

August 22, 2024

Shannon Welle
Employee Relations Benefits Administrator
Dakota County Administration Center
1590 W. Highway 55
Hastings, MN 55033

Re: 2025 Short-Term Disability Plan Renewals

Dear Shannon:

Deloitte was asked to review Dakota County's (the County) most recent claims experience for its self-funded short-term disability (STD) plan and to make rate recommendations for the upcoming plan year. The following is a summary of our review of recent program experience and rate recommendation for 2025.

Background

The County provides employee-paid short-term disability with four elimination period options for benefit eligible employees. We based our analysis on enrollment, premium, and claims data provided by the County through June 30, 2024. We have not independently verified the information shown in the following table.

	Billed Premium *	Claims & Administrative Expenses *	Employees Enrolled	2023 Monthly Rate **
8-Day EP Option		\$121,634	69	\$1.710
15-Day EP Option		\$254,528	297	\$0.810
30-Day EP Option		\$131,425	1,078	\$0.170
75-Day EP Option		\$0	235	\$0.060
Administration		\$19,291	--	\$1.00 per participant per month
Total	\$526,336	\$526,878	1,679	--

* July 2023 through June 2024

** Monthly Rate per \$10 of Covered Weekly Payroll

The County reported its short-term disability fund (established to collect premiums and disburse claims) holds approximately \$1,482,821 as of June 30, 2024, an increase of approximately \$150,170 (11.3%) since June 30, 2023.

Current Plan Design

Employees can voluntarily purchase short term disability insurance to provide replacement income in the event they become injured or medically unable to work. The benefit pays 60% of salary up to a maximum weekly benefit of \$2,308 (based

on the maximum annual covered salary of \$200,044) and is paid tax free as the employee contributions for the voluntary short term disability plan are on an after-tax basis. Premium rates are employee-paid and based on salary. Benefits begin after the elected elimination period (8-days, 15-days, 30-days, or 75-days) has been satisfied and can last up to 6 months if medically necessary (the voluntary long term disability insurance, if elected, would then begin on day 181, and could go to age 65 if medically necessary).

Current Plan Analysis

In pricing the short-term disability program, the County attempts to balance participant premiums against claims and administration costs. It is important to recognize that this is an employee-pay-all plan and therefore is possibly volatile and vulnerable to adverse selection. That said, the plan has been in place for several years and, as such, any adverse selection that could be anticipated is very likely already manifested in the claims experience. If this plan was fully insured, a reasonable target loss ratio would be about 85% to 90% for a plan this size. In addition, the County’s current fund balance as noted above is adequate and continues to provide a stabilizing factor to the plan.

Based on premiums collected versus claims paid, the average loss ratio for the STD benefits over the last three years has been 96%; this compares to the target loss ratio of 100% (the ideal level since the STD plan is employee-pay-all).

On a combined basis the loss ratio for the period of July 2023 to June 2024 is 100.1%. A three-year analysis of plan performance yields an average loss ratio of 91.4%. Total Enrollment increased by 42 enrollees over the prior experience period. The table below illustrates the past three years of premium, claims, and administration expense data.

STD Option	Premiums (July to June Each Period)			Claims & Admin Expenses (July to June Each Period)			3-Year Loss Ratio
	2021-2022	2022-2023*	2023-2024*	2021-2022	2022-2023	2023-2024	
8-Day EP	\$110,410	\$131,111	\$115,131	\$70,950	\$85,527	\$121,634	78.0%
15-Day YP	\$210,305	\$239,461	\$210,275	\$267,401	\$169,966	\$254,528	104.8%
30-Day EP	\$194,533	\$214,380	\$188,251	\$209,011	\$132,829	\$131,425	79.3%
75-Day EP	\$10,515	\$14,440	\$12,680	\$0	\$0	\$0	0.0%
Admin				\$27,423	\$19,318	\$19,291	
Total	\$525,764	\$599,391	\$599,391	\$574,785	\$407,640	\$526,878	91.4%

* 2022-2024 Premiums not provided separately by plan; estimates here based rates applied to covered salary

8-Day Elimination Period Option

The annual loss ratio increased from 68% to 106%, which is above the target range. The three-year loss ratio of 78% is below the 100% target level. Enrollment decreased 14% from the prior year.

15-Day Elimination Period Option

The annual loss ratio increased from 72% to 121%, which is significantly above the target range. The three-year loss ratio of 105% is above the 100% target level. Enrollment increased 3% from the prior year.

30-Day Elimination Period Option

The annual loss ratio increased from 62% to 70%, which is higher than the target range. The three-year loss ratio of 79% is below the 100% target level. Enrollment decreased 2% from the prior year.

75-Day Elimination Period Option

The annual loss ratio remained at 0%, which is significantly below the target range. The three-year loss ratio of 0% is also significantly below the 100% target level. Enrollment increased 10% from the prior year.

Recommendation

The overall three-year loss ratio for the program eroded slightly from 88.9% to 91.4% this year and the annual loss ratio decreased from 68% to 100%, which is at the 100% target range for this group. The reserve position stands at 2.8 times annual claims and admin expenses as of June 2024. Last year, all rates were held constant given the experience of the plan and the surplus reserve position.

Considering the County’s objective to target a 100% loss ratio and given the reserve’s position and ability to absorb any potential adverse claims volatility, we are recommending a rate hold for 2025.

The table below illustrates proposed premium rates for 2025 as described above (no change from 2024 rates).

Plan	2024 Premium *	2025 Proposed Premium *
8-Day EP Option	\$1.710	\$1.710
15-Day EP Option	\$0.810	\$0.810
30-Day EP Option	\$0.170	\$0.170
75-Day EP Option	\$0.060	\$0.060

* Monthly rates expressed per \$10 of Covered Weekly Payroll

If the premium rates are left unchanged for 2025, it is estimated that the plan experience for 2025 will generate an additional \$80,800 toward the 2025 year-end account balance.

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If you have any questions concerning any of the above, please contact Dan Plante (312-486-0200) or dplante@deloitte.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Plante". The signature is stylized with a large, looped "D" and "P".

Daniel R. Plante, A.S.A., M.A.A.A.
Specialist Leader

cc: Andrew Benish, Dakota County
Michael de Leon, Deloitte
Kelley Lewis, Deloitte