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October 26, 2015

Mr. Yulian Ligioso
Vice President, Finance & Administration
Solano Community College District
4000 Suisun Valley Road
Fairfield, CA 94534

Re: HCR Strategic Impact Study for Solano Community College District

Dear Mr. Ligioso:

Keenan & Associates is pleased to provide you with the attached Milliman Health Care Reform Strategic Impact Study for Solano Community College District. Keenan has contracted with Milliman, a premier national actuarial consulting firm, to provide our clients with key analytics related to the impact of Health Care Reform ("HCR") on employer-sponsored health plans.

As you know, we provided your medical plan information and employee census to Milliman for the development of future medical plan cost projections, a plan termination analysis, two alternative scenarios, and an analysis of Solano Community College District's potential liability for the "Cadillac" excise tax. We consulted with Milliman in the development of assumptions specific to the unique characteristics of your plans and employees for modeling your plans' future cost.

Highlights of the Study

Analysis	Result	See Report Page
Plan Minimum Value	Meets Requirement	6, 15
Exchange Equivalent	Actuarial Value – Gold- and Platinum-Level	6, 15-16
Plan Termination	Not Cost-Justified	7-8
Affordable Plan Penalty	Estimated 2016 Penalty – $0	14-15
"Cadillac" Excise Tax	Potential 2018 Liability – $0	3, 18-19
HCR Cost Impact	4.2% or $248,800 in 2015	3

Minimum Value & Exchange Equivalent

The first item of note from the report is that the District's plans are well above the federal minimum value standards as defined by the Patient Protection and Affordable Care Act ("PPACA"). While the minimum standard is defined to have an actuarial value of at least 60% – which would be the equivalent of a bronze-level plan related to an Exchange – your current plans' actuarial values range between 87% and 92% (comparable to gold- and platinum-level Exchange plans).

Plan Termination Analysis

The plan termination analysis shows that terminating the District's current medical plans in 2016 and allowing employees to purchase insurance through the California Health Benefit Exchange (*Covered California*) would not be cost-justified and is expected to yield additional costs of $3,589,900 in 2016. If the District were to terminate the plan in 2015, the additional cost would have been $2,952,100.

This result assumes that employee salaries would be "grossed up" to provide them with the funds to purchase silver-level coverage on the Exchange. The additional cost to make employees "whole," combined with the penalties and taxes that Solano Community College District would incur by terminating its plans, would exceed the cost of providing the medical plans and complying with PPACA in 2015.

Affordable Plan Penalty

Under HCR, if the employee premium contribution to the health plan exceeds 9.5% (indexed in years after 2014) of their annual household income, the plan is considered not affordable. In that situation, if employees eligible for Subsidies purchase coverage through an Exchange, an employer will incur a penalty.

The penalty is $3,000 (indexed by the "premium adjustment percentage" in years after 2014) per employee joining the Exchange with a Subsidy, not to exceed $2,000 times all full-time employees (minus the first 30 FTEs, 80 FTEs in 2015).

We do not estimate any full-time employees will be eligible for a subsidy in 2016 or 2020. This estimate assumes a 1% salary trend from 2015 to 2020.

As healthcare costs continue to rise, you do have options to increase employee contributions as long as the District continues to meet the affordability requirement.

"Cadillac" Excise Tax

Many of our clients are also concerned about the "Cadillac" excise tax effective in 2018. Analyzing your current plans, none of your plans would potentially present an issue in 2018 (assuming neither the Cadillac tax nor your plan design is modified). The impact is expected to generate no additional cost for the District in 2018.

After 2018, the Excise Tax thresholds are scheduled to be increased by the Consumer Price Index (CPI), plus 1% in 2019, and by only the CPI thereafter. Because forecasted CPI trends are below estimated future healthcare trends, costs related to Excise Tax remain at $0 in 2020.

Although there is still time to make any necessary changes prior to the 2018 effective date of the tax, we advise you to continue monitoring your plan costs.

Health Care Reform Cost Impact

In addition to the systemic, underlying medical trend and cost drivers that continue to increase healthcare costs at a level far above the Consumer Price Index, the impact of HCR by itself is substantial. As shown on page 3 of the report, the projected health plan costs related directly to HCR are expected to be 4.2% or $248,800 in 2015 and 4.6% or $348,700 in 2020.

Alternative Scenarios

The District requested two alternative scenarios:

1. Increase the share of total plan costs paid by employees by 5%.
2. Increase the assumed annual premium tend rate from 5% to 8%.

These scenarios are presented in the Milliman report on page 9.

We are proud to have Milliman provide their Health Care Reform Strategic Impact Study to Solano Community College District. We realize that there is a great deal of information being presented in this report; this cover letter merely hits the highlights. We would be happy to review the report in more detail or answer any questions you have. Keenan is prepared to work closely with you to monitor and adapt Solano Community College District's healthcare plans over time as the healthcare environment continues to evolve.

Sincerely,

Bob Schoenherr
Senior Vice President

Christine Hough
Christine Hough, FSA, MAAA
Vice President & Actuary