County of Los Angeles
**CHIEF ADMINISTRATIVE OFFICE**
713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
http://cao.co.la.ca.us

DAVID E. JANSSEN
Chief Administrative Officer

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MICHAEL D. ANTONOVICH
Fifth District

September 6, 2005

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**MEDICAL, DENTAL, LIFE INSURANCE AND DISABILITY PLANS FOR 2006 (3 VOTES)**

**JOINT RECOMMENDATION WITH DIRECTOR OF PERSONNEL THAT YOUR BOARD:**

1. Approve proposed premium rates for County sponsored plans as follows: (a) medical and dental rates for represented employees for the period January 1, 2006 through December 31, 2006, as shown in Exhibit I, (b) medical and dental rates for non-represented employees for the period January 1, 2006 through December 31, 2006, as shown in Exhibit II, and (c) continue existing premium rates for the Long-Term Disability (LTD), and LTD Health Insurance plan, as shown in Exhibit III.

2. Instruct County Counsel to review and approve as to form the appropriate contracts with Blue Cross of California and Blue Cross Life and Health Insurance Company (Blue Cross), Connecticut General Life Insurance Company and CIGNA Healthcare of California, Inc. (CIGNA), Kaiser Foundation Health Plan, Inc. (Kaiser), PacifiCare of California and PacifiCare Life & Health (PacifiCare), Delta Dental Plan (Delta Dental), SafeGuard Health Plans, Inc. (SafeGuard) and their successors or affiliates, as necessary, for the period from January 1, 2006 through December 31, 2006, and instruct the Chair to sign such contracts.

3. Approve proposed premium rates and benefit coverage changes for the following union sponsored plans, as shown in Exhibit IV, for the period from January 1, 2006 through December 31, 2006: the Association for Los Angeles Deputy Sheriffs, Inc. (ALADS) plans, the California Association of Professional

Employees (CAPE) plans and the Los Angeles County Fire Fighters Local 1014 Health and Welfare Plan.

4. Approve modification of the benefit and rate structure for the MegaFlex STD program as shown in Exhibit III.

5. Approve an adjustment in the minimum County contribution under the MegaFlex and Flexible Benefit Plans from $810 per month and $591 per month, respectively, to $852 per month and $626 per month, respectively, to be initially reflected on the January 13, 2006 pay warrants.

6. Instruct the Auditor-Controller to make all payroll system changes necessary to implement the changes recommended herein to ensure that all changes in premium rates are first reflected on pay warrants issued on January 13, 2006.

7. Adopt the accompanying ordinance amending Title 5 of the Los Angeles County Code to implement the changes recommended herein.

## PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

***Purpose:*** The current rate contracts for all County and union sponsored medical and dental insurance plans end on December 31, 2005. The purpose of these recommendations is to secure authorization of benefit and premium changes for the 2006 calendar year.

The County maintains employee health, dental and other group insurance programs to promote the effectiveness, health and welfare of its workforce. These insurance programs are based on long term relationships with insurance carriers and many of these relationships and specified benefits are required by the Fringe Benefit Memoranda of Understanding (MOUs) with SEIU Local 660 and the Coalition of County Unions. Accordingly, 2006 recommendations for represented employees focus exclusively on premium adjustments requested by the carriers. Some benefit changes are recommended for health plans for non-represented employees.

***Justification:*** During your Board's deliberations concerning 2005 health and dental plan premium rates, your Board instructed the Chief Administrative Officer and the Director of Personnel to "request detailed information for all County sponsored plans, on the need for future rate increases, a justification of those rates, and a review of associated costs incurred by Los Angeles County." To implement this order, we asked the County's group insurance consultant, Mercer Human Resource Consulting (Mercer), to make improvements to the rate renewal process for 2006, including full involvement and transparency among all County, union and carrier stakeholders, in depth

investigation and resolution of all material underwriting issues identified in carrier proposals, documentation of due diligence, an opinion on justification of proposed carrier rates, and documentation of financial results.

Mercer's opinion is that each County sponsored plan carrier's final negotiated rates are justified. Attachment A compares the estimated actual total premiums from initial carrier premium quotes for 2006 with the final result after performance guarantee review, challenges to carrier underwriting, benefit changes, and negotiation. The percentage increase for each carrier is also shown as well as the total increase for County sponsored health and dental plans. The rate negotiation process produced significant savings for 2006 estimated to total $10.7 million. Health premiums estimated to be paid to health carriers during 2006 will increase by 7.9% compared to an expected increase of 10% based on national trend. Attachment B documents the due diligence process for negotiating 2006 rates and gives Mercer's opinion for health and dental plans.

***2006 Premium Rates Recommended for Adoption:*** County or union sponsored health, dental and other insurance rates recommended for adoption are shown in Exhibits I through IV. The rates shown in these Exhibits are the monthly prices that employees will pay from County cafeteria plan contributions or their own resources after County subsidies are subtracted from negotiated premiums paid to carriers. For this reason, percentage increases in premium rates to be charged to employees as shown in the Exhibits in many cases will differ from the negotiated increases in premium to be paid to carriers as reported in the body of this letter and in Attachment A.

***Union Concurrence:*** The negotiated premium rates are concurred with by the Director of Personnel, the Chief Administrative Officer and Mercer. SEIU Local 660 and management representatives have voted in the Labor-Management Benefit Administration Committee (BAC) to recommend premium rates, as shown herein, for employees represented by Local 660. The Coalition of County Unions (CCU) and management representatives have also voted in the joint Labor-Management Employee Benefit Administration Committee (EBAC) to recommend the proposed premium rates, as shown herein.

Premium and benefit changes requested by unions which sponsor their own group insurance plans were reviewed by DHR and the CAO. DHR and the CAO jointly recommend changes requested by ALADS, CAPE and Local 1014, as shown in Exhibit IV.

## Implementation of Strategic Plan Goals

The recommended actions are consistent with the principles of the Countywide Strategic Plan by promoting the well being of County employees and their families by offering comprehensive employee benefits.

## FISCAL IMPACT/FINANCING

Each cafeteria benefit plan, including represented employee plans provided by MOUs with County unions, provides for a County contribution and in most cases an additional subsidy to help pay the cost of insurance benefits. The County contributions and applicable subsidies for employee benefits mentioned or recommended herein are included in the 2005-2006 budget. Employees pay for additional costs above and beyond the County contributions and subsidies through payroll deduction. During 2006, at least one health plan option that is fully covered by County contributions and subsidies will be available to every eligible County employee.

## FACTS AND PROVISIONS/LEGAL REQUIREMENTS

In general, County health plans are rated by carriers based on the health risk of, and utilization of health care by, County employees and their covered dependents. In 2005, an ongoing pattern of increases in hospital, medical provider and pharmaceutical costs again drove health insurance costs upward. Nationally, health plan increases are expected to be 10%. Negotiated County sponsored health plan premium increases for 2006 range from 4.4% to 13%, with the average increase being 7.9%, as shown in Attachment A. 2006 premiums to be paid to carriers for health and dental plans are estimated to cost $556.7 million for County sponsored plans and $95.2 million for union sponsored plans, a total of $651.9 million for all plans.

### Medical Plan Changes Affecting Represented Employees

The current fringe benefit agreements with the Coalition of County Unions and SEIU Local 660 provide, among other things, for the current level of County contributions to the Choices and Options cafeteria plans. These contributions fund part or all of the various benefits employees purchase under the Choices and Options plans, including health, dental, and other group insurance. The fringe benefit agreements also provide for the payment of certain County subsidies toward the cost of group health insurance. As previously negotiated with employee representatives and approved by your Board, the existing County contributions affecting Coalition and Local 660 represented employees will be adjusted in 2006, and the County subsidies will continue. As a reminder, because subsidies can affect year-to-year differences, in many instances percentage rate differences shown in Exhibit I differ from those described below.

***Kaiser rates for 2006:*** The 2006 rates negotiated with Kaiser will increase by 8.2% for the Local 660 plan, and 8.9% for the Coalition plan. The difference in year-to-year plan increases and lower total carrier rates favoring Local 660 in 2006 are attributable in large part to plan design differences. The Local 660 plan charges pharmacy copays of $5 for generic drugs and $10 for brand name drugs, charges a $50 copay for emergency room visits, and covers durable medical equipment. By comparison, the Coalition plan charges a $5 copay for all drugs, a $5 emergency room copay and does not provide durable medical equipment coverage.

Based on its in-depth review of the underlying data supporting 2006 rate development and Kaiser's unique proprietary rating methodology, Mercer believes that the proposed 2006 Kaiser rates for County sponsored plans are justified. Kaiser provided a $3,000,000 marketing credit to the Local 660 plan and small performance guarantee credits and technical adjustments to all plans. Moreover, progress has been made in a series of labor-management meetings with Kaiser to identify and resolve underlying cost, health care access and communication issues. These meetings, which will extend into next year, may lead to long term mitigation of costs.

Nevertheless, negotiation of the 2006 Kaiser rates left some issues unresolved, including: (1) continuation as the highest priced County sponsored HMO for represented employees with large gaps over other County sponsored HMOs (17% over PacifiCare and 8% over CIGNA), (2) continued unwillingness to provide Mercer the information, on a confidential basis, needed to fully reconcile development of the pharmacy component of Kaiser's rates, and (3) unwillingness to provide the level of credit to the Local 660 plan thought warranted by the County and Local 660 consultants for pharmacy and emergency copay concessions made by Local 660 in 2005.

Kaiser's noncompetitive rates will inevitably lead to membership decline. Kaiser assumes that high utilization by County employees is caused in large part by a higher proportion of health risks in its plans than in other County plans. Mercer is currently conducting a risk assessment, at our request, to determine if adverse selection or other factors are causing concentration of health risks in some plans. We will make appropriate recommendations after the risk assessment is completed.

***CIGNA Rates for 2006:*** CIGNA provides an array of three plans to employees represented by the Coalition of County Unions: an HMO, a point of service plan (POS) and a preferred provider plan (PPO). The 2006 negotiated rates for the CIGNA HMO, POS and PPO plans will increase 13%. Mercer's opinion is that the negotiated CIGNA rates are justified.

To provide affordable rates to the PPO plan, CIGNA will continue to blend the rates between the HMO, POS, and PPO plans. The current CIGNA plan designs, which have been in place since 1991, will remain unchanged in 2006. We will make appropriate recommendations on these and other issues relating to the condition of the CIGNA program following completion of the Mercer risk assessment study. Any future change in the CIGNA program will necessarily be the subject of negotiations with employee representatives.

***PacifiCare Rates for 2006:*** The 2006 rates negotiated with PacifiCare for employees represented by SEIU Local 660 will increase 6.7% in the PacifiCare HMO plan for Options, and increase 11.9% in the PacifiCare PPO for Options. The PacifiCare Plan designs are reasonably up to date, having been redesigned and put out to bid three years ago. Mercer's opinion is that the rates are justified.

***Union Sponsored Plan Benefit Changes and Rates for 2006:*** Premiums for the County approved union sponsored health plans are also increasing substantially. Proposed 2006 premium rates to be paid to carriers and benefit changes for the CAPE plans are summarized below:

Summary of Union Sponsored Plan Changes for 2006

| **Union Sponsor** | **Average Increase in Rates to Be Paid to Carrier on Behalf of Plan Sponsor** | **Requested Benefit Change** |
|---|---|---|
| CAPE | 10.3% | Reduce Classic Plan out of network benefit to 60% |
| ALADS | 13.9% | None |
| 1014 | 6.3% | None |
| ***All Union Plans*** | ***11.5%*** | |

The estimated increase in premiums paid to carriers in 2006 on behalf of the union sponsored plans is $9.8 million.

The subsidized rates to be paid by members of union sponsored plans are summarized in Exhibit IV, while the carrier changes upon which those 2006 rates are based are documented in the union request letters appended to Exhibit IV.

## Medical Plan Changes Affecting Non-represented Employees

***Health Plan Rates:*** Non-represented employees who participate in the Flexible Benefit and MegaFlex Plans currently have a choice between Kaiser and four Blue Cross health plans, which include an HMO, a POS, a PPO, and a Catastrophic Plan. The average

negotiated carrier rate increase for non-represented employee health plans will be approximately 5% in 2006. We recommend that this percentage increase in rates be passed onto Flexible Benefit and MegaFlex Plan participants in 2006, as shown in Exhibit II. We also recommend that the historical County practice of funding any difference between actual costs of these plans and the contribution paid by the employees be continued.

***Benefit Changes:*** We recommend that a basic vision benefit be added to the Kaiser Plan and that the Blue Cross HMO, POS and PPO Plan basic vision benefit be enhanced to include self insured and discounted Lasik surgery effective January 1, 2006. For the Blue Cross HMO, PPO and POS plans the emergency room copay is being increased to $50 to conform to other County sponsored plans, and the vision care office visit copay is being increased from $10 to $15 to conform to other Blue Cross medical office visit copays.

**Dental Insurance**

The recommended employee contribution rates for represented employee dental plans are shown in Exhibit I and the corresponding rates for non-represented employees are shown in Exhibit II. The 2006 dental rates shown in Exhibit I are the rates quoted by carriers for represented employees, except that in the case of the indemnity dental plan, Delta Dental, the rates have been reduced by the 2006 County subsidies previously negotiated with the unions and adopted by your Board. As a reminder, because subsidies can affect year-to-year differences, percentage rate differences shown in Exhibits I and II for Delta Dental differ from those described below.

The Delta Dental indemnity plan rates are guaranteed at the same amount for two years through 2006. However, Delta Dental's 2006 premium rate paid to the carrier will be adjusted downward by 0.1% from the 2005 level, as a result of performance guarantee penalties incurred by the carrier in 2004. Past practice has been that comparable treatment be given to the indemnity dental insurance premium rates charged to non-represented employees and we recommend that you continue that practice by adopting the Delta Dental rates charged to employees shown in Exhibit II.

With regard to the prepaid dental plans for both represented and non-represented employees, the premiums for both the DeltaCare PMI Plan and the SafeGuard Plan are guaranteed and will not increase from 2005 levels during 2006. However, the SafeGuard 2006 premium rate paid to the carrier will be adjusted downward by 0.4% from the 2005 level as a result of performance guarantee penalties incurred by the carrier in 2004.

## Life Insurance and Disability Programs

***Life Insurance and LTD Rates:*** The recommended employee contribution rates are shown in Exhibits III and IV. The premium rates for the basic County paid life insurance benefit and employee paid optional group term life insurance previously approved by your Board will not change in 2006. There will be no change in 2006 in the cost of AD&D and LTD Heath Insurance available to represented and non-represented employees, or survivor income benefits available to MegaFlex participants who are members of Retirement Plan E. There will be no change in the cost of LTD benefits available to MegaFlex employees.

***STD Plan and Rates:*** The Short-Term Disability (STD) plan for MegaFlex employees serves as a substitute for the sick leave benefits otherwise available to most other County employees. The plan pays benefits where a participant is disabled and cannot perform their regular job duties. The current STD plan consists of nine coverage options, including one County paid "core" benefit and eight elective coverage options requiring various levels of employee contribution.

We are recommending changes to the STD Plan that reflect the fact that MegaFlex participants have comparatively less opportunity to "bank" unused paid leave time and, therefore, less protection in the event of an extended period of disability. The proposed plan is greatly simplified to provide a core benefit and a single elective benefit. The recommended core benefit provides income replacement equal to 70% of salary after a 14 day waiting period in the case of both industrial and non-industrial injuries.

For non-industrial injuries incurred on or after January 1, 2006, the elective benefit provides income replacement equal to 100% of salary for 21 days after a seven day waiting period and 80% thereafter. The maximum benefit duration, including the waiting period, would remain at 26 weeks. The current and recommended STD benefits and employee contribution rates are shown in Exhibit III.

## Changes to the Minimum County Contribution Under the MegaFlex and Flexible Benefit Plans

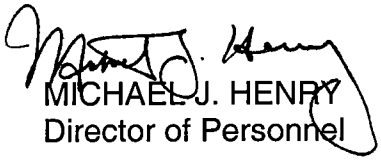
Non-represented employees covered by MegaFlex and the Flexible Benefit Plan receive a County contribution expressed as a percentage of salary, but not less than a minimum "floor" contribution of $810 per month under MegaFlex and $591 per month under the Flexible Benefit Plan. Given that employee costs for health insurance will increase under both plans in 2006, and that your Board previously approved negotiated adjustments in the County contributions to the cafeteria plans pertaining to represented

employees, we are recommending that the floor contributions to the MegaFlex and the Flexible Benefit Plan be increased to $852 and $626 per month, respectively. These adjustments would be initially reflected on the County pay warrants issued on January 13, 2006.

The ordinance necessary to implement the recommendations herein has been approved as to form by the County Counsel.

Respectfully submitted,

DAVID E. JANSSEN
Chief Administrative Officer



MICHAEL J. HENRY
Director of Personnel

DEJ:MJH
WGL:FF:MH:df

Attachments (6)

c: Executive Officer, Board of Supervisors
Auditor-Controller
County Counsel
Local 660, SEIU
Coalition of County Unions
Mercer

# COUNTY-SPONSORED MEDICAL AND DENTAL INSURANCE PLANS FOR REPRESENTED EMPLOYEES CURRENT 2005 RATES AND PROPOSED 2006 RATES

| Plan | Option | Coverage Category[a] | Current 2005 Rates[b] | Proposed 2006 Rates[b] | Percentage Change |
|---|---|---|---|---|---|
| CIGNA | Network HMO | 1 | $ 303.02 | $ 342.49 | 13.0% |
| | | 2 | $ 601.63 | $ 680.70 | 13.1% |
| | | 3 | $ 693.05 | $ 784.02 | 13.1% |
| | Network POS | 1 | $ 468.40 | $ 529.41 | 13.0% |
| | | 2 | $ 883.38 | $ 999.14 | 13.1% |
| | | 3 | $ 996.26 | $1126.72 | 13.1% |
| | PPO | 1 | $ 753.42 | $ 851.55 | 13.0% |
| | | 2 | $1544.30 | $1746.14 | 13.1% |
| | | 3 | $1735.65 | $1962.41 | 13.1% |
| KAISER Choices | | 1 | $ 339.25 | $ 369.57 | 8.9% |
| | | 2 | $ 673.06 | $ 733.70 | 9.0% |
| | | 3 | $ 781.62 | $ 851.96 | 9.0% |
| KAISER Options | | 1 | $ 320.12 | $ 346.95 | 8.4% |
| | | 2 | $ 643.24 | $ 696.90 | 8.3% |
| | | 3 | $ 745.60 | $ 807.84 | 8.3% |
| PACIFICARE | HMO | 1 | $ 274.69 | $ 293.52 | 6.9% |
| | | 2 | $ 558.03 | $ 596.07 | 6.8% |
| | | 3 | $ 645.85 | $ 689.92 | 6.8% |
| | PPO | 1 | $ 623.02 | $ 697.87 | 12.0% |
| | | 2 | $1261.85 | $1413.08 | 12.0% |
| | | 3 | $1460.87 | $1636.02 | 12.0% |

[a] 1 = Employee only
2 = Employee + 1 Dependent
3 = Employee + 2 or more Dependents
[b]Rates reflect current negotiated County subsidies.

# COUNTY-SPONSORED MEDICAL AND DENTAL INSURANCE PLANS FOR REPRESENTED EMPLOYEES CURRENT 2005 RATES AND PROPOSED 2006 RATES

| Plan | Option | Coverage Category [a] | Current 2005 Rates | Proposed 2006 Rates | Percentage Change |
|---|---|---|---|---|---|
| DELTA DENTAL[b] Choices | | 1 | $ 23.74 | $ 20.57 | -13.4% |
| | | 2 | $ 39.43 | $ 34.31 | -13.0% |
| | | 3 | $ 59.31 | $ 51.26 | -13.6% |
| DELTA DENTAL[b] Options | | 1 | $ 28.03 | $ 27.97 | -0.2% |
| | | 2 | $ 46.64 | $ 46.53 | -0.2% |
| | | 3 | $ 69.85 | $ 69.69 | -0.2% |
| DELTACARE PMI Choices & Options | | 1 | $ 13.24 | $ 13.24 | 0.0% |
| | | 2 | $ 21.84 | $ 21.84 | 0.0% |
| | | 3 | $ 32.30 | $ 32.30 | 0.0% |
| SAFEGUARD[c] Choices & Options | | 1 | $ 9.84 | $ 9.80 | -0.4% |
| | | 2 | $ 19.05 | $ 18.97 | -0.4% |
| | | 3 | $ 24.86 | $ 24.75 | -0.4% |

[a] 1 = Employee only
2 = Employee + 1 Dependent
3 = Employee + 2 or more Dependents

[b] Rates reflect current negotiated County subsidies
[c] SafeGuard rates for 2006 reflect a credit adjustment for performance guarantee penalties.

**EXHIBIT II**

# COUNTY-SPONSORED MEDICAL AND DENTAL INSURANCE PLANS FOR NON-REPRESENTED EMPLOYEES CURRENT 2005 RATES AND PROPOSED 2006 RATES

| Plan | Option | Coverage Category[a] | Current 2005 Rates[b] | Proposed 2006 Rates[b] | Percentage Change |
|---|---|---|---|---|---|
| BLUE CROSS | California Care HMO | 1 | $ 185.07 | $ 194.32 | 5.0% |
| | | 2 | $ 361.98 | $ 380.08 | 5.0% |
| | | 3 | $ 379.70 | $ 398.69 | 5.0% |
| | | 4 | $ 429.41 | $ 450.88 | 5.0% |
| | PLUS POS | 1 | $ 279.65 | $ 293.63 | 5.0% |
| | | 2 | $ 561.48 | $ 589.55 | 5.0% |
| | | 3 | $ 574.66 | $ 603.39 | 5.0% |
| | | 4 | $ 640.99 | $ 673.04 | 5.0% |
| | Catastrophic | 1 | $ 143.14 | $ 150.30 | 5.0% |
| | | 2 | $ 287.21 | $ 301.57 | 5.0% |
| | | 3 | $ 291.65 | $ 306.23 | 5.0% |
| | | 4 | $ 337.31 | $ 354.18 | 5.0% |
| | Prudent Buyer PPO | 1 | $ 356.67 | $ 374.50 | 5.0% |
| | | 2 | $ 654.63 | $ 687.57 | 5.0% |
| | | 3 | $ 680.00 | $ 714.00 | 5.0% |
| | | 4 | $ 787.85 | $ 827.24 | 5.0% |
| KAISER Flex/MegaFlex | | 1 | $ 185.07 | $ 194.32 | 5.0% |
| | | 2 | $ 361.98 | $ 380.08 | 5.0% |
| | | 3 | $ 379.70 | $ 398.69 | 5.0% |
| | | 4 | $ 429.41 | $ 450.88 | 5.0% |
| DELTA DENTAL Flex & MegaFlex | | 1 | $ 23.74 | $ 20.57 | -13.4% |
| | | 2 | $ 34.70 | $ 30.06 | -13.4% |
| | | 3 | $ 39.43 | $ 34.31 | -13.0% |
| | | 4 | $ 59.31 | $ 51.26 | -13.6% |
| DELTACARE PMI Flex & MegaFlex | | 1 | $ 13.24 | $ 13.24 | 0.0% |
| | | 2 | $ 22.71 | $ 22.71 | 0.0% |
| | | 3 | $ 22.87 | $ 22.87 | 0.0% |
| | | 4 | $ 32.96 | $ 32.96 | 0.0% |
| SAFEGUARD[c] Flex & MegaFlex | | 1 | $ 9.84 | $ 9.80 | -0.4% |
| | | 2 | $ 18.49 | $ 18.41 | -0.4% |
| | | 3 | $ 20.85 | $ 20.76 | -0.4% |
| | | 4 | $ 27.24 | $ 27.12 | -0.4% |

[a] 1 = Employee only
2 = Employee + Child(ren)
3 = Employee + Spouse
4 = Employee + Spouse + Child(ren)

[b] Rates, where applicable, are net of County subsidy; except that the premium charged to an employee whose benefits are subject to COBRA and separates from service on or after January 1, 2005 is the carrier quoted rate plus an administrative charge as prescribed by COBRA

[c] SafeGuard rates for 2006 reflect a credit adjustment for performance guarantee penalties.

EXHIBIT III

# SHORT-TERM DISABILITY, LONG-TERM DISABILITY AND LONG-TERM DISABILITY HEALTH INSURANCE CURRENT 2005 RATES AND PROPOSED 2006 RATES

## MEGAFLEX SHORT-TERM DISABILITY PLAN

**Employee Cost as a Percentage of Monthly Salary:**

| | Current 2005 Rates | | | Proposed 2006 Rates | | |
|---|---|---|---|---|---|---|
| Income Replacement | 30 Days waiting period | 14 Days waiting period | 7 Days waiting period | Income Replacement | Waiting Period | Cost |
| 40% | 0.000% | 0.067% | 0.110% | 70% | 14 Days | 0.000% |
| 60% | 0.241% | 0.340% | 0.429% | 100%* | 7 Days | 0.934% |
| 70% | 0.463% | 0.588% | 0.709% | | | |

* Reduced to 80% after 21 days; applies to non-industrial injuries incurred after January 1, 2006.

## MEGAFLEX LONG-TERM DISABILITY PLAN

**Employee Cost as a Percentage of Monthly Salary:**

| | Current 2005 Rates | | Proposed 2006 Rates | |
|---|---|---|---|---|
| Income Replacement | Plan E + * Retirement Plan | All Other Plans | Plan E + * Retirement Plan | All Other Plans |
| 40% | 0.000% | 0.040% | 0.000% | 0.040% |
| 60% | 0.117% | 0.157% | 0.117% | 0.157% |

*Plan E plus 5 or more years of continuous service.

## LONG-TERM DISABILITY HEALTH INSURANCE - Cost per month

| Current 2005 Rate | Proposed 2006 Rate |
|---|---|
| $4.25 | $4.25 |

EXHIBIT IV

# UNION-SPONSORED MEDICAL AND DENTAL INSURANCE PLANS CURRENT 2005 AND PROPOSED 2006 PREMIUM RATES

| Plan | Option | Coverage Category[a] | Current 2005 Rates | Proposed 2006 Rates[b] | Percentage Change |
|---|---|---|---|---|---|
| ALADS | Prudent Buyer Plan | 1 | $ 413.07 | $ 483.24 | 17.0% |
| | Under Age 50 | 2 | $ 798.31 | $ 938.25 | 17.5% |
| | | 3 | $ 917.30 | $1077.90 | 17.5% |
| | Prudent Buyer Plan | 1 | $ 413.07 | $ 483.24 | 17.0% |
| | Age 50 and Over | 2 | $ 798.31 | $ 938.25 | 17.5% |
| | | 3 | $ 917.30 | $1077.90 | 17.5% |
| | CaliforniaCare | 1 | $ 280.37 | $ 314.05 | 12.0% |
| | Basic Plan | 2 | $ 534.67 | $ 601.84 | 12.6% |
| | (All Ages) | 3 | $ 667.91 | $ 751.53 | 12.5% |
| | Prudent Buyer | 1 | $ 488.28 | $ 565.97 | 15.9% |
| | Premier Plan | 2 | $ 873.52 | $1020.98 | 16.9% |
| | Under Age 50 | 3 | $ 992.51 | $1160.63 | 16.9% |
| | Prudent Buyer | 1 | $ 488.28 | $ 565.97 | 15.9% |
| | Premier Plan | 2 | $ 873.52 | $1020.98 | 16.9% |
| | Age 50 and Over | 3 | $ 992.51 | $1160.63 | 16.9% |
| | CaliforniaCare | 1 | $ 355.58 | $ 396.78 | 11.6% |
| | Premier Plan | 2 | $ 609.88 | $ 684.57 | 12.2% |
| | (all ages) | 3 | $ 743.12 | $ 834.26 | 12.3% |
| CAPE | Classic | 1 | $ 382.00 | $ 440.00 | 15.2% |
| | | 2 | $ 765.56 | $ 883.56 | 15.4% |
| | | 3 | $ 986.56 | $1139.56 | 15.5% |
| | Lite | 1 | $ 263.00 | $ 284.00 | 8.0% |
| | | 2 | $ 526.56 | $ 569.56 | 8.2% |
| | | 3 | $ 676.56 | $ 730.56 | 8.0% |
| | PPO | 1 | $ 382.00 | $ 435.26 | 13.9% |
| | (Out-of-state only) | 2 | $ 765.56 | $ 874.09 | 14.2% |
| | | 3 | $ 986.56 | $1127.24 | 14.3% |
| FIRE FIGHTERS LOCAL1014 | | 1 | $ 395.00 | $ 419.00 | 6.1% |
| | | 2 | $ 750.56 | $ 795.56 | 6.0% |
| | | 3 | $ 886.56 | $ 943.56 | 6.4% |

[a] 1 = Employee only
2 = Employee + 1 Dependent
3 = Employee + 2 or more Dependents
[b]Rates reflect current negotiated County subsidies

## ENCLOSURES TO EXHIBIT IV

1. ALADS Insurance Trust Request
2. CAPE Request
3. Los Angeles County Fire Fighters Local 1014 Health and Welfare Plan Request

# ALADS Insurance Trust

9500 Topanga Canyon Blvd. Chatsworth, CA 91311
Tel (213) 678-0040 (800) 842-6635 Fax (818)678-0030

August 19, 2005

Mr. Michael J. Henry, Director
County of Los Angeles
Hall of Administration, Room 579
500 West Temple Street
Los Angeles, California 90012

Attention: Ms. Marian Hall
Human Resources Manager
Employee Benefits – Deferred Income Division
Department of Human Resources
County of Los Angeles
3333 Wilshire Boulevard, Tenth Floor
Los Angeles, California 90010

**RE: ALADS/BLUE CROSS 2006 HEALTHCARE PLAN PREMIUMS**
Via fax and U.S. mail

Dear Ms. Hall:

Following are the monthly premium rates for the ALADS Blue Cross Prudent Buyer and CaliforniaCare medical and dental plans for the 2006 plan year:

| Plan | Employee | Employee + 1 | Employee + 2 |
|---|---|---|---|
| Prudent Buyer Basic | $483.24 | $943.69 | $1,083.34 |
| Prudent Buyer Premier | $565.97 | $1,026.42 | $1,166.07 |
| CaliforniaCare Basic | $314.05 | $607.28 | $756.97 |
| CaliforniaCare Premier | $396.78 | $690.01 | $839.70 |

Further, the ALADS plans do provide "Creditable Coverage" as defined in the Act.

Sincerely,

Bud Treece, Trust Administrator

(Computer generated and laser printed in-house)

CAPE AFL-CIO
California Association of
Professional Employees
Benefit Trust

July 20, 2006

Marian Hall
Human Resources Manager
Employee Benefits-Deferred Income Division
County of Los Angeles
Department of Human Resources
3333 Wilshire Boulevard
Los Angeles, CA 90010

Re: 2006 RENEWAL - CAPE BLUE SHIELD MEDICAL PLANS

Dear Ms. Hall:

This letter is to advise you of the CAPE Benefit Trust Board of Trustees' approval of the renewal of Blue Shield's contracts for the year 2006 CAPE Blue Shield Classic and Lite medical plans. Attached please find the benefit structures and rates for both plans.

There is one benefit change to the Classic plan. The out-of-network benefit percentage is being changed to 60%. All other changes would be any mandated regulatory changes.

We would appreciate your forwarding the 2006 CAPE Blue Shield medical plans' information to the Board of Supervisors for their timely approval.

Sincerely,

CALIFORNIA ASSOCIATION OF
PROFESSIONAL EMPLOYEES BENEFIT TRUST

John Fallon
Trustee
CAPE Benefit Trust Board of Trustees

Attachments

1910 West Sunset Boulevard, Suite 600 • Los Angeles, CA 90026-3281 • (213) 484-0400 • Fax (213) 484-4963

# 2006 CAPE/Blue Shield
## Classic Plan

(800) 487-3092 www.blueshieldca.com

| BENEFITS | PRIMARY CARE NETWORK | PPO NETWORK | OUT-OF-NETWORK (Reimbursements based on Allowable Amount) |
|---|---|---|---|
| Type of Plan | | A Point of Service Plan | |
| Who is Eligible | All Participants | All Participants | All Participants |
| Calendar Year Deductible | None | $300 per person; $600 per family maximum (combined-PPO Network and Out-of-Network) | $300 per person; $600 per family maximum (combined-PPO Network and Out-of-Network) |
| Maximum Annual Out-of-pocket Expenses | $2,000/person; $4,000/family | After deductible, $4,000/person; $8,000/family (combined - PPO Network and Out-of-Network) | After deductible, $6,000/person; $12,000/family (combined - PPO Network and Out-of-Network) |
| Lifetime Maximum Benefit | Unlimited | $2,000,000 | $2,000,000 |
| | | | |
| **PREVENTIVE CARE** | | | |
| Immunizations | 100%; no copayment | Not covered | Not covered |
| Periodic Health Exams | 100%; no copayment (including Well Woman Exam, | Routine physicals not covered. Well Woman Exam | Not covered |
| | Pap Smear, and Mammography) | 100% after $20 copayment; tests 90% no deductible | |
| Vision Care | Up to age 18 screenings only; 100%; All members one eye | All members one eye exam per year- $10 copayment at | $10 Reimbursement for eye exam only |
| | exam per year- $10 copayment at MES providers only | MES providers only | |
| **MEDICALLY NECESSARY CARE** | | | |
| Ambulance | 100% after $50 copayment | 90% after deductible | 90% after deductible |
| Doctor Office Visits | 100% after $10 copayment | 100% after $20 copayment for consultation only (not subject to deductible) | 60% after deductible |
| Emergency Room | 100% after $50 copayment (waived if admitted) | 100% after $50 copayment (waived if admitted) | 100% after $50 copayment (waived if admitted) |
| Hospital Care | 100%; no copayment | 90% after deductible | 60% after deductible, carrier max payment $420 per day |
| Maternity | 100%; no copayment | 100% after $20 copayment for consultation only (not subject to deductible) | 60% after deductible |
| Surgery | 100%; no copayment (outpatient $50 copayment) | 90% after deductible | 60% after deductible, outpatient-carrier max pymt $420 per day |
| X-Ray & Lab Tests | 100%; no copayment | 90% after deductible | 60% after deductible |
| Prescription Drugs | $10 (generic), $15 (brand name), $30 (nonformulary-requires | $10 (generic), $15 (brand name), $30 (nonformulary-requires | Covered for emergencies only- 75% of lesser of actual price or |
| | preapproval); Mail-Order- 90-day Supply: $20 (generic), | preapproval); Mail-Order- 90-day Supply: $20 (generic), | reasonable charge, minus copayment |
| | $30 (brand name), $60 (nonformulary-requires preapproval) | $30 (brand name), $60 (nonformulary-requires preapproval) | |
| **MENTAL HEALTH CARE** | | | |
| Mental Health-Outpatient | Non-severe psychiatric care: $10 copayment for initial visit; | Non-severe psychiatric care: $10 copayment for initial visit; | Non severe psychiatric care: 50% after deductible (up to 20 combined |
| | $50 copayment/visit thereafter (up to 20 combined visits | $50 copayment/visit thereafter (up to 20 combined visits | visits per calendar year) |
| | per calendar year) | per calendar year) | Severe mental illness: 60% (after deductible) |
| | Severe mental illness: $10 copayment/visit | Severe mental illness: $10 copayment/visit | |
| | ---Provided by United Behavioral Health. Must be arranged through MHSA--- | | |
| | | | |
| Mental Health-Inpatient | 100% | 100% | 60% (after deductible), up to $420 carrier max per day |
| | ---Provided by United Behavioral Health. Must be arranged through MHSA--- | | |
| | | | |
| **OTHER PLAN BENEFITS** | | | |
| Chiropractic Care | 100% after $10 copayment | 100% after $10 copayment | Not covered |
| | ---Includes acupuncture; up to 40 combined visits/calendar year (based on medical necessity)--- | | |
| | ---Provided through American Specialty Health Plans--- | | |
| | | | |
| Home Health Care | 100% after $10 copayment | 90% after deductible | 60% after deductible |
| | (combined 100 visits per calendar year) | (combined 100 visits per calendar year) | (combined 100 visits per calendar year) |
| Hospice Care | 100% when provided by authorized hospice agency | 100% when provided by authorized hospice agency | Not covered unless authorized by Blue Shield |
| Physical Therapy | 100% after $10 copayment | 90% after deductible | 60% after deductible |
| Skilled Nursing Facility | 100%; no copayment (combined 100 days per calendar year) | 90% after deductible (combined 100 days per calendar year) | 60% after deductible (combined 100 days per calendar year) |

2006 Premium Rates

| | |
|---|---|
| Employee Only: | $440.00 |
| Employee + One: | $889.00 |
| Employee + Fam | $1,145.00 |

# 2006 CAPE/Blue Shield
# Lite Plan

(800) 487-3092 www.blueshieldca.com

| BENEFITS | PRIMARY CARE NETWORK | PPO NETWORK | OUT-OF-NETWORK (Reimbursement based on Usual & Customary) |
|---|---|---|---|
| Type of Plan | A Point of Service Plan | | |
| Who is Eligible | All Participants | All Participants | All Participants |
| Calendar Year Deductible | None | $500 per person; $1,000 per family maximum (combined-PPO Network and Out-of-Network) | $500 per person; $1,000 per family maximum (combined-PPO Network and Out-of-Network) |
| Maximum Annual Out-of-pocket Expenses | $2,000/person; $4,000/family | After deductible, $4,000/person; $8,000/family (combined - PPO Network and Out-of-Network) | After deductible, $6,000/person; $12,000/family (combined - PPO Network and Out-of-Network) |
| Lifetime Maximum Benefit | Unlimited | $2,000,000 | $2,000,000 |
| | | | |
| **PREVENTIVE CARE** | | | |
| Immunizations | 100%; no copayment | Not covered | Not covered |
| Periodic Health Exams | 100%; no copayment (including Well Woman Exam, | Routine physicals not covered. Well Woman Exam | Not covered |
| | Pap Smear, and Mammography) | 100% after $25 copayment; tests 80% no deductible | |
| Vision Care | Up to age 18 screenings only; 100%; All members one eye | All members one eye exam per year- $10 copayment at | $10 Reimbursement for eye exam only |
| | exam per year- $10 copayment at MES providers only | MES providers only | |
| **MEDICALLY NECESSARY CARE** | | | |
| Ambulance | 100% after $50 copayment | 80% after deductible | 80% after deductible |
| Doctor Office Visits | 100% after $10 copayment | 100% after $25 copayment for consultation only (not subject to deductible) | 60% after deductible |
| Emergency Room | 100% after $50 copayment (waived if admitted) | 100% after $50 copayment (waived if admitted) | 100% after $50 copayment (waived if admitted) |
| Hospital Care | 100%; no copayment | 80% after deductible | 60% after deductible, carrier max payment $360 per day |
| Maternity | 100%; no copayment | 100% after $25 copayment for consultation only (not subject to deductible) | 60% after deductible |
| Surgery | 100%; no copayment (outpatient $75 copayment) | 80% after deductible | 60% after deductible, outpatient-carrier max pymt $360 per day |
| X-Ray & Lab Tests | 100%; no copayment | 80% after deductible | 60% after deductible |
| Prescription Drugs | $10 (generic), $15 (brand name), $30 (nonformulary-requires | $10 (generic), $15 (brand name), $30 (nonformulary-requires | Covered for emergencies only- 75% of lesser of actual price or |
| | preapproval); Mail-Order- 90-day Supply: $20 (generic), | preapproval); Mail-Order- 90-day Supply: $20 (generic), | reasonable charge, minus copayment |
| | $30 (brand name), $60 (nonformulary-requires preapproval) | $30 (brand name), $60 (nonformulary-requires preapproval) | |
| **MENTAL HEALTH CARE** | | | |
| Mental Health-Outpatient | Non-severe psychiatric care: $10 copayment for initial visit; | Non-severe psychiatric care: $10 copayment for initial visit; | Non severe psychiatric care: 50% after deductible (up to 20 combined |
| | $50 copayment/visit thereafter (up to 20 combined visits | $50 copayment/visit thereafter (up to 20 combined visits | visits per calendar year) |
| | per calendar year) | per calendar year) | Severe mental illness: 60% (after deductible) |
| | Severe mental illness: $10 copayment/visit | Severe mental illness: $10 copayment/visit | |
| | ----Provided by United Behavioral Health. Must be arranged through MHSA---- | | |
| | | | |
| Mental Health-Inpatient | 100% | 100% | 60% (after deductible), up to $360 carrier max per day |
| | ----Provided by United Behavioral Health. Must be arranged through MHSA---- | | |
| | | | |
| **OTHER PLAN BENEFITS** | | | |
| Chiropractic Care | 100% after $15 copayment | 100% after $15 copayment | Not covered |
| | ----Includes acupuncture; up to 30 combined visits/calendar year (based on medical necessity)---- | | |
| | ----Provided through American Specialty Health Plans---- | | |
| | | | |
| Home Health Care | 100% after $10 copayment | 80% after deductible | 60% after deductible |
| | (combined 100 visits per calendar year) | (combined 100 visits per calendar year) | (combined 100 visits per calendar year) |
| Hospice Care | 100% when provided by authorized hospice agency | 100% when provided by authorized hospice agency | Not covered unless authorized by Blue Shield |
| Physical Therapy | 100% after $10 copayment | 80% after deductible | 60% after deductible |
| Skilled Nursing Facility | 100%; no copayment (combined 100 days per calendar year) | 80% after deductible (combined 100 days per calendar year) | 60% after deductible (combined 100 days per calendar year) |

2006 Premium Rates

| | |
|---|---|
| Employee Only: | $284.00 |
| Employee + One: | $575.00 |
| Employee + Fa | $736.00 |

# 2006 CAPE/Blue Shield
# COBRA PPO Plan

(800) 487-3092 www.blueshieldca.com

| [illegible] | [illegible] | [illegible] |
|---|---|---|
| Type of Plan | A Preferred Provider Option Plan | |
| Who is Eligible | Participants residing outside the State of California | Participants residing outside the State of California |
| Calendar Year Deductible | $250 per person; $500 per family maximum (combined-In-Network and Out-of-Network) | $250 per person; $500 per family maximum (combined-In-Network and Out-of-Network) |
| Maximum Annual Out-of-pocket Expenses | After deductible, $3,000/person; $6,000/family (combined - In-Network and Out-of-Network) | After deductible, $10,000/person; $20,000/family (combined - In-Network and Out-of-Network) |
| Lifetime Maximum Benefit | $6,000,000 | $6,000,000 |
| | | |
| **PREVENTIVE CARE** | | |
| Immunizations | $25 copayment per visit | Not covered |
| Periodic Health Exams | $25 copayment per visit (Includes Well Woman/Baby Care) | Not covered |
| | | |
| Vision Care | | Not covered |
| | | |
| **MEDICALLY NECESSARY CARE** | | |
| Ambulance | 80% after deductible | 80% after deductible |
| Doctor Office Visits | $25 copayment for consultation only (not subject to deductible) | 60% after deductible |
| Emergency Room | 80% after $50 copayment (waived if admitted) | 80% after $50 copayment (waived if admitted) |
| Hospital Care | 80% after deductible | 60% after deductible, carrier max payment $600 per day |
| Maternity | 100% after $20 copayment for consultation only (not subject to deductible) | 70% after deductible |
| Surgery | 90% after deductible | 70% after deductible, outpatient-carrier max pymt $420 per day |
| X-Ray & Lab Tests | 90% after deductible | 70% after deductible |
| Prescription Drugs | $10 (generic), $15 (brand name), $30 (nonformulary-requires preapproval) | Covered for emergencies only- 75% of lesser of actual price or |
| | Mail-Order 90-day Supply: $20 (generic), $30 (brand name), | reasonable charge, minus copayment |
| | $60 (nonformulary-requires preapproval) | |
| **MENTAL HEALTH CARE** | | |
| Mental Health-Outpatient | Non-severe psychiatric care: $10 copayment for initial visit; | Non severe psychiatric care: 50% after deductible (up to 20 combined |
| | $50 copayment/visit thereafter (up to 20 combined visits | visits per calendar year) |
| | per calendar year) | Severe mental illness: 70% (after deductible) |
| | Severe mental illness: $10 copayment/visit | |
| | —Provided by United Behavioral Health. Must be arranged through MHSA— | |
| | | |
| Mental Health-Inpatient | 100% | 70% (after deductible), up to $420 carrier max per day |
| | —Provided by United Behavioral Health. Must be arranged through MHSA— | |
| | | |
| **OTHER PLAN BENEFITS** | | |
| Home Health Care | 90% after deductible | 70% after deductible |
| | (combined 100 visits per calendar year) | (combined 100 visits per calendar year) |
| Hospice Care | 100% when provided by authorized hospice agency | Not covered unless authorized by Blue Shield |
| Physical Therapy | 90% after deductible | 70% after deductible |
| Skilled Nursing Facility | 90% after deductible (combined 100 days per calendar year) | 70% after deductible (combined 100 days per calendar year) |

2006 Premium Rates

| | |
|---|---|
| Employee Only: | $435.26 |
| Employee + One: | $879.53 |
| Employee + Family: | $1,132.68 |

50th Anniversary
1949-1999
Celebrating
a Half Century of Unity

# LOS ANGELES COUNTY FIRE FIGHTERS
## LOCAL 1014 HEALTH AND WELFARE PLAN

3460 FLETCHER AVENUE • EL MONTE, CALIFORNIA 91731
(310) 639-1014 (800) 660-1014 (within California)

July 26, 2005

**Via Facsimile and Hard Copy by U.S. mail**
(213) 637-0820

Marion L. Hall
Human Resources Manager
County of Los Angeles Department of Human Resources
3333 Wilshire Blvd. Suite #1
Los Angeles, CA 90010-4101

Dear Ms. Hall:

By order of the Board of Trustees on July 25, 2004, the Local 1014 Health and Welfare Plan adopted the following premium rates for the year 2006.

| | |
|---|---|
| Member Only | $419.00 |
| Member + One | $801.00 |
| Member + 2 or more | $949.00 |

There are no benefit changes for 2006.

Sincerely,

LOUIS E. BUFFONE
Plan Administrator

LEW/cv

Received by_____ Date_____

ATTACHMENT A

SUMMARY OF NEGOTIATED FINANCIAL RESULTS FOR COUNTY SPONSORED PLANS

(See Following Page)

Version Date: 8/22/2005

ATTACHMENT A

COUNTY OF LOS ANGELES
2006 Renewal Results

| | 2005 Total Final | 2006 Total Final with Flex/Mega Flex benefit changes | Percent Change | Original renewal -current plan | Final renewal - current plan | Savings Current Plan | 2006 Premium for Benefit Changes | Savings and Benefit Change Comments [3] |
|---|---|---|---|---|---|---|---|---|
| **Flex/MegaFlex** | | | | | | | | |
| Kaiser | $28,517,717 | $29,777,110 | 4.4% | $29,364,626 | $29,336,536 | $28,090 | $440,574 | PG Credit, Medicare eligibility retroactive adjustment, added vision benefits |
| Blue Cross [1] | $49,030,114 | $51,538,117 | 5.1% | $53,221,400 | $51,485,094 | $1,736,306 | $53,023 | Reduced medical trend & vision rates, revised benefits (medical and vision)/medical pooling |
| **Options** | | | | | | | | |
| Kaiser | $184,944,524 | $200,159,246 | 8.2% | $203,437,164 | $200,159,246 | $3,277,918 | | Customer Relations Credit/PG Credit, Medicare eligibility retroactive adjustment |
| PacifiCare [2] | $89,480,055 | $95,805,212 | 7.1% | $97,042,919 | $95,805,212 | $1,237,707 | | Reduced claim projection |
| **Choices** | | | | | | | | |
| Kaiser | $82,080,805 | $89,416,519 | 8.9% | $89,503,908 | $89,416,519 | $87,389 | | PG Credit, Medicare eligibility retroactive adjustment |
| CIGNA [2] | $33,792,619 | $38,193,876 | 13.0% | $41,728,729 | $38,193,876 | $3,534,853 | | Reduced claim base (backlog)/reserves/trend/stabilization reserve |
| Total Medical | $467,845,833 | $504,890,080 | 7.92% | $514,298,747 | $504,396,483 | $9,902,264 | $493,597 | |
| **Delta** | | | | | | | | |
| Flex | $6,935,786 | $6,925,958 | -0.1% | $6,935,786 | $6,925,958 | $9,829 | | PG Credit |
| Choices/Options | $42,340,651 | $42,289,757 | -0.1% | $42,340,651 | $42,289,757 | $50,894 | | PG Credit |
| **Safeguard [2]** | | | | | | | | |
| Flex | $181,708 | $180,924 | -0.4% | $180,924 | $180,924 | $0 | | |
| Choices/Options | $2,959,287 | $2,946,515 | -0.4% | $2,946,515 | $2,946,515 | $0 | | |
| Total Dental | $52,417,433 | $52,343,154 | -0.1% | $52,403,877 | $52,343,154 | $60,723 | $0 | |
| Total Premium/Savings | $520,263,266 | $557,233,234 | 7.1% | $566,702,624 | $556,739,637 | $9,962,987 | $493,597 | |

Additional Savings

| | |
|---|---|
| [1] Performance guarantee credits paid directly to the County (Blue Cross) | $269,935 |
| [2] Performance guarantee credits incorporated into original renewal (PacifiCare, CIGNA, Safeguard) | $490,130 |

[3] PG Credit means Performance Guarantee Credit

| | |
|---|---|
| Total All Savings | $10,723,052 |
| All Savings: | |
| Performance guarantee credits | $1,001,707 |
| Other negotiated savings | $9,721,345 |

ATTACHMENT B

## MERCER DUE DILIGENCE LETTERS

ENCLOSURES TO ATTACHMENT B:

1. Summary of 2006 Health, Dental and Life Renewal Results and Recommendations (Represented)
2. Summary of 2006 Health, Dental and Life Renewal Results and Recommendations (Nonrepresented)

MERCER
Human Resource Consulting

777 South Figueroa Street, Suite 2000
Los Angeles, CA 90017-5818
213 346 2200 Fax 213 346 2680
www.mercerHR.com

August 24, 2005

Ms. Marian Hall
Chief of Employee Benefits
Department of Human Resources
County of Los Angeles
3333 Wilshire Boulevard
Los Angeles, CA 90010

Subject:
**Summary of 2006 Health, Dental, and Life Renewal Results and Recommendations (Represented)**

Dear Marian:

This letter summarizes the results of our analysis and negotiation of the 2006 renewal proposals for health, dental, and life plans offered to the represented employees of the County of Los Angeles (County). In addition, it presents our recommendations for each plan.

## Process

The renewal request, analysis and negotiation are multi-step processes, conducted over a period of several months. A planning meeting with the County initiates the process, in which objectives for the following plan year are established. Stakeholders include the County, Unions (Coalition of County Unions and SEIU-Local 660), Union consultants and Mercer.
Based on the planning meeting discussions, a Request for Proposal (RFP) is drafted and reviewed by all stakeholders. The RFP includes:

- Stated assumptions and requirements, including a submission letter to be signed by a company officer with the authority to bind their proposal
- Questionnaire encompassing carrier financial results, prescription drugs and provider issues, health and productivity management, administration, and quality issues.
- Plan performance exhibits comparing the County's past plan results to the carriers' book of business results
- Rate quotation, rate development and projected cost exhibits

- Benefit design and contract changes
- Performance guarantees

All stakeholders submit requested changes to the draft. These are reviewed and incorporated into the final RFP, which is then released to the carriers. This year, to provide the carriers with additional completion time, several exhibits were released in advance of the full RFP release. All parties concurred with the pre-release of these exhibits relating to plan performance for 2003 and 2004.

Carrier proposals are submitted to all stakeholders (the County, Union consultants and Mercer) at the same time. Following a review and analysis period, Mercer drafts negotiation letters for each plan. The drafts are reviewed by the County and the Union consultants, and their respective comments are incorporated before release to the carriers. Weekly status conference calls are conducted between Mercer and the County to discuss the renewal results, negotiation process and open issues.

Responses to the negotiation letters are due from the carriers prior to the renewal meetings. Again the responses are delivered to all stakeholders concurrently. Final issues are reviewed and prepared for the renewal meetings.

Two hour renewal meetings are conducted with each carrier. Attendees include representatives from DHR, CAO, Union consultants, BAC and EBAC committees and Mercer, as well as the carrier representatives. The carrier representatives generally include account/sales management, financial, operations, and medical/provider relations personnel. Issues discussed during the meeting include: rate development/proposal rates, performance guarantees, RFP deviations, network contracting environment and quality initiatives. Outstanding issues and requests for reduced rates – where areas of opportunity exist – are identified for each carrier. Following the meeting, carriers must respond to all identified issues in writing to all stakeholders.

The review and negotiation process continues until all open issues are resolved or the carrier has presented their final offer. The negotiation does not always result in agreement on particular topics – however may result in overall business concessions from the carriers.

## Medical Plans

### Overview

For all medical plans, the total projected premium increase is 8.5% or $33.3 million. This compares to an initial increase of 10.6%, representing an $8.1 million negotiated reduction in premium. No benefit changes are included in the renewal projections.

### CIGNA

CIGNA originally proposed an increase of 23.5% (approximately $7.9 million) on the Choices program. This renewal position included credits for performance guarantee penalties.

As in past years, the experience on the PPO plan resulted in a higher renewal increase; however, given the low enrollment in the non-HMO programs, CIGNA proposed blending the rates across all programs. The HMO participants subsidize the PPO participants – the subsidy for 2006 is 0.3%. POS participants will also subsidize the PPO participants; the rate subsidy is 12.3%. We reviewed the experience on the programs and challenged CIGNA on the following issues:

- As in past years, trend was overstated
- In 2004, CIGNA incurred a claims backlog and estimated a reserve for these claims in the 2005 renewal. During the course of 2005, this backlog was eliminated, but credit was not applied to the County's 2006 renewal development.
- CIGNA also required reserves for incurred but unreported claims; we did not agree with their projection of required reserves, particularly for prescription drug claims.
- CIGNA did not apply a subsidy from the stabilization reserve to offset their required margin position

Furthermore, the renewal reflected more individual high claims than in prior years, including one claimant at $1.1 million, with high claim activity continuing in 2005. This was explored at renewal meeting, and all claims were found to be in case management. The County plan does not have individual high claim pooling, but our review determined that this feature would not have

been an advantage had it been in place over a period of several years. CIGNA proposed increasing renewal positions with increasing stop-loss thresholds.

We were successful in negotiating revisions to CIGNA's renewal through the following concessions:

- Subsidy from the stabilization reserve at a higher projection than initially provided
- Reductions in trend and pharmacy reserves
- Credit for the claims backlog

CIGNA's revised renewal increase is 13.0% or $4.4 million, a savings of $3.5 million from their original offer. It is our conclusion that CIGNA's final renewal is justified. Furthermore, the Coalition's union consultant did not raise any additional questions/concerns after CIGNA reduced their renewal increase to 13.0%.

A performance guarantee penalty of $118,996 is due to the County for the 2004 policy year. This reimbursement has been applied to the 2006 renewal.

The County's plan will move to CIGNA's new claims platform in 2006. CIGNA identified a number of benefit design changes required by the new system to increase claims payment auto-adjudication. However, the County requested that all current benefits be maintained, due to its maintenance of benefits agreements with the Coalition. CIGNA agreed to manually process the non-standard benefits, but there will be added annual administrative fee of $98,000 to do so. This fee is included in the renewal proposal.

### PacifiCare

Originally, the proposed increase for the PPO was 13.2% and for the HMO was 8.1%. Through our negotiations, the final increases were 11.9% and 6.7% respectively. The annual premium increase is $6.3 million. PacifiCare revised their capitation projection and updated the original experience period used, resulting in the lower renewal. This created a $1.2 million savings from their original position.

The HMO increase is below market averages, but we believed a lower increase would be appropriate; PacifiCare did not agree. PacifiCare has invested in intensive patient care management efforts – resulting in lower than average renewals for 2005 and 2006. Their efforts have also resulted in positive earnings. PacifiCare rated the County's plans for 2006 assuming their average book of business trend. We believe that the level of investment in patient management for the County is unique and not indicative of their book of business. Over time, we expect that the County's claims will trend at a slightly lower rate than the book of business – and this should be reflected prospectively in the renewal.

The 2006 renewal includes a credit of $356,570 for performance guarantees. The 2003 performance guarantee results were incomplete when the 2005 renewal was finalized. Some of PacifiCare's guarantees rely on HEDIS based measurement, which were not available until later in the year. When the final results became available, PacifiCare owed the County an additional $124,665 for 2003 results. The preliminary reconciliation for 2005 indicates a payment to the County of $231,905. Again, the HEDIS reporting for 2004 results will not available until later this year; any additional amounts owed to the County will be credited to the 2007 renewal.

Overall, PacifiCare's renewal is justified and we recommend that the County accept their renewal proposal. Furthermore, Local 660's union consultant did not raise any additional questions/concerns after PacifiCare reduced their renewal position.

### Kaiser

The County's enrollment in the Kaiser plans is significantly greater than in the CIGNA and PacifiCare plans.

Kaiser's 2005 community rate increase in Southern California is approximately 7.0%. Based on the actual County experience, the rates can vary. The needed increase for represented employees is 8.4% (Options plan 8.2%, Choices plan 8.9%). The County's increase is higher than the community increase as the result of higher utilization of services in comparison to the Kaiser Health Plan. The final positions represent a $3.4 million reduction from the original renewal of 9.7% for the combined represented plans.

Overall, the Kaiser premium increase is projected at $23 million for the represented plans. Total projected paid premium to Kaiser next year is $290 million.

Key issues discussed and negotiated with Kaiser were:

- Prospective credit to recognize the joint Kaiser/County/Union efforts to identify key cost drivers and develop action plans to reduce unnecessary/inefficient utilization. Kaiser has identified a 10% gap when comparing the County's utilization to the health plan. Some of the difference is driven by a higher burden of County members with chronic condition. However, the remainder of the gap has not been fully identified. Efforts are underway (Options – Cost Mitigation Goals and Objectives initiative) to determine root causes for the 10% gap and potential actions to improve resource utilization. The magnitude of the gap indicates some potential for savings, given SEIU's commitment to member education and behavior change. In addition to cost mitigation, Kaiser also has an opportunity to pilot this analysis/approach for efforts with other clients.

- Credits for utilization reduction due to the emergency room copay increase implemented in 2005 (Options)- this change was implemented in response to the very high County emergency room utilization. The 2006 Options medical base rate included a credit for the higher copayment. However, the base rate is adjusted by a factor which measures the County Union's emergency room utilization from prior experience periods. Kaiser provided evidence that in the first quarter of 2005, emergency room utilization decreased by 19% over the same period in 2004. We believed that a larger rate credit would be appropriate, recognizing the reduction in emergency room services.

- Given the results of the 2005 actuarial review, we again examined the pharmacy rate development. Kaiser's response to providing the requested pharmacy data file was very late. The file requested in May was eventually received on August 9. At Kaiser's request, two technical discussions were also held to review the data request and Kaiser's pharmacy rating methodology.

- Kaiser uses a different rating process for pharmacy than for outpatient and inpatient services. They do not compare client results to their overall book-of-business for large cases. They compare pharmacy results to an internally generated "health plan cost." We were able to obtain data files to check the "client cost" in comparison to the pharmacy RAF development. The results balanced to the client cost reported by Kaiser.

- However, information to verify the other elements of the rate development, such as the "health plan cost", remains unavailable. So, the pharmacy component of the rate cannot be reconciled. The magnitude of the difference is similar to last year. We specifically requested a 2006 rate credit for the 2005 pharmacy cost which could not be reconciled.

- Kaiser continues to be more expensive than competing plans, and the cost gap has increased in comparison to the PacifiCare Options HMO plan, from 15% to 17%. The 2006 final rate difference for a single employee is over $600 per year and over $1,400 per year for a family. The Kaiser cost gap has narrowed somewhat in comparison to the Choices CIGNA HMO plan, from 12% to 8% more costly. This is due to the CIGNA rate change, and was not a negotiation point for the Choices plan.

Kaiser had three responses to the above discussions. They reduced the renewal for the Options plan. Kaiser agreed to a $3.0 million Customer Relations credit. They also committed to expanding access via a new site in South Los Angeles, early in 2006. They will staff a "care ombudsman" dedicated to serving County members.

Kaiser indicated that a Customer Relations credit would also be available for the Choices plan, in conjunction with benefit design changes.

They did not concur with changes in their methodology for the emergency room copay increase or for their pharmacy rating methodology. Kaiser confirmed their earlier written response that they could not provide a renewal credit related to the pharmacy issue, as they are not in agreement with the noted discrepancy.

Rates were also adjusted for the following:

- Kaiser applied a credit of $147,000 for federal funding of serious conditions (e.g. End Stage Renal Disease). The credit represented a 2002 through 2004 plan year reconciliation. In future years, an annual adjustment will be applied to the next renewal for credits due from the prior plan year. Kaiser recommended a rate credit approach, since the County cannot administer these credit adjustments during the plan year.

- A performance guarantee penalty of $163,133 has been applied to the 2005 renewal. Kaiser identified one metric that was missed in 2004, but their reporting is not yet complete for

standards based on HEDIS results. A final report will be issued in the Fall of 2005, with the results for all metrics. If any additional penalties are owed, they will be applied to the 2007 renewal.

- No benefit changes will be implemented for 2006
- Although the pharmacy reconciliation remains an area of disagreement, overall we believe that the renewal, after concessions, brings Kaiser into a more realistic position and is justified

## Dental Plans

### Delta Dental

The Delta Care program is in the second year of a two year rate guarantee.

Delta Dental contract rates are also guaranteed through December 31, 2006. Billed rates are subsidized by the refundable premium reserves. Delta Dental confirmed the premium subsidy of 1.6% for Choices and 2.9% for Options.

In addition, a performance guarantee penalty of $61,201 for all County plans is due on the Delta plans and is applied to the 2006 billed rates.

We believe Delta Dental's renewal is justified.

### SafeGuard

Safeguard rates will be in the second year of a three year rate guarantee. The rate guarantee does not apply to adjustments for performance guarantees.

Safeguard applied a 0.4% of premium performance guarantee settlement, for the 2004 plan year, to the 2006 rates. The total penalty applied is $14,564 for all plans. Safeguard proposed final 2006 rates to the County based on applying the performance guarantee credit to the 2005 billed rates, instead of the contract rates. This resulted in an overstatement of their performance guarantee credit by $0.07 per employee per month. They will honor the rates as presented in the RFP response.

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Human Resource Consulting



We believe Safeguard's renewal is justified.

## Basic/Voluntary Life and PAI - CIGNA

Rates were confirmed with no changes for 2006, which is the final year of a three year rate guarantee period.

Sincerely,

Marci K. Burns

Copy:
Frank Frazier, County of Los Angeles
Phil Schneider, Mercer Human Resource Consulting
Jeff Whitman, Mercer Human Resource Consulting

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MERCER
Human Resource Consulting

777 South Figueroa Street, Suite 2000
Los Angeles, CA 90017-5818
213 346 2200 Fax 213 346 2680
www.mercerHR.com

August 24, 2005

Ms. Marian Hall
Chief of Employee Benefits
Department of Human Resources
County of Los Angeles
3333 Wilshire Boulevard
Los Angeles, CA 90010

Subject:
**Summary of 2006 Health, Dental, and Life Renewal Results and Recommendations (Nonrepresented)**

Dear Marian:

This letter summarizes the results of our analysis and negotiation of the 2006 renewal proposals for health, dental, and life plans offered to the non-represented employees of the County of Los Angeles (County). In addition, it presents our recommendations for each plan.

## Process

The renewal request, analysis and negotiation are multi-step processes, conducted over a period of several months. A planning meeting with assigned representatives of the County DHR and CAO initiates the process, in which objectives for the following plan year are established. Based on the planning meeting discussions, a Request for Proposal (RFP) is drafted and reviewed by the County. The RFP includes:

- Stated assumptions and requirements, including a submission letter to be signed by a company officer with the authority to bind their proposal
- Questionnaire encompassing carrier financial results, prescription drugs and provider issues, health and productivity management, administration, and quality issues
- Plan performance exhibits comparing the County's past plan results to the carriers' book of business results
- Rate quotation, rate development and projected cost exhibits

- Benefit design and contract changes
- Performance guarantees

The County submits requested changes to the draft. These are reviewed and incorporated into the final RFP, which is then released to the carriers. This year, to provide the carriers with additional completion time, several exhibits were released in advance of the full RFP release. The County concurred with the pre-release of these exhibits relating to plan performance for 2003 and 2004.

Carrier proposals are submitted to the County and Mercer at the same time. Following a review and analysis period, Mercer drafts negotiation letters for each plan. The drafts are reviewed by the County and their comments are incorporated before release to the carriers. Weekly status conference calls are conducted between Mercer and the County to discuss the renewal results, negotiation process and open issues.

Responses to the negotiation letters are due from the carriers prior to the renewal meetings. Again the responses are delivered to the County and Mercer concurrently. Final issues are reviewed and prepared for the renewal meetings.

Two hour renewal meetings are conducted with each carrier. Attendees include representatives from DHR, CAO, and Mercer, as well as the carrier representatives. The carrier representatives generally include account/sales management, financial, operations, and medical/provider relations personnel. Issues discussed during the meeting include: rate development/proposal rates, performance guarantees, RFP deviations, network contracting environment and quality initiatives. Outstanding issues and requests for reduced rates – where areas of opportunity exist – are identified for each carrier. Following the meeting, carriers must respond to all identified issues in writing to all stakeholders.

The review and negotiation process continues until all open issues are resolved or the carrier has presented their final offer. The negotiation does not always result in agreement on particular topics – however may result in overall business concessions from the carriers.

## Medical Plans

### Overview

For all medical plans, the total projected premium increase is 4.2% or $3.3 million for the current benefit programs. This compares to an initial increase of 6.5% or $5.0 million. The County will implement benefit design changes in 2006 as described below. The total projected premium increase including these design changes is 4.9% or $3.8 million annually.

### Blue Cross

For the 2006 plan year, Blue Cross proposed an increase for all plans combined of approximately 8.5% or $4.2 million, before negotiations. The final renewal, following negotiations and benefit design changes is 5.1%, an annual increase of $2.5 million. Savings of $1.7 million were achieved.

All plans are funded through a minimum premium arrangement with specific stop loss of $250,000 per individual. The aggregate stop loss will continue to be set at 120% of projected claims for all plans. Projected 2006 maximum liability for the Blue Cross plans is $51.5 million.

In reviewing Blue Cross' original renewal proposal, we identified several key issues:

- Higher than needed medical trend factors. Blue Cross utilizes book-of-business trend factors for this group. Actual experience for the County has shown a trend significantly lower.
- Stop loss cost increases of approximately 30%
- Vision experience better than projected for 2005
- Performance guarantee penalties lower than requested target

As a result of negotiations, Blue Cross agreed to reduce their medical trend factors by 2%. The reduction in trend accompanied by additional experience data resulted in a revised overall renewal of 5% or a $2.5 million increase over 2005.

As an option to the $250,000 individual specific stop loss attachment point, Blue Cross provided an alternative option of increasing the stop loss point to $300,000, and agreed to a lower stop loss premium. This option would reduce the overall increase to 4.8%, at a savings of approximately $110,000 from the $250,000 pooling level. We recommend that the County increase the individual stop loss pooling level to $300,000.

The vision benefit was introduced in 2005 for the HMO, POS, and PPO plans. These benefits are offered on a non-participating basis. Rates for the vision program are guaranteed through December 2006. As utilization was lower than expected, VSP reduced their 2006 rates by 15%. These reduced rates are effective 1/1/2006 through 12/31/2006. Several vision options were presented to enhance the vision benefits (lower copayment, increased frames frequency and coverage for lasik surgery).

Blue Cross also responded with a quote for a new vision plan, Blue View Vision. For the current VSP plan design, these rates are 3.7% (PEPM) lower than the VSP rates. We recommend that the County not change vision providers without a more detailed review of the impact on member access, benefit payments and provisions.

The following changes will be implemented in 2006:

1. Increase vision copayment from $10 to $15 for consistency with medical copayments (vision benefits apply to HMO, POS, PPO only)

2. Enhance vision coverage by adding an in-network $1500 lasik benefit (vision benefits apply to HMO, POS, PPO only). Lasik benefits cover surgery costs in total for both eyes (not per eye). Lasik benefits are provided on a self-funded basis only.

3. Increase emergency room copayment to $50 (HMO, POS, PPO only)

4. Increase individual pooling limit to $300,000

The net annual premium impact for these changes if $53,000.

Blue Cross provided their 2004 performance guarantee report and issued a settlement check of $269,935 (the maximum penalty, 10% of administration fees) to the County. Blue Cross proposed performance guarantees for 2006 with penalties up to 10% of retention, which is unchanged from prior years. We requested a higher at risk amount as an incentive to improve services. However, Blue Cross did not agree to a higher penalty level and offered other guarantee options that do not provide additional benefit to the County.

We believe Blue Cross' most recent renewal proposal is justified and recommend that the County accept it.

**Kaiser**

Kaiser's 2005 community rate increase in Southern California is approximately 7.0%. Based on the actual County experience, the rates can vary. For the non-represented employees, the needed rate increase for the current benefit design is 2.9%. The principal reason for the increase below the community average is a favorable change in inpatient utilization.

Overall, the Kaiser premium increase is projected at $819,000 for the current non-represented plan. Total projected paid premium to Kaiser next year for this group is $29.3 million.

The County will add a $250 vision allowance plan to the benefits in 2006. The vision allowance plan will provide materials coverage for lenses and frames. The County's benefits already include vision exams. Lasik surgery is not a covered benefit under the Kaiser vision plans. The associated annual premium increase is $441,000. With this benefit change the expected annual Kaiser premium will be $29.8 million, or a 4.4% increase over 2005 costs.

Key issues discussed and negotiated with Kaiser were:

- Credits for utilization reduction due to the emergency room copay increase implemented in 2005 - this change was implemented in response to the very high County emergency room utilization. The 2006 Management medical base rate included a credit for the higher copayment. However, the base rate is adjusted by a factor which measures the County Management's emergency room utilization from prior experience periods. We believed that a larger rate credit would be appropriate, given the expected reduction in emergency room services.

- Given the results of the 2005 actuarial review, we again examined the pharmacy rate development. Kaiser's response to providing the requested pharmacy data file was very late. The file requested in May was eventually received on August 9. At Kaiser's request, two technical discussions were also held to review the data request and Kaiser's pharmacy rating methodology.

- Kaiser uses a different rating process for pharmacy than for outpatient and inpatient services. They do not compare client results to their overall book-of-business for large cases. They compare pharmacy results to an internally generated "health plan cost." We were able to obtain data files to check the "client cost" in comparison to the pharmacy RAF development. The results balanced to the client cost reported by Kaiser.

- However, information to verify the other elements of the rate development, such as the "health plan cost", remains unavailable. So, the pharmacy component of the rate cannot be reconciled. The magnitude of the difference is similar to last year. We specifically requested a 2006 rate credit for the 2005 pharmacy cost which could not be reconciled

Kaiser committed to expanding access via a new site in South Los Angeles, early in 2006. In addition, they will staff a "care ombudsman" dedicated to serving County members. Kaiser did not concur with changes in their methodology for the emergency room copay increase or for their pharmacy rating methodology. They confirmed their earlier written response that they could not provide a renewal credit related to the pharmacy issue, as they are not in agreement with the noted discrepancy.

Rates were also adjusted for the following:

- Kaiser applied a credit of $10,000 for federal funding of serious conditions (e.g. End Stage Renal Disease). The credit represented a 2002 through 2004 plan year reconciliation. In future years, an annual adjustment will be applied to the next renewal for credits due from the prior plan year. Kaiser recommended a rate credit approach, since the County cannot administer these credit adjustments during the plan year.

- A performance guarantee penalty of $17,308 has been applied to the 2005 renewal. Kaiser identified one metric that was missed in 2004, but their reporting is not yet complete for standards based on HEDIS results. A final report will be issued in the fall of 2005, with the

results for all metrics. If any additional penalties are owed, they will be applied to the 2007 renewal.

Although the pharmacy reconciliation remains an area of disagreement, we believe that the Kaiser renewal is justified.

## Dental Plans

### Delta Dental

The Delta Care program is in the second year of a two year rate guarantee.

Delta Dental contract rates are also guaranteed through December 31, 2006. Billed rates are subsidized by the refundable premium reserves. Delta Dental confirmed the premium subsidy of 1.6%.

A performance guarantee penalty of $61,201 for all County plans is due on the Delta plans and is applied to the 2006 billed rates.

We believe Delta Dental's renewal is justified.

### SafeGuard

Safeguard rates will be in the second year of a three year rate guarantee. The rate guarantee does not apply to adjustments for performance guarantees.

Safeguard applied a 0.4% of premium performance guarantee settlement, for the 2004 plan year, to the 2006 rates. The total penalty applied is $14,564 for all plans. Safeguard proposed final 2006 rates to the County based on applying the performance guarantee credit to the 2005 billed rates, instead of the contract rates. This resulted in an overstatement of their performance guarantee credit by $0.07 per employee per month. They will honor the rates as presented in the RFP response.

We believe Safeguard's renewal is justified. Safeguard has agreed to guarantee the rates, excluding performance guarantee penalties, for three years.

MERCER
Human Resource Consulting



**Basic/Voluntary Life and PAI - CIGNA**

Rates were confirmed with no changes for 2006, which is the final year of a three year rate guarantee period.

Please contact me or Jeff with any questions related to these renewals.

Sincerely,

Marci K. Burns

Enclosure

Copy:
Frank Frazier, County of Los Angeles
Phil Schneider, Mercer Human Resource Consulting
Jeff Whitman, Mercer Human Resource Consulting

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