EXECUTIVE SUMMARY

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We have completed our evaluation of the City of Lawrence self-funded medical and dental plan, reinsurance contract, basic and supplemental life and AD&D plans, and are pleased to provide you with a summary of the results. The following sections will include specific details regarding project results, analysis of the financial impact of these options, and recommendations based on our findings. The comments in this section will focus on the major areas that were evaluated.

- **BlueCross BlueShield of Kansas Renewal**

  We are pleased to advise you that claim administration rates will experience a projected decrease of $23,685, and specific and aggregate premiums will increase $21,859, resulting in an overall cost neutral renewal to perhaps a slight reduction of .3%. BlueCross BlueShield has also made a good faith effort toward flexibility by agreeing to administer the City's suggested new preventive benefits.

  The BlueCross BlueShield claim administration fee, although not the lowest, was very competitive with other companies that were considered. The BlueCross BlueShield reinsurance renewal was significantly lower than all other options considered, and when combined as a package with claim administration, BlueCross BlueShield continues to be the least expensive option.

  From an employee's perspective, staying with BlueCross BlueShield would be positively received as the network is comprehensive. Although we have secured alternatives, given the aggressive renewal and the City's general satisfaction with BlueCross BlueShield's overall performance, continuing with BlueCross BlueShield for the coming year would likely be the best course of action.

  The disadvantage of continuing with BlueCross BlueShield is that the provider is antiquated in its reporting capabilities and operates under the philosophy that self-funded plans must fit into the BlueCross BlueShield infrastructure rather than BlueCross BlueShield having the flexibility to meet the specific needs of self-funded plans. Also to be noted is the fact that BlueCross BlueShield is not willing to guarantee rates over a three-year period, nor guarantee its performance with fees at risk while all other bidders were willing to guarantee performance and most would also guarantee rates for a three-year period. This being said it, nevertheless, is our opinion that when considering BlueCross BlueShield administration in combination with its competitive reinsurance renewal and the transparency employees would enjoy, it would be in the best interest to continue with BlueCross BlueShield of Kansas for the coming year.

- **Request for Proposal Results**

The City of Lawrence self-funded medical and dental plan was marketed to major insurance carriers, as well as reputable third-party administrators, which in our opinion would be capable of delivering quality service. However, it is our opinion that while these providers' networks are adequate, we do not believe their networks would offer transparency to members should the plan change from BlueCross BlueShield. The proposals were evaluated for cost efficiencies, improved reporting, the ability to interface effectively with the City's disease management, wellness-program providers and PBM, and the flexibility to administer specific plan provisions as requested and needed by the City. We also explored whether each administrator could demonstrate the ability to offer a High Deductible Health Plan as a future option, as well as any assistance that might be offered with regard to the City's obligations under the Governmental Accounting Standards Board (GASB) rules for Accounting for Termination Benefits.

We are pleased to have received competitive claims administration proposals that would deliver savings in comparison to the current BlueCross BlueShield arrangement. The most competitive proposals received from third-party administrators were presented by FMH Benefit Services, EPOCH and United Health Groups. All three third-party administrators would provide the flexibility to administer the plan as required by the City of Lawrence. All offered enhanced reporting capabilities, had experience with municipalities and with replacing BlueCross BlueShield as a vendor. In addition, all offered performance guarantees and three-year rate guarantees. EPOCH, however, would not be willing to accommodate the City's required banking arrangements.

The competitive proposals received from carriers were presented by Mutual of Omaha and Coventry Health Care of Kansas. These carriers, however, did not demonstrate flexibility with regard to accommodating the City's plan design and/or banking arrangements. In addition, neither carrier quoted dental claims administration as a part of their package and fees. Therefore, when combined with a Dental Only Administrative proposal the overall savings are negated.

All carriers demonstrated knowledge of GASB rules and would provide required data to the City's accountant, but excluded actuarial evaluation estimates.

- **Network Pricing and Network Disruption Analysis**

As it pertains to provider networks, with the exception of Mutual of Omaha, Humana and UnitedHealthCare, which own their networks, all prospective Administrators recommend utilizing Healthcare Preferred (HCP). Also to be noted, while Coventry owns its network, Healthcare Preferred is a part of the Coventry-owned PPO network. While we believe the Healthcare Preferred and UnitedHealthcare (UHC) networks are broad and sufficient networks, a change to one of these networks would not be transparent to the City of Lawrence members. We base this statement on our comparison of the top BlueCross BlueShield providers against each network's participating physicians and hospitals.

It is significant to note that UHC is willing to guarantee its network discounts (as one of its performance guarantees) with fees at risk, and is the only bidder to make such a guarantee. The average discount guaranteed by UHC is 51.5% compared to BlueCross BlueShield's demonstrated savings on the City of Lawrence account of 32% in 2005 year-to-date. When comparing the contracted maximum allowable costs of frequently performed procedures for these networks against the allowable cost provided by BlueCross BlueShield, the lowest average allowable costs were provided by Aetna, UHC and Coventry. The HCP network average still fell below the BlueCross BlueShield average amount. The BlueCross BlueShield maximum allowable cost was based specifically on providers in Lawrence, while other respondents may have used regional (Kansas City, Lawrence and Topeka) averages.

The following section of this proposal provides a financial comparison of proposals received from all carriers with annualized cost comparisons to the current BlueCross BlueShield arrangement.

- **Basic and Supplemental Life and AD&D**

The Basic and Supplemental Life and AD&D plans were marketed to 19 carriers; 12 of the carriers submitted proposals, while seven declined to quote. Included in our proposal binder is an analysis of the seven most competitive proposals. All carriers quoted rates that were significantly higher than the current Basic Life and AD&D rates. The Supplemental Life and AD&D proposals offered savings but when packaged with the Basic Life and AD&D, cost efficiencies would not be obtained by making a change in vendors. It would be our recommendation to leave these benefits with BlueCross BlueShield.

- **Dental Administration**

  The most competitive proposals were received from BlueCross BlueShield and Delta Dental. The Delta fee was slightly lower than BlueCross BlueShield, however because of the minimal savings, which would be offset by the expense of changing vendors, as well as potential disruption to plan participants, it is our recommendation that BlueCross BlueShield be retained as the dental claim administrator.

- **2006 Projected Costs**

  R. J. Dutton has completed cost calculations for the 2006 plan year based upon the most current 12 months of paid claim experience through May 31, 2005. It should be noted that because of the change in prescription drug vendors on January 1, 2005, and the significant cost increase for prescription drugs during the current plan year, we have prepared an alternative projected cost calculation utilizing paid prescription drug claims for the current plan year on an annualized basis.

  On the basis of projected cost calculations, we have evaluated the adequacy of the current premium rates and illustrated suggested premium equivalents for the 2006 plan year.

- **Reinsurance**

  As already stated, the BlueCross BlueShield reinsurance renewal was very competitive in terms of both premium cost, as well as the maximum claim liability limits under the aggregate contract. The current BlueCross BlueShield reinsurance contract covers medical and dental coverages. Carriers were requested to quote a variety of options including medical only, medical and dental, and medical and prescription drugs. BlueCross BlueShield will reinsure prescription drug coverage only if it is the vendor. It is our opinion that the selection of the BlueCross BlueShield $100,000 specific deductible with aggregate coverage covering medical only, would present the best balance between premium dollar expenditure and financial protection to the City of Lawrence.

  Coventry Health Care of Kansas presented the next most competitive reinsurance proposal, covering medical and prescription drugs. However the Coventry ASO and reinsurance proposal was contingent upon utilizing Coventry as the pharmaceutical benefit management firm.

The proposals of all other carriers were not competitive, and these proposals were illustrative only with final rates to be determined upon the submission of more current claim experience this Fall.

- **Summary**

In summary, we appreciate the opportunity to serve as the employee benefit consultant to the City of Lawrence for this project. We find, overall, the vendor arrangements that are currently in place to be financially competitive to the marketplace. The greatest differentiator between BlueCross BlueShield renewal and its competitors is the superior reinsurance renewal that was presented in combination with a favorable claim administration renewal. Claim administration and reinsurance must be considered as a package, and the superior BlueCross BlueShield reinsurance renewal makes it very difficult to seriously consider changing claim administrators even though improvement in some areas could be made.

It is also our understanding that from a plan participant perspective, the City of Lawrence is generally satisfied with the current BlueCross BlueShield arrangement. It, therefore, is our opinion that the best course of direction for the City of Lawrence will be to remain with BlueCross BlueShield for medical and dental administration, reinsurance, as well as life insurance through its affiliated carrier ADVANCE Insurance Company of Kansas. We suggest some modification of the reinsurance arrangement which will be addressed.

Thank you again for providing us with the opportunity to assist you in this project. We look forward to discussing the results of our analysis with you.