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Vermont-National Education Association / Vermont School Boards Insurance Trust

To: Vermont School Districts & Local Union Leaders

From: Laura Soares, Joe Zimmerman and Mark Hage

RE: 2013-14 Rate Renewal Recommendation

Date: November 20, 2012

After months of analysis in collaboration with Blue Cross Blue Shield of Vermont (BCBSVT), VEHI is proposing to Vermont's insurance regulators a **12.8% premium rate increase** for the 2013-14 school year (FY 14). For the purpose of building an FY 14 school budget, however, we recommend that school districts use a slightly higher number, **14%.**

Why two numbers?

The higher figure is necessary for school budget planning because VEHI (and the rest of Vermont and the nation) is waiting for guidance from the federal government on the cost of two assessments, a Transitional Reinsurance Fee and an Insurer Fee, that are designed to help stabilize premiums on the new state insurance Exchanges mandated by the 2010 *Affordable Care Act (ACA).* These new fees will be effective in January of 2014, and definitive guidance on them may not be forthcoming until next spring. But because our next renewal will carry us into 2014, it is important for us to make an informed estimate now as to how much the fees will add to our 12.8% rate proposal. At the high end, it could boost the rate increase to 14%. If the feds approve a lower fee, then VEHI will reduce the 14% accordingly and bill school districts on the basis of that revised rate.

One thing is certain: the FY 14 proposed rate will be no less than 12.8%. It is the first double-digit increase for VEHI since 2005-06. It will be finalized after a thorough review of our premium rate renewal application by the Department of Financial Regulation and the Green Mountain Care Board, the state's new health care regulatory body. This is the first year our application will be analyzed and ruled on by both bodies.

FY14's premium rate renewal proposal of 12.8% requires more explanation than usual. Therefore, we review here the recent history of VEHI's rate renewals, our current medical utilization/claim trend, the status and management of our investments and reserve fund, the costs to VEHI of new benefit mandates and health care reform assessments at the state and national level, and the budget for VEHI's wellness program. These diverse factors came together this year in unexpected and expensive ways, with implications for the future of VEHI as well as the 2013-14 school year.

(a) Medical utilization in VEHI (and across Vermont) is on the rise.

A 12.8% jump in premiums is significantly higher than in recent years. In fact, over the last ten years, our rate renewal increase, on average, was 7.3%. Over the last five years that figure has averaged out to just 2.9%. The last decade for VEHI, by any standard, has been characterized by low to modest premium rate increases, especially when compared to rate increases in the commercial market. This has saved school districts and the Vermont State Teachers' Retirement System (VSTRS), collectively, millions of dollars, without any erosion in benefits. Given that record, FY14's proposed 12.8% rate increase, understandably, comes as a surprise. On the other hand, VEHI has hit some rough patches in the past, much worse, in fact, than what we are now facing. Between FY 01 and FY 04, a particularly difficult period, our premiums increased by 23%, 14.2%, 9%, and 19%, respectively (for an average of 16.3%).

The last seven consecutive years, in contrast, have been marked by single-digit premium increases, four of which came in at 3.5% or less. Why so low? First, this was a period of lower than expected medical utilization. In FY 09 and FY 10, for example, we collected more in premiums than we paid out in claims, because our members needed less care than projected by BCBSVT. Additionally, our expanded wellness programs became accessible to every supervisory union. An investment in organized wellness programs at the workplace has meant a healthier population and, thus, lower claims' costs.

Now, though, medical utilization is on the rise—for us and everyone else BCBSVT cover. The rise in claims, in total, is less onerous than would otherwise be the case because of VEHI's extensive wellness and chronic disease management initiatives, and because our plans provide access to low-cost primary and preventive care. Just the same, our members are seeking more medical care. Of greater concern down the road is that a fair portion of VEHI's increased utilization is due to high-end, specialized treatment. 24% of our current claims, for example, are being generated by a primary diagnosis of cancer.

The bottom line: Roughly 6% of our proposed FY 14 rate renewal request will be allocated to pay claims and to cover standard administrative and reinsurance expenses.

(b) VEHI's investment revenue has not met expectations.

The duration and severity of the economic recession has meant that the portion of VEHI's reserves invested in interest-bearing accounts has not earned what we had hoped. We did not lose money from these investments, either, because we invest conservatively. Just the same, our investment returns, when healthy, modestly boost our reserve fund, which we use judiciously to help pay claims and administrative expenses and to fund wellness programs. The less we earn from investments, therefore, the fewer reserves we accumulate to defray costs.

(c) The total cost of benefit mandates and health care reform assessments has risen sharply.

In recent years, VEHI has seen a significant increase in costs from mandates and assessments. In this context, "mandates" are new health care benefits that insurance companies must cover. "Assessments" are fees levied by the state legislature or Congress to fund health care reform initiatives. There is nothing new about mandates or assessments. VEHI, like any association or purchasing pool, has paid for its fair share of them over the years.

The Trust incurred mandates and assessments totaling $486,204 in FY 11. In FY 12, that figure rose to $2.1 million; in FY 13, the current school year, we estimate mandates and assessments will cost nearly $4.1 million. Next year, 2013-14, they add up, minimally, to $6.8 million—**not including** the federal

Transitional Reinsurance and Insurer Fees referenced above. (If these latter fees come in on the low end of projections, VEHI's mandate and assessment bill in FY 14 likely will be between <u>$8 and $9 million</u>.) We are projecting costs in the realm of <u>$12 million</u> for the same menu of charges in FY 15.

Here are the mandates and assessments at issue and their costs, as we know them at this time, for FY 14:

- Vaccine Mandate **($597,501)**
- Early Childhood Development Disorder (Autism) Mandate **($2,753,717)**
- Vermont Blueprint Expansion **($1,065,148)**
- Vermont Information Technology Leaders **($458,246)**
- Vermont Health Care Claims Assessment **($1,842,194)**
- Federal Patient-Centered Outcomes Research Trust Fund Fee **($84,456)**
- Federal Transitional Re-Insurance Fee (**No Figure Yet. Will be applied to a half-year only in FY 14 and a full year in FY 15.)**
- Federal Insurer Fee (**No Figure Yet. Will be applied to a half-year only in FY 14 and a full year in FY 15.)**

To be clear: VEHI is not opposed to these mandates and assessments, and we are certainly not opposed to health care reform. Like everyone else, we are adjusting to the evolution of a new private insurance market, with multiple benefit options, premium tax credits and cost-sharing subsidies, new structures of primary medical care (e.g., the Blueprint Expansion) and new data collection and technology projects (e.g., VITL, VHCCA and Patient Centered Outcomes Research).

How do mandates and assessments affect our FY 14 proposed rate renewal? The <u>difference</u> in what we paid for these charges in FY 13 and what we expect to pay in FY 14 at this time accounts for <u>1.2%</u> of our FY 14 12.8% proposed rate increase (which, again, does <u>not</u> include the federal Transitional Re-insurance and Insurer Fees).

To complicate matters, when VEHI set its rates for FY 13, in <u>January, 2012</u>, the price tag for several of the above mandates and assessments was either unknown or could not be predicted. Consequently, these costs could not be built into our FY 13 renewal rate; thus, this year's premium rate (3.5%) is lower than it should have been. This means we will collect less in premium revenues in 2012-13 than we will need, which, in turn, exacerbates our financial situation in FY 14.

(d) How in recent years did the Trust pay for claims, mandates/assessments, wellness programs and other expenses and still keep premium increases so modest?

The short answer is that we drew down on substantial <u>reserves</u> to help school districts keep insurance costs manageable. As a non-profit, all funds collected from members are held in reserve and used, when fiscally prudent, on behalf of members to subsidize costs that would otherwise be passed on in the form of higher premiums. This has proven to be a vital service to schools, employees, VSTRS and local taxpayers, particularly during the severe recession that began in 2008. Here is a general breakdown of how we used our reserve funds to moderate premium increases and advance wellness initiatives over the last several years:

1. We bought down premium rate increases recommended by BCBSVT.

2. We paid unanticipated claims costs ($1.7 million) incurred when the extended dependency provisions of the ACA (keeping your children on your health plans until age 26) were implemented a year earlier than scheduled at the request of the Obama administration.

3. We invested in popular wellness and health risk assessment programs. This included wellness incentives for employees and grants to school districts. In FY 12, for example, we allocated $4.9 million to wellness, and roughly 12,000 employees took part in our PATH Points program alone.

VEHI was able to provide this financial support to school districts through FY 12 and still maintain sufficient reserves. Now, though, because of the confluence of forces addressed in this letter, we are compelled to dig much deeper into our reserve fund than we are comfortable with. Looking ahead, then, the FY 14 premium rate increase must be calibrated not only to what we expect claims and other expenses will be, but to make sure the amount of VEHI's reserves is consistent with what we need operationally and with what Vermont's regulators expect.

In sum, VEHI will need an additional 5.6% in revenues in FY 14—the balance of its premium rate proposal of 12.8%—to keep our reserves at an adequate level and to finance (scaled-back) wellness programs.

(e) VEHI must also cut its costs in FY 14.

The fiscal pressures we are facing, regrettably, require us to take the following measures:

- $6.4 million dollars will be cut from VEHI's wellness budget over the next two years. We did NOT eliminate programs; instead, we eliminated the cash incentives and grants to employees and school districts. The latter played a major role in expanding employee and S.U. wellness participation over the past few years. At this stage, we hope the merits of the program will be sufficient, at least in the short term, to sustain the high level of engagement. To maintain the effectiveness of the program, we will continue to fund the work of our wellness leaders at the local level.

- VEHI will redesign its insurance plans with slightly higher out-of-pocket costs (deductibles, co-pays, and office visit fees). They will go into effect in 2013-14, and will not jeopardize grandfathered status. We will provide you with additional information about these changes after they are finalized.

Conclusion: The Future of VEHI

To say we are living in new times in respect to health care and health insurance would be a gross understatement. Most of VEHI's health plans, as you know, are "grandfathered" under the *Affordable Care Act*. However, in accordance with the ACA and state legislation that passed last spring (Act 171), health care reform is advancing at a remarkable pace, and will ultimately affect VEHI just as it will every individual, employer and institution in Vermont. When we analyze the regulatory changes and market transformations we are facing, the facts are illuminating. The new health insurance Exchange in Vermont will dramatically re-engineer how employers purchase health benefits and how employees choose and pay for those benefits. It will eliminate in 2014, for instance, the Small Group Association market, which includes VEHI at present; in 2017, the same will be true for the Large Group Association market.

Given this, VEHI has three immediate goals. First, as the Exchange goes into effect in 2014, we will continue to serve school districts, school employees and VSTRS as we always have. Second, we are working with the Department of Financial Regulation to establish a new regulatory status for VEHI that will permit the Trust to offer grandfathered health insurance plans after the Small Group Association market is disbanded. We are confident that that process will come to fruition well before January 1, 2014. Third, and most importantly, we are exploring ways VEHI can serve you prospectively in collaboration with the Exchange. It's clear now that grandfathered status under the ACA is not a permanent option. Retaining it over the long term, therefore, will prove extremely difficult. Eventually, we believe most Vermont employers—large and small, for-profit and non-profit—will engage commercially with the Exchange.

For these reasons, we ask that you (1) bear with us as we investigate a substantive role for VEHI on the Exchange and establish a new regulatory status with the state and (2) remember that retaining grandfathered status in the near term, if you choose to do so, allows you time to comprehensively assess your options in relation to the future Exchange. A transition to the Exchange for VEHI will take time to conceptualize and implement, and our discussions at this stage are preliminary only. Nonetheless, they have begun in good faith and will intensify. We will keep you informed of their progress.

There is no entity in the United States like VEHI, and we can say, categorically, there is great value in a non-profit Trust whose sole mission is to assist schools and their employees and local unions with the selection and management of a comprehensive package of health, dental and LTD benefits, consumer assistance and innovative wellness programs. If the Exchange, as we expect, is going to be the new market for health insurance in Vermont for the next several years, then school districts, school employees and their local unions will need an organization to assist them with multiple plan and carrier selections, wellness options, calculations for federal cost-sharing subsidies and premium tax credits, and the full range of standard customer services. VEHI has been your "navigator" for health insurance since the early 90s, and we are committed to serving you in a broad navigational capacity on the Exchange, if that kind of arrangement can be worked out.

In the meantime, please contact us if you have any questions or concerns about the FY 14 premium rate renewal or other issues. The VEHI team (Joe, Laura and Mark) is willing to travel to school districts to address any audience.

Thank you.