

**PASQUOTANK COUNTY, NORTH CAROLINA
MARCH 16, 2015**

The Pasquotank County Board of Commissioners met today in a work session on Monday, March 16, 2015 in the Community Room at the W.C. Witherspoon Memorial Library.

MEMBERS PRESENT:

Joseph S. Winslow, Jr., Chairman
Cecil Perry, Vice-Chairman
Jeff Dixon
Lloyd E. Griffin, III
Dr. William R. Sterritt
Frankie Meads
Bettie J. Parker

MEMBERS ABSENT: None

OTHERS PRESENT:

Rodney Bunch, County Manager
R. Michael Cox, County Attorney
Sheri Small, Finance Officer
Karen Jennings, Clerk to the Board

The work session was called to order at 3:00 PM by Chairman Joe Winslow. County Manager Rodney Bunch introduced Donna Nixon with the Pierce Group to provide an update on the current status of the county's health insurance plan and to explain what the county needs to do to move forward in the next fiscal year.

Ms. Nixon explained that the Pierce Group has been working with the Northeast Albemarle Trust for a couple of years and helps coordinate the health insurance plan in which Pasquotank County employees and nine other entities participate. The three entities that have voting rights in the trust are Pasquotank County, Albemarle Regional Health Services and Perquimans County. Ms. Nixon stated that the health plan is a completely self-funded health arrangement. She outlined the advantages and disadvantages of being self-funded. She said the greatest disadvantage to being self-funded is the risk due to the responsibility of funding all of the claims that run through the system and taking on the risks for everybody's health insurance needs. She stated that the program does operate with a stop-loss premium contract which helps provide protection for those individuals who incur catastrophic type claims. The participants in the trust have the liability and are responsible for paying all of the claims that are incurred in the plan, are responsible for monitoring the plan and making changes, and preparing employee communications. She said her organization helps the trust work through all of these issues.

Ms. Nixon explained that a self-funded program is made up of three major components: 1) fixed costs including administrative fees and stop loss premiums; 2) funding costs which vary month to month depending on how many dollars need to be put into the pot to pay for all of the claims that are being incurred by all of the members enrolled in the plan; and 3) reserves to pay claims that are incurred but not yet reported and retention and recruitment costs.

Ms. Nixon informed the Board that right now and for quite some time the claims have been exceeding the funds that are available in the trust which means there have been a lot of catastrophic claims. She stated that stop-loss protection is available for claims that are over \$130,000, however there are a very large number of members whose claims are very close to reaching the \$130,000 threshold and the pool is responsible for paying the amount up to \$130,000. She said in years past an average of six members have come close to or exceeded that threshold, but at one point in the earlier part of this year that number was sixteen and it has been as much as eighteen. Ms. Nixon stated that they are also seeing a very high rise in prescription drug costs as drug costs are running approximately 40% of all the money spent on the plan. She noted that there is a lot of compression in the drug industry right now as drug companies are buying out the generic drug manufacturers which is making the drug market smaller and giving drug companies more control in setting prices. She said this is not only hurting the Northeast Albemarle Trust, but is hurting all insurance plans because prescription drug costs have risen excessively over the last twelve to fifteen months.

Ms. Nixon explained that currently the trust does not have enough money to fund the claims that are being incurred and there is about an 82-day backlog of those claims. She said the trust has a contract with Meritain to pay those claims and the contract states that the funds will be provided timely so they can meet their requirement to pay claims within a maximum of 30 days. She stated that they are in jeopardy of losing discounts from providers with whom they have contracts because the claims are taking too long to get paid. She advised that additional funding is needed from all of the entities of the Northeast Albemarle Trust to be able to honor the contracts that are in place, not only to Meritain as the third party administrator, but also to all of the members that participate in the pool. She said at the last board meeting of the Northeast Albemarle Trust it was agreed to ask the entities to fill in the deficit of \$950,000 which is split on a per capita basis according to participation by the entities of the trust. Ms. Nixon informed the Board that Pasquotank County's portion equates to \$384,030.38 and the fiduciary of the Northeast Albemarle Trust Board would like full payment to be remitted with the next invoice. She said going forward they are looking at some plan changes including increases in total out-of-pocket expenses to increase the members' cost-share. They will probably look at emergency room co-payment changes and prescription drug benefit changes. Ms. Nixon explained that they will also be recommending a significant increase in contribution rates and the trust board will review those and set them as appropriate. She said they will be looking to review alternate stop-loss arrangements and try to bring some cost-savings to the plan so the contribution rate increase won't have to be quite so dramatic.

Ms. Nixon advised that the Pierce Group is proposing the implementation of a flex spending plan for Pasquotank County. She said a flex spending plan is an account that is set up that allows employees to put pre-tax money into that account to use for medical expenses that are not covered by their plan. This account could be used for deductibles, co-pays, prescriptions, vision, and dental services and can only be used for incurred medical expenses. It allows employees to select the amount of money they want to contribute to the account. That money is then deducted from each paycheck on a pre-tax basis which provides the employee with a 30% savings and they have access to that money on day one. Pasquotank County would save as well because it would realize a 7.65% savings on FICA taxes for the pre-tax money. The administrative costs of offering the flex spending accounts would be \$4 per participant per month and they are recommending that the county pay the \$4 on behalf of the participants. Ms. Nixon said the FICA savings on a yearly basis should more than cover the \$4 administrative fee. She advised that there is a "use it or lose it" rule which provides if an employee leaves employment before using all of the money he or she has deposited in the account, then that money rolls back to the employer. Ms. Nixon stated that this is going to be crucial for employees to have additional funds available to pay for medical expenses when the county begins making plan changes and increasing employees' cost share.

Finance Officer Sheri Small said for the current year the county now needs to come up with \$384,000 plus \$163,000 for the June payment for a total of \$547,000. The county has already prepaid an additional \$163,000 premium which was supposed to be the June payment, however now needs to pay that plus \$384,000 since payment of the claims is running so far behind. She explained that the \$547,000 is Pasquotank County's share which also includes the Regional Library, the ABC Board, and the Economic Development Commission. She said these agencies will be paying their share which totals \$16,400. She stated that the general fund's portion is \$289,000; Social Services' portion is \$160,000; Pasquotank County Library's portion is \$20,000; Water Department's portion is \$38,000; and Landfill's is \$21,000. Ms. Small noted that last week the county received \$205,000 in Medicaid hold harmless money that is not in the budget. She said this should help fund the general fund's portion of the health insurance deficit, leaving only \$84,000 of fund balance that will have to be used. She also noted that the county only pays about one-third of the Social Services budget as federal and state funds pay the remainder. She explained that the Library's share will come from the Library fund balance; the Water System has contingency money to cover its share; and the Landfill fund has capital reserve funds that can be used for the Landfill share.

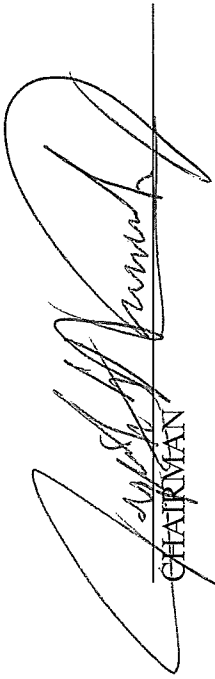
Ms. Nixon added that the cost of health insurance coverage as a whole is increasing and the trust is on a three-year contract with the current arrangement. This contract will expire next year and they will be looking for competitive offers at the end of that period.

Chairman Winslow said this has blindsided everyone and he is thankful that the Finance Officer was able to put the money aside and find the funds necessary to help address this deficit.

Ms. Nixon stated that she does not want the Commissioners to be blindsided and when she goes to the trust board she gives her best opinion as to how to fund the plan. She said it is up to the trust to take her opinion, but it is not required to. She stated that she would like for the trust to be operating so that it is putting some money towards reserves and not putting the participants in a position to have to come up with additional money to pay outstanding claims.

Chairman Winslow thanked Ms. Nixon for her presentation.

The work session was adjourned at 3:50 PM.



CHAIRMAN

Karen Jansky
CLERK TO THE BOARD