TO: FACULTY SENATE

FROM: FACULTY STATUS & WELFARE COMMITTEE
    Bart White, Chair
    Betty Fulwood
    Gene Gallegos
    Tom Noser
    Art Shindhelm
    Peggy Wright

RE: ATTACHED INFORMATION CONCERNING WESTERN'S MEDICAL INSURANCE

The information provided herein should be helpful in the understanding of the various factors that influence the cost of health care at Western. We encourage you to review this information carefully and critically and to ask all questions necessary to assist in your full comprehension of this issue. Questions that do arise during your review or during informal faculty discussions on this topic that do not duplicate the questions already presented to the insurance committee (see attached letter to Jim Oppitz from Gene Gallegos) should be presented, in writing, to the committee chair or any member of the committee by Thursday, December 1.

All questions submitted will be presented to Mr. Jim Tomes, who will address each of them during the December Senate meeting.

Thank you for your assistance and involvement in helping us address the right people with the right questions.
Factors Influencing the Cost of Western's Medical Insurance

1. Our utilization is high when compared with other groups in the state. As a group, our age is increasing, and our group continues to be older than other groups.

2. Our rate structure for the years before 1987 was too low. We used all of our reserves and began a deficit situation when we should have been experiencing a gradual, but substantial, increase in premium rates. By 1987, our deficit was $483,143.00.

3. The 1986 federal tax reform law that requires us to extend medical insurance to former employees and dependents for up to 36 months has created a substantial increase in claims.

4. The federal law that now requires the employer's group insurance to pay before medicare pays has shifted medicare costs to our group.

5. The expansion (and duplication) of high-tech medical equipment in local and area hospitals continues to escalate the cost of medical care.

6. The introduction of HMO and CMM plans in our group results in "selecting out" of the traditional plan. We now have three small groups rather than one large group. The rate advantage of spreading the risk in a large group has been lost.
## Western Kentucky University

### Claims Expenses Over $12,000

1987-88

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<tr>
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<th>EMPLOYEE</th>
<th>AMOUNT OF CLAIM</th>
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### Rate History

(Monthly)

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### Enrollment (TRAD)

(Monthly Average)

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October 27, 1988

Mr. James Tomes  
Director of Personnel Services  
Western Kentucky University  
Wetherby Administrative Building  
Bowling Green, KY 42101

Dear Mr. Tomes:

Every health care consumer and every business person responsible for decisions regarding group health insurance plans is aware of how health care costs have skyrocketed. It is very important that we all become informed about the roots of the problem and take measures to implement controls where we can.

Because of what is happening to health insurance costs with all insurance companies across the nation, I think it is important for you to have a copy of an article on health care costs I read recently. You will recognize that the rising cost of health care and insurance is not unique to Blue Cross and Blue Shield.

Although the situation is serious, you can be confident that Blue Cross and Blue Shield of Kentucky will continue to be the leader in developing programs to help put a lid on rising health care costs.

I hope you find this article to be informative and useful. Please call me whenever I can provide consultation or service to Western Kentucky University.

Sincerely,

Alan L. Reid  
Account Executive  
Corporate Accounts

ALR:1c  
Enclosure
Higher and higher

1988 health costs exceed estimates; no relief seen in '89

By GLENN HUNTYEY

Employers should brace for continuing sharp increases in group health care costs next year on the heels of steep hikes during 1988.

In fact, group health insurance premium increases this year often have outpaced estimates, point out health insurers and employee benefit consultants.

Since last December, premiums for group health indemnity plans generally have increased by 20% to 30% and as much as 50% in extreme cases.

However, employers with managed care programs that include health maintenance organizations, preferred provider organizations, utilization review programs or a combination of these elements generally saw premium increases of 10% to 15% this year.

And, several employers that self-fund their group health care benefits report a wide range of cost increases in 1988—from a low of 10% to a high of 24%.

The outlook for next year does not look any better and could be worse.

At best, indemnity plan premiums will rise 20% next year, observers say, with some estimating that rates will jump up to 30%.

Employers that include managed care elements in their indemnity plans can expect about half the premium increase for traditional indemnity plan.

In addition, HMO rates likely will increase 12% to 20% next year.

Meanwhile, self-funded employers are expecting costs to increase by about the same percentage in 1989 as this year.

Experts cite a combination of factors for the continuing health care cost spiral: inflation, increased utilization, cost shifting and advances in medical technology.

The increase in group health premiums continues to exceed the overall inflation rate, and the rate of increases on the rise again, after a significant drop-off in 1988 (see chart).

The medical care component of the Consumer Price Index rose 7.3% in the first eight months of 1988, according to the U.S. Bureau of Labor Statistics. By contrast, the general inflation rate was 4.6% during the first eight months of 1988.

In all of 1987, the CPI's medical care component increased 6.1%, a four-year low after a high of 7.7% in 1986. Meanwhile, the general inflation rate in 1987 climbed to 4.5%, up more than three percentage points from 1.4% in 1986.

In both 1985 and 1984, the CPI's medical care component rose 6.2%, while the general inflation rate was 3.6% in 1985 and 4.3% in 1984.

Group health insurance premium increases usually are several percentage points higher than trend lines, which are insurers' measure of average anticipated health care costs.

Health insurers predicted at year-end 1987 that group health care indemnity plan premiums would increase between 15% to 25% this year, with some employers seeing increases of 35% to 40% (HI, Dec. 21, 1987).

But the increase for large employers that have implemented few or ineffective cost-containment programs has been closer to 50%, insurers and consultants say.

For instance, CIGNA Corp. had projected

Continued on next page
Health care premiums

Continued from page 1

Health insurers still are trying to recover from several years of severe competition, as well as from aggressive marketing by health maintenance organizations, he explained. "It's a question of bringing premiums in line with actual claims costs."

Hartford, Conn.-based Travelers Corp. has increased indemnity premium rates by 25% to 30% this year and projects indemnity rates will increase "roughly in the 20% range" in 1989, said James Guterman, actuary in the Travelers employee benefits department.

"Nobody's happy with it, but it is industrywide," he said. "Hopefully now the worst is over."

Eventually health care inflation will come down, Mr. Guterman predicted. "It can't go on forever. At some point it has to come down to the regular CPI."

Prudential's Mr. Maginnis said managed care plans will fare far better in 1989 than traditional indemnity plans.

"The gap between claims cost in managed and unmanaged care plans will widen," he said, predicting premium hikes for managed care plans will be half or less than the premium hikes for unmanaged care plans.

A Metropolitan spokesman also predicted that managed care plans will face smaller premium hikes than unmanaged care plans.

"You don't want to be the last company with a managed care plan," he said, explaining that unmanaged care plans will bear the brunt of cost shifting from managed care plans. "They're going to have to make that up somewhere else."

But some consultants disagree that managed care plans like PPOs will generate that large a savings.

Employers that have a PPO option as part of their indemnity plan may see "some marginal savings," but not as much as many are expected from HMOs, said Laird Post, Aetna's group marketing VP Charles Bell.

Aetna had assumed a trend line of about 20% this year, but first-quarter increases, especially for smaller groups, were slightly higher, he said.

Premiums charged by Aetna Life & Casualty Co., also based in Hartford, exceeded expectations this year, especially during the first quarter, said Vp Charles Bell.

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Continued from previous page
Southern California group and flexible benefits leader with The Wyatt Co. in Los Angeles.
"It doesn't hurt to have a well-designed PPO, but in many cases it doesn't help a heck of a lot, either," Mr. Post said.
PPOs offer "favorable-looking discounts" but little control over total costs that may be incurred, said Susan Brown, manager of health care cost containment for Touche Ross & Co. in Chicago.
"It seems like a complete 'no-brainer' to apply discounts without also providing controls on total costs, Ms. Brown said.
BC/BS has found that PPO experience appears to be comparable to other managed health care plans and HMOs, Mr. Wood said. Because employers usually combine PPOs with other health care alternatives, it's not clear what influence cost savings from preferred providers are having on costs, however, he added.
Like indemnity plan costs, HMO premiums have also surged in 1988. And, while HMO hikes have trailed behind those for indemnity plans, they have far exceeded HMO premium increases in previous years: Rate increases have generally run between 10% and 15%, and more in some cases, far greater than the 2% to 8% rise in premiums in 1986 and 1987.
Next year, HMO premiums are likely to rise 12% to 20%, observers say.
HMOs whose premium increases are at the low end of the range will be those that have maintained reasonable rates in the face of intense competition in recent years, said Lawrence B. Leisure, group practice leader for TPF&G, the benefit consulting unit of Towers, Perrin, Forster & Crosby Inc.
However, other HMOs that in the past have underpriced their products may have to make up what they have lost, he explained.
Oakland, Calif.-based Kaiser Permanente Health Plans Inc., the nation's oldest and largest HMO, projects premium increases of 10.7% in 1989, compared with an average 1988 increase of 5.2%, according to Dick Anderson, vp-medical economics and statistics.
Kaiser's premium hikes for the last five years have averaged a compound rate of 6.7%, or "about 2% close to the general inflation rate," Mr. Anderson said.
HMO rates probably will increase between 10% and 20% for the foreseeable future.
CIGNA's Mr. Freminger said, "That's not acceptable to employers."
As part of its restructuring plan, Maxicare Health Plans Inc. previously announced it would raise rates an average of 15% across the country (IB, Sept. 5).
A Maxicare spokeswoman would say only that the HMO's rate increases have been "substantial" in some locations and that rates were raised to reflect inflation.
The Blue Cross & Blue Shield Assn., whose 77 independent plans sponsor 95 HMOs, increased premiums as little as 5% in some instances and by an overall average of 10% in 1988, Mr. Wood said.
The difference in typical rate increases between indemnity plans and HMOs bodes well for "the well-managed HMOs," Mr. Wood said. "It's a good future for them."
Health care cost increases in 1988 among self-funded employers contacted by Business Insurance varied widely.
For example, Lockheed Corp., the major aerospace company based in California, Calif., saw its health care costs rise 10% to 12% this year, said Earl G. Mink, manager of group insurance.
About 30,000 of Lockheed's 98,000 employees are covered under its self-insured plan, he said. Employees also are offered HMO options.
Lockheed doesn't expect much improvement next year, Mr. Mink said. The company expects its costs to rise by 12% to 15% during 1989, he said.
Ford Motor Co., one of the nation's largest private employers, reported it will spend more than $1 billion this year on its self-funded indemnity plan, or close to 10% more than the $920 million it spent in 1987, said a spokesperson.
The 1987 expenditure represented a 6% increase over 1986 costs.
Ford officials are still examining the factors that have contributed to the cost in-
creases, she said.
McKesson Corp., a San Francisco-based wholesale and retail pharmaceutical firm, has seen health care costs under its self-insured program jump by 19% to 24% this year, said John Wolfe, McKesson's employee benefits manager.
The company had hoped cost increases would top off near 12%, she said. "We certainly didn't even come close and we don't see any let-up" in further inflation, she said.
McKesson probably will budget 19% to 23% for health care cost increases next year, Ms. Wolfe said, based on current claims experience.
Medical inflation continues to rank as the largest contributor to higher health plan premiums, according to a recent analysis by Hewitt Associates.
The cost of health care services increase accounted for 7% of the 21.5% trend line estimated by Hewitt, said Tim Borchart, a Hewitt consultant. Cost shifting ranked second at 6.4% and greater utilization third at 3.5%.
The other factors contributing to higher health care costs were technological advances, 2.4%; catastrophic illness, 1.9%; and malpractice costs, 0.6%, Mr. Borchart said.
Consultants agreed that cost shifting caused by restricted Medicare reimbursement, provider discounts to some groups and adverse selection have put more pressure on indemnity plans.
Are you either a shifter or a shifter? TPF&G's Mr. Leisure said. In many cases the indemnity plans have become the "shifters.
A variety of sources are shifting costs onto indemnity plans, consultants say.
For example, hospitals squeezed by government caps on Medicare reimbursement are putting the expenses on private payers, consultants say.
America's aging population further compounds the cuts in Medicare reimbursement,
June 16, 1988

Mr. Harry K. Largen,
Vice President for
Business Affairs
WESTERN KENTUCKY UNIVERSITY
Bowling Green, Kentucky 42101

Dear Mr. Largen:

Maxicare Kentucky, Inc. respectfully declines the request for proposal (RFP) for the alternative healthcare plan at Western Kentucky University.

Due to our recent acquisition, pending July 1, 1988, Humana, Inc. feels this is in the best interest of both parties involved.

Thank you for the opportunity to review this year’s bid.

Sincerely,

Cindy Wise
Sales Manager

cc: Lawrence G. Howard, Director of Purchasing
    Willie O. Carter, Assistant Director of Purchasing
    Jim Tomes, Director of Personnel Services
May 17, 1988

Mr. Harry K. Largen
Vice President for Business Affairs
Western Kentucky University
Bowling Green, KY 42101

Dear Mr. Largen:

I have received Western Kentucky University's request for proposal for insured Health Benefits and unfortunately, EQUICOR will be unable to comply with your request.

Upon reviewing Western Kentucky University's RFP, we found the group's Indemnity and HMO history to be disturbing. Increased Indemnity rates have forced HMO participation to 40% of the entire group, while the remaining 60% has seen their average claim cost trend 41% annually. This confirms our fear that the healthy employees will continue to migrate to the HMO as the Indemnity prices escalate, further deteriorating the Indemnity experience.

Western Kentucky University's best option lies in adopting a dual or triple option with one carrier. The combination would reduce administration costs for Western Kentucky University and allow the provider the ability to offset Indemnity losses with the HMO.

I appreciate Western Kentucky University's consideration of EQUICOR and regret not being able to provide you with a quote. If you ever require assistance with other aspects of your employee benefit program, please contact me.

Sincerely,

Scott R. Heiser
Group Marketing Representative

0930H
May 12, 1988

Mr. Willie O. Carter, Jr.
Department of Purchasing
Supply-Services Building
Bowling Green, Kentucky 42101

Re: WKU 784-87

Dear Willie:

I am writing to respectfully decline quoting the group Medical benefits for Western Kentucky University. This decision in no way reflects our desire to do business with WKU but rather is a result of a non-competitive position with the incumbent carrier's renewal offer.

We very much value our relationship with WKU and look forward to continuing that relationship long into the future. We are always happy to have the opportunity to bid on WKU's Employee Benefit Plans and we feel privileged to be one of the carriers you have selected to provide benefits.

If you have any questions regarding our position not to quote or if I can be of service to you in any way, please feel free to call me. I look forward to meeting with you in the near future.

Sincerely,

Andrew M. Carter, Jr.

cc: N.A. Barnett
    Bert Snarski, CLU
May 25, 1988

William Carter
Office of Purchasing
Western Kentucky University
Bowling Green, KY 42101

RE: Medical Insurance Plan

Dear Mr. Carter:

Per my conversation with you earlier this week, I am sorry to have to decline to bid on the health insurance coverage. However, the companies that I represent have declined to bid.

I do appreciate the opportunity of your asking me to bid.

Thank you.

Very truly yours,

[Signature]

William L. Wilcox
Dear Mr. Carter

Bruce Clewell suggested I write to you regarding the upcoming bid of your benefit program.

Metropolitan would very much like to work with your department in order to offer a competitive quotation. However, due to recent actuarial decisions, we have not been providing quotes for public institutions on an insured basis. If the University were to have a sincere interest in being self-insured, I would like to proceed with an administrative services only quotation.

Through our ASC arrangements, we are able to offer claims administration as well as other services that we provide to our insured customers. The University would then be responsible for all claims generated throughout the plan year.

I would appreciate a response as to the viability of a self-insurance program for Western Kentucky University.

Sincerely

William K. Hurley, Jr.

May 5, 1988

cc Mr. Jim Thoms
Mr. Bruce Clewell
October 26, 1988

Mr. Robert James Oppitz  
Chair of the University Insurance Committee

Mr. Oppitz:

I am looking forward to working with you and other members of the University Insurance Committee. Please don't hesitate to call on me at any time (4950).

In order to acquaint myself with university procedures regarding the purchase of insurance, I would request the following information.

1. I would like to review the master health insurance policy. A copy would be ideal, but if that is not practical, I will review the master policy in your office.

2. Please provide me with a history of premiums paid for the past five years (1983-88), for employee and family coverage.

3. I also need a history of claims—total in dollars for each of the past five years (1983-88).

4. A comparison of coverage for the past five years would be helpful. In other words, a listing of individual and family deductibles.

5. Has our university considered a rider on our insurance coverage which would provide prescription cards to employees at a minimal cost to the university? I realize the HMO plan provides such cards.

6. I would like a copy of the bid specifications that were sent to vendors during the last bidding period. Also, how many vendors requested specifications and how many submitted bids?

7. What length of time was allowed for the vendors to review bid specifications and submit bids?

8. Has our university developed university-wide wellness programs for all employees?

9. Did we have any major claims last year (1987-88)? How many and in what amounts?
10. Has our university considered a survey of university employees to determine their perceptions of the current coverage?

11. Has WKU considered having the total employee group select the type of health insurance coverage they prefer by voting for the plan or plans of their choice? It would be understood by the employees that certain financial parameters would be established by the administration and Board of Regents. This process would insure greater participation by employees and could improve morale. I have utilized this process many times and it does work.

12. Numerous faculty members have expressed interest in a cafeteria plan. Has the university considered this option?

13. I would suggest that the anniversary date for our health policy (April) is unacceptable. It does not allow for sufficient time to submit and review bids. Will the university consider changing the anniversary date to December or January?

I am sure there will be other questions that will surface as we meet. Your assistance with those listed above will provide a good beginning.

Thank you.

Sincerely,

Gene Gallegos
Department of Educational Leadership
CEB 425 C

xc: Dr. Frederick I. Murphy
    Dr. Bart White