MEMORANDUM

To: Faculty, Staff, and Retirees Enrolled in Southwestern’s Group Health Plans

From: Elma Benavides, Gary Logan, and Richard Anderson

Re: 2012 Health Plan Renewal Information

Date: November 14, 2011

As in the past, we are providing you information about the prior years’ activity in our health plans and the national health care environment, 2012 renewal information, and the continuing challenges and possible actions the University may take in the coming months.

Executive Summary:

The University has decided the following for the 2012 renewal:

Basic Plan - Medical and prescription drugs:
- No changes to the Basic Plan benefits.
- No changes to the University’s contribution ($517 per month).
- No changes to the premiums.

Dental Plans - Indemnity “PPO” and Dental Managed Care “DMO”:
- Add Adult Fluoride treatment to the preventive care benefit in the “PPO” plan.
- No changes to the Dental Managed Care “DMO” plan.
- Increase premiums by five (5) percent for both dental plans.

Attachment A is a five-year financial summary of the medical and prescription drug plan. In Fiscal 2011, actual claims exceeded expected claims by over $800,000. The University contributed approximately 90 percent to the plan and participants contributed approximately 10 percent. Expected expenses for 2012 are $5.1 million, which includes a 12 percent increase in medical claims. The continuing rise in health care costs, the University’s current financial constraints, and uncertainties regarding the federal Health Care Reform make this level of University contribution unsustainable.

The issue of rapidly escalating post-retirement health benefits costs, including the long-term liability to the University, continues to be a major factor in assessing the current structure of those benefits. We are considering alternative ways to provide a similar benefit for retirees that is separate from the group medical and prescription drug plan for active employees. This, and other possible actions, could be initiated as early as July 1, 2012.
Prior Years’ Activity in Our Health Plans and the National Health Care Environment:

Due to unexpected high medical claims, at the end of the 2010-2011 Fiscal Year, the University applied an additional $880,000 to our medical reserve account simply to pay excess claims and to maintain a minimal reserve account balance. These details are included in Attachment A. As can be seen in the table, the University’s annual contribution has increased from $2,647,280 in 2007 to $3,933,729 in 2011. This trend is not sustainable for the University’s operating budget. Thus, as is discussed in the next section of this memo, the University recognizes the need to make changes to the medical and prescription drug plans, but the University is postponing those changes until it has completed a full review.

There is tremendous uncertainty regarding national Health Care Reform, and employers across the nation, including Southwestern, are struggling to make decisions about their group health care benefits as they await further regulatory clarifications and ruling(s) by the United States Supreme Court.

2012 Renewal Information:

Our 2012 renewal indicates that our health insurance plan costs are projected to increase by 12 percent, which is consistent with the national trend. The total projected medical and prescription drug plan cost for 2012 is $5.1 million – up from $4.5 million in 2011. It is important to remember that the University – not Blue Cross and Blue Shield or CVS/Caremark - directly pays for approximately ninety (90) percent of that cost because we are a “self-funded” plan. Participants pay approximately ten (10) percent of the total plan cost, primarily through the premiums charged for dependent coverage.

The decision to postpone making changes to our health care plans is based on several factors. First and foremost, the University’s group benefit programs are a significant and integral part of our overall compensation package offered to employees. Since our salaries have not been increased for the past three years, the University has decided to maintain the insurance benefit costs passed on to employees. This decision, however, also requires that the University fully review and analyze the implications to its group health programs with rapidly increasing medical and prescription drug costs nationwide, another year of higher than expected utilization (actual medical claims), rising long-term liability for retiree insurance coverage and additional factors related to Health Care Reform.

For detailed information on the medical, dental, and vision rates for 2012, please see Attachment B. Again, the Basic Plan rates and the Vision Plan rates remain unchanged, but both of the Dental Plans have a five (5) percent increase in premiums.

Continuing Challenges/Possible Future Actions:

Although the University hopes to defer significant medical plan changes (including post-retirement health benefit changes) until January 1, 2013 or later, it is possible that changes could be implemented as early as July 1, 2012. For this reason, we encourage all participants (active employees and retirees) to plan for the possibility of increased costs beginning July 1, 2012. We will provide details of any upcoming changes as early as possible.
One of the major initiatives announced earlier this Fall by President Schrum, and approved by the Board of Trustees, deals specifically with the issue of post-retirement health benefits. Attachment C shows the dramatic increase in the long-term liability to the University for providing this benefit. The Board of Trustees has asked the University’s Administration to review this matter and report back with information and alternatives. Because this may have an impact on the University’s overall group health care programs and the benefits offered to retirees, we determined that making any current plan changes without first completing this analysis would be imprudent.

We all need to understand that there are significant challenges associated with health care costs and that future funding will have an impact on each of us and the University in the coming months and years. Listed below are possible future actions. There may be other actions taken as we monitor external factors and the fundamentals of our Plan(s):

1. Removing retiree health care coverage from the group health care plan and placing it with a separate, retiree-only, fully indemnified health care product, such as EMERITI (see www.emeritihealth.org).
2. Changing the plan design of the Basic Plan (medical and prescription drugs) for current active employees, including the possibility of higher premiums, co-pays, deductibles, etc.
3. Cost-sharing the employee-only premium, which would mean a reduction in the University’s contribution.
4. Eliminating the Basic Plan for current active employees and replacing it with a high-level deductible coupled with either a Health Savings Account or a Health Reimbursement Account.
5. The United States Supreme Court has several petitions to hear cases regarding the Health Care Reform law, and if they select one or more of these cases, decisions could be made by the summer of 2012. Employers across the nation are awaiting the results before making decisions about their group health care benefit programs. Decisions about whether to continue providing group health care benefits beginning in 2014 (when the Insurance Exchanges will be operational as required by the Health Care Reform law) will hinge, in part, on the Supreme Court decision.
6. For individuals who participate in the Section 125 Plan, it is important to know that Health Care Reform will limit the maximum contribution an employee can make into their Medical Reimbursement Account to $2,500 beginning in 2013. Currently, the Section 125 regulations allow unlimited pre-tax contributions to be made by employees, but they also allow employers to put a cap on that amount. Currently, the University’s maximum contribution for Medical Reimbursement Accounts is $10,000, and this maximum will be unchanged for 2012. Beginning in 2013, to remain in compliance with Health Care Reform, it will be limited to $2,500.

Other Information:

The Human Resources department will be conducting Open Enrollment November 15th – 17th. Please check the Human Resources web-site at southwestern.edu/hr for the schedule and watch for information in Campus Notices. If you have questions regarding these changes, please contact Elma Benavides at Ext. 1441 or by e-mail at benavide@southwestern.edu.