



Weighting of Premium Tiers
Feb. 16, 2010
Wendy Edwards, Director of Operations

Executive Summary

This report presents

- Information on weighting of tiers
- Current enrollment by tier
- Options for Board consideration
- Staff recommendation

Analysis

Staff presented the attached document with information on the history of tiers in PEBB on Jan. 20, 2009.

The monthly benefit amount for full-time employees currently covers the full premium for core benefits (medical, dental, basic employee life) no matter the dependent coverage tier. The amount is determined through a series of decisions made in the budget process and collective bargaining. PEBB plays no role in those decisions.

Individuals who receive no contribution toward their premiums experience the full impact of the weighting factor in the current configuration of tiers. This group principally comprises retirees; it also includes self-pay and Cobra participants. PEBB mutualizes the experience of these individuals across the larger employee population.

Board consultants reported the industry standard for relative weighting of tiers in 2006. They also reported the weighting used by comparable groups in 2008. The reports show that industry and other groups do not place as great a relative weight on the employee-only tier as does PEBB.

The table on the following page shows current enrollment by tier, using data from the Jan. 15, 2010, census.

PEBB Current Enrollment by Tier				
PEBB Group	Enrollment Tiers	OSPS	OUS	Tier Total
Employees	Employee & Child(ren)	3,130	1,347	4,477
	Employee & Family	7,735	9,843	17,578
	Employee & Partner	7,328	6,331	13,659
	Employee Only	7,649	4,117	11,766
	n/a	19	36	55
	Opt Out	1,154	685	1,839
Employees Total		27,015	22,359	49,374
COBRA Participants	Child(ren) Only	1		1
	Employee & Child(ren)	29	13	42
	Employee & Family	32	42	74
	Employee & Partner	60	72	132
	Employee Only	140	62	202
COBRA Participants Total		262	189	451
Disabled Dependent	Employee Only	1		1
Retirees	Child(ren) Only	8	3	11
	Employee & Child(ren)	45	22	67
	Employee & Family	25	100	125
	Employee & Partner	297	690	987
	Employee Only	790	287	1,077
Retirees Total		1,165	1,102	2,267
Self-pay Participants	Employee & Child(ren)	7	1	8
	Employee & Family	11	24	35
	Employee & Partner	11	29	40
	Employee Only	26	10	36
Self-pay Participants Total		55	64	119
Grand Total		28,498	23,714	52,212

Options for Board Consideration

Question: Should the Board continue the current weighting of tiers?

Question: Should the Board hold on the issue of relative weighting of tiers until bargaining entities bring it forward to the Board?

Question: Should the Board invest in an updated a report from the consultant on the industry standard for weighting of tiers?

Question: Should the Board invest in consultant work to re-rate the experience of retirees and COBRA and self-pay participants and restructure weighting of tiers for these groups?

Staff Recommendation

Staff recommendation will be provided at the Mar. 2010 meeting.



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When PEBB began, SEBB had a four-tiered premium structure, with greater weight in the employee-only (EE) tier, relative to the number of individuals and the age risks assumed to be covered in the other tiers: employee and spouse (EE+S), employee and children (EE+C), and family. For members in SEBB, the employer's contribution at the time was large enough to result in cash back to the employee, based on the employee's choice of tier and plan. During its November 2008 Board planning meeting, the Board discussed tiers and asked staff for analysis. Staff recommends the Board maintain the current tier structure through 2010 as PEBB prepares to issue a request for proposals (RFP) for a self-funded plan in 2011.

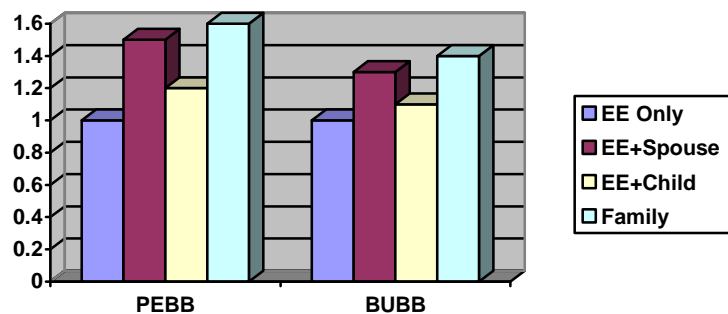
Analysis by Year

For 2000, the Board adopted SEBB's weighted tier structure. Given the combination of these tiers, the plan design continuum and employer contributions, the contribution minus premium could result in cash back to the employee from \$0 to \$241.

2000

Tier	PEBB	BUBB*
EE	1.00	1.0
EE+S	1.49	1.3
EE+C	1.17	1.1
Family	1.56	1.4

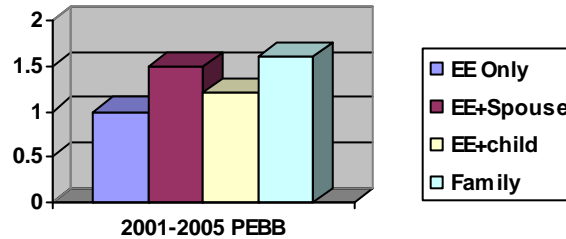
*BUBB subsidy, weighted as follows: EE=1, EE+S =4, EE+C=1.7, Family=4.7



Beginning in 2001, collective bargaining agreements resulted in tiered contributions from the employer, with the balance of premium costs for full-time employees covered by an agency subsidy. Also beginning with this year and going forward through 2005, part-time employees began to receive a subsidy – either directly or as a buy-down of premium). For the beginning of 2001, the Board set a cash-back limit of \$150. Beginning in Aug. 2001, no employee premium scenario (premiums minus deductions) was capable of producing cash back.

2001-2005

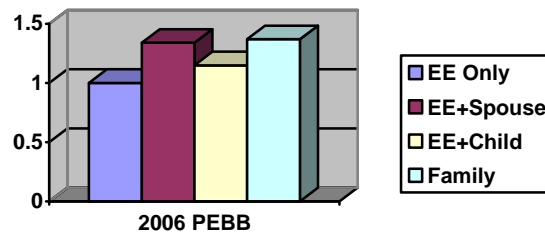
<u>Tier</u>	<u>PEBB</u>
EE	1.00
EE+S	1.49
EE+C	1.17
Family	1.56



Language in the 2005-2007 collective bargaining agreements no longer included contribution tiers or agency subsidies. Instead, the agreements stated that the employer would fully pay premiums for mandatory benefits for full-time employees in 2006, with an adjustment schedule for 2007. Beginning in 2006, with the end of subsidies, the weighting shifted down slightly on the employee-and-spouse, employee-and-children, and family tiers. This relative weighting continues to date.

2006

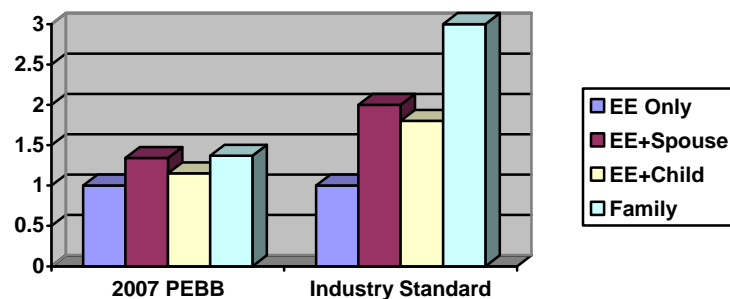
<u>Tier</u>	<u>PEBB</u>
EE	1.00
EE+S	1.34
EE+C	1.15
Family	1.37



In 2007, the Board’s consultant reported the Industry Standard for relative weighting of premium tiers based on family structure.

2007-2008

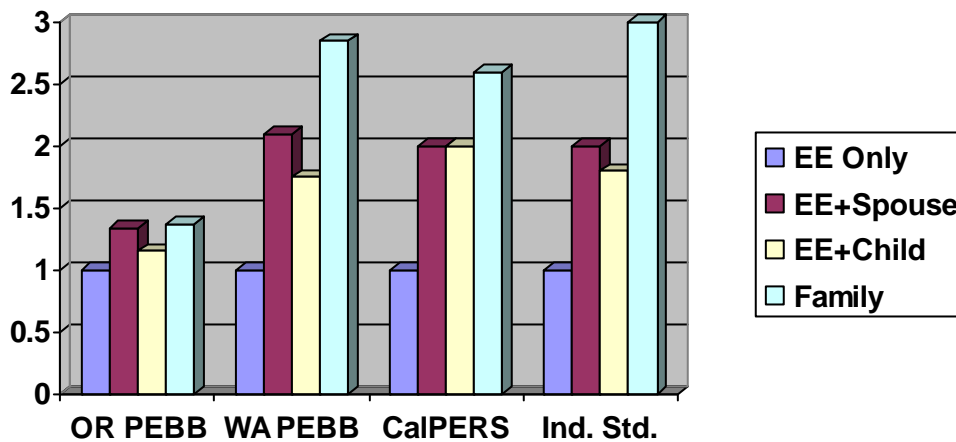
<u>Tier</u>	<u>PEBB</u>	<u>Standard</u>
EE	1.00	1.00
EE+S	1.34	2.00
EE+C	1.15	1.80
Family	1.37	3.00



The Board asked staff and consultants to report on how other purchasers of state employee benefits structure tiers. Staff reviewed the tier weighting used by Washington PEBB and CalPERS.

**2008 Comparison
PEBB, WA PEBB, CalPERS, Industry Standard**

<u>Tier</u>	<u>PEBB</u>	<u>WA PEBB</u>	<u>CalPERS</u>	<u>Industry Standard</u>
EE	1.00	1.00	1.00	1.00
EE+S	1.34	2.10	2.00	2.00
EE+C	1.15	1.75	2.00	1.80
Family	1.37	2.85	2.60	3.00



Staff Recommendation

Staff recommends continuing with the current tier rating system in place until we address this in our self-insurance RFP. Staff also recommends that, because the monthly benefit amount is a bargaining issue, PEBB not implement changes until bargaining brings the issue forward. At that time, PEBB can consider a weighted tier structure to meet the needs of labor and management.

Rationale

Continuing with the current weighting of tiers allows PEBB to move forward with status quo renewals and achieve predictable information for 2010 as we move to self-insure beginning 2011. Tier structure will be addressed in the self-insurance RFP.

The Board has not identified the weighting of tiers issue as a tier 1 issue in its 2007 and 2008 planning processes. Changes in 2009 would create work-order requests for our consultant, which would impact current work load and funding available to meet annual work-plan deliverables.

The current weighting of tiers is consistent with the Board vision.

Re-weighting tiers at this juncture, when employees do not have cost share, is complex and may impact agencies, members, carriers and rates. For example, the change could significantly impact agency budgets if PEBB moves from a composite rate system to a true tier-structure budget basis, looking at a snap shot in time for tier information and projecting funds needed to cover employee costs into the future.

Re-weighting of tiers in could also impact collective bargaining.

PERS is soliciting for a comprehensive medical plan for 2010, allowing PEBB to garner additional information from their process and outcomes.

History of Board Discussions on Tiers

Priority Discussions

The Board discussed where the issue of relative weighting of tiers should fall on its list of priorities:

Nov. 14, 2005

Dec. 20, 2005

Jan. 17, 2006

Nov. 20, 2007

Nov. 18, 2008

Motions, Recommendations and Policy Discussions

Sept. 15, 2003, Board Meeting Minutes. Diane Lovell reviewed the 2004 Structure Comparison draft. The structure document reflects no change in plan type. The outcome of contribution tiers is unknown at this time. The continuum of plan choices reflects the Board's work. Opt out and cash back options are unchanged. The ordering of medical and dental benefit deductions is unchanged.

July 19, 2005, Board Meeting Minutes. Changes in the 2005-07 collective bargaining agreement language require the Board to adopt a new opt-out methodology. It formerly included opt out language that was specifically tied to "state contributions" outlined in the collective bargaining agreement, which was actually the contribution in effect for 2001. The new agreement no longer includes tiers and explains that benefits will be fully paid for full-time employees in 2006 with an adjustment schedule for 2007, so new language is necessary for opt-out.

Sept. 27, 2005, Board Meeting Minutes. Pam Hodge provided an overview of the final 2006 rates compared with the final rates for 2005. Paul McKenna asked if single retirees will receive a larger increase than retirees with families. Pam Hodge replied that is correct, with variations by plan. From 2005, single retirees will see a 20.16 percent increase in the Kaiser HMO, and single

retirees in the Regence PPO full-time plan will see a 16.22 percent increase. Jean Thorne added that the Regence PPO part-time increase for single retirees is 14.21 percent. Paul McKenna asked if the part-time and full-time plans were mutualized. Pam Hodge replied that Regence was mutualized across its two plans. Kaiser has never been mutualized.

Rocky King asked if group rates include a 2-1 ratio in the Regence PPO full-time plan. Pam Hodge replied yes. Rocky King expressed his concern that listing the figures in such way could be misleading. Mylia Christensen explained that when PEBB began there were 20 different plans with a range of dollar contributions of over a \$250 difference from high to low. In 2001, PEBB policy discussion addressed the premium tier structure. Those premiums have been in place for several years, until the latest RFP. Rocky King commented that the figures don't really reflect the cost to cover an employee and the cost to cover the employee and their family. Bruce Goldberg asked what the single member and the member with a family in the Kaiser HMO full-time plan would pay.

Pam Hodge explained that in total, the group is paying the same. To implement the Board's long-standing policy to make family health care affordable, the single members are subsidizing the cost of family coverage. Paul McKenna asked if it would be less expensive for an agency that employs a lot of members with families versus one that employs a lot of singles. Pam Hodge replied that the subsidizing is making the cost of providing coverage to family members in the agencies less expensive. Rocky King suggested having a discussion early next year about the rating policies for the various tiers. David Hartwig stated that this will be added to the list of Board issues to be addressed next year.

Oct. 17, 2006, Board Meeting Minutes. Jean Thorne noted that the Board had an initial discussion of this issue at its Sept. meeting, but that staff was asked to draft a policy definition and policy implications, which follows.

Relative Weighting of Family Tiers

Revised Oct. 17, 2006

Issue

Should PEBB change the relative weighting; *i.e.*, ratios, used to determine premium rates by family status tier to more closely align with industry standards?

Background

Since its inception, PEBB has used a 4-tier rating structure; *i.e.*, single, employee + spouse, employee + child(dren), family, for the purpose of requesting premium rate quotes from carriers.

Although there is some variation among insurance carriers, the industry standard tier ratios for a four tier rating structure are 1.0 (employee) to 2.0 (employee + spouse) to 1.8 (employee + child(dren)) to 3.0 (family). The industry standard tier ratios reflect the typical variance in claims costs; *e.g.*, the average monthly claims cost for an employee with spouse and one or more children is typically three times the average claims cost for a single employee.

The following chart illustrates PEBB's current premium tier ratio compared to the industry:

<u>Family Status Tier</u>	<u>Current PEBB</u>	<u>Industry Standard</u>
Employee Only	1.00	1.00
Employee + Spouse	1.34	2.00
Employee + Child(dren)	1.15	1.80
Family	1.37	3.00

It is Aon's understanding that early in its history; *i.e.*, prior to Aon's involvement in 2000, the PEBB Board decided to adopt non-standard tier ratios in order to subsidize family coverage. Subsequent boards have followed this practice with out further consideration of the underlying policy objectives or the impact on PEBB members or PEBB program administration. Aon suspects that this practice has not received close scrutiny, in part, because the state pays 100% of the premium cost for full-time employees who comprise the vast majority of PEBB members. Where the state pays 100% of the premium cost, a change in the family tier ratios has no impact on PEBB members.

Advantages of Changing PEBB Tier Ratios to Align with Industry Standards

Adoption of the industry standard tier ratios would offer the following advantages:

- Facilitate the comparison of PEBB benefit costs with those of other employers
- Reduce premium cost for part-time, early retiree, and COBRA participants electing employee only coverage (self-pays)
- Potentially reduce the state's total premium since fewer part-time employees may elect to enroll their dependents in PEBB benefit plans

Disadvantages of Changing PEBB Tier Ratios to Align with Industry Standards

Adoption of the industry standard tier ratios would offer the following disadvantages:

- May increase the number of uninsured in Oregon by making family coverage of self-pay individuals more unaffordable.
- If the collective bargaining process results in employee contributing towards their premiums, may result in employees not covering dependents, thus increasing the number of uninsured in Oregon.
- If the collective bargaining process results in employee contributing towards their premiums, may make state government compensation less competitive with other governmental or private sector.

Framework for Board Decision Making

The initial process toward arriving at a decision on changes to the current weighting of tiers is to determine the policy definition, policy implications, and information needed to make a decision.

Policy Definition:

PEBB wishes to support having quality health insurance coverage available and affordable for as many state employees, their dependents and early retirees as possible. Quality, affordable coverage contributes to a healthier and more productive workforce. PEBB recognizes that the health of employee dependents is related to employee productivity. PEBB is committed to a leadership role in promoting health care coverage for all Oregonians. PEBB supports state government as a large employer in the design of benefit coverage that does not contribute to the number of uninsured, create negative impacts on other publicly funded programs, or cost-shifts to other public and private employers.

Policy Implications:

1. How will PEBB policies around plans, plan designs and the weighting of tiers interrelate with collective bargaining decisions regarding employer contribution to premiums?
2. How will PEBB policies on tiers affect future decisions on benefit coverage for early retirees based on liability identified in the actuarial valuation to be completed in Apr. 2007?
3. How will PEBB policies on tiers support transparency of information, member education and member decision making?
4. How will PEBB policies on tiers promote health and wellness in the larger health care system?

Information Needed:

Some of the information the Board may wish to gather prior to making its decision would include:

- Tier ratios used by other major public sector employers in Oregon (if different from industry norms).
- Costs of comparable benefits for self-pay individuals (employee only vs. full family).
- Percentage of current self-pay individual by tiers by category; *e.g.*, early retirees, COBRA.
- Identify the constituency [characteristics] – retirees, part-timers, COBRA, *etc.*
- What methods are other employers using to subsidize family coverage? (Look at industry standard, but deal with in collective bargaining.)
- What is Washington PEBB doing and what are their outcomes in terms of dependent coverage?
- Do other public sector employers have a composite rate?

Timeline:

- Present requested information to the Board by Feb. 2007.
- Make final decisions by Apr. 2007.

Diane Lovell asked if the group felt comfortable with the paragraph on policy definition. David Hartwig asked about any precedence this might set for other populations within membership; *i.e.*, rural, cash back, *etc.*, and statement of "...cost-shift to other public and private employers." Jeanene Smith suggested adding the word "minimize" to the sentence. Diane Lovell asked by consensus whether the group was comfortable adopting the definition as amended. Hearing no comments, the group will move on to policy implications.

Jean Thorne reviewed the policy implications. Paul McKenna asked how these implications relate to weighting of the tiers. Jean Thorne stated the first implication is not only in PEBB purview, but also premium contribution and subject to collective bargaining. The second implication relates to understanding the interrelationship of this issue with the results of the GASB analysis regarding implicit subsidies for retirees.

David Hartwig expressed the importance for this board to articulate over riding policies of mutualization of members and employees. This Board has never articulated such a policy and believes the Board needs a broader discussion around mutualization, then come back to the more specific issues. Diane Lovell asked that staff develop such a document for further Board discussion.