Item No. 8

INFORMATION ITEM
September 9, 2015

TO: **Administration & Finance Committee**
(Directors Thomas, Osborne, Finnegan)

FROM: **Robert Hunter, General Manager**

SUBJECT: **REPORT ON HIGH DEDUCTIBLE HEALTH INSURANCE PLANS**

STAFF RECOMMENDATION

Staff recommends the Administration & Finance Committee: Receive and file the information.

DETAILED REPORT

As requested by the A&F Committee and the Executive Committee at the August meetings, summarized below is information regarding Consumer Directed Health Plans (CDHP) (aka High Deductible Health Plan (HDHP)) and Health Savings Accounts (HSA). MWDOC currently participates in the Classic PPO and CalCare HMO plans as well as the Kaiser Plan through ACWA/JPIA. ACWA/JPIA offers two CDHP, one for the PPO plan and one for the Kaiser plan.

Background

CDHPs coupled with HSAs are designed to provide employees with equivalent or improved coverage and costs in comparison to current health plan offerings and provide the districts with slower premium growth rates. The structure of these plans places the responsibility on employees to be more involved in their decisions as health care consumers and costs associated with services by medical providers.

MWDOC staff met via telephone with Ben Hayden, JPIA Senior Benefits Analyst, to obtain information on CDHPs available through the ACWA/JPIA health insurance pool and gathered the following information:

Features of Consumer Directed Health Plans (CDHP):

- Lower premiums to the District
- Higher deductibles (more cost up-front, out-of-pocket to the employee)
- Higher out-of-pocket maximums for medical services

<table>
<tr><td>Budgeted (Y/N):</td><td colspan="2">Budgeted amount:</td><td>Core __</td><td>Choice __</td></tr>
<tr><td colspan="2">Action item amount:</td><td colspan="3">Line item:</td></tr>
<tr><td colspan="5">Fiscal Impact (explain if unbudgeted):</td></tr>
</table>

- Lower out-of-pocket maximums for prescription coverage
- To maximize benefits of the CDHP, in-network providers must be utilized
- Prescription drugs and non-routine office visits are subject to deductible
- HDHPs must meet federally-established requirements, such as minimum deductibles which are indexed annually by the IRS
- Health Savings Accounts are generally funded by the employer to offset the higher deductibles

Features of Health Savings Accounts (HSA):

- HSAs are funded, individually owned accounts connected with a CDHP/HDHP, managed by the employee. Contributions may be made by employee and/or employer
- Employer contributions to the HSAs are normally made to equalize employee out-of-pocket expenses and serve as an incentive to employees to migrate to the CDHP
- Employer contributions are not mandatory
- Contributions are made on a pre-tax basis (federal withholding) but taxable on the state side
- HSAs are to be used only for qualified medical services (vision and dental do not qualify)
- An employee in an eligible HDHP may establish an HSA on their own. This may require additional staff time in managing payroll deductions to multiple accounts
- Rollover of funds from year to year are allowed with no forfeiture
- The accounts are portable and can be invested (once the account has a balance of $2,000)

To assist employees with comparing costs associated with many medical providers and procedures so that they can make an informed financial decision when making choices with their medical care, JPIA will launch software in September 2015 (Castlight). The intent is to encourage employees to actively consider the relative costs of services when they are in a position to shop for services (e.g., elective surgery). The software is intended to be a guide only and does not guarantee medical charges will be honored when billed.

ACWA/JPIA stated that Member participation in the CDHP keeps the premiums lower for the pool and helps to maintain the ACWA/JPIA reserve levels.

Member participation in CDHP offered through JPIA:

- 25 of 272 Districts/Agencies within JPIA currently offer the CDHP (9%)
- 200 of 7,000 eligible participants are presently enrolled in the CDHP (2.9%)
- 8 of 48 JPIA staff members are enrolled in the plan (16.7%)

The ACWA/JPIA CDHP was first offered in 2005 and, as indicated above, participation is still modest with only 9% of the Districts offering the plan and less than 3% of the eligible participants enrolled. ACWA/JPIA indicated that initial enrollment without the employer-funded HSA was almost non-existent. Employee enrollment has grown slowly as employees gained and communicated their experience with the program. The greatest appeal is generally to younger employees.

District Expenses

The impact on District expenses can be positive or negative based upon how many employees switch plans, which plans they switch from, and the amount of the employer HSA contribution. The anticipated change in District expenses the first year of the program is likely to be less than a 1% increase or decrease in health benefit costs.

The following is a breakdown of Savings and Costs (- #) to the District by plan type and JPIA recommended HSA contribution levels:

Plan		Current Enrollment	Saving/Cost to switch to CDHP	Recommended HSA contribution by District per Employee enrolled in Anthem CDHP or Kaiser CDHP
PPO	1-party	8	849.42	1300
	2-party	4	2075.46	2600
	family	7	1728.19	2400
HMO	1-party	0	-254.770	1300
	2-party	2	-233.13	2600
	family	4	-1414.37	2400
Kaiser	1-party	1	-7.54	1150
	2-party	1	-7.85	2050
	family	0	-511.87	2400

Cadillac Tax

A tax on more expensive health care benefits is currently scheduled to become effective in 2018. This tax is similar to the existing tax on higher levels of employer paid life insurance (i.e., taxable benefit). Health benefit plans with total premiums plus HSA contributions above a threshold (Cadillac Plans) will be subject to a 40% tax on the amount over the threshold. This threshold will increase by 2% per year. Currently all MWDOC health care benefit plans are below the threshold but may increase to above the threshold by 2018, dependent upon the rate of annual premium increases. There are several moving parts to these projections, not the least of which are lobbying efforts to change the applicable requirements and inclusions (i.e., HSAs included or excluded in the total). However, under current assumptions, it is likely that not only will our PPO plan be in the Cadillac category by 2018 but that all the plans would become Cadillacs in the following few years. This would include the CDHPs.

Future Actions & Schedule

Obviously this is a very uncertain area and staff will be tracking it closely for the next few years. And while there is no direct expense to having the CDHPs added to the list of available plans, there are time constraints and Board decisions that would be required. The

process can be initiated by the General Manager submitting a written request to ACWA/JPIA that the plans be added to our portfolio. The major Board decision that would be required is the amount of the MWDOC contributions to the HSAs. Without these employer contributions there is essentially little or no benefit to the employees moving to the CDHP. Beyond this Board action we have tight time constraints to implement the plan and explain the option to employees during the open enrollment period. A possible schedule of activities could be:

Week of 9/14	Meet with individual Directors to provide information. Ben Hayden of ACWA/JPIA available for discussion.
Week of 9/28	Ben Hayden meets with employees to explain CDHP options as something the Board is considering making available.
October 14	Recommendation to A&F Committee for Board action on 10/21. Recommendation could include: 1. Authorize GM to notify JPIA to add option 2. Implement a HSA program 3. Authorize specific HSA contribution amounts
October 21	Board decision
Oct 26 – Nov 13	Open enrollment period