

FDAC EMPLOYMENT BENEFITS AUTHORITY

Board of Directors Teleconference Meeting

Monday, April 20, 2009

2:00 p.m. – 4:00 p.m.

Call-In Number: (866) 704-7500

Passcode: 978212

Subscriber PIN: 381060

7 Erba Lane, Scotts Valley, CA 95066

318 Pepperwood Drive, Cloverdale, CA 95425

8200 Old Redwood Hwy, Windsor, CA 95492

95 Rowland Way, Novato, CA 94945

1215 K Street, Suite 2290, Sacramento, CA 95814

1091 North Shoreline Blvd., Suite 200, Mountain View, CA 94042

10860 Gold Center Dr # 300, Rancho Cordova, CA 95670

3000-F Danville Boulevard, #156, Alamo, CA 94507

Agenda

<i>Item</i>	<i>Action</i>
I. Welcome and Introductions	
II. Public Comment	Discussion
III. Consent Calendar	Info/Action
A. Minutes <i>Review and approve minutes from the March 27, 2009 Board Meeting.</i>	
B. Financials <i>Review and approve financials.</i>	
IV. Set Rates for January 2010	Info/Action
V. Adjourn	Action

FDAC Employment Benefits Authority
Board of Directors Meeting
Friday, March 27, 2009

In Attendance

Mike McMurry, President
Jim Hill, Vice President
Ron Collier, Treasurer
Charlene Virts, Director
Lisa MacCubbin, Director

Consultants/Guests

Catherine Smith, Administrator
Fiona Young, Administrative Assistant
David McMurchie, Legal Council
Jason Andrew, LHI
John Miller, LHI
Jon Hilgers, LHI
Rosa Soria, LHI
Matt Schafer, BRMS
Nick Perrin, BRMS
Dave Turner
Marc Revere, Novato Fire

President Mike McMurry called the meeting to order at 10:00 a.m. A quorum was established, and there was no public comment.

Consent Calendar

The Board addressed the consent calendar, consisting of the minutes of the February 12, 2009 meeting and the financials for February 2009. Vice President Jim Hill moved to approve the consent calendar; Director Charlene Virts seconded. Motion passed unanimously.

NFPD Chief Revere Request for Kaiser/Medicare Surcharge Reimbursement

Novato Fire Protection District Chief Marc Revere addressed the Board and requested that Novato Fire be reimbursed the Kaiser/Medicare surcharges totaling \$19,152 as well as \$10,000 in administrative costs for dealing with this issue. He provided a detailed report of the actions Novato Fire has taken to rectify the situation in talks with Kaiser, LHI and the EBA Board. Chief Revere noted that the EBA's statement of purpose lists one of the purposes of reserve funds to cover districts for increases in fees and rates. He expressed discontentment with the level of customer service and lack of support received from EBA and its consultants.

The Board expressed gratitude for Chief Revere's detailed report and the effort he and his staff have put into resolving this issue. President McMurry urged the Board to reimburse Novato Fire immediately for the surcharges, as well as administrative costs to be determined with more detailed documentation of work performed by Novato Fire staff.

Jason Andrews explained the surcharge cost to the Board: it was originally roughly \$40,000, but was negotiated down to \$19,152. Recently LHI has negotiated to roughly \$16,000; the exact figure is unknown. BRMS has agreed to pay \$5,000 towards this cost; LHI will pay the remaining \$11,000. President McMurry said he would like the EBA to pay Novato Fire immediately, and settle up with the consultants at a later date.

President McMurry moved to reimburse Novato Fire Protection District their hard costs of up to \$19,152 resulting from the Kaiser/Medicare issue. Director Ron Collier seconded; the motion passed unanimously.

2009 Kaiser Senior Advantage Plan

Jason Andrew provided the Board with a report on the Kaiser Senior Advantage Plan (KPSA), which was expected to undergo plan design changes approved by the Board for 2009. These changes were applied to Traditional plans, but KPSA remains under 2008 plan design. The Board discussed several options to change the plan, which would raise enrollees' copayment from \$10 to \$15, but would decrease rates by 3%. Jason Andrew explained that the EBA is currently subsidizing the plan by 3% more than expected for the eighteen enrollees. Director Virts moved to leave the plan as is with current rates and 2008 plan design until the next enrollment period. Director Collier seconded; the motion passed unanimously.

Rates/Renewal Date Change

LHI and Turner Consulting have negotiated six month extensions of current rates through June 30, 2010 with four carriers: Blue Shield, Safeguard, VSP and ING. Kaiser is expected to submit their quote within two months, and has made a verbal agreement it will not exceed trend. Delta Dental is also expected to release its quote within two months. The Board discussed the option to change the enrollment period from calendar year to midyear, with the next enrollment period in spring of 2010 for a start date of July 1, 2010. It was decided that this option could confuse members and have an adverse affect on members wanting to change from a PPO plan to an HMO, or vice versa. Administrator Catherine Smith reminded the Board that this discussion originated from a desire to make the EBA competitive with CalPERS by getting rates out early; unless rates are finalized by spring, the pool cannot be aggressively marketed.

President McMurry recommended that the Board stay on a calendar year renewal period for the sake of members, and set a rate increase based on estimates from LHI and Turner Consulting and the amount of risk the EBA is willing to take. Director Virts moved to maintain a calendar plan year running from January through December, and allow our consultants to come back with numbers in order for the Board to set a rate by May 1 of that year for the following calendar year; Director Collier seconded. The motion passed unanimously.

Revised Investment Policy

David McMurchie expressed concerns with the *Authorized Investments* and *Maximum % of Portfolio* sections of the revised policy. Staff will work with McMurchie to revise these sections and bring an approved investment policy and recommendation on placement of funds to the next EBA meeting.

Marketing Plan

Jason Andrew presented a marketing plan for the EBA on behalf of LHI which outlined the market, the EBA's strengths and weaknesses in comparison to CalPERS, and potential areas for growth. He provided the Board with copies of proposed fliers to be distributed to potential members.

The Board questioned LHI's aggressive numbers; Jason Andrews admitted they were aggressive, but said if LHI cannot meet these targets the EBA should seek a different marketing team. John Miller concurred.

Vice President Hill requested that testimonials from real fire chiefs be included in the marketing plan. President McMurry noted an edit to the proposed fliers – the headline should read "Keep Your Money in the California Fire Service" rather than "Keep Your Money in the Fire Service Industry."

Consultant Contracts

President McMurry expressed interest in soliciting RFPs for an insurance broker and preparing evaluations for our other consultants. The Board discussed options and determined that it is too late to solicit RFPs for 2009, but will work to review contracts thoroughly and be prepared to receive RFPs for 2010. David McMurchie suggested preparing a formal analysis of each consultant's strengths and weaknesses. Administrator Smith will prepare recommendations on changing contracts and staggering contract terms, and present these to the Board at the next meeting. Director Virts suggested having a service level agreement built into each contract, if not already in place.

Having nothing further to discuss, the meeting was adjourned at 1:46 p.m.

Respectfully submitted,

Fiona Young
Administrative Assistant

FDAC EBA
Balance Sheet
As of March 31, 2009

	<u>Mar 31, 09</u>
ASSETS	
Current Assets	
Checking/Savings	
Margin Fund	383,077.72
Medical Reserve (BRMS held)	120,000.00
Money Market Account	8,728.44
US Bank	66,378.96
Total Checking/Savings	<u>578,185.12</u>
Accounts Receivable	
1200 - Accounts Receivable	12,052.23
Total Accounts Receivable	<u>12,052.23</u>
Other Current Assets	
Pre Paid Expense	3,333.33
Total Other Current Assets	<u>3,333.33</u>
Total Current Assets	<u>593,570.68</u>
TOTAL ASSETS	<u><u>593,570.68</u></u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
2000 - Accounts Payable	31,978.91
Total Accounts Payable	<u>31,978.91</u>
Other Current Liabilities	
Prior Year Income	75,554.55
Total Other Current Liabilities	<u>75,554.55</u>
Total Current Liabilities	<u>107,533.46</u>
Total Liabilities	107,533.46
Equity	
Reserves & Contingencies	50,000.00
1110 - Retained Earnings	303,716.42
Net Income	132,320.80
Total Equity	<u>486,037.22</u>
TOTAL LIABILITIES & EQUITY	<u><u>593,570.68</u></u>

FDAC EBA
Budget vs. Actual
July 2008 through March 2009

	<u>Jul '08 - Mar 09</u>	<u>Budget</u>	<u>\$ Over Budget</u>	<u>% of Budget</u>
Ordinary Income/Expense				
Income				
4000 · INCOME				
4100 · Interest	52.42	3,000.00	-2,947.58	1.75%
4200 · Miscellaneous Income	1,813.27			
4300 · Premium Earnings	6,240,105.89	8,461,224.41	-2,221,118.52	73.75%
4500 · Reimbursed Expenses	0.00			
Total 4000 · INCOME	<u>6,241,971.58</u>	<u>8,464,224.41</u>	<u>-2,222,252.83</u>	<u>73.75%</u>
Total Income	6,241,971.58	8,464,224.41	-2,222,252.83	73.75%
Expense				
6000 · EXPENSE				
6010 · Administration				
6014 · Administration Contract	30,839.94	41,200.00	-10,360.06	74.85%
6016 · Third Party Administrator	88,437.57	93,500.00	-5,062.43	94.59%
6018 · FDAC Subsidiary Fee	30,000.00	20,000.00	10,000.00	150.0%
Total 6010 · Administration	<u>149,277.51</u>	<u>154,700.00</u>	<u>-5,422.49</u>	<u>96.5%</u>
6040 · Bank Service Charges	74.00			
6100 · Board Meetings	1,658.82	4,000.00	-2,341.18	41.47%
6150 · Broker	333,796.31	549,979.59	-216,183.28	60.69%
6200 · Carrier Payments	5,603,150.05	7,393,065.50	-1,789,915.45	75.79%
6300 · Insurance				
6350 · Insurance Other	1,181.18	1,500.00	-318.82	78.75%
Total 6300 · Insurance	<u>1,181.18</u>	<u>1,500.00</u>	<u>-318.82</u>	<u>78.75%</u>
6400 · Miscellaneous	197.83			
6650 · Office Supplies				
6665 · Office	120.00			
6650 · Office Supplies - Other	40.00			
Total 6650 · Office Supplies	<u>160.00</u>			
6700 · Operating Expenses				
6710 · Postage and Delivery	91.96	500.00	-408.04	18.39%
6720 · Staff Travel	0.00	250.00	-250.00	0.0%
6730 · Telephone	5.62	50.00	-44.38	11.24%
6700 · Operating Expenses - Other	0.00	1,000.00	-1,000.00	0.0%
Total 6700 · Operating Expenses	<u>97.58</u>	<u>1,800.00</u>	<u>-1,702.42</u>	<u>5.42%</u>
6800 · Professional Fees				
6801 · Accounting	0.00	10,000.00	-10,000.00	0.0%
6804 · Consulting/Actuary	17,174.50	25,200.00	-8,025.50	68.15%
6807 · Legal Fees	2,883.00	15,000.00	-12,117.00	19.22%
Total 6800 · Professional Fees	<u>20,057.50</u>	<u>50,200.00</u>	<u>-30,142.50</u>	<u>39.96%</u>

FDAC EBA
Budget vs. Actual
July 2008 through March 2009

	<u>Jul '08 - Mar 09</u>	<u>Budget</u>	<u>\$ Over Budget</u>	<u>% of Budget</u>
6850 - Training/Communication	0.00	5,000.00	-5,000.00	0.0%
Total 6000 - EXPENSE	<u>6,109,650.78</u>	<u>8,160,245.09</u>	<u>-2,050,594.31</u>	<u>74.87%</u>
Total Expense	<u>6,109,650.78</u>	<u>8,160,245.09</u>	<u>-2,050,594.31</u>	<u>74.87%</u>
Net Ordinary Income	<u>132,320.80</u>	<u>303,979.32</u>	<u>-171,658.52</u>	<u>43.53%</u>
Net Income	<u><u>132,320.80</u></u>	<u><u>303,979.32</u></u>	<u><u>-171,658.52</u></u>	<u><u>43.53%</u></u>

April 16, 2009

Ms. Catherine Smith
Smith Moore & Associates
1215 K Street, Ste 2290
Sacramento, CA 95814

Re: BSC 1/1/2010 Renewal Rate Recommendation

Dear Catherine:

This letter provides our 1/1/10 renewal rate recommendation as the actuary to the FDAC pool.

Background

Recently, the board authorized Turner Consulting to propose a recommended renewal rate increase for the Blue Shield plans in advance of the final negotiations by LHI.

Blue Shield is assisting in this process by providing an early renewal in April so that we can review their formulas, assumptions, methods, etc. as a data-point in our recommendation. Any variance between recommended and actual 2010 rates will be negotiation differences.

Blue Shield proposed an 11.86% renewal for both the HMO and PPO plans. This included approximately a 4% load to the HMO and 5% load to the PPO for “negotiation/early renewal margin”. In the absence of the loads, the proposed renewals would have been 7.7% for the HMO and 6.6% for the PPO. The POS was not included in the renewal but normally follows the PPO renewal rate adjustment.

Analysis

Our analysis indicates the following:

- The 4-5% loads are inappropriate and unnecessary and should be negotiated away
- Other factors such as POS claim experience, pooling, IBNR reserves, demographic factors, benefit adjustments, and trend factors may also be conservative and provide opportunities for additional negotiation. These have been detailed in an email to LHI to use as negotiation leverage.

Recommendation

Our recommended renewal rate adjustment for the FDAC pool is as follows:

Rate Component	HMO	PPO
Baseline Renewal	+11.86%	11.86%
Remove Negotiation/Early Renewal Load	-3.89%	-4.96%
Net Renewal Excluding Loads	+7.7%	+6.6%
Additional Technical and Broker Negotiation Leverage	-1%-2%	-1%-2%
Anticipated Renewal After Negotiation	+5.7%-6.7%	+4.6%-5.6%
Target Blended Renewal After Negotiation	5%-6%	
Recommended Pool Renewal	7.0%	

Sincerely,

David Turner
 Manager
 TURNER CONSULTING AND ACTUARIAL, LLC