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## Common Health Insurance Risk Pool for Higher Education and Public Education

### Introduction

This report is in response to a Legislative concern on whether the State Board of Regents and the State Board of Education should combine resources to form a single health insurance risk pool for their employees. A **common risk pool** is where an employer pools their insurance risk in order to spread the risk, reduce premium fluctuations and minimize the liability for financial short falls, and the third-party (an insurance carrier) must absorb the shortfalls. A **self-insured insurance program** is where the employer retains the risk and is responsible for managing the reserves, assuring solvency, and staying within budget constraints.

If a common risk pool is formed for these two systems, what impact would this have on state funds, employee insurance premiums, and health care coverage?

The following intent language (1999 Supplemental Appropriations Act II, Items 71 and 77) was included in the 1999 General Session:

*It is the intent of the Legislature that the Board of Regents study if the formation of a single system risk pool for health insurance purposes will lead to reduced premium costs.*

*It is the intent of the Legislature that the State Board of Education study if the formation of a single system risk pool for health insurance purposes will lead to reduced premium costs for K-12.*

The purpose of this report is to:

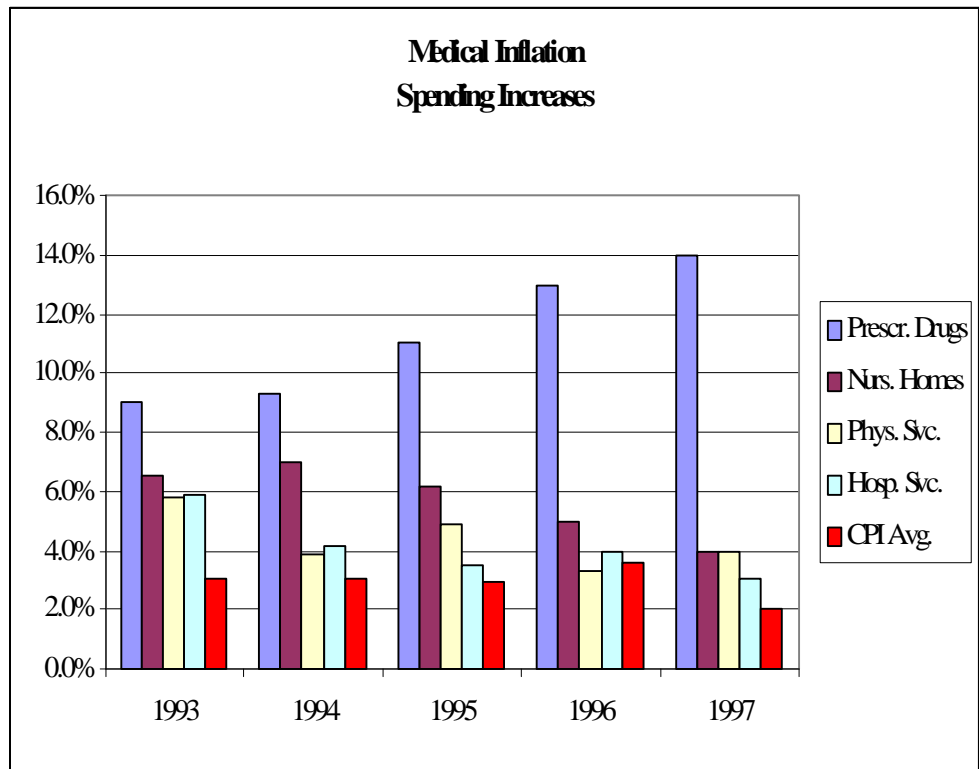
- ▶ Provide background information on health insurance coverage for the Utah System of Higher Education and for Public Education.
- ▶ Describe the current status of this coverage.
- ▶ Make observations regarding establishing common risk pool programs for the state
- ▶ List concerns with how health insurance funding is presently administered.

A number of people, in addition to staff from the Legislative Fiscal Analyst's Office, participated in the development of this report to the Executive Appropriation Committee. Their professional experience and expertise proved to be an invaluable resource in understanding this issue. Those that helped in this study include: Merwin U. Stewart, State Insurance Commissioner; Neal T. Gooch, Deputy Insurance Commissioner; Laurie Chivers and Pat O'Hara of the State Office of Education; Norm Tarbox of the Commissioner's Office of

the State Board of Regents; Linn Baker, Jeff Jensen and Howard G. McQuarrie, M.D. of the Public Employees Health Program.

**Background Information**

Health care costs have become a major part of the employee’s compensation package. These costs represent a significant cost in the State’s annual budget, with state funding for employee health and dental care exceeding \$250 million. Significant new dollars will be needed to maintain the same level of coverage in future years. According to Health Care Financing Administration figures, the increases in health care costs from 1993 to 1997 have been accelerating faster than general inflation and this trend is likely to continue. During 1998, pharmaceuticals increased at an annual rate of 18 percent. It should be noted that drug costs represent 15 to 20 percent of all health care cost. The cost for hospitalization and professional services in 1997 increased at an annual rate of 3 to 4 percent while the CPI increased by 2 percent.



**Funding Employee Health Care Costs**

In the annual budget process, the Legislature funds employee health care costs for the Utah System of Higher Education (USHE) institutions in a compensation adjustment to their base salary. The school districts receive a general compensation increase through the value of the Weighted Pupil Unit (WPU). As a result higher education and public education have been negotiating long term contracts with Educator’s Mutual Insurance Association (EMIA). Educators Mutual Insurance Association handled the health benefits

for the faculty and staff for 7 of the nine institutions of higher education, 37 school districts and 4 applied technology centers in public education. The contracts with EMIA contained inflationary limits on premium increases. These contracts reflected modest annual premium increases of 3 to 5 percent over a three year period.

These premium caps were artificially holding down health benefit costs. The difference between the premium and actual claims experience were being covered by EMIA reserves. It appears that EMIA chose to subsidize these premium increases as a matter of marketing policy.

During the 1999 Legislative General Session, EMIA informed higher education and public education that it could no longer honor its previously negotiated health insurance contracts. EMIA abandoned the policy of subsidizing premium increases and proposed dramatic increases for FY 2000 because the forecast of cash flow projections indicated that capital reserves would fall well below minimum statutory limits by June 30, 1999. Assuming the benefit package provided in the current policy remained in place, EMIA needed to replenish its reserves by raising the premiums to meet statutory reserve limits and to cover claim and administrative costs. In higher education requested rate changes ranged from 5 percent to 73 percent (35 percent average) at a cost of \$5.9 million. The requested premium increases in public education ranged from 3.5 percent to 160 percent (26 percent average) at a cost of \$22.4 million.

The response of those USHE entities insured through EMIA was to scramble to obtain lower premium increases either through restructuring their plans with EMIA, by changing insurance carriers through a competitive bid process, by using their FY 2000 2.5 percent salary funds to offset the deficit of the benefit cost increases or by some combination of these options. Presently all nine institutions have secured health insurance for FY 2000.

Those public education school districts using EMIA are in the process of renegotiating contracts or looking at other options for FY 2000. Preliminary changes in premium rate increases with EMIA were reduced from the original amounts to figures that ranged from 3.5 percent to 88.1 percent for the next fiscal year. The Utah School Board Association worked with William M. Mercer, a nationwide health insurance consultant, to determine if forming a risk pool would be beneficial for the school districts.

## **Higher Education**

The Utah System of Higher Education has traditionally contracted with EMIA for health care insurance, with the exception of the University of Utah. For nearly 25 years the University of Utah has been self-insured. Third-party

administrative support is provided by Reagents Blue Cross/Blue Shield of Utah and by PEHP. Prior to that time, the University of Utah contracted with Blue Cross/Blue Shield for insurance coverage. Until recently, most USHE institutions health care coverage has been with EMIA.

However, the USHE institutions have become much more diversified in its insurance coverage. Currently, it is as follows:

- ▶ Utah State University, like the University of Utah, is self-insured. Blue Cross/Blue Shield of Utah provides third-party administrative support.
- ▶ Southern Utah University and Salt Lake Community College are affiliated with Blue Cross/Blue Shield of Utah for health insurance coverage.
- ▶ Dixie College and the College of Eastern Utah are covered through the Public Employees Health Plan (PEHP). PEHP insurance coverage is also an alternative option for University of Utah employees.
- ▶ Weber State University, Snow College and Utah Valley State College continue to use Educator's Mutual.

## **Public Education**

Public Education health insurance coverage for most school districts is with EMIA. Two of the larger school districts in the State, Granite and Jordan are self-funded. Davis School District is fully insured through United Health Care and Altius. Duchesne School District uses Blue Cross/Blue Shield as its third party administrator for their self-insured health benefit program. The benefit packages are generally tailored to meet the needs of employees and particular conditions of each school district.

## **Health Care Cost Comparisons**

Institutions of higher education and the public education school districts have been permitted by the Legislature and their governing boards to develop unique benefit plans. Therefore, they have often made trade-offs between salary and benefits. Some institutions and school districts have emphasized salary increases when the Legislature has funded compensation increases, while others have placed a greater emphasis on employee benefits.

**Because benefit plans are not common across the state it is difficult to make meaningful comparisons. It should be mentioned that a true statewide comparative analysis of benefit packages would require an actuarial study that would determine the cost/benefit evaluation for each entity.**

The following table shows a simple comparison to the state by type of coverage and key benefit provisions of health care costs for the nine institutions of higher education for FY 2000. Note that the cost of health

insurance coverage for the family for the two largest institutions which are self-insured (U of U and USU) is lower than the other seven institutions. **The annual premium costs do not reflect differences in the value of benefits offered by each institution.**

**COMPARISON OF HEALTH INSURANCE COSTS AND COVERAGE  
AT USHE INSTITUTIONS FOR 1999-2000**

Comparison of Health Insurance Costs and Coverage At USHE Institutions for 1999-2000									
Institution	U of U	USU	WSU	SUU	Snow	Dixie	CEU	UVSC	SLCC
Insurance Provider	Self*	Self*	EMIA	BC/BS	EMIA	PEHP	PEHP	EMIA	BC/BS
Length of Contract	N/A	N/A	1 Yr.	2 Yr.	1 Yr.	1 Yr.	1 Yr.	1 Yr.	1 Yr.
1999-2000 Premium Increase	0.0%	2.5%	20.8%	10.5%	3.0%	18.5%	37.0%	12.9%	24.8%
<b>Annual Cost to Institution</b>									
Single	\$2,162	\$1,908	\$1,913	\$2,406	\$2,266	\$2,352	\$2,484	\$1,996	\$2,169
Employee + 1 Dependent	\$3,604	\$4,308	\$4,437	\$5,437	\$4,856	\$4,860	\$5,292	\$4,607	\$4,905
Family	\$4,835	\$6,216	\$6,411	\$7,819	\$6,475	\$6,480	\$7,068	\$6,654	\$6,842
<b>Key Coverage Provisions</b>									
<b>Yrly Out of Pocket Max</b>									
Individual	\$1,400	\$1,000	\$1,200	\$1,000	\$875	\$1,500	\$875	\$875	\$1,250
Family	\$3,100	\$2,000	\$2,400	\$2,000	\$1,300	\$3,000	\$1,300	\$1,300	\$2,500
<b>Hospitalization (1st Day)</b>									
Deductible	\$ -	\$ -	\$400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Co-Pay	\$125	\$100	\$0	\$75	\$100	10%/facility	\$75	\$100	\$175
Coverage after co-pay	90%	90%	95%	100%	100%	100%	100%	100%	100%
<b>Emergency Room</b>									
Deductible	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Co-Pay	\$50	\$50	\$65	\$25	\$50	\$50	\$50	\$75	\$50
Coverage after co-pay	100%	90%	100%	100%	100%	100%	100%	100%	100%
<b>Office Visit Co-Pay</b>	\$15	\$15	\$15	\$15	\$10	\$15	\$10	\$15	\$10
<b>Prescriptions/Pharmacy</b>	10%	25%	20%	\$15/\$10	\$8/\$5	20%	20%	\$14/\$7	\$14/\$7

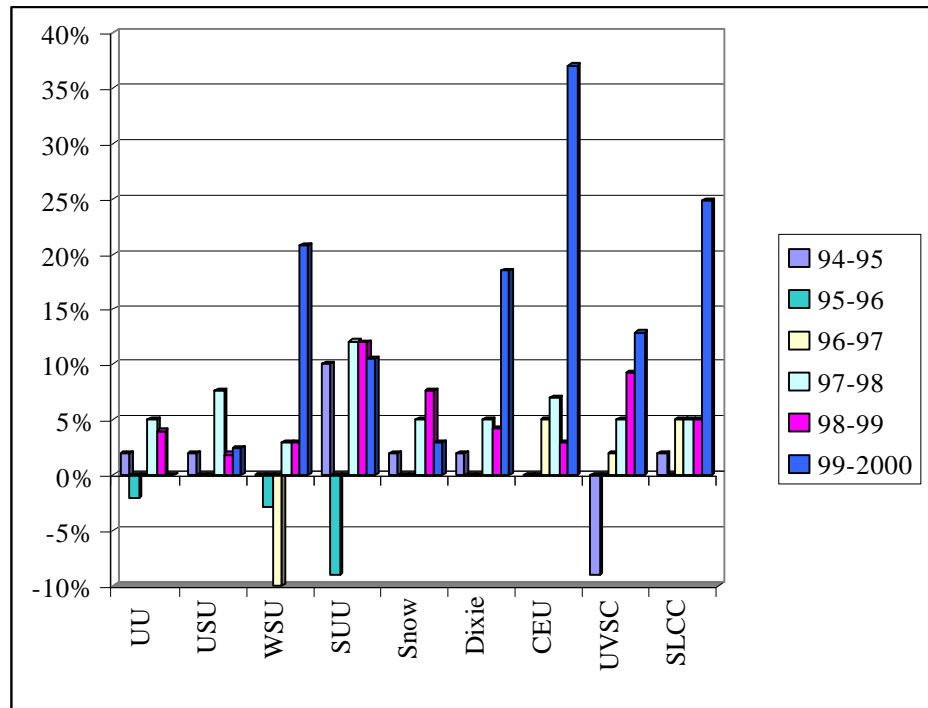
\* Institution has contracted with a third-party administrator (BC/BS)

# Five health plans available. Benefits show “middle ground” of various plans.

## Higher Education

The following chart illustrates the changes in family health insurance premiums since FY 1995 for higher education. Notice the moderate premium fluctuations of the University of Utah and Utah State University who are more actuarially credible than the other institutions because of their size.

**Summary of USHE Health Insurance Increases**



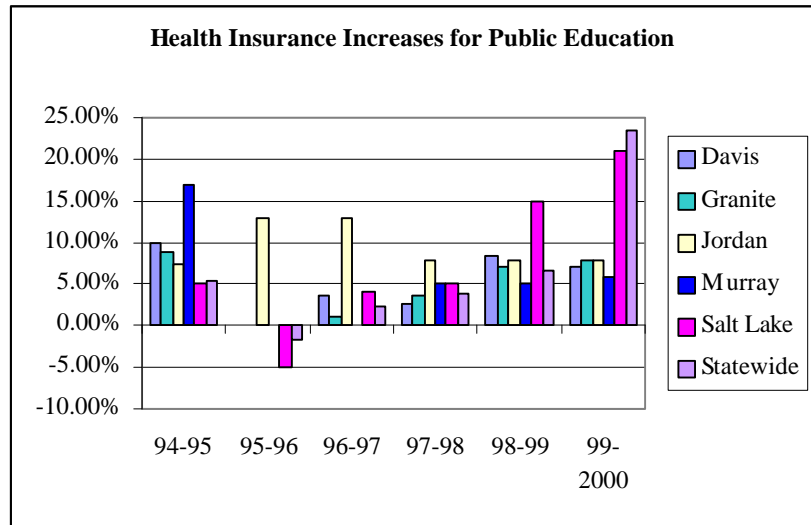
**Public Education**

The following table for public education represents an estimate based on FY 1999 figures (adjusting for the estimated 2000 premium increase) since many of the school districts have not completed their contract negotiations with EMIA.

Comparison of Health Insurance Costs and Coverage Estimated For Public Education For 1999-2000											
School District	Insurance Provider	1999-2000 Premium Increase	Annual Cost to Institution *			Yrly Out of Pocket *		Hospitalization Coverage			
			Single	Employee + 1 dependent	Family	Individual	Family	Co-pay	deductible/co-pay	Office Visit Co-pay	Prescriptions
Alpine	EMIA	15.3%	\$2,013.90	\$4,444.26	\$6,375.77	\$937.50	\$2,150	\$100	100%	\$10	\$10/5
Beaver	EMIA	12.0%	2,472.96	5,303.42	7,605.16	2,000.00	4,000	\$100	100%	10	20%
Box Elder	EMIA/UHC	38.7%	2,100.47	4,751.53	6,830.78	1,000.00	2,000	\$100	80%	15	25%
Cache	EMIA	20.5%	1,944.73	4,373.72	6,318.44	1,000.00	2,000	\$150	90%	10	30%
Carbon	EMIA	32.7%	2,394.49	5,383.59	7,729.51	875.00	1,300	\$50	\$35 (6)	5	20%
Daggett	EMIA	12.7%	2,504.24	5,370.52	7,701.38	1,250.00	2,500	\$150	100%	10	\$8/2
Davis	Altius/UHC	7.1%	2,007.59	4,358.97	5,967.08	1,000.00	2,750	\$250	100%	15	\$5
Duchesne	Self (BC/BS)	30.0%	2,278.90	5,036.20	7,244.90	2,000.00	4,000	\$0	100%	20%	\$10
Emery	EMIA	25.1%	2,835.77	6,049.99	8,663.58	875.00	1,300	\$50	\$35 (6)	10	20%
Garfield	EMIA	26.0%	2,533.20	5,729.12	8,238.74	875.00	1,300	\$100	0%	5	\$7/2
Grand	EMIA	88.1%	3,148.77	5,542.33	7,904.26	875.00	1,300	\$75	\$50 (6)	5	\$7/2
Granite	BC/BS	8.0%	2,126.30	4,189.95	6,044.98	1,600.00	1,880	15%		15%	15%
Iron	EMIA	27.5%	2,115.84	4,711.64	6,750.36	1,250.00	2,500	\$150	100%	10	\$8/2
Jordan	Self (EMIA)	8.0%	0.00	0.00	0.00	1,000.00	2,000	75	\$50 (6)	10	N/A
Juab	EMIA	43.0%	2,259.46	4,851.65	6,946.37	1,000.00	2,000	100	90%	10	\$5/2
Kane	EMIA	59.8%	3,071.04	6,946.31	9,988.01	1,000.00	2,000	75	\$50 (6)	10	\$8/2
Logan	EMIA	28.9%	1,762.11	3,985.33	5,730.58	1,000.00	2,000	150	90%	10	20%
Millard	EMIA	0.0%	1,981.08	4,480.68	6,442.92	1,000.00	2,000	100	100%	15	\$9/4
Morgan	EMIA	29.3%	2,123.83	4,803.75	6,906.95	1,000.00	2,000	125	100%	10	\$7/2
Murray	EMIA	5.8%	1,858.95	4,205.36	6,046.98	875.00	1,300	75	\$50 (6)	5	25%/30%
Nebo	EMIA	34.6%	2,510.51	5,325.48	7,614.38	875.00	1,300	100	100%	15	20%
N. Sanpete	EMIA	14.4%	2,284.75	4,907.76	7,023.24	1,000.00	2,000	100	100%	10	20%
N. Summit	EMIA	33.1%	2,403.47	5,435.27	7,815.74	875.00	1,300	100	100%	5	\$7/2
Ogden	EMIA	26.0%	2,317.10	5,240.93	7,535.49	1,000.00	2,000	100	varies	12	10%
Park City	EMIA	37.1%	2,419.43	5,473.09	7,868.99	875.00	1,300	90	varies	7	\$7/2
Piute	EMIA	7.9%	2,069.48	4,680.44	6,729.98	1,250.00	2,500	150	100%	10	\$8/2
Provo	EMIA	10.7%	1,859.23	3,987.59	5,718.23	875.00	1,300	150	100%	10	30%/20%
Rich	EMIA	5.5%	1,965.59	4,445.56	6,392.03	1,000.00	2,000	-	100%	15	\$8/4
Salt Lake	EMIA	21.0%	1,627.93	5,198.89	5,198.89	1,000.00	2,000	20%	80%	15	30%/20%
San Juan	EMIA	18.2%	2,197.10	4,969.65	7,145.90	875.00	1,300	75	\$50 (6)	10	\$8/3
Sevier	EMIA	31.3%	2,214.19	5,006.78	7,200.18	1,000.00	2,000	100	90%	10	20%
S. Sanpete	EMIA	20.6%	2,438.82	5,230.76	7,500.55	1,250.00	2,500	150	100%	10	\$8/2
S. Summit	EMIA	5.0%	1,787.94	4,043.59	5,814.02	1,000.00	2,000	100	90%	10	20%
Tintic	EMIA	10.1%	2,204.03	4,728.84	6,781.06	1,000.00	2,000	100	100%	10	20%
Tooele	EMIA	25.7%	2,419.32	5,196.89	7,437.02	1,000.00	2,000	100	100%	10	20%
Uintah	EMIA	37.8%	2,227.40	4,784.86	6,847.23	1,000.00	2,000	100	varies	10	20%
Wasatch	EMIA	48.1%	2,289.74	4,910.94	7,042.51	875.00	1,300	100	100%	5	20%
Washington	EMIA	36.2%	1,970.27	4,457.17	6,408.97	1,000.00	2,000	150	100%	15	30%/10%
Wayne	EMIA	3.5%	2,306.02	4,945.23	7,091.94	875.00	1,300	100	100%	5	20%
Weber	EMIA	23.6%	1,718.04	3,960.80	5,796.69	875.00	1,300	5%	95%	5	20%
UBATC	EMIA	7.1%									
USDB	PEHP	7.1%				1,000.00	2,000	-	100%	10	
DATC	EMIA	10.1%	2,317.50	4,801.37	6,903.86	1,000.00	2,000	88	\$50 (6)	10	\$7/2



The following chart illustrates the trend in health insurance increases for public education since FY 1995. The larger urban school districts (Davis, Granite, Murray, and Jordan) have been able to manage their health care costs more effectively as well as reducing the wide fluctuations in premiums than the other school. The table does not account for premium stabilization as a result of program changes or benefit reductions.



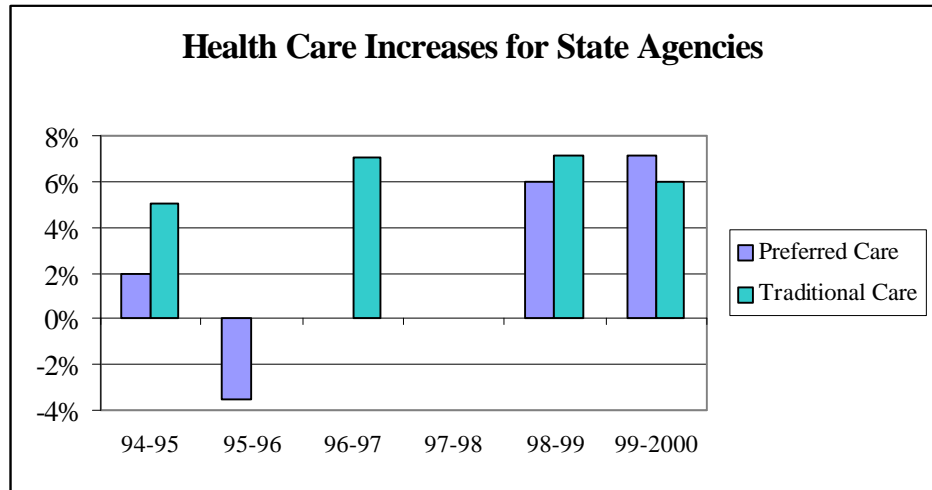
**Public Employee  
Health Plan**

Although there are several insurance options for state employees, for convenience of reporting, the Analyst used PEHP preferred and traditional health care coverage since most state employees are covered under these two plans.

**PEHP Health Insurance Costs and Coverage  
For 1999-2000**

<b>Health Care Program</b>	<b>Preferred</b>	<b>Traditional</b>
Insurance Provider	PEHP	PEHP
Length of Contract	1 Yr.	1 Yr.
1999-2000 Premium Increase	7.1%	7.1%
<b>Annual Cost to State</b>		
Single	\$2,134	\$2,437
Employee + 1 dependent	4,401	5,024
Family	5,875	6,708
<b>Annual Cost to Employee</b>		
Single	\$0	\$460
Employee + 1 dependent	0	948
Family	0	1,265
<b>Key Coverage Provisions</b>		
Yearly Out of Pocket Max		
Individual	\$1500	\$1500
Family	2000	2000
Hospitalization (1 <sup>st</sup> day)		
Deductible		---
Co-pay		\$175
Coverage after deductible/co-pay	90%	80%
Emergency Room		
Deductible	---	---
Co-pay	\$50	\$50
Coverage after deductible/co-pay	90%	90%
Office Visit co-pay	\$10	\$15
Prescriptions Pharmacy	20%	20%

The following chart illustrates the trend in health insurance increases for state employees with PEHP since FY 1995.



**Relative Ranking of the Cost of Family Coverage**

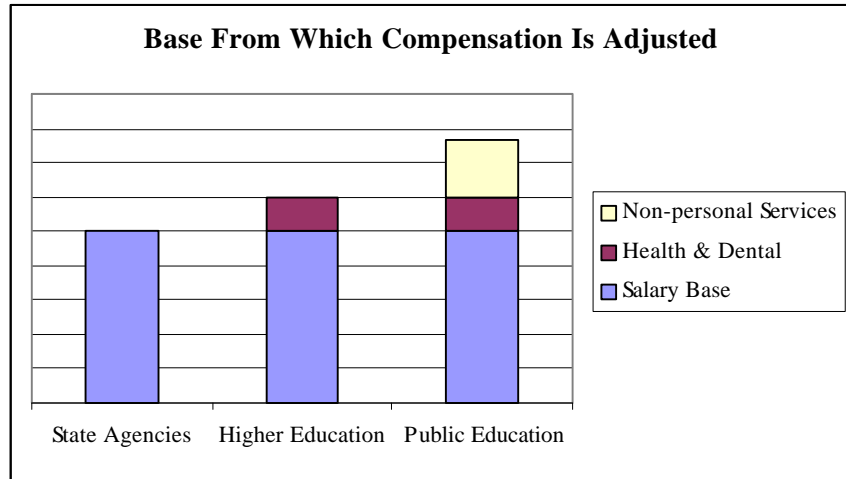
The following table illustrates the relative cost for family health care coverage from the lowest to the highest for the nine institutions of higher education, the 40 school districts, several applied technology centers and PEHP preferred and traditional health care programs. **However, the table does not attempt to equate the level of benefits with the premiums reflected in the table.** It should also be noted that the figures for the public school districts for family health insurance coverage were calculated based on It should be noted that the larger and self-insured entities offer some of the lowest premiums. If you compare the University of Utah with Kane School District, you can see that there is a significant difference between the cost of family health care for each entity. Kane’s cost are \$9,988 and the University of Utah’s are \$4,835. In comparison, the annual out of pocket costs for the employee for family health care at Kane School District is \$2,000 while an employee at the University of Utah only pays \$3,100. **Based on this table, it appears that the smaller school districts and institutions of higher education may benefit from forming a common risk pool by spreading their risk across a greater cross section.**

**Comparison of Estimated Health Care Costs  
For the Family Plan**

<u>System</u>	<u>Employer's Cost</u>	<u>Employee's Cost</u>	<u>Total</u>
1 U of U	4,835.00	0.00	4,835.00
2 Salt Lake	5,198.89	0.00	5,198.89
3 Provo	5,718.23	0.00	5,718.23
4 Logan	5,730.58	0.00	5,730.58
5 Weber	5,796.69	0.00	5,796.69
6 S. Summit	5,814.02	0.00	5,814.02
<b>7 PEHP Preferred</b>	<b>5,875.00</b>	<b>0.00</b>	<b>5,875.00</b>
8 Murray	6,046.98	0.00	6,046.98
9 USU	6,216.00	0.00	6,216.00
10 Granite	6,044.98	172.80	6,217.78
11 Davis	5,967.08	298.35	6,265.43
12 Cache	6,318.44	0.00	6,318.44
13 Alpine	6,375.77	0.00	6,375.77
14 Rich	6,392.03	0.00	6,392.03
15 Washington	6,408.97	0.00	6,408.97
16 WSU	6,411.00	0.00	6,411.00
17 Millard	6,442.92	0.00	6,442.92
18 Snow	6,475.00	0.00	6,475.00
19 Dixie	6,480.00	0.00	6,480.00
20 UVSC	6,654.00	0.00	6,654.00
21 Piute	6,729.98	0.00	6,729.98
22 Iron	6,750.36	0.00	6,750.36
23 Tintic	6,781.06	0.00	6,781.06
24 Box Elder	6,830.78	0.00	6,830.78
25 SLCC	6,842.00	0.00	6,842.00
26 Uintah	6,847.23	0.00	6,847.23
27 Morgan	6,906.95	0.00	6,906.95
28 Juab	6,946.37	0.00	6,946.37
29 N. Sanpete	7,023.24	0.00	7,023.24
30 Wasatch	7,042.51	0.00	7,042.51
31 CEU	7,068.00	0.00	7,068.00
32 Wayne	7,091.94	0.00	7,091.94
33 San Juan	7,145.90	0.00	7,145.90
34 Sevier	7,200.18	0.00	7,200.18
35 Duchesne	7,244.90	0.00	7,244.90
36 DATC	6,903.86	345.19	7,249.06
37 Tooele	7,437.02	0.00	7,437.02
38 S. Sanpete	7,500.55	0.00	7,500.55
39 Beaver	7,605.16	0.00	7,605.16
40 Nebo	7,614.38	0.00	7,614.38
41 Carbon	7,729.51	0.00	7,729.51
42 N. Summit	7,815.74	0.00	7,815.74
43 SUU	7,819.00	0.00	7,819.00
44 Park City	7,868.99	0.00	7,868.99
45 Grand	7,904.26	0.00	7,904.26
<b>46 PEHP Traditional</b>	<b>6,708.00</b>	<b>1,265.00</b>	<b>7,973.00</b>
47 Daggett	7,701.38	385.07	8,086.45
48 Ogden	7,535.49	602.84	8,138.33
49 Garfield	8,238.74	0.00	8,238.74
50 Emery	8,663.58	0.00	8,663.58
51 Kane	9,988.01	0.00	9,988.01
52 Jordan	N/A	N/A	N/A
53 UBATC	N/A	N/A	N/A
54 USDB	N/A	N/A	N/A

**Compensation  
Package Funding  
Mechanism**

The Legislature should consider reviewing the funding process that impacts the way compensation funds are allocated to state agencies, the system of higher education and the local school districts. When the Legislature appropriates a fixed percentage increase on the compensation base, each sector is impacted differently. This is illustrated in the following chart:



For example, the funds needed to cover a salary increase for state agencies would be determined by multiplying the amount of the increase (2.5 percent for FY 2000) by the sum of the salary base and all salary driven benefits such as: retirement, long-term disability, workers' compensation and FICA.

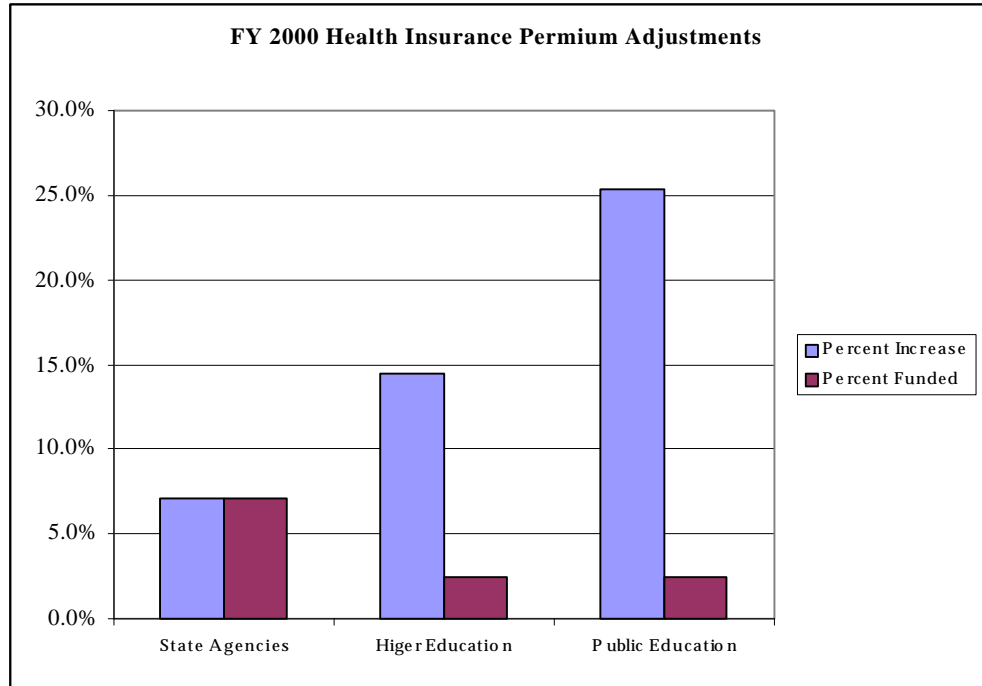
For higher education, the amount required to fund employee compensation is predicated upon the sum of the base salary figure plus the value for employee health and dental insurance multiplied by the adjustment for employee compensation.

The amount for employee compensation, in public education, is calculated by adjusting the value of the WPU by the amount of the salary increase. This means that the total public education budget for salaries, salary driven benefits, health and dental insurance, and all non-personal expenses are inflated by the value of the salary adjustment (2.5 percent for FY 2000)

From the funds appropriated for employee compensation, higher education and public education are then required to cover both salary and benefit cost increases from this amount. In years when there were modest increases in health insurance costs, any surplus funds could be used to supplement employee salaries or fund other budgetary concerns. However, for FY 2000, where the growth in health care costs exceeded the 2.5 percent compensation

increase, several USHE institutions and many school districts had to use much, if not all, of their compensation funds to cover health insurance premiums. In comparison, state agencies had health benefit cost increases funded in addition to their incremental salary appropriation. This is illustrated in the following chart:

**Common Risk Pooling**



The principle behind insurance is to spread individual risks across a group. The benefit of forming common risk pools is to create a larger and more diverse group so that the premiums paid by those with better than average health experience go to cover the costs of those with worse than average health experience. In other words, the idea is to spread the risk over a larger group of employees, reducing premium fluctuations, thus lowering the cost to the state.

**Standardization of Benefits**

As small groups combine into larger risk pools there is a greater degree of standardization of benefits plans. Standard benefit packages specify exactly which services and which providers are covered, and what cost-sharing obligations are imposed on the insured. The consolidation of programs would also facilitate portability of benefits for employees transferring from one school district or institution to another within the state. Standardization of plans among fewer pools would help assure equity and fairness between school districts and institution of higher education with regard to benefits.

**Economies of Size**

Small groups are disadvantaged relative to large groups in two ways: the administrative costs associated with insuring them are substantially higher, and they have very limited or no opportunities for spreading their health care risks

with other individuals or groups. The administrative cost handicap leads to higher premium levels for virtually all small school districts or institutions. Furthermore the larger common risk pool would increase their leverage in their negotiations for favorable contracts and other discounts with insurance providers. Costs for consulting fees and staff time may be reduced.

### **Advantages of Risk Pooling**

There are many other advantages for considering common risk pools for health insurance:

- ▶ Reduced sales and marketing expenses may eliminate the need for agents or third party brokers that expect commissions for their services.
- ▶ Risk pools would not be subject to much of the state and federal regulations that applies to for-profit insurance companies. This would reduce the cost of compliance with numerous insolvency and consumer protection regulations. Compliance with these regulations would be assured through the good faith of the State and the financial support of the Legislature.
- ▶ Moderate premium fluctuations currently experienced by many of the small school districts by consolidating into larger pools. This would simplify the budgeting and appropriation process.
- ▶ Offer an opportunity to develop a higher level of benefit and financial expertise that would be available to the smaller school districts and institutions of higher education.

### **Disadvantages of Risk Pooling**

There are disadvantages to forming large common risk pools for administering employee health benefit programs. These disadvantages include:

- ▶ The loss of some of the benefit choices currently enjoyed by individual school districts and higher education institutions.
- ▶ The difficulty of getting competent management and governing boards to assure the success of the risk pools. Competent leadership, without conflict of interest, is necessary to understand health insurance risk factors and effectively manage the pool's reserves. Several insurance companies in recent years have experienced failure in the insurance market because of weaknesses in these areas.
- ▶ If the risk pool program experiences a major catastrophe, the risk pool must absorb the loss.

### **Recommendations**

In answer to the question of whether the State Board of Regents and the State

## and Conclusions

Board of Education should combine resources to form a single health insurance risk pool for their employees, the response from the Legislative Fiscal Analyst's Office is reflected in both short- and long-term recommendations.

Health care costs are a major part of the employee's compensation package, represents a significant cost in the State's annual budget and therefore changes in program funding and benefit coverage must be considered with discretion and forethought. Significant new dollars will be needed to maintain the same level of coverage in future years. To maintain the current level of coverage for all state agencies and educational institutions, assuming a 7 percent increase in premiums statewide, will cost approximately \$17.5 million.

A fundamental concern from the Fiscal Analyst's Office is how to deal with each sector equitably. Institutions of higher education and the public education school districts have been permitted by the Legislature and their governing boards to develop unique benefit plans. Therefore, they have often made trade-offs between salary and benefits. Some institutions and school districts have emphasized salary increases when the Legislature funded compensation increases, while others placed a greater emphasis on employee benefits. In addition, some school districts and USHE institutions have been enjoying artificially lower premiums in recent years. Because benefit plans are not common across the state it is difficult to make meaningful comparisons.

## Recommendation 1 - Maintain the Status Quo

### **Maintain the Status Quo for the Present Time**

**As a short term solution, and the recommendation of the Legislative Fiscal Analyst, is to let the market place continue to work to equalize the employee health benefit packages offered by higher education and public education and balance the premiums paid by the entities within these sectors of state government.**

The problem with determining if a common risk pool would be in the best interest of public and higher education is that the benefit packages are generally tailored to the meet needs of the employees and the particular conditions of each institution of higher education and for each school district. Without a statewide comparative analysis of benefit packages by a professional actuarial study, it would be difficult to determine the cost/benefit value of each program in the state's systems. Since benefit plans are not common across the state, to make an arbitrary decision to consolidate school districts and USHE institutions into common risk pools could be problematic.

When the Legislature learned that Educator's Mutual Insurance Association could no longer honor its previously negotiated health insurance contracts and was abandoning its policy of subsidizing premium increases, the Legislature did



not provide additional funding to cover the cost for rising employee benefits premiums. As a result, the two educational systems made insurance policy decisions based on market conditions and the availability of limited fiscal resources. The school districts that sent out RFPs discovered that the rate increases requested by EMIA for existing programs were reasonably priced.

School districts are dealing with EMIA's high premium increases in the following ways:

- ▶ Redesign of insurance plans with a standard plan, a low-standard plan and a high-standard plan. Several districts are considering offering a standard plan for employees with options to "buy-up" if they choose. Some are also considering additional charges to employees for spouse or family coverage. Restructured plans have reduced premiums to acceptable levels and are being adopted by many of the school districts.
- ▶ The formation of insurance pools and the release of a Request for Proposal (RFP) for health and accident insurance premiums (The Mercer Group served as consultants) was formed by the Utah School Boards Association. Eleven school districts are currently associated with this pool.

Higher education dealt with the rising health insurance premium increases in a similar fashion. The changes are illustrated in the following table:

## Plan Restructuring to Lower Costs

	WSU	SUU	Dixie	CEU	UVSC	SLCC
<b>Doctor Visit Benefit Changes</b>						
Doctor visits co-pay went from \$5 to \$15			X			
Doctor visits co-pay went from \$5 to \$10				X		X
Doctor visits co-pay went from \$10 to \$15	X	X			X	
Secondary doctor visit co-pays without referral changed from \$20/\$25					X	
<b>Prescription Benefit Changes</b>						
Prescription \$4 to 20%			X			
Prescriptions co-pay from \$10 to 20%/ max \$30	X					
Prescriptions co-pay increased form \$2 (generic) to 20% of total				X		
Prescription co-pays will change form \$3 generic/\$7 brand name to \$7/\$14					X	
Mail order prescriptions (90-day supply will change from \$5 generic/\$15 brand name to \$5/16					X	
Prescriptions up by \$5 for generic						X
Generic drugs went to \$10 co-pay and name brand drugs co-pay went to \$15		X				
Incorporated a formulary drug plan. If the drugs is on the plan it is covered at the \$10 or \$15 co-pay. If the drug is not o the plan then it is only covered at 50%.		X				
<b>Emergency Room Benefit Changes</b>						
Emergency room visits up from \$25 to \$50			X	X		
<b>Hospital Benefit Changes</b>						
Changed % with hospital stays subject to deductible (now 5% after deductible	X					
Inpatient hospital form \$100 co-pay to \$175						X
Inpatient co-pay up from \$50 to \$75				X		
Outpatient co-pay up from \$25 to 10% of total cost				X		
Diagnostic testing went form 100% coverage to 100% coverage up to \$350 maximum than employee pays 20%				X		
In-house \$100 to 10%			X			
<b>Other Benefit Changes</b>						
No longer coordinate the benefits of married employees who both work on campus		X				
Increased deductible from \$300 to \$400 per person	X					

**Recommendation 2 - Equity Funding of Employee Compensation and Health Insurance Costs**  
**Equity Funding**

The Legislature may want to address the inconsistent funding process used to calculate the amount needed to fund employee compensation increases.

**It is the recommendation of the Legislative Fiscal Analyst that the Legislature consider funding employee health and dental insurance separately from the amount used to fund employee salary increases. It is also recommended that the USHE and the Board of Education submit in their annual budget request an appropriate increase to cover projected changes in health benefit costs. If these two systems cannot identify this factor, then it is recommended that the adjustment used for PEHP or some other medical inflationary index be used to determine the funding increase.**

**Recommendation 3 - Risk Pooling, A Long Range Consideration**  
**Risk Pooling**

The long term objective is to provide adequate health insurance coverage to all sectors of state government at a reasonable cost. In the opinion of the Analyst, cost savings, reduced premium fluctuations and appropriate health care coverage may be achieved through forming common risk pools.

**If the Legislature desires to pursue a common risk pooling concept, it is recommended that a statewide comparative analysis of benefit packages be performed by a professional actuary to determine the feasibility of forming common risk pools. The study should evaluate the cost/benefit value of each program in the state's systems and the number of risk pools needed. The cost for this actuarial study has not been determined, but based on prior studies, the estimated cost may range from \$150,000 to \$200,000.**