

Health Insurance Update

August 29, 2003

Background

The Legislature mandated that the Department of Administration (ADOA) self-insure state employee health insurance programs by October 1, 2003 during the 2002 Legislative session. In response, the three universities formed a Tri-University Self-Insurance Work Group in July 2002, and selected consultant Watson Wyatt Worldwide (WWW) to help understand self insurance and to determine the economic feasibility of a university administered employee health benefits program. Watson Wyatt compared university active employee health claims against claims for state government and concluded that the cost of a university health insurance plan for active employees is likely to be no more expensive (and perhaps less expensive) than a comparable ADOA plan. The Legislature removed the self insurance October 1, 2003 mandate during the 2003 session, but prevented ADOA from self insuring during FY 2004.

Current Status

1. **The ADOA renewed the fully insured CIGNA contract for FY 2004 at an overall 13% increase.** For the first time in over a decade, ADOA did not use the lowest cost HMO plan as the basis for setting contribution rates across all plans and determined that the employer would assume the cost increases for all health premiums. While good news for employees, the PPO Family coverage still will cost \$6,700 next year while retirees receiving no state subsidy will pay \$16,600.
2. **ASU must absorb a \$4 million health insurance costs increase.** The Legislature provided no support to annualize prior year increases and Betsy Bayless advises that state agencies must absorb the FY 2004 rate increase. ASU must allocate an additional \$4 million for health insurance in FY 2004 bringing the total estimated costs to just under \$30 million.
3. **Senator Ken Chevront asked ASU to work with ADOA to provide information on domestic partner health benefits.** This is an issue that the Senator will address during the next session. It is a long standing employee concern.
4. **The ADOA is actively pursuing self insurance and hopes to complete work as soon as possible on contracts effective for October 1, 2004.** The Legislature eliminated the FY 2003 Self Insurance mandate, but still permit self insurance when ADOA and the JLBC believed it advisable. Session law prevents ADOA from offering self insured plans during FY 2004; however, ADOA extended the RFP bid analysis process until December 15, 2003 and is working to complete as soon as possible the final contracts effective for FY2005.
5. **The Universities continue to study the feasibility of a university administered health benefits program.** Based on consultant Watson Wyatt's advised feasibility of a university administered health benefits program, the three universities have asked Watson Wyatt to further explore the possibilities so that we understand the necessary actions, resources and implementation requirements. We asked for options on plan administration and design, as well as an analysis of university retiree health claims data. Our goal is to complete this analysis by October, 2003.

Issues

1. How can ASU better meet employee health insurance needs?
2. How can ASU offer health insurance benefits that will enable us to competitively recruit in a national marketplace?
3. What can we do to address spiraling health insurance costs?
4. Which of the following choices offers the best strategy to improve employee health care benefits:

<i>A. Should the Universities pursue an employee health benefits plan that is independent of the ADOA?</i>	<i>B. Should the Universities continue under the ADOA plan and work to focus more attention on our needs?</i>
<ol style="list-style-type: none">1. How would we mount an effective lobby for this effort?2. How would we ensure that the legislature continues funding the employer's share of the premiums?3. How would the higher cost retiree population fit into a university health plan?4. Would the universities have the necessary resources to manage a health benefits program?5. If ADOA awards self insurance contracts, could the Universities get an "escape clause" that would let us out of the ADOA plan?	<ol style="list-style-type: none">1. How could we get ADOA to include us more as a partner?2. How would we mount an effective lobby for this effort?3. How do we get ADOA to change its employer contribution strategy which now threatens the viability of the PPO and POS programs?4. How do we convince ADOA that an HMO plan does not meet the needs of all state employees?