Legislative Update

The 2003 Montana Legislature began on January 6, 2003 and is scheduled to complete its work and adjourn by April 26, 2003. There are a number bills before the Legislature that directly affect our benefits programs . Many MUS officials (including our own director, Glen Leavitt) have been monitoring these bills, attending hearings, and providing expert testimony. Listed are the most important of these bills, a summary of their provisions, and their current status:

HB 2 - General Appropriations - This general funding bill includes provisions for how vacancy savings will be managed and is tied to the early retirement incentive bills described below. In the Senate.

HB 13 - Employee Pay Plan - This bill includes the increased State contribution to the Benefits Plan of $44 next year (FY 2004) and $50 the following year (FY 2005). Also included is a pay raise of $.45 per hour or $936 per year for all State employees. Tied to HB 360. In Senate.

HB 44 - Revised Rates for Purchase of Military Service for PERS Members and **SB 66- Reduce Years of Service Required for PERS Members to Buy Military Service** - These two bills are essentially the same. They allow the purchase of military service credit after 5 years of State service (instead of the 10 years currently). Passed and signed by the Governor. Note that it is always least expensive to purchase service credit as soon as you are eligible.

HB 360 - State Employee Voluntary Termination Incentive - State employees will be offered 3% of current salary for every year of service up to 100% of current salary as an incentive to resign or retire before September 30, 2003. This bill is tied to HB 2 and HB 13. At the present time, **all MUS employees are explicitly excluded from this incentive**, but the bill is still subject to amendment. In the House.

SB 145 - Participants in Federal Volunteer Program to Purchase PERS Service - This allows PERS members to purchase service credit for the years spent in Federal volunteer programs such as the Peace Corp., VISTA, etc. To be eligible the PERS member must have 5 years of State service. The total amount of purchased service remains capped at 5 years. Passed

SB 239 - Continuing of Employer Provided Health Insurance as a Retirement Incentive - All employees eligible for a retirement benefit in any State retirement plan would receive one year of employer contributions to their State health insurance plan for every 5 years of State service. This bill is tied to HB2 - the General Appropriations bill and all MUS employees are included. Tabled in the House.

There are a number of minor housekeeping bills as well which align our programs and retirement systems with new Federal regulations. Those of you who wish to review the texts of these bills or track their status can find complete information on the Montana Legislature Web Site at *http://leg.state.mt.us*. As a citizen you have every right to make your wishes known to your representatives. Committee memberships and contact information is also available on this same Web Site.

CHOICES NEWSLETTER
JERRY COFFEY, EDITOR
ENGLISH DEPARTMENT, MSU
BOZEMAN, MT 59717-2300
PHONE: (406) 994-5327
E-Mail: choices@english.montana.edu
WEBSITE: www.montana.edu/choices

DIRECTOR OF BENEFITS
GLEN LEAVITT
MONTANA UNIVERSITY SYSTEM
2500 BROADWAY
HELENA, MT 59620-3101
(406) 444-6570

BENEFITS PROVIDERS
PEAK (406) 723-3783
NEW WEST (800) 290-3657
FACULTY STAFF ASSISTANCE PROGRAM
APS (800) 833-3031
BLUE CROSS/BLUE SHIELD - MONTANA
(800) 820-1674
MANAGED CARE (800) 782-3083
PHARMACY PROGRAMS
ECKERD (888) 645-9303
RIDGEWAY (800) 630-3214
UNUM LTD (800) 424-2008
LIFE (800) 445-0402
VSP (800) 877-7195

RETIREMENT SYSTEMS
PUBLIC EMPLOYEES RETIREMENT ADMIN.
(406) 444-3154
TEACHERS RETIREMENT SYSTEM
(406) 444-3134
TIAA-CREF (ORP)
(800) 842-2009

ANNUITIES/DEFERRED COMP
MT DEFERRED COMP (800) 981-2786
AETNA (800) 542-0425
METLIFE (406) 452-7250
SCUDDER (800) 323-6105
T. ROWE PRICE (800) 638-5660
TIAA-CREF (800) 842-2009
VALIC (800) 448-2542

choices
Benefits Program
Montana University System
2500 Broadway
Helena, MT 59620-3101

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The Newsletter of the Montana University System's Flexible Benefits Program

Plan Changes for Next Year!

From a financial perspective the current fiscal year has been a reasonably good one for the plan. We have managed to stay slightly below our projected claims costs so far and if current trends continue until the end of the fiscal year on June 30, we should show a positive balance for the year. The following summary is based the most recent data available. Keep in mind that a few very expensive claims or an unusually good final quarter could change this picture somewhat before the end.

Our overall funding for the year increased 9.7%. The majority of this increase comes from a boost in the State contribution of $41 per member per month for FY 2003. The remainder is the result of increased premiums for spouses, dependents, and retirees. On a per member basis our overall medical and dental claims show an increase of 11 to 13%. Drug costs are up by 17% and our overall claims costs are up 12 to 14% for the year. These figures are for our traditional indemnity plan. This is the first year that our HMO's are self-funded and they are having a good year. We expect them to have positive balances by the end of the fiscal year as well. It is interesting to observe that some 1000 of our members are now in one of the HMO options, while 6,700 of us remain in the indemnity plan. Our total funding for the year is $39 million and our total expenses should be $37.5 to $38.5 million for an overall gain of $.5 to $1.5 million.

We had $7.9 million in our total reserve funds at the beginning of the current fiscal year and with the increase of $1.5 million, we should show an overall reserve balance of approximately $9.4 million on July 1, 2003. Remember that there are always a number of claims incurred but not paid at any given point in time and for which the plan is liable. We must always hold those funds in reserve. We anticipate that the incurred claims reserve should be about $3.4 million at the end of June. In addition to the incurred claims reserve, it is considered prudent for self-funded plans such as ours to carry two months of average claims costs in reserve to balance out claims fluctuations. We anticipate that our monthly claims costs will be $2.8 million in FY 2004. Therefore, we require $5.6 million in addition to the $3.4 incurred claims reserve for a total of $9.0 in reserve funds. You can see now that starting next year with $9.4 million on hand is not at all excessive.

The Choices Newsletter is designed to help promote a sense of our ownership and responsibilities within the program.

There are two things wrong with this relatively rosy picture. First, the 17% drug inflation rate is worrisome and ultimately unaffordable in the long run without some structural changes in the pharmacy plan. Second, the increased premiums required to keep our plan solvent are placing an increasingly heavy burden on our lower paid classified employees and our retirees. Remember that by design the State contribution covers only the employee's costs. Employees themselves are required to pay the premiums for spousal and dependent coverage and, since the State makes no contributions whatever for retirees, they are expected to pick up the total cost of the premiums. Medical claims continue to inflate at double digit rates - well beyond the small salary increases of our employees or the small benefit adjustments of our retired members. The InterUnits Committee has seen some evidence that this premium inflation has lead to some employees dropping their dependent coverage and to retirees leaving the plan completely and relying solely on Medicare. Addressing these problems was the major focus of the InterUnits Committee this plan year.

InterUnits Actions - The Plan Change Subcommittee was charged with evaluating the modifications to our pharmacy plan recommended by Eckerd as a way of reducing costs, reviewing Regent Mercer's suggestion that higher paid employees help subsidize the cost of premiums for our lower paid employees, and looking for ways to maintain affordable coverage for our lower paid employees and retirees. This subcommittee reported back to the full InterUnits Committee at the February meeting. The InterUnits Committee made a preliminary decision to support these recommendations, but to go back to the respective campuses, explain these proposals, and seek our membership's advice before the final decisions were made. Most of these campus meetings took place in late February and early March. After the campus responses were complied and evaluated, the InterUnits Committee then reconvened in Helena on March 6 and, with some modifications, adopted the changes suggested by the Subcommittee. What follows are the

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Plan Changes for Next Year *(Continued from Page 1)*

details of all of these changes. The information on the plan changes and premiums for FY 2004 is now firm and final and can be used as the basis for your re-enrollment decisions. The annual election process will begin on most campuses starting the middle of April.

Pharmacy Plan Changes - The following changes were suggested by Eckerd as a means of controlling our current 17% inflation rate on drug claims. They were reviewed and adopted by the InterUnits Committee in March and will go into effect on July 1:

Maximum Out-of-Pocket Costs - are increased $100 for individuals from $700 to $800 per plan year and increased $200 for families from $1200 to $1400. This provision does not apply to the Mail Order Plan.

Copayments - will be changed from a flat rate system to a percentage system. The following rates assume that the drugs are obtained from a participating pharmacy and that the deductibles of $100 per individual or $200 per family have already been met. Generics will cost 20% or $10 whichever is greater (currently $10); formulary drugs, 30% or $20 (currently $15); and non-formulary drugs, 40% or $30 (currently $25).

Mail Order - Rates for a 90 day supply will increase from $15 to $20 for generics, from $30 to $40 for formulary drugs, and from $50 to $60 for non-formulary drugs. Remember that the deductibles and maximum out-of-pocket provisions do not apply to mail order.

The mail order plan remains the least expensive option for obtaining maintenance drugs. For more information on the pharmacy plan and the reasons for these changes, review the last/March 2003 issue of the *Choices Newsletter* (on-line at *www.montana.edu/choices*).

Medical Plan Changes - The changes in the medical plan are very few this time around. Aside from a minor technical change in the "Coordination of Benefits" provisions (when a member is covered by two or more different plans), there are only two substantive modifications to the medical plan:

Home Health Care - This benefit is designed to provide temporary transitional care to members released from the hospital, but requiring short term in-home care until the they are fully recovered. It was never intended to pay for long term custodial care, care intended to be covered under long term care insurance, Medicare, or Medicaid. Because of problems with definitions, the home health care benefit is now limited to 90 days in any one plan year and 180 days in a lifetime.

Mammography Screens - The plan will now pay the full Blue Cross/Blue Shield allowable rate for a mammogram. What this means in practical terms is that women will no longer be required to go through the campus wellness programs to schedule an exam. They may now go directly to a member provider and the exam will be fully covered. The same age and frequency restrictions apply. Consult the plan booklet for details.

Salary-Based Differential Premiums - The Board of Regents asked the Commissioner's Office to "request that the InterUnits Benefits Committee explore methods for reducing the cost of health care for lower paid employees by increasing the cost of health care for higher paid employees." This request was given to the Plan Change Subcommittee and they came up with the following proposal:

1. Those earning between $25,000 and $50,000 in total compensation would see no change in premiums.

2. Those earning above $50,000 would pay a premium surcharged based on income. For example, a $75,000 employee would pay an additional $16.25 a month in premiums.

3. Those earning less than $25,000 a year with dependent coverage would receive a premium reduction based on total compensation. For example, an employee earning $17,000 a year would see a reduction of $32 per month in the dependent premium.

Of all of the issues the Committee faced this year, this proposal evoked the most passionate and heated responses. Much the same thing could be said for the membership when this issue was brought before them the during the on-campus meetings in late February and early March. Most showed a great deal of compassion for the less well paid amongst us and everyone understood that dependent coverage was becoming increasingly unaffordable for our classified employees. The responses on the campuses closely paralleled the discussions on the InterUnits Committee. Those opposed felt that the proposed plan was the wrong solution to a real problem. Reasons heard most frequently in opposition tended along the following themes:

MUS income is not a real indicator of need. Many employees in the lower categories might have a high income spouse and a total family income greater than those asked to pay the surcharges. Morale problems could result when this occurs. The plan smacks of a welfare program with all of the attendant problems of qualification, loss of privacy, and humiliation. The real problem is that many of our classified employees are paid inadequately and that is the issue that needs to be addressed.

After much thoughtful and painful discussion, the InterUnits Committee defeated the proposal described above by a narrow margin. At the same time, they agreed that affordability was a critical issue that needed to be addressed immediately. A number of counter proposals and solutions were suggested by the members. The InterUnits Committee then voted to establish a broad based Task Force and charged it with looking for solutions to the problems of affordability amongst our lower paid members.

Premium Increases - The premiums for active members are based on the assumption that the governor's proposal to increase the State contribution by $44 for a total of $410 per month in FY 2004 will be passed by the Montana Legislature. The prospects for this increase seem good at this point, but should this not happen, the InterUnits Committee will be forced to readjust premiums.

Active Rates - Active single employees will see no change in their out-of-pocket costs. Those with spousal and family coverage will see increases averaging $10 a month. The medical indemnity plan will increase $6 to $8 a month and the HMO's from $1 to $3 a month. The chart below gives the details. The disability insurance rates will remain unchanged. Dental insurance rates

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MUS Health Plan Premiums for Active Employees 2003-4
(rates reduced by the State contribution of $410 per month)

Deductible	$400	$575	New West HMO	Peak HMO	BC/BS-Blue Choice HMO
Employee only	$373	$362	$365	$365	$365
Employee and Spouse	$498	$476	$490	$471	$490
Employee and Children	$483	$465	$477	$458	$477
Employee and Family	$564	$521	$553	$528	$554

Plan Changes for Next Year

(Continued from Page 2)

will be raised $2 to $5 a month. The optional vision plan administered by VSP will see a significant rate increase - from $1.67 per month to $3.05 per month for family coverage. VSP rebid the plan after losing a significant amount of money on us over the last two years and felt compelled to make major increases in premiums. Note that the VSP program still makes sense if just one member of your family gets a vision examination in a given plan year. Your will receive $40 of the exam costs, or $3.40 more than the $36.60 you pay in annual premiums. If more than one family member gets a routine vision exam, you will be far ahead.

Retiree Rates - The retiree rates will be increased a weighted average of $44 a month, the amount of the proposed increase in the State contribution for next year. Note that a high deductible option has been added to the retiree plans. Currently the early retirees under age 65 have only the $575 deductible plan as an option and the over 65 Medicare eligible retirees, only the $400 deductible option. A $1500 deductible option has been added to both plans. It was one thing that the InterUnits Committee could do in the short term to address the issue of affordability for our retirees and their dependents. The InterUnits Committee still remains committed to seeking long term solutions to this affordability issue.

Please note that early retirees who choose the $1500 deductible option will not be allowed to return to the lower deductible plan until age 65. For retirees over age 65 the choice of the $1500 deductible plan is irrevocable. You should also understand that while the rates for the $1500 plan will keep your next year's premiums about level with this year's rates, you will be risking potentially higher out-of-pocket costs should you become ill. See the chart to the right for the specific rates in the various categories.

Final Words - With the changes in premiums and plan design described above, the InterUnits Committee is reasonably confident that our plan will remain in good fiscal health throughout the next year. The long-term future seems not so bright, however. The plan is already approaching the limits of affordability, especially for our retirees and classified staff and there is only so much tweaking that the InterUnits Committee can do to keep the plan sound. Perhaps, the various Federal and State proposals for health care reform and drug coverage will help some day. One can only hope. ■

Important Reminders

Classified Retirement Plan Election - Now is the time for all classified employees to file their election form. If you fail to file by June 30, you will default to the PERS Defined Benefit Plan and never have that choice again. For help in making this critically important decision consult the last four issues of the *Choices Newsletter* (available on-line at *www.montana.edu/choices*).

Flexible Spending Accounts - If you have predictable child care or out-of-pocket medical costs, you can pay these expenses with pre-tax dollars. The maximum amount that you can flex in medical costs has increased to $6,000 next year. Retirees working part-time for the University can flex their medical insurance premiums as well. See your payroll/benefits office for more information and the annual election forms(deadline 6/30). ■

RETIREE PREMIUMS FOR FY 2004

Retiree Under Age 65	**$575 Plan**
Retiree Only	$354
Retiree + One	$477
Retiree + Two	$566
Retiree + Spouse (mp)	$392
Ret + Sp (mp) + Child(ren)	$532
Survivor	$354
Survivor + Child(ren)	$466
Retiree Under Age 65	**$1500 Plan**
Retiree Only	$308
Retiree + One	$415
Retiree + Two	$493
Retiree + Spouse (mp)	$341
Ret + Sp (mp) + Child(ren)	$463
Survivor	$308
Survivor + Child(ren)	$406
Retiree Over Age 65	**$400 Plan**
Retiree(mp)	$250
Retiree(mp) + One	$409
Retiree(mp) + Two	$564
Retiree(mp) + Sp(mp)	$317
Ret(mp)+Sp(mp) + Child(ren)	$380
Survivor(mp)	$250
Survivor(mp) + Child(ren)	$371
Retiree Over Age 65	**$1500 Plan**
Retiree(mp)	$216
Retiree(mp) + One	$353
Retiree(mp) + Two	$486
Retiree(mp) + Sp(mp)	$273
Ret(mp)+Sp(mp) + Child(ren)	$328
Survivor(mp)	$216
Survivor(mp) + Child(ren)	$320

**mp = Medicare Participant*

The Director's Chair *by Glen Leavitt*

In addition to the annual plan and premium design changes we go through every year, we have been working on the implementation of the new Health Insurance Portability and Accountability Act of 1996 (HIPAA), federal rules for the safeguarding of personally identifiable health information that may come into our possession. This information is called Protected Health Information (PHI). As a plan sponsor, the Montana University System must notify all plan members of our policy on the access, use, safeguarding, and disclosure of this PHI. You should have received notification from your benefits/HR office or in the mail on how to access this information. The notice and policy are available through our website at *www.montana.edu/choices/*.

This has been a relatively good year for our self-insured health plan. Our spending increase trends are in the double digits, but we expected that, set premiums last year accordingly, and expect to come through year-end with a positive cash flow. Next year, we again expect the total trend to exceed 15 percent, and that is why we are asking for some out-of-pocket increase for dependent coverage. The problem with 15 percent inflation is that costs double in five years. These increases are not unique to our plan. In fact, they are very much in line with what employers and benefits consultants are reporting all across the nation. It explains why smaller employers are dropping health coverage for their employees and the number of uninsured is rising in the state and the nation.

If we assume that the state contribution will not keep up with these trends, we must find other ways to cover expenses in our self-insured health plan. These trends are pricing retirees and the dependents of lower paid employees out of our plan. Because of these problems, the IUBC is exploring options to help control health costs. A subcommittee will be looking at a concept called Consumer Driven Health Plans (CDHP). These plans link a health reimbursement account that can carry over from year to year with a high deductible major medical plan.

Another ad hoc committee, with members extending beyond the Inter-Unit Benefits Committee, will continue to explore ways to reduce costs to retirees and lower paid employees. As you can see from the above and elsewhere in this newsletter, health plan design is a dynamic process. Gone are the days when plans remained unchanged for years with small increases in premiums from time to time. ■