SELF-FUNDED PPO HEALTH PLAN RATE REQUIREMENTS – ACTIVE EMPLOYEES & NON-MEDICARE RETIREES

JANUARY 1, 2027 – DECEMBER 31, 2027

COUNTY OF ORANGE

JULY 7, 2026

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Introduction

Effective January 1, 2024, the County restructured health plans to include both active County employees and non-Medicare retirees, with the requirement that retiree health plan insurance premiums for non-Medicare retirees exceed the active employee premium by 20%.

Based on the past twelve months of claims data for employees (and non-Medicare retirees), annual trends of 7.0% for medical and 12.0% for prescription drug (7.5% for medical and 12.0% for prescription drug for non-Medicare retirees), impact of restructured pools and the current fund balance, Mercer recommends current active rates for the Wellwise and Sharewell plans be increased by 11.2% for the plan year effective January 1, 2027.

Based on the blending of the pool and requirement to set non-Medicare retiree rates at 20% higher than active rates, Mercer recommends the current rate levels for the Wellwise non-Medicare Retiree and Sharewell non-Medicare Retiree plans be increased by 11.2% for the plan year effective January 1, 2027.

The above rate increases are based on the restructured blended pool. Employee contributions will continue to be set based only on the claims experience of active employees. Therefore, employee contributions will increase by 7% for Wellwise and 25% for Sharewell, based on the projection of active experience prior to blending. Sharewell is receiving a more significant increase due to its rolling-12 month loss ratio of 141% (compared to Wellwise's 97%). Note that Sharewell active rate is only applicable to the contributions for limited groups such as part-timers with dependents and employees on a leave of absence. Full time employees who enroll in Sharewell receive a payroll credit.

The current Fund Balance is expected to be below the target at the end of the current year, and the proposed renewal is projected to modestly raise the level to be closer to the target Fund Balance barring any significant adverse event impacting claims over the next 18 months. The Fund Balance is for both active and retiree PPO plans and is in place to cover all incurred but not reported claims (the IBNR should the County terminate the self-funded arrangement of these plans), the cost of administering these claims and unusually high-cost claims that may emerge.

The County has two self-funded plans: Wellwise Choice and Sharewell Choice. We recommend the County continue the self-funded arrangement of these plans for next year. The low administrative expense, cash flow available to the County, and flexibility of this funding arrangement make self-funding the most advantageous funding vehicle available for these plans. Given the continued emergence of very high-cost treatments, the County purchases stop loss insurance to hedge a portion of its self-funded liability.

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Rate Adjustment

The most recent twelve months of experience are totaled using paid claims of active employees & non-Medicare retirees from April 1, 2025 through March 31, 2026 as the beginning claims cost. These paid claims are adjusted for plan design and/or contract changes. Next, the paid claims are converted to incurred claims by lagging enrollment by two months for medical claims and zero months for pharmacy claims. This adjusts for the change in the incurred but not reported (IBNR) claim reserve liability from the beginning of the experience period to the end reflecting changes in paid claim patterns and enrollment. The result is an estimate of active employee & non-Medicare claims that were incurred from April 1, 2025 through March 31, 2026.

These incurred claims are then projected to 2027 using annual cost trend assumptions of 7.0% for medical and 12.5% for pharmacy (7.5% and 12.5% for non-Medicare retirees, respectively). These trend levels are based on a combination of historic County medical and prescription drug claim experience of the self-funded plans and general industry trend factors used by similar plan sponsors.

National health trends provided by the major insurance carriers for 2026 are at 6.75% - 11.25% for PPO medical plans and 9.75% - 15.25% for prescription drug programs. Self-funded employers similar to the County have generally been using trend factors in the range of 6% - 13% for projection purposes.

Pharmacy rebates expected in 2027 were applied proportionately to active employees and retirees based on claim utilization.

A 3.0% margin is included due to expected inflationary pressures on medical services and pricing pressures.

The projections include projected increase of stop loss coverage premiums, and 2027 stop loss renewal will be finalized later this year to provide risk protection for unusually large claims. The purchase of stop loss has benefitted the County as there was an extremely large claim in 2025 and the County received a $3.2M stop loss reimbursement for this claimant.

An administration adjustment was applied to the projected claims for claims administration; utilization review, case management, disease management, and PPO network access fees. Administration also reflects the claims administration fees associated with the pharmacy contract with OptumRx.

The recommended PPO renewal rate action of 11.2% for Wellwise Choice and Sharewell Choice is expected to cover projected claims and expenses and maintain the Fund Balance reasonably close to the target reserve.

The exhibits at the end of the report provide the details to the rate calculation and plan changes:

Exhibit I	Provides the details of the rate calculation
Exhibit II	Presents the enrollment, premium and paid claims by month

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Reserve Fund

The County maintains a surplus of revenue over expenses called the Fund Balance. Based on Mercer and County staff recommendations, and as determined by the Board of Supervisors, the Fund Balance:

1. Acts as a Premium Stabilization Reserve (PSR), to serve as a hedge against unfavorable claim fluctuations and to absorb unusually high individual claims that may emerge from time to time
2. Funds *Incurred But Not Reported* (IBNR) claim reserves, claims incurred prior to a potential termination of the plan or portion of the plan.

Mercer recommends the self-funded PPO reserve target be set to cover 100% of the IBNR reserve and an additional amount as a Premium Stabilization Reserve (PSR). The IBNR reserve is estimated to be 15% of the annual projected claims and the basis for the PSR component is 15% of projected annual claims. Therefore, Mercer continues to target reserve level of 30% of annual claims, with a margin of +/- 3% to accommodate fluctuations in experience consistent with the target policy established by the Board of Supervisors in 2011 for the Self-Funded PPO reserve. The target fund level for 2027 is about $24,000,000.

Effective January 1, 2024, stop loss insurance is included in the County's self-funded programs.

The current fund balance is approximately $16,000,000. While this is about $8,000,000 below the 2027 target fund level, the County is expecting to receive additional pharmacy rebate payments that will offset some of this difference once the prior plan year accounting is reconciled. The 2026 active rates were set to cover costs and maintain the fund balance level. The projected rates have been set to cover costs and maintain the balance between current and the target reserve level by the end of 2027. These are estimates based on the current benefit plans remaining in place and assume a continuation of current enrollment levels and emerging claims experience consistent with projections.

While the IBNR reserve covers the claims runout for claims incurred but not yet paid, the PSR is used to smooth out premium increases from year to year caused by unfavorable claims fluctuations. A reasonable PSR level for an ongoing self-funded program should represent about 15% of expected annual claim cost, which translates to approximately $15,000,000 for the County's programs (actives and retirees combined) as of December 31, 2027.

Any projection of the expected fund balance as of December 31, 2027 is subject to considerable fluctuation due to changing claim trends and utilization patterns as well as the timing of payments from the fund. In particular, the potential impact from adverse experience as the result of large claims as well as rising inflation increases the chance of unusual fluctuations in claim patterns.

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Exhibits

Exhibit I

County of Orange Most Recent 12 Months Experience
Experience Period: April 1, 2025 - March 31, 2026
Actives & Pre-65 *Projection period: January 1, 2027 - December 31, 2027*

	Actives	Pre-65s	Wellwise / Sharewell Active & Pre-65
Medical Paid Claims	$51,957,500	$8,730,700	$60,688,200
Pharmacy Paid Claims	$14,895,700	$2,655,400	$17,551,100
Less: Large Claims Credit	($5,310,800)	$0	($5,310,800)
Total Claims	$61,542,400	$11,386,100	$72,928,500
Adjusted Medical Paid Claims	$46,646,700	$8,730,700	$55,377,400
Adjusted Pharmacy Paid Claims	$14,895,700	$2,655,400	$17,551,100
Total Adjusted Claims	$61,542,400	$11,386,100	$72,928,500
Enrollment (Avg Setback Lives)	3,433	491	3,924
Claims Per Capita	$1,494	$1,934	$1,549
Current Enrollment	3,317	470	3,787
Claims Adjusted for Enrollment	$59,418,600	$10,928,100	$70,346,700
Combined Trend	1.158	1.165	1.159
Plan Design Adjustment	1.000	1.000	1.000
Margin	1.030	1.030	1.030
Adjusted Projected Incurred Claims	$70,877,400	$13,115,400	$83,992,800
Less: Rx Rebates	($5,444,600)	($962,400)	($6,407,000)
Stop Loss Premium	$718,200	$101,800	$820,000
Administration	$1,740,600	$250,500	$1,991,100
2027 Premium (Unblended)	$67,891,600	$12,505,300	$80,396,900
2026 Premium (Unblended)	$61,833,600	$10,489,200	$72,322,800
2027 Calculated Increase	9.8%	19.2%	11.2%
Before Blending Pool			
2027 Premium (Unblended)	**$68,009,100**	**$12,477,900**	**$80,487,000**
2026 Premium (Unblended)	**$61,833,600**	**$10,489,200**	**$72,322,800**
2027 Increase	**10.0%**	**19.0%**	**11.2%**
After Blending Pool			
2027 Premium (Blended)	**$72,424,600**	**$8,062,400**	**$80,487,000**
2027 Increase	**11.2%**	**11.2%**	**11.2%**

Wellwise Active/Pre-65 Retiree Blended Increase	**11.2%**
Sharewell Active/Pre-65 Retiree Blended Increase	**11.2%**

All estimates are based upon the information available at a point in time, and are subject to unforeseen and random events. Therefore, any projection must be interpreted as having a likely range of variability from the estimate. Any estimate or projection may not be used or relied upon by any other party or for any other purpose than for which it was issued by Mercer. Mercer is not responsible for the consequences of any unauthorized use.

Exhibit II

Active Wellwise

Budget Summary														
Period	Enrollment		Claims				Total			Loss Ratio		Plan Cost	
Month	EEs	Mbrs	Gross Paid Claims	Stop Loss Reimbrs	Rx Rebates	Adjusted Paid Claims	Fixed Costs	Gross Plan Cost	Gross Budget	Plan Cost / Budget	Cumulative	PEPM	PMPM
Current Period													
Apr 2025	2,514	4,378	$4,666,509	$0	($597,146)	$4,069,363	$125,818	$4,195,181	$4,010,003	104.6%	104.6%	$1,668.73	$958.24
May 2025	2,499	4,374	$4,339,687	$0	($597,146)	$3,742,541	$125,075	$3,867,617	$3,983,563	97.1%	100.9%	$1,547.67	$884.23
Jun 2025	2,495	4,379	$4,484,683	$0	($597,146)	$3,887,537	$124,879	$4,012,417	$3,979,809	100.8%	100.9%	$1,608.18	$916.29
Jul 2025	2,486	4,371	$4,205,868	$0	($295,562)	$3,910,306	$124,432	$4,034,738	$3,970,591	101.6%	101.0%	$1,622.98	$923.07
Aug 2025	2,492	4,346	$3,896,116	$0	($295,562)	$3,600,554	$124,719	$3,725,273	$3,968,880	93.9%	99.6%	$1,494.89	$857.17
Sep 2025	2,486	4,339	$4,902,220	$0	($295,562)	$4,606,658	$124,420	$4,731,078	$3,960,877	119.4%	102.9%	$1,903.09	$1,090.36
Oct 2025	2,491	4,344	$3,925,369	$0	($288,334)	$3,637,035	$124,669	$3,761,704	$3,965,900	94.9%	101.8%	$1,510.12	$865.95
Nov 2025	2,506	4,383	$3,748,800	$0	($288,334)	$3,460,466	$125,424	$3,585,890	$3,987,647	89.9%	100.3%	$1,430.92	$818.14
Dec 2025	2,514	4,379	$7,771,805	($3,110,483)	($288,334)	$4,372,988	$125,818	$4,498,806	$3,994,382	112.6%	101.6%	$1,789.50	$1,027.36
Jan 2026	2,401	4,223	$3,722,287	$0	($305,677)	$3,416,610	$127,504	$3,544,115	$4,300,360	82.4%	99.6%	$1,476.10	$839.24
Feb 2026	2,392	4,218	$3,772,410	$0	($305,677)	$3,466,733	$127,032	$3,593,765	$4,291,643	83.7%	98.1%	$1,502.41	$852.01
Mar 2026	2,396	4,227	$3,980,440	$0	($305,677)	$3,674,763	$127,245	$3,802,008	$4,297,640	88.5%	97.2%	$1,586.81	$899.46
Total Thru Mar	**29,672**	**51,961**	**$53,416,195**	**($3,110,483)**	**($4,460,157)**	**$45,845,555**	**$1,507,037**	**$47,352,591**	**$48,711,295**	**97.2%**	**97.2%**	**$1,595.87**	**$911.31**

Active Sharewell

Budget Summary														
Period	Enrollment		Claims				Total			Loss Ratio		Plan Cost	
Month	EEs	Mbrs	Gross Paid Claims	Stop Loss Reimbrs	Rx Rebates	Adjusted Paid Claims	Fixed Costs	Gross Plan Cost	Gross Budget	Plan Cost / Budget	Cumulative	PEPM	PMPM
Current Period													
Apr 2025	961	2,039	$759,199	$0	($102,899)	$656,300	$48,227	$704,527	$652,092	108.0%	108.0%	$733.12	$345.53
May 2025	952	2,044	$1,235,130	$0	($102,899)	$1,132,231	$47,784	$1,180,015	$647,367	182.3%	145.0%	$1,239.51	$577.31
Jun 2025	956	2,037	$1,001,420	$0	($102,899)	$898,522	$47,979	$946,501	$650,789	145.4%	145.2%	$990.06	$464.65
Jul 2025	953	2,036	$953,198	$0	($44,848)	$908,350	$47,830	$956,180	$648,891	147.4%	145.7%	$1,003.34	$469.64
Aug 2025	945	2,039	$985,749	$0	($44,848)	$940,902	$47,436	$988,338	$645,932	153.0%	147.2%	$1,045.86	$484.72
Sep 2025	944	2,022	$1,419,527	$0	($44,848)	$1,374,679	$47,380	$1,422,060	$646,550	219.9%	159.3%	$1,506.42	$703.29
Oct 2025	938	2,005	$1,094,673	$0	($49,016)	$1,045,657	$47,078	$1,092,735	$642,907	170.0%	160.8%	$1,164.96	$545.00
Nov 2025	939	2,018	$1,184,637	$0	($49,016)	$1,135,620	$47,132	$1,182,752	$641,472	184.4%	163.7%	$1,259.59	$586.10
Dec 2025	950	2,015	$863,325	$0	($49,016)	$814,309	$47,674	$861,983	$647,566	133.1%	160.3%	$907.35	$427.78
Jan 2026	928	2,050	$854,545	$0	($57,068)	$797,477	$49,498	$846,976	$860,792	98.4%	152.3%	$912.69	$413.16
Feb 2026	924	2,036	$604,944	$0	($57,068)	$547,876	$49,282	$597,159	$856,916	69.7%	142.9%	$646.28	$293.30
Mar 2026	921	2,037	$1,024,446	$0	($57,068)	$967,378	$49,126	$1,016,505	$855,154	118.9%	140.5%	$1,103.70	$499.02
Total Thru Mar	**11,311**	**24,378**	**$11,980,793**	**$0**	**($761,491)**	**$11,219,302**	**$576,427**	**$11,795,729**	**$8,396,429**	**140.5%**	**140.5%**	**$1,042.85**	**$483.87**

Pre-65 Wellwise

Budget Summary

Period	Enrollment		Claims				Total			Loss Ratio		Plan Cost	
Month	EEs	Mbrs	Gross Paid Claims	Stop Loss Reimbrs	Rx Rebates	Adjusted Paid Claims	Fixed Costs	Gross Plan Cost	Gross Budget	Plan Cost / Budget	Cumulative	PEPM	PMPM
Current Period													
Apr 2025	78	103	$200,472	$0	($28,181)	$172,292	$3,892	$176,183	$179,982	97.9%	97.9%	$2,258.76	$1,710.52
May 2025	88	103	$194,793	$0	($28,181)	$166,612	$4,386	$170,998	$204,298	83.7%	90.3%	$1,943.16	$1,660.18
Jun 2025	87	105	$317,571	$0	($28,181)	$289,390	$4,337	$293,727	$202,220	145.3%	109.3%	$3,376.17	$2,797.40
Jul 2025	91	112	$231,218	$0	($26,043)	$205,175	$4,538	$209,712	$210,533	99.6%	106.7%	$2,304.53	$1,872.43
Aug 2025	88	115	$207,077	$0	($26,043)	$181,034	$4,390	$185,425	$204,298	90.8%	103.5%	$2,107.10	$1,612.39
Sep 2025	89	113	$287,891	$0	($26,043)	$261,848	$4,439	$266,287	$209,078	127.4%	107.6%	$2,991.99	$2,356.52
Oct 2025	90	119	$245,444	$0	($21,570)	$223,873	$4,491	$228,364	$209,390	109.1%	107.8%	$2,537.38	$1,919.03
Nov 2025	92	119	$167,727	$0	($21,570)	$146,157	$4,589	$150,746	$218,015	69.1%	102.7%	$1,638.55	$1,266.78
Dec 2025	92	112	$206,139	$0	($21,570)	$184,568	$4,587	$189,155	$218,950	86.4%	100.7%	$2,056.03	$1,688.88
Jan 2026	85	104	$361,596	$0	($14,868)	$346,729	$4,490	$351,219	$205,986	170.5%	107.7%	$4,131.99	$3,377.10
Feb 2026	87	107	$186,430	$0	($14,868)	$171,563	$4,596	$176,159	$212,146	83.0%	105.4%	$2,024.81	$1,646.34
Mar 2026	85	104	$169,681	$0	($14,868)	$154,814	$4,490	$159,304	$209,660	76.0%	102.9%	$1,874.16	$1,531.77
Total Thru Mar	**1,052**	**1,316**	**$2,776,039**	**$0**	**($271,986)**	**$2,504,054**	**$53,226**	**$2,557,280**	**$2,484,558**	**102.9%**	**102.9%**	**$2,430.87**	**$1,943.22**

Pre-65 Sharewell

Budget Summary

Period	Enrollment		Claims				Total			Loss Ratio		Plan Cost	
Month	EEs	Mbrs	Gross Paid Claims	Stop Loss Reimbrs	Rx Rebates	Adjusted Paid Claims	Fixed Costs	Gross Plan Cost	Gross Budget	Plan Cost / Budget	Cumulative	PEPM	PMPM
Current Period													
Apr 2025	412	499	$758,058	$0	($94,454)	$663,603	$20,541	$684,144	$674,537	101.4%	101.4%	$1,660.54	$1,371.03
May 2025	425	486	$800,352	$0	($94,454)	$705,898	$21,178	$727,076	$697,453	104.2%	102.9%	$1,710.77	$1,496.04
Jun 2025	420	487	$788,330	$0	($94,454)	$693,876	$20,932	$714,807	$685,995	104.2%	103.3%	$1,701.92	$1,467.78
Jul 2025	413	481	$961,297	$0	($43,053)	$918,244	$20,584	$938,828	$676,882	138.7%	112.1%	$2,273.19	$1,951.82
Aug 2025	402	479	$634,343	$0	($43,053)	$591,290	$20,039	$611,329	$659,394	92.7%	108.3%	$1,520.72	$1,276.26
Sep 2025	403	477	$669,039	$0	($43,053)	$625,986	$20,088	$646,074	$661,739	97.6%	106.6%	$1,603.16	$1,354.45
Oct 2025	401	472	$1,071,615	$0	($53,953)	$1,017,661	$19,987	$1,037,649	$656,312	158.1%	113.7%	$2,587.65	$2,198.41
Nov 2025	397	461	$646,443	$0	($53,953)	$592,490	$19,786	$612,275	$647,467	94.6%	111.4%	$1,542.26	$1,328.15
Dec 2025	385	454	$557,428	$0	($53,953)	$503,475	$19,190	$522,665	$628,907	83.1%	108.5%	$1,357.57	$1,151.24
Jan 2026	379	569	$501,338	$0	($55,260)	$446,078	$20,076	$466,153	$652,181	71.5%	104.8%	$1,229.96	$819.25
Feb 2026	386	568	$555,192	$0	($55,260)	$499,932	$20,441	$520,373	$665,073	78.2%	102.4%	$1,348.12	$916.15
Mar 2026	385	563	$453,210	$0	($55,260)	$397,950	$20,386	$418,336	$664,446	63.0%	99.1%	$1,086.59	$743.05
Total Thru Mar	**4,808**	**5,996**	**$8,396,645**	**$0**	**($740,162)**	**$7,656,482**	**$243,227**	**$7,899,710**	**$7,970,384**	**99.1%**	**99.1%**	**$1,643.03**	**$1,317.50**

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