SELF-FUNDED PPO HEALTH PLAN RATE REQUIREMENTS – MEDICARE RETIREES

JANUARY 1, 2027 – DECEMBER 31, 2027

COUNTY OF ORANGE

JULY 14, 2026

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Introduction

Based on the past twelve months of claims data for Medicare retirees and annual trends of 7.5% for medical and 12.0% for prescription drug, Mercer recommends the current 2026 total budget for the Medicare health plans increase by 32% overall, with the Sharewell Medicare Retiree plan consolidating into the Wellwise Medicare Retiree plan effective January 1, 2027.

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 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.

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 makes 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 retired employees 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 2 months for medical claims and 0 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 Medicare retiree claims that were incurred from April 1, 2025 through March 31, 2026.

These incurred claims are then projected to 2027 levels using annual cost trend assumptions of 7.5% for medical and 12.0% for pharmacy. 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 range from 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.

Effective January 1, 2023, the County transitioned from a Medicare Retiree Drug subsidy approach to take advantage of increased credits available under an Employer Group Waiver Plan (EGWP). A claim credit was applied in the amount of $5,203,000 for the estimated EGWP credit (including quarterly gap payment) for 2027. Additionally, the 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.

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 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 overall 2027 calculated Wellwise Medicare premium is compared to the 2026 premium to determine the recommended rate increase of 25.5%, with rate adjustments varying by enrollment tier and plan. The recommended renewal increase assumes no impact to the fund balance.

If the Sharewell Medicare Retiree PPO health plan was to be continued in 2027, the estimated premium increase was 41%. The Sharewell Medicare plan was originally designed as a high-deductible, lower-premium option for retirees. However, higher claims experience and utilization have narrowed the projected cost advantage to the point that the plan no longer provides a meaningful financial benefit to retirees as the monthly premium rates are close to Wellwise. Therefore, Mercer recommends sunsetting the plan and consolidating it into Wellwise Medicare health plan rates.

With Sharewell Medicare Retiree PPO health plan sunsetting and those retirees migrating into the Wellwise Medicare Retiree PPO health plan, the 2026 Sharewell premium rates will increase by 47.7% to match the 2027 Wellwise Medicare Retiree PPO health plan premium rates. In exchange for a slightly higher premium rate increase, Medicare retirees will see a significant increase in benefit coverage as the deductibles and out-of-pocket maximums are lower on Wellwise compared to Sharewell.

	2027 Renewal Adjustments*
	Post-65
Wellwise	25.5%
Sharewell (Migrating into Wellwise Post-65)	47.7%
Overall	**32.0%**

*Actual change may vary based on number of dependents and their Medicare status

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

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 rates were set to cover costs and maintain the fund balance level. The projected rates have been set to cover the projected costs of the retiree program though retiree claims experience has fluctuated from year to year. 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.

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.

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Exhibits

Exhibit I

County of Orange — Most Recent 12 Months Experience

Experience Period: April 1, 2025 - March 31, 2026

Medicare Retirees — *Projection period: January 1, 2027 - December 31, 2027*

	Wellwise Post-65 Experience	Sharewell Post-65 Experience (Migrating into Wellwise Post-65)	Wellwise Post-65 with Sharewell Post-65 Migration
Medical Paid Claims	$5,967,800	$3,631,900	$9,599,700
Pharmacy Paid Claims	$10,418,500	$1,916,400	$12,334,900
Less: Large Claims Credit	$0	$0	$0
Total Claims	$16,386,300	$5,548,300	$21,934,600
Adjusted Medical Paid Claims	$5,967,800	$3,631,900	$9,599,700
Adjusted Pharmacy Paid Claims	$10,418,500	$1,916,400	$12,334,900
Total Adjusted Claims	$16,386,300	$5,548,300	$21,934,600
Enrollment (Avg Setback Lives)	1,043	447	1,490
Claims Per Capita	$1,309	$1,034	$1,227
Current Enrollment	1,047	415	1,462
Claims Adjusted for Enrollment	$16,443,500	$5,151,700	$21,595,200
Combined Trend	1.194	1.173	
Plan Design Adjustment	1.000	1.096	
Margin	1.030	1.030	
Adjusted Projected Incurred Claims	$20,216,300	$6,821,800	$27,038,100
Stop Loss Premium	$226,700	$89,900	$316,600
Less: Rx Rebates	($3,940,500)	($713,700)	($4,654,200)
Less: EGWP	($4,378,200)	($825,300)	($5,203,500)
Administration	$718,200	$268,700	$986,900
2027 Premium	$12,842,500	$5,641,400	$18,483,900
2026 Premium	$10,017,300	$3,981,300	$13,998,600
2027 Calculated Increase	28%	42%	32.0%
Recommended Increase			
2027 Premium	**$12,571,700**	**$5,881,700**	**$18,453,400**
2027 Increase	**25.5%**	**47.7%**	**32.0%**

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

Wellwise Retiree

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	1,057	1,243	$1,177,740	$0	($372,109)	$805,631	$63,250	$868,881	$778,130	111.7%	111.7%	$822.03	$699.02
May 2025	1,047	1,238	$1,388,867	$0	($372,109)	$1,016,759	$62,711	$1,079,470	$769,787	140.2%	125.9%	$1,031.01	$871.95
Jun 2025	1,047	1,237	$1,195,287	$0	($372,109)	$823,178	$62,703	$885,881	$769,787	115.1%	122.3%	$846.11	$716.15
Jul 2025	1,043	1,224	$1,163,985	$0	($133,421)	$1,030,564	$62,390	$1,092,954	$765,552	142.8%	127.4%	$1,047.89	$892.94
Aug 2025	1,034	1,221	$1,140,464	$0	($133,421)	$1,007,044	$61,918	$1,068,962	$759,502	140.7%	130.0%	$1,033.81	$875.48
Sep 2025	1,035	1,220	$1,171,528	$0	($133,421)	$1,038,107	$61,959	$1,100,066	$760,107	144.7%	132.4%	$1,062.87	$901.69
Oct 2025	1,033	1,218	$1,140,384	$0	($150,950)	$989,433	$61,842	$1,051,276	$758,053	138.7%	133.3%	$1,017.69	$863.12
Nov 2025	1,033	1,215	$1,234,250	$0	($150,950)	$1,083,300	$61,816	$1,145,116	$757,687	151.1%	135.5%	$1,108.53	$942.48
Dec 2025	1,036	1,207	$1,226,434	$0	($150,950)	$1,075,483	$61,893	$1,137,377	$760,712	149.5%	137.1%	$1,097.85	$942.32
Jan 2026	1,051	1,250	$875,465	$0	($149,131)	$726,334	$65,502	$791,836	$837,903	94.5%	132.5%	$753.41	$633.47
Feb 2026	1,050	1,245	$761,632	$0	($149,131)	$612,501	$65,407	$677,908	$836,080	81.1%	127.4%	$645.63	$544.50
Mar 2026	1,047	1,249	$1,192,846	$0	($149,131)	$1,043,715	$65,284	$1,109,000	$834,773	132.9%	127.9%	$1,059.22	$887.91
Total Thru Mar	**12,513**	**14,767**	**$13,668,881**	**$0**	**($2,416,832)**	**$11,252,050**	**$756,675**	**$12,008,725**	**$9,388,074**	**127.9%**	**127.9%**	**$959.70**	**$813.21**

Sharewell Retiree

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	434	727	$297,748	$0	($35,633)	$262,115	$21,710	$283,825	$268,385	105.8%	105.8%	$653.97	$390.41
May 2025	441	723	$324,637	$0	($35,633)	$289,004	$22,055	$311,059	$271,244	114.7%	110.2%	$705.35	$430.23
Jun 2025	444	730	$290,153	$0	($35,633)	$254,520	$22,205	$276,725	$272,877	101.4%	107.3%	$623.25	$379.08
Jul 2025	450	730	$832,588	$0	($40,790)	$791,798	$22,502	$814,300	$275,328	295.8%	155.0%	$1,809.56	$1,115.48
Aug 2025	459	735	$904,018	$0	($40,790)	$863,228	$22,948	$886,176	$278,471	318.2%	188.3%	$1,930.67	$1,205.68
Sep 2025	462	738	$618,553	$0	($40,790)	$577,763	$23,098	$600,861	$282,110	213.0%	192.5%	$1,300.56	$814.17
Oct 2025	462	743	$598,398	$0	($47,824)	$550,574	$23,100	$573,674	$281,436	203.8%	194.1%	$1,241.72	$772.10
Nov 2025	464	741	$465,857	$0	($47,824)	$418,034	$23,198	$441,232	$281,844	156.6%	189.4%	$950.93	$595.45
Dec 2025	469	735	$504,745	$0	($47,824)	$456,922	$23,443	$480,364	$282,945	169.8%	187.1%	$1,024.23	$653.56
Jan 2026	418	554	$206,471	$0	($62,418)	$144,054	$22,104	$166,157	$334,533	49.7%	170.9%	$397.50	$299.92
Feb 2026	416	555	$202,797	$0	($62,418)	$140,380	$22,000	$162,379	$332,328	48.9%	158.0%	$390.33	$292.58
Mar 2026	415	562	$237,950	$0	($62,418)	$175,533	$21,951	$197,484	$331,776	59.5%	148.7%	$475.87	$351.40
Total Thru Mar	**5,334**	**8,273**	**$5,483,916**	**$0**	**($559,992)**	**$4,923,924**	**$270,312**	**$5,194,236**	**$3,493,278**	**148.7%**	**148.7%**	**$973.80**	**$627.85**

Wellwise & Sharewell Retiree

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	1,491	1,970	$1,475,488	$0	($407,742)	$1,067,746	$84,960	$1,152,706	$1,046,515	110.1%	110.1%	$773.11	$585.13
May 2025	1,488	1,961	$1,713,505	$0	($407,742)	$1,305,763	$84,766	$1,390,529	$1,041,031	133.6%	121.8%	$934.50	$709.09
Jun 2025	1,491	1,967	$1,485,440	$0	($407,742)	$1,077,698	$84,908	$1,162,606	$1,042,664	111.5%	118.4%	$779.75	$591.06
Jul 2025	1,493	1,954	$1,996,573	$0	($174,211)	$1,822,362	$84,892	$1,907,254	$1,040,880	183.2%	134.6%	$1,277.46	$976.08
Aug 2025	1,493	1,956	$2,044,482	$0	($174,211)	$1,870,271	$84,867	$1,955,138	$1,037,973	188.4%	145.3%	$1,309.54	$999.56
Sep 2025	1,497	1,958	$1,790,081	$0	($174,211)	$1,615,870	$85,057	$1,700,927	$1,042,217	163.2%	148.3%	$1,136.22	$868.71
Oct 2025	1,495	1,961	$1,738,782	$0	($198,774)	$1,540,008	$84,942	$1,624,950	$1,039,489	156.3%	149.4%	$1,086.92	$828.63
Nov 2025	1,497	1,956	$1,700,108	$0	($198,774)	$1,501,334	$85,013	$1,586,347	$1,039,531	152.6%	149.8%	$1,059.68	$811.02
Dec 2025	1,505	1,942	$1,731,179	$0	($198,774)	$1,532,405	$85,336	$1,617,741	$1,043,658	155.0%	150.4%	$1,074.91	$833.03
Jan 2026	1,469	1,804	$1,081,936	$0	($211,548)	$870,388	$87,605	$957,993	$1,172,437	81.7%	142.8%	$652.14	$531.04
Feb 2026	1,466	1,800	$964,429	$0	($211,548)	$752,880	$87,407	$840,287	$1,168,408	71.9%	135.7%	$573.18	$466.83
Mar 2026	1,462	1,811	$1,430,797	$0	($211,548)	$1,219,248	$87,236	$1,306,484	$1,166,550	112.0%	133.5%	$893.63	$721.42
Total Thru Mar	**17,847**	**23,040**	**$19,152,798**	**$0**	**($2,976,824)**	**$16,175,974**	**$1,026,987**	**$17,202,961**	**$12,881,351**	**133.5%**	**133.5%**	**$963.91**	**$746.66**

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