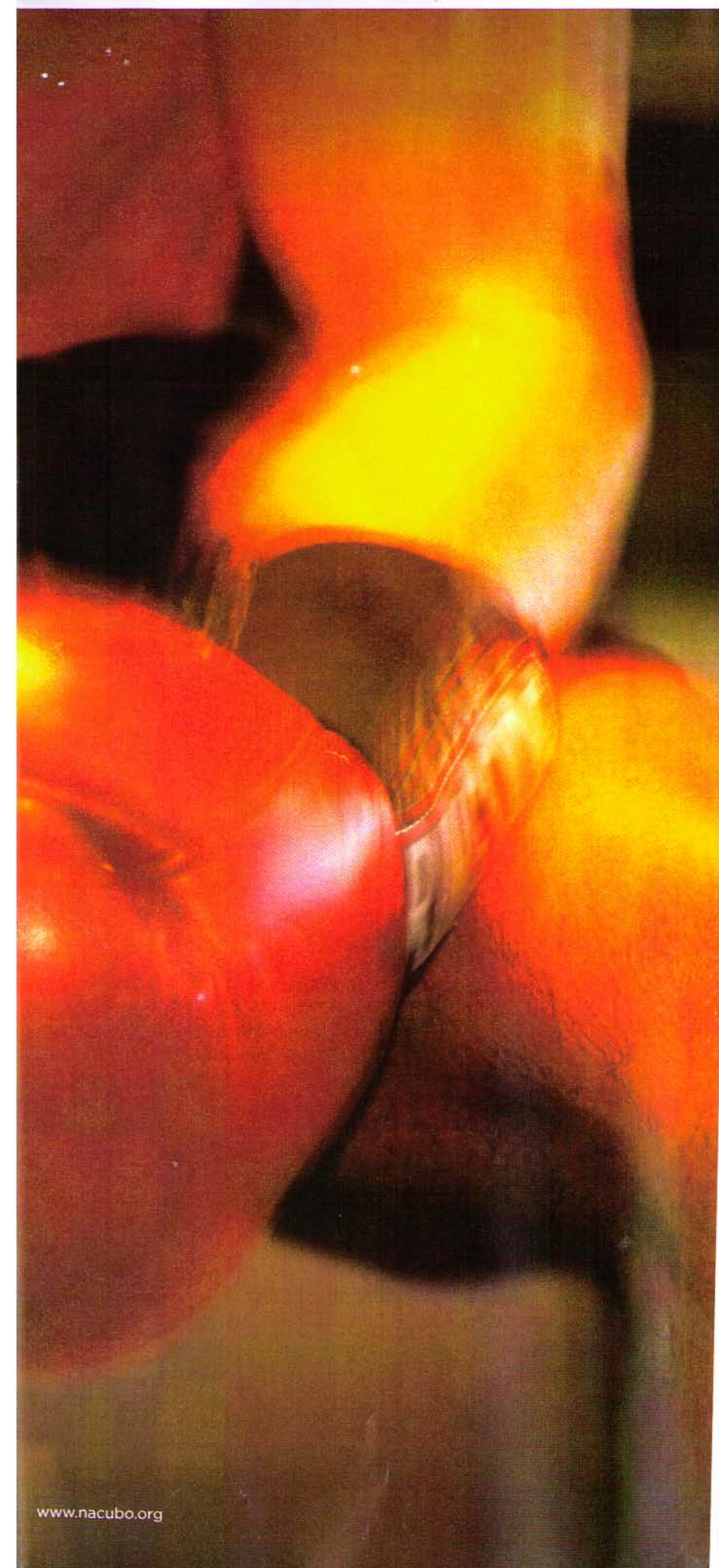


# Battling Health Care Costs



**A consortium of Florida colleges and universities had a great idea to save on medical insurance expenses. But when expenses spun out of control, the institutions needed a new strategy.**

By Mark Weinstein and  
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**W**hen we established a self-funded, multiple-employer welfare association (MEWA) in 2003, we—the nine members of the Independent Colleges and Universities of Florida—were proud of our effort to take control of spiraling employee health care costs. The newly created Independent Colleges and Universities Benefits Association (ICUBA) offered employers economies of scale and further diversified their employee health insurance risk pool. (The article “Coming Together to Cut Health Care Costs” in the September 2003 *Business Officer*, available at [www.nacubo.org](http://www.nacubo.org), details the initiative’s launch.) We reached the necessary compromises to move from institutions’ myriad employer-sponsored health plans, several of which were HMOs with little consumer engagement (i.e., almost no out-of-pocket responsibility to the employee and family). Instead, we switched to a Preferred Provider Organization (PPO) medical plan with three options. When we rolled it out that first year and the majority of employees chose the highly prized “gold” option, disaster ensued.

ICUBA's goals were to stabilize annual premium rate increases and to provide service in the administration of employee health insurance benefits. We were committed to keeping the cost of administration to less than 12 percent of premium collected; this allowed ICUBA to spend 88 cents of each premium dollar directly on employer/employee benefits (significantly more than a fully insured employee health insurance product). Insurance companies were strapped with numerous fixed expenses, including taxes, from which ICUBA was exempt. This self-insured plan allowed member institutions to take advantage of a large employer health care benefits model.

It was a great start. On April 1, 2003, ICUBA rolled out its self-funded PPO medical plan with gold, silver, and

bronze options. The gold plan attracted 93 percent of eligible employee families with its low cost; it required little out-of-pocket responsibility from participants who used in-network services (see chart, "ICUBA Gold Medical Plan"). But, in fact, it was significantly underpriced. This initial strategic pricing error nearly killed the plan in year one.

For the year ending March 31, 2004, ICUBA had a \$1.8 million deficit and finished its first year as a MEWA with a net operating loss of \$5.6 million. Because we had to keep capital surplus at the million-dollar level, ICUBA employers were assessed \$10 million between November 2003 and July 2004, or the equivalent of about 4.5 months of employee health insurance premiums totally funded with employer monies. Something had to be done.

### A Rocky Beginning

With the continual run of bad news in the first year, the ICUBA board was forced to meet on a monthly basis. To show solidarity to the campuses and to the regulatory authority, a committee made up of the executive director, the outside accountant, the chairman of the board, and the board treasurer met with the state insurance commissioner's office. Withdrawing from the plan was not a palatable option because each institution had signed a five-year commitment. As the assessments continued to mount throughout calendar year 2004, one university did withdraw without permission (legal action was pursued against that institution). By late fall, it was obvious that the large institutions were causing the biggest and the greatest number of financial losses. As a result,

### ICUBA Members

Nine higher education institution employers in Florida started ICUBA in 2003; eight of the original founders remain. Two more institutions joined in late 2005 and early 2006. ICUBA now provides health insurance benefits to approximately 6,200 employees, retirees, COBRA partici-

pants, and their families on \$34 million in annual medical premiums. Each employer appoints a board member to ICUBA, whose vote is in proportion to the number of employees covered under the MEWA employee self-funded medical insurance plan.

Institution	Main Campus in Florida	Employees Enrolled (Jan. 06)	Month Joined ICUBA
Barry University	Miami Shores	1,050	Jan. 2006
Beacon College	Leesburg	24	Oct. 2005
Clearwater Christian College	Clearwater	85	Apr. 2003
Edward Waters College	Jacksonville	123	Nov. 2003
Florida Institute of Technology	Melbourne	605	Apr. 2003
Nova Southeastern University	Ft. Lauderdale-Dayie	2,422	Apr. 2003
Palm Beach Atlantic University	West Palm Beach	335	Apr. 2003
Rollins College	Orlando	524	Apr. 2003
Saint Leo University	Saint Leo	418	Jun. 2003
University of Tampa	Tampa	492	Jun. 2003

three institutions absorbed the final assessment of 2004.

### Getting Back on Our Feet

By the following December, we were back on our feet, with a surplus of almost \$7 million. Accomplishing that \$9 million financial turnaround in two years required strong steps. The resulting surplus stemmed from greater network provider discounts and from consumers taking more responsibility for health care costs. ICUBA employers' actual total cost for employee health insurance coverage beat average Florida employer health care costs for two years in a row. While we were pleased by the turnaround, we knew that for ICUBA to grow and survive, we needed to assure employers that future assessments were unlikely.

**Fresh start.** We committed to three strategies. First, member employers introduced high-deductible medical plans in conjunction with Health Reimbursement Arrangements. Institutions make an investment in the employee by diverting a small portion of cash compensation into an HRA. The employer then uses HRA monies to persuade employees to choose higher deductible plans that increase in annual premium by a lesser amount than typical health insurance plans.

Second, we changed carriers from Cigna of Florida to Blue Cross Blue Shield of Florida for the next open enrollment (April 2005). The discounts from Cigna were 1,000 basis points less than the discounts from BCBS. Employees were pleased with the selection of BCBS as the provider network carrier.

Third, ICUBA worked on a better medical management platform. We focused on giving the quarter of employees who spend 80 percent of the monies (about \$20 million per year) the tools they required to get quality medical care, such as a \$400-per-year wellness checkup, free from deductibles and co-pays; a \$25 premium refund for completing an online health screening; and a free Employee Assistance Program benefit. ICUBA also created a medical manage-

**The majority of employees selected our initial low-cost gold plan option. But because it was significantly underpriced, the plan was financially disastrous for ICUBA.**

ICUBA Gold Medical Plan	
In-Network Benefits April 1, 2003 through March 31, 2004	
Description	Plan Participant Out-of-Pocket Responsibility
Deductible	\$0
Benefit Coinsurance (after deductible)	\$0
Primary Physician Services	\$10 co-pay
Routine Wellness Exams in Physician Office	\$10 or \$15 co-pay \$500 annual max
Specialty Physician Services	\$15 co-pay
Outpatient Surgery in Outpatient Facility (including physician, facility, anesthesia, diagnostic, and lab)	\$50 co-pay
MRIs, MRAs, CAT scans, and PET scans	\$50 co-pay per procedure
In-Patient Hospital Services	\$200 co-pay per admission
Prescription Drugs:	
- Generic	\$10 co-pay
- Preferred Brand	\$25 co-pay
- Non-Preferred Brand	\$40 co-pay
- Mail Order	2 x co-pay for 90-day

ment model to ensure that the 75 percent of employees who use the medical plan infrequently do so effectively. The idea is to get participants to seek early intervention—when medical care is most effective and least costly.

### Health Reimbursement Arrangements.

Had we gone forward with the original gold plan, the annual price increase would have been 42 percent—tantamount to admitting that ICUBA was a failure. We came up with another "Risk

and Reward" plan, which would cost 8 percent less. But a key question arose: Since the gold plan had no coinsurance, how would we get employees to accept this new plan with its higher deductible (\$1,500 vs. \$0) and a 20 percent coinsurance? We used an HRA as a carrot.

The only way this carrot would work, however, was to make it easy and attractive. Funds in the HRAs (employer-contributed dollars) would cover all eligible medical expenses allowed under the law, including over-the-counter medicines.

**ICUBA In-Network Medical Plan Benefits** April 1, 2004 to Present

BENEFITS	PPO 80	PPO 70	Risk/Reward
Deductible (individual/max)	\$300/\$900	\$500/\$1,500	\$1,500/\$4,500
Coinsurance (after deductible)	80/20%	70/30%	80/20%
Out-of-Pocket Limits (includes deductible and coinsurance only) individual/max	\$2,500/\$5,000	\$3,000/\$6,000	\$3,500/\$7,000
Primary Physician Services	\$15 co-pay	\$20 co-pay	80/20%
Specialist Physician	\$25 co-pay	\$30 co-pay	80/20%
Outpatient Surgery in Outpatient Facility	\$100 co-pay ded, 80/20%	\$100 co-pay ded, 70/30%	ded, 80/20%
MRI, MRA, CAT, PET	\$100 co-pay ded, 80/20%	\$100 co-pay ded, 70/30%	ded, 80/20%
In-Patient Hospital Services	\$250 co-pay, ded, 80/20%	\$250 co-pay, ded, 70/30%	ded, 80/20%
Emergency Room	\$100 co-pay	\$100 co-pay	\$100 co-pay
Urgent Care	\$25 co-pay	\$30 co-pay	80/20%
Mental Health & Substance Abuse— In-Patient (30 days max)	\$250 co-pay, ded, 80/20%	\$250 co-pay, ded, 70/30%	ded, 80/20%
Mental Health & Substance Abuse— Out-Patient (20 visit max)	\$25 co-pay	\$30 co-pay	80/20%
Prescription Drugs Mail Order 90 days	\$10/\$25/\$50 \$20/\$50/\$100	\$10/\$25/\$50 \$20/\$50/\$100	\$10/\$25/\$50 \$20/\$50/\$100

The HRA could also be used for long-term care insurance premiums. These funds would be completely portable after a three-year vesting. The balance would earn quarterly interest equal to the same rate paid to the MEWA on its \$1 million solvency deposit with the state of Florida. After 36 months of continuous participation in the medical plan with an HRA, the employee would vest and could use the monies to pay for retiree health insur-

ance premiums and COBRA premiums.

The typical employer premium for single employee health insurance coverage in the gold plan was scheduled to increase from \$213 in 2003 to \$303 on April 1, 2004. However, if an employee instead enrolled in the 2004 Risk and Reward plan with the HRA attached, the employer premium would decrease from \$213 in 2003 to \$196 in the subsequent year. The employer could then put the

difference—\$107—into an HRA monthly and be in the same position as with the projected 2004 gold plan premium.

This past April, total premiums for PPO 70 and Risk and Reward medical plans increased by 5 percent and 3 percent, respectively, over the 2004/2005 fees for those same plans. The employer HRA contributions are the same amount as last year for both plans; the deductibles, coinsurance, and out-of-pocket limits also

## Knowledge Is Power

After we created a collaborative self-insured health care plan that almost fell apart, members of the Independent Colleges and Universities of Florida now know how we could have operated differently to make the planning and implementation process run more smoothly.

■ **Hire the executive director as early as possible.** Working without an executive director until four months after creation of the MEWA, the board relied too heavily on consultants, which cost too much money and did not provide the needed day-to-day oversight. The executive director was able to turn the association around by taking a long-term ownership interest in its success.

■ **Organize the association's legal structure so that cash capital requirements are not needed.** Florida statutes required assessing member employers millions of dollars. We are now exploring options that would allow *letters of credit* to be used in the same way as cash capital contributions.

■ **Require the provider carrier to contractually guarantee network discounts.** The first carrier provided network discounts that were actually less than promised in the response to our RFP. Our current contract states that if discounts promised are not achieved, significant financial penalties will follow.

■ **Be wary if the initial product offered seems too good to**

**be true.** The initial gold plan was significantly underpriced. We eliminated the gold plan and pursued higher-deductible plans, and we realistically priced the subsequent medical plans.

■ **Foster a strong sense of collaboration.**

One employer member "jumped ship" right after the first assessments. ICUBA has been able to hold together and make the necessary compromises because all the other employers understood that the program must operate as a collaborative venture and not as just another insurance policy with annual renewals.

■ **Don't rely on a pure "one for all, all for one" means of setting premiums.** Certain employer members were more responsible for premium rate hikes than others. Although ICUBA continues to pool the risks associated with operating, there is some adjustment for geographical differences of covered employees, and other adjustments are being considered for future implementation.



remain the same. The encouragement seems to be working—the high-deductible plans offset by the HRAs are reducing the enrollments on the lower deductible plans by 8–10 percent per year.

**Plan design.** We designed the medical plans so that the deductible does *not* apply to physician or mental health provider outpatient office visits, emergency room or urgent care center visits, or prescription drugs. We cover certain wellness procedures at 100 percent. Deductibles apply to outpatient surgeries, inpatient services, diagnostic tests, and labs. We wanted to ensure that cost constraints didn't pose barriers for plan participants. As of February, more than 60 percent of ICUBA employees were participating in the PPO 70 or Risk and Reward plans. Almost all of these employees have HRA contributions from their employer (one institution is still resisting the HRA system; all others are contributing at least

something). We believe the HRA employer funding greatly facilitated this migration.

It was important to the employers that wellness benefits generate no out-of-pocket costs except for the office visit co-pay or coinsurance. We preferred to give the employee's family and physician a broad range of choices about how wellness benefits would ultimately be delivered. After several months of exploration with the human resources advisory committee, made up of employer representatives from each ICUBA institution in conjunction with BCBS, we designed a list of covered wellness benefits. Preliminary indications are that employees are using these benefits at a higher rate than a typical beneficiary of an employee health insurance plan nationally.

>>> More information about the consortium is available at [www.icuf.org](http://www.icuf.org).

## Rolling With the Punches

Our mistakes as well as our ability to reverse those setbacks have made us positive about the future. We have a renewed belief that ICUBA employers can achieve more through collaboration than individually.

But our work is not done. We're currently looking into captive insurance arrangements in South Carolina and Vermont to determine how ICUBA employers can more effectively capitalize the insurance risk pool with letters of credit and can remove the possibility of assessments. After recovering from going down for the count, we are optimistic about what lies ahead.

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