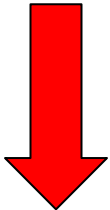


Health Insurance Cost Management - 2010

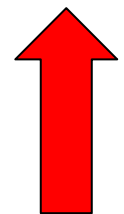
To state that Archdiocesan employee health insurance has reached unsustainable levels in terms of cost is to state the obvious. The average cost of Archdiocesan health insurance this fiscal year is almost \$11,000 per employee! You as pastors and principals are acutely aware of the health insurance check that you have to sign each month, absorbing ever-increasing portions of the parish contribution or school tuition money that is entrusted to your careful



stewardship. A number of you have responded (with heavy hearts) by attempting to reduce benefits-eligible positions at your location. Overall, from February 2009 to February 2010, benefits-eligible positions in the Archdiocese have been reduced 3.7% (63 positions), the largest drop since we have offered health insurance. Yet this strategy inherently limits being able to get the job done with the level of consistent quality that you and your parishioners and student families expect, as well as being able to attract new qualified people to join you in the endeavor.



This year, in the face of yet another high-teens double-digit increase in premiums, similar to the spring of 2006 when we published the HR Connect entitled "Health Insurance Cost Management," the decision has been made with the help of the Health Insurance Advisory Group to reduce the health insurance benefits. Then as part of a consumerist strategy the tough decision was made to replace the "Cadillac" health plan (PPO 100/80) with the PPO 90/70. For the first time one of our plans would not be "cost insulated" since



the participant would have to pay 10% of their Anthem Blue Cross health care costs (or 30% of costs incurred outside of the Anthem Blue Cross network). For the first time, participants would find out how much their health services cost. For the first time, they would get a bill showing how much "coinsurance" they owe (the 10% or 30%, depending on whether they used an Anthem Blue Cross doctor or health service). It was a shocker, especially for those that really

use their health insurance. But participants either switched plans or adjusted, and 21% of our participants still have the PPO 90/70 plan.



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Now that same sort of decision has been made, only more so. Now, instead of just having one plan with coinsurance, all three plans will have coinsurance. Our Kaiser HMO becomes a Kaiser 90 plan; our Anthem Blue Cross EPO becomes an EPO 90; and our Anthem Blue Cross PPO 90/70 becomes a PPO 80/60 (to compensate, this new PPO plan will have no deductible). This benefit reduction lowered the premium increase, which makes health insurance more affordable for participants and locations alike, thereby putting less pressure on locations to cut benefited positions and on healthy individuals to drop their insurance. It also creates an awareness of cost among those that use their health insurance, and gives them an incentive to seek out lower cost alternatives for their health issues, thereby reducing the costs to the plan overall. Lower utilization costs mean less pressure on premiums. In this sense it builds in a cost management tool that should help limit future premium increases. The big disadvantage of course is that those who use their health insurance more will have to pay more. That is one of those excruciating trade-offs which no pastor, principal, or HR professional wants to have to face, unless pressed up against the wall. Unfortunately, our locations are by and large pressed up against the wall financially, and we were forced to make this sort of trade off. We need to reduce our relatively rich health benefits so that we can afford to offer health benefits. It should be noted that we can help somewhat by channeling those most affected to our Section 125 flexible spending accounts (FSAs) during the November open enrollment period. The Section 125 FSA offers up to 40% off (depending on an employee's tax bracket) of unreimbursed medical expenses by setting the money aside before federal, state and FICA taxes are charged.



The second major benefit reduction impacts only those with prescriptions under our Anthem Blue Cross plans, and it now applies to all RETA plans (effective July 1), not just the plans of the Archdiocese of San Francisco. It utilizes the same cost management tool as is discussed above, but for prescriptions. So instead of a strictly copay structure (\$10/\$20/\$30 depending on which cost level the medication is on), the new Rx plan has a blended copay-coinsurance structure (\$10/30%/50%). This means that for 1st level, generics, the participant pays \$10 per filled 30-day prescription. For the second they pay 30% of the cost of the drug and for the third level, 50%. Of course, this builds in a strong incentive for a participant to ask their doctor about a generic substitute if they aren't already using one. It brings the same advantages listed above, along with the big disadvantage listed above. The difference here is that all RETA Anthem Blue Cross plans will have this new Rx copay-coinsurance structure, not just the Archdiocese of San Francisco.



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The third major benefit change is actually a major advantage for employees without a spouse but with one or more children on their health plan. We have decided to offer what the majority of employers in the region offer—4 coverage tiers instead of just 3. So the new plans will each include the following tiers—employee, employee + spouse, employee + child or children, and employee + family (which includes spouse). The idea is to price each coverage tier closer to the cost. Since children generally use their health insurance less than fully grown adults, they cost the health plan less and



the premium for the EE+Ch tier shows that. The change does reflect an increased cost for one's spouse at either the EE+Sp tier or the EE+Fam tier. The thinking is that if spouses have health insurance at their own employer, they might choose that instead of staying with our health plans. The problem we have been facing is that our plans have been comparatively richer than health plans offered by

other employers in the area. An adverse selection can develop whereby sicker spouses might be attracted to our plans instead of their own employer's plan since our coverage has been more extensive. This increases costs for all of our health plans. By building in the actual cost closer to the actual participants in the coverage tier, the hope is that the plan costs will be controlled more going forward.

What Can You Do to Help Curb Rising Costs?

The rising cost of health care is a concern for all of us and there is no single factor responsible. As the Archdiocese works to find innovative solutions to managing costs while continuing to provide quality care, we hope you will join us in being part of the longer-term solution. We understand and respect a base level of employee health care costs—and we actively encourage expenses associated with preventative care, such as an annual physical. The incidence of chronic diseases, such as diabetes and cardiovascular disease, however, has risen dramatically and are known and associated with obesity, smoking and poor diet—all of which within our collective power to manage. To help educate and support employee efforts for a healthier lifestyle, the Reta Trust and the Archdiocese of San Francisco will be introducing this Fall a new wellness program for employees administered by a company called WebMD.



HR Connect is a series of training and education materials covering a wide variety of topics in personnel management. These publications are designed to provide Archdiocesan locations with helpful information and practical suggestions to better manage the personnel aspects of their leadership role. Previous **HR Connect** issues are available in the website: <http://www.sfarchdiocese.org/about-us/departments-and-offices/human-resources/hr-newsletters/> Produced by the Office of Human Resources, Archdiocese of San Francisco, Tel: (415) 614-5540.