



Medical Benefits Committee

Minutes

Thursday, February 17, 2005

11:00 am

Room 111

Present: Debora Bone, Doug Deaver, Sue Greytok, Kate Hartzell, Leah Hlavaty, Sue Holt, Stephanie Stainback, Jerry Sauter, Topsy Smalley, Kathie Welch

Absent: Pegi Ard, Olivia Hand, Cliff Nichols, Cathleen Reno, Michele Rivard

I. Call to order

Doug opened the meeting at 11:07 am.

II. Introductions

Committee members introduced themselves to Jerry Sauter.

III. Agenda Modifications

There were no agenda modifications.

IV. Overview of JPA

Doug described the JPA structure and Advisory Committee. He asked the committee for input and direction on how to provide health benefits at a reasonable cost.

Jerry presented an overview of the Santa Cruz City Schools Health Insurance Group (SCCSHIG) Joint Powers Authority (JPA). Please refer to the attached Power point presentation.

Doug explained how the self-funded plans operate. All premiums are pooled into an account managed at the County Office of Education, out of which claims are paid. Major claims, those over \$150,000, are paid by the Stop Loss Policy. Chiropractic and mental health plans are "carved out" plans; they are fully insured plans within the self-insured plans.

Keenan consulting fees are approximately 0.7% of the medical premium costs; total Keenan costs are 1.85% including indirect compensation. This includes the total cost of all programs (Medical, Dental and Vision).

V. **Financial Status**

Financial issues that led to the mid-year changes include:

- the timing of renewal rates;
- an increase in claims incurred;
- a major increase in large claim activity (claims exceeding \$25,000) after rates were set,
- the relative richness of the Prudent Buyer Plans; and
- adverse selection.

Twenty claims were over \$25,000 last year—that adds up to over \$1 million dollars.

Sue Holt asked if there is stop loss insurance available for claims in the \$25,000-\$150,000 range. Jerry explained that the answer is yes, but the coverage would be very expensive.

Doug stated that whether the JPA has a fully-insured or a self-insured plan, rates are ultimately based on actual claims activity. With a fully insured program, rates catch up with claims when rates are adjusted annually based on the market and recent claims activity. In self-insured programs, the cost of claims is paid as soon as the claims are incurred. By definition, insurance is pooled risk.

Jerry explained that adverse selection--when healthy members gravitate to less expensive plans--leads to a “death spiral” where claims costs cannot be sustained by the premium generated by a plan, and it prices itself out of existence.

One option, for purposes of rating, is to create a common risk pool. Rate differentials would still exist between an HMO and PPO, however, all participants of both the HMO and PPO would be rated for experience together (all treated as one group). For example, if a member of the PPO experienced a serious illness that resulted in a high cost claim, the cost would be allocated to members of both the PPO and the HMO to spread the risk. Concurrently, when rates are set, if there is a 15% increase in premiums, all plans would share the 15% increase as opposed to some rates increasing by 5% and others by 30%.

VI. **Concerns as we go forward**

In a survey, the JPA Executive Board and Advisory Committee rated the following areas as most important in looking at future plan options:

- (1) keeping the PPO and HMO plans,
- (2) reducing adverse selection
- (3) containing future costs

Accomplishing all of the above is a real challenge since that is, in effect, maintaining the status quo.

One question raised was “Are we willing to limit network for cost?” That’s what we have with California Care.

VII. Brainstorming from committee members

Doug suggested that the committee needs to establish a direction and prioritize goals/objectives.

Jerry stated that Pajaro Valley has a Blue Cross/Coastal plan. The doctors are in the Coastal Plan but the hospital coverage is in the Blue Cross network.

Doug proposed several key issues that should be addressed by the constituencies as we move forward:

1. Is there a magic bullet out there to save money? The perception is that a plan exists that can provide a high level of benefits for a lower cost than we are currently paying. The JPA Board and the JPA Task Force to date have not yet found this plan. We are an older than average population, have high plan users, the Santa Cruz area has limited provider options, so is there a magic bullet? The increase in premiums that the JPA has been experiencing is consistent with what is happening in the state and nationally.
2. There is a tradeoff to keeping the existing network. Is there a willingness to change the network to achieve savings?
3. Does it make sense to offer both fully and self-insured plans?

Doug stated that if we do nothing, there is a perception that people will gravitate from the PPO plans to the lower cost HMO plans. People who will remain in the PPO will be high users and retirees—that will drive the cost of those plans through the roof.

Trade offs to consider:

- How does the JPA provide affordable health care to retirees and heavy plan users while at the same time provide affordable coverage to those healthy employees who have very limited financial resources?
- Do we consider combining the pools for determining rates? HMO cost would probably go up; PPO costs would probably go down.
- If the PPO plan goes away, what options exist for an out-of-state retiree with no access to the HMO? What level of coverage should be provided and how is the burden of the plans shared?

The most challenging category is the early retiree: not an active employee, but not Medicare-eligible. Sue Holt suggested that perhaps the Health Savings Accounts (HSA) can apply to this group. Jerry replied that while the JPA cannot provide HSAs, a consumer directed plan may provide some alternatives. It is not designed to be portable, but will be a reimbursement account. That may be a topic for future discussion.

Stephanie suggested that the committee focus on short term goals at the next meeting, then move to long-term goals. This would include creating a timeline and deciding how to prioritize each.

Sue Holt asked how options will change given that Santa Cruz City Schools (SCCS) will make a decision in March. Jerry stated that even though they are a large member, they only make up approximately 30% of the JPA. Therefore, at this time, it is unclear what impact (if any) their departure from the JPA would have on the remaining members.

Debra asked for additional information from Jerry:

If everything went fully insured, what would a fully insured PPO look like?

If everyone were in a PPO mode, with several plan designs, what would a plan look like for the HMO group with the same out of pocket rates as members currently experience.

Jerry replied that an actuarial cost would be fairly easy to run, but it might not be an actual rate. This may be an option to pursue in the short term.

IX. Agenda building for next meeting 2/24:

1. Realistic short-term options
2. Short-term/long-term goals and timetable
3. Viable alternative plan providers for this area
4. Negotiable/non-negotiable plan features

X. Next meeting dates

Two meeting dates were set: Thursday, 2/24 at 1pm and 3/3 at 11 am. Location to be determined.

It was suggested that the agenda and frequency of meetings need to be determined, and the minutes should be posted to the Human Resources (HR) website ASAP. Debora suggested that perhaps significant research would need to be done to plan for 2006-07, so the committee could meet a couple of times this spring and spread out the necessary research to be done.

The meeting adjourned at 12:20 pm.