



April 15, 2009

Wanda Menendez
Employee Benefit and Risk Management Specialist
Monroe County Public Schools
District Office
241 Trumbo Road
Key West, FL 33040

Re: Medical Plan Savings under Blue Cross Blue Shield of Florida (BCBSFL) Program

Dear Wanda,

As part of our ongoing review of the District's health insurance program, we updated the analysis of the performance of the BCBSFL plan in 2008 with the benefit of 2008 claim runout through February 2009. In light on the discussions about having the District and County plans merged, I think this analysis presents critical information about the cost of abandoning the BCBSFL program in favor of another network.

The following exhibit shows the actual incurred medical cost for the District for 2006 and 2007, and the shows what we expect would have happened in 2008 had the plan remained with FHA-TPA under the Evolutions network. Finally, we compare that projection with what actually happened under the BCBSFL program.

	FHA-TPA Experience			Actual BCBSFL 2008
	2006	2007	Projected 2008	
Average Lives	1,035	1,072	1,092	1,092
Annual Incurred Claims	\$9,608,116	\$8,929,283	\$10,008,602	\$7,443,491
PEPM Claims	\$773.79	\$694.45	\$763.90	\$ 568.12

2008 Annual Savings Under BCBSFL Program:	\$2,565,111
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It is impossible to say with certainty what would have happened in 2008 if you had not made the change to BCBS, but given the recent annual claim levels and an assumption of market level medical inflation in 2008, a projection of right around \$10 million is reasonable. Actual incurred claims under the BCBS program were less than \$7.5 million, including a provision for claim reserves (IBNR) for claims not paid as of February 2009. Our best estimate is that the District saved over \$2.5 million by making this change. Even if we assumed that claims would not have increased at all in 2008, which is extremely unlikely given that we saw a significant drop in 2007 and that type of change



almost never happens two years in a row for a static plan design, the plan would have saved \$1.5 million under the BCBSFL program.

I think it is worth noting that when the District made the change to BCBSFL, it was on the basis of our projected saving estimates, which were very consistent with this range. We expected savings of approximately \$2 million based on our actuarial analysis of the BCBSFL discounts compared to what you were getting with the Evolution network. In other words, as favorable as this experience has been, it is exactly what we expected. It is true that the BCBSFL fixed fees are higher than what you were paying, but that is a very small price relative to the claim savings.

We do some actuarial work for the County, so I have seen their claim reports. My expectation is that the County is getting discounts that are very comparable to what the District was getting with the Evolution network. If a decision is made to replace the BCBSFL network with the County's network, I estimate that the District's claim cost will increase by \$2.5 million in the first year, over and above the normal medical inflation increase. This does not count the impact of any plan design differences between the two programs. This will dwarf any potential savings in either reduced administrative expenses or reduced overhead in managing the plans.

Wanda, these numbers may sound hard to believe, but the data is completely credible and results are absolutely irrefutable. The cost to the District of undoing the BCBSFL discounts would be measured in millions of dollars. I would be happy to share the details supporting this analysis and to discuss it with any interested party.

Sincerely,

Glen R. Volk, FSA, MAAA
Consulting Actuary

cc: Rick Capizzi