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August 8, 2022

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

Re: 2023 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 2023.

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, 2022. We have not independently verified the information shown in the following table.

	Billed Premium *	Claims & Administrative Expenses *	Employees Enrolled	2022 Monthly Rate **
8-Day EP Option	\$110,410	\$70,950	73	\$1.710
15-Day EP Option	\$210,305	\$267,401	304	\$0.810
30-Day EP Option	\$194,533	\$209,011	1,029	\$0.170
75-Day EP Option	\$10,515	\$0	190	\$0.060
Administration		\$27,423	--	\$1.00 per participant per month
Total	\$525,764	\$574,785	1,596	--

* July 2021 through June 2022

** Monthly Rate per \$10 of Weekly Payroll

The County reported its short-term disability fund (established to collect premiums and disburse claims) holds approximately \$1,296,400 as of June 30, 2022, an increase of approximately \$3,800 (0.3%) since June 30, 2021.

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. 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.

On a combined basis the loss ratio for the period of July 2021 to June 2022 is 109.3%. A three-year analysis of plan performance yields an average loss ratio of 101.5%. Total Enrollment increased per 1 person 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
Period	2019-2020	2020-2021	2021-2022	2019-2020	2020-2021	2021-2022	2019-2022
8-Day EP	\$106,319	\$107,257	\$110,410	\$107,657	\$41,689	\$70,950	72.9%
15-Day YP	\$209,981	\$219,818	\$210,305	\$226,113	\$155,204	\$267,401	112.5%
30-Day EP	\$199,349	\$198,426	\$194,533	\$136,804	\$160,119	\$209,011	96.4%
75-Day EP	\$15,948	\$10,724	\$10,515	\$2,797	\$17,315	\$0	49.4%
Admin				\$22,187	\$17,854	\$27,423	
Total	\$531,597	\$536,225	\$525,764	\$495,558	\$392,181	\$574,785	101.5%

8-Day Elimination Period Option

The annual loss ratio increased significantly from 40% to 65%, which is below the target range. The three-year loss ratio of 73% is below the target levels. Enrollment remained constant (3 more enrollees than last year).

15-Day Elimination Period Option

The annual loss ratio increased from 72% to 129%, which is significantly higher than the target range. The three-year loss ratio of 113% is above the target levels. Enrollment increased 12% from last year.

30-Day Elimination Period Option

The annual loss ratio increased from 87% to 114%, which is significantly higher than the target range. The three-year loss ratio of 96% is above the target levels. Enrollment remained constant (3 more enrollees than last year).

Recommendation

The overall three-year loss ratio for the program increased from 91.3% to 101.5% this year and the annual loss ratio increased from 73% to 109%, which is below the target range for this group (target 85%-90%). The reserve position stands at 2.3 times annual claims as of June 2022. 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 2023.

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The table below illustrates proposed premium rates for 2023 as described above (no change from 2022 rates).

Plan	2022 Premium *	2023 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 Weekly Payroll*

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

Sincerely,



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

cc: Andrew Benish, Dakota County
Michael de Leon, Deloitte
Nicole Reischl, Deloitte