

BENEFITS ADVISORY COMMITTEE
MINUTES OF MEETING
NOVEMBER 7, 2002

[In these minutes: Welcome & Call to Order, Open Enrollment Update, Medical Evacuation Insurance Update, Wellness Update, Definity Plan Review, Post Retirement Health Care Savings Plan Update]

[These minutes reflect discussion and debate at a meeting of a committee of the University Senate or Twin Cities Assembly; none of the comments, conclusions, or actions reported in these minutes represent the view of, nor are they binding on the Senate or Assembly, the Administration, or the Board of Regents.]

PRESENT: Fred Morrison (chair), Linda Aaker, Gavin Watt, Pam Wilson, Karen Wolterstorff, Jody Ebert, Nancy Wilson, Joseph Jameson, Carla Volkman-Lien, Wendy Williamson, George Green, Steve Chilton, Amos Deinard, Richard McGehee, Peh Ng, Dann Chapman

ABSENT: Ronald Enger, Frank Cerra, Susan Brorson, Marjorie Cowmeadow, Theodor Litman, Keith Dunder

REGRETS: Don Cavalier, Carol Carrier, Gailon Roen

GUESTS: Barb Flitsch, Account Management and Bobbie Lauer, Vice President of Sales and Marketing – Definity Health

OTHERS: Kathy Pouliot, Phyllis Walker, Pat Yozamp, Tonya Soli-Hill, Jackie Singer, Karen Chapin, Phyllis Walker, Nan Kalke, Chris Hulla

I). Professor Morrison called the meeting to order.

II). ADMINISTRATIVE ANNOUNCEMENTS:

- Director of Employee Benefits, Dann Chapman introduced the University's new Manager of Health Programs, Karen Chapin.
- Open Enrollment Update: Open enrollment health fairs were a great success this year. At the fairs, approximately 1200 flu shots were given. As of Tuesday, November 5th, only 3200 out of 19,000 open enrollment forms had been received and processed by Employee Benefits. Mr. Chapman stated his biggest concern with open enrollment this year is that not everyone understands that they are required to make a new dental insurance benefit election for 2003. While the biggest difficulty thus far with open enrollment has been inaccurate information from carriers, particularly dental carriers, concerning the University's retiree pool. This is yet another reason why the University has separated from the state and is

building its own data warehouse in order for the University to keep better track of its retirees.

- A medical evacuation insurance vendor has been chosen by the selection committee. All active employees and their dependents will have coverage at the beginning of the 2003 plan year. Although the University hopes and expects to be able to offer this coverage to its retirees, this has not yet been finalized. The name of the vendor cannot be announced today but will be released once Purchasing Services has officially made the award to the vendor.
- The University has contracted with Johnson & Johnson to conduct a wellness study. As part of their investigation, Johnson & Johnson will conduct several focus groups on the Twin Cities campus as well as the coordinate campuses. Each focus group will have bargaining unit, civil service, P&A and faculty representation. Professor Morrison welcomed nominations from committee members to fill these seats. Because BAC members will already have an opportunity to interject their opinions on the matter, Professor Morrison suggested consideration be given to other active participants in the governance process that would be able to contribute an understanding of the issue. Johnson & Johnson's recommendations should be available to the committee in early February 2003.
- There will be no BAC meeting on Thursday, November 21st due to a conflict with the Civil Service meeting schedule. The next BAC meeting will be Thursday, December 5th unless members are notified otherwise.

III). Definity Plan Review: Professor Richard McGehee prefaced Definity's plan review presentation by informing the committee that the comments collected concerning Definity Health fell into three main categories:

1. Philosophically those enrolled in Definity like the plan concept and the freedom it offers.
2. Definity needs to improve its customer relations.
3. Medical expenses covered by the Primary Care Account (PCA) and the Flexible Spending Account (FSA) need to be fine-tuned and the order in which these accounts are applied should be reversed.

Professor McGehee introduced Definity representatives Barb Flitsch, Account Management, and Bobbie Lauer, Vice President of Sales and Marketing to the committee.

Presentation highlights and committee comments and questions included:

- Definity Health has grown tremendously over the past year. The University of Minnesota was Definity's fourth client and now Definity has over 50 clients across the country.

- The University's enrollment in Definity is amazingly very evenly split demographically. There are approximately 745 University employees enrolled in Definity, with a total of 1,479 members. Statistically, the average contract size is 2, one dependent for every employee on average. Additionally, enrollment is evenly split between Option 1 and Option 2, there is an almost even split between employee only and family coverage as well as between male and female enrollees.
- A majority of both male and female members are between the ages of 35 – 54. However, interestingly enough, a significant number of males between the ages of 55 – 64 enrolled in Definity as compared to females in the same age bracket.
- Initial concerns surrounding adverse selection in terms of age and demographics are not being drawn out. Definity is attracting its members from a representative pattern.
- Initial per employee, per month projections were estimated to be \$567.14 but in reality the University is coming in about 15% below its expected budget. Definity, as an underwriter, admittedly tends to be conservative in its estimates and wants to make sure employers do not under-fund the plan. For 2003, assuming everything stays the same for comparison purposes, even with a 14% industry-standard trend rate, Definity would expect to deliver a 5% reduction over today's funding rates in terms of renewal projections.
- Sixty-two individuals (8% of the population) have had claims in excess of \$10,000. These 62 people account for approximately 50% of the claims in the plan today for medical and pharmacy expenses.
- The University's PCA (Personal Care Account) balance status through September 2002 is very representative of Definity's larger book of business. Definity is noticing a pattern emerging in how members use their PCA dollars and charted this for the committee using a PowerPoint slide.
- Through September 2002, Definity has paid \$2.7 million in claims. The University's per member, per month claims are averaging \$210 as opposed to \$155 across the Definity Health book of business. When comparing the University to other clients in the Definity book of business the following was noted:
 1. The University is very similar in terms of its use of physician services to Definity's book of business.
 2. The University population tends to use more prescriptions but uses less in terms of facilities services compared to other Definity clients.
 3. The University uses less in-patient services and more out-patient services and less emergency room visits when compared to Definity's book of business.
- Dann Chapman promoted the use of mail order prescriptions because it is a cost-savings to both the University as well the employee. The University population is not using this benefit nearly as much as it could or should.
- Definity offers an open-formulary drug list. This means that members have open access to both formulary and non-formulary drugs without the restrictions that most plans impose. Despite its open-formulary list, Definity Health is seeing an increase in the use of generic substitutions. In the Definity book of business this

- equates to approximately 92%, better than most 3-tier drug plans. Because the Definity plan is all about money, use of generic drugs saves on PCA dollars and is a financial incentive for employees to use their health benefit dollars judiciously.
- In June of 2002, the Treasury Department and the Internal Revenue Service made a ruling that Definity-type plans cannot offer different levels of Health Reimbursement Accounts/Personal Care Accounts deeming it similar to 'constructive receipt'. In order to correct this problem for 2003, Definity readjusted its plan design by making the University's PCA amounts for Option 1 and Option 2 the same while continuing to offer different deductibles between the two options. In addition, it was noted that unused PCA funds can continue to rollover from year to year and that these dollars are not subject to the 'use it or lose it' Flexible Spending Account (FSA) rule.
 - Another key component to the IRS ruling stated employers can specify in their benefit plan documents the order in which FSA funds are used relative to PCA funds. Since this ruling came at the end of June 2002, shortly before the University needed to send its open enrollment materials to press and because the IRS guidance on this matter was not particularly clear, the University chose to take a conservative approach. So, for 2003, the University will continue the FSA as the secondary payment fund and will scale-back its PCA list by removing all discretionary items in order to make it easier for members to decide how they wanted to fund a particular medical expense. Additional guidance is anticipated on this issue within the next year. Professor Morrison also noted that because this ruling could have some substantially disastrous implications for certain members (e.g. if an employer orders the FSA pay first, the result is a potential loss of flexibility for employees who may choose today to self-fund certain expenses through their FSA), the committee will need to revisit this matter in the spring and decide in what order these two accounts should be spent and what expenses should be covered under the PCA for 2004.
 - Terminated or retiring employees may access 'banked' PCA benefit dollars. Employers can structure the PCA to allow retirees to use accumulated PCA dollars to pay for post retirement benefits including the purchase of private health insurance.
 - Effective in 2003, Definity will be partnering with Health Dialog. Health Dialog works with health plans and employers to improve the quality of care and reduce the costs of healthcare by enhancing the quality of patient-healthcare specialist dialogs. Health Dialog's coaching and nurse-advice line will give individuals support (24/7) with chronic care management, significant medical support, symptom management and general health information. The organization Health Dialog has roots at Dartmouth and Harvard. Currently, any conversation with a nurse-coach does not get funneled into a member's medical record, although follow-up is done with the patient.
 - The Personal Risk Assessment (also known as a Health Risk Assessment) currently used by Definity was developed at Dartmouth College and is offered to members on-line. If desired, members can discuss their results with a health coach. Besides typical health risk assessment survey questions, the Definity assessment also incorporates family history and readiness to change components

which are critical to the success of such an assessment. Today, Definity's Personal Risk Assessment utilization is very low. Definity has clients who are incenting their employees to take a Personal Risk Assessment by reducing the employee's portion of the health insurance payroll contribution, etc. Health Risk Assessments are a great way to outreach to employees with health issues and provide them with support.

- It was suggested the University should consider:
 - Permitting Definity to administer both a member's PCA and FSA funds.
 - Investigating the feasibility of redesigning the University's plan so FSA dollars are spent first rather than PCA dollars.

If the plan is redesigned the University and Definity would have to work hard to educate members about the possible unintended consequences of spending FSA dollars first. The committee unanimously endorsed a motion to look into the possibility of having Definity administer not only its members' PCA dollars but their FSA dollars as well. Additionally, the committee will investigate the practicality of spending FSA dollars first. This, then, is an active action item the committee will pursue spring semester.

- Definity acknowledged that in early 2002 they had a claims backlog that was driven by provider network data not flowing properly from the network to Definity's claims systems. To compound the problem, Definity's network at the time, Arraz, was under the impression that they were to verify member eligibility but this was not the case and further added to the backlog. Another issue that may have played a role in Definity's rough start is the fact that members were not accustomed to getting paperwork. To address its customer service concerns, Definity has:
 - Resolved its network provider issues.
 - Determined that all company growth must continue to be thoroughly analyzed to ensure it is prepared to expand its services but not at the expense of its service to its members.
 - Contracted with North American Health Plans, a company Definity is actively trying to purchase, to handle its customer service and claims processing starting January 1, 2003.
- A suggestion was made for Definity to consider paying for claims once a member has exhausted their PCA and gone into personal responsibility and then bill the member for their net responsibility. While Definity already does this for pharmacy charges, their representative believes that they are not positioned to take on this service at this time.

Professor Morrison thanked Ms. Flitsch and Ms. Lauer for attending today's meeting.

IV). Post Retirement Health Care Savings Plan – Gavin Watt distributed two handouts describing a Post Retirement Health Care Saving Plan. Key concepts of the plan are:

1. Contributions are mandatory across an entire class of employees.
2. Contributions into the plan are tax-free going in as well as coming out.

3. The SCFA Retirement Subcommittee has made a recommendation to the administration to implement this plan for those currently participating in Faculty Retirement Program.
4. There is a proposal to the administration to add “new” money to the compensation pool (1.5%) and that this money be put toward this plan.
5. Another aspect of the proposal would require that individuals who have worked at the University for 7 years or more shift a portion (0.2% of salary per year of service to a maximum of 3.6%) from their current 401a retirement contribution into the PRHCSP.

Mr. Watt stressed that this proposal remains in its early stages and was presented to the committee for informational purposes only. The intent of the plan is to allow the University to contribute to post-retirement health care expenses.

Professor Morrison noted that this initiative is not under the jurisdiction of the BAC but because it interfaces with the retiree health plans it was brought to the committee’s attention.

V). With no further business, Professor Morrison adjourned the meeting.

Renee Dempsey
University Senate