

Healthcare Programs

Includes:

- **Employee healthcare program**
 - **Graduate Assistants/Fellows medical and dental plans**
-

Excludes:

- **Interns & Residents medical and dental plans**
- **International Student medical plan**
- **School of Medicine Student medical plan**
- **Undergraduate & Graduate Voluntary Student medical plan**



INDIANA UNIVERSITY

UNIVERSITY HUMAN RESOURCE SERVICES

“Employees”

- **Full-time employees** = Academic and Staff employees with a 100% appointment; 40 hours per week or equivalent
- **Retiree Status** = former full-time Academic and Staff employees with qualifying age and IU service
 - Under 65 retirees -- non-Medicare eligible
 - Retirees 65 and above -- Medicare eligible
- **COBRA** = former employees and former dependents of employees who elect to continue healthcare coverages

IU Employee Population

Number of IU Employees

(Approximate, as of December 2008)

| | <u>Full-Time</u> | <u>Part-Time</u> |
|-----------------|------------------|------------------|
| Academic | 6,380 | 3,000 |
| Staff | 11,180 | 300 |
| Hourly | 0 | 18,000 |
| Total | 17,560 | 21,300 |

38,860 total employees

Over \$1.5 billion in gross salaries, wages and benefits during FY 07/08

IU Employee Benefits Program

■ **Indiana Code 20-12-23**

- **Authority for IU to “establish programs of fringe benefits and retirement benefits for the university's officers, faculty, and other employees that may be supplemental to or in lieu of state programs established by statute for public employees”**

■ **ERISA** (*Employee Retirement Income Security Act of 1974*)

- **Authority for entities to establish retirement and welfare benefit plans for their employees**

■ **IRS regulations**

- **Preferential treatment of premiums and benefit plan payments related to employment and income taxes**

IU Employee Benefits Program

■ **Indiana revenue regulations**

- **Treatment of premiums and benefit plan payments related to employment and income taxes**

■ **DOL regulations** (*U.S. Department of Labor*)

- **Requirements regarding equal treatment of employees and non-discrimination in favor of highly compensated employees**

■ **OMB Standard for Unallowable Expenses**

- **Requirements related to charging employee benefit program expenses to federal contracts and grants**

Employee Benefits Program

Examples of other regulations, not an inclusive list

- **ADA** --- Americans with Disability Act
- **ADEA** --- Age Discrimination in Employment Act
- **COBRA** --- Consolidated Omnibus Reconciliation Act
- **FMLA** --- Family and Medical Leave Act
- **HIPAA** --- Health Insurance Portability and Accountability Act
- **USERRA** --- Uniformed Services Employment and Reemployment Act
- **OWBPA** --- Older Worker Benefit Protection Act
- **Social Security & Medicare**
- **Federal and State mandates**

Employee Benefits Program

IU Budget for FY 2008/2009 = \$386 million !

- **Recruit and retain highly productive employees**
- **Competition with labor markets**
- **Income for retirement**
- **Group purchasing**
- **Preferential tax treatment**
- **Federal and State mandates**

Employee Benefits Program

Benefits Population, January 2009

| | |
|-----------------------|--------|
| ➤ Full-time Employees | 17,560 |
| ➤ Part-time Employees | 1,400 |
| ➤ Retirees | 3,890 |
| ➤ COBRA | 480 |

Total EE/Ret/Cobra 23,330

★ **Over 41,000 lives**

Full-time Academic and Staff Employees Employee Benefits Program

IU Funded

- Basic Life and AD&D Ins.
- Tuition Assistance
- Retirement Plans
- Medical Coverage
- Dental Coverage
- HDHP & Medical Savings
- Tobacco-free Wellness
- Employee Assistance
- Unemployment Comp.
- Workers' Comp.
- Social Security
- Medicare

Employee Funded

- Medical & Dental Coverages
- HDHP Medical Savings
- Supplemental Life Ins.
- Personal Accident Ins.
- Long Term Disability Ins.
- Pre-tax Medical Expenses
- Pre-tax Dependent Expenses
- Supplemental Retirement Plans
- Pre-tax Commuting Expenses
- Social Security
- Medicare

Full-time Academic and Staff Employees Employee Benefits Program

Employee Funded – FY 08/09

- Healthcare contributions
 - Supplemental Life Ins.
 - Personal Accident Ins.
 - Long Term Disability Ins.
 - Pre-tax Medical Expenses
 - Pre-tax Dependent Care Expenses
 - Supplemental Retirement Plans
 - Pre-tax Commuting Expenses
- \$ 77.6 million**
-
- Social Security
 - Medicare
- \$ 79 million**
-

IU Employee Benefits Program Administrative Attributes

- **IU is a 501(c)(3) nonprofit and governmental entity**
- **Autonomous from State of Indiana, except have adopted PERF**
- **University-wide plans, managed by UHRS**
- **Coverage and eligibility is consistent across all employee groups, except for base retirement plans**
- **Many “backroom” functions are outsourced to third-parties**
- **Paid Time-off plans are funded from budget base salary, including “terminal pay” benefits**
- **Funding for plans = “benefits payroll tax” charged to departments**

IU Expenses FY 08/09

| | |
|---|--------------------------|
| ■ Basic Life and AD&D Ins. | \$ 3.50 m |
| ■ IU Fee Courtesy | \$ 6.00 m |
| ■ Retirement Plans | \$ 151.22 m |
| PERF/IU Retirement (\$104.22 m) | |
| 18-20/IUSERP/IU Replacement (\$47 m) | |
| ■ Health Care Coverages | \$ 145.78 m |
| ■ Unemployment Compensation | \$ 1.20 m |
| ■ Worker Compensation | \$ 3.38 m |
| ■ FICA -- Social Security & Medicare | \$ 79.08 m |
| <hr/> | |
| Total | \$ 390.16 million |

Benefits Payroll Tax Rates for FY 2008/2009

| | <u>Benefit Rate \$</u> | <u>Benefit Rate %</u> |
|---------------------------------|------------------------|-----------------------|
| ■ Basic Life and AD&D Ins. | \$ 1.44 m | .15 % |
| ■ Unemployment Comp. | \$.49 m | .05 % |
| ■ Worker Comp. | \$ 5.47 m | .56 % |
| ■ Fee Courtesy (employee) | \$ 3.21 m | .33 % |
| ■ Health Care Coverages | \$140.92 m | 14.49 % |
| ■ Benefits Admin. | \$ 2.42 m | .25 % |
| ■ <i>Total Group Insurances</i> | <i>\$ 153.98 m</i> | <i>15.83 %</i> |
| ■ 18/20 Plan | \$ 41.41 m | 6.25 % |
| ■ IU Retirement Plan | \$ 87.34 m | 11.46 % |
| ■ PERF Plan | \$ 23.86 m | 11.46 % |
| ■ FICA | \$ 79.08 m | 7.06 % |

➤ Benefit Rates

| | |
|------------------------------|---------|
| ■ Academic/PA Staff, non-C&G | 40.60 % |
| ■ Academic/PA Staff, C& G | 34.35 % |
| ■ Support/Service Staff | 34.35 % |

Employee Healthcare Plans

■ Employee Healthcare Program

- 17,560 eligible full-time Academic and Staff employees
 - 16,599 enrolled employees as of January 2009
- 400 COBRA participants
- 4,000 Retirees

■ Scope

- Total of 41,000 lives
- IU expenses for FY 2008/2009 = \$145.78 million
- Employee/COBRA/Retiree premiums = \$15 million
- Employee deductibles & copayments = over \$20 million

Employee Healthcare Plans

2009 Open Enrollment Results

| | <u>Employees *</u> |
|---|--------------------|
| <i>Medical Plans</i> | |
| IU PPO \$900 Deductible | 6,816 |
| Blue Preferred Primary POS | 9,497 |
| IU HDHP PPO & Medical Savings Plan | 286 |
| TOTAL | 16,599 |
| <i>Dental Plan</i> | |
| IU PPO Dental Plan | 16,236 |
| <i>Tax Saver Benefit Plan</i> | |
| Health Care Reimbursement Account | 7,966 |
| Dependent Care Reimbursement Account | 919 |
| Tobacco-free Wellness HRA | 8,996 |
| <i>* Total eligible population = 17,592 full-time employees</i> | |

Other coverages/participants

- EAP: 17,592 employees and
- Tobacco cessation coverage
- Health Risk Assessments
- Biometric Assessments
- COBRA: 400 participants
- Retirees under age 65
- Retirees age 65 + (separate plan)

Employee Healthcare Plans

- **Medical plans services provided by WellPoint include:**
 - **Comprehensive coverage**
 - No or very high lifetime limits
 - **“Preferred provider” networks**
 - Preferential pricing
 - Credentialing of providers
 - Referrals to other preferred providers, provider submission of claims, data and reporting, etc.
 - **Utilization management**
 - **Disease and case management**
 - **Coverage of “wellness” services**
 - **Claims adjudication and customer services are outsourced**

Employee Healthcare Plans

- **Dental plan services provided by CIGNA include:**
 - **Limited coverage, up to \$1,200 per member per year**
 - **“Preferred provider” networks (passive network)**
 - **Preferential pricing**
 - **Credentialing of providers**
 - **Some utilization management**
 - **Coverage of “wellness” services**
 - **Claims adjudication and customer services are outsourced**

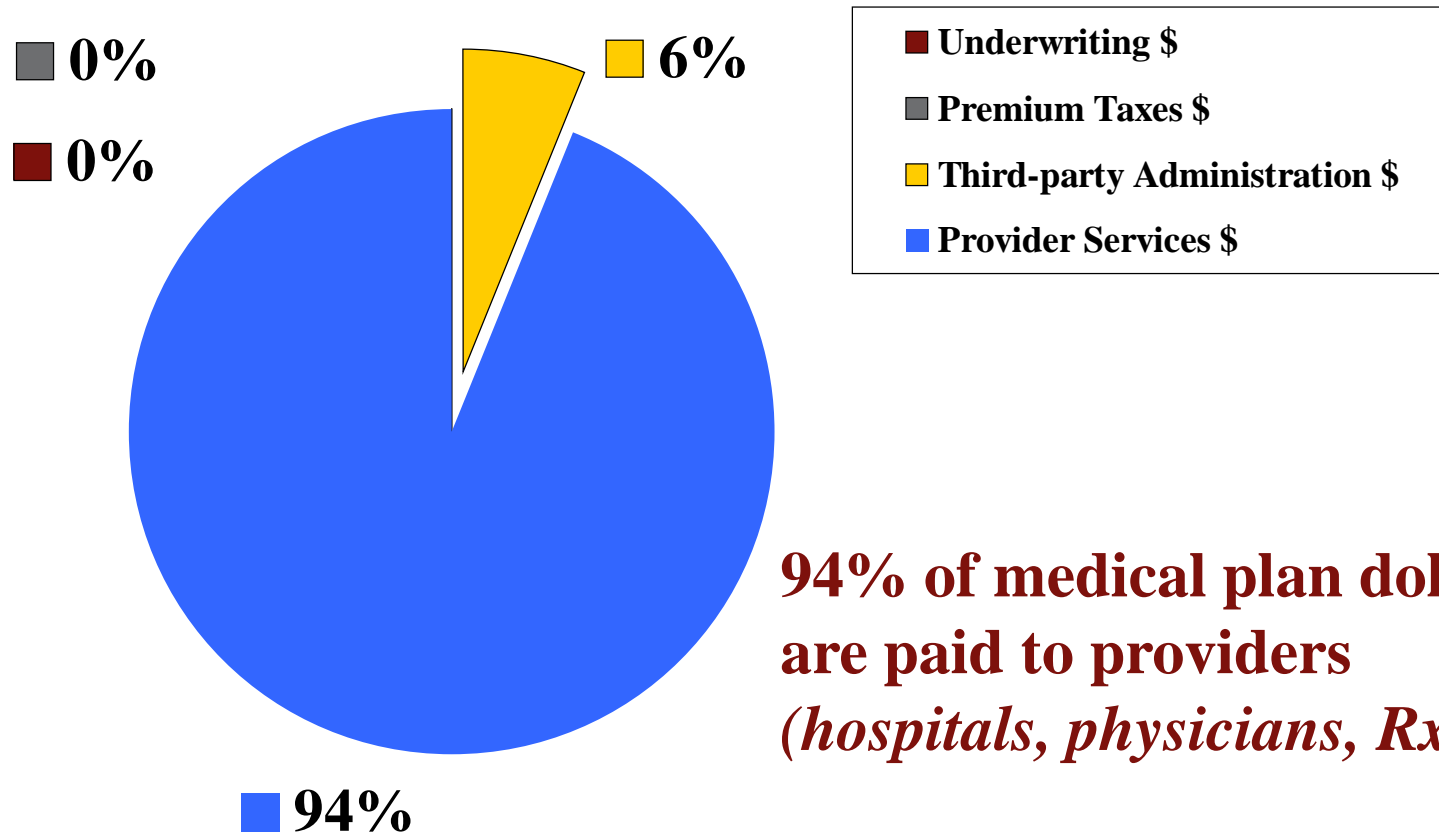
- **Self-funded arrangement**

Employee Healthcare Plans

- **IU self-funded healthcare plans**
 - **No purchase of “insurance”**
 - **No state taxes on “premiums”**
 - **Reserves managed by IU**
 - **No brokerage or commission fees**
 - **Flat “per employee per month” fee for third-party services**
 - **All “preferred provider” discounts passed on to plan & members**
 - **Claims adjudication and customer services are outsourced**
 - **Third-party audits of claims processing, customer services, etc.**

Employee Healthcare Plans

Self-funded Medical Plan



94% of medical plan dollars are paid to providers
(hospitals, physicians, Rx)

Employee Healthcare Plans

- **Enrollments**
 - 16,599 employees
 - 400 COBRA participants
 - 1,662 Retirees
 - Total of 41,000 lives

- **IU expenses for FY 2008/2009 = \$145.78 million**

- **“Employee” plan contributions**
 - Employee payroll premiums = \$12 million
 - COBRA and Retiree premiums = \$3 million

- **Member deductibles and copayments = over \$20 million**

- **Member pays for excluded and non-covered services**

Employee Healthcare Plans

- **IU Premium Contributions = “Defined contribution” policy:**

Approximate Annualized Amount for 2009

| | MEDICAL | DENTAL |
|----------------------------|----------------|---------------|
| Employee Only | \$5,362.22 | \$262.09 |
| Employee/Child(ren) | \$9,330.53 | \$373.63 |
| Employee/Spouse | \$11,335.95 | \$504.87 |
| Family | \$12,186.47 | \$710.93 |

- **Employee Premium Contributions**
 - Equal the difference between total premiums and the University’s contributions
 - For Support and Service Staff with an annual base salary of less than \$28,143 the University contributes a greater amount

Employee Healthcare Plans

■ University Contributions -- Retirees

■ Under 65 retirees -- non-Medicare eligible

- Optional enrollment in PPO \$900 Deductible plan, at COBRA rates
- Implied IU subsidy under GASB rules

■ Retirees 65 and above -- Medicare eligible

- Optional Medicare supplement plan, with separate insurance pool
- No IU contributions
- No unfunded liability (*no funding liability*)

Employee Healthcare Plans

Cost Containment Provisions

- Self-insured funding arrangements
- Preferred provider agreements with substantial discounts
- Utilization, disease, and case management provisions
- Significant deductibles, copayments, and exclusions
- Coverage of “wellness” services outside of deductibles
- Monitoring dependent eligibility
- Oversight of third-party contacts, with periodic audits
- “Defined contribution” policy for IU contributions
- Companion Flex Benefits plan – Tax Saver Benefit Plan
- Companion Tobacco-free Wellness HRA
- HDHP & Medical Savings Account

Employee Healthcare Plans

Annual Cost Per Covered Employee in U.S. Mercer National Survey, April 2008

2007 Plans

Large/Mid Size Employers

\$7,983 *

*higher amount for governmental employers

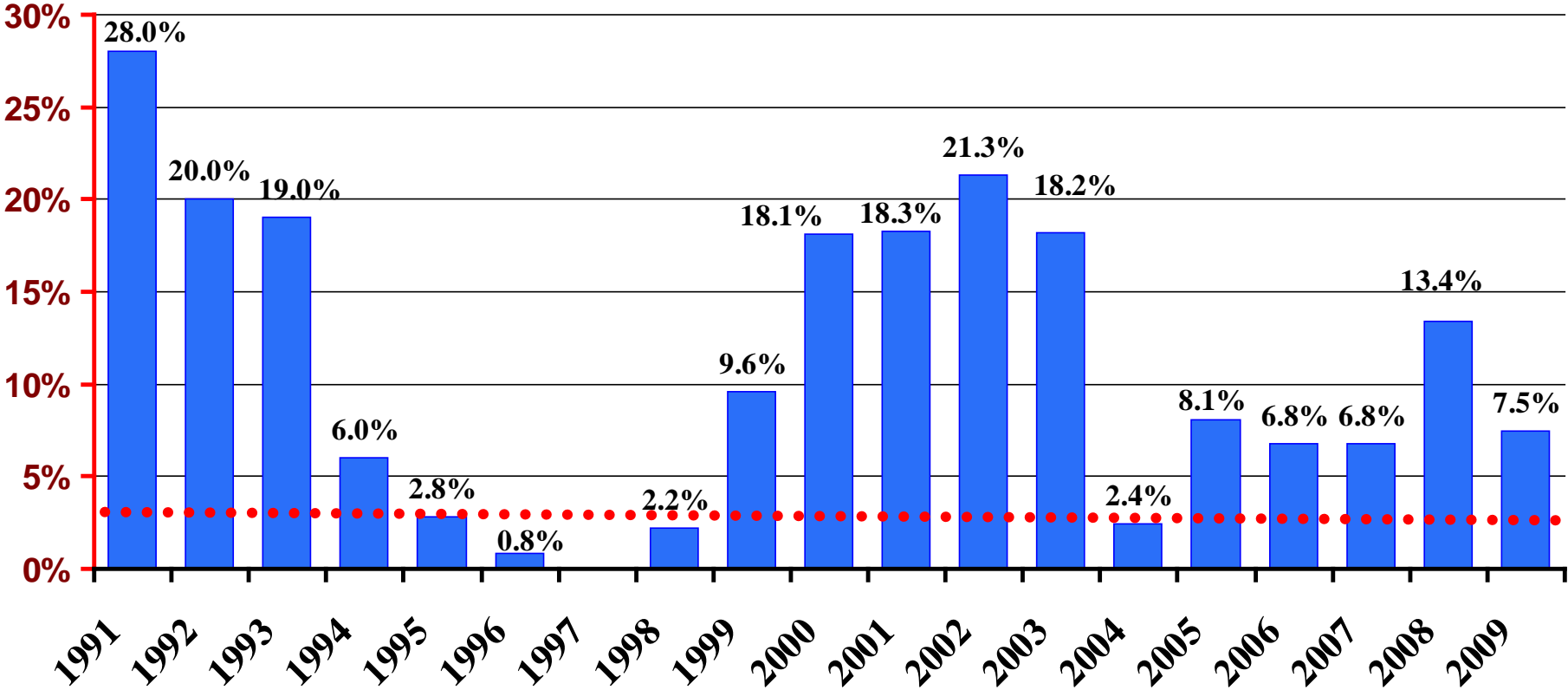
Indiana University

\$7,480 *

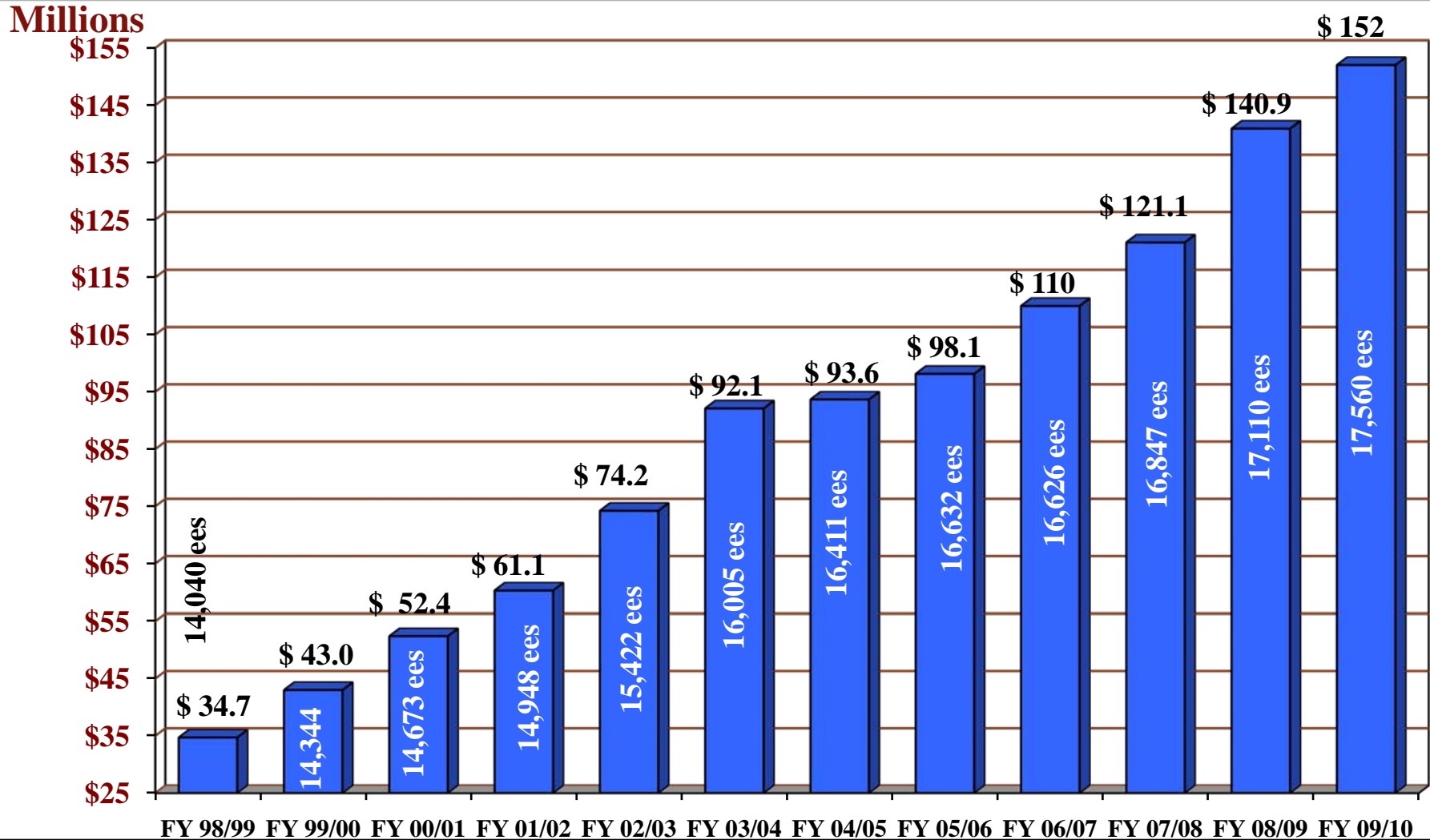
* based on year ending June 30, 2008

Employee Healthcare Program

Weighted Average % Change

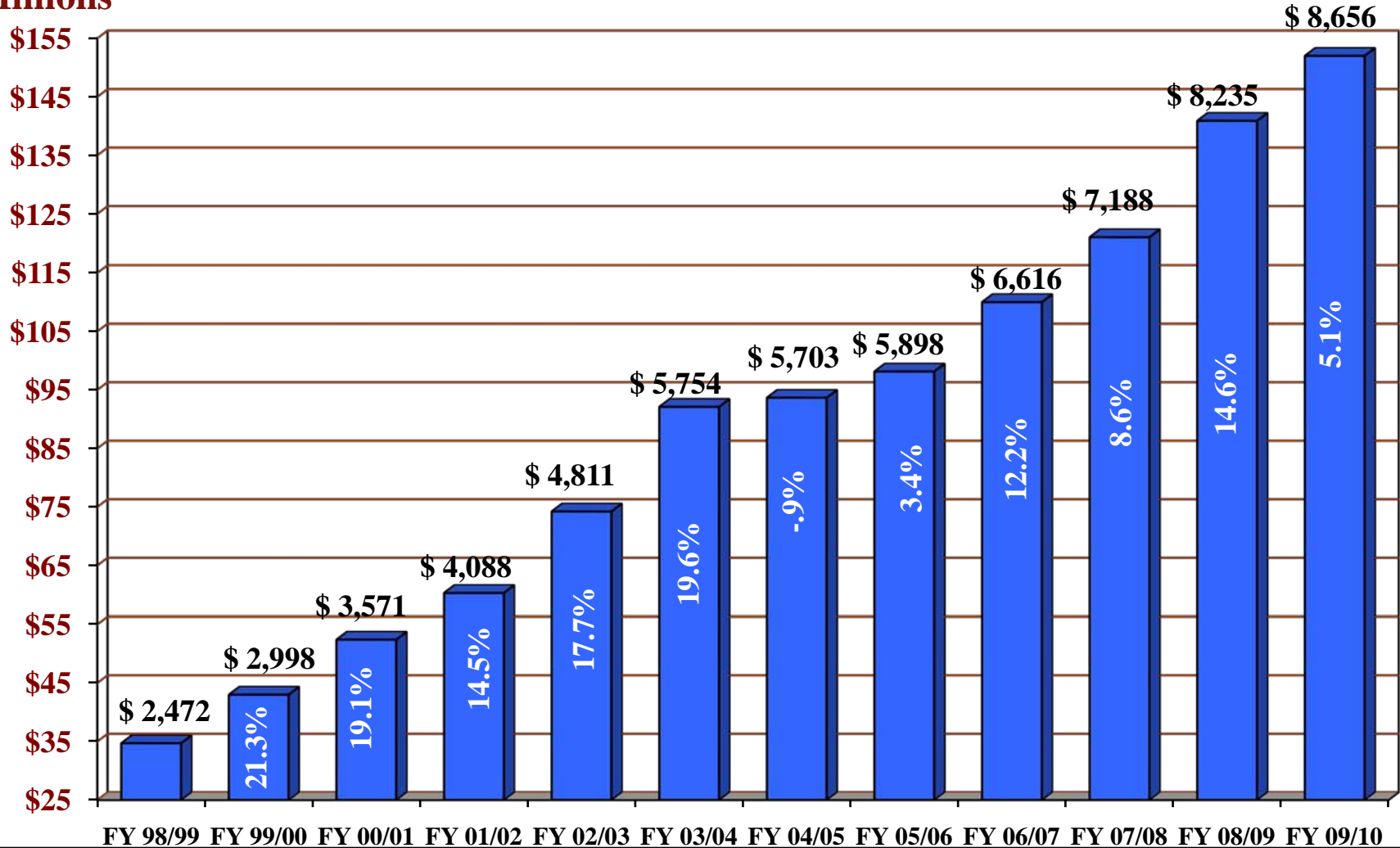


Employee Healthcare Program, IU Budgets



Employee Healthcare Program \$ Per Employee with % Change

Millions



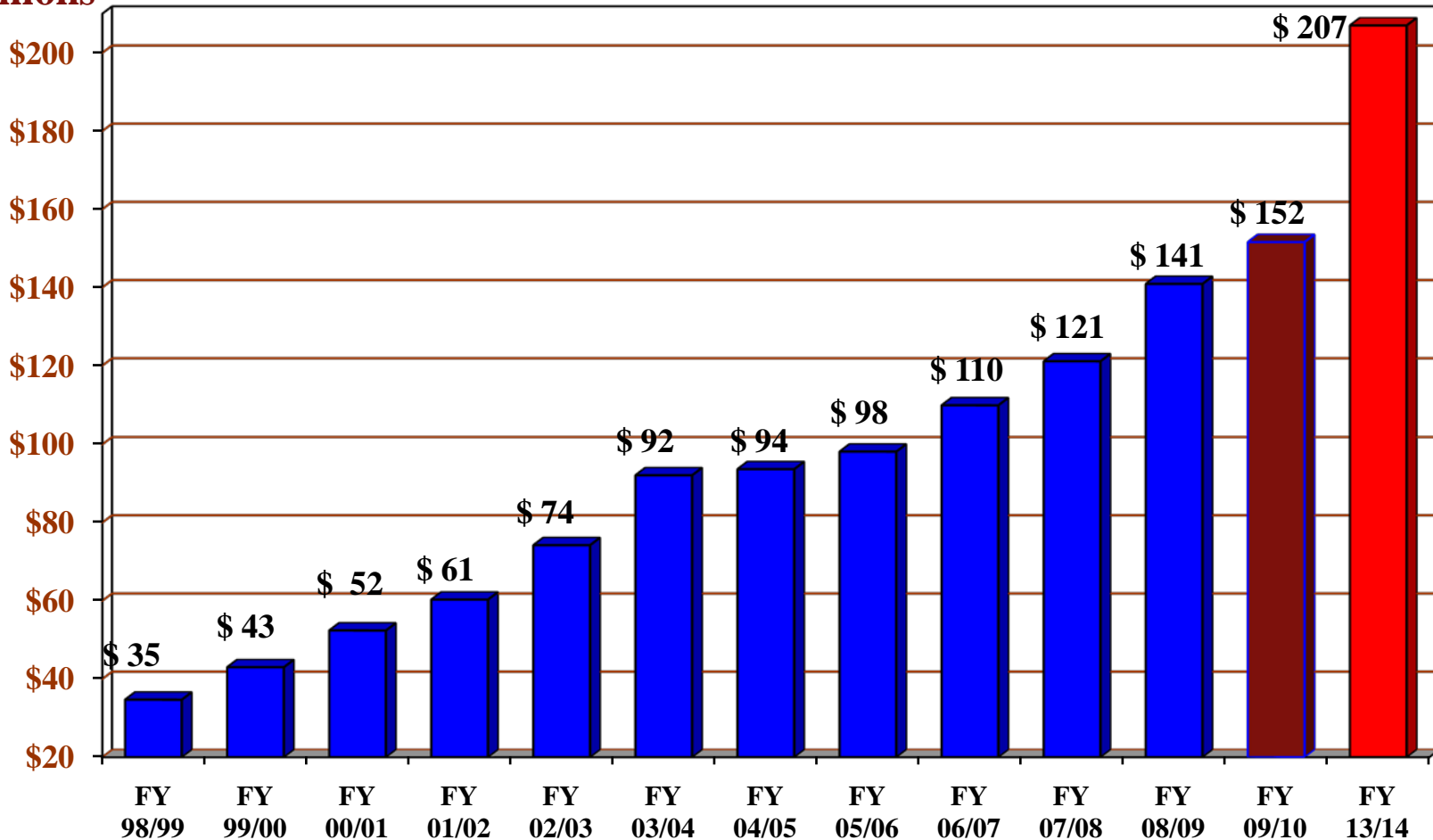
Employee Healthcare Program

- **Projected Healthcare Cost Increases**
 - **Provider expectations** = increase payments from “covered patients”
 - **New capital projects**
 - **Growth in freestanding specialty care facilities**
 - **Increase in indigent and uninsured population**
 - **Reductions/freeze in payments from Medicare and Medicaid**
 - **New, more expensive technology, procedures and treatments**
 - **Aging population with chronic and catastrophic medical problems**
 - **Lack of transparency for quality of outcomes, pricing and costs**
 - **Fee-for-service financial system**

Employee Healthcare Program, IU Budgets w/Five-Year Projection

Excludes Any Growth in Employees

Millions



Graduate Assistants/Fellows

- **Graduate Assistants = Student Academic Appointment (SAA)**
- **Fellows = Fellowship recipients**
- **Eligibility =**
 - **all SAAs with 37.5% FTE or more**
 - **All Fellowship recipients with an award of \$3,230 or more per semester**
- **Mandatory plan, with SAAs' or Fellows' premium paid by IU**
- **Dependents are voluntary and premium paid by student**

Graduate Assistants/Fellows

- **IU expense for AY 2008/2009 = approximately \$ 8.7 million**

Number of Graduate Assistants/Fellows Covered

| | Fall 2008 |
|--------------|------------------|
| Bloomington | 3,884 |
| Indianapolis | 681 |
| Total | 4,565 |

Number of Dependents Covered

| | |
|-----------------|-----------|
| Spouses | 79 |
| Children | 68 |

Graduate Assistants/Fellows – Medical Plan

- **Services and Insurance provided by Aetna Student Health**
 - **Somewhat comprehensive coverage**
 - **Max. Student aggregate per condition = \$250,000**
 - **Max. Dependent aggregate per condition = \$ 100,000**
 - **Other limits**
 - **“Preferred provider” network**
 - **Preferential pricing**
 - **Credentialing of providers**
 - **Referrals to other preferred providers, provider submission of claims, data and reporting, etc.**
 - **Utilization, disease, and case management**
 - **Deductible waived at IU Health Centers**
 - **Fully insured contract**

Graduate Assistants/Fellows – Dental Plan

- **Dental plan services provided by Aetna include:**
 - **Limited coverage, up to \$500 per member per year**
 - **“Preferred provider” networks (passive network)**
 - **Preferential pricing**
 - **Credentialing of providers**
 - **Some utilization management**
 - **Coverage of “wellness” services**
 - **Claims adjudication and customer services are outsourced**

- **Full insured contract**

The Immediate Future

The Wall Street Journal

■ **January 29, 2009**

■ **WellPoint Profit Slides 61% as Plan Numbers Drop**

-as rising unemployment takes a toll on health-Care enrollments
-higher than expected Medicare plan costs

■ **January 30, 2009**

■ **Senate Moves on bill to expand Children's program**

■ **Medicare-Payment Fix Weighted**

- **From fee-for-service to episode-based payments**

The Immediate Future

- **Fall 2008 Economic Stimulus -- \$700 b**
 - **Mental Health Parity Act**
 - **....prohibits imposing caps or limitations on mental health or substance abuse benefits that are not applied to medical benefits; no separate cost-sharing or treatment limitations; effective January 2010 (a 1% to 2% increase in covered expenses)**

- **February 2009 Economic Stimulus Package**
 - **COBRA subsidy --- new administration and employer to front 65 percent of premiums**

Growth in Healthcare Costs: 2004-05 and 2006-07

| | 2004-2005 | 2005-2006 |
|---|-------------|-------------|
| Growth in Premiums | 8.8% | 6.1% |
| 1. General Inflation | 2.4% | 2.8% |
| 2. Price Increases Above Inflation | 2.6% | 1.6% |
| a. Cost Shifting | 19.2% | 31.3% |
| b. Higher Price Technologies | 38.5% | 25.0% |
| c. Reduced Provider Competition | 42.3% | 43.8% |
| 3. Increased Utilization | 3.8% | 1.7% |
| a. Aging | 13.2% | 29.4% |
| b. Lifestyle | 7.9% | 17.6% |
| c. New Treatments | 26.3% | 35.3% |
| d. More Intensive Diagnostic/Defensive Medicine | 21.1% | 17.6% |
| e. Increased Consumer Demand | 31.6% | 0.0% |

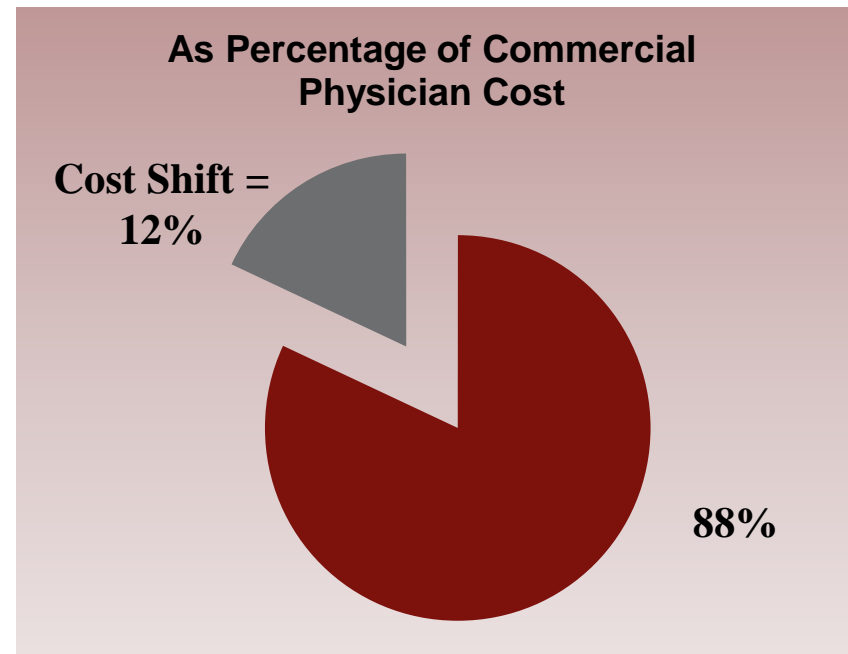
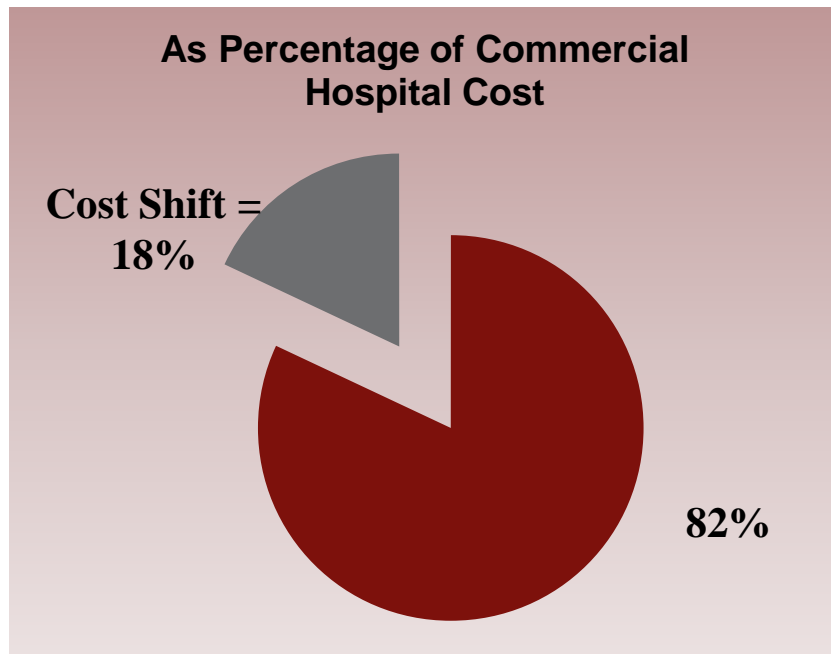
PricewaterhouseCoopers, 2008

Cost Shift, the Hidden Tax

■ Medicare and Medicaid

- Payments to providers are significantly lower than Commercial
- Commercial payers subsidize the difference -- \$88.8 billion in 2007

Medicare and Medicaid Cost Shift



Milliman, December 2008

Cost Shift, the Hidden Tax

■ Medicare and Medicaid and the Uninsured

Total Estimated Cost Shift

