University of Idaho
Health Insurance Costs and Background Information
Prepared by University of Idaho Human Resources, Benefit Services
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Current FY03 Costs:

Medical Insurance	$18,137,354
Dental Insurance	$ 1,252,037
Life and Disability Insurance	$ 1,629,398
Prescription Drug	$ 4,900,000 (included in medical insurance)

FY04 Contract Information:

- UI will select the most responsive bid that meets our standards in terms of cost, client, member and provider service, and will include fee-at-risk for performance, minimal provider disruption, reporting and electronic capabilities, and member access to centers of excellence. Our goal is to maintain and/or enhance the current level of benefits and services for our employees at the lowest possible cost to them and to the University.

- We may have separate contracts for Medical, Dental, Life and Disability, and Prescription Drug Insurance in order to obtain the most competitive costs. We are soliciting fully insured and self-funded proposals.

- The contracts need to be in place by mid-May so that the new carriers will have time to set up their systems and generate ID cards for plan participants, and UI has time to communicate information about the new carriers and the benefits plans to all employees and retirees. We are making some minor plan design changes, such as implementation of a mail order drug program that will save the plan and our employees and retirees money, and potentially changing carriers. This requires that we conduct a positive open enrollment, which means that all employees and retirees will need to enroll this year.

- Open enrollment must occur between May 13 and June 12 to ensure that academic-year faculty have an opportunity to enroll before leaving campus and to provide enough time for the University and the new insurance carriers to successfully transition the health care program by the beginning of Plan Year, July 1, 2003.

- Transition involves negotiating contract closure with our current carriers, feeding eligibility and premium information to new carriers, setting up payroll deductions for our employees, and transitioning medical care in progress.

- If we are unable to enter into a contract until the end of June, we will need to extend our plan year with our current carrier for one month (July), which will cost the University over $150, 000 in additional costs due to increased premiums which cannot be passed on to plan participants without an open enrollment process. However, we will still need to conduct open enrollment in May-June for the new carrier (without a new contract in place) so that we can transition to the new plan in August. This scenario will be extremely costly for the University and confusing for employees and retirees.

Life and Disability Insurance:

- Currently UI's Life and Disability Insurance is provided through State Group Insurance. UI has bid this plan separately and received competitive proposals from several vendors, including the current vendor that works with the State.

- Withdrawing from the State plan could save the University thousands of dollars as the UI's claims experience is less costly than the State's. Having a separate plan will also allow more flexible plan design and more hands-on customer service.

- The Group Insurance staff is aware of our interest in withdrawing from the State plan; they have indicated that we need to give them 30 days notice if we decide to negotiate a separate contract for life and disability coverage. We would need to have a new contract in place by May 30th to provide adequate notification to withdraw from the State plan by June 30, 2003.

Facts About Self-Funding Employee Health Insurance:

Self-funding is a financial arrangement in which the employer (UI) assumes a managed/capped financial risk for the claims and contracts with a carrier to provide plan administration and re-insurance.

- The total financial risk of the plan is the total cost of the claims.

- An insured plan captures premiums of expected claims based on experience and trends, and includes the carrier's profit, margin, administration, premium tax, and re-insurance.

- A self-funded plan pays only the costs of claims, plus administration and re-insurance.

Re-insurance is a product that caps liability for claims of individual plan participants and for the entire plan in aggregate. Individual re-insurance (stop-loss) caps the cost of any one individual claimants cost at a specified level.

- *For example, if a self-funded claim reached $1M, under our purposed self-funded plan, UI would pay $175,000 and our re-insurance policy would pay $825,000. (Re-insurance can protect us at any level we choose.)*

Aggregate stop-loss or re-insurance protects the UI from the total liability of all claims. Maximum liability is set at 115% of expected claims.

- *Expected claims are determined by an underwriter. For example, in our current plan, the cost of claims is $14,316,364, x 115% (stop loss) equals $16,463,819, which would be the most the plan would pay in total. If claims exceed $16,463,819, all amounts in excess are paid by re-insurance.*

- *It is significant to note that if we renewed with Regence, we would have to pay $17,773,680 in premiums (based on their renewal rate). Our expected claims might be $14,316, 364, a savings of $3,457,316 if we self-insure. With re-insurance, the MOST we would pay in a self-funded arrangement, no matter how bad our claims, would be $16,463, 819, which is $1,309,861 LESS than that what we would have paid Regence in a fully insured plan.*

In a self-funded financial arrangement, all claims would be paid by UI via a contracted plan administrator (such as Blue Cross or Regence).

- Rather than paying a monthly premium to an insurance carrier, we would collect premiums and hold them in a UI account. On a monthly basis, we would forward payment for only the incurred claims, along with a processing fee, to the plan administrator.

- During the early days of the contract, there is a lag time of 54 to 75 days before claims need to be paid. We would collect at least one month's premium, possibly two, before incurred claims needed to be paid. Any claims that might exceed what we collect in premiums during this early period would probably active the re-insurance.

- This financial arrangement creates significant cash flow advantages, including interest earnings on the funds we hold. We save the costs of premium tax, margin, profit, and any profit that was built into administration costs of the insurance carrier.

- Self-funding allows us the ability to tailor our benefit plan to meet our participant needs; for example, participants with heart conditions might need wellness programming or younger participants might need prenatal management.

Idaho State Code ss67-5761 permits and recognizes self-funded health plans for the Department of Administration.

Who Self-Funds?

- 78% of all private employers
- 28% of colleges and universities, plus 8% that are a part of a State plan (according to the 2002 Colleges and Universities Professional Association for HR Survey) Including Ohio State University, University of Chicago, Indiana State University, Michigan State University, and the State of California, to name just a few.

Impacts of Self-Funding:

- It is invisible to employees and retirees.
- There is no need for additional staff; claims are paid by a claims administrator such as Blue Cross or Regence.
- Additional savings will offset the cost of UI's unfunded retiree health insurance program.
- Self-funded health plans are regulated by Federal laws, such as Employee Retirement Income Security Act, Tax Equity and Fiscal Responsibility Act, Americans with Disabilities Act and the Health Insurance Privacy Protection Act. These laws regulate the financing, administration and implementation of self-funded plans. The UI Benefits Director and Aon Consulting have vast experience in self-funding and have worked with accounting, tax, legal and other regulatory compliance.