

Mr. Lance Nauman  
Director of Risk Management  
Katy Independent School District  
6301 South Stadium Lane  
Katy, TX 77494

March 30, 2018

**Subject:** Katy ISD Teacher Retirement System Medical Plan Comparability

Dear Lance:

Per your request, Mercer has prepared this correspondence to serve as documentation of Katy ISD's medical plan provisions which is required by the education code.

The state of Texas requires each school district that does not participate in TRS ActiveCare to make a comparability determination to the Employee Retirement System HealthSelect (HealthSelect) using its own methodology and criteria which take into account factors as specified in Section 22.004(b). The factors are as follows:

- 1) The deductible amount for service provided inside and outside of the network
- 2) The coinsurance percentages for service provided inside and outside of the network
- 3) The maximum amount of coinsurance payments a covered person is required to pay
- 4) The amount of the copayment for an office visit
- 5) The schedule of benefits and the scope of coverage
- 6) The lifetime maximum benefit amount
- 7) Verification that the coverage is issued by a provider licensed to do business in this state by the Texas Department of Insurance or is provided by a risk pool authorized under Chapter 172, Local Government Code, or that a district is capable of covering the assumed liabilities in the case of coverage provided through district self-insurance

### **Methodology**

To satisfy factors one through six, Mercer has compared Katy ISD plans to the HealthSelect PPO plan using MedPrice 2017. MedPrice 2017 is a proprietary tool designed for Mercer consultants to use in rating changes to medical plans and modeling the effect of network plan controls and discounts. MedPrice 2017 analyzes the impact of both in- and out-of-network use. Focusing on managed care in a fee-for-service environment, MedPrice 2017 handles PPOs, POS, non-capitated HMOs, Consumer Driven Health Plans and flex programs, and directly connects to current contracting and management practices.

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Actuarial value relativity, in this exercise, compares the value of a plan to the members, or said differently, the ratio of paid claims to allowed charges. In the past, TRS has required that school districts that do not participate in TRS ActiveCare must offer at least one plan that is no more than 5 percentage points less than the value of HealthSelect PPO to qualify as comparable. We have assumed this to still be a qualifying condition of a plan's comparability to HealthSelect.

## Results

### Factors 1-6

Medprice 2017 estimates the actuarial value for the Consumer Plus Limited plan to be 1.6 percentage points (pp) lower than HealthSelect PPO. Additionally, the Consumer Plus Choice plan is estimated to be 2.4 pp lower than HealthSelect PPO. Therefore, two plan options have actuarial values within 5 pp of HealthSelect. The following is a comparison of the Katy ISD plans to HealthSelect PPO:

	ACTUARIAL VALUE	DIFFERENCE FROM HEALTHSELECT (PP)
ERS HealthSelect PPO	86.0%	
Katy ISD Consumer Plus Limited	84.4%	-1.6 pp
Katy ISD Consumer Plus Choice	83.6%	-2.4 pp
Katy ISD Consumer Basic Limited	79.5%	-6.5 pp
Katy ISD Consumer Basic Choice	78.9%	-7.1 pp

### Factor 7

Mercer works with Katy ISD to set an annual budget for health care liabilities using Mercer's best practices for medical plan underwriting. As Katy ISD is aware, claims liability is subject to variability, and it is up to Katy ISD to determine if they have set aside enough to fund adverse claims experience. Katy ISD has decided to not purchase stop loss upon an analysis of likely claims fluctuations.

## Conclusion

Based on our methodology Katy ISD offers at least one plan that is no more than 5 percentage points lower than the HealthSelect PPO. Katy ISD must determine if it can cover its assumed liabilities.

## Caveats & Disclosures

*Actuarial values included in this document are based upon Mercer's proprietary relative value pricing tool, MedPrice. While appropriate for budgeting purposes and expected financial impact of employer plan design changes, Mercer's MedPrice calculated actuarial values should not be construed as an Affordable*

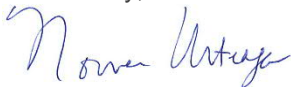
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*Care Act 60% minimum value determination nor a guarantee of any protection from an IRS employer shared responsibility assessment.*

*Mercer is not engaged in the practice of law and this report, which may include commenting on legal issues or regulations, does not constitute and is not a substitute for legal advice. Accordingly, Mercer recommends that Katy ISD secure the advice of competent legal counsel with respect to any legal matters related to this report or otherwise.*

Please feel free to contact me with any questions regarding the enclosed information.

Sincerely,



Norma Urteaga  
Principal