

VIRGINIA:

At a recessed joint meeting of the Washington County Board of Supervisors and Washington County School Board held Wednesday, June 11, 2008, at 7:00 p.m., at the County Administration Building in Abingdon, Virginia the following were present:

PRESENT:

Washington County Board of Supervisors:

Kenneth O. Reynolds, Chairman
Jack R. McCrady, Jr., Vice Chairman
Phillip B. McCall
Dulcie M. Mumpower
Odell Owens
Paul O. Price
Thomas G. Taylor

Mark K. Reeter, County Administrator
Lucy E. Phillips, County Attorney
Mark W. Seamon, Accounting Manager
Naoma A. Norris, Recording Clerk

Washington County School Board:

Elizabeth P. Lowe, Vice Chairman
Dayton Owens
Billy W. Brooks
Herschel Stevens

Dr. Alan Lee, Superintendent
Melissa Caudill, Director of Finance & Human Resources and Clerk of the Board

ABSENT:

Tom D. Musick, Chairman
Curtis Burkett
William "Buckey" Boone

OTHERS PRESENT:

Walter Norman, Program Manager, The Local Choice
Lorin Lacy, Principal, Buck Consultants

1. Call to Order

Board of Supervisors:

The meeting was called to order by Mr. Kenneth O. Reynolds, Chairman of the Board.

School Board:

The meeting was called to order by Ms. Elizabeth Lowe, Board Vice Chair.

2. Invocation and Pledge of Allegiance

Supervisor Odell Owens gave the Invocation and led the Pledge of Allegiance.

3. Approval of Agenda

Dr. Lee requested that the Agenda be amended to include presentations from Washington County Schools Finance Director, Melissa Caudill and Mr. Lorin Lacy with Buck Consultants.

Board of Supervisors:

On motion of Mr. Owens, second by Mrs. Mumpower, it was resolved to approve the agenda with the following amendments:

Addition of Item 6.a.

Presentation by Washington County Schools Finance Director Melissa Caudill

Presentation by Lorin Lacy, Buck Consultants

The vote on this motion was as follows: (7-0)

<i>Mr. McCall</i>	<i>Aye</i>
<i>Mr. McCrady</i>	<i>Aye</i>
<i>Mrs. Mumpower</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Price</i>	<i>Aye</i>
<i>Mr. Reynolds</i>	<i>Aye</i>
<i>Mr. Taylor</i>	<i>Aye</i>

School Board:

Upon motion by Mr. Owens, and seconded by Mr. Brooks, the School Board acted to approve the Agenda as amended.

The vote on this motion was as follows: (4-0)

<i>Mr. Brooks</i>	<i>Aye</i>
<i>Ms. Lowe</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Stevens</i>	<i>Aye</i>

4. Introductions and Opening Comments

County Attorney Lucy Phillips provided introductory remarks. Ms. Phillips thanked the School Board members and staff for attending the joint meeting. She provided a brief description of the work of the Health Insurance Committee, and that the primary objectives of the Committee were to lower employee’s health insurance costs, to provide adequate training to employees and to offer employees more options. Ms. Phillips explained that the Health Insurance Committee, which began work last summer, was given a notebook of information at the first meeting, and that updates were provided at subsequent meetings. A Request for Proposal (RFP) was put together by the Consultant, and was sent to different insurance providers to solicit different types of health insurance packages at competitive prices.

Ms. Phillips commented that the Health Insurance Committee was very large (24 members), and to get all members in attendance at any given meeting was difficult. If a committee member missed a meeting, they were not provided with the information presented at the meeting or was not provided with any sort of update. Ms. Phillips further explained that on January 31, the Health Insurance Committee was briefed by the consultant on the RFP responses. After the consultant made a recommendation that the School Board/County should select Anthem Direct, the Committee agreed with the Consultant’s recommendation and began focusing on the plan selections.

Ms. Phillips explained the purpose of this joint meeting is to revisit the first decision that was made in the course of the analysis as to what is the best insurance program for the County. She stated that the County’s current health insurance provider, The Local Choice program, was not evaluated by the Committee. She further explained that the common goal among the School Board and Board of Supervisors is to make the best business decision for the County concerning the selection of an insurance provider. The purchasing of health insurance is one of the single largest purchases that the County makes and it affects every employee. She explained that the main question for both boards to consider is whether the best business decision is to move to the Anthem Direct program.

Ms. Phillips explained that Mr. Walt Norman with The Local Choice was invited to make a presentation about their program to the School Board and Board of Supervisors. Next, County Accounting Manager Mark Seamon will make a presentation on the financial impact between selecting Anthem Direct or Local Choice.

Ms. Phillips asked both boards to make a list of questions they would like to ask at the conclusion of the presentations.

At this time, Dr. Lee requested that each presenter provide a list of their credentials prior to making their comments on the health insurance issue. Both Boards consented to Dr. Lee’s request.

5. Overview of *The Local Choice Health Insurance Program*

Mr. Walter Norman, Program Manager for *The Local Choice* (TLC) Health Insurance Program made a presentation. Mr. Norman explained that his credentials include being the current Program Manager for TLC, and that he has 35 years experience in corporate benefits. He further explained that in his preceding job he administered an independent drug program and a hospital insurance program. Mr. Norman explained that TLC provides the service to local governments of procurement, selection, and negotiation with insurance providers to contract the best arrangements for government employees. Due to its size, TLC provides a pool of resources to ameliorate the immediate effect of high claims for any individual employer. Overall, however, the TLC program combines an aspect of partial self-insurance for each government participant for prescription benefits and full self-insurance for medical claims benefits.

Mr. Norman provided the following review of TLC:

- History of TLC Program was reviewed.
- Current status of the TLC Group.
- The TLC group sizes (1 to 3,400 employees)
- The available plans.
- Plan selection options.
- Pooled Benefits (state wide – self-funded).
- The rating pools.
- Being community rated or pooled
- Credibility factor ratings
- 100% credible experience
- Self-funded plans have stop loss protection.
- Retiree coverage
- Underwriting and eligibility requirements.
- Adverse experience adjustment (AEA) protection.
- TLC Advantages (Procurement savings, multiple plan choices, shared risk, etc.)

In conclusion, Mr. Norman explained that factors to consider in choosing the TLC are:

- Prescription drugs, MISA, dental and Medicare are pooled.
- Customer service/administration.
- Size of the TLC network.
- Network discounts.
- Low administrative fees
- Value added services.

Mr. Norman handed out a six year claims history summary for the pooled County and Schools program. He stated that any number over 100 is where claim costs exceeded projections, and that TLC had to subsidized claims for every year except the last two. The last two years TLC made money on the Washington County Schools/Washington County plan and, consequently, offered a premium reduction to the County if the County were to continue with the TLC program. TLC's goal is to break even with adequate funds to meet the claims.

6. Financial Analysis of *The Local Choice* and Anthem-Direct Health Insurance Options

Mr. Seamon explained that he has been employed by Washington County for 26 years and that he has served on the County's Insurance Committee as a County government representative for approximately 25 years. He stated that he is not a health insurance expert; however, he is a Certified Public Accountant and considers himself very good at doing financial analysis.

Mr. Seamon stated that he hoped that the review of his financial analysis would bring to light many of his concerns related to the selection of the Anthem-Direct Health Insurance Program. He stated self insurance may not be a bad choice; however, both Boards need to have complete knowledge of the two Health Insurance programs before making an informed decision.

Mr. Seamon discussed the School Board action taken on February 18, 2008, to approve the Anthem-Direct Health Insurance Program. He stated that the Board of Supervisors did have an opportunity to have the same presentation made before them by the consultant; however, he did not see a need at that time to have a formal presentation made. Based upon the consultant's recommendation that Anthem Direct was the best program, Mr. Seamon explained that formal approval by the Board of Supervisors could be made after the premium rates were finalized and at the time the County Proposed Budget was being considered for adoption.

Mr. Seamon reviewed the Agenda material presented to School Board on February 18, 2008. He pointed out that the agenda material showed the TLC renewal program at \$7,979,172 and the Anthem Direct program selected by the School Board at \$8,312,230. Mr. Seamon explained that he felt that the two programs should be compared based upon their mature year calculations.

Mr. Seamon next reviewed the Health Care Program Comparisons he prepared for mature year comparison between the two programs, and the maximum liability to the County for the Anthem-Direct program. Based upon mature year comparison, TLC is less expensive than Anthem Direct if claims experience is "as expected" by approximately \$350,000.00. Mr. Seamon further stated that all of the Consultant's data does not include the 10% maximum stop loss claims, and that the maximum liability for Anthem Direct is approximately \$9,000,000 instead of \$8,334,000.

Mr. Seamon reviewed the timeline of events from April 29, 2008, until the joint meeting. He explained that he expressed his concerns about the health Insurance decision to Dr. Lee on May 6, 2008, and as of the joint meeting, he felt that he had not received any reasonable justification for the County to leave the Local Choice program.

Finally, Mr. Seamon reviewed key issues to be decided. They included the procurement process, program costs and savings, reserve fund, higher premium cost to employees, flexibility, risk, the group, and self-insured planning.

6.a. Presentation by Washington County Schools Finance Director Melissa Caudill and Presentation by Lorin Lacy, Buck Consultants

Dr. Lee explained that the School System contracted with Patsy Akridge to lead the process of reviewing health insurance programs and to make a recommendation as to the best health insurance option for the County. Buck Consultants was hired to provide an independent analysis of the decision to select Anthem Direct. Dr. Lee thanked the Board for having the meeting.

Dr. Lee stated that has no qualifications to talk about insurance, and that he relies on staff. He stated that he asked Mr. Seamon and Ms. Caudill to sit down and talk about issues. It became clear these two individuals have different opinions concerning the direction of the County's Health Insurance Program. Dr. Lee stated the School System hired Akridge Insurance with confidence, and he knows Mr. Norman of TLC is not happy with the Washington County Schools. Dr. Lee feels that both Ms. Akridge and Mr. Norman have vested interest.

Ms. Caudill addressed the Board explaining that Patsy Akridge is willing to meet with the Board of Supervisors at a later date; however, she was unable to attend this meeting because she is on the west coast. She explained that through the insurance procurement process she felt that the Health Insurance Committee's objectives were met. Ms. Caudill further explained that the School Board approved the contract change in February and that they approved the insurance premiums in April. Ms. Caudill explained that Dr. Lee recommended that an outside insurance consultant be hired to provide an objective analysis of the decision made by the School Board. Ms. Caudill stated that she had a Master's Degree in Health Administration and Finance. She further stated that she worked seven years with York International, five years in benefit administration and the last two years she work on the Sarbanes-Oxley project.

Mr. Lorin Lacy of Buck Consultants addressed the Board to discuss the decision made by the School Board. He explained his qualifications are that he has been in the insurance business for more than thirty-five years. Mr. Lacy further explained that he started out as an underwriter with Metropolitan Life and has been in the consulting business for about 25 years.

Mr. Lacy explained that he had been provided with all insurance information by the School Board, and that he and Mr. Seamon have a disagreement with Anthem quote about the 10% stop loss margin not being accounted for. He stated that Buck Consultants believes that it is accounted for. He commented that a bad decision in this case cannot be made. Mr. Lacy explained that TLC does a great job in providing benefits to the constituency it serves. However, a group of this size should be self insured and he stated the numbers confirms this position.

Important points made by Mr. Lacy included the following:

- Negative to TLC- Instead of thinking of a self insured vs. a fully insured program the group needs to look at the approach as a plan sponsor. Approach through TLC is an insured program. If entire group has lower claims get a refund. From what group is committing to TLC is an insured program.
- Anthem Direct approach- Committing to funding just as are through TLC, but the group has immediate impact so if claims are lower keep claims savings immediately. Benefit immediately from good claims through self insurance. Down side if claims are higher have immediate affect up to 110% stop loss. There is protection against the element no matter how bad the claims.
- Agree with Mr. Seamon totally that the group needs to look at mature year costs. A reserve of \$800,000 is set up to cover claims, and actually accrued reserves accumulate in the first couple months in a self insured arrangement. This is usually how organizations build up reserves. It sounds like have to put up \$800,000, but there is a mechanism in place to put up the reserve. In an organization such as Washington County Schools/Washington County where you cannot just go out and ask for additional money, funding needs to be at the 110% level and make sure the group is covering the worst case scenario.

Mr. Lacy explained that the bottom line is claims are claims. He further explained that in his professional opinion data is knowledge. The real benefit from self insured arrangement is you can do things to really encourage or prioritize wellness and disease management. TLC is going to do that on a group wide basis. TLC is administered by Anthem so hopefully you will have the same results. Mr. Lacy explained that Mr. Seamon's numbers show expenses for administration expenses are right in same ballpark for both programs. He believes group of the size of Washington County Schools/Washington County can handle the size of the risk of the Anthem Direct program. Also, he believes the Anthem Direct is a good recommendation and one the County should go with. However, he cannot address the level of risk the County is comfortable with taking.

In conclusion, Mr. Lacy stated he thought at the end of day both programs are pretty close, however, the County would eventually get excess money back with Anthem Direct.

7. Questions and Discussion by Board of Supervisors and School Board

A substantial question and discussion period ensued among the Board of Supervisors and School Board with input from Mr. Norman, Mr. Lacy, Mr. Reeter, Ms. Phillips, Mr. Seamon and Ms. Caudill.

Mr. Reeter commented about capitalizing the necessary \$830,000 in reserves.

Mr. Seamon questioned the premium rate differences between Anthem Direct and TLC.

Ms. Phillips commented about flexibility issues.

Mr. Reeter further questioned funding of the \$830,000 reserve by end of first calendar year. He hoped more dollars are coming in than are going out. Mr. Lacy's calculus is in theory by the end of the day if all goes according to statistics that the County would have the reserve needed as of June 30th or whatever date. Mr. Reeter questioned what happens if have a sudden run of immediate and catastrophic claims. Would that skew the numbers to the point where at the end of calendar year not likely to have the reserves needed?

Mr. Lacy explained that first year and mature year is different because first year is lower because of claims paid by previous plan first couple of months. The \$150,000 stop loss on individual basis and 110% stop loss over all the catastrophic illness would not be that bad. The claims paid would still be less than funded amount; however, you would not have funded the full reserve. Mr. Reeter said this is the point he is making.

Mr. Lacy commented that as long as the group stays with a self insured program they do not have to fund the reserve unless self insurance is terminated and a decision is made to go with another insurance provider. He explained that while the group may be hit the first two years with bad years that over 10 years will hit 100% average.

Mr. Reeter stated that his point with self insurance is the possibility of the local government having to divert funds from reserves to inject into a reserve fund for health insurance. He inquired about the property way to fund a self insured program. Mr. Lacy explained that funding should be at 110% level.

Mrs. Mumpower explained that Mr. Reeter touched on her concerns. However, she preferred to go one step further. She asked Mr. Norman go back to years 2003-04, 2004-05, 2005-06, and 2006-07 and

confirm that these were bad claim years. Mr. Norman stated that these years were worst than the pool average and the County got rate increases. She wants to know what happens to the County if this were to happen again with Anthem Direct.

Mr. Brooks said the new program as recommended is based on funding 110%. He explained if the group is 110% funded and has a stop gap on \$150,000 then the premiums will take care of 110% each year.

Mr. Lacy said that he does not believe the group will hit 110% level every year. He further stated that he believes over 10 to 15 years the group will hit 100%.

Ms. Caudill commented that if the group stays with TLC and should have five bad years then premiums increase. Mrs. Mumpower said yes but if the group is self insured then the Board of Supervisors has to come up with money.

Mr. Norman commented that when a group in TLC has a bad year that all TLC members help to subsidize. He further commented that TLC works for local governments.

Ms. Phillips stated that in Mr. Lacy's earlier comments about both programs being close over time and inquired what would be the advantage of the County to go to a self insured program at this time. Mr. Lacy explained that at this time TLC will not charge the group to leave their program.

Mr. Taylor inquired about administrative fees charged by TLC. Mr. Norman explained that the administrative costs are paid through the premiums and that TLC has lower administrative fees because of their buying power.

Further lengthy discussions ensued among the group concerning administration of a self insured program, administrative fees, plans offered and rate structures.

Mr. Stevens commented that the School System has worked on the insurance issue for a long time and has tried to identify ways to make the schools more efficient. He further commented that he is convinced going to a self insured program is the best decision.

Mrs. Mumpower commented that the Board has to make a decision based on what is best for the County taxpayers and what is the best health insurance for employees. She explained that the Board has received conflicting information and the issues presented by Mr. Seamon need to be addressed before a decision is made.

Mr. Reynolds proposed that a small group be put together to review the information and come to an agreement and then make a recommendation to the Board of Supervisors/School Board.

Mr. Reeter stated that the groups could choose different plans. The non-School groups could remain with TLC and the School component could go to a self insured program.

Mr. Norman commented that TLC would have to recalculate the numbers for non-school group rates.

Further discussion ensued.

8. Action and/or Future Direction

Discussions ensued concerning Mr. Reynolds previous recommendation to establish a small group to review the numbers and make a justified recommendation to the Board of Supervisors/School Board.

Dr. Lee proposed that the group include Mr. Seamon, Ms. Caudill, Mr. Norman, Mr. Lacy, Patsy Akridge and a representative from Anthem.

Mr. Norman stated that he could not serve on the Committee and proposed that his counterpart at Anthem, Steve Darnell, be selected. He further stated that Mr. Darnell represents TLC and Anthem Direct and should be an impartial representative.

After further discussions, the following action was taken:

On motion of Mr. McCall, second by Mr. McCrady the Board acted to direct County Accounting Manager Mark Seamon and Washington County Schools Finance Director Melissa Caudill to establish a small committee to review the numbers and provide answers to the Board of Supervisors/School Board.

The vote on this motion was as follows: (7-0)

<i>Mr. McCall</i>	<i>Aye</i>
<i>Mr. McCrady</i>	<i>Aye</i>
<i>Mrs. Mumpower</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Price</i>	<i>Aye</i>
<i>Mr. Reynolds</i>	<i>Aye</i>
<i>Mr. Taylor</i>	<i>Aye</i>

9. Adjourn – Board of Supervisors

On motion of Mr. McCall, second by Mr. Price, it was resolved to adjourn the meeting.

The vote on this motion was as follows: (7-0)

<i>Mr. McCall</i>	<i>Aye</i>
<i>Mr. McCrady</i>	<i>Aye</i>
<i>Mrs. Mumpower</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Price</i>	<i>Aye</i>
<i>Mr. Reynolds</i>	<i>Aye</i>
<i>Mr. Taylor</i>	<i>Aye</i>

Adjourn – Recess – School Board

On motion of Mr. Brooks, second by Mr. Owens, the School Board acted to adjourn the meeting.

The vote on this motion was as follows: (4-0)

<i>Mr. Brooks</i>	<i>Aye</i>
<i>Ms. Lowe</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Stevens</i>	<i>Aye</i>

Prepared by:

Naoma A. Norris, Recording Clerk

Approved by the Washington County Board of Supervisors:

Kenneth O. Reynolds, Chairman