[Meeting topics: meeting with Watson Wyatt representatives.]

MINUTES

HEALTH PLAN TASK FORCE (HPTF)

Thursday, February 18, 1999

10:00 a.m.

229 Nolte Center

Present: Richard McGehee (chair), Linda Aaker, Richard Butler, Amos Deinard, Keith Dunder, Robert Fahnhorst, Priscilla Pope, Larry Thompson,

Absent: Roger Feldman, Harlan Smith, Robert Sonkowsky, Gavin Watt

Regrets: Avner Ben-Ner, Bart Finzel, David Hamilton, Richard Purple

Guests: Carol Carrier, Watson Wyatt Representatives

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1. Chair's Report

Professor McGehee convened the meeting at 10:00 a.m. and provided a brief report before turning to the Watson Wyatt representatives for their presentation. As mentioned at the previous meeting, there were several places where the State's new health plan proposal could be derailed. Since that time, the first two hurdles have been passed. Governor Ventura's office has been very cooperative and has backed the State Labor Management Committee's (SLMC) funding requests. They include reserve funds to be self-insured and transition costs. The second hurdle involved the bidding process by the care systems. There was concern that they might not receive enough bids by care systems administrators but, in fact, they did.

Professor McGehee has been asked to provide a HPTF report to the Faculty Consultative and Faculty Affairs Committees on February 25.

2. Watson Wyatt Report

Before moving to the most recent report, Watson Wyatt (WW) representatives reviewed the discussion of January 21 (minutes available in Senate Office and at http://www1.umn.edu/usenate/hptf/99-01-21.html).

WW then turned to their current report which focused on three areas: 1) review of specific options available to the University, 2) healthcare purchasing alternatives, and 3) single vs. multiple plan options.

<u>Specific Plan Options</u>

WW compared the actual costs of the University's current plans against manual rates (or benchmarks) for the current plans plus several alternative managed care plans, including HealthPartners Ultimate Choice, Medica Choice Select, and Blue Cross Blue Shield (BCBS).

They reminded the Task Force that manual rates had to be used for comparison purposes because experience data is not available. Also noted was the fact that U of M employees have on average a family size of 2.1 members compared with the State's average of 2.4. This may account, they thought, for the differences found in the per member per month (PMPM) costs.

Based on their studies and U of M demographics, WW believes the University is paying approximately 20 percent more than it should be paying for PMPM costs (i.e. $163 vs. $132). Using manual rates, WW found the PMPM costs for the other plan options to be: HealthPartners Ultimate Choice ($136), Medica Choice Select ($120), and BCBS Aware Gold ($125). These rates also indicate the U should be paying less than it is now.

Professor McGehee asked to what extent the lower PMPM costs on the alternative options are reflective of out-of-pocket costs to employees, such as co-pays and deductibles. WW said they have that information and will provide side-by-side comparisons. They reminded members that the plans studied are standard off-the-shelf plan designs, and if the University goes out into the marketplace, it would be able to construct a plan design that more closely matches its needs.

There are only two ways to get exact figures, said the consultants. The first is to have the actual experience data. The second is by going into the marketplace and asking vendors for actual costs. The problem with the second option is that vendors would also have to base their bids on a set of assumptions as WW did because experience data would not be available to them either.

In years past, the State has suggested that University employees have high health care utilization, which is reflected in the rates. However, the WW studies show that U of M family size is smaller on average than other State employees, which suggests that it is to the State's advantage to retain the University in its health plan, the opposite of what the State has historically said.

WW was asked whether they had factored in the fluctuations in health care premiums in arriving at the $132 figure. They had not, but said they could do that by making assumptions about trend increases.

Mr. Fahnhorst said that the State has recently indicated it would be willing to provide the University's experience data, which will allow WW to provide the Task Force with more precise figures. It may also be possible, he said, to determine the State's PMPM costs minus the U of M.

WW suggested three possible reasons for the 20 percent cost difference they arrived at: family size, demographics, and plan selection.

Healthcare Purchasing Alternatives

Next, the consultants discussed purchasing alternatives. One option would be to maintain the status quo and WW discussed the pros and cons of doing that.

The pros include:

-- the costs are known

-- self-supporting University costs could be higher (without experience data it is hard to know)

-- there is little disruption to employees

The cons are:

-- current rates are high relative to all benchmarks--thus, it may be that the University is

subsidizing the State

-- self-supporting University costs could be lower (again experience data is needed)

-- inability to manage costs

-- may not meet specific needs of University employees

-- inability to access and manage the University's healthcare data

A second option would be to separate from the State. The pros of doing that include:

-- increased control over vendors and/or plan design

-- the ability to negotiate a lower cost than are currently paying

-- University can better manage its costs

-- future costs will be based on the University's own experience

-- plan might align more closely to employee needs

The cons include:

-- costs could be higher if utilization is higher

-- political ramifications of leaving the State plan

-- possible disruption to employees

A third option would be to negotiate with the State to secure a self-supporting arrangement. The University would remain part of the State plan but function as a subset of the larger group. The advantages of this would be:

--the University would remain part of a larger group

-- it would not have to leave the State plan

-- costs would be based on the University's own claims

The cons include:

-- again, costs could be higher if utilization is higher

-- vendor and plan design changes are limited to the State's plan

-- the State must agree

It would be to the University's advantage to do this if it believes it is subsidizing the State. The State's incentive to agree would be the potential loss of the University as a group.

In response to a question concerning administrative costs, Mr. Fahnhorst said that beginning about a year ago, the University began paying the State a monthly fee for administrative costs. It is a separate charge that is not included in the premiums.

Next, WW presented several off-the-shelf plans and using manual rates calculated what the PMPM costs would be for the University. The purpose was to give the Task Force some idea of what is available in the marketplace. As indicated earlier, the PMPM costs were considerably below the current PMPM rate of $163 that the University is paying.

One person noted, however, that in the plans presented the out-of-pocket expenses are higher than they are in the State Health Plan. Given that, it may be that the cost differences are not as great as they appear. WW responded that plan designs with first dollar coverage usually have higher premiums that spread the costs out evenly among the members. Plans with co-pays and deductibles are designed to have the high-utilizers pay more than the low-utilizers.

Given a choice, unions tend to select plans with first dollar coverage and faculty tend to select plans that offer greater access.

Single vs. Multiple Plan Options

WW reviewed the advantages of single vs. multiple plan options. The primary advantages of having multiple plan insurers is greater employee choice and less disruption to employees. Some advantages of a single insurer include lower administrative costs; lower claim costs as a result of less selection; reduced margin requirements; more leverage for cost, service and benefits because of size of group; administrative simplicity; and single renewal process. WW believes there are more advantages to the single vs. multiple plan option.

WW also noted that most employers the size of the University are self-insured.

In summary, Professor McGehee said if the WW data is correct, the University may be paying 20 percent more for its health insurance than it needs to. WW believes the lower family size of University employees as compared to families of other State employees is the primary reason. As WW pointed out, there are only two ways to get exact figures: 1) obtain '98 experience data or 2) test the market. The Task Force indicated its preference for the first option, that is, obtain the experience data. Mr. Fahnhorst said he will continue to pursue that information.

Professor McGehee thanked the WW representatives for their presentation and adjourned the meeting at 12 noon.

-- Martha Kvanbeck