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July 17, 2009

Ms. Amy Cox
Human Resources Manager
Risk Management Division
Leon County Government
Leon County Courthouse
301 S. Monroe St., Suite 201
Tallahassee, FL 32301

Via Email

Subject: Health Plan Projects

Dear Amy:

Per our recent conversation, Mercer is able to assist Leon County in the study of several of your current topics of interest, in response to the needs you outlined during our discussion. Specifically, the projects for which you potentially have need of assistance over the next twelve months are outlined in the sections that follow.

Medical Plan Review

For your medical plan, the three projects you have indicated to be of interest are as follows:

1. Plan design/employee contribution benchmarking, review, and recommendations
2. Evaluation and analysis of available claims information to identify opportunities for enhanced cost management
3. Preparation of a formal Request for Proposals (RFP) for medical vendor(s), proposal evaluation and vendor selection process.

These projects are mutually exclusive, so can be performed on a stand-alone basis, or combined in whatever way you desire.

Note that the first project requires information that you will have on hand, and as such, it is easy to begin and complete on a timely basis. Items two and three will require the collection of claims information from your vendors. Since you have made the change to the CHP/BCBSF combination only as of this year, and as there is reason to believe that the former offering environment was likely to have created moderate to significant adverse selection in your claims activity, we anticipate needing to collect claims data from four sources – CHP, United Healthcare, VISTA, and BCBSF. This will ensure a complete claims picture is evaluated. As such, this process may take a bit longer to work through, based on the ability to get this data from your current and your prior vendors.

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Approximate pricing for the three projects is shown below.

Project	Approximate Fee Range
Plan design/employee contribution benchmarking, review, and recommendations	\$12,000 - \$17,000
Evaluation and analysis of available claims information to identify opportunities for enhanced cost management	\$8,000 - \$10,000*
Preparation of a formal Request for Proposals for medical vendor(s)	\$50,000 - \$60,000**

- * Due to uncertainty regarding ability to easily collect data from various vendors, we are assuming that Leon County will collect all relevant data from each vendor. Additional fees will apply for Mercer to collect data on behalf of Leon County.
- ** Assumes continuation of current fully-insured funding basis and no evaluation of alternative funding arrangements.

Pharmacy Plan Review

Your second area of interest was relating to the evaluation of a pharmacy "carve-out" program. There are several steps that are critical to the review of a carve-out program opportunity for Leon County. Each of these is discussed below.

1. Evaluation of the opportunity to the County of "carving out" the pharmacy program from the current medical vendors. Note that, with the current fully-insured funding of your medical plans, a premium credit of appropriate magnitude will need to be available to offset the cost of the carve-out program. (Historically, we have not seen the credit offered by insurers to be sufficient to fund the carve-out program.) To thus determine the feasibility and value of this as an alternative, several components of analysis would be required, as follows:
 - a. Collect data from your current and historical vendors to determine the potential cost impact of a carve-out program, and to gauge the level of premium reduction needed to offset the cost of such a program.

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- b. Evaluate the premium impact of the removal of the pharmacy component from the contracts you currently maintain with CHP and BCBSF, as indicated by adjusted premium levels provided by your current vendors.
2. Evaluation of carve-out alternatives through exploration with the County of their exact needs and requirements, and including a formal RFP process. This process will also identify start-up costs and timing, and estimate realistic savings and Leon County's expected return on investment.

Though pharmacy costs are generally fifteen to twenty percent of the total medical spend for most employers, these costs can nevertheless be volatile, similar to medical claims. Due to this fact, and also to the County's desire for cost predictability, establishment of a carve-out program on a fully-insured basis may be preferred or necessary for the County.

Other issues that may impact your desire to carve out the pharmacy component of your program include the following:

- Whether or not your medical vendors will retain the ability to effectively perform disease management in the carve-out environment, and
- Additional costs to the County that may be associated with your vendors producing and/or accepting a data feed from the pharmacy provider to the medical carriers.

Approximate pricing for the three primary aspects of the pharmacy carve-out evaluation project is shown below.

Project	Approximate Fee Range
Collect and evaluate data to determine potential cost impact and needed premium reduction	\$3,000 - \$6,000*
Evaluate the premium impact of the removal of the pharmacy component	\$4,000 - \$9,000
Evaluation of carve-out alternatives, and performance of formal RFP process	\$40,000 - \$46,000**

* Assumes data collected only from CHP and BCBSF.

** Assumes evaluation of products both on fully-insured and self-insured bases, as available.

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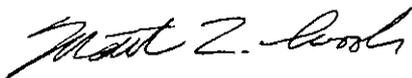
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Amy, the information above provides only illustrative scopes and fees for these projects. We would need to discuss further your constraints and objectives to provide more refined quotes, and to provide timelines that will ultimately suit your needs.

If you have any questions as you review this information, please do not hesitate to contact me. Thank you again for the opportunity to continue to serve Leon County.

Sincerely,



Matthew Snook
Principal