**MEMO**

**HEALTH PLAN UPDATE**

**September 22, 2106**

The purpose of this memo is to update you regarding (i) UCA’s health plan, (ii) the financial status of it at this time and future projections, and (iii) some revisions we will propose as we move ahead.

**Background**: Until January 1, 2016, UCA had a fully insured health plan. For many years, this insurance was through United Healthcare. We paid United premiums for coverage and they paid the claims. Any profits remained with United.

Beginning January 1, 2016, we became “self-insured.” Many larger employers and higher education institutions in our state are self-insured. What this means is that we pay the claims as they are presented and we use a “third party administrator” (TPA) to process those claims. Our TPA is United Healthcare. Our health care consultants are Stephens Inc.

**History of UCA Premium Increases:** Below is the history of premium increases and how those increases were paid.

Calendar Percent Employee UCA

Year Increase Increase Financial Cost

2010 2% 2%

2011 0% 0%

2012 9% 0% $753,500

2013 2.4% 0% $266,300

2014 5.3% 0% $563,700

2015 5% 0% $636,700

2016 0% 0%

TOTAL $2,215,300

As you can see from the above information, UCA employees have not had to pay for any health plan premium increases since January 1, 2011. While there have been health rate increases during this time, UCA has absorbed the above increases since 2011. And, since approximately 25% of the premium is paid by the employee, our employees saved about $553,000 over this period.

Currently, UCA contributes an average of 75% of the employees’ health plan premium although the exact percentage depends on whether the employee chooses employee only; employee/spouse; employee/children; or family coverage.

**The Self-Insured Experience to Date**: We have been self-insured for slightly more than eight months (beginning January 1, 2016).

We started the plan year with an initial reserve fund of approximately $1.25 million. This was larger than our consultants recommended, but we felt it was a better initial fund. Then, on a monthly basis we pay the claims as they are submitted to United Healthcare.

**Compared to what we had budgeted (which was based upon our historical premiums paid to United Healthcare), we currently have a “surplus” of approximately $660,000. This means that our claims are running lower than what we would have paid in premiums had we remained with the insured plan.**

We will be closely monitoring our plan utilization over the last four months of this year as claim costs generally increase toward the end of a plan year due to employees meeting their deductibles and out-of-pocket maximum amounts.

**What is Ahead**: In meetings with Graham Gillis and others, our health plan consultants have “estimated” that we will need to provide for an ***anticipated increase of up to $1 million more in claims for the next year.*** This is their estimate, taking into account what they believe is a surge in prescription drug costs (35% increase for UCA), increased reinsurance costs, the removal of plan coverage maximums required under federal law, aging population, and an increase in the sophistication and usage of medical diagnostic testing. For us, this would mean a potential premium increase of eleven percent (11%). This is their view, notwithstanding for the eight-month period this year, we essentially have a profit of $660,000.

And, please remember that this is what would be needed to keep the initial reserve at $1.25 million.

**What to Do for 2017**: What we intend to propose is (a) we use this year’s “profit” and keep it as part of the overall reserve fund; (b) make three changes to the plan for the next year (described below); and (c) see what happens throughout 2017. If the increases are the level our consultants say, then cover that out of year-end money.

Also, please keep in mind that we have not implemented many plan design changes over the last several years. As a result, our health plan ranks as among the lowest, if not the lowest, in areas such as deductibles, copays, etc. In other words, our employees generally pay less for health care utilization than employees at other institutions or business (whether in insured plans or self-insured plans).

**Plan Design Changes for 2017**: We intend to propose three plan design changes to the Board of Trustees to help offset our anticipated future health plan costs. These changes are:

1. Increase Point of Service Plan deductible from $1,000 to $1,500 with the last $500 under our gap plan;
2. Increase preferred brand prescription copay from $35 to $40; and
3. Increase non-preferred brand prescription copay from $50 to $60.

**No Employee Premium Increase for 2017**: The good news is that we believe we can go another year without any increase for our employees. As you can tell from the chart on page one, this is an incredible record.

**Conclusion:** The news is good for our health plan compared to other profit and non-profit organizations in Arkansas and around the country. We want to implement a strategy that will help us continue to manage our health plan costs in the future. That strategy cannot continue to rely only on raising health plan premiums where UCA absorbs the costs.

Future actions (health plan premium and/or plan design changes) must involve cost sharing between the employee and employer. This is not for the sole purpose of saving UCA money, but our employees must become better consumers and have a better understanding of their health care costs.

Please note that UCA is still committed to developing our comprehensive wellness program that will be designed to help our employees become better consumers of health care costs. Education regarding the new wellness program is under way and the early stages of the wellness program will begin in January of 2017. Additionally, this program will provide employee services and programs specifically to help our employees with their personal health care needs.

Please let me know if you have questions.