

EGYPTIAN AREA SCHOOLS EMPLOYEE BENEFIT TRUST

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DATE: March 25, 2013

TO: District Superintendents

FROM: Tom Dahncke & Leo Hefner, Consultants to the Trust

RE: Follow up on March 20th Board of Managers Meeting and the Affordable Care Act

The focus of the recent March 20th Board of Managers meeting was on the employer responsibilities of the Affordable Care Act. The Power Point presentation reviewed by the Trust's attorney, Ruth Hays is included with this memo. We wanted to share some additional thoughts with district superintendents about some of the issues involved with the Affordable Care Act requirements while also commenting on additional issues many schools are facing.

All school districts in Illinois are facing difficult financial issues and are looking for ways to reduce expenses. Insurance sales agents and brokers have become very aggressive in contacting school districts in an attempt to attract new business. It has been known for many years that, on most occasions, the savings can indeed be produced for the FIRST YEAR of coverage, but, most likely not for the long term. By collecting 12 months worth of premiums for the first year of coverage, but paying out only 9 or 10 months worth of claims, it is pretty easy to see how lower premiums can be offered the first year of coverage.

Medical insurance companies are especially aggressive now though as they face new costs of the Affordable Care Act, set to take effect in 2014 and beyond. Self-funded plans such as the Egyptian Trust will not be subject to most of these increased costs and taxes and will continue to operate with lower overhead costs. Many independent actuaries and even government agencies are predicting double digit premium increases due to these requirements private insurance companies face beginning on January 1, 2014. These companies are trying very hard to increase their market share before these increases take effect. Sales agents and brokers are likewise equally aggressive after having their commissions cut in recent years.

For these reasons and more, now does not seem to be the time for a district to go out on their own and chance the liability of having premiums based solely on their district's own claims experience. The Affordable Care Act also allows for 20% overhead costs for individual and small groups of less than 50 employees and 15% overhead costs for groups of 50 or more employees. Instead, districts can share the claims risk and lower overhead costs with over 180 like school districts. As a reminder, the audited cost of all the operating expenses of the Egyptian Trust average around 3.5% from year to year, a huge financial advantage over the long term versus commercial, profit driven, commercial insurance companies.

Some districts have also been contacted by or attended meetings describing the new insurance initiative, the Illinois Schools Employee Benefit Consortium or ISEBC, of the three statewide administrative organizations, the Illinois Association of School Administrators, the Illinois Association of School Business Officials and the Illinois Association of School Boards. This insurance program is a fully insured program with much higher overhead costs than the Egyptian Trust. Utilizing a Springfield, Illinois based insurance broker, these

organizations seek to influence local school districts to join their program so these organizations can receive some of the profit earned from the premiums paid by local school districts and employees.

Many questions should come to mind when considering whether to join such a program.

1. How is it an advantage for local school district premiums to be based on their own claims experience instead of sharing that risk with other districts in a self-funded pool? Exactly when and how will the group become one for underwriting purposes?
2. How much of district and employee premiums are going to these sponsoring organizations instead of being available to pay claims?
3. How good is the network of doctors and hospitals in a particular region of the state?
4. Why should districts consider adopting an insurance program such as this where only about 85% of the premiums paid in will be available to pay claims, instead of having nearly 97% of premiums available to actually pay claims?
5. What input and decision making will districts and employees have in the future regarding adjustments to benefits and premiums?

The new consortium touts that there would be no exit fee to leave their group. The program instead builds that amount into premiums charged up front, thereby charging school districts and employees for balances that could be left with the district or individual until needed. The program also touts several deductible programs or partially self funding a portion of the deductible. Superintendents are reminded that those options are also available through the Trust and have been quite successful, especially for those districts with the Platinum Plan and utilizing the Gold Plan with reimbursement options to save premium dollars. We will be happy to work with any district interested in exploring this option.

The crux of this memo though is to encourage districts and superintendents to plan and take action now for the implementation of the Affordable Care Act requirements noted in the included Power Point presentation. Some points to consider:

1. Determine full time and full time equivalent employees
2. Determine whether Minimum Essential Coverage is offered to 95% of full time employees
3. If not, decide to offer coverage or pay the annual \$2,000 penalty
4. Determine methodology to measure affordability
5. If not affordable, compare cost of increased employer share of premium cost to \$3,000 Unaffordable coverage penalty
6. Check and amend employer policies to incorporate changes for enrollment rules
7. Determine whether to offer the Trust's Bronze Plan to help with affordability issue
8. And on and on

Those districts who are currently working with American Fidelity are encouraged to utilize their expertise to help with these requirements. Those who do not currently work with American Fidelity are encouraged to talk with their representatives to determine American Fidelity's ability to help.

As always, please don't hesitate to call or email us if you think we can help.