

Montana Schools Health and Welfare Plan

**A Road Map for Schools to Better Health
Insurance Benefits and Lower Premiums**



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Enter Here to Learn. Go Forth to Serve.

Date: November 5, 2009
Memo To: All Montana School Districts
Memo From: Jerry Pease, Superintendent, Manhattan School District
Regarding: A Better Way to Handle Your District's Health Insurance

I am sharing with you a new approach to providing your teachers and staff their health insurance. We have a very good, well-informed Insurance Committee here at Manhattan School District and we are a unique and very lucky district, to have not one, but two CPAs working with me in administration.

What we have in place for our district's health insurance is so superior to what we had just a few months ago, there is simply no comparison. If someone had told me that 68 out of our 72 employees would be taking advantage of a Health Savings Account (HSA) eligible plan today, I would have been very skeptical, but it is true and our people are excited.

In school administration, as we all know, what you do not know will hurt you. We spent the time needed and accessed the appropriate resources, to become better educated on health insurance. Because our Insurance Committee, myself and staff, all decided to join this plan, we now have a number of teachers who will save over \$5,700 in premium costs this year. More importantly, they did not have to slash their benefits to get this done. In fact, they now have a lower out-of-pocket medical liability if they have big medical expenses, than they were going to have if they had stayed with the coverage that cost \$5,700 more!

The information in this brochure will provide your district with a roadmap on how to save 15-25% on your insurance premiums while at the same time, providing your employees with a better benefit.

Manhattan School District was very fortunate to work with the staff at Mountain West Benefits – they walked our Insurance Committee, administration and most importantly, our teachers and staff through the educational process to allow our school, for probably the first time ever, to really understand health insurance and be informed so that each of us knew what we were doing when we made our choice on our insurance.

I highly recommend you take 10 minutes to read this brochure. The folks at Mountain West Benefits work with select insurance agents from around the state. They were very patient through the entire process of reviewing insurance plans and in answering our many questions and concerns. We would give them an A+ for their work with Manhattan School District. Please feel free to call me if you have questions.

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Montana Schools Health and Welfare Plan (MSHWP)

A Road Map for Schools to Better Health Insurance Benefits and Lower Premiums

Mission:

To help each school district in Montana improve their employee benefits (and understanding of benefits) while holding premiums down (best use of every insurance dollar).

Goals:

- ✚ Communicate benefits to all employees (administration, insurance committees, business personnel, etc.) so as to maximize the benefits obtained for each dollar spent
- ✚ Hold health care plan costs in check
- ✚ Provide employees with choice (plans that fit their individual needs)
- ✚ Work with districts to help them develop a long-term (3-5 year) employee benefits plan
- ✚ Educate all employees on how to use their plans more effectively
- ✚ Help employees understand how to save money by using their plans more efficiently
- ✚ Emphasize district wellness and motivate all employees to make lifestyle changes that will benefit themselves and their school districts
- ✚ Help the district's retirees explore lower cost options

Health Care Facts – Relevant to School Medical Plans

From *The Journal of American Health Policy*

- 82% of the US population have less than \$1,000 of annual medical expenses
- 33% of the US population have \$0 of annual medical expenses
- Only 11% of the US population have more than \$2,000 of annual medical expenses

From Ingenix, a United Health Group company

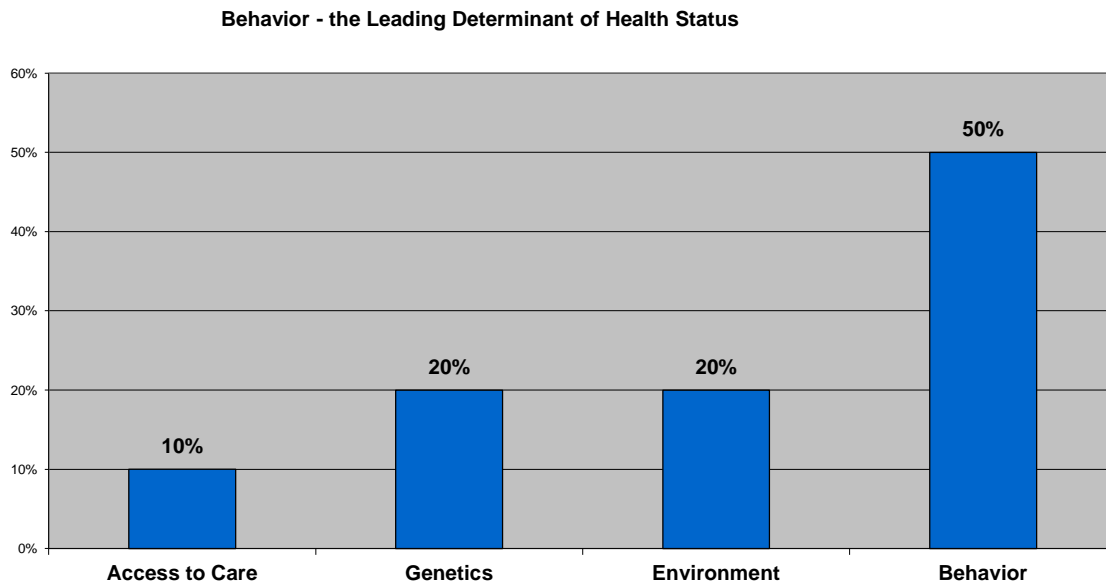
- Only 67 out of 1,000 members use inpatient services (6.7%); fifteen (15) of which are scheduled maternity deliveries

From the American Institute for Preventive Medicine:

- Approximately 55% of all Emergency Room visits are unnecessary
- 25% of all doctor visits are deemed to be unnecessary

Health Care Facts:

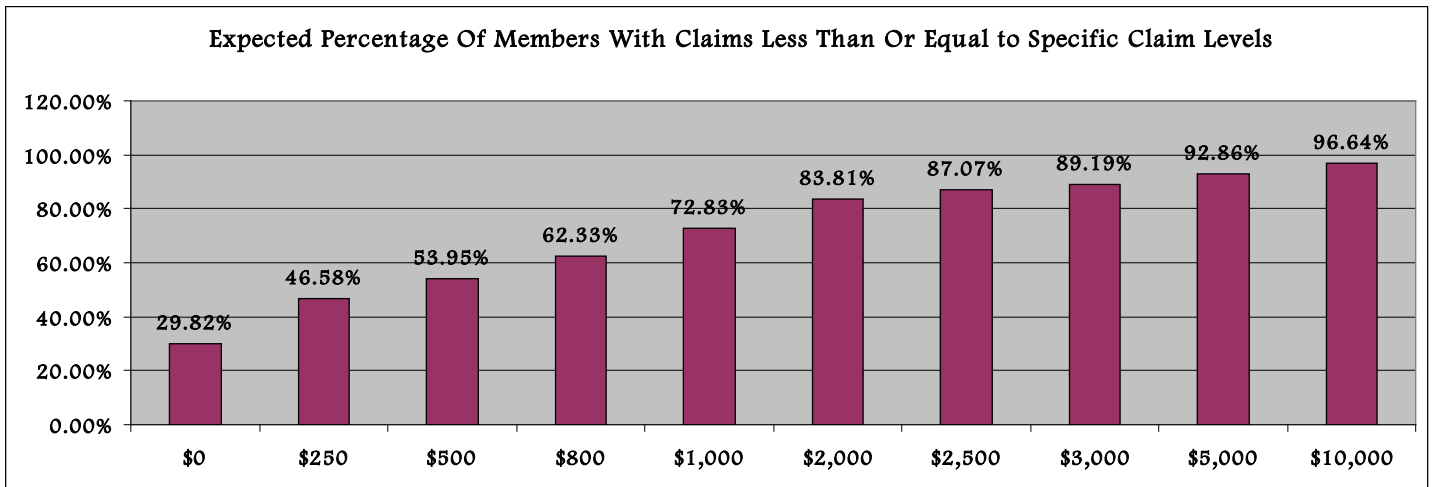
For employers nationally and for Montana School Districts, the best resource to control health insurance premiums is your employees.



The Centers for Disease Control (CDC) goes even further saying, *“75% of health care spending pays for illnesses that are preventable”*.

For teachers and others involved in education, when given a financial incentive to make healthier lifestyle and more informed health care decisions, they choose to do so.

The expected percentage of Montana educators who will have claims less than or equal to specific claim levels in any one year:



This data is provided by the second largest health insurance carrier nationally – United Health Care and validates why Mountain West Benefits advises teachers to avoid purchasing overly expensive health insurance coverage, when there is a lower cost, better benefit option available.

The first table is from Montana's largest health insurer from 2008. It shows that 79.52% of covered members have annual claims less than \$1,000.

The second table is from the Montana Schools Health and Welfare Plan (MSHWP). This is data on 5,000 Montana school employees and their 6,000 dependents.

Total Paid per Individual	Individuals	Total Paid
	% of Total	% of Total
No Claims Submitted	30.83%	0.00%
Less than \$999	48.69%	10.71%
\$1,000 to \$4,999	15.13%	22.19%
\$5,000 to \$9,999	2.71%	12.39%
\$10,000 to \$49,999	2.26%	29.03%
\$50,000 or more	.38%	25.68%
Total	100%	100%

Helping Montana educators to understand these facts is one of the most important services Mountain West Benefits provides to Montana's schools. When teachers understand this and the other issues related to their health insurance options and benefits, they often choose not to spend as many of their hard earned dollars buying expensive insurance they don't really need.

Total Paid per Individual	Individuals	Total Paid
	% of Total	% of Total
No Claims Submitted	38.26%	0%
Less than \$999	45.75%	9.89%
\$1,000 to \$9,999	13.61%	30.79%
\$10,000 to \$24,999	1.53%	18.75%
\$25,000 or more	.85%	40.57%
Total	100%	100%

The following data is from a study completed in May, 2009 from the American Academy of Actuaries:

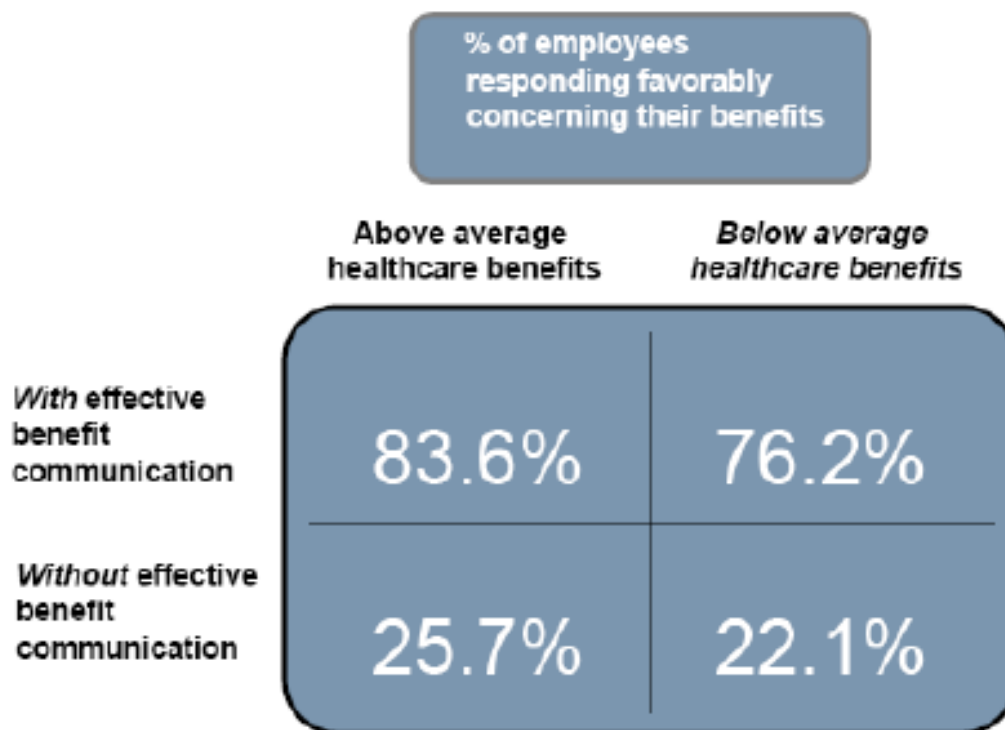
- Medical trend and health care costs were significantly reduced in plans that implemented High Deductible Health Plans (HDHP's) with Health Saving Accounts (HSA's).
- Cost-savings does not result from the avoidance of appropriate care and necessary care was received in equal or greater degrees relative to traditional plans.
 - ✚ Cost shifting premium increases to teachers has been the most common strategy used by districts over the last three years to mitigate health plan cost increases.
 - ✚ This adversely affects 70-90% of district employees who benefit only minimally in any year from their school's health insurance plan.

Changing the paradigm for educators, both those currently healthy and those who have existing health care issues, to where they can benefit financially by making changes to their lifestyle and/or by becoming more informed health care consumers, lowers health care expenses, lowers health insurance premiums and produces better informed and healthier employees.

We learned this in school and have heard it said many times

“It’s not what you say – it is how you say it that really matters.”

Benefits are appreciated by employees based on the degree to which they are understood and effectively communicated.



School districts can lower insurance premiums while improving employee’s level of satisfaction with benefits and providing employees with better insurance protection. The key to making this happen is providing employees with excellent benefits communication coupled with high quality employee education.

Making a Health Savings Account (HSA) eligible benefit available, allowing HSA contributions through your Flex Plan and offering teachers the choice of staying on their existing benefit or changing to the new HSA option will be a significant improvement to benefits at your school if the district does these three things:

1. Employee Communication

- ✚ Benefits Card
- ✚ Benefits Website
- ✚ Benefit Booklet

2. Provide a contribution to employee’s HSAs

3. Training, training, training – education, education, education – best if spouses can be included



What are the unique benefits available to both the district and the employees through HSAs?

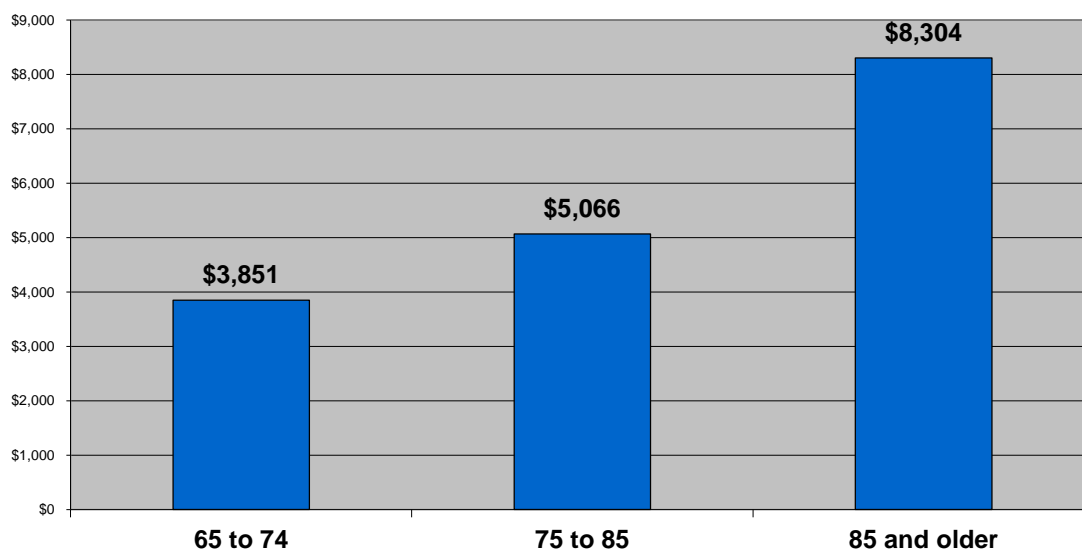
1. Unlike a Flex Plan there is: **No “use it or lose it”** exposure, funds roll-over from year to year and accumulate over time.
2. Pre tax savings:
 - School district employees – state, federal and FICA
 - District – much greater Flex Plan participation and much greater FICA savings; this savings can be used to help fund employee’s HSAs.
3. School District Employees – funds gain through investment earnings;
 - Funds are portable;
 - Funds can accumulate to be used in retirement to pay:
 1. Medicare Part B premiums
 2. Medicare Part D premiums
 3. Out of pocket prescription expenses
 4. Long Term Care premiums or costs
4. In many schools, the premium savings available to employees by switching to the HSA eligible option, will provide the dollars to fully fund the HSA plan deductible – meaning the employee has 100% insurance coverage.
5. 2012 contribution limits
 - Employee Only ~ \$3,100
 - Family ~ \$6,250
 - Catch up ~ \$1,000
(55 and older)
6. We have an educational pamphlet we use, called Employee Guide To Health Savings Accounts

Based on discussions we've had with schools all across Montana, educators in our state are not at all informed about the realities of health care costs in retirement.

Most teachers assume Medicare will cover the lion's share of their health care costs when they reach age 65 and retire. *This is absolutely false.*

- Fidelity Investments estimates an average wage earner retiring at age 65 in 2009 will need \$240,000 to pay their out of pocket health care costs for the rest of his/her life
- The Employee Benefits Research Institute (EBRI) estimates this figure to be much higher
 - A 65 year old female teacher may need \$450,000
 - A 65 year old male teacher up to \$378,000
 - NO ONE knows this and NO ONE is planning for this.

Average annual out-of-pocket expenditures Per Person by age




While today a retired educator age 65 or older is able to purchase retiree health insurance coverage through the district, in most years the premiums are increasing and benefits are being reduced. Educators, same as all other retirees and Medicare beneficiaries, are covered by the Medicare umbrella of coverages.

- Part A – Hospital coverage – includes deductibles, co-insurance, etc;
- Part B – Physician coverage – premium in 2009 is \$96.40 per month, deducted automatically from a retiree’s direct deposit Social Security check. Part B premiums have increased 212% since 2000;
- Part C – Medicare Advantage – available to many Montana retirees; likely to be changed thru health care reform;
- Part D – Prescriptions.

Many retired educators would be well served to look into health insurance options outside of the retiree coverage available through the district. Now that there is prescription drug coverage through Medicare Part D benefits and additional prescription coverage available from carriers, retirees are finding there are equivalent and many times better, lower-cost medical coverage options available from the insurance marketplace. In Billings, a high-quality Medicare Advantage policy can be purchased for as little as \$65 a month.

By educating your employees about the reality of health care costs in retirement and providing them with the opportunity to begin saving for this expense in the best tax favored savings option available – the district accomplishes the following for your teachers and employees:

1. Improve employee benefits
2. Provide Employees Informed Choice

 Americans have been conditioned to expect options, this is especially so when spending a significant amount of money

- ✚ Traditional medical plans now include employee premium cost sharing – this is the most utilized tool districts use to hold down premium expenses.
- ✚ Employees, especially the 80% who do not have expensive health care issues – are looking for ways to lower or eliminate their premium cost-sharing.
- ✚ Offering more than one medical benefit option recognizes the unique needs of the different employee groups in your school, baby boomer, Gen X, Gen Y, et al.

3. Hold insurance premiums in check

- ✚ Most employees, when given an incentive to make better informed decisions that can benefit them financially – do so.
- ✚ People spend their own money more judiciously than they spend other people's money (OPM).
- ✚ The majority of the district's employees, when they fully understand their options, costs and risks, will choose the HSA benefit AND will end the first year with money in their HSA, to carry forward to the following year.

Flex plans and their relationship to Health Savings Accounts (HSAs).

In most school districts, participation in Tax Sheltered Annuities (TSAs) and 403b plans is very low. Yet the easiest way for educators to save, as well as the most efficient, is through payroll deduction/reduction. Flex plans have limited utility for the majority of teachers because as we have demonstrated, not many teachers have, nor do many anticipate having large out-of-pocket health care expenses in any year. The use-it-or-lose-it provision of Flex Plans discourages teachers from saving in a Medical Spending Account. Further, the use-it-or-lose-it provision encourages irrational health care consumption at the end of the Flex plan year.

The majority of medical bankruptcies in our country result from good, honest people having unexpected health care issues, where their cost sharing (deductibles, co-insurance, and maximum out-of-pocket limit) are

unfunded – thus resulting in a financial obligation they are unable to pay. A Medical Spending Account in a Flex plan serves no purpose in these instances, yet a HSA in a Flex Plan is a life-saver, as it allows this unsuspecting, unprepared employee to have some/all of this financial exposure already funded. Beginning in 2013, with Health Care Reform, Flex Plans will have a \$2,500 maximum contribution limit.

Why are Flex Plans and HSAs so intertwined?

1. Montana educators are not saving enough for retirement – they are not alone, few employees in any industry are. Teachers are able to use the Flex/HSA in the dual capacity of a medical spending account (likely not needed) and as a retirement plan. Many employees are in need of help in planning/funding their retirements;
2. Payroll reduction is easy, efficient and effective;
3. Flex Plans and HSAs are inexpensive to operate and the FICA savings available to the district that accrue from employee's HSA salary reduction contributions can be used to provide district funding to employee's HSAs;

A Case Study of a School Group – Manhattan School District

The teachers at Manhattan School now understand:

- ✚ There are **TWO RISKS** as regards health insurance – **over-insuring**, i.e. – spending too much salary buying overly expensive health insurance; and **under-insuring**, i.e. – buying insurance that should they have a serious, expensive health care issue, will leave them with too much out-of-pocket cost-sharing.
- ✚ What health care costs will be in retirement.
- ✚ The actual likelihood of their having expensive health care issues in any one plan year.

- ✦ The very best, most expensive benefit that had been available, which included an enhanced pharmacy benefit option, exposed a teacher to an out-of-pocket (OOP) maximum liability of \$2,500 (\$5,000 family).
- ✦ That this benefit option was not HSA eligible.
- ✦ If a teacher experienced an unexpected illness, they would somehow need to come up with as much as \$2,500 – not an easy task and especially difficult for a young educator.
- ✦ That this \$2,500 medical expense was accompanied by an out-of-pocket premium cost of \$5,050 for this teacher to insure their family. Between the medical costs and the premium cost, this teacher would spend \$7,550.
- ✦ **THE BOTTOM LINE** – Everyone made well-informed decisions influenced only by what each individual employee believed was going to be in their own best interests. At Manhattan School, 68 out of 74 employees, when properly informed about their medical insurance and saving options, elected to participate in the district's Flex Plan, to enroll in the HSA option and to begin saving tax-favored in their own Health Savings Account.

Please see the two sheets attached. Both were used to help educate school employees about their health insurance options. There really is a much better, more affordable way for educators to go about purchasing their health insurance.

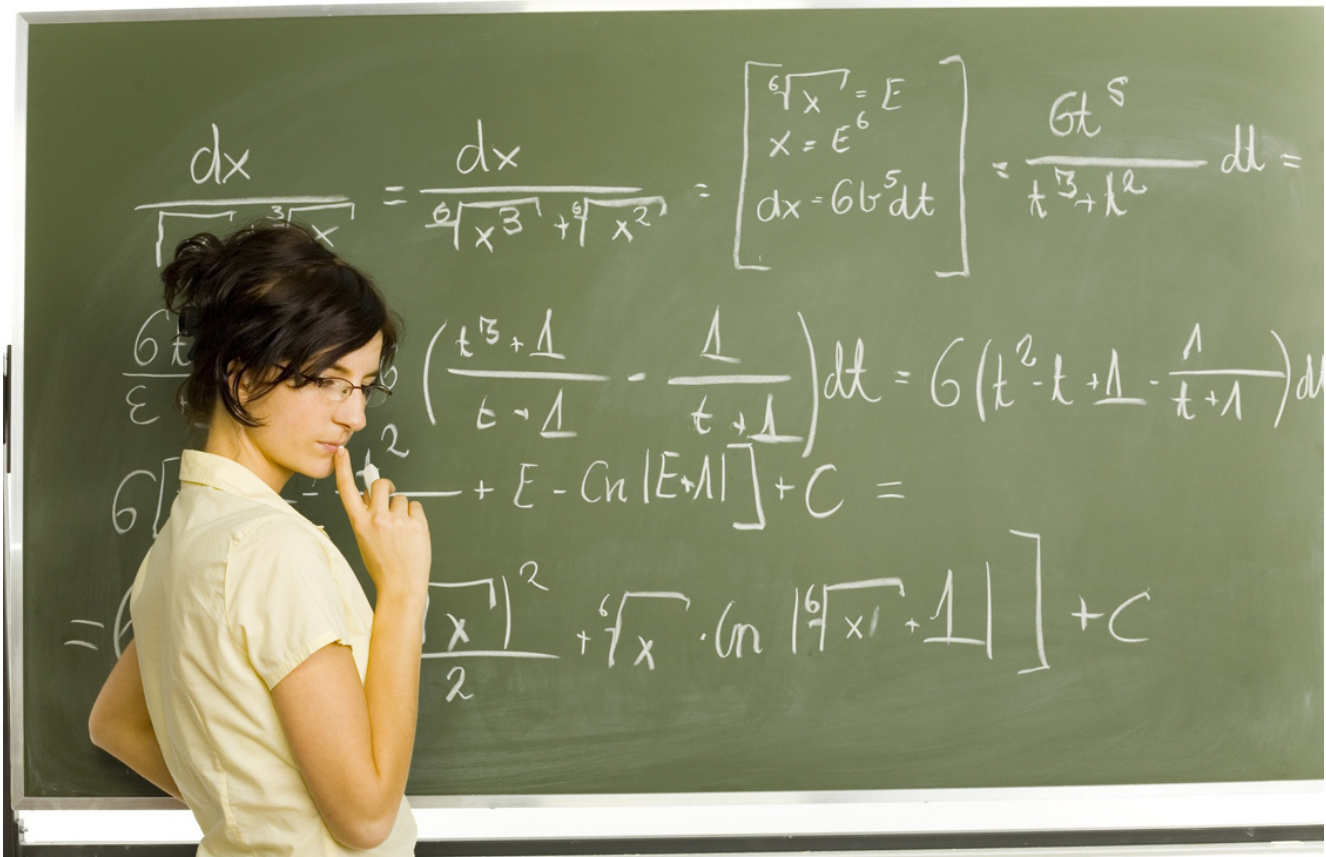
We would like to help your district develop a road map to more affordable, higher quality health insurance coverage.

2009 Premiums for the XXX options and the proposed XXX options are as follows:

	Current 500 - 80 - \$1000	Proposed 500 - 80-1350-\$20	Current 1000 - 80 - 2000	Proposed 1500 - 80 - 1500 - \$20 co-pay	Current Basic	Current Catastrophic	Proposed HSA 2300
Employee Only	\$477	\$454	\$427	\$423	\$280	\$296	\$291
Employee Spouse	\$954	\$902	\$854	\$839	\$560	\$592	\$578
Employee Child(ren)	\$906	\$857	\$811	\$798	\$532	\$562	\$550
Family	\$1,183	\$1,126	\$1,066	\$1,048	\$700	\$740	\$721

Maximum out-of-pocket (OOP) exposures on the current XXX and the proposed XXX options are as follows:

	Current 500 - 80 - \$1000	Proposed 500 - 80-1350-\$20	Current 1000 - 80 - 2000	Proposed 1500 - 80 - 1500 - \$20 co-pay	Current Basic	Current Catastrophic	Proposed HSA 2300
Max OOP	\$1,000	\$1,350	\$2,000	\$1,500	\$4,000	\$7,500	\$2,300
Rx OOP	\$1,500	\$1,000	\$1,500	\$1,000	Not Covered	\$1,500	Included
Total OOP Max	\$2,500	\$2,350	\$3,500	\$2,500	Not able to determine	\$9,000	\$2,300



Health Insurance Comparison for 2011/2012 Traditional Plan compared to HSA Plan

Traditional 200 Ded. 80/20 Coinsurance 2011/2012 Monthly Premiums

	Monthly Employee Contribution	District Contribution	Total Premium	Annual Employee Contribution
Employee	\$289.30	\$356.70	\$646.00	\$3,471.60
Employee/Spouse	\$580.30	\$709.70	\$1,290.00	\$6,963.60
Employee/Child(ren)	\$552.30	\$674.70	\$1,227.00	\$6,627.60
Family	\$725.30	\$886.70	\$1,612.00	\$8,703.60

2011/2012 HSA Plan Monthly Cost

Coverage	Employee Contribution	District Contribution	Total Premium	Employee Premium Savings
Employee	\$108.30	\$356.70	\$465.00	\$181.00
Employee/Spouse	\$220.30	\$709.70	\$930.00	\$360.00
Employee/Child(ren)	\$207.30	\$674.70	\$882.00	\$345.00
Family	\$268.30	\$886.70	\$1,155.00	\$457.00

Contribution Strategy with the use of Premium Savings

Coverage	Premium Savings	District HSA Contribution	Total Annual HSA Contribution	Maximum Out-of-Pocket Medical Expense on HSA Plan
Employee	\$181.00	\$0.00	\$2,172.00	\$2,400
Employee/Spouse	\$360.00	\$0.00	\$4,320.00	\$4,800
Employee/Child(ren)	\$345.00	\$0.00	\$4,140.00	\$4,800
Family	\$457.00	\$0.00	\$5,484.00	\$4,800

2011/2012 Maximum Savings for Retirement Opportunity

Coverage	Additional Amount on top of Premium Savings to meet the maximum Contribution Limit	Net Cost Using Flex	Premium Savings	Maximum Annual HSA Contribution
Employee	\$73.16	\$52.68	\$181.00	\$3,050
Employee/Spouse	\$152.50	\$109.80	\$360.00	\$6,150
Employee/Child(ren)	\$167.50	\$120.60	\$345.00	\$6,150
Family	\$55.50	\$39.96	\$457.00	\$6,150

*Note: Any enrollment category can contribute \$83/month more if age 55 or older.
\$166/month more if covering spouse and both are 55 or older.*

