BENEFITS ADVISORY COMMITTEE
MINUTES OF MEETING
AUGUST 5, 2010

[In these minutes: Introduction of New Members, Administrative Working Group Update, Dependent Coverage to Age 26 Update, Pharmacy Program Implementation, 2011 Medical and Dental Rates, 2011 Employee Additional and Spouse/Same Sex Domestic Partner (SSDP) Life Rates and Coverage, Early Retiree Reinsurance Program Application, 2010 – 2011 Medical and Wellness Request for Proposal (RFP) Timeline and Schedule]

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

PRESENT: Gavin Watt (chair), Pam Enrici, Tina Falkner, William Roberts, Dale Swanson, Sharon Binek, Jody Ebert, Sara Parcells, Jennifer Schultz, Nancy Fulton, Joseph Jameson, Karen Lovro, Michael Marotteck, Amos Deinard, Judith Garrard, Richard McGehee, Fred Morrison, Theodor Litman, Rodney Loper

REGRETS: Sandi Sherman, Dann Chapman

ABSENT: Carl Anderson, Carol Carrier, Frank Cerra, George Green, Michael O'Reilly, Keith Dunder

OTHERS ATTENDING: Linda Blake, Joyce Carlson, Karen Chapin, Kurt Errickson, Ryan Gourde, Shirley Kuehn, Kathy Pouliot, Kelly Schrotberger, Jackie Singer, Sheri Stone, Curt Swenson, Karen Young

I). Gavin Watt called the meeting to order and welcomed those present. He then introduced three new members, Pam Enrici (P&A – Duluth), Karen Lovro (Civil Service – Twin Cities), and Jennifer Schultz (UEA – Duluth).

II). Chair's Report: Mr. Watt reported that the Administrative Working Group (AWG) has been spending time dealing with several issues, which include but are not limited to:

- Life insurance rates and coverage.
- Early Retiree Reinsurance Program application.
- Future of the UPlan.

III). Employee Benefits' announcements:

a). Karen Chapin reported that Dann Chapman, director, Employee Benefits, will be returning to work on a part-time basis beginning Monday, August 9.

b). Ryan Gourde, health programs financial manager, reported that in accordance with health care reform legislation, the University expanded its medical coverage for dependents to age 26. During a recent open enrollment event, 344 dependents were enrolled. Ms. Chapin stated that

actual enrollment figures were slightly higher than initial projections. Expansion of this coverage is expected to cost the University approximately $1 million for the last half of this year.

c). Ms. Chapin noted that Employee Benefits continues to work on the implementation of the new pharmacy program, which will take effect January 1, 2011. Prime Therapeutics will be the University's new pharmacy benefit manager, replacing CVS Caremark. Fairview Specialty Pharmacy will handle the University's specialty pharmacy program. Ms. Chapin noted that Fairview Specialty Pharmacy will not adjudicate claims. All claims will be processed by Prime Therapeutics, which includes specialty pharmacy claims.

Ms. Chapin explained that the University is changing the way the specialty pharmacy program works. Because the University received excellent pricing from Fairview Specialty Pharmacy, it intends to use them on virtually an exclusive basis for all specialty medication. This means that specialty medication previously picked up at a retail pharmacy, for example, will now need to either be mailed to plan participants or it can be picked up at any Fairview pharmacy location. In Duluth, the University hopes to make arrangements with SMDC and St. Luke's Hospital so plan participants can pick up their medication(s) at one of these locations, or, alternatively, they can have their medication mailed. In Greater Minnesota, plan participants will have their specialty medication(s) mailed to them.

The University anticipates the transition to Prime Therapeutics to go smoothly. To date, CVS has been very cooperative throughout the transition process. The University will have a plan in place to deal with any implementation/transition issues that arise, noted Ms. Chapin. Prime Therapeutics has an extremely detailed implementation process. Kathy Pouliot added that Fairview Specialty Pharmacy will be contacting all UPlan participants who use specialty medication in December to explain how the program works and to make arrangements for participant's next fill. Contacting specialty medication users prior to the transition date of January 1, 2011 is expected to increase the likelihood of a smooth transition.

IV). Mr. Watt turned to Ryan Gourde, health programs financial manager, to provide information about the 2011 medical plan rates. Copies of confidential proposed medical rates for 2011 were distributed for members to review. As background information, Mr. Gourde highlighted the medical plan rate components:

- Medical and pharmacy claims (92.9% of total).
- University HSA contributions (0.1% of total).
- External administrative fees (3.4% of total).
- Stop loss and medical conversion insurance (0.5% of total).
- Internal plan administration (1.4% of total).
- Wellness programming (1.7% of total).

Professor Morrison noted that a big issue being discussed in Washington, D.C. is medical loss ratio. That is a calculation of how much of the insurance premium is being spent on benefits and how much is being spent on overhead. Insurance companies are upset because of new legislation requiring them to spend at least 80% of their premiums on payments to physicians and facilities and other direct health-related costs. Most insured plans have overhead that runs at 20%+; they are spending only about 80% of their premium income on benefits. The UPlan, in contrast, is

spending 95% on direct benefits (payments to doctors, pharmacies, and wellness benefits), and has only a little more than 5% overhead. That means that UPlan members are getting a very good deal!

Moving on, Mr. Gourde stated that for rate setting purposes, the UPlan is considered a single plan, taking into account the experience of the entire plan. Rates for individual UPlan options are set using three differentiating factors:

1. Plan design (co-pays, coinsurance, and deductibles).
2. Provider pricing.
3. Care and utilization management.

Regarding medical trend, Towers Watson, the University's benefits consultant, has calculated the market trend (2010 to 2011) to be eight percent for medical and seven percent for pharmacy, noted Mr. Gourde. He added that these figures are not illness burden adjusted. The University's 2011 projected claims factor increase is 8.4%. Actual employee medical rate increases for 2011 will average 7.5%. Projected UPlan cost for 2011 is $227 million, an increase of $17 million over the 2010 budget. Mr. Gourde added that HealthPartners 2009 cost differential will not incur a rate adjustment for 2011. The reason there will not be an adjustment in 2011 is because the University wants to make sure it has all the necessary data before making a final adjustment on the cost differential of the HealthPartners' plan. Mr. Gourde reminded members that in 2008 Towers Watson did a thorough review of the University's medical plans and determined that HealthPartners was less efficient, and this needed to be adjusted into the rate. One third of this cost differential was put into the 2009 rates, but no further adjustments have been made since that time. The University and Towers Watson continue to monitor this matter closely.

With the retirement of Dr. Cerra, and a decline in the AHC infrastructure, asked a member, who will replace Dr. Cerra on the AWG? Mr. Watt stated that this was a good but an unanswerable question at this time. Another member stated that he does not believe the senior vice president of the AHC should be the chair of the AWG.

A member asked about the retiree's medical rates. Ms. Chapin explained that the retiree's rates will be shared with the committee in September. These rates are not yet available because the Medicare rates, which are needed to calculate the new rates, are not available until the end of August.

Professor Morrison shared with the committee that under health care reform, the UPlan is considered a "grandfathered plan." This means the UPlan is operating under a set of rules that limits the changes it is able to make in terms of rates, co-pays, etc. The University is currently well within the "grandfathered plan" limits set forth by the federal government. Eventually the University will need to conform with all the new health care reform rules.

A member commented that year after year health care trend continues to increase. With that said, what percentage of this increase is attributable to the fact that people are getting more care versus the care they are getting is more expensive? Ms. Chapin stated that she does not have this information, but that it can be obtained from Towers Watson and shared with the committee at a future date. Another member asked for data on which tests/procedures, e.g., MRI, are

significantly adding to the cost of the plan. Again, Ms. Chapin stated that this information can be obtained from Towers Watson and shared with the committee at a future meeting.

Has the Mental Health Parity Act caused UPlan costs to rise, asked a member? Mr. Watt noted that the UPlan has had a longstanding history of treating mental health services and medical services the same. Ms. Chapin concurred and noted that the UPlan has never had a differential in terms of how it treats mental health services and medical services.

Next, Mr. Gourde distributed copies of the confidential proposed dental rates for 2011. He noted that no increase is required for 2011 due to claim factors, which are expected to be similar to 2010 claims. However, external administrative fees are going up about 3% (HealthPartners 2% and Delta Dental 4%). Mr. Gourde then presented two proposals for members' consideration:

1. Keep the annual maximum at $1,500 and have a zero percent increase in UPlan dental rates.
2. Increase annual maximum to $1,800, which would mean a 3.4% rate increase for UPlan members. (This proposal excludes orthodontics, which will continue to have a $2,800 lifetime maximum.)

A member asked about the dollar value of the 3.4% rate increase. In response, Mr. Gourde turned members' attention to a slide in his PowerPoint presentation and noted that increasing the annual maximum from $1,500 to $1,800 represents a 20% increase in benefits, assuming full utilization. With the $1,800 maximum, the dental plans are projecting that claims will increase by almost $1 million. Employees will end up paying $328,000 of the total amount in premium increases (35%).

While one member commented that a 3.4% rate increase seems like a lot for only a $300 increase in the annual maximum, another member commented that a 3.4% rate increase for a 20% increase in benefits is a bargain. Ms. Chapin added that Employee Benefits thought this was a good time to discuss increasing the dental benefits because there were no other dental rate increases this year. Since the University self-insured its dental plans, there have been either minimal or no increases in the dental rates.

Mr. Watt asked for the sense of the committee and whether the annual dental maximum should be increased to $1,800, which would mean a 3.4% rate increase for plan participants. Curt Swenson, a Teamster representative, interjected with the disclaimer that this change in benefits is subject to collective bargaining. Therefore, any decision made here is not reflective of collective bargaining.

In Duluth, noted Professor Schultz, there are not many dentists to choose from in the Delta Dental PPO plan. Therefore, a significant number of UMD employees are forced to purchase the buy-up plan, Delta Dental Premier, which comes at a higher cost. Having said this, the 3.4% rate increase disproportionately affects people in Duluth. This increase could adversely affect some Duluth employees. Mr. Watt acknowledged this concern and noted that while the dollar amount is small, the affect is real. Ms. Chapin stated that Employee Benefits will contact Delta Dental and share this concern. She added that, unfortunately, there simply are not as many dentists in

Delta Dental PPO as Delta Dental Premier. Karen Young noted that the reason dentists choose not to participate in Delta Dental PPO is often due to the low reimbursement rate.

Mr. Watt again asked members their feelings about whether the annual dental maximum should be increased to $1,800. Members agreed that the annual dental maximum should be increased to $1,800, which Mr. Watt agreed to take to the AWG. He also duly noted the Duluth objection.

Mr. Watt thanked Mr. Gourde for his presentation.

V). Next, Ms. Chapin shared information on the 2011 Employee Additional and Spouse/Same Sex Domestic Partner (SSDP) Life rates and coverage information. She distributed a handout to supplement her presentation. Members' attention was then turned to a chart outlining the current rates.

The University has not had particularly good life insurance experience the last few years, noted Ms. Chapin. The University had a lot of claims this year. In 2009, the University had 24 Basic Life claims and 11 Employee Additional and Spouse/SSDP claims. The 2009 experience (premium versus claims, taxes and Minnesota Life administrative fees) for Employee Additional Life resulted in a 220% loss ratio and the Spouse/(SSDP) loss ratio was 184%.

Minnesota Life initially proposed a 15% rate increase with a two-year guarantee. Later, after some negotiation, noted Ms. Chapin, Minnesota Life revised their proposal, and offered a 10% increase with a three-year guarantee. The advantage of the three-year guarantee brings the contract to the next scheduled RFP effective date of 2014.

Minnesota Life has proposed the following options, noted Ms. Chapin, which are being shared with the BAC for consultation purposes:

- Proposal 1: Ten percent rate increase with a three-year guarantee.
- Proposal 2: Zero percent increase and move from Insured Waiver of Premium in the event of disability to uninsured Continuation of Coverage in the event of disability.

This proposal is cost neutral for the University, added Ms. Chapin.

Currently, if an employee becomes disabled their premiums are waived by Minnesota Life (Insured Waiver of Premium). Under Continuation of Coverage, Supplemental and Spouse/SSDP Life would continue for disabled participants, BUT they would be required to continue to pay the full cost of coverage. With respect to medical and dental coverage, noted Ms. Chapin, disabled participants currently pay the full cost of the University's medical and dental coverage at UPlan overall rates. Ms. Chapin added that if the decision is made to move to Continuation of Coverage:

- Current disabled participants will NOT be impacted as they would continue to have their insured Waiver of Premium under which they were disabled.
- Basic Life coverage would continue in the event of disability because the University pays this rate.
- The University would need to implement a billing feature that would accommodate Continuation of Coverage billing requirements.

Selected comments/questions from members included:

- Is there also a three-year guarantee on Proposal 2, zero percent increase and move to Continuation of Coverage? Ms. Chapin stated that she did not know the answer, but that she would check with Minnesota Life and find out.
- Has the University considered self-insuring its life insurance coverage? Ms. Chapin stated that life insurance contracts are typically not self-insured because of the unpredictably of the experience. As an alternative to self-insuring, there are Minimum Premium Funding contracts, which the University can explore next time it goes out to bid for life insurance.
- How much does the University pay for life insurance? In total for 2009, the University paid $1.5 million in premiums for Supplemental Life and the University had $3.2 million in claims. For Spouse/SSDP Life, the University paid $400,000 in premiums and had $680,000 in claims (includes both life and waiver claims).
- Are employees required to buy Supplemental Life? No, stated Mr. Watt, this is an individual choice.
- Is Minnesota Life also increasing its Basic Life rates to the University? Yes, stated Ms. Chapin, the University's Basic Life rate is increasing by 11.11%.

After some discussion, members agreed that they did not want to put the burden on individuals of having to pay for the full cost of this benefit after they become disabled. Therefore, members endorsed Proposal 1, increasing the Supplemental Life and Spouse/SSDP Life rate by 10%.

Before moving on to the next agenda item, Mr. Watt formally recognized Ms. Chapin's negotiating prowess.

VI). Ms. Chapin announced that the University filed the Early Retiree Reinsurance Program application (http://www.hhs.gov/news/press/2010pres/06/20100629a.html) in a timely fashion. Because a lot of other employers are expected to apply for this program, it is still uncertain at this time whether the University will receive any funding even if the application is accepted. If the application is accepted and program funding is still available, given the University's previous experience, up to $4.6 million over a two year period could be received.

The University would use the money for its entire medical program. Ms. Chapin noted that the University generally contributes 83% of the cost of the medical program and employees generally contribute 17%. With that said, the University would use its portion of the money for contributions to the plan, e.g., paying claims. With respect to the employee portion, the University would use that money to reinstate the $8 co-pay reduction for people in the Medication Therapy Management (MTM) program, which has proven to increase the cost effectiveness of the University's medical program.

To collect this money, the University would be required to submit actual claims for early retirees with claims between $15,000 - $90,000. The organizations that will most likely get money from this program will be those that have the most claims, the quickest and those that submit their claims in a timely manner. Ms. Chapin stated that work is being done to set up a methodology for collecting medical and pharmacy claims so they can be submitted if the University's application is accepted.

VII). Next, copies of the 2010 – 2011 medical and wellness request for proposal (RFP) timeline and schedule* were disseminated. Ms. Chapin walked members through the handout and highlighted key dates:

- September 2, 2010 – RFP kick-off meeting, including RFP document review.
- November 10, 2010 – RFP issue date.
- January 13, 2011 – RFP responses due.
- January 21, 2011 – RFP evaluation kick-off meeting.
- February 23 – February 25, 2011 – Review RFP responses and selection of finalists.
- March 14 – March 18, 2011 – Finalist interviews.
- March – April 2011 – RFP Committee recommendations approved by AWG and reviewed with BAC.
- May 12, 2011 – RFP Committee recommendations to Board of Regents for approval.
- May – December 2011 – Program implementation.
- January 1, 2012 – Effective date of new contracts.

Ms. Chapin then shared the likely medical plan bidders as well as the likely wellness plan bidders.

Professor Morrison added that in June this year the committee heard about the new, highly effective plan the University intends to put in place in response to health care reform legislation. This will not be part of the RFP itself, but rather the RFP will be used to identify the kinds of plans the University has now, broad HMO, PPO, and HSA.

A member asked whether the RFP Committee recommendations should be brought back to the BAC before the recommendations are approved by the AWG. Professor Morrison explained that because these are University-wide RFPs, the BAC will have an advisory role, but it needs to work in accordance with purchasing rules.

What is the length of these contracts, asked a member? Professor Morrison stated that they are two-year contracts with a possible extension of another four-years.

A member asked how the University's health benefits will be impacted by the financial cliff the University is facing. Will the administration look to the BAC for advise as it has done previously on cutting benefits? Mr. Watt stated that he has not heard anything specific yet. Professor Morrison stated that it is clear the University faces an enormous financial challenge. Given this fact, everything will be looked at, e.g., personnel reductions/lay-offs. In terms of possible benefit reductions, the BAC will be involved in any such discussions. He added that while it is time to worry, it is not yet time to act.

[*The RFP timeline and schedule has changed slightly since this meeting.]

VIII). Hearing no further business, Mr. Watt adjourned the meeting.

Renee Dempsey
University Senate