Health Care Trends and Costs......

Overcoming resistance to change:
New programs and practices to reduce your institution’s health care spend

Presenters:

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State of the Health Care Market 2011

• Healthcare Reform (PPACA)
  – Impact on employer-sponsored programs
  – 2014 and beyond

• Market Consolidation
  – Carriers
  – Provider groups
  – Exchanges

• Collective Bargaining
  – Trends in plan design modeling
Contemporary Programs and Practices

• Less reactive, more proactive
• New ways of thinking
  – Consumerism
  – HSAs and HRAs
  – Consortium Purchasing
• Employee engagement at new levels
• Increased management
Healthcare Reform: PPACA

• Background:
On Tuesday, March 23, 2010 President Obama signed into law the Patient Protection and Affordable Care Act (H.R. 3590) “the Act”). On Thursday, March 25, 2010, the House and Senate passed The Health Care and Education Reconciliation Act of 2010 (H.R. 4827) (“the Reconciliation Bill”) which amends several provisions of the Act. Together, the bills comprise the overall healthcare reform legislation package. President Obama signed the Reconciliation Bill into law on March 30, 2010.
Healthcare Reform: PPACA

Timeline of Key Changes for Employers

- **6/23/10**
  - Coverage expansion mandates
  - Patient protections

- **9/23/10**
  - Early retiree reinsurance
  - High-risk pools

- **1/1/11**
  - OTC drug reimbursements
  - HSA penalties
  - W-2 Reporting

- **1/1/12**
  - Employee notification requirements

- **1/1/13**
  - Medical industry taxes
  - FSA limits
  - Itemized medical expense deduction changes
  - Medicare taxes
  - Part D drug subsidy deduction eliminated

- **1/1/14+**
  - Employer and individual mandates
  - Insurance exchanges
  - Patient protections
  - "Cadillac" excise tax (2018)
BCBSIL Private Exchange

News Alert: Sept. 20, 2011

BCBSIL Announces New Private Exchange

Health Care Service Corporation (HCSC), which operates Blue Cross and Blue Shield of Illinois (BCBSIL), announced today an agreement that will establish a nationwide private exchange for employers to use in managing their health benefit offerings.

HCSC has joined WellPoint, Inc. and Blue Cross and Blue Shield of Michigan (BCBSM) in purchasing equal stakes in Minneapolis-based Bloom Health, an emerging leader in the defined contribution health benefits marketplace. The Bloom private exchange brings an innovative solution and cutting edge technology for the defined contribution model on a national level. With new offerings such as this private exchange, BCBSIL will be well positioned to help employers and individuals navigate the changing health care market.

With this purchase, we will immediately cover 19 states, with the goal of developing this into a 50-state solution in the near future.

BCBSIL will begin offering limited enrollment for groups renewing in the first quarter of 2012 and will be fully operational for all markets by 2013. We welcome clients to explore this option in addition to BCBSIL’s traditional offerings.

The Bloom private exchange brings an innovative solution and cutting edge technology for the defined contribution model on a national level, which will complement our strong relationships with brokers and consultants.

We are constantly assessing ways to prepare for the future and we’re sure our competitors are doing the same. It is important that we take a leadership position in proactively developing a private exchange solution now, to remain ahead of our competitors.
Contemporary Plan Design: Consumerism

2011 ICC Health Insurance Survey*

- 32 participants
- 69% offered multiple plans
- Average deductible:
  - $634 Employee only
  - $1,548 Family
- HSA participation
  - Only 9% (3 Colleges) offer a HDHP with HSA

*Compilation and analysis completed by Bushue Human Resources, Inc.
Health Savings Accounts (HSA)

• Legislative Background
  – Health Savings Accounts (HSAs) were created by the Medicare bill signed by President Bush on December 8, 2003 by the Medicare Prescription Drug, Improvement, and Modernization Act
  – The Bush administration created the product to give individuals a financial incentive (tax-exempt status) to take better control of their health care expenditures.
  – Health Savings Account (HSA) updated under 2006 legislation to include employer contribution regulations.
  – HSA is a “bank” account created to save for and pay for medical expenses under a high-deductible health plan.
• The Health Savings Account is essentially a “checking” account. Account needs include:
  – Easy Enrollment
  – Debit Card Access
  – On-line Banking with e-Statements and Bill Payment
  – Checks
  – Tax Reporting – 1099SA and 5498SA
  – Long-term Investment Vehicle for savers
HSA Benefits

- Individually owned custodian accounts
- Pre-tax or post tax funding available
- FDIC insured Demand Deposit Account
- Save for future medical expenses
- Be in control of your medical benefits
- Your money rolls over year after year
- Portable – your money can move with you
- 100% immediately invested in HSA account
- Tiered interest rate paid on balances
- Triple Tax Advantage
  - Tax free accumulation – interest we pay on account
  - Tax free withdrawals for “qualified” medical expenses
  - Pre-tax contributions through payroll deduction

1 State tax laws may vary consult your tax preparer about your situation
Qualified Medical Expenses (QME):


- Qualified medical expenses are those incurred by the following persons:
  - You and your spouse.
  - All dependents you claim on your tax return.
  - Any person you could have claimed as a dependent on your return except that:
    - The person filed a joint return,
    - The person had gross income of $3,500 or more, or
    - You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2010 return.

Please consult your tax accountant
Qualified Medical Expenses

- Ambulance
- Bandages
- Chiropractor
- Crutches
- Eyeglasses
- Hearing Aids
- Surgery
- Medicines
- Wigs
- Xrays

Non-Qualified Medical Expenses

- Babysitting/Child Care
- Cosmetic surgery
- Diaper service
- Dance lessons
- Funeral expenses
- Hair transplant
- Maternity clothes
- Teeth whitening
- Veterinary fee
- Weight loss programs
HSA Contributions

• Regulated by IRS

<table>
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<th>Year</th>
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<th>Family</th>
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<tr>
<td>2010</td>
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You can contribute up to the IRS maximum limit even if you join your HDHP after the beginning of the year.

When planning your savings amount consider your “out-of-pocket” maximum, co-pays and coinsurance after your deductible is met.

You have until April 15 to make HSA contributions for the previous calendar year.

Contribution limits for HSAs are adjusted each year.

HSA account can be used for ‘qualified” medical expenses
HSAs – Making Contributions

- Contributions can be made via:
  - Direct deposit through payroll deductions – Pre-tax!
  - Check with deposit coupon – Post-tax
  - On-line banking – payee as Bank HSA (acct. #, etc.)
  - Employer and employees may both contribute to HSA
HSA Withdrawals – Tax Free*

• An HSA works in conjunction with high deductible health insurance.

• HSA dollars can be used to pay deductibles, out-of-pocket limits and qualified medical expenses (QME), including those not covered by health insurance (i.e., dental, vision).

• HSA withdrawn for non-qualified medical expenses will be taxed at income-tax rate, plus 20% tax penalty if under age 65.

• After meeting calendar-year (high) deductible, health insurance pays remaining covered expenses in accordance with the terms and conditions of your particular plan.
Consortium Benefit Purchasing

Community College Health Insurance Consortium (CCHC)
Consortiums: Are they Legal?

- IL Public Act 094-0685

Sec. 6. Joint self-insurance. An intergovernmental contract may, among other undertakings, authorize public agencies to jointly self-insure and authorize each public agency member of the contract to utilize its funds to pay to a joint insurance pool its costs and reserves to protect, wholly or partially, itself or any public agency member of the contract against liability or loss in the designated insurable area.
Why participate in a Cooperative?

- Ownership of the Cooperative is vested in the members
- Strength in numbers/negotiating and buying power
  - Reduced costs of claim administration
  - Reduced stop loss premiums
  - Reduced professional fees (legal, accounting, consulting)
- Allows for risk sharing among all members to mitigate wide cost fluctuations for each member at renewal
- Adds greater credibility (predictability) to renewal projections
- Interest earnings on reserve and surplus balances credited to cooperative fund balance
- Structure of the Cooperative guarantees full disclosure financial data
Types of Benefits

- Medical
- Dental
- Vision
- Life/AD&D (Basic and Voluntary)
- Long term disability (Basic and Voluntary)
What A Benefit Cooperative Is Not

• A “magic bullet” to reduce claim costs

• A no risk venture

• A one-size-fits-all benefit plan

• A prison from which there is no escape
Creation of a Benefits Cooperative/Pool

• Key elements to start the process:

  – Enabling legal environment for public entities

  – Three or more committed employer groups and +/- 2,000 covered employee lives

  – Tolerance for risk assumption

  – Consultant experienced in cooperative formation and management
Chasing Your Tail…’til 2018!

• Healthcare Reform – too many questions, not enough answers – yet!
• 2014….the “you know what” hits the fan
• Preparedness – what have you done to get ready
  – Plan design review
  – Insurance Committee preparation
  – Employee education and communication strategy
  – Employee engagement and awareness
  – Data capture and analysis