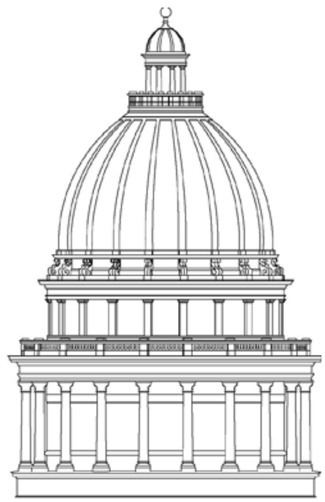
REPORT TO THE

UTAH LEGISLATURE

Number 2013-10



A Performance Audit of Health Insurance Contracting In Higher Education

September 2013

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah

STATE OF UTAH
Office of the Legislative Auditor General
315 HOUSE BUILDING • PO BOX 145315 • SALT LAKE CITY, UT 84114-5315
(801) 538-1033 • FAX (801) 538-1063

Audit Subcommittee of the Legislative Management Committee
President Wayne L. Niederhauser, Co–Chair • Speaker Rebecca D. Lockhart, Co–Chair
Senator Gene Davis • Representative Jennifer M. Seelig

JOHN M. SCHAFF, CIA
AUDITOR GENERAL

September 17, 2013

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **A Performance Audit of Health Insurance Contracting in Higher Education** (Report #2013-10). A digest is found on the blue page located at the front of the report. The audit scope and objectives are explained at the close of the Introduction.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

John M. Schaff

John M. Schaff, CIA
Auditor General

JMS/lm

Digest of
A Performance Audit of Health Insurance Contracting in Higher Education

Chapter I: Introduction

We were asked to review whether pooling employee health insurance for all higher education and applied technology colleges (institutions) as a single entity would lead to cost savings for the state. The institutions are not required to participate in one health insurance program, including Utah's Public Employees Health Program (PEHP), and may negotiate their own insurance contracts. In our review we found that 59 percent of institutions pool their employees' health insurance benefits with other groups' plans. However, most of the larger institutions, which employ the greatest number of staff, create their own separate pools and insurance programs.

Chapter II: Effect of Pooling Requires Full Compensation Study

A Compensation Study Is Needed to Measure the Comprehensive Cost of Pooling All Groups Into a Single Entity. It is common practice that institutions tie health insurance benefits directly to salary and other benefits. The institutions view health insurance as a benefit to attract and retain employees by balancing health insurance benefits along with salary and other benefits. We believe a compensation study is needed to truly compare the value of the institutions' health insurance packages, which can then be used to determine if overall savings are possible through pooling. Although it seems logical that smaller institutions could benefit from pooling, without a full compensation study, we cannot prove that the number of benefitted employees is the major factor influencing larger premium amounts. We found that premiums differ by institution, but Utah appears to compare well nationally. Finally, we found that sampled states are split on higher education pooling practices.

Chapter III: Policies Can Help Compliance with New Law on Multiyear Contracts

We Found That Institutions Lack Policies Guiding the RFP Process When Purchasing Health Insurance. We believe policies addressing the frequency of when to conduct a request for proposal process (RFP) for health insurance could help institutions comply with a new law on contract term limits. As of May 1, 2013, ***Utah Code*** 63G-6a-1204(7) establishes a five-year limitation on multiyear contracts. We have concerns with four institutions that have not issued an RFP within the last seven years or more. A regular and established RFP process for rebidding health insurance provides a check on the market to ensure resources are being used efficiently while ensuring plan desires are adequately being met.

REPORT TO THE

UTAH LEGISLATURE

Report No. 2013-10

A Performance Audit of Health Insurance Contracting In Higher Education

September 2013

Audit Performed By:

Audit Manager	Darin Underwood
Audit Supervisor	Deanna Herring
Audit Staff	August Lehman

Table of Contents

Chapter I
Introduction

The concept of pooling smaller groups of individuals or employers together into a larger group, when purchasing health insurance, invokes the question of potential cost-savings for Utah's institutions of higher education and applied technology colleges (collectively referred to as institutions in this report). We have been asked to review this issue to determine if pooling all institutions into a single entity would be a cost-savings to the state.

The institutions are not required to participate in one health insurance program, including Utah's Public Employees Health Program (PEHP), and may negotiate their own insurance contracts. Fifty-nine percent (10 of Utah's 17 institutions) are pooling employees' health insurance benefits with other groups' plans. However, Figure 1.1 shows that for the 2012 plan year, that 59 percent equates to only 10 percent of all institutions' benefitted employees.

Fifty-nine percent of Utah's institutions are pooling employees' health insurance benefits with other groups' plans.

Figure 1.1 For the 2012 Plan Year, Most Institutions Are Pooled into a Multi-Employer Group for Health Insurance Benefits.

Institution	Pooled	Benefitted Employees
Davis ATC	Y	114
Dixie ATC	Y	18
Dixie State University	Y	381
Ogden/Weber ATC	Y	101
Snow College	Y	232
Southwest ATC	Y	20
Tooele ATC	Y	15
Uintah Basic ATC	Y	60
Utah State University-Eastern	Y	215
Weber State University	Y	1,373
		2,529 (10%)
Bridgerland ATC	N	103
Mountainland ATC	N	66
Salt Lake Community College	N	1,175
Southern Utah University	N	759
University of Utah	N	16,148
Utah State University	N	3,297
Utah Valley University	N	1,593
		23,141 (90%)
Total Employees		25,670 (100%)

Large employers often create their own separate pools.

Figure 1.1 shows that seven Utah institutions do not pool with other groups. Although an institution may not be pooled with other institutions, employers often create their own pools to provide coverage to their workers, who automatically join the pool upon employment. For example, the University of Utah has separate pools within the institution.

The American Academy of Actuaries (AAA) explains health insurance risk pools as "large groups of individual entities (either individuals or employers) whose medical costs are combined in order to calculate premiums." Risk pooling is fundamental to insurance. "Large pools of similar risk exhibit stable and measurable characteristics that enable actuaries to estimate future costs with an acceptable degree of accuracy." However, "increasing predictability should not be interpreted as 'lower cost.'" We discuss the issue of cost in Chapter II.

In Utah, institutions are not required to pool together.

We were unable to find any established standards on group size for pooling purposes. PEHP stated that pool sizes cannot get too small or the administrative costs would not make it beneficial. PEHP's standard for a group to be 100 percent credible[1] is just over 1,100. A group of this size would be able to form its own pool. For a group much less than that, PEHP would review whether or not to pool the group into a larger group. A representative from PEHP told us that smaller agencies, not within a larger pool, can have significant price swings when renewing. In Utah, there is no requirement to pool; therefore, any institution may choose to remain separate or may choose to pool.

According to the Utah Insurance Department, in 2010 there were 62 licensed comprehensive health insurers in the state. In 2011 the top 20 group accident and health insurers, that were actually offering coverage in the State of Utah, made up 92 percent of the market share. PEHP is not included in these numbers because it is a self-funded plan, which is not under the department's regulation and is not subject to the same reporting requirements as a licensed insurance company. Figure 1.2 shows that three health insurance carriers are used among all 17 institutions.

[1] Credibility or experience rating is an industry term for calculating the cost of a given policy based on historical data to determine the risk of future claims.

Figure 1.2 PEHP Provides Health Insurance to Most Institutions in Utah.

Institution	Insurance Carrier
Bridgerland ATC Mountainland ATC Southern Utah University Southwest ATC Utah Valley University	EMI Health
Davis ATC Dixie ATC Dixie State University Ogden-Weber ATC Snow College Tooele ATC Uintah Basin ATC Utah State University-Eastern Weber State University	PEHP
Salt Lake Community College University of Utah Utah State University	Regence BlueCross BlueShield of Utah

If an institution does choose to provide health insurance through PEHP, ***Utah Code*** 49-20-202 establishes separate risk pools within PEHP. The law is dependent on the number of students enrolled at the institution rather than the number of employees. If an institution has a total full-time equivalent enrollment of less than 18,000 students, it may participate within the state pool; otherwise, it would have to be in a risk pool within PEHP that is separate from the state pool (such as the Local Government risk pool).

In general, the larger the pool the more stable the premium.

The AAA states that, in general, the larger the pool, the more stable the premium and the smaller the pool, the greater the risk for adverse selection, which is a pool skewed to those with higher expected claims. However, the desired plan design, group size and demographics, and credibility rating are important factors in determining health insurance plan options and price.

Audit Scope and Objectives

In attempting to review the costs associated with pooling the institutions, we learned that health insurance is only a part of the total compensation package employees receive. Without performing a compensation study we are unable to determine if there would be savings. After discussing the current pooling situation of institutions with the audit requestor, it was determined that this audit would not seek to expand the review into employee compensation as a whole.

In Chapter II, we provide a more in-depth explanation of pooling and discuss why a compensation study would be needed to determine cost, how Utah institutions' health insurance costs compares nationally, and what actions other western states have taken related to higher education health insurance needs. Chapter III addresses ensuring that institutions are fulfilling a new law requiring limits on multiyear contracts, which would include health insurance carrier contracts.

Chapter II
Effect of Pooling Requires Full Compensation Study

It is common practice that institutions tie health insurance benefits directly to salary and other benefits, as a part of a total compensation package. Several institutions we contacted view health insurance as a benefit to attract and retain employees through enhanced health insurance benefits, in exchange for a higher salary. Therefore, we believe a compensation study is needed to measure the comprehensive cost of pooling all groups into a single entity. We did find that premiums differ by institution but Utah appears to compare well nationally. Finally, we found that sampled states are split on higher education pooling practices.

A Compensation Study Is Needed to Measure the Comprehensive Cost of Pooling

We believe that simply assuming there would be an overall cost savings does not accurately reflect the true cost or value of the benefit. A thorough compensation study is required to be able to evaluate the full benefits packages offered to employees and the full value of employee salaries, health benefits, and other forms of compensation.

A thorough compensation study is required to evaluate the value of salaries, health benefits and other compensation.

An article by the consulting group Milliman discusses reviewing the relative levels of all benefits provided by an employer compared with other similar employers. Doing so provides the value of the total package for comparison to other, similar organizations. Limiting a study to measuring only the cost directly associated with health insurance does not take into account schools that, in order to retain employees, offer higher benefits to compensate for lower salaries.

Some schools offer higher benefits to compensate for lower salaries.

In 2010, Milliman conducted a health benefits index study at the request of the State Board of Regents. The purpose of the study was to measure the comprehensiveness of higher education's health insurance benefits against PEHP's Advantage and SummitCare plans. The study found that, at that time, higher educations' health insurance benefits measured up closely with PEHP, but with some measurements falling short and others exceeding PEHP. However, in the three years since the study, plans may have changed significantly.

In a memorandum presenting the study to the Board of Regents, it was noted that "Several factors that affect cost that do not get addressed by [this] study are actual utilization, demographics, the provider network, etc." The study was designed to provide an indication of the comprehensiveness of the benefits, noting that it does not necessarily correlate to program cost.

Pooling Does Not Guarantee Cost Savings

The AAA states that pooling does not necessarily reduce premiums.

The American Academy of Actuaries (AAA) states that pooling reduces risks by having those with lower risk subsidize those with higher risk. "Creating a large risk pool, however, does not necessarily translate into lower premiums. Just as a pool with more low-risk individuals can result in lower premiums, a large pool with a disproportionate share of high-risk individuals will have higher premiums." As we discussed earlier, that is why a full compensation study is needed to take into account (among other things) claims experience and demographics to fully assess these high risk groups.

Further, the following pooling experiences suggest that, if all higher education facilities were pooled as a single entity, it may not necessarily reduce costs.

- A 2011 legislative audit found that PEHP, which uses large pools to group employers, had higher provider negotiated rates than most comparable private sector carriers.

- In 2003, nine Florida higher education facilities established a health insurance pool to save costs, but then experienced deficits until they restructured plans and renegotiated provider contracts. These cost-saving techniques did not require pooling to achieve results.

Costs are more likely impacted by plan changes, claims history, and provider rates than by pooling.

- Health insurance experts we interviewed and a study we reviewed suggest there may be some administrative and reinsurance cost savings in larger pools; however, costs are more likely impacted by plan changes, claims history, and negotiated provider rates than by pooling.

The advantage of pooling is to spread risk and stabilize premiums which does not necessarily translate into savings. The AAA states that "Just as forming a pool does not automatically result in lower medical costs, a pool also does not necessarily result in lower administrative expenses." A full compensation study may identify some cost savings by pooling institutions, but from what we have examined, significant savings appear unlikely. Another drawback with pooling multiple employers is that it limits the ability of each institution to design a health care plan specifically for its employees' needs and desires.

Pooling Can Reduce Plan Flexibility

Most human resource directors of the large institutions that we spoke with prefer the ability to negotiate their own health insurance contracts and design their own plans, which is not always possible when pooled with other institutions. One health insurance carrier representative we spoke with stated that pooling several higher institutions would cause them to lose flexibility in benefit design. An actuary with PEHP also agreed that, with pooling, there is a trade-off of flexibility.

Most HR directors of the large institutions we spoke with prefer the ability to negotiate their own health insurance contracts and design their own plans.

These institutions want to be able to tailor health insurance plans to enhance the overall compensation package they can provide to their employees. Some institutions told us they cannot compete on salary and see enhanced or customized health insurance as a way to attract and retain employees. One administrator felt that placing the institution in a pool with other schools would limit their ability to attract employees nationwide since they cannot offer the salaries of the other schools. An insurance consultant summed it up by saying that, for higher education, "their compensation package is really tied to their benefits."

An insurance consultant summed it up by saying that, for higher education, "their compensation package is really tied to their benefits."

Consequently, we find that analyzing a single-entity pooling option would be incomplete without also studying compensation as a whole. We recommend that, if the Legislature desires more information to assess the value and cost of pooling all institutions as a single entity, a full compensation study could be performed.

School Costs Differ But Utah Compares Well Nationally

We reviewed the annual premium for each institution's family health plan, which was the most utilized plan at all institutions. Institutions' total premiums (both employer and employee paid) ranged from $13,096 to $18,221. We also compared the median premium for all institutions to a national survey focused on higher education benefits and found that Utah's median premium is below the national median.

Premiums are impacted by administrative and geographical costs, actual utilization, demographics, plan design and other factors.

Several factors influence the cost of a health plan, including an institution's demographics, size, credibility rating, and richness of the plan. Keeping in mind that the premium paid is not necessarily a reflection of the richness of the plan or the value of the benefit, it also reflects administrative and geographical costs, actual utilization, demographics, and so forth. Figure 2.1 shows the premium paid at each institution for the 2012 plan year. The amount paid includes -- both the employer and employee portions of the premium.

Figure 2.1 The Spread in Premiums from the Highest to the Lowest is $5,125. Differences in plan makeup, institutional dynamics, and negotiated contract rates are some of the factors that affect the price of a health plan.

Institution	2012 Plan Year Annual Premiums-Family Plan
Bridgerland ATC	$16,634
Davis ATC	13,424
Dixie ATC	13,424
Dixie State University	13,424
Mountainland ATC	18,221
Ogden-Weber ATC	13,096
Salt Lake Community College	18,009
Snow College	13,424
Southern Utah University	14,684
Southwest ATC	15,793
Tooele ATC	13,424
Uintah Basin ATC	13,424
University of Utah	14,378
Utah State University	15,795
Utah State University-Eastern	13,424
Utah Valley University	14,944
Weber State University	$13,424

How the premiums are paid between the institution and the employee also differ among the institutions. We found the premium split for the family plans range from 85/15 percent, with the employer paying 85 and the employee paying 15 percent of the premium, to 100/0 percent where the employee pays no premium. A national survey we reviewed, which is discussed below, found that 98 percent of the surveyed institutions have the employee pay at least some portion of the premium.

We spoke with representatives from the institutions that pay some of the highest premiums, asking why their premiums were higher than other institutions' premiums. Some of the factors that affected those premiums are:

- The plan the institution chose had a lower out-of-pocket cost to the employee for certain services, making it more desirable for their employees who, according to the institution, are paid lower salaries

- Flexibility in plan design and options, especially as it pertains to access in remote areas of the state

- For recruitment and retention purposes, to offset lower paying salaries, and a belief that funding health insurance should come before funding salary increases

- A poor credibility rating from previous years' events limited the institution's ability to obtain a less expensive plan that met their needs

A poor credibility rating from a previous year led to more expensive premiums for one institution.

In comparing the premiums with the number of employees at each institution, it seems logical that smaller institutions could benefit from pooling. However, without a full compensation study, we cannot prove that the number of employees is the major factor influencing larger premium amounts.

Median Annual Premium Paid by Utah's Institutions In 2012 Was Lower than the National Median

Our review found that the median annual premium of all Utah institutions for the 2012 plan year was $13,424. The median annual premium for the Utah institutions that do not participate in PEHP for that same period was $15,794. Both calculations for Utah are lower than the national median. A national survey of 354 separate colleges and universities (comprised of 458 individual institutions), conducted in 2012, found that the median annual premium was $16,840. Utah's median premium was used, instead of the average premium, in order to compare to the national study.

Utah's median health insurance premium for all institutions is $13,424, which is below the national median of $16,840.

The national study was conducted by the College and University Professional Association for Human Resources (CUPA-HR). CUPA has been conducting national surveys of higher education heath care and non-health care benefits since 2002. The survey included responses from both private and public sector institutions.

Different plan options affect premium and total cost. For example, although the median premium paid in Utah was lower than the national median, the national median in 2012 for a primary care physician office visit was $20, but in Utah it was $25. The national median monthly employee share of the premium for 2012 was $440, with a low of $39 and a high of $2,270. In Utah, the median monthly employee share of the premium for 2012 was $112, with a low of $0 and a high of $197. These differences in plan options and premium payment have a value. A compensation study would be able to compare the weight of that value, also incorporating salary and other benefits.

Sampled States Are Split on Higher Education Pooling Practices

We looked at how seven other western states provide health insurance coverage for higher education employees. In Arizona, Nevada, Oregon, and Washington, higher education institutions participate in the same insurance pool as all other state employees. Only Nevada allows a way for institutions to leave the state pool. Colorado's and Idaho's systems have some higher education institutions enrolled in the state pool and others insured independently, similar to Utah. Montana is unique, requiring all of higher education to be in a separate higher education insurance pool run by the institutions.

Some Sampled States Seeking More Flexibility

Recent trends show higher education institutions are seeking greater flexibility, with some looking at opting out of their state's employee insurance pool.

- Colorado passed legislation in 2011 that gave more autonomy in business practices to all state universities. Since then, the University of Colorado has left the state employees' health insurance pool.

- Idaho higher education institutions conducted a study in 2010 to determine whether it would benefit the institutions to form a separate insurance group from the state's group. The most important issues to the institutions were plan design, control, and flexibility. One community college left the state insurance pool, while others are currently seeking plan flexibility within the state system.

Idaho and Nevada higher education have recently sought more flexibility and choices in health care plans.

- Nevada's higher education system recently looked at whether it could provide staff with more choices and if it would be more beneficial to find coverage outside of Public Employees Benefits Plan (PEBP). As mentioned above, upon PEBP's board approval, Nevada law permits a group of not less than 300 state employees to leave the state health insurance program if their departure will not result in a five percent increase in the cost of premiums or contributions for the remaining program participants. However, after recent budget cuts, self-funding their own program was not seen as an option.

- Oregon passed legislation in 2011 to study the possibility of higher education leaving the Public Employees' Benefit Board (PEBB), or state pool. Due to the costly impact of these institutions leaving the state pool, the Governor and Legislature are requiring that the Oregon University System remain in the PEBB.

The CUPA-HR study found that the median annual cost for family coverage health care in 2012 was about six percent higher than in 2011. Nationally, including Utah, health care costs are on the rise and the unpredictable nature of changes in the health care system are requiring institutions of higher education to make changes and assess the benefits they can provide.

Recommendation

1. We recommend that, if the Legislature desires more information to assess the value and cost of pooling all institutions as a single entity, a full compensation study could be performed.

Chapter III
Policies Can Help Compliance with New Law on Multiyear Contracts

We believe policies addressing the frequency of when to conduct a request for proposal process (RFP) for health insurance could help institutions comply with a new law on contract term limits. A regular and established RFP process for rebidding health insurance provides a check on the market to ensure resources are being used efficiently while ensuring plan desires are adequately being met.

We found that institutions lack polices guiding the RFP process when purchasing health insurance.

We found that institutions lack policies guiding the RFP process when purchasing health insurance. Institutions have policies guiding large dollar amount purchases, but nothing specifically addressing purchasing health insurance and the desired frequency of issuing an RFP. The Board of Regents has created a policy granting the institutions of higher education the authority to create their own procurement policies, yet none have directly addressed a health insurance policy. Utah College of Applied Technology (UCAT) administration provides no policy guidance to the colleges of applied technology for purchasing health insurance.

The ***Utah Procurement Code***, 63G-6a-102, establishes the desire to foster effective broad-based competition. In the 2012 General Legislative Session, S.B. 153 was passed and became effective May 1, 2013, making several changes to the procurement statute. That bill enacted section 63G-6a-1204(7), establishing a five-year maximum on multiyear contracts, including renewal periods, with some exceptions which must be documented in a procurement file. According to the Utah Division of Purchasing and General Services, institutions are required to comply with the law, but may make their own rules for implementation.

Under the new law, any contract exceeding five years from the effective date should be rebid, barring any exceptions.

We requested all institutions provide us information about the last time they conducted an RFP for health insurance; their responses are shown in Figure 3.1. Under the new law, any contract exceeding five years from the effective date should be rebid, barring any exceptions.

Four institutions that are not with PEHP have not rebid their health insurance contracts in 7 years or more.

Figure 3.1 Institutions Listed by the Year of Their Last Reported RFP for Health Insurance.

Institution	Carrier*	Reported Last Year Bid
Southwest ATC	EMI Health	2012
Ogden-Weber ATC	PEHP	2011
Salt Lake Community College	BCBS	2011
Mountainland ATC	EMI Health	2010
Weber State University	PEHP	2010
Southern Utah University	EMI Health	2009
Snow College	PEHP	7 years or more
University of Utah	BCBS	7 years or more
Utah Valley University	EMI Health	7 years or more
Bridgerland ATC	EMI Health	10 years or more
Davis ATC	PEHP	10 years or more
Dixie ATC	PEHP	10 years or more
Dixie State University	PEHP	10 years or more
Tooele ATC	PEHP	10 years or more
Uintah Basin ATC	PEHP	10 years or more
Utah State University	BCBS	10 years or more
Utah State University-Eastern	PEHP	10 years or more

**Regence BlueCross BlueShield of Utah is denoted as BCBS*

Eleven of the institutions, shown in the figure with a last bid year of 7 years or more, have not rebid in the last five years. We believe that 4 of those 11, those not with PEHP, need to review their contract terms, in light of the new law, to determine if issuing a new RFP is appropriate.

We believe that institutions with PEHP can rely on PEHP's processes for ensuring their contracts meet state standards for rebidding.

The seven remaining institutions that have not rebid within the last five years contract with PEHP. Because PEHP is under state contract to provide health insurance for state employees, it is reasonable to conclude that the institutions can rely on PEHP's processes for ensuring their contracts have been timely bid and tested for marketability. Therefore, we do not believe there is an expectation that these institutions should rebid every five years for health insurance.

We did find that some institutions appear to be doing a type of due diligence review of market prices between RFPs. This type of review, done by a consultant, provides price quotes for different providers' health coverage. However, we are unsure how rigorous or comprehensive these checks are and whether the quoted prices are the carriers' final offer. Therefore, we believe the institutions should ensure they are in compliance with the intention of the law.

We spoke with consultants in the health care field who agree that about five years between RFPs is appropriate. One consultant stated that the market changes too much, but that issuing an RFP more frequently, and jumping from carrier to carrier, is also an undesirable practice. Another consultant stated that the RFP process is time intensive and changing providers can be very disruptive to employees yet five years was reasonable. A representative from PEHP also stated that five years between RFPs was the norm in this field.

Consultants agree that about five to seven years between RFPs is appropriate.

We believe that requiring carriers to participate in an RFP process at certain intervals provides a check on the competitive market. As a best practice principal, we believe a policy would remind the institutions of the importance of keeping that check on the market to ensure resources are being used efficiently, while taking into account their desired benefits.

The new law limiting multiyear contracts to five years does permit extensions, which must be examined and documented. Institutional policies could direct whether and when those extensions are appropriate and how to properly document them. The examination of an institution's multiyear health insurance contract, and whether it should be rebid, could be clearly established in policy.

Recommendations

1. We recommend that institutions establish policies directing when to issue an RFP for health insurance, in consideration of the five-year limitation on multiyear contracts.

2. We recommend that the four institutions that have not rebid their health insurance within the last five years issue an RFP as soon as their current contract terms allow.

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Agencies Responses

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UTAH SYSTEM OF
HIGHER EDUCATION
Building a Stronger State of Minds℠

State Board of Regents
Board of Regents Building, The Gateway
60 South 400 West
Salt Lake City, Utah 84101-1284

Phone 801.321.7101
Fax 801.321.7199
TDD 801.321.7130
www.utahsbr.edu

September 9, 2013

Mr. John Schaff
Office of the Legislative Auditor General
W315 Utah State Capitol Complex
Salt Lake City, UT 84114-5315

Dear Mr. Schaff:

On behalf of the Utah System of Higher Education (USHE), I appreciate the opportunity to respond to the audit of "Health Insurance Contracting in Higher Education." As this audit included both the Utah College of Applied Technology campuses and USHE institutions, this response is only representative of the USHE.

We appreciate the auditors' recognition that bidding for health insurance services is in the best interest of the state's institutions in terms of providing for healthy free market competition amongst available providers. Institutional flexibility in choosing health insurance plans allows for various plan options that best meet the geographical, financial, and compensation package needs of a diverse group of institutions.

The audit makes reference to recent legislative action resulting in changes to the State Procurement Code. The two audit recommendations in the report relate to these changes. The recommendations suggest the following:

- It is recommended that institutions establish policies directing when to issue a Request for Proposal (RFP) for bidding on health insurance.
- It is recommended that the institutions which have not rebid health insurance within the last five years do so as soon as their current contract allows.

Institutions have addressed general procurement code changes in institutional policies as noted by the auditors within the audit report. It is the intent of the USHE institutions to remain in compliance with the state procurement code as it continues to evolve legislatively.

USHE administrators are mindful of the benefits of bidding periodically for different types of contractual services. Likewise, as the auditors have noted, bidding for services too frequently is not cost effective either in terms of vendor responsiveness or in terms of plan implementation expenditures. Striking an appropriate balance is the key. Thank you for this helpful review. I appreciate the hard work and professionalism of the Office of the Legislative Auditor General. USHE is committed to improving efficiencies, and providing USHE employees and institutions with a competitive, cost effective and comprehensive benefits package. Attached to this cover letter is a response to the audit recommendations.

Sincerely,

David L. Buhler
Commissioner of Higher Education

Attachment

USHE Response to the Health Insurance Contracting in Higher Education Audit Recommendations

The USHE competes with out-of-state institutions for talented employees. Comprehensive compensation packages continue to be one of the main components of attracting this talent to the State of Utah. USHE salaries generally fall below the national average; however, flexibility in benefits package offerings has better allowed institutions to attract key talent by providing competitive compensation packages at a reasonable expense to the institutions. The legislative auditors recognized the importance of a complete compensation package.

Further, the USHE concurs with the audit finding recommendations and will work to implement these over the coming year. Here are specific responses to the recommendations:

Chapter 3 Recommendations

1. We recommend that institutions establish policies directing when to issue an RFP for health insurance, in consideration of the five-year limitation on multiyear contracts.

   USHE Audit Response: *We concur. The recent, substantial changes to the State Procurement Code have resulted in significant modifications to institutional policies and procedures. As the current statute evolves, USHE institutions will work to stay in compliance.*

2. We recommend that the four institutions (University of Utah, Utah State University, Utah Valley University, and Bridgerland ATC) that have not rebid their health insurance within the last five years issue an RFP as soon as their current contract terms allow.

   USHE Audit Response: We concur. This is a reasonable recommendation— providing some flexibility to implementation— based on any existing contract terms and as soon as bidding is practical. As many contracts at the institutions are renewed annually, it may take more than one contract period to complete the RFP for the larger institutions.

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UCAT

Utah College of Applied Technology
2801 Ashton Boulevard
Lehi, UT 84043

Office of the President
Direct • 801.341.6000
Fax • 801.341.6019
www.ucat.edu

September 5, 2013

Mr. John Schaff, CIA
Legislative Auditor General
W315 Utah State Capitol Complex
Salt Lake City, UT 84114-5315

Dear Mr. Schaff:

The Utah College of Applied Technology (UCAT) appreciates this opportunity to respond to the recommendations of *A Performance Audit of Health Insurance Contracting in Higher Education.*

UCAT's mission is to meet the needs of Utah's employers for technically-skilled workers by providing market-driven technical education to both secondary and adult students. UCAT and campus administrators know that the quality of instructional and support personnel is critical to this mission. To attract and retain excellent faculty and staff, UCAT and its eight campuses strive to provide competitive salary and benefits packages.

Health insurance is a key component of the compensation packages offered to UCAT employees, and campuses have paid close attention to providing plans that suit the unique needs of their employees and that also complement their campus salary structures.

In recent years, poor insurance credibility (i.e. experience rating) has affected at least one of our campuses, temporarily making it difficult to find comparable packages from other providers. While pooling may provide certain advantages, it does not always guarantee the best value or choice. We agree with the auditors that pooling does not necessarily result in reduced costs; it simply decreases the volatility of plan costs. Other years may show lower costs for the non-pooled institutions. The passage of the Affordable Care Act has also contributed to some necessary and substantial changes in offerings since the year examined in the audit.

Chapter III recommendations

1. "We recommend that institutions establish policies directing when to issue an RFP for health insurance, in consideration of the five-year limitation on multi-year contracts."

   UCAT Response: We agree with this recommendation. In accordance with this performance audit as well as UCA 63G-6a-1204(7), UCAT will examine its current policies and update or establish policies to ensure full compliance with all legal requirements.

2. “We recommend that the four institutions that have not rebid their health insurance within the last five years issue an RFP as soon as their contract terms allow.”

   UCAT response: We agree with the recommendation. All UCAT campuses will review their practices to ensure RFP processes meet the required standards of UCA 63G-6a-1204(7).

Again, thank you for the opportunity to respond. We appreciate the diligence and professionalism of the audit staff assigned to this project.

Sincerely,

Robert O. Brems, President
Utah College of Applied Technology

Thomas E. Bingham, Chair
UCAT Board of Trustees