

JOINT COMMITTEE ON INSURANCE AND BENEFITS

Annual Report for 2003-2004

(Informational)

Our previous annual report covered the period November 2002 through April 2003. Since then, the Joint Committee met on November 18, 2003, January 29, 2004, April 14, 2004 and June 22, 2004.

This report is a summary of the issues reviewed and discussed. Recommendations will be included in a new plan for 2005 and announced shortly.

**Health Care Rates**

2004 is the fifth year of the seven-year phase-in to increase employee HMO contributions as approved by the Task Force on the Future of Benefits. The projected premium share for 2005 is approximately 18.27% (target 20%) and 22.13% for family (target 26%).

**Health Plan Issues and Changes**

Beginning January 1, 2004, Penn State began self-funding the HealthAmerica HMO, providing significant benefits to faculty and staff and to Penn State. In addition to reducing the increase in premiums, self-funding also provides more operational flexibility, particularly in areas involving special claims and treatments.

Even more significant is the exploration of a new plan for possible implementation starting in 2005. The current offering of four types of plans, including HMO, POS, PPO, and Indemnity (Plan A) results in populations in some plans that are too small to allow for rate stabilization. Additionally, there is redundancy in coverage among plans.

Plan A and the Healthpass PPO are the two oldest plans. In the proposed restructuring, the Healthpass PPO, HealthAmerica POS, and Plan A would be replaced and combined into one more modern plan. This change would be implemented for the PPO and POS in 2005, and for Plan A in 2006. The current PPO and POS plans and Plan A would be eliminated for active faculty and staff. No changes currently are planned for the HMO or retiree health plans owing to the lack of action by the companies yet on the Medicare Prescription Drug Act.

Features currently contemplated for the new plan design include:

- 1) Preventive care/wellness
- 2) Access to out-of-network providers (20% disincentive)
- 3) Waiver of out-of-network disincentive for foreign care
- 4) No Primary Care Physician (PCP) or referral requirements
- 5) Precertification requirement for some services
- 6) \$500 out-of-network deductible and \$1,500 out-of-pocket maximum for out-of-network care
- 7) Percentage reimbursement for Pharmacy, with a separate maximum out-of-pocket payment

The \$1,500 out-of-pocket maximum would apply only to out-of-network services, as in-network services would be subject only to a minimal coinsurance. While Plan A currently has a \$1,040 “stop loss” limit on out-of-pocket expenses, this provision has not been updated since the early 1980s and properly is over \$1,700 based on increases in medical cost-of-living indices. Also under consideration is a new pharmacy benefit with a maximum out-of-pocket cost per year.

Additionally, the new 2005 plan will provide preventative and wellness services that are not provided to Plan A or Healthpass PPO members. The premium for the new health plan will be less than the 2005 premiums for either Healthpass or Plan A and will provide participants an opportunity to limit their out-of-pocket expenses by utilizing network providers.

### **Formulary**

An analysis of data for the Maintenance Prescription Drug Plan (MPDP) revealed the need to develop a formulary for the drug offerings covered in MPDP and to identify additional high utilization or unique expensive drugs for which we need to contract for better prices. A small number of changes could result in significant savings.

### **Student Dependents**

Effective January 1, 2004, an additional HealthAmerica HMO benefit was introduced to apply to student dependents who are outside the HealthAmerica service area. Some health care services provided by nonparticipating providers are covered now and include allergy treatment, allergy/antigen serum, diabetic supplies and services, laboratory tests and physicians' services for illness and injury. With prior authorization, dialysis, radiology and nuclear medicine, durable medical equipment, corrective appliances and outpatient rehab services also are covered.

### **Hearing Aid Discounts**

HealthAmerica has made some progress in pursuing agreements with groups of audiology service providers for 20% discounts for faculty and staff who are purchasing hearing aids. Also, hearing aids and hearing aid batteries are reimbursable from flexible spending accounts.

### **Dental Plan**

Sealant coverage was added beginning in the 2004 plan year. Many faculty and staff have expressed concern with increasing the coverage in dental plans. Such additional coverage will increase the premium of dental plans by almost 50%, and funding for health care insurance remains the highest priority. Therefore, a second dental plan is being considered that would provide the option to select the current basic plan, or to select a plan with additional coverage and a higher premium. In such an arrangement, the University would continue the same 20% single/26% family contributions to the basic plan and that same dollar amount would be contributed toward the second, extended plan. Individuals choosing the extended plan will be responsible for the difference in cost.

Two dentists have joined the Nittany Dental Network in 2004, increasing in-network options for Faculty and Staff.

### **Flexible Spending Accounts**

In fall 2003, the IRS ruled that many over-the-counter medications would be eligible for reimbursement from flexible spending accounts. This provided a significant advantage for faculty and staff.

Over-the-counter medications designed to treat specific medical conditions, such as antacids, allergy, and pain and cold remedies, may be included now for reimbursement. Items considered to be for the maintenance of an individual's health, such as vitamins; dietary, mineral, fiber and herbal supplements; and toothpaste, continue to be ineligible.

Acceptable documentation for over-the-counter drug expenses would be a dated cash register receipt that clearly identifies the item; and since most retailers scan the UPC code, this should not present a problem.

### **Long Term Disability (LTD)**

Rates for LTD coverage will increase in 2005. It should be noted that LTD rates have not increased since the program's inception in the 1980's and the plan has experienced a steady increase in claims. Also, the increase in salaries over the decades have automatically raised the amount paid for each claim. In 2002, TIAA-CREF sold its LTD business to Standard. Standard's administrative structure and fees may also have contributed to increasing the costs. It is possible that TIAA-CREF may have subsidized the LTD plan which resulted in unnaturally low rates. There are currently over 11,000 enrollees in the plan, with more than 100 people receiving benefits at any given time.

**Vision and Dental Plan Available to SERS Retirees**

Retired Penn State faculty and staff who are SERS annuitants may choose to join The Pennsylvania Association of Retired State Employees (PARSE). One of the benefits of membership is the eligibility to participate in a retiree dental and vision plan. University retirees are counseled about the PARSE dental and vision program, and PARSE regularly solicits new membership.

JOINT COMMITTEE ON INSURANCE AND BENEFITS (2003-2004)

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