

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

452



FROM: Human Resources Dept.

SUBMITTAL DATE:
July 8, 2004

SUBJECT: Vision Service Plan (VSP) Self-Funded Vision Benefit - Reserve calculation and adjustment to the rate charged to departments.

RECOMMENDED MOTION: That the Board 1) approve the creation of an IBNR reserve (for Incurred But Not Reported claims), and 2) approve an increase in the VSP rate to be charged to departments effective July 1, 2004, to \$12.70 monthly.

BACKGROUND: Vision Service Plan (VSP) is the County's self-funded vision plan for management and other unrepresented employees, which is paid for by the County (no employee contribution). Each department is charged a VSP rate for its covered employees. There has been no increase in this rate for over twelve years and, until recently, the rate charged has generated sufficient funds to cover claims incurred. Claims increased significantly during the 1st and 2nd quarters of 2004, however, and projections indicate that there will be insufficient funds to cover claims projected through the end of the 2004 plan year. Human Resources has worked with Aon Consulting, the County's Benefits Consultants, to determine the appropriate level of funding required to ensure adequate funds through the remainder of the plan year to cover claims paid, and to determine appropriate reserve levels to offset future claim fluctuations.

(continued on page 2)

FISCAL PROCEDURES APPROVED
 ROBERT E. BYRD, Auditor-Controller
 BY *[Signature]* 5/11/04
 Deputy

[Signature]
 Ronald W. Komers
 Asst. County Executive Officer/Human Resources Dir.

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 50,568	In Current Year Budget:	YES
	Current F.Y. Net County Cost:	\$ 11,125	Budget Adjustment:	NO
	Annual Net County Cost:	\$ 11,125	For Fiscal Year:	2004/2005

SOURCE OF FUNDS: Vision Premiums charged to departments	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION: **APPROVE**

County Executive Office Signature *[Signature]*

Policy Policy
 Consent Consent
 Dep't Recomm.: Per Exec. Ofc.:

Prev. Agn. Ref.: | **District:** | **Agenda Number:**

3.31

Background (Continued)

The suggested reserve calculation and rate increase, as provided by Aon, is outlined in Attachment 1. To build the reserve, Human Resources proposes to implement Option 2, a gradual build-up of reserves over the next 18 months, in order to bring the plan's funding in line with future claims projections. The rate of \$12.70 monthly is a 24.0% increase in the rate (currently \$10.24), and is a blend of the two rates calculated by Aon, so that departments will not experience an increase mid-fiscal-year.

Attachment 1

County of Riverside VSP Funding Projection July 1, 2004 – December 31, 2005

Aon Consulting has projected the funding for the County's VSP plan from July 1, 2004 to December 31, 2005. Included is a claims report showing the claims history of the program through March 2004.

It is our understanding that the County does not currently hold any reserve for incurred but not reported (IBNR) claims. However, it is our recommendation the County should implement a 30-day IBNR reserve. Our calculations indicate the reserve should be \$18,800. The County can fund this amount in two ways.

1. One-time lump sum funding of \$18,800 into the claims fund, or
2. Gradual buildup of the reserve over 18 months by including an additional charge of \$.61 in the monthly per employee rate. With this approach the plan should be fully reserved by December 31, 2005.

Listed below are our projections for the reserve build-up option:

	July 1, 2004 – Dec. 31, 2004	Jan. 1, 2005 – Dec. 31, 2005
<i>Current Monthly Rate/Employee</i>	\$10.24	-
Claims/Employee	\$10.16	\$10.16
Trend (4% Annual)	1.037	1.07
Claims Fluctuation Margin	1.01	1.01
Estimated Claims	\$10.64	\$10.98
Reserve Build-up	\$.61	\$.61
Administration (12%)	\$ 1.28	\$ 1.28
Recommended Rate/Employee	\$12.53	\$12.87

Comments:

- In calculating trend (4% Annual) Aon used the two-month paid claims offset method, which resulted in the 3.7% trend for July – December 2004 and 7.0% for January – December 2005.
- VSP's administration fee is 12% of paid claims. \$1.28 is based upon our estimate of one-month claims divided by March enrollment of 1713.
- \$18,800 reserve amount is based upon trended claims per employee per month multiplied by March enrollment of 1713.