AGENDA ITEM SUMMARY

1. **NAME OF ITEM:** Proposal for New Health Plan Option for Non-Represented Employees

2. **INITIATED BY:** Trustee Marjorie Murray Medd

3. **BOARD INFORMATION:**

4. **BACKGROUND:**

The University of Maine System (the “System”) offers a comprehensive health insurance benefit program to eligible employees and their dependents. Since the competitive bidding and redesign of this program in January 1, 2012, the plan has been self-insured with CIGNA. CIGNA has done an excellent job administering and partnering with the University System to ensure that the current "Quality Incentive Copay Plan" and "Quality Incentive Passive Plan" options are meeting the service expectations of the University System.

Given current financial pressures facing the University System, coupled with the innovative work being done within the Employee Health Plan Task Force (EHPTF) and Human Resources teams to promote choice, quality and value within the benefits programs, a proposal is being made to add a new plan option for January 1, 2015. This new plan option would be a new choice administered by CIGNA and would not impact the existing plan options.

**RATIONALE FOR NEW PLAN OPTION**

The University System has traditionally offered employees a choice of two (2) legacy plans (the "Copay" and the "Passive" Plan). These plan options (although subject to slight changes over the years) have remained essentially unchanged since 1996. Over the years, the population has migrated to the lower cost program (the "Copay" Plan), and as of 2014, over 98% of our employees are enrolled population in the "Copay" Plan.

**Choice:** The University System has a diverse employee population, representing a wide range of cohort groups and a wide range of health care needs. By limiting the health plan options to these two legacy programs, we are not recognizing the need to offer health plan options to satisfy the varying needs of our diverse population. By adding a new plan option, we are adding choice to the benefits package.
**Engagement**: Traditionally, annual Open Enrollment is a "passive" event at the University System. Employees do not really have any meaningful choice in medical plan option, so are not challenged to really engage in learning about their coverage. By adding choice to the program, Open Enrollment becomes an "active" event whereby employees need to think about their health care, how they use the program, and which plan option might make the most sense for themselves (and their families). By adding choice to the menu of options, we are hopeful that employees will be incented to think about their health care costs.

**Opportunity for Savings (Employees)**: Compared to industry norms, the University System medical plans have richer benefits, and can ultimately be expensive for some employees. Today, the System does not have a "lower cost" option for those individuals who would like to increase their personal income by lowering their monthly payroll contributions for coverage. The new Low Cost PPO Plan that is being proposed will give employees a chance to lessen their payroll burden towards the cost of medical plan coverage. The new plan is envisioned to be approximately 15% less than the "Copay" plan, offering financial relief to those employees who may not be able to continue to elect the more expensive legacy offerings.

**Opportunity for Savings (University System)**: By offering a lower cost option to the array of medical plan choices, the University System will benefit from migration into the lower cost plan. Based on current financial projections (claims data thru June 2014), it is anticipated that for every 10% of employees who elect to migrate to the new lower cost plan, the University System will save $250K. In a voluntary environment, a 10% migration is an achievable target; over the years, additional migration would be expected as the new option becomes accepted by larger percentages of the population.

**Supports Compliance with 2015 Health Care Reform Requirements**: The "Pay or Play" Employer Mandate of the Patient Protection Affordability and Accountability Act (PPACA) requires that employers offer 70% of their full-time employees access to "affordable" health coverage. "Affordable" is defined as (1) offering a plan that has a 60% actuarial equivalent and (2) has a contribution level for individual coverage that does not exceed 9.5% of an employees' total household income. By offering a lower cost plan option, it allows the University System to better achieve compliance with this mandate.

Although we are still awaiting final regulations associated with the 2018 PPACA regulations, it is expected that any Plan Offerings that exceed the stated Thresholds for 2018 will be subject to a 40% surcharge. Based on current 2015 projections, the current legacy plans are both projected to exceed the stated thresholds. The associated liability has been calculated to exceed over $1M in new money to the University System. Although the EHPTF is looking at various approaches to contain health care cost increases on those legacy plans, it is likely that without significant changes, these plans will trend at a rate that will exceed these thresholds. However, the new Low Option Plan (with a pricing base at 15% under the current "Copay" plan) is NOT expected to exceed the stated thresholds. This means that for every individual that migrates to the Lower Cost Plan, there is immediate "Year 1" savings, but also helps insulate the University System from projected tax liability in later years.
**ELEMENTS OF NEW PLAN OPTION**

The new Plan Option being recommended is an IRS Qualified "High Deductible Health Plan" (HDHP). In order to be IRS Qualified, the Plan needs to meet certain requirements as mandated by the regulations.

The new Plan Option will have an annual up-front deductible of $1,500 (single) and $3,000 (family). Expenses will be covered at 90%, up to the annual Out of Pocket Maximum. <As in the current Plan Options, there is also coverage for "non-network" benefits, with greater cost sharing, up to the maximum.>

Because the Plan Design meets IRS Requirements, the University System can offer an "up front" Health Savings Account (HSA) to help employees fund and plan for deductible expenses. The savings estimate of $250K per 10% migration assumes that the University System will contribute an initial $500 deposit to an individual's account to help offset deductible expenses. In addition, employees may contribute additional monies (up to IRS limits) on a pre-tax basis to help plan for and offset potential costs. Unlike a traditional FSA, all monies contributed to an HSA are 100% vested and portable on Day 1 to the individual. If not used, these monies can eventually be withdrawn on a pre-tax basis to pay for qualified medical expenses, such as COBRA and/or Retiree Medical Coverage.

Although not officially "endorsed" by the members of EHPTF, the Task Force did discuss several different options for a lower cost plan and there was general consensus that offering a more traditional style of plan option was not able to offer meaningful choice. Therefore, the group did spend several sessions learning about "consumerism" and has had input into the recommended design.

**ADDITIONAL PROTECTION FROM DEDUCTIBLE EXPENSES**

In able to ensure that the Deductible is not a financial barrier to persons who may desire to migrate to the lower cost plan, we recommend coupling the new plan offering with an array of individual, voluntary benefits plans. There is a suite of voluntary programs in the marketplace (such as a Hospital Indemnity program) that employees can purchase at low cost to help provide "safety net" insurance in the event of an accident or illness. The University System is currently conducting a due-diligence formal competitive bidding to evaluate the options in the marketplace to ensure that programs introduced offer "Best in Class" provisions at the lowest possible price point for our employees.

**IN SUMMARY**

Although there is some internal administrative work and communications demands on the Human Resources team, we believe that offering a new Plan Option for 2015 has several benefits -- to both the University System and to its employees. Understanding that the addition of a new plan option must be subject to collective bargaining, we believe that there is benefit to offer this enhancement to the non-represented population for Fall 2014.

Should other bargaining units be interested in adding these programs to their membership, the University System would be able to accommodate that request as part of the Fall 2014 Open Enrollment, as long as units make their intentions known by October 1, 2014.
5. TEXT OF PROPOSED RESOLUTION

That the Human Resources and Labor Relations Committee forwards this item to the consent Agenda at the September 21, 2014 Board of Trustees meeting for approval of the following resolution: That the Board of Trustees approves the Proposal for the New Health Plan Option for Non-Represented Employees.

August 25, 2014 Revised