

BUDGET BRIEF

Health Benefits

The cost of providing health benefits for district employees is a major expenditure that runs \$6-7 million annually. It is a key cost driver for the district's budget.

SCOPE/PROGRAM DESCRIPTION

Health care insurance coverage is provided for all full-time district employees and their families. Employees choose from a variety of health care plans including a Traditional Plan, a managed care network plan called NJ Plus, and five HMO plans provided by Aetna, AmeriHealth, CIGNA, Health Net and Oxford. The entire cost of coverage, which ranges from \$283 monthly for a single employee in NJ Plus to \$1,012 monthly for a family in the traditional plan, is borne by the school district according to employment contracts. The majority, more than 86%, of district employees choose either the Traditional Plan or NJ Plus.

Monthly Rates 01/01/2003-12/31/2003

PLAN	Single	Married	Family	Parent
NJPlus	283.18	630.26	733.30	418.15
Traditional	398.27	864.57	1,011.74	579.47
Aetna	371.70	804.56	905.89	511.09
CIGNA	401.69	862.03	991.53	561.08
Oxford	314.87	692.58	818.54	472.28
Amerihealth	382.71	851.44	991.57	564.91
Healthnet	350.58	763.68	927.04	537.81

In addition, the district is one of the only districts in the state that also provides health care coverage for the spouses of deceased retirees. The cost runs about \$300 per enrollee and totals about \$5,000 a month.

The district participates in the New Jersey State Health Benefits Program (SHBP). Horizon Blue Cross Blue Shield of New Jersey administers the Traditional Plan and NJ Plus. There are a number of advantages of participation in the SHBP including:

- Participation in a claim pool of over 100,000 participants significantly diminishes the district's individual exposure to adverse claims.
- The SHBP is competitive in the public market. Since 1997, approximately 270 local employers have joined or rejoined the SHBP. In 2003 alone, 27 new employers joined.
- A wide selection of medical plans is available to meet each employees individual needs.
- Horizon Blue Cross Blue Shield of New Jersey has performance guarantees backed by \$8.4 million to assure exceptional service to members.

- The SHBP administers COBRA for the district.

The primary disadvantage of participation in the SHBP is the lack of flexibility in employer offerings which limit the ability to negotiate premium sharing contributions with employees. For example, districts that do not participate in the SHBP have been able to realize some cost savings by negotiating to provide the lower-cost managed care plan similar to NJ Plus. Employees opting for the traditional plan pay the difference in cost.

The manner in which the NJSHBP allows participating districts to structure offerings is restricted by the following:

- All plans (Traditional, NJ Plus, HMOs) must be offered to all employees of a school district.
- The district must pay the entire cost of coverage for the employee.
- If the district assumes any portion or all of the cost of the premium for dependent coverage, it must do so on a percentage basis. The percentage must be the same percentage portion for all employees (tenured and non-tenured) for any coverage type (single, husband/wife, family, parent/child) and apply to all plan options (Traditional, NJ Plus, HMOs).
- Tenured and non-tenured employees must be treated in the same manner.
- One plan cannot be selected as a benchmark plan.

District employees and their families are also provided dental insurance coverage through Delta Dental Plans. The monthly costs range from \$54 - \$62 per employee. The current market in dental coverage has been averaging annual increases between 6% and 12%. The July 1, 2003 renewal from Delta Dental offered a 7% increase for one year or 11% for a 24-month period locked-in rate. In light of the extremely fluctuating insurance market, the 2-year rate was elected.

COST CONTAINMENT INITIATIVES

Initiatives have been undertaken in three areas to try to contain the escalating costs of health benefits for the district. First, an unsuccessful attempt was made during recent SOMEA negotiations for some cost sharing of dependent care coverage. SOMEA did agree to work with the administration to encourage members to consider the benefits of the NJ Plus plan during open enrollment in October. The cost of NJ Plus coverage is less than the Traditional Plan. Posters were distributed and the SHBP manager from Trenton was invited to conduct a seminar in the district to discuss the differences in the plans and the advantages of NJ Plus. Eleven employees (7 were SOMEA members) attended the seminar held on October 18, 2002. One SOMEA member attended the seminar held on October 20, 2003.

In addition to school district employees, the SHBP also enrolls State of New Jersey employees and local municipality employees. The State Health Benefits Program Commission recommends different programs and renewal actions specific to each

category. The State and municipalities generally have more flexibility than school districts. The district continues to encourage the NJ Division of Pensions and Benefits to review the restrictions on school districts to allow the same flexibilities.

Finally, the district conducted a review of the SHBP to compare the cost effectiveness and viability of the program versus other options that would require withdrawing from the SHBP. In order to explore alternatives, we first sought permission from the NJ Division of Pensions and Benefits to acquire an analysis of the district's claims experience for the past three years from the SHBP. Unfortunately, the results of the analysis indicated that the district is incurring a claim loss ratio that is higher than the overall SHBP plan average. In other words, the premium paid to the SHBP does not fully support the district's claim utilization.

Paid Claims History

<u>Period</u>	<u>Traditional</u>	<u>NJ Plus</u>	<u>Total</u>
5/1/00-4/30/01	\$2,134,971.68	\$1,510,625.86	\$3,645,597.54
5/1/01-4/30/02	\$2,242,468.02	\$1,982,497.90	\$4,224,965.92
5/1/02-4/30/03	\$2,872,535.24	\$2,159,708.62	\$5,032,243.86

Given this unfavorable claims history, no competitive alternatives were available. The decision was made to remain with the SHBP for the foreseeable future. This will afford the district the benefit of the overall combined experience rating in the larger SHPB claim pool.

Twice in recent years the district determined that other alternatives could provide the same level of service in a more cost-effective manner. In both instances, the district found it more beneficial to return to the SHBP.

The current market for health care benefits continues to escalate. The *NJ Star Ledger* reported on 12/8/03 that New Jersey's largest employers saw a 14.2 percent average increase in costs this year to \$7,361 per employee, among the highest in the nation and well above the national average of \$6,348, according to the annual survey by Mercer Human Resource Consulting in Princeton. The increase for 2002 was 9.2% for New Jersey. The report further stated that New Jersey employers with 500 or more workers expect to hold next year's cost increase to 11.7 percent, despite the fact that the rate for 2004 nationally is expected to pick up to 13%, because they are starting to be more aggressive about shifting health-care costs to their employees.

SHBP increases in 2003 were much greater than the New Jersey average. The good news is that the rate of increase approved by the State Health Benefits Program Commission for 2004 was not as great as the increase seen in 2003.

<u>PLAN</u>	<u>Increase from prior Year 01/01/03-12/31/03</u>	<u>Increase from prior Year 01/01/04-12/31/04</u>
NJPlus	+27%	+10.4%

Traditional	+23%	+ 8.1%
Aetna	+26%	+ 8.4%
CIGNA	+25%	+ 6.2%
Oxford	+16%	+11.2%
Amerihealth	+21%	+ 8.0%
Healthnet	+30%	+21.2%

The challenge in determining an appropriate amount to budget is that the SHBP rates are only known for half of the school year since they are determined annually. The extreme changes from year to year in the past make it difficult to anticipate future increases.

2003-04 BUDGET PROPOSAL

An appropriation of \$7,680,300 is budgeted for health benefits in 2004-05. This is an increase of 15% over the 2003-04 budgeted amount. An appropriation of \$550,500 is budgeted for dental benefits in 2004-05. This is an increase of 12% over the 2003-04 budgeted amount.

BUDGET PROJECTIONS

It is anticipated that health and dental benefits will continue to increase in future years. An increase of 15% for 2005-06 and 2006-07 is also projected.

**BUDGET BRIEF
(addendum)**

Health Benefits

The Health Benefits Budget Brief provided the 2003 monthly rates for health benefits. A request was made at the December 9 BOE/BSE Budget 101 Workshop for a breakdown of Health Benefit rates to show the portion which provides coverage for employees and the portion for dependents. The following is a breakdown of the monthly rates for 2003.

Monthly Rates
01/01/2003-12/31/2003

PLAN	Single	Married	Family	Parent
NJ PLUS	283.18	630.26	733.30	418.15
Traditional	398.27	864.57	1,011.74	579.47
Aetna	371.70	804.56	905.89	511.09
CIGNA	401.69	862.03	991.53	561.08
Oxford	314.87	692.58	818.54	472.28
Amerihealth	382.71	851.44	991.57	564.91
Healthnet	350.58	763.68	927.04	537.81

Monthly Rate – Employer Single Cost (without dependent)

PLAN	Single	Married	Family	Parent
NJ PLUS	283.18	284.62	285.15	283.81
Traditional	398.27	399.71	400.24	398.90
Aetna	371.70	373.14	373.67	372.33
CIGNA	401.69	403.13	403.66	402.32
Oxford	314.87	316.31	316.84	315.50
Amerihealth	382.71	384.15	384.68	383.34
Healthnet	350.58	352.02	352.55	351.21

Monthly Rate -- Dependent Cost

PLAN	Single	Married	Family	Parent
NJ PLUS	0.00	345.64	448.15	134.34
Traditional	0.00	464.86	611.50	180.57
Aetna	0.00	431.42	532.22	138.76
CIGNA	0.00	458.90	587.87	158.76
Oxford	0.00	376.27	501.70	156.78
Amerihealth	0.00	467.29	606.89	181.57
Healthnet	0.00	411.66	574.49	186.60