The University Senate of Michigan Technological University

Proposal 9-16 (Revised 01-13-16)

(Voting Units: Full Senate)

"Reducing Deductibles and Out of Pocket Maximums on Michigan Tech's Healthcare-Insurance Plans"

I. Introduction

Although there have been no further reduction over the past two years, the attached comparison of the 2012 Aetna PPO and the 2015 BCBSM PPO indicates that since 2012, (a) the deductibles on the PPO doubled, and (b) the copays for many items went from 10% to 35%. The deductibles on the HDHP also increased during this time. Hence, between 2011 and 2014, the total deductibles collected from employees increased by $815,910. (Source: 2014-2015 Fringe Benefits Committee Chair Don Beck.)

Comparing Costs for an Individual Health Insurance Policy: Michigan Tech's HuskyCare PPO, 2012 vs. 2015

As was reported by the University Senate's 2014-2015 Finance and Institutional Planning Committee, between FY2012 and FY2015, the healthcare claims paid by Michigan Tech declined, but a comparison of the 2012 Aetna PPO and the 2015 BCBSM PPO indicates that the deductibles on the PPO doubled and that the copays for many items went from 10% to 35%. Consequently, between 2011 and 2014, the total deductibles collected from Michigan Tech employees increased by $815,910.

	Premium	**Deductible: In Network/Out of Network**	***Cost Share (Coinsurance or Copays)**	**Out of Pocket Maximum: In Network/ Out of Network**	**Prescription Drugs (In Network)**
2012 Aetna PPO	~$76 per month = $912 per year	$1,000/$2,000	Mostly 10%	$2,200/$4,400	Generic: 10% copay with $5 min/$20 max Brand Name: 25% copay with $10 min/$40 max
2015 BCBSM PPO	$114 per month = $1,368 per year	$2,000/$4,000 per year	Mostly 35%	$3,000/$8,000	Generic: 10% coinsurance with $5 min/$20 max Brand Name: 25% coinsurance with $10 min/$40 max

*Note: Coinsurance is based on a percentage of the cost; copays are based on a defined dollar amount.

Additional healthcare costs have also been shifted to the employees. For example, in 2011, Michigan Tech contributed $1,500 per contract to the Health Savings Accounts (HSAs) of employees enrolled in the HDHP. However, in 2014, Michigan Tech contributed $0 per contract to these accounts. In 2014, there were 750 HDHP contracts; hence, during this period, Michigan Tech reduced its contribution to employee healthcare expenses by $1.125 million ($1,500 x 750).

A summary of the 2012 Aetna PPO is available at http://www.admin.mtu.edu/hro/forms/2012-open-enrollment/2012-HuskyCare-PPO-MTU-Plan-Design-11%20MTU.pdf

A summary of the 2015 BCBS PPO is available at http://www.mtu.edu/hr/current/benefits/docs/ppo-design.pdf

Additional healthcare costs have also been shifted to the employees. For example, in 2011, Michigan Tech contributed $1,500 per contract to the Health Savings Accounts (HSAs) of employees enrolled in the HDHP. However, in 2014, Michigan Tech contributed $0 per contract to these accounts. In 2014, there were 750 HDHP contracts; hence, during this period, Michigan Tech reduced its contribution to employee healthcare expenses by $1.125 million ($1,500 x 750).

According to the 2013 University Senate Fringe Benefit Committee Employee Survey, with a 64% response rate, nearly 54 percent of respondents answered "yes" to the following question:

> "Have the recent increases in deductibles and co-pays in the MTU health plans caused you or someone in your family to delay health care?"

In effect, the recent increases in deductibles and co-pays function as a regressive tax, disproportionally affecting lower-paid employees. In addition, if some medical conditions are not addressed in a timely fashion, they will result not only in increased (and unnecessary) human suffering, but also in higher eventual treatment costs and reduced productivity.

This is the key insight of research on "behavioral hazard," healthcare choices that are made to save money or avoid inconvenience in the short-term but that wind up costing more money in the long term:

> "Behavioral hazard . . . is a major financial issue. The New England Healthcare Institute has estimated that solving non-adherence could save $290 billion a year, or 13 percent of total annual medical spending in the United States."

Recent reports by Aon Hewitt, Michigan Tech's external healthcare-insurance consultant, indicate that total healthcare costs paid by Michigan Tech employees have increased by as much as $3 million since 2012. Two 2.1% pay raises on a $70 million payroll total only $1.47 million, less than half of the amount in healthcare costs shifted to Michigan Tech employees.

Michigan Tech healthcare costs total about 9.3% of an employee's total compensation, which is the lowest of any university surveyed. (Source: 2014-2015 Finance and Institutional Planning Committee Chair Mike Mullins.) The February 2015 Aon Hewitt report suggests that Michigan Tech "[c]onsider incentive-based HSA funding based on group/individual performance in prior year" (p. 19). This suggests that some relief could be given to Michigan Tech employees, perhaps, for example, by restoring a portion of the $1,500 that the University previously contributed to HSA accounts. Hence, the Senate proposes reducing deductibles and out of pocket maximums on Michigan Tech's healthcare-insurance plans.

II. Proposal

The deductibles for the 2015 HuskyCare, Blue Cross Blue Shield of Michigan plans are as follows:

Preferred Provider Organization (PPO):

In-Network: $2,000 per individual and $4,000 per family

Out-of-Network: $4,000 per individual and $8,000 per family

High-Deductible Health Plan (HDHP) (which is also a PPO):

In-Network: $1,750 per individual and $3,500 per family

Out-of-Network: $3,500 per individual and $7,000 per family

In order for employers to continue offering an HSA with an HDHP, the IRS requires that the HDHP meet specific requirements. For the 2016 calendar year, these requirements are as follows:

2016 Minimum Deductibles:

$1,300 for self-only coverage

$2,600 for family coverage

2016 Out-of-Pocket Maximums:

$6,550 for self-only coverage (up from $6,450 in 2015)

$13,100 for family coverage (up from $12,900 in 2015)

These requirements are subject to change annually.

Therefore, the University Senate proposes that, beginning in the 2017 calendar year, Michigan Tech restore the deductibles defined in the 2012 PPO plan and apply the minimum-allowable deductibles to the HDHP:

Preferred Provider Organization (PPO):

In-Network: $1,000 per individual and $2,000 per family

Out-of-Network: $2,000 per individual and $4,000 per family

High-Deductible Health Plan (HDHP) (which is also a PPO):

In-Network: $1,300 per individual and $2,600 per family

Out-of-Network: $3,500 per individual and $7,000 per family

In subsequent years, we propose that Michigan Tech index deductibles in the HDHP to the minimum deductibles allowed by the IRS.

While this is not a tiered approach, it should focus relief on those who have had significant medical expenses in the calendar year, and lower-paid employees are most likely to experience difficulty in meeting such expenses.

The Senate also proposes restoring the out of pocket maximums for both plans (PPO and HDHP) to their 2012 levels.

III. Addendum A: Relevance of the Excise Tax on High-Cost Employer-Sponsored Health Coverage (the "Cadillac Tax")

According to the Blue Cross Blue Shield "What is the Cadillac tax?" page,

> "While regulations have yet to be issued about the "Cadillac" tax, group plans valued at over $10,200 for individual coverage and $27,500 for family coverage will be subject to an excise tax starting in 2018. (The values may be adjusted for employers in high-risk industries, and based on the age and gender of the employer's population.) The tax will be 40 percent of the "excess

benefit." For example, if an individual plan is valued at $11,000, the $800 "excess benefit" will be taxed at 40 percent.

"The tax applies to all plans in the group market, including self-funded plans, but not to plans sold in the individual market. When calculating the value of your plan, you should include health coverage, prescription drug coverage, and contributions to flexible spending accounts, health reimbursement arrangements, and health savings accounts. Values do not include dental or vision coverage."

Given reductions already implemented in Michigan Tech's healthcare insurance plans, it is not clear whether or not the Cadillac Tax would apply to Michigan Tech. Further analysis might be required, for example, by Aon Hewitt.

In addition, the Cadillac Tax, opposed by both Republicans and Democrats alike, may be one of the more vulnerable components of the Patient Protection and Affordable Care Act. (See, for example, "Love, Hate, and Washington Hypocrisy on the Cadillac Tax" *Forbes*, Oct, 8, 2015.)

Additional information on the Cadillac Tax is available at the following sites:

"Excise Tax on High Cost Employer-Sponsored Health Coverage" IRS Notice 2015-16

"The Excise Tax on High-Cost Employer-Sponsored Health Coverage: Background and Economic Analysis" Congressional Research Service, August 20, 2015

"26 U.S. Code § 4980I - Excise tax on high cost employer-sponsored health coverage"
Cornell University Law School, Legal Information Institute

IV. Addendum B: Paying for Improved Healthcare Benefits

As the Senate works to recommend various means of improving Michigan Tech's benefits offerings (and, hence, among other things, helping to make the University more competitive in recruitment and retention), we recognize the need to also recommend means of paying for such improvements.

Generally speaking, new expenditures—whether in a family, a business, or university—can be financed (1) by going into debt, (2) by reallocating existing resources, (3) by increasing revenues, or (4) by cutting costs.

Unless one anticipates significant increases in future revenues, the first option is generally not preferred. There are many possibilities, however, for the other three options, one of which might be recommending that Medicare-eligible employees and retirees **consult with trusted healthcare insurance professionals and/or certified financial planners** to see if it might be in their best financial interest to withdraw from Michigan Tech's BCBSM healthcare-insurance plans and, instead, register for Medicare Parts A, B, and D and a Medicare supplement ("Medigap") plan, such as a Plan G.

Preliminary research suggests that **in at least some cases,** Medicare-eligible employees and retirees might save money by taking this option. Hence, this could be a win-win situation, saving money both for employees/retirees and for Michigan Tech. See, for example, the attached illustration.

Further research is needed on this question, perhaps with the assistance of an external healthcare-insurance consultant, such as Aon Hewitt.

Comparing Costs for an Individual Healthcare Insurance Policy: Michigan Tech's BCBSM PPO vs. Medicare Parts A, B, and D and a Medicare Supplement ("Medigap") Plan G

Medicare-eligible employees and retirees might consider **consulting with trusted healthcare insurance professionals and/or certified financial planners** to see if it might be in their best financial interest to withdraw from Michigan Tech's BCBSM healthcare-insurance plans and, instead, register for Medicare Parts A, B, and D and a Medicare supplement ("Medigap") plan, such as a Plan G. **Please note that there are many variables; hence, each situation is, to some extent, unique.** However, the below illustration suggests that **in at least some situations,** such a switch might be advantageous. Further research is needed on this question, perhaps with the assistance of an external healthcare-insurance consultant, such as Aon Hewitt.

A. Michigan Tech's BCBSM HuskyCare PPO, 2015 (See plan description at http://www.mtu.edu/hr/current/benefits/docs/huskycare-ppo.pdf)

Premium	**Deductible: In Network/Out of Network**	***Cost Share (Coinsurance or Copays)**	**Out of Pocket Maximum: In Network/Out of Network**	**Prescription Drugs, Retail - 34 day supply or 100-unit doses (whichever is greater)**
$114 per month = $1,368 per year	$2,000/$4,000 per year	Mostly 35%	$3,000/$8,000	10% coinsurance for generic drugs ($5 minimum/$20 maximum) 25% coinsurance for brand name drugs ($10 minimum/$40 maximum)

*Note: Coinsurance is based on a percentage of the cost; copays are based on a defined dollar amount.

When compared to the combined plans below, this plan has a lower total premium and in at least some cases, might provide less expensive prescription drug coverage. However, for some people, the deductibles and the coinsurance and copays might make it a more expensive option overall. Please also note that this illustration is for an *individual* policy; if your spouse and/or children depend on your BCBSM policy for their healthcare insurance and have no other option, switching to Medicare and Medigap may not be the best option for you and your family.

B. Medicare Parts A, B, & D with a Medicare Supplement ("Medigap") Plan G for 2015
(These plans have no In-Network/Out-of-Network distinctions.)

	Premium	**Deductible**	***Cost Share (Coinsurance or Copays)**	**Out of Pocket Maximum**
Medicare Part A: Hospital Insurance	$0	Ordinarily, $1,260 for each hospital stay of up to 60 days. Then, after you've been out for 60 days, this deductible kicks in again; or it kicks in immediately if you're hospitalized for another reason. **However, this expense is covered by some Medigap Plans, including Plan G.**	Ordinarily, the following would apply: Days 1-60 = $0 Days 61- 90 = $315/day Days 91 – 150 = $630/day Beyond "life-time reserve days"(get these only once) = all costs. Can repeat in one year. After day 150, you pay all costs. **However, this expense is covered by most Medigap Plans, including Plan G.**	NA
Medicare Part B: Medical Insurance	$104.90 per month out of pocket; billed quarterly (@ $314.70 per quarter). This fee increases for "higher-income beneficiaries." (Taken from Social Security benefits when you begin drawing these benefits.)	$147 per year This is both your deductible and your out of pocket maximum. (For out-patient care only; none for hospitalization.)	Ordinarily, there would be 20% coinsurance. **However, this expense is covered by most Medigap Plans, including Plan G.**	None other than the $147 per year deductible.
Medicare Part D: Outpatient Prescription Drug Plan	$15.70 per month (depending on the plan; varies with income). *See below discussions of coverage gap and Plan Finder.*	$360 for name-brand $0 for generic	*Depends on plan and cost of prescriptions: deductibles plus cost share. See below discussions of coverage gap and Plan Finder.*	NA
Medicare Supplement (Medigap) Plan G	$114.34 per month at age 65 (varies with age and with the insurance company, but all G plans provide the same coverage)	NA	None	NA
Total	$234.94 per month = $2,819.28 per year	$147	See note with Part D: Outpatient Prescription Drug Plan.	NA

*Note: Coinsurance is based on a percentage of the cost; copays are based on a defined dollar amount.
Employees who opt-out of Michigan Tech's BCBSM plans qualify for a $150 per month ($1,800 per year) opt-out payment. See https://www.mtu.edu/hr/current/benefits/docs/huskycare-plan-comp.pdf
Employees who opt out of Michigan Tech's BCBSM plans still qualify for the Health Risk Assessment (HRA) Incentive program. See http://www.mtu.edu/hr/current/benefits/wellness/hra/hra-info.html

C. Downsides:

1. The research on loss aversion suggests that people feel losses more deeply than they feel gains of the same value. Hence, in this case, for example, people might be disinclined to take the risk of losing the benefits they already have based on the chance of gaining a potentially greater benefit by switching to Medicare and Medigap.

This might especially be a concern for retirees who having opted out of Michigan Tech's healthcare-insurance plan are not allowed to opt back in.

2. A significant number of variables must be taken into consideration in calculating the risks and benefits involved in making an informed decision about whether to remain with Michigan Tech's plan or to switch to Medicare and Medigap. Hence, no general advice can be offered. Each person or family confronted with such a decision should consult carefully with trusted healthcare insurance professionals and/or certified financial planners.

3. Just as Michigan Tech's healthcare-insurance benefits are subject to change form year to year, so, too, are Medicare benefits.

For example, in its October 2015 article "Some Medicare Premiums Could Spike," AARP writes,

> "While the vast majority of beneficiaries will pay the same Part B premium in 2016 as this year — $104.90 a month — certain groups of people are expected to experience a dramatic rise, to $159.30 a month or even higher, due to an obscure part of the Medicare law that ties the cost of living allowance (COLA) in Social Security benefits to Part B premiums.
>
> "There will be no Social Security increase next year, the government announced October 15. Therefore, most recipients who collect both Medicare and Social Security will also see no increase in their Medicare Part B premiums. However, that will shift the burden of paying for increased costs to those Medicare recipients who do not collect a Social Security check, higher-income recipients and those new to the program."

4. You will need separate dental and vision coverage; however, current employees who opt out of Michigan Tech's healthcare-insurance plans can still enroll in Tech's group dental and vision plans.

Medicare *does* cover conditions and diseases of the eye, etc. See "Medicare Vision Services" at https://www.cms.gov/Outreach-and-Education/Medicare-Learning-Network-MLN/MLNProducts/downloads/VisionServices_FactSheet_ICN907165.pdf

5. The Coverage Gap (or "The Donut Hole") in Medicare Part D prescription drug coverage can be a problem. For 2015,

> a. From $0 (or deductible) to $2,960 (increased to $3,310 for 2016), your cost are covered except for copays.
>
> b. From $2,961 to $4,700, you're in the donut hole. In 2015, you pay 45% for brand name prescriptions and 65% for generics (which cost less). Money spent getting to $2,961 via copays counts toward the $4,701 indicated below.
>
> c. $4,701 and above ("the catastrophic zone"): You pay only 5%.

Under the Affordable Care Act, the coverage gap is being reduced. For example, by 2020, it will be reduced from 45% to 20% for brand name drugs. For more information about the coverage gap, see

Medicare's "Costs in the coverage gap" at https://www.medicare.gov/part-d/costs/coverage-gap/part-d-coverage-gap.html

Medicare's "Closing the Coverage Gap" at https://www.medicare.gov/Pubs/pdf/11493.pdf

"The Medicare Part D Coverage Gap Made Simple" at https://medicare.com/medicare-part-d/coverage-gap-donut-hole-made-simple/

"More savings in the drug coverage gap coming through 2020" at https://www.medicare.gov/part-d/costs/coverage-gap/more-drug-savings-in-2020.html

"Navigating the Gap" at https://www.guidestoneinsurance.org/Individual/Retirees/SeniorPlans/PrescriptionGap

D. Confirmed by Michigan Tech Human Resources:

1. Retirees who opt out of Michigan Tech's healthcare-insurance plan cannot opt back in.

2. Current employees who opt out of Michigan Tech's healthcare-insurance plan can opt back in during the next open-enrollment period (in November).

3. Dependents (including spouses) of current employees who opt out of Michigan Tech's healthcare-insurance plan can opt back in during the next open-enrollment period (in November).

4. Current employees who opt out of Michigan Tech's healthcare-insurance plans can still enroll in Tech's group dental and vision plans.

5. Opting out of Michigan Tech's healthcare insurance plan has no effect on eligibility for Tech's Retirement Supplemental Voluntary Program (RSVP).

6. Michigan Tech employees can contribute to Flexible Spending Accounts (FSAs) while on Medicare.

E. Other Resources:

1. In addition to the option of enrolling in Medicare Parts A, B, and D, and a Medigap plan, another option is enrolling in one of the many available Medicare Advantage plans: "A type of Medicare health plan offered by a private company that contracts with Medicare to provide you with all your Part A and Part B benefits. . . . Most Medicare Advantage Plans offer prescription drug coverage" (Medicare.gov).

For more information on this option, see the Medicare Advantage Plans page on the Medicare.gov website.

2. For a discussion of the tiers in prescription drug plans (before reaching the coverage gap), see pages 6-8 of Humana's "2015 Summary of Benefits" at http://www.ncdoi.com/_Publications/Medicare%20Part%20D%202015%20PDP%20Summary%20of%20Benefits/Humana%20Walmart%20Rx%20Plan%20S5884.pdf

3. For a description of what's included in the various Medigap Plans (A, B, C, D, F, F*, G, K, L, and M), see "Benefit Chart of Medicare Supplement Plans Sold for Effective Dates on or After June 1, 2010" at http://www.emblemhealth.com/~/media/Files/PDF/Medicare/2015_Medicare/MCareSupDisclStmt.pdf

4. To compare various Medicare Part D Outpatient Prescription Drug Plans, visit the Medicare Plan Finder page at https://www.medicare.gov/find-a-plan/questions/home.aspx from which you can find the cheapest plan based on your Zip Code, your prescriptions, and your choice of pharmacies.

5. For information on how the Rochester, Minnesota campus of the Mayo Clinic processes Medicare claims, visit

"Billing and insurance at Mayo Clinic's campus in Minnesota" at http://www.mayoclinic.org/patient-visitor-guide/minnesota/billing-insurance

"Frequently asked questions about Medicare billing" at http://www.mayoclinic.org/patient-visitor-guide/minnesota/billing-insurance/faq/medicare-faq

In a brief, the Rochester campus of the Mayo Clinic accepts Medicare Part A (hospital insurance), but not Medicare Part B (medical insurance), which means that they can charge you for more than the maximum amount that Medicare allows, and you will have to pay the difference. However, your Medigap Plan G covers this Medicare Part B excess charge.

(The Medicare Part B excess charge is "the difference between your doctor's charge for a service and Medicare's approved amount, if your doctor is not a Medicare participating provider. Plan F provides some coverage for these excess charges. With all other plans you are responsible for paying the excess charges" https://www.bcbst.com/brokers/individual/ipmm/BlueElite_Brochure.pdf [p. 8]).

6. The Centers for Medicare and Medicaid Services requires agents to document the scope of a marketing appointment prior to any face-to-face sales meeting to ensure understanding of what will be discussed between the agent and the Medicare beneficiary (or their authorized representative). All information provided on this form is confidential and should be completed by each person with Medicare or his/her authorized representative.

A sample "Scope of Sale Appointment Confirmation" form is available at http://medmich.com/images/scope_of_appointment_form.pdf

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