

City of Stockton

Annual Report as of June 30, 2010

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THE SEGAL COMPANY
330 North Brand Blvd., Suite 1100
Glendale, CA 91203

March 22, 2011

*Mr. Bob Deis
City Manager
City of Stockton
425 N. El Dorado Street
Stockton, CA 95202*

Dear Mr. Deis:

We are pleased to present the City Health Plan Cost Projection for July 1, 2010 - June 30, 2011 and July 1, 2011 - June 30, 2012. This report also reviews the medical plan experience through June 30, 2010.

We look forward to reviewing this report with you and answering any questions you may have.

Sincerely,

THE SEGAL COMPANY

*By: _____
Thomas M. Morrison, Jr.
Senior Vice President*

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This report reviews the projected costs for the City's medical, dental and vision benefits for fiscal years 2010/2011 and 2011/2012.

The City offers two medical plans to its active and retired employees. The City's "Original" plan is a closed plan with an enrollment of 52 Medicare retirees and 7 non-Medicare retirees. The City's predominant plan is the "Modified" plan, which is offered to both active and retired employees. As of December 2010, there were 1,352 actives, 628 non-Medicare retirees, and 289 Medicare retirees enrolled in the Modified plan.

All benefits provided by the City are self-funded with the exception of one fully insured dental plan with a closed enrollment of 20 participants. This report does not include any cost for the fully insured dental plan.

Provided below is our projection methodology and assumptions used in the cost projection for these plans.

Medical

- Active rates are based on two years of claims experience from July 2008 to June 2010.
- Retiree rates are based on blended claims for the Original and Modified plans, segregated by under age 65 and over age 65 retirees. Two years of claims experience from July 2008 to June 2010 was used to develop rates.
- Blending more than one year of data is usually employed for smaller groups as it provides a more reliable base for cost estimates. In the City's case, all three plans, the active, under 65 and over 65 plan enrollments are below the enrollment threshold required to rate based on one year of experience.
- The weight assigned to each year of experience is dependent on enrollment in the plan. The following weights were used to project the rates with the higher weight being assigned to the most recent year of claims experience:

| | |
|----------|-----------|
| Actives | 65% / 35% |
| Under 65 | 60% / 40% |
| Over 65 | 55% / 45% |
- The relative value of the original and modified plan designs was developed using Segal's underwriting model. This relative value was applied to calculate the retiree rates for the Original and Modified plans.

Prescription Drug

Prescription drug costs are projected using claims experience from July 2008 through June 2010 broken down by active employees, under age 65 retirees and over age 65 retirees. As with the medical plan, the difference in plan values between the Original and Modified plans is based on Segal's underwriting model.

Dental and Vision

Rates are based on claims experience from January 2009 through December 2010. The dental projection includes 21 retirees currently enrolled in the plan.

Data Source

- Medical and prescription drug paid claims and stop loss reimbursement information as provided by the City of Stockton,
- The City's TPA Delta Health Systems,
- Reports from prior TPA Zenith,
- Medco, the pharmacy benefit manager
- Dental and Vision claims from Delta Dental and VSP

Enrollment

- The average active enrollment for the year ending June 30, 2010 declined by 10.5% from the prior year's average, while the retiree enrollment increased by 17%.
- There was a further decline of 5% in active enrollment from June 2010 to December 2010 and an increase of 3% in retiree enrollment for the same period.
- The active and retiree enrollment as of December 2010 was used in the rate projections for 2010-2011 and 2011-2012. Dental and vision plan enrollments were also based on data as of December 2010.
- The following table summarizes the change in enrollment from the most recent claims experience period used in the projection compared to December 2010, which was used to project enrollment for the 2010-2011 and 2011-2012 fiscal years.

| | As of December 2010 | Average enrollment 2009/2010 | Percent Increase / Decrease from Projected 09/10 |
|-----------------------------|------------------------|------------------------------------|--|
| <u>Modified Plan</u> | | | |
| Actives | 1,352 | 1,463 | -7.6% |
| Non-Medicare Retirees | 628 | 587 | 7% |
| Medicare Retirees | 289 | 264 | 9.5% |
| <u>Original Plan</u> | | | |
| Non-Medicare Retirees | 7 | 8 | -12.5% |
| Medicare Retirees | 52 | 54 | -3.7% |
| Total | 2,328 | 2,376 | -1.6% |
| Dental | 1,409 | 1,526 | -7.6% |
| Vision | 1,406 | 1,527 | -7.9% |

Trend

The following annual trend assumptions were used:

| | |
|--------------------------|-----|
| Medical Claims | 10% |
| Prescription Drug Claims | 10% |
| Dental Claims | 6% |
| Vision Claims | 4% |

Margin

The financial projections include a claims margin of 10% for reserve accumulation.

Incurred But Not Reported Reserves (IBNR)

This was calculated based on lag data provided by Zenith Administrators and Delta Health Systems and standard Segal Company methodologies and factors. The IBNR estimates do not include any estimate for claims processing or administrative fees and do not include any amounts known to be payable. The claims lag data has been included in Table 9. The lag data that was provided combined both medical and prescription drug claims information. The reserves were developed taking into account the differences in payment pattern between medical and prescription drug claims.

Medicare Part D Subsidy

The City participates in the Retiree Drug Subsidy program and these subsidy credits have not been included in the projections.

Prescription Drug Rebates

No reduction for rebates has been included.

Administrative Expenses

2010/2011 administrative services only fees for Delta Health Systems, Vision and Dental were provided by the vendors. Internal administrative expenses were taken from the City's actuarial report for fiscal year ended June 30, 2010.

We have assumed the following increases for 2011/2012:

- 0% for Delta Health Systems (current fees are guaranteed through June 30, 2012)
- 3% increase in the Blue Cross PPO network fees
- 3% increase in Delta's ASO fee
- 0% increase in VSP's ASO fee (current fees are guaranteed through December 31, 2012)

Tables

Attached are the following table exhibits:

- Table 1 - Rate projections for the two fiscal years 2010-2011 and 2011-2012. Segal has developed four separate categories of rates for the retiree plans as follows:
 - Under 65 Modified,
 - Under 65 Original,
 - Over 65 Modified, and
 - Over 65 Original.

The current actuarial report has two categories of rates – one for the retiree Modified plan and one for the Original plan.

- Table 2 - Three tier rates for active and retired plans for the 2010-2011 year.
- Table 3 - Three tier rates for active and retiree plans for the 2011-2012 year.

Supporting documents:

- Table 4A - Cost Projection Actives 2010/2011
- Table 4B - Cost Projection Actives 2011/2012
- Table 5A - Cost Projection Retirees Under 65 2010/2011
- Table 5B - Cost Projection Retirees Under 65 2011/2012
- Table 6A - Cost Projection Retirees Over 65 2010/2011
- Table 6B - Cost Projection Retirees Over 65 2011/2012
- Table 7A - Cost Projection Dental and Vision 2010/2011
- Table 7B - Cost Projection Dental and Vision 2011/2012
- Table 8A - Self-Funded Medical Claims Experience
- Table 8B - Self-Funded Prescription Claims Experience
- Table 8C - Vision and Dental Claims Experience
- Table 9 - Lag Data for Paid Period July 2008 through June 2010

Absent more recent data, the three tier rates were calculated using the same enrollment splits (single, two-party and family coverage) that were contained in the City's actuarial report for fiscal year ended June 30, 2010. In light of the changes in enrollment over the last twelve months, we recommend reviewing actual enrollment splits based on more recent data to ensure that the tiered rates accurately reflect current conditions.

TABLE 1
Summary of Projected Self-Funded Costs - Excludes Impact of Changes Required by Health Care Reform Effective 7/1/11

| Benefit | 7/1/10-6/30/11 | | | | | 7/1/11-6/30/12 | | | | |
|--|-------------------|-----------------------------------|----------------------------------|-----------------------------------|--------------------------------|-------------------|-----------------------------------|----------------------------------|-----------------------------------|--------------------------------|
| | Active Plan | Modified Plan - Under 65 Retirees | Modified Plan - Over 65 Retirees | Original Plan - Under 65 Retirees | Original Plan Over 65 Retirees | Active Plan | Modified Plan - Under 65 Retirees | Modified Plan - Over 65 Retirees | Original Plan - Under 65 Retirees | Original Plan Over 65 Retirees |
| Medical Plan - Based on Active Plan Experience and Blended Original and Modified Plan Experience for Retirees | | | | | | | | | | |
| Medical incurred claims | \$888.30 | \$1,258.00 | \$216.20 | \$1,232.84 | \$216.20 | \$976.77 | \$1,383.29 | \$237.73 | \$1,355.62 | 237.73 |
| Rx incurred claims | \$187.92 | \$432.71 | \$297.96 | \$489.55 | \$337.10 | \$204.78 | \$471.63 | \$326.07 | \$532.82 | \$361.66 |
| Stop loss premium | \$50.68 | \$50.68 | \$15.75 | \$51.24 | \$15.92 | \$60.82 | \$60.82 | \$18.90 | \$61.49 | \$19.10 |
| Claims administration | \$19.36 | \$19.36 | \$19.36 | \$19.36 | \$19.36 | \$19.00 | \$19.00 | \$19.00 | \$19.00 | \$19.00 |
| Eligibility administration | \$1.25 | \$1.25 | \$1.25 | \$1.25 | \$1.25 | \$1.25 | \$1.25 | \$1.25 | \$1.25 | \$1.25 |
| Internal administration/consultants | \$25.19 | \$25.19 | \$25.19 | \$25.19 | \$25.19 | \$25.19 | \$25.19 | \$25.19 | \$25.19 | \$25.19 |
| PPO network access | \$12.86 | \$12.86 | \$12.86 | \$12.86 | \$12.86 | \$13.25 | \$13.25 | \$13.25 | \$13.25 | \$13.25 |
| Total - no claims margin | \$1,185.56 | \$1,800.05 | \$588.57 | \$1,832.29 | \$627.88 | \$1,301.06 | \$1,974.43 | \$641.39 | \$2,008.62 | \$677.18 |
| Total - 10% claims margin | \$1,293.18 | \$1,969.12 | \$639.98 | \$2,004.53 | \$683.21 | \$1,419.22 | \$2,159.93 | \$697.77 | \$2,197.46 | \$737.12 |
| Projected Enrollment | 1,352 | 638 | 289 | 7 | 52 | 1,352 | 638 | 289 | 7 | 52 |
| Dental | | | | | | | | | | |
| Incurred claims | \$95.96 | \$95.96 | \$95.96 | | | \$101.86 | \$101.86 | \$101.86 | | |
| Claims administration | \$7.56 | \$7.56 | \$7.56 | | | \$7.79 | \$7.79 | \$7.79 | | |
| Eligibility administration | \$0.50 | \$0.50 | \$0.50 | | | \$0.50 | \$0.50 | \$0.50 | | |
| Internal administration/consultants | \$2.07 | \$2.07 | \$2.07 | | | \$2.07 | \$2.07 | \$2.07 | | |
| Total - no claims margin | \$106.09 | \$106.09 | \$106.09 | | | \$112.22 | \$112.22 | \$112.22 | | |
| Total - 10% claims margin | \$115.69 | \$115.69 | \$115.69 | | | \$122.41 | \$122.41 | \$122.41 | | |
| Projected Enrollment | 1,388 | 21 | | | | 1,388 | 21 | | | |
| Vision | | N/A | N/A | N/A | N/A | | N/A | N/A | N/A | N/A |
| Incurred claims | \$11.08 | | | | | \$11.82 | | | | |
| Claims administration | \$1.65 | | | | | \$1.65 | | | | |
| Eligibility administration | \$0.25 | | | | | \$0.25 | | | | |
| Internal administration/consultants | \$0.26 | | | | | \$0.26 | | | | |
| Total - no claims margin | \$13.24 | | | | | \$13.98 | | | | |
| Total - 10% claims margin | \$14.35 | | | | | \$15.16 | | | | |
| Projected Enrollment | 1,406 | | | | | 1,406 | | | | |

Notes: 1. Projected costs for the original retiree plan are based on the assumption that the September 1, 2010 benefit changes did not apply to this group.
2. The projected costs do not take into account any Medicare Part D reimbursement that may be made.

TABLE 2
Tier Rate Development
Based on Enrollment Assumptions from the City Actuarial Report ending June 30, 2010 (Issued November 30, 2010)
2010/2011 Monthly Premium Rates

Active

| Active Monthly Premium Rates (Fiscal Year 2010/2011) | Medical | Vision | Dental | Total |
|---|----------------|---------------|---------------|--------------|
| Employee only | \$659.81 | \$6.76 | \$54.54 | \$721.11 |
| Employee plus spouse | \$1,187.67 | \$13.52 | \$109.06 | \$1,310.26 |
| Employee plus child(ren) | \$1,187.67 | \$13.52 | \$109.06 | \$1,310.26 |
| Employee plus spouse and child(ren) | \$1,583.56 | \$17.58 | \$141.78 | \$1,742.92 |

Retiree Under 65 & Over 65

| Retiree Monthly Premium Rates (Fiscal Year 2010/2011) | Original | Modified |
|--|-----------------|-----------------|
| Employee only | \$621.04 | \$937.58 |
| Employee plus spouse | \$1,117.86 | \$1,687.65 |
| Employee plus child(ren) | \$1,117.86 | \$1,687.65 |
| Employee plus spouse and child(ren) | \$1,490.49 | \$2,250.21 |

Retiree Under 65

| Retiree Under 65 Monthly Premium Rates (Fiscal Year 2010/2011) | Original | Modified |
|---|-----------------|-----------------|
| Employee only | \$1,492.74 | \$1,187.65 |
| Employee plus spouse | \$2,686.92 | \$2,137.77 |
| Employee plus child(ren) | \$2,686.92 | \$2,137.77 |
| Employee plus spouse and child(ren) | \$3,582.58 | \$2,850.38 |

Retiree Over 65

| Retiree Over 65 Monthly Premium Rates (Fiscal Year 2010/2011) | Original | Modified |
|--|-----------------|-----------------|
| Employee only | \$504.64 | \$385.80 |
| Employee plus spouse | \$908.36 | \$694.45 |
| Employee plus child(ren) | \$908.36 | \$694.45 |
| Employee plus spouse and child(ren) | \$1,211.15 | \$925.93 |

TABLE 3
Tier Rate Development
Based on Enrollment Assumptions from the City Actuarial Report ending June 30, 2010 (Issued November 30, 2010)
2011/2012 Monthly Premium Rates

Active

| Active Monthly Premium Rates (Fiscal Year 2011/2012) | Medical | Vision | Dental | Total |
|---|----------------|---------------|---------------|--------------|
| Employee only | \$724.12 | \$7.14 | \$57.71 | \$788.97 |
| Employee plus spouse | \$1,303.43 | \$14.28 | \$115.40 | \$1,433.11 |
| Employee plus child(ren) | \$1,303.43 | \$14.28 | \$115.40 | \$1,433.11 |
| Employee plus spouse and child(ren) | \$1,737.90 | \$18.58 | \$150.02 | \$1,906.49 |

Retiree Under 65 & Over 65

| Retiree Monthly Premium Rates (Fiscal Year 2011/2012) | Original | Modified |
|--|-----------------|-----------------|
| Employee only | \$673.09 | \$1,027.64 |
| Employee plus spouse | \$1,211.56 | \$1,849.75 |
| Employee plus child(ren) | \$1,211.56 | \$1,849.75 |
| Employee plus spouse and child(ren) | \$1,615.42 | \$2,466.35 |

Retiree Under 65

| Retiree Under 65 Monthly Premium Rates (Fiscal Year 2011/2012) | Original | Modified |
|---|-----------------|-----------------|
| Employee only | \$1,636.41 | \$1,302.74 |
| Employee plus spouse | \$2,945.53 | \$2,344.93 |
| Employee plus child(ren) | \$2,945.53 | \$2,344.93 |
| Employee plus spouse and child(ren) | \$3,927.39 | \$3,126.58 |

Retiree Over 65

| Retiree Over 65 Monthly Premium Rates (Fiscal Year 2011/2012) | Original | Modified |
|--|-----------------|-----------------|
| Employee only | \$544.46 | \$420.64 |
| Employee plus spouse | \$980.03 | \$757.15 |
| Employee plus child(ren) | \$980.03 | \$757.15 |
| Employee plus spouse and child(ren) | \$1,306.72 | \$1,009.54 |

TABLE 4A

COST PROJECTION ACTIVES 2010/2011

| | Medical | | Prescription Drug | |
|---|---------------|------------------|-------------------|------------------|
| | June-2009 | June-2010 | June-2009 | June-2010 |
| Paid Claims | \$ 14,938,891 | \$ 15,283,530 | \$ 2,564,373 | \$ 3,410,511 |
| Large Claim/Stop-loss Adjustments | \$ (579,682) | \$ (1,316,858) | - | - |
| Adjusted Paid Claims | \$ 14,359,209 | \$ 13,966,672 | \$ 2,564,373 | \$ 3,410,511 |
| Ending IBNR Reserves | \$ 1,833,400 | \$ 2,372,000 | \$ 154,000 | \$ 205,000 |
| Beginning IBNR Reserves | \$ 2,401,800 | \$ 1,833,400 | \$ 161,000 | \$ 154,000 |
| Adjusted Incurred Claims | \$ 13,790,809 | \$ 14,505,272 | \$ 2,557,373 | \$ 3,461,511 |
| Member months | 19,535 | 17,551 | 19,535 | 17,551 |
| Adjusted Incurred Claims PEPM | \$ 705.95 | \$ 826.46 | \$ 130.91 | \$ 197.23 |
| Trend Factor at 10% Annual | 1.21 | 1.10 | 1.21 | 1.10 |
| Projected PEPM | \$ 854.20 | \$ 909.11 | \$ 158.40 | \$ 216.95 |
| Weight | 35% | 65% | 35% | 65% |
| Weighted PEPM | \$ 298.97 | \$ 590.92 | \$ 55.44 | \$ 141.02 |
| Blended PEPM | | \$ 889.89 | | \$ 196.46 |
| Plan Change Factor (Med: Deductible Increased; Rx: Brand Copay Increased Effective 9/1/2010) | | 0.9982 | | 0.9565 |
| Projected Medical Incurred Claims PEPM 7/10-6/11 | | \$ 888.30 | | \$ 187.92 |

TABLE 4B

COST PROJECTION ACTIVES 2011/2012

| | Medical | Prescription Drug |
|---|------------------|-------------------|
| 7/10-6/10 Blended PEPM before plan change adjustments | \$ 889.89 | \$ 196.46 |
| Trend Factor at 10% Annual | 1.10 | 1.10 |
| Plan Change Factor (Med: Deductible Increased; Rx: Brand Copay Increased Effective 9/1/2010) | 0.9978 | 0.9476 |
| Projected Eligibles | 1,352 | 1,352 |
| Projected Claims 7/11-6/12 | \$ 15,847,106 | \$ 3,322,310 |
| Projected Medical Incurred Claims PEPM 7/11-6/12 | \$ 976.77 | \$ 204.78 |

TABLE 5A

COST PROJECTION RETIREES UNDER 65 2010/2011 (Blended Modified and Original Plan Experience)

| | Medical | | Prescription Drug | |
|---|--------------|--------------------|-------------------|------------------|
| | June-2009 | June-2010 | June-2009 | June-2010 |
| Paid Claims | \$ 6,160,642 | \$ 8,191,422 | \$ 2,026,045 | \$ 3,085,466 |
| Large Claim/Stop-loss Adjustments | \$ (52,759) | \$ (148,323) | - | - |
| Adjusted Paid claims | \$ 6,107,883 | \$ 8,043,099 | \$ 2,026,045 | \$ 3,085,466 |
| Ending IBNR Reserves | 756,100 | 1,271,200 | 122,000 | 185,000 |
| Beginning IBNR Reserves | 909,600 | 756,100 | 97,000 | 122,000 |
| Adjusted Incurred Claims | \$ 5,954,383 | \$ 8,558,199 | \$ 2,051,045 | \$ 3,148,466 |
| Member months | 6,152 | 7,136 | 6,152 | 7,136 |
| Adjusted Incurred Claims PEPM | \$ 967.88 | \$ 1,199.30 | \$ 333.39 | \$ 441.21 |
| Trend Factor at 10% Annual | 1.21 | 1.10 | 1.21 | 1.10 |
| Projected PEPM | \$ 1,171.13 | \$ 1,319.23 | \$ 403.40 | \$ 485.33 |
| Weight | 40% | 60% | 40% | 60% |
| Weighted PEPM | \$ 468.45 | \$ 791.54 | \$ 161.36 | \$ 291.20 |
| Blended PEPM | | \$ 1,259.99 | | \$ 452.56 |
| Plan Change Factor (Med: Deductible Increased; Rx: Brand Copay Increased Effective 9/1/2010) | | 0.9982 | | 0.9575 |
| Projected Medical Incurred Claims PEPM 7/10-6/11 Blended Plans | | \$ 1,257.74 | | \$ 433.33 |
| Adjustment for Benefit Variation - Modified Plan | | 1.0002 | | 0.9986 |
| Projected Medical Incurred Claims PEPM 7/10-6/11 Modified Plan | | \$ 1,258.00 | | \$ 432.71 |
| Adjustment for Benefit Variation - Original Plan | | 0.9802 | | 1.1297 |
| Projected Medical Incurred Claims PEPM 7/10-6/11 Original Plan | | \$ 1,232.84 | | \$ 489.55 |

TABLE 5B

COST PROJECTION RETIREES UNDER 65 2011/2012 (Blended Modified and Original Plan Experience)

| | Medical | Prescription Drug |
|---|--------------------|-------------------|
| 7/10-6/10 Blended PEPM before plan change adjustments | \$1,259.99 | \$452.56 |
| Trend Factor at 10% Annual | 1.10 | 1.10 |
| Plan Change Factor (Med: Deductible Increased; Rx: Brand Copay Increased Effective 9/1/2010) | 0.9978 | 0.9488 |
| Projected Eligibles | 645 | 645 |
| Projected Claims 7/11-6/12 | \$ 10,704,435 | \$ 3,655,712 |
| Projected Medical Incurred Claims 7/11-6/12 | \$ 1,383.00 | \$ 472.31 |
| Adjustment for Benefit Variation - Modified Plan | 1.0002 | 0.9986 |
| Projected Medical Incurred Claims PEPM 7/10-6/11 Modified Plan | \$ 1,383.29 | \$ 471.63 |
| Adjustment for Benefit Variation - Original Plan | 0.9802 | 1.1281 |
| Projected Medical Incurred Claims PEPM 7/10-6/11 Original Plan | \$ 1,355.62 | \$ 532.82 |

TABLE 6A

COST PROJECTION RETIREES OVER 65 2010/2011 (Blended Modified and Original Plan Experience)

| | Medical | | Prescription Drug | |
|---|------------|------------------|-------------------|------------------|
| | June-2009 | June-2010 | June-2009 | June-2010 |
| Paid claims | \$ 582,480 | \$ 796,480 | \$ 756,258 | \$ 1,179,912 |
| Ending IBNR Reserves | 71,500 | 123,600 | 45,000 | 70,000 |
| Beginning IBNR Reserves | 147,600 | 71,500 | 42,000 | 45,000 |
| Adjusted Incurred Claims | \$ 506,380 | \$ 848,580 | \$ 759,258 | \$ 1,204,912 |
| Member months | 3,368 | 3,811 | 3,368 | 3,811 |
| Adjusted Incurred Claims PEPM | \$ 150.35 | \$ 222.67 | \$ 225.43 | \$ 316.17 |
| Trend Factor at 10% Annual | 1.21 | 1.10 | 1.21 | 1.10 |
| Projected PEPM | \$ 181.92 | \$ 244.94 | \$ 272.77 | \$ 347.79 |
| Weight | 45% | 55% | 45% | 55% |
| Weighted PEPM | \$ 81.86 | \$ 134.72 | \$ 122.75 | \$ 191.28 |
| Blended PEPM | | \$ 216.58 | | \$ 314.03 |
| Plan Change Factor (Med: Deductible Increased; Rx: Brand Copay Increased Effective 9/1/2010) | | 0.9982 | | 0.9679 |
| Projected Medical Incurred Claims PEPM 7/10-6/11 | | \$ 216.20 | | \$ 303.93 |
| Adjustment for Benefit Variation - Modified Plan | | 1.000 | | 0.9804 |
| Projected Medical Incurred Claims PEPM 7/10-6/11 Modified Plan | | \$ 216.20 | | \$ 297.96 |
| Adjustment for Benefit Variation - Original Plan | | 1.000 | | 1.109 |
| Projected Medical Incurred Claims PEPM 7/10-6/11 Original Plan | | \$ 216.20 | | \$ 337.10 |

Note: As a result of Medicare coordination, benefit values between the Modified Plan and Original Plan are assumed to be equal for medical coverage.

TABLE 6B

COST PROJECTION RETIREES OVER 65 2011/2012 (Blended Modified and Original Plan Experience)

| | Medical | Prescription Drug |
|--|------------------|-------------------|
| 7/10-6/10 Blended PEPM before plan change adjustments | \$ 216.58 | \$ 314.03 |
| Trend Factor at 10% Annual | 1.10 | 1.10 |
| Plan Change Factor (Med: Deductible Increased; Rx: Brand Copay Increased Effective 9/1/2010) | 0.9978 | 0.9613 |
| Projected Eligibles | 341 | 341 |
| Projected Claims 7/11-6/12 | \$ 972,769 | \$ 1,358,780 |
| Projected Medical Incurred Claims PEPM 7/11-6/12 | \$ 237.73 | \$ 332.06 |
| Adjustment for Benefit Variation - Modified Plan | 1.000 | 0.9820 |
| Projected Medical Incurred Claims PEPM 7/10-6/11 Modified Plan | \$ 237.73 | \$ 326.07 |
| Adjustment for Benefit Variation - Original Plan | 1.000 | 1.089 |
| Projected Medical Incurred Claims PEPM 7/10-6/11 Original Plan | \$ 237.73 | \$ 361.66 |

Note: As a result of Medicare coordination, benefit values between the Modified Plan and Original Plan are assumed to be equal for medical coverage.

TABLE 7A

COST PROJECTION DENTAL AND VISION 2010/2011

| | Dental | | Vision | |
|--|---------------|-----------------|---------------|-----------------|
| | December-2009 | December-2010 | December-2009 | December-2010 |
| Paid Claims | \$ 1,732,553 | \$ 1,616,814 | \$ 221,006 | \$ 189,442 |
| Ending IBNR Reserves | \$ 170,000 | \$ 159,000 | \$ 22,000 | \$ 19,000 |
| Beginning IBNR Reserves | \$ 168,000 | \$ 170,000 | \$ 21,000 | \$ 22,000 |
| Adjusted Incurred Claims | \$ 1,734,553 | \$ 1,605,814 | \$ 222,006 | \$ 186,442 |
| Member months | 19,204 | 17,449 | 19,177 | 17,478 |
| Adjusted Incurred Claims PEPM | \$ 90.32 | \$ 92.03 | \$ 11.58 | \$ 10.67 |
| Annual Trend Factor at 6% for Dental and 4% for Vision | 1.11 | 1.04 | 1.07 | 1.03 |
| Projected PEPM | \$ 100.02 | \$ 96.14 | \$ 12.40 | \$ 10.99 |
| Weight | 35% | 65% | 35% | 65% |
| Weighted PEPM | \$ 35.01 | \$ 62.49 | \$ 4.34 | \$ 7.14 |
| Blended PEPM 1/11-6/11 | | \$ 97.50 | | \$ 11.48 |
| Average Projected Eligibles 1/11-6/11 | | 1,403 | | 1,391 |
| Projected Incurred Claims 1/11-6/11 | | \$ 820,755 | | \$ 95,812 |
| Estimated Incurred Claims 7/10-12/10 | | \$ 801,745 | | \$ 91,231 |
| Total Projected Claims 7/10-6/11 | | \$ 1,622,500 | | \$ 187,043 |
| Projected Eligibles 7/10-6/11 | | 1,409 | | 1,406 |
| Projected Incurred Claims PEPM 7/10-6/11 | | \$ 95.96 | | \$ 11.08 |

TABLE 7B

COST PROJECTION DENTAL AND VISION 2011/2012

| | Dental | Vision |
|--|------------------|-----------------|
| Projected Blended PEPM 1/11-6/11 | \$ 97.50 | \$ 11.48 |
| Annual Trend Factor at 6% for Dental and 4% for Vision | 1.04 | 1.03 |
| Projected Eligibles | 1,409 | 1,352 |
| Projected Claims 7/11-6/12 | \$ 1,722,200 | \$ 191,800 |
| Projected Incurred Claims PEPM 7/11-6/12 | \$ 101.86 | \$ 11.82 |

TABLE 8A

SELF-FUNDED MEDICAL CLAIMS EXPERIENCE (Before Stop Loss Claims Adjustments)

| Period | Active Employees | | | Retirees Under 65 (Original and Modified Plans) | | | Retirees Over 65 (Original and Modified Plans) | | |
|-----------------------|------------------|---------------------|-----------------|--|--------------------|-------------------|---|------------------|-----------------|
| | Enrollment | Paid Claims | PEPM | Enrollment | Paid Claims | PEPM | Enrollment | Paid Claims | PEPM |
| Jul-08 | 1,693 | \$1,318,570 | \$778.84 | 505 | \$381,340 | \$755.13 | 246 | \$33,103 | \$134.56 |
| Aug-08 | 1,704 | \$1,175,367 | \$689.77 | 507 | \$592,327 | \$1,168.30 | 248 | \$31,463 | \$126.87 |
| Sep-08 | 1,712 | \$1,548,943 | \$904.76 | 508 | \$757,566 | \$1,491.27 | 249 | \$31,613 | \$126.96 |
| Oct-08 | 1,705 | \$1,660,949 | \$974.16 | 507 | \$403,841 | \$796.53 | 251 | \$59,821 | \$238.33 |
| Nov-08 | 1,656 | \$892,033 | \$538.67 | 515 | \$625,070 | \$1,213.73 | 251 | \$28,204 | \$112.37 |
| Dec-08 | 1,646 | \$1,213,580 | \$737.29 | 516 | \$411,443 | \$797.37 | 251 | \$40,878 | \$162.86 |
| Jan-09 | 1,577 | \$689,981 | \$437.53 | 518 | \$340,049 | \$656.47 | 309 | \$23,854 | \$77.20 |
| Feb-09 | 1,579 | \$1,801,461 | \$1,140.89 | 515 | \$431,736 | \$838.32 | 310 | \$40,115 | \$129.40 |
| Mar-09 | 1,577 | \$1,093,709 | \$693.54 | 515 | \$505,066 | \$980.71 | 313 | \$45,558 | \$145.55 |
| Apr-09 | 1,567 | \$1,240,742 | \$791.79 | 515 | \$495,886 | \$962.89 | 313 | \$83,695 | \$267.39 |
| May-09 | 1,562 | \$1,001,795 | \$641.35 | 515 | \$539,155 | \$1,046.90 | 313 | \$91,242 | \$291.51 |
| Jun-09 | 1,557 | \$1,301,759 | \$836.07 | 516 | \$677,163 | \$1,312.33 | 314 | \$72,934 | \$232.27 |
| Total | 19,535 | \$14,938,891 | \$764.72 | 6,152 | \$6,160,642 | \$1,001.40 | 3,368 | \$582,480 | \$172.95 |
| Jul-09 | 1,524 | \$1,250,332 | \$820.43 | 546 | \$463,784 | \$849.42 | 315 | \$44,154 | \$140.17 |
| Aug-09 | 1,507 | \$1,101,472 | \$730.90 | 557 | \$578,433 | \$1,038.48 | 315 | \$102,292 | \$324.74 |
| Sep-09 | 1,499 | \$1,021,481 | \$681.44 | 559 | \$312,443 | \$558.93 | 316 | \$34,837 | \$110.24 |
| Oct-09 | 1,497 | \$874,350 | \$584.07 | 563 | \$671,025 | \$1,191.87 | 316 | \$84,993 | \$268.97 |
| Nov-09 | 1,491 | \$1,017,465 | \$682.40 | 568 | \$610,942 | \$1,075.60 | 317 | \$59,145 | \$186.58 |
| Dec-09 | 1,485 | \$1,003,328 | \$675.64 | 570 | \$916,748 | \$1,608.33 | 317 | \$113,096 | \$356.77 |
| Jan-10 | 1,425 | \$1,625,351 | \$1,140.60 | 626 | \$618,026 | \$987.26 | 321 | \$52,288 | \$162.89 |
| Feb-10 | 1,425 | \$1,206,091 | \$846.38 | 628 | \$634,360 | \$1,010.13 | 321 | \$39,827 | \$124.07 |
| Mar-10 | 1,425 | \$1,610,554 | \$1,130.21 | 629 | \$617,472 | \$981.67 | 319 | \$56,915 | \$178.42 |
| Apr-10 | 1,425 | \$1,483,251 | \$1,040.88 | 629 | \$662,939 | \$1,053.96 | 319 | \$39,791 | \$124.74 |
| May-10 | 1,425 | \$1,433,744 | \$1,006.14 | 629 | \$1,122,048 | \$1,783.86 | 318 | \$53,195 | \$167.28 |
| Jun-10 | 1,423 | \$1,656,110 | \$1,163.82 | 632 | \$983,201 | \$1,555.70 | 317 | \$115,947 | \$365.76 |
| Total | 17,551 | \$15,283,530 | \$870.81 | 7,136 | \$8,191,422 | \$1,147.90 | 3,811 | \$796,480 | \$209.00 |
| Percent Change | -10.2% | 2.3% | 13.9% | 16.0% | 33.0% | 14.6% | 13.2% | 36.7% | 20.8% |

TABLE 8B

SELF-FUNDED PRESCRIPTION DRUG CLAIMS EXPERIENCE

| Period | Active Employees | | | Retirees Under 65 (Original and Modified Plans) | | | Retirees Over 65 (Original and Modified Plans) | | |
|-----------------------|------------------|--------------------|-----------------|--|--------------------|-----------------|---|--------------------|-----------------|
| | Enrollment | Paid Claims | PEPM | Enrollment | Paid Claims | PEPM | Enrollment | Paid Claims | PEPM |
| Jul-08 | 1,693 | \$186,104 | \$109.93 | 505 | \$104,410 | \$206.75 | 246 | \$40,734 | \$165.59 |
| Aug-08 | 1,704 | \$211,286 | \$123.99 | 507 | \$123,765 | \$244.11 | 248 | \$49,015 | \$197.64 |
| Sep-08 | 1,712 | \$201,167 | \$117.50 | 508 | \$129,888 | \$255.69 | 249 | \$53,022 | \$212.94 |
| Oct-08 | 1,705 | \$328,536 | \$192.69 | 507 | \$220,613 | \$435.13 | 251 | \$85,396 | \$340.22 |
| Nov-08 | 1,656 | \$205,164 | \$123.89 | 515 | \$118,028 | \$229.18 | 251 | \$52,771 | \$210.24 |
| Dec-08 | 1,646 | \$222,433 | \$135.14 | 516 | \$198,364 | \$384.43 | 251 | \$70,492 | \$280.85 |
| Jan-09 | 1,577 | \$201,646 | \$127.87 | 518 | \$192,688 | \$371.98 | 309 | \$67,862 | \$219.62 |
| Feb-09 | 1,579 | \$184,707 | \$116.98 | 515 | \$166,905 | \$324.09 | 310 | \$57,413 | \$185.20 |
| Mar-09 | 1,577 | \$204,036 | \$129.38 | 515 | \$192,977 | \$374.71 | 313 | \$67,872 | \$216.84 |
| Apr-09 | 1,567 | \$215,020 | \$137.22 | 515 | \$197,803 | \$384.08 | 313 | \$77,577 | \$247.85 |
| May-09 | 1,562 | \$198,328 | \$126.97 | 515 | \$172,621 | \$335.19 | 313 | \$65,501 | \$209.27 |
| Jun-09 | 1,557 | \$205,947 | \$132.27 | 516 | \$207,983 | \$403.07 | 314 | \$68,602 | \$218.48 |
| Total | 19,535 | \$2,564,373 | \$131.27 | 6,152 | \$2,026,045 | \$329.33 | 3,368 | \$756,258 | \$224.54 |
| Jul-09 | 1,524 | \$214,613 | \$140.82 | 546 | \$191,744 | \$351.18 | 315 | \$91,376 | \$290.08 |
| Aug-09 | 1,507 | \$288,779 | \$191.63 | 557 | \$201,366 | \$361.52 | 315 | \$82,071 | \$260.54 |
| Sep-09 | 1,499 | \$258,510 | \$172.46 | 559 | \$225,021 | \$402.54 | 316 | \$82,797 | \$262.02 |
| Oct-09 | 1,497 | \$403,322 | \$269.42 | 563 | \$385,798 | \$685.25 | 316 | \$147,762 | \$467.60 |
| Nov-09 | 1,491 | \$248,064 | \$166.37 | 568 | \$234,906 | \$413.57 | 317 | \$89,568 | \$282.55 |
| Dec-09 | 1,485 | \$295,559 | \$199.03 | 570 | \$261,709 | \$459.14 | 317 | \$91,055 | \$287.24 |
| Jan-10 | 1,425 | \$269,676 | \$189.25 | 626 | \$273,080 | \$436.23 | 321 | \$92,764 | \$288.99 |
| Feb-10 | 1,425 | \$275,487 | \$193.32 | 628 | \$254,304 | \$404.94 | 321 | \$103,467 | \$322.33 |
| Mar-10 | 1,425 | \$281,751 | \$197.72 | 629 | \$253,491 | \$403.01 | 319 | \$97,608 | \$305.98 |
| Apr-10 | 1,425 | \$290,144 | \$203.61 | 629 | \$261,209 | \$415.28 | 319 | \$98,387 | \$308.42 |
| May-10 | 1,425 | \$290,314 | \$203.73 | 629 | \$268,690 | \$427.17 | 318 | \$100,426 | \$315.81 |
| Jun-10 | 1,423 | \$294,290 | \$206.81 | 632 | \$274,148 | \$433.78 | 317 | \$102,630 | \$323.75 |
| Total | 17,551 | \$3,410,511 | \$194.32 | 7,136 | \$3,085,466 | \$432.38 | 3,811 | \$1,179,912 | \$309.61 |
| Percent Change | -10.2% | 33.0% | 48.0% | 16.0% | 52.3% | 31.3% | 13.2% | 56.0% | 37.9% |

TABLE 8C

VISION AND DENTAL CLAIMS EXPERIENCE

| Period | Vision | | | Dental | | |
|-----------------------|---------------|------------------|----------------|---------------|--------------------|----------------|
| | Enrollment | Paid Claims | PEPM | Enrollment | Paid Claims | PEPM |
| Jan-09 | 1,648 | \$17,237 | \$10.46 | 1,662 | \$137,293 | \$82.61 |
| Feb-09 | 1,646 | \$19,363 | \$11.76 | 1,655 | \$147,960 | \$89.40 |
| Mar-09 | 1,638 | \$19,110 | \$11.67 | 1,644 | \$151,679 | \$92.26 |
| Apr-09 | 1,628 | \$19,580 | \$12.03 | 1,633 | \$183,314 | \$112.26 |
| May-09 | 1,622 | \$18,283 | \$11.27 | 1,630 | \$140,552 | \$86.23 |
| Jun-09 | 1,619 | \$19,993 | \$12.35 | 1,625 | \$139,173 | \$85.64 |
| Jul-09 | 1,587 | \$14,664 | \$9.24 | 1,580 | \$149,932 | \$94.89 |
| Aug-09 | 1,574 | \$18,782 | \$11.93 | 1,570 | \$119,612 | \$76.19 |
| Sep-09 | 1,560 | \$19,725 | \$12.64 | 1,558 | \$121,508 | \$77.99 |
| Oct-09 | 1,556 | \$18,839 | \$12.11 | 1,556 | \$172,252 | \$110.70 |
| Nov-09 | 1,552 | \$18,557 | \$11.96 | 1,549 | \$123,550 | \$79.76 |
| Dec-09 | 1,547 | \$16,873 | \$10.91 | 1,542 | \$145,730 | \$94.51 |
| Total | 19,177 | \$221,006 | \$11.52 | 19,204 | \$1,732,553 | \$90.22 |
| Jan-10 | 1,496 | \$14,677 | \$9.81 | 1,497 | \$139,481 | \$93.17 |
| Feb-10 | 1,492 | \$15,347 | \$10.29 | 1,497 | \$120,701 | \$80.63 |
| Mar-10 | 1,494 | \$14,880 | \$9.96 | 1,495 | \$128,783 | \$86.14 |
| Apr-10 | 1,495 | \$15,959 | \$10.67 | 1,493 | \$174,788 | \$117.07 |
| May-10 | 1,488 | \$18,599 | \$12.50 | 1,493 | \$140,767 | \$94.28 |
| Jun-10 | 1,484 | \$19,112 | \$12.88 | 1,483 | \$115,331 | \$77.77 |
| Jul-10 | 1,465 | \$15,491 | \$10.57 | 1,419 | \$175,898 | \$123.96 |
| Aug-10 | 1,420 | \$14,795 | \$10.42 | 1,421 | \$125,090 | \$88.03 |
| Sep-10 | 1,414 | \$14,108 | \$9.98 | 1,415 | \$125,564 | \$88.74 |
| Oct-10 | 1,414 | \$13,744 | \$9.72 | 1,419 | \$120,521 | \$84.93 |
| Nov-10 | 1,410 | \$17,110 | \$12.13 | 1,408 | \$103,871 | \$73.77 |
| Dec-10 | 1,406 | \$15,620 | \$11.11 | 1,409 | \$146,020 | \$103.63 |
| Total | 17,478 | \$189,442 | \$10.84 | 17,449 | \$1,616,814 | \$92.66 |
| Percent Change | -8.9% | -14.3% | -5.9% | -9.1% | -6.7% | 2.7% |

TABLE 9
Lag Data for Paid Period July 2008 through June 2010

| <u>Paid Month</u> | <u>Incurred Month</u> | | | | | | | | | | | | |
|-------------------|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--|
| | <u>Jul-2008</u> | <u>Aug-2008</u> | <u>Sep-2008</u> | <u>Oct-2008</u> | <u>Nov-2008</u> | <u>Dec-2008</u> | <u>Jan-2009</u> | <u>Feb-2009</u> | <u>Mar-2009</u> | <u>Apr-2009</u> | <u>May-2009</u> | <u>Jun-2009</u> | |
| Jul-2008 | 2,475,145 | | | | | | | | | | | | |
| Aug-2008 | 1,895,206 | 148,251 | | | | | | | | | | | |
| Sep-2008 | 1,008,771 | 1,685,804 | 361,101 | | | | | | | | | | |
| Oct-2008 | 446,779 | 453,004 | 1,264,992 | 498,187 | | | | | | | | | |
| Nov-2008 | 112,410 | 333,039 | 218,294 | 1,011,039 | 384,235 | | | | | | | | |
| Dec-2008 | 62,084 | 34,288 | 87,524 | 339,594 | 1,369,125 | 285,204 | | | | | | | |
| Jan-2009 | 23,547 | 12,538 | 17,133 | 68,745 | 137,180 | 853,652 | 715,127 | | | | | | |
| Feb-2009 | 41,252 | 4,715 | 18,892 | 559,026 | 125,622 | 825,854 | 848,304 | 379,257 | | | | | |
| Mar-2009 | 95,660 | 19,078 | 21,321 | 46,030 | 45,015 | 187,435 | 424,989 | 894,493 | 400,266 | | | | |
| Apr-2009 | 20,206 | 11,609 | 5,422 | 49,074 | 35,938 | 46,481 | 139,056 | 327,677 | 1,170,180 | 579,383 | | | |
| May-2009 | 12,667 | -1,166 | 3,603 | 66,409 | 21,602 | 37,740 | 34,988 | 53,950 | 357,009 | 1,152,148 | 445,390 | | |
| Jun-2009 | 25,885 | 5,464 | 12,944 | -21,197 | 7,998 | 38,111 | 28,616 | 36,991 | 63,807 | 299,776 | 1,691,656 | 376,569 | |
| Jul-2009 | 3,253 | 6,570 | 6,043 | 5,816 | 3,423 | 2,323 | 10,511 | 32,917 | 74,630 | 63,624 | 320,773 | 1,414,745 | |
| Aug-2009 | 5,557 | 1,309 | 2,623 | 53 | 7,582 | 29,780 | 5,368 | 7,682 | 16,665 | 40,912 | 67,011 | 178,388 | |
| Sep-2009 | 109 | 269 | 1,365 | 2,951 | 1,983 | 10,610 | 1,514 | 7,442 | 22,461 | 38,323 | 25,409 | 84,461 | |
| Oct-2009 | -1,209 | 299 | 413 | 4,359 | 5,105 | 12,353 | 3,605 | 8,044 | 26,942 | 25,768 | 25,655 | 59,562 | |
| Nov-2009 | 2,581 | 0 | 560 | 268 | 16,770 | 16,662 | 10,977 | 4,889 | 2,734 | 13,194 | 37,090 | 23,936 | |
| Dec-2009 | -1,207 | -107 | 60 | 37,614 | -60 | 4,310 | 784 | 1,700 | 4,956 | 2,931 | 16,764 | 13,738 | |
| Jan-2010 | 3,088 | -587 | -368 | 1,246 | 101 | -159 | 2,233 | -2,066 | 1,841 | 3,727 | 1,780 | 16,857 | |
| Feb-2010 | 151 | 23 | 69 | -209 | 194 | 7 | 365 | 852 | 15,284 | 9,099 | 2,858 | -5,654 | |
| Mar-2010 | 551 | -59 | 87 | -826 | -28 | 167 | 8,379 | -352 | 1,953 | -1,567 | 8,709 | -4,697 | |
| Apr-2010 | 185 | 530 | 290 | 45 | 1,044 | 16 | 3,497 | 1,464 | 2,118 | 2,093 | 3,580 | 5,528 | |
| May-2010 | 56 | 0 | 0 | 80 | 97 | 384 | 0 | 330 | 642 | 2,531 | 873 | 818 | |
| Jun-2010 | 1,584 | 0 | 0 | 0 | -632 | 818 | 2,010 | 312 | 1,576 | 1,173 | -525 | 222 | |

TABLE 9
Lag Data for Paid Period July 2008 through June 2010

| | <u>Jul-2009</u> | <u>Aug-2009</u> | <u>Sep-2009</u> | <u>Oct-2009</u> | <u>Nov-2009</u> | <u>Dec-2009</u> | <u>Jan-2010</u> | <u>Feb-2010</u> | <u>Mar-2010</u> | <u>Apr-2010</u> | <u>May-2010</u> | <u>Jun-2010</u> |
|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <u>Paid Month</u> | | | | | | | | | | | | |
| Jul-2008 | | | | | | | | | | | | |
| Aug-2008 | | | | | | | | | | | | |
| Sep-2008 | | | | | | | | | | | | |
| Oct-2008 | | | | | | | | | | | | |
| Nov-2008 | | | | | | | | | | | | |
| Dec-2008 | | | | | | | | | | | | |
| Jan-2009 | | | | | | | | | | | | |
| Feb-2009 | | | | | | | | | | | | |
| Mar-2009 | | | | | | | | | | | | |
| Apr-2009 | | | | | | | | | | | | |
| May-2009 | | | | | | | | | | | | |
| Jun-2009 | | | | | | | | | | | | |
| Jul-2009 | 629,218 | | | | | | | | | | | |
| Aug-2009 | 1,325,040 | 662,264 | | | | | | | | | | |
| Sep-2009 | 365,185 | 955,526 | 329,771 | | | | | | | | | |
| Oct-2009 | -33,202 | 206,520 | 1,337,965 | 598,329 | | | | | | | | |
| Nov-2009 | 27,434 | 163,717 | 405,748 | 1,389,271 | 154,155 | | | | | | | |
| Dec-2009 | 13,091 | 119,692 | 158,730 | 360,830 | 1,598,664 | 350,326 | | | | | | |
| Jan-2010 | 21,429 | 24,949 | 41,942 | 61,557 | 718,061 | 1,555,656 | 367,048 | | | | | |
| Feb-2010 | 5,755 | 9,025 | 27,017 | 31,936 | 88,524 | 766,040 | 1,392,379 | 157,119 | | | | |
| Mar-2010 | 16,833 | 12,236 | 31,732 | 64,190 | 95,374 | 330,029 | 331,359 | 1,581,024 | 650,030 | | | |
| Apr-2010 | 2,302 | 9,110 | 2,888 | 14,585 | 48,582 | 109,167 | 727,570 | 304,728 | 1,062,434 | 569,377 | | |
| May-2010 | 1,546 | 2,895 | 4,227 | 12,124 | 41,430 | 18,294 | 147,407 | 220,744 | 709,693 | 1,387,877 | 677,229 | |
| Jun-2010 | 5,514 | 373 | 109,928 | 18,843 | 11,446 | 91,435 | 50,641 | 65,111 | 133,881 | 349,256 | 1,793,623 | 565,177 |

City's Current Fund Position

The Fund balance as of June 30, 2010 as reported in the City's actuarial report is (\$1,928,511). Segal has estimated the incurred but not reported (IBNR) claims reserve as of June 30, 2010 to be \$4,414,000. Therefore, the City's Fund balance as of June 30, 2010 was \$6,342,511 below the amount needed to cover IBNR claims liabilities as of that date.

If the City's 2010-2011 rates had been set at the Segal projected rates with a 10% margin, the margin would have generated about half of the required reserve amount of \$6.3 million. Segal's 2011-2012 rates with another 10% margin would have provided the remaining required Fund reserve plus a surplus of \$900,000 for claims fluctuation. These reserve accumulations assume that the Plan's claims experience develops at the projected trend rates and no significant change in catastrophic claims incidence occurs.

Segal's reserve guidelines for self-funded plans is outlined in the table below.

| Reserves | Importance | Why | Methodology | % | 2009/2010 Reserves |
|---|-------------|---|--|------|--------------------|
| Incurred But Not Reported (IBNR) | Required | To cover expenses for already incurred claims that have not been paid. | Factor or Lag model | 13% | \$4,414,000 |
| Claims Fluctuation Reserve (CFR) | Recommended | To cover expenses in excess of projected levels due to: 1) Large Claims - Risk of unexpected increases in the number and/or size of claims incurred by individual participants. 2) Client Claims - Overall plan claims experience developing at a variance from the expected cost per participant. 3) Trend - Risk inherent in a projection that uses a forecast of the overall increase in price and utilization of health care services. | Takes into consideration the Individual Stop Loss Level and is based on the factors from published methodology | 30%* | \$9,584,000 |
| Economic | Optional | To cover expenses when available sources of revenue develop at less than projected levels due to country and state recession or other changes to expected revenues. | 25% minimal 50% optimal | 50%* | \$15,974,000 |
| Total | | | | | \$29,972,000 |

* Medical Plan claims only used for these estimates

The City's current funding rate of \$2,187 for the 2010-2011 year is much lower than Segal's projected needed rate of \$2,528. Unless the funding rate is adjusted this year to account for this shortfall, the City's Fund balance at June 30, 2011 will be inadequate.

Segal has proposed alternate medical benefit options that would reduce plan costs as one way to reduce the Fund deficit.

- **Table 10** shows the 2011-2012 rates assuming the proposed alternate benefit options are implemented.
- **Table 11** shows a comparison of current Plan benefits with the proposed plan benefits.

TABLE 10
Tier Rate Development
Based on Enrollment Assumptions from the City Actuarial Report ending June 30, 2010 (Issued November 30, 2010)
2011/2012 Monthly Premium Rates with Plan Changes

Active

| Active Monthly Premium Rates (Fiscal Year 2011/2012) | Medical | Vision | Dental | Total |
|---|----------------|---------------|---------------|--------------|
| Employee only | \$505.28 | \$7.14 | \$57.71 | \$570.13 |
| Employee plus spouse | \$909.51 | \$14.28 | \$115.40 | \$1,039.19 |
| Employee plus child(ren) | \$909.51 | \$14.28 | \$115.40 | \$1,039.19 |
| Employee plus spouse and child(ren) | \$1,212.68 | \$18.58 | \$150.02 | \$1,381.28 |

Retiree Under 65 & Over 65

| Retiree Monthly Premium Rates (Fiscal Year 2011/2012) | Original | Modified |
|--|-----------------|-----------------|
| Employee only | \$673.09 | \$709.70 |
| Employee plus spouse | \$1,211.56 | \$1,277.46 |
| Employee plus child(ren) | \$1,211.56 | \$1,277.46 |
| Employee plus spouse and child(ren) | \$1,615.42 | \$1,703.29 |

Retiree Under 65

| Retiree Under 65 Monthly Premium Rates (Fiscal Year 2011/2012) | Original | Modified |
|---|-----------------|-----------------|
| Employee only | \$1,636.41 | \$896.61 |
| Employee plus spouse | \$2,945.53 | \$1,613.90 |
| Employee plus child(ren) | \$2,945.53 | \$1,613.90 |
| Employee plus spouse and child(ren) | \$3,927.39 | \$2,151.88 |

Retiree Over 65

| Retiree Over 65 Monthly Premium Rates (Fiscal Year 2011/2012) | Original | Modified |
|--|-----------------|-----------------|
| Employee only | \$544.46 | \$297.27 |
| Employee plus spouse | \$980.03 | \$535.09 |
| Employee plus child(ren) | \$980.03 | \$535.09 |
| Employee plus spouse and child(ren) | \$1,306.72 | \$713.45 |

TABLE 11
Benefits Comparison - Current Modified Plan and Alternative Plan

| Benefits: | Modified Plan | | Alternative Plan | |
|--|---|--------------------|------------------------------------|-------------------------------------|
| | In-Network | Out-of-Network | 80% In-Network | 50% Out-of-Network |
| Lifetime Maximum | \$2,500,000 | \$2,500,000 | Unlimited | Unlimited |
| Maximum Out-of-Pocket | | | | |
| Per person | \$1,000 | \$1,000 | \$5,000 | None |
| Per family | \$1,000 per person | \$1,000 per person | \$10,000 | None |
| Deductible | | | | |
| Per person per year | \$200 | \$200 | \$500 | \$1,500 |
| Per family per year | \$500 | \$500 | \$1,500 | \$3,000 |
| Acupuncture | 60% | 60% | 80% | 50% |
| Limitation | 12 visits per year | | Unlimited | |
| Alcohol and Drug Treatment - Actives Only (Substance Abuse Benefit) | | | After \$75 per admission copayment | After \$200 per admission copayment |
| 1st Admission | 100% | 100% | 80% | 50% |
| 2nd Admission | 75% | 75% | 80% | 50% |
| 3rd Admission | 50% | 50% | 80% | 50% |
| Limitation | 30 days per admission and maximum 3 admissions per lifetime per member | | Unlimited | |
| Outpatient Services | 80% | 80% | 80% | 50% |
| Ambulance | 80% | 80% | 80% | 50% |
| Preventive Care/Wellness (mandated under ACA) | | | | |
| Office Visit | 80% | 80% | 100% | 50% |
| Lab/Diagnostic | 100% | 100% | 100% | 50% |
| Chiropractic Visits | 80% | 80% | 80% | 50% |
| Emergency Physician | 100% | 100% | 80% | 80% |
| Emergency Room | 100% | 100% | 80% | 80% |
| Hearing Aids | 80% | 80% | Not Covered | |
| Limitation | Maximum of \$6,000 per lifetime per member | | | |
| Home Health Care and Hospice | 100% | 100% | 80% | Not Covered |
| | | | After \$75 per admission copayment | After \$200 per admission copayment |
| Hospitalization | 100% | 70% | 80% | 50% |
| Inpatient Psychiatric | 80% | 80% | 80% | 50% |
| Outpatient Mental or Nervous Disorder Treatment | 80% | 80% | 80% | 50% |
| Limitation | 80% for the first 5 visits, 60% for the next 10 visits (Maximum 15 visits per year) | | Unlimited | |
| Outpatient Radiology/Lab | 100% | 100% | 80% | 50% |
| Physicians Office Visits | 80% | 80% | 80% | 50% |
| Pregnancy | 100% | 100% | 80% | 50% |
| Prescription Drug Program* | | | | |
| Retail Generic | \$3 | \$3 | \$10 | Not Covered |
| Retail Brand | \$25 | \$25 | \$35 (Closed Formulary) | Not Covered |
| Mail | Same as Retail | Same as Retail | 2 x Retail | Not Covered |
| Day Supply | Up to 90 days | Up to 90 days | Up to 90 days | Not Covered |
| Radiation/Chemotherapy/Dialysis | 100% | 100% | 80% | 50% |
| Surgeon/Anesthesiologist | 100% | 100% | 80% | 50% |
| Therapy Benefits | 100% | 100% | 80% | 50% |

*Does not apply to deductible or out-of-pocket maximum

Funding Allocation Methods and Calculations

Under the City's current funding structure, retiree expenses are subsidized by the funding rate established for each active employee. The cost per active employee is total active costs plus retiree costs divided by the active count that is used for funding purposes.

Outlined below are three possible funding methods and the corresponding funding rate calculations.

1. Allocate the cost per active to all the active enrolled members in the Plan. The cost per active is the aggregate medical, dental and vision cost of actives plus retirees divided by the medical enrolled actives projected at 1,352.

**Costs per active per month
Based on Active Medical Enrolled of 1,352**

| | Current Plan Design | | | | With Plan Changes | |
|--------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2010/2011 | | 2011/2012 | | 2011/2012 | |
| | 10% margin | No margin | 10% margin | No margin | 10% margin | No margin |
| Medical | \$2,395.85 | \$2,194.43 | \$2,627.36 | \$2,406.33 | \$1,836.95 | \$1,687.79 |
| Dental | \$120.57 | \$110.56 | \$127.57 | \$116.95 | \$127.57 | \$116.95 |
| Vision | \$14.92 | \$13.77 | \$15.77 | \$14.54 | \$15.77 | \$14.54 |
| Total | \$2,531.34 | \$2,318.76 | \$2,770.69 | \$2,537.82 | \$1,980.29 | \$1,819.28 |
| Total Annual Cost | \$41,068,000 | \$37,620,000 | \$44,952,000 | \$41,174,000 | \$32,128,000 | \$29,516,000 |

2. Allocate the cost per participant over all budgeted participants. The cost per active is the aggregate medical, dental and vision cost of actives plus retirees divided by the filled active positions of 1,401.

**Costs per active per month - Current Plan Design
Based on Active Filled Positions of 1,401**

| | Current Plan Design | | | | With Plan Changes | |
|--------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2010/2011 | | 2011/2012 | | 2011/2012 | |
| | 10% margin | No margin | 10% margin | No margin | 10% margin | No margin |
| Medical | \$2,312.06 | \$2,117.68 | \$2,535.47 | \$2,322.17 | \$1,772.71 | \$1,628.76 |
| Dental | \$116.35 | \$106.70 | \$123.11 | \$112.86 | \$123.11 | \$112.86 |
| Vision | \$14.40 | \$13.29 | \$15.21 | \$14.03 | \$15.21 | \$14.03 |
| Total | \$2,442.81 | \$2,237.67 | \$2,673.79 | \$2,449.06 | \$1,911.03 | \$1,755.65 |
| Total Annual Cost | \$41,068,000 | \$37,620,000 | \$44,952,000 | \$41,174,000 | \$32,128,000 | \$29,516,000 |

Under funding option 1, the 2011-2012 funding rate with plan changes and 10% margin is 9.5% lower than the current rate of \$2,187. and under option 2 it is 12.6% lower than the current rate.

3. Calculate the aggregate cost to the plan as a percent of payroll and allocate this percent to each department's payroll.

Significant Differences from Prior Actuary's Report

The cost estimation for the retiree group and the tiered rate development is the most significant area of difference between Segal's estimates and those of the City's actuary. As mentioned previously, Segal has developed rates for each of the four retiree plan options offered through the City while the prior actuary has one retiree rate for the Modified plan and one for the Original plan.

A comparison of the retiree rates shown below shows Segal's estimate for the Modified Plan is 8% higher than the actuary's estimate, but the Original Plan is 35% lower.

| | 2010/2011 | |
|------------------|------------|---------------------|
| | 10% margin | City Actuary Report |
| Retiree Original | \$839.98 | \$1,302.42 |
| Retiree Modified | \$1,554.75 | \$1,439.92 |

Shown in the table below is the calculation of the cost per enrollee for medical, dental and vision, which is the aggregate plan cost divided by total enrolled participants. The comparable number from the actuarial report has been included for the 2010/2011 year. The City actuarial report estimates are slightly lower than the Segal projected costs without margin.

| | 2010/2011 | | | 2011/2012 | | |
|--------------|-------------------|-------------------|---------------------|-------------------|-------------------|---------------------|
| | 10% margin | No margin | City Actuary Report | 10% margin | No margin | City Actuary Report |
| Medical | \$1,385.45 | \$1,268.98 | \$1,261.81 | \$1,519.33 | \$1,391.51 | N/A |
| Dental | \$115.69 | \$106.09 | \$104.20 | \$122.41 | \$112.22 | N/A |
| Vision | \$14.35 | \$13.24 | \$13.79 | \$15.16 | \$13.98 | N/A |
| Total | \$1,515.49 | \$1,388.31 | \$1,379.80 | \$1,656.90 | \$1,517.71 | |

While the rates compare on an overall basis, the tiered active and retiree rates are significantly different between the two estimates due to the different methodology applied in developing the rates. The City's actuary combined the medical and prescription drug claims for the Original and Modified plan with no adjustments between actives, under age 65 retirees or over age 65 retirees claims experience. This method does not recognize any variation in lag between the medical and drug components or the differences in claims utilization patterns and Medicare coordination available to the retirees over age 65. This has resulted in active and retiree rate components being different between the two methods. The two tables below illustrate the active and retiree premium rates as developed by Segal and the City's actuary.

Active Monthly Premium Rates (Fiscal Year 2010/2011)

| | Medical | |
|-------------------------------------|------------|---------------------|
| | Segal | City Actuary Report |
| Employee only | \$659.81 | \$591.73 |
| Employee plus spouse | \$1,187.67 | \$1,065.12 |
| Employee plus child(ren) | \$1,187.67 | \$1,065.12 |
| Employee plus spouse and child(ren) | \$1,583.56 | \$1,420.16 |

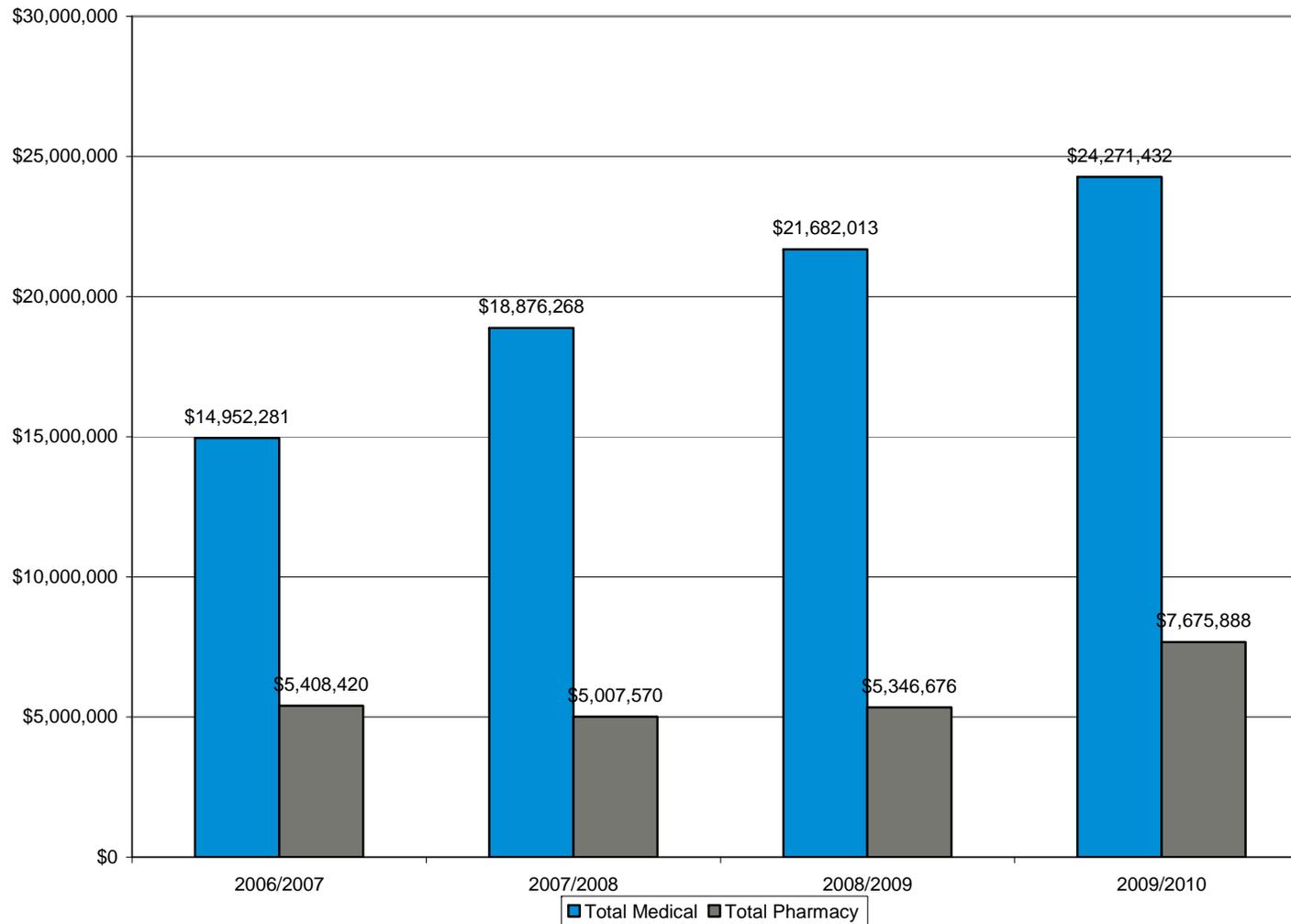
**Retiree Monthly Premium Rates (Fiscal Year 2010/2011)
Retiree Under 65 & Over 65**

| | Segal | | City Actuary Report | |
|-------------------------------------|------------|------------|---------------------|------------|
| | Original | Modified | Original | Modified |
| Employee only | \$621.04 | \$937.58 | \$1,067.26 | \$868.95 |
| Employee plus spouse | \$1,117.86 | \$1,687.65 | \$1,600.89 | \$1,564.11 |
| Employee plus child(ren) | \$1,117.86 | \$1,687.65 | \$1,600.89 | \$1,564.11 |
| Employee plus spouse and child(ren) | \$1,490.49 | \$2,250.21 | \$2,134.52 | \$2,085.49 |

Important Notes to this Report

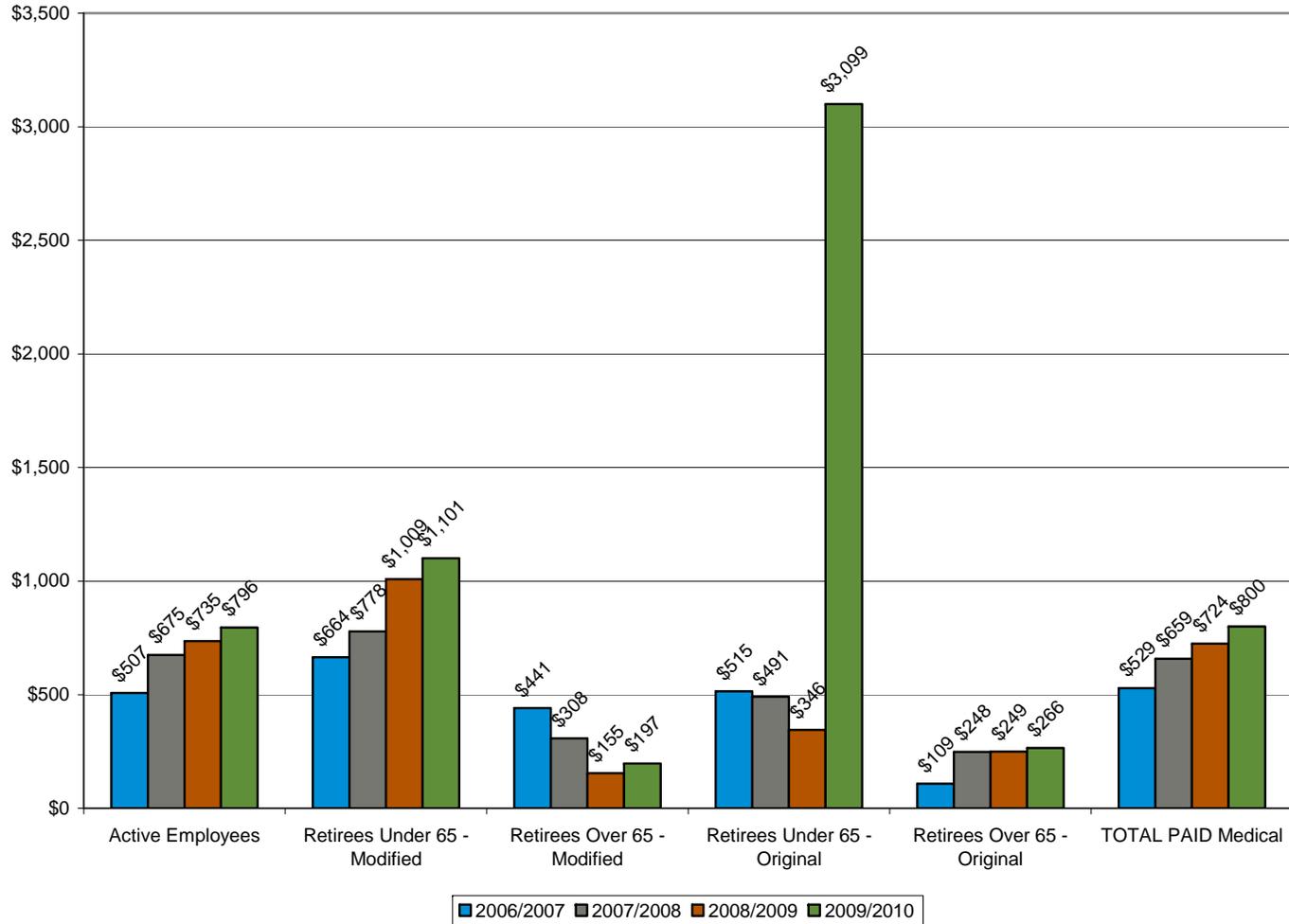
- The projections in this report are estimates of future costs and are based on information available to The Segal Company at the time the projections were made. The Segal Company has not audited the information provided. Projections are not a guarantee of future results. Actual experience may differ due to, but not limited to, such variables as changes in the regulatory environment, local market pressure, health trend rates and claims volatility. Nevertheless, we believe this projection serves a purpose for long-term planning and provides an indication of the general progression or regression of active expenses based on the factors currently affecting those expenses. The accuracy and reliability of health projections decrease as the projection period increases.
- Projection of retiree costs takes into account only the dollar value of providing benefits for current retirees during the period referred to in the projection. It does not reflect the present value of any future retiree benefits for active, disabled or terminated employees during a period other than that which is referred to in the projection, nor does it reflect any anticipated increase in the number of those eligible for retiree benefits, or any changes that may occur in the nature of benefits over time.

CITY OF STOCKTON - HISTORICAL EXPENDITURES



The total medical costs and prescription drug costs increased by 62% and 42% respectively from 2006/2007 to 2009/2010 while the enrollment only increased by 6%.

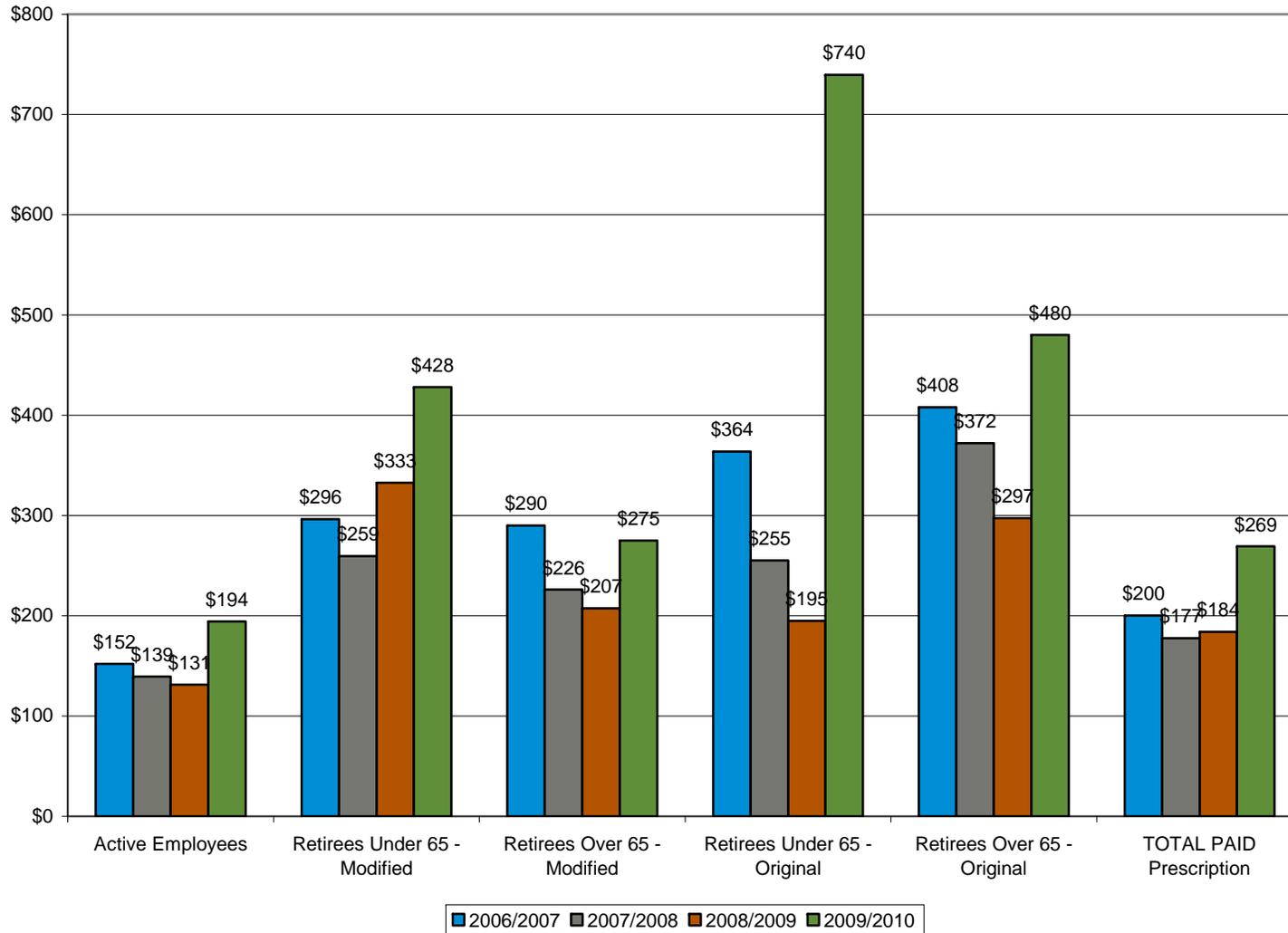
CITY OF STOCKTON - PER CAPITA MONTHLY MEDICAL COSTS



1. After a 25% increase in 2007/2008, the total overall per employee and per retiree per month (PEPM) medical costs increased steadily at 10% for the past two years.

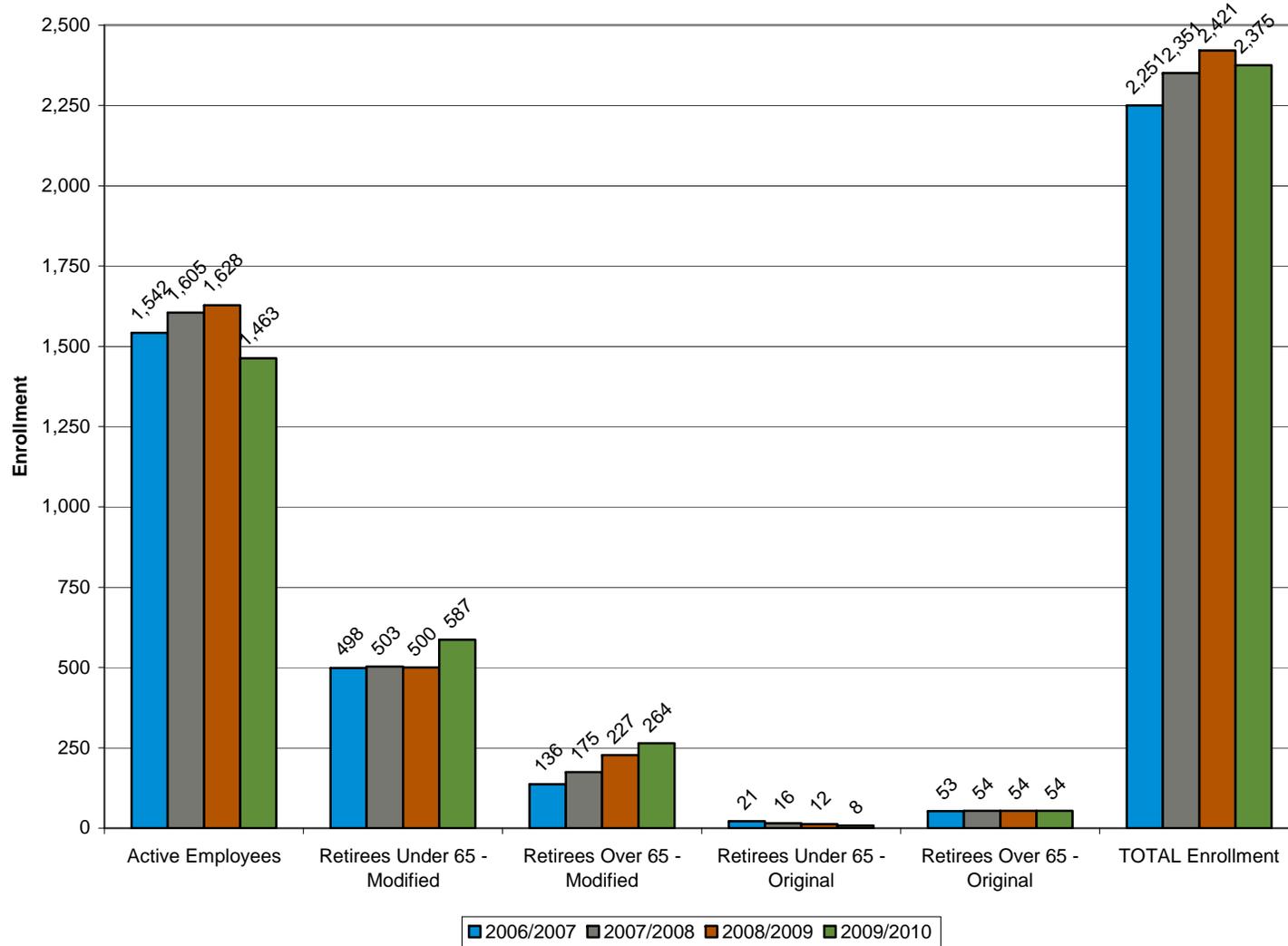
2. The significant increase from \$346 to \$3,099 PEPM in the retirees under 65 original plan in 2009/2010 was due to a few catastrophic claims paid in May 2010 which represent over 43% of total claims.

CITY OF STOCKTON - PER CAPITA MONTHLY PRESCRIPTION DRUG COSTS



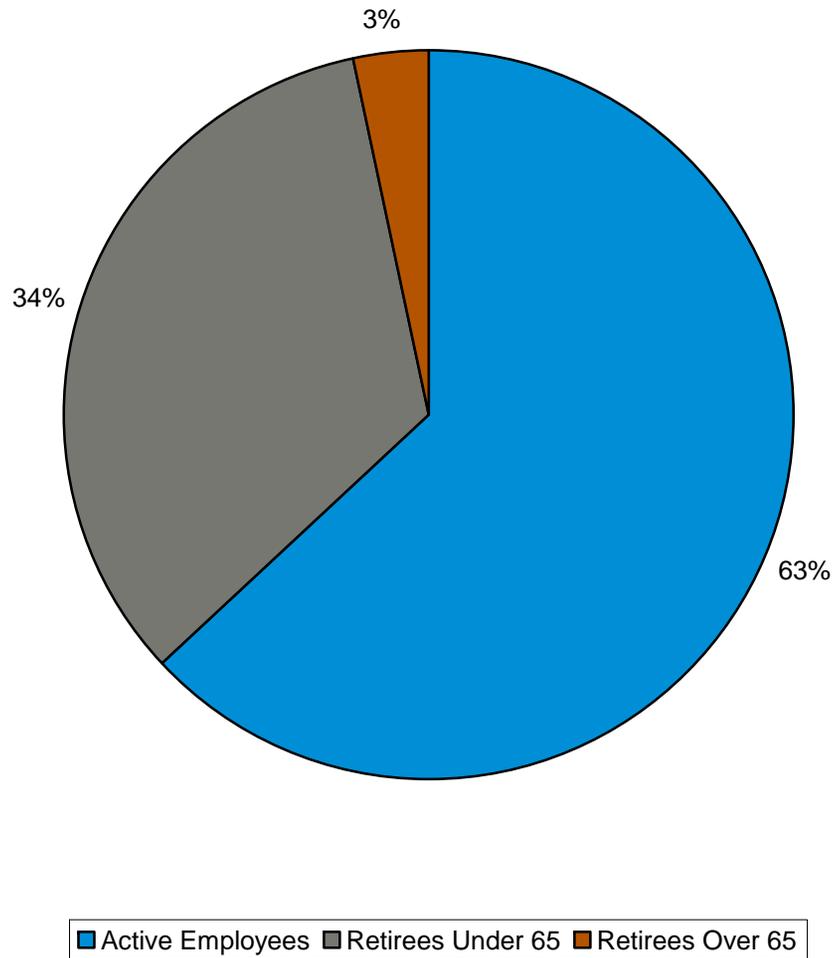
After an 11% decrease in 2007/2008, the total overall per employee and per retiree per month (PEPM) prescription drug costs increased slightly in 2008/2009 and had a significant increase of 46% in 2009/2010.

CITY OF STOCKTON - ENROLLMENT HISTORY

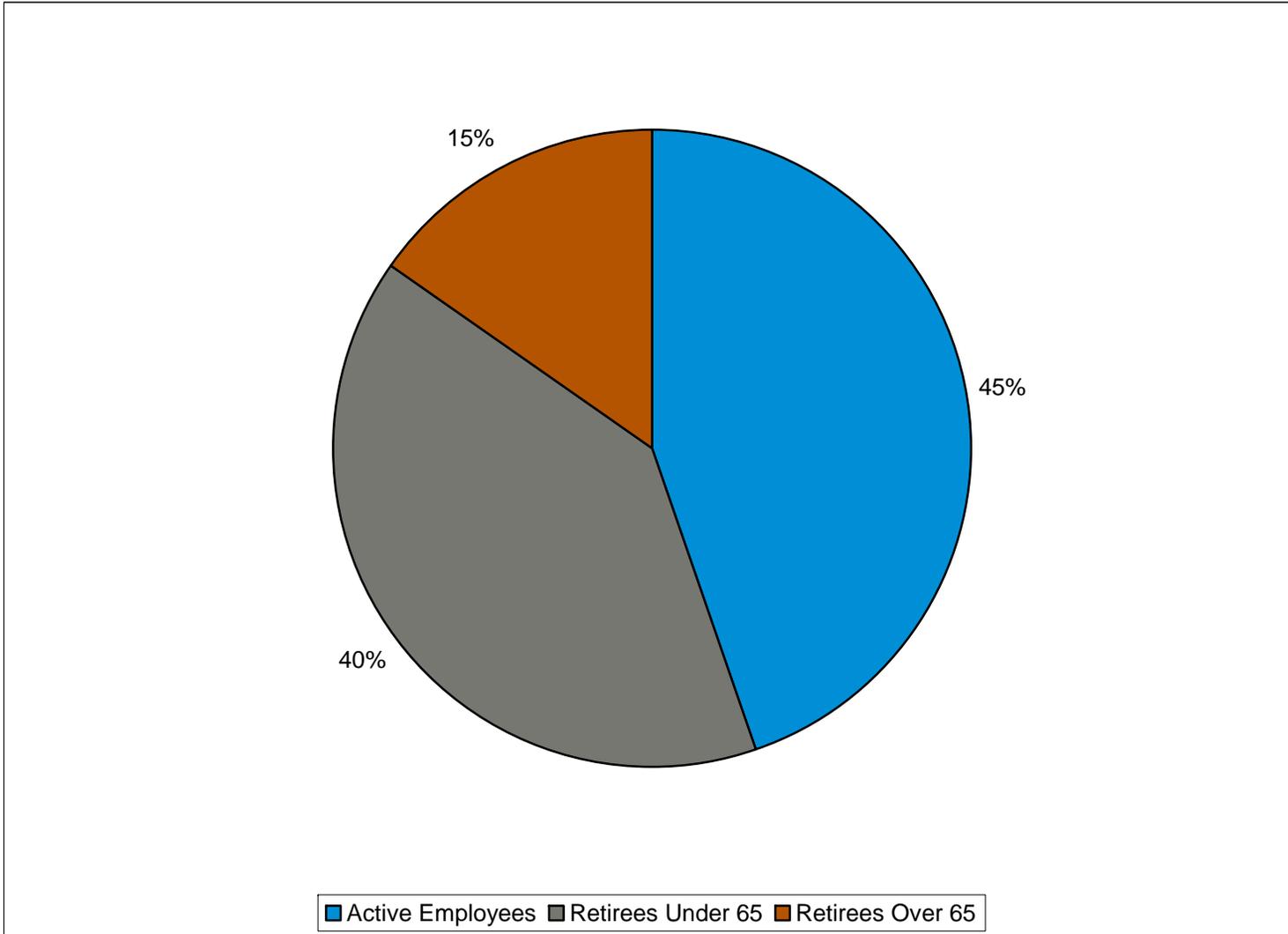


The total enrollment increased by 6% from 2006/2007 to 2009/2010.

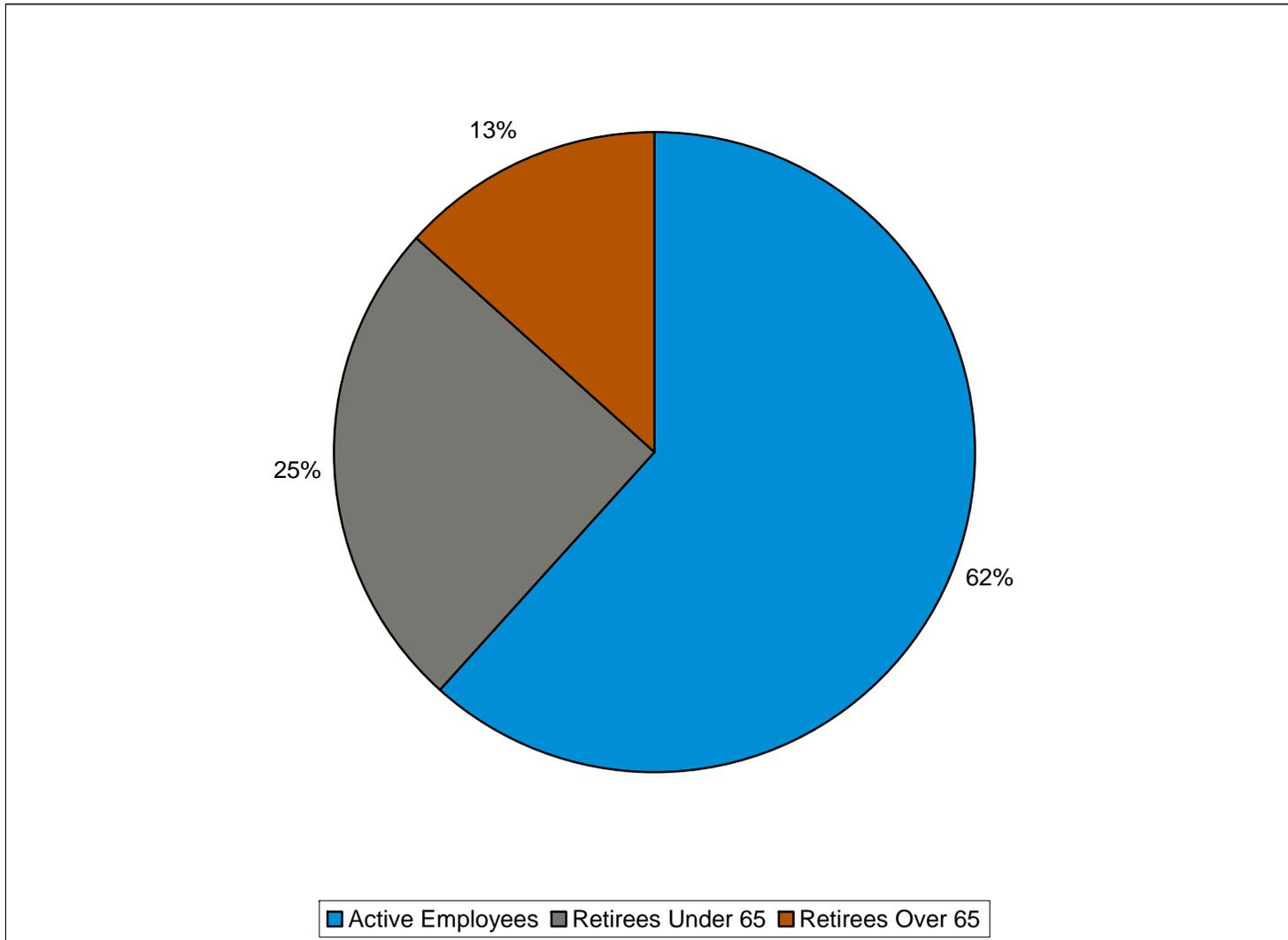
CITY OF STOCKTON - MEDICAL CLAIMS DISTRIBUTION AS OF JUNE 2010



CITY OF STOCKTON - PRESCRIPTION DRUG CLAIMS DISTRIBUTION AS OF JUNE 2010



CITY OF STOCKTON - ENROLLMENT DISTRIBUTION AS OF JUNE 2010



CITY OF STOCKTON - STOP-LOSS REIMBURSEMENT HISTORY

