.62 | \$467,904.74 | \$5,614,856.83 |
| Total Maximum Liability | \$1,159.17 | \$547,514.12 | \$6,570,169.40 |
| Target Eight Weeks Reserve | \$127.00 | \$59,987.79 | \$719,853.44 |

Projected Claims Pattern



| Month | Claims Funding | Expected or Actual Claims | Net Claims Funding (Reserves) | Cumulative Reserves | Percent Annual Target Reserves | Amount Toward Rate Stab. Res. |
|--------------|-----------------------|---------------------------|-------------------------------|---------------------|--------------------------------|-------------------------------|
| Jan | \$467,904.74 | \$163,348.00 | \$304,556.74 | \$304,556.74 | 42% | \$0.00 |
| Feb | \$467,904.74 | \$249,404.97 | \$218,499.77 | \$523,056.50 | 73% | \$0.00 |
| Mar | \$467,904.74 | \$325,372.05 | \$142,532.69 | \$665,589.19 | 92% | \$0.00 |
| Apr | \$467,904.74 | \$518,914.46 | (\$51,009.72) | \$614,579.46 | 85% | \$0.00 |
| May | \$467,904.74 | \$389,896.48 | \$78,008.26 | \$692,587.72 | 96% | \$0.00 |
| Jun | \$467,904.74 | \$307,725.48 | \$160,179.26 | \$852,766.98 | 118% | \$132,913.54 |
| Jul | \$467,904.74 | \$454,064.32 | \$13,840.42 | \$866,607.39 | 120% | \$146,753.95 |
| Aug | \$467,904.74 | \$454,064.32 | \$13,840.42 | \$880,447.81 | 122% | \$160,594.37 |
| Sep | \$467,904.74 | \$454,064.32 | \$13,840.42 | \$894,288.22 | 124% | \$174,434.78 |
| Oct | \$467,904.74 | \$454,064.32 | \$13,840.42 | \$908,128.64 | 126% | \$188,275.20 |
| Nov | \$467,904.74 | \$454,064.32 | \$13,840.42 | \$921,969.06 | 128% | \$202,115.62 |
| Dec | \$467,904.74 | \$454,064.32 | \$13,840.42 | \$935,809.47 | 130% | \$215,956.03 |
| Total | \$5,614,856.83 | \$4,679,047.36 | \$935,809.47 | | | |
| Fixed Costs | \$955,312.57 | \$955,312.57 | | | | |
| Total Cost | \$6,570,169.40 | \$5,634,359.93 | | | | |

Actual Experience Fixed Values