STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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AS APPROVED

To: Local Government Self Insurance
Health and Welfare Advisory Board

From: Shannon Stuber
Local Government Self Insurance Program

Subject: Health and Welfare Advisory Board Meeting Minutes
August 13, 2009 meeting

BOARD MEMBERS PRESENT

Irene Eldridge	Service Employee International Union Local 925 (SEIU)
Ruth Hultengren	King County
Dennis Julnes	Office of the Insurance Commissioner (OIC)
Richard Rodruck	Public Utility Risk Management Services (PURMS)
Ruth Russell	University Place Schools
Shannon Stuber	Local Government Self Insurance Program (LGSIP)
James Trefry	WA State Council of County and City Employees/AFSCME

GUESTS/STAFF

Jon Allen	Pacific Insurance
Bill Christensen	Pacific Insurance
Katrina Colo	State Auditor's Office (SAO)
Doug Evans	R. L. Evans
Don Johnsen	LGSIP
Toni Lally	Auburn School District
Becky Lee	City of Tacoma
Jim Lux	WA Fire Commissioners Association
Bill Maschmeier	ClearPoint
Mike Peterson	Sound Partnership/Tacoma Schools/
Sharon Reijonen	Snohomish County PUD
Terri Shuhart	City of Renton
Sean White	Mercer
Sonny Whiton	Plan Administrators

CALL TO ORDER

Chair Rodruck called meeting to order 9:30 a.m.

APPROVAL OF PREVIOUS MEETING MINUTES
The Board approved the draft May 14, 2009 HWAB meeting minutes.

BOARD MEMBER NEWS/ISSUES DISCUSSION
Board members discussed their program and general employee health benefit issues and trends, 2009/10 program changes, budgets and year to date experience.

Julnes discussed OIC 2009 oversight issues including insurance industry underwriting and investment losses related to the national economic situation. He noted the year had already been the busiest ever and that given the extent of industry wide underwriting losses, OIC would be reviewing their current oversight tools.

WAC 82-60 REVIEW/REVISION
Stuber reviewed the significant increase in the number of self insured employee health benefit programs over the past ten years. The administrative rules for oversight of such programs have remained unchanged since 1991. Since that time four temporary operating guidelines were developed which have now been discontinued.

Stuber discussed the State Risk Manager's statutory responsibility to formally adopt administrative rules for the solvency, management and operations of self insured employee health benefit programs. She also noted the need for updated operating rules specific to self insured employee health benefit programs which are separated from those for property/liability programs. Separate will be more easily found by local government health benefit programs, interested covered members and other agencies, such as OIC and SAO.

Stuber reviewed development of the draft revised WAC chapter governing individual and joint self insured employee health benefit programs and the need for providing more transparency for members of joint programs by requiring notice to members of meetings and changes in bylaws and agreements, etc.

Stuber added that the new draft WAC chapter governing self insured employee health and welfare programs includes rules for solvency specifically for health and welfare programs and provides for the flexibility of having either a formal actuary study or specified number of weeks of annual program expenses as the reported liability.

Julnes observed that fully funding a self-insured program liability is not the sole basis of self insured program stability and he recommended a minimum capitalization level also be required especially for joint programs. He also expressed concern that joint programs are not required to obtain an annual actuarial study to determine the program's liabilities and funding levels.

Stuber noted that health benefit claims are for the most part auto adjudicated and paid relatively quickly after occurrence. Should a program terminate its self insured coverage, it would be reasonable to presume there would likely be about eight weeks worth of claims and related expenses to be paid. Based on this, the new WAC includes minimum funding requirements of reserves equal to eight weeks of program expenses. An additional requirement includes a board-adopted policy to determine the amount of additional contingency reserves necessary to address changes in the program, such as recent increases in stop loss, a "cushion" for adverse claims experience and program termination costs.

A regular formal actuarial study is the most accurate way to determine the liabilities and funding levels, but LGSIP is mindful of the costs. If a program is consistently underfunded and reserves dwindle, then LGSI may require such a study. If the pool has sufficient reserves and adequate board and member involvement programs, the state risk manager's office prefers to provide flexibility in this area.

Hultengren clarified that for such purposes self insured medical would also include the program's related pharmaceutical benefit costs. She and others also expressed concern at the cost of independent claims reviews for smaller entities.

Colo noted the SAO is considering such reviews in SAS 70 internal control measures.

Hultengren added that King County had provided written comment on the following three sections of the draft WAC:

New Section 10 - The draft has specific language related to standards for contracts but there is no exception for jurisdictions that have a formal contracting/procurement process in place. King County has such a process and is required to comply with it. The WAC should have language allowing self insured programs to comply with the governing jurisdictions formal contracting and procurement policies and procedures and not require the County to comply with standards that are in conflict with the County's governing body's formal process.

New Section 12. (5) - Independent audit requirement - While claim auditors should be independent of the third party administrator. The County believes the auditor should be able to be affiliated with the broker of record if the audit group is an independent group within the broker's parent company. Requiring the auditor to be unaffiliated with the broker places an undue burden on programs. A separate RFP would have to be performed and there are not many independent, qualified claims auditors available. While they agreed the auditor should be independent of broker operations, this can be achieved with an affiliated group. Also, they prefer the audit requirement apply only to the medical program as their experience is that audits of vision and dental programs are not cost effective.

The County also believes the actuary can be associated with either the broker of record or the auditor, if the person or group performing this work is different from the person or group providing the broker services (see comments under Section 15).

Frequency of claims audits. The general statement of "every three years at a minimum" requirement is too restrictive and costly. There should be more flexibility in the audit requirement. The County has found the most useful results are from an audit at the end of the first year of either a new TPA or a new program's operation or whenever a significant program change is made. Doing so ensures claims adjudication rules have been properly implemented by the TPA and ensures appropriate safeguards are in place to prevent fraud in the adjudication process.

New Section 15. (1) Conflict of Interest standard. The new WAC requires the claims auditor, the third party administrator, the actuary and the broker of record to contract separately with the self insurance program. The County agreed that the broker and the TPA should be separately contracted, but that the actuary should be separately contracted from the broker. As with the auditor, the actuary should be able to be an independent function within the parent company umbrella, with both broker and actuary functions covered in the same contract. They agree the broker and actuary should function independently but this can be done even when they have an affiliation.

Evans noted his firm has provided consulting and brokerage services to five individual self insured Puget Sound area local government entities for a number of years. Four of the five entities use the same TPA. These administrators are used as they provide access to the provider networks which offer the greatest discounting to claims from local providers. He said as context for the discussion regarding third party administrator (TPA) contract length and the request for proposal process to resolicit such contracts, he estimated over 400 hours were spent rebidding the City of Kent's TPA contract which in the end was reawarded to Premera. He believed that individual employers should be allowed to set their own timelines for resoliciting TPA's and should not be required to follow a prescribed timeline. Evans said they believe it is in the State's best interests to ensure public employers self funding their benefit programs meet certain reserve requirements and be subject to oversight to assure taxpayer money is well spent. Stuber said the consultant services contracting procedures were based on those in state statute, but based on the feedback provided, it appears these requirements may need revision.

White said that on behalf of a number of their clients, Mercer proposed that the: (1) Section 2, Item 7c draft provision the claims auditor be independent from the program or vendors including brokers be amended to allow the flexibility of a claims auditor from the same company providing brokerage services provided the individuals do so are different from those providing auditing services; (2) Section 5 draft language addressing contribution nondiscrimination also allow for variance in contribution requirements based on FTE status and wellness program participation; (3) Section 5 proposed language stating a maximum 5 year contract period with an additional one year exception for third party administration contracts allow for flexibility if it is demonstrated that arrangements currently in place are market competitive and that the cost of a full competitive process as defined in section 2, item 11 is unlikely to be recouped through an improved third party administrator financial arrangement; (4) new Section 12, item 5 proposed language establishing a required frequency for medical administrator claims audits of once every three years be revised to allow the flexibility to allow less frequent audits should there not have been any major plan design or administrator changes since the prior audit and as discussed during the meeting to synchronize the frequency with the competitive process frequency; and (5) new Section 15, item 1 language requiring the claims auditor, third party administrator, actuary and broker of record to contract separately with the program be amended to allow flexibility for multiple services to be provided by one firm so long as the firm can provide assurance as noted in the proposed chapter that no conflict of interest exists as a result of providing multiple services.

Lux asked whether there would be a one year or so implementation period in the event of significant operating procedure changes in the new WAC. Stuber agreed that programs may need some time to comply with the new WAC and that the state risk manager's office would be flexible.

Petersen noted he did not find the proposed changes too painful and observed that while all programs were run with good intentions, one bankrupt program could end the legislative authority for public schools and local governments to self insure and the benefits of doing so for both local governments and employees.

Stuber stated that, based on the feedback received during today's meeting, and the written feedback provided, which is still being reviewed, some changes will be made prior to filing with the code reviser.

FUTURE MEETING SCHEDULING/BUSINESS/LOCATION

The fourth quarter Health and Welfare Advisory Board meeting is scheduled for October 15, 2009 at the Washington Cities Insurance Authority Training Room in Tukwila WA.

PUBLIC COMMENT
There were no public comments.

ADJOURN
Meeting adjourned 12:00 p.m.