



Office of the Treasurer and Chief Financial Officer

**TO:** Members of the Board of Trustees  
**FR:** Christopher A. Ruhl, Senior Vice President, Strategic Initiatives  
**DATE:** October 1, 2018  
**RE:** Approval of 2019 Medical Plans

**Background**

Effective January 1, 2014, the University redesigned its medical plans to offer two consumer-driven health plans with health savings accounts (HSA 1 and HSA 2) and one traditional preferred provider organization (PPO) plan. All plans are self-insured and funded by the University and employees. As of December 31, 2017, the three plans covered over 26,000 employees, spouses and dependents. Approximately 80% of employees participate in the two consumer-driven health plans.

Plan design changes in 2015 and 2016 added several benefits, including preventive dental, bariatric surgery and full autism coverage for all benefits-eligible employees and their dependents. The University established a wellness program in calendar year 2018, providing additional monetary incentives on top of the base HSA contribution to encourage employees to engage in healthy activities and complete educational programs, with the goal of better understanding their health and associated risk factors. Also in 2018, the University moved to CVS Caremark as its pharmacy benefits manager generating substantial cost savings to the plans.

A number of macro factors have contributed to an overall increase in total plan costs from 2014 to 2018:

- Indiana hospitals charge substantially higher rates than peers in other states (in-patient and out-patient spend is nearly 50% of total plan expenditures);
- 62% of plan spend is related to chronic conditions; the number of high cost claims continues to increase and the overall risk profile of the covered population has slightly worsened;
- Prescription costs have risen more quickly than the overall medical trend, in part due to the shift to more specialty drugs; and
- Hospital systems have actively acquired primary care practices (primary care affiliated with hospital systems is typically more expensive than unaffiliated providers)

The University has mitigated some of the overall cost increases through a series of initiatives, including contracting with MACL to perform laboratory tests, offering imaging services to covered members at the Purdue Student Health Center, implementing diabetes management programs and moving pharmacy benefits administration to CVS Caremark. In the summer of 2018, the University identified an additional \$850,000 in annual savings by (1) eliminating the University's stand-alone purchase of Castlight, (2) consolidating external consulting services and (3) moving to a new provider to manage employee health savings accounts.

The University funds approximately 88% of the total premium rates across all three plans, compared to a national benchmark of 80%. Total premiums paid by employees (and eligible inactive staff) have risen less than 1% and total out-of-pocket costs for employees are flat over the five year period since 2014. During this same period, the University's costs have risen \$30 million (28%). Deductibles and out-of-

pocket maximums for the three plans have remained unchanged since 2014 and are below national and regional benchmarks.

The Board has previously set a target for the University to fund 70% and employees 30% of total healthcare costs. For calendar year 2018, the projected cost share is 74% University, 26% employees.

### **Medical Plan Strategy**

We are recommending a multi-year plan to (1) improve population health, (2) control overall costs and (3) achieve the Board target of a 70/30 cost share.

Recommendations to take effect January 1, 2019 include:

- Increasing employee premium rates on each plan by 6%
  - In HSA 2, where there is currently no employee contribution in the single plan, establish a \$5 (employees earning <\$44,000) and \$10 (employees earning >\$44,000) per month contribution
  - Also in HSA 2, for employees earning < \$44,000, increase by \$5 per month (from \$3.42 to \$8.42) the rate in the employee/children tier to ensure that the employee/children rates remain above the employee only tier
- Increasing the in-network deductibles and out-of-pocket maximums by:
  - \$250 (single) and \$500 (family) In the HSA 1 and HSA 2 plans; and
  - \$500 (single) and \$1,000 (family) in the PPO plan
- Implementing limited spousal eligibility which requires working spouses who have access to medical coverage through their employer to enroll in their employer's plan
- Earning 50% of the University's annual health savings account contributions by completing an annual physical, biometrics and lifestyle education modules compared to the current practice of an automatic contribution upon each payroll
- Adopting the CVS "value formulary" which requires lower cost generic alternatives unless there is a proven clinical need for the brand name drug and certain pre-requisites have been met
- Increasing employee premium rates on the University's dental plan by 4%

The efforts are expected to result in a 71%/29% cost share for CY 2019, closer to the Board's stated goal.

In addition to the recommendations beginning January 1, 2019, we will embark on a series of initiatives throughout calendar year 2019 designed to save additional costs in future plan years, including:

- Negotiating directly with providers and hospital systems to lower per unit costs
- Engaging the Purdue College of Pharmacy to analyze and offer recommendations on the University's pharmacy benefits, including the current formulary
- Developing tiered networks to direct employees to the most effective and efficient primary care providers
- Conducting an in-depth feasibility study to determine whether to consolidate the Center for Healthy Living and the Purdue Student Health Center into one facility. This study will also define what medical services could be offered in a combined campus facility at a lower cost to employees and students
- Issuing RFPs to reduce non-claims expenses (medical TPA, COBRA and Disability)

We request your approval of the proposed 2019 Medical Plans during the October Board of Trustees meeting.