History and Current State of UNM Self-Insured Health Plan

Compiled by the Division of Human Resources for the Board of Regents of the University of New Mexico

June - July 2015

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History and Current Status of Self-Insured Health Plan

Presented to:

Finance & Facilities Committee

June 26, 2015

UNM
HUMAN RESOURCES

1

Self-Insured Health Plan History

Elaine Phelps

FY2006 – FY2007

- Fully insured medical
  - Lovelace and UnitedHealthcare (UHC)
- Three-tier option included:
  - 1. LoboCare; 2. In-network; and 3. Out-of-network
- Local Mercer office closed; Issued RFP for new consultant
- Contracted with Gallagher Benefit Services (GBS) effective 1/1/07
  - Evaluated self-funding for medical and dental
    - Implemented self-funding for dental to be effective FY08
  - Renewed medical plans on insured basis
    - Premium rate averages increased 9% for UHC and 12% for Lovelace

Self-Insured Health Plan History

Elaine Phelps

FY2007 - FY2008

- Insured medical plans
  - Lovelace
  - UnitedHealthcare
- Lovelace and Presbyterian selected as medical vendors during FY08 for FY09
  - No rate increase for Lovelace; rate increase of 7.5% for Presbyterian
- UNM partnered with UNMH to outsource COBRA administration; this resulted in reduced COBRA administration costs

Self-Insured Health Plan History

Elaine Phelps

FY2009

- Per RFP for medical carriers (released Fall 2007), evaluated offers for self-insurance with stop-loss, minimum premium plan, and insured plan
  - Based on best and final offers, RFP committee recommended UNM contract with Lovelace and Presbyterian on an insured basis for FY09
- Projected to generate $3 - $3.5 million in additional reserve during FY09

FY2010

- Self-insured medical plans available:
  - Lovelace
  - Express Scripts
  - Presbyterian
- Stop-Loss Insurance purchased
- Projected to generate $4.5 - $5 million in additional reserve during FY10

Self-Insured Health Plan History

Elaine Phelps

FY2011

- No major self-insurance initiatives
- Administrative costs were 6% of total plan costs
- Implemented current fiscal year ACA requirements
- Dependent eligibility verification audit conducted; 5% sample
- Claims audit of Lovelace and Presbyterian conducted

FY2012

- Premium structure realigned to reflect utilization of:
  - Coverage tiers (EE, EE & Sp, EE & Child, Family)
  - Lovelace and Presbyterian
  - Active and pre-65
- Plan design changed based on cost of each network
  - Copays used for high frequency services (PCP/SPC visits, Urgent Care)
  - Coinsurance used for low frequency services (inpatient hospital, outpatient surgery, high-cost diagnostics)
  - Combined LoboCare and tier II deductibles and out-of-pocket maximums

Self-Insured Health Plan History

Elaine Phelps

FY2013

- Salary tier contribution schedule adjusted. UNM contributed:
  - 80% for EEs earning < $35,000 annually
  - 70% for EEs earning $35,000 - $49,999 annually
  - 60% for EEs earning $50,000 or more annually
- Negotiated and implemented new preferred fee schedule with UNMMG
- Partnered with UNMMG to continue offering ABQ Health Partners, which had dropped from Lovelace network

FY2014

- Implemented current fiscal year ACA requirements
- BlueCross BlueShield (BCBS) bought Lovelace plan 6/1/14
- Completed RFP for FY15 due to BCBS buyout
- Conducted Positive Open Enrollment
- The High Deductible Health Plan was evaluated for an effective date of July 1, 2014 (FY15)

Self-Insured Health Plan History

Elaine Phelps

FY2015

- Three medical, third party administrators:
  - UNM Health
  - BlueCross BlueShield
  - Presbyterian
- Express Scripts continues as pharmacy benefit manager
  - Rx audit conducted
- Contracted with Aon
- Implemented current fiscal year ACA requirements
- Health Plan Committee convened
- Dependent eligibility verification audit conducted; 100% sample

Self-Funded Health Insurance

Mike Duran

UNM Health Insurance Financial Information

The total contributions are detailed by UNM and employee/retiree. These contributions fund medical and pharmacy claims, excess stop-loss insurance, ASO fees, and transitional reinsurance costs.

FISCAL YEAR	UNM CONTRIBUTIONS	EMPLOYEE/ RETIREE CONTRIBUTIONS	TOTAL CONTRIBUTIONS	UNM AVG. PREM. % INCR.	NATIONAL AVG. PREM.% INCR.	CLAIMS COST
FY10	$32,029,623	$20,477,955	$52,507,578	0%	10%	$45,048,457
FY11	$33,606,413	$21,486,068	$55,092,481	2%	8%	$50,363,630
FY12	$33,262,273	$21,266,043	$54,528,316	0%	8%	$54,962,042
FY13	$37,291,301	$23,841,979	$61,133,280	9%	9.3%	$51,193,188
FY14	$40,207,861	$25,706,665	$65,914,526	6%	4.4%	$58,208,906
FY15 Est.	$39,150,000	$26,100,000	$65,250,000	0%	5.5%	$61,400,000
FY16 Est.	$39,218,860	$26,131,520	$65,350,380	0%	N/A	$61,500,000

GASB 45 and Actuarial Accrued Liability

Mike Duran

The Governmental Accounting Standards Board (GASB) issued statement no. 45, which requires governmental employers to recognize and display OPEB expenses and related liabilities in its annual financial reports. UNM was first required to report this information in FY08.

VEBA was established as a mechanism to fund the Actuarial Accrued Liability (AAL).

A reduction of the AAL in FY13 was achieved through the implementation of VEBA, experience rating of pre-65 retirees, and phased-in premium allocation increases to all retirees.

FISCAL YEAR	ACTUARIAL ACCRUED LIABILITY	VEBA ASSETS CUMULATIVE	UNFUNDED ACTUARIAL ACCRUED LIABILITY
FY07	$ N/A	$0	$ N/A
FY08	$ 91,344,000	$0	$ 91,344,000
FY09	$ 91,344,000	$0	$ 91,344,000
FY10	$131,868,000	$0	$131,868,000
FY11	$131,868,000	$0	$131,868,000
FY12	$152,643,000	$0	$152,643,000
FY13	$ 94,156,000	$0	$ 94,156,000
FY14	$ 94,680,000	$ 4,282,653	$ 90,397,347
FY15 Est.	$101,500,000	$11,225,000	$ 90,275,000
FY16 Est.	$ Pending Actuaries	$18,150,000	$ Pending

Reserve and Excess Stop-Loss

Mike Duran

Reserve components:

- to fund claims incurred but not reported (IBNR)
- to provide protection against catastrophic claims and claims fluctuation

Excess stop-loss insurance provides UNM with individual catastrophic insurance coverage above the established insurance deductible.

FISCAL YEAR	INSURANCE RESERVE BALANCE JUNE 30	RESERVE FUND DRAW-DOWN	EXCESS STOP-LOSS INSURANCE COST	EXCESS STOP-LOSS INSURANCE RECOVERY	EXCESS STOP-LOSS INSURANCE DEDUCTIBLE
FY07	$ 2,823,770	$0	$ N/A	$ N/A	$ N/A
FY08	$ 4,557,067	$0	$ N/A	$ N/A	$ N/A
FY09	$ 8,496,827	$0	$ N/A	$ N/A	$ N/A
FY10	$16,533,884	$1,250,000	$1,336,434	$ 559,747	$ 300,000
FY11	$17,085,947	$0	$1,786,771	$1,154,153	$ 300,000
FY12	$16,857,384	$0	$1,624,810	$1,856,848	$ 350,000
FY13	$20,626,007	$0	$2,051,064	$ 133,492	$ 500,000
FY14	$22,555,358	$0	$1,491,606	$ 292,021	$ 600,000
FY15	$19,000,000 Est.	$3,000,000	$ 884,564 Est.	$ TBD	$1,000,000
FY16	$16,000,000 Est.	$0	$ 525,000 Est.	$ TBD	$1,000,000

Establishment of a VEBA Plan

Mike Duran

December 2012 - President charged the Faculty and Staff Benefits committee to appoint a new Retiree Health Care Taskforce to provide recommendations on how to achieve a reduction or elimination of the unfunded AAL and its impact on UNM finances.

April 2013 - Retiree Health Care Taskforce presented its final recommendations to the Board of Regents which included establishment of a VEBA trust plan.

July 2013 - The VEBA plan was implemented with contributions from both UNM and employees:

FISCAL YEAR	UNM CONTRIBUTION	EMPLOYEE CONTRIBUTION	VEBA CONTRIBUTIONS & EARNINGS	VEBA ASSETS CUMULATIVE
FY14	1/2 %	1/2 %	$ 4,300,000	$ 4,300,000
FY15	3/4 %	3/4 %	$ 6,925,000	$11,225,000 Est.
FY16	3/4 %	3/4 %	$ 6,925,000	$18,150,000 Est.

Health Plan Committee – July 2014

Michael Richards

Committee Composition:

- Steering Committee and 25 community representatives

Charge:

- Make recommendations to the BOR regarding UNM’s current health benefits by December 2014

Recommendations needed to:

- Consider consolidation and integration
- Include plan design with the following attributes: affordable, reduced cost, high-quality health care, sustainable, contemporary, and attractive to former, current, and future employees
- Be cost neutral

Health Plan Committee (cont.)

Michael Richards

Recommendations included:

- Immediate items related to disease management and wellness; Rx costs; dedicated clinic; collaborative purchasing
- FY16 items to increase LoboCare utilization; reduced # of TPAs
- FY16 deferred VEBA increase of .25%
- FY16 evaluation of HDHP and HSA
- FY16 blending of pre-65 retiree claims experience with active experience
- Discuss the elimination of post-retirement health benefits for new hires

Presentations and Approvals:

- Presented to F&F (11/11/14): Preliminary findings and possible recommendations
- HPC Meeting (11/11/14): Discussion and vote on recommended items
- Presented to BOR (11/14/14): Consensus items and non-consensus items from HPC

Recommendation: Blending of Pre-65 Retirees' Experience

Michael Richards

November 11, 2014 F&F Meeting:

- Request by Regents: Ballot vote by each active benefits-eligible employee

November 14, 2014 BOR Meeting:

- Request by Regents: Faculty Senate President and Staff Council President to provide feedback on behalf of constituents

December 9, 2014 BOR Meeting: Advisor Comments

- Faculty Senate: 54% participation with a strong majority in favor of blending pre-65 retirees
- Staff Council: Unanimous vote in favor of blending pre-65 retirees

Health Insurance Reserve – 2015

Dorothy Anderson

Change in Benefits Consultant

- Gallagher to Aon: December 1, 2014

Aon Consultant

- February 6, 2015: Memo received from Aon discussing possible uses of reserve and premium rate guidance
- Guidance on $3M drawdown of reserve from $22M to $19M

UNM and HSC Admin: Use of reserve

- $2.5M offset I&G operating budget
- $500K and decrease UNMH premiums to increase participation (FY16 & FY17)

Board Approval: Health Plan Changes and Use of Reserve

Dorothy Anderson

February 3, 2015 F&F Meeting

- Held in committee pending additional information

March 3, 2015 F&F Meeting

- Approval of HPC recommendations: Blending of pre-65 retiree experience and discontinue post-retirement benefits beginning FY16
- Review FY15 budget: Use of $2.5M of reserve to offset FY15 I&G budget shortfall

March 9, 2015 BOR Meeting

- Approval of HPC recommendations:
  - Passed by a unanimous vote
- Approval of the revised FY15 budget:
  - Passed by a vote of 4 to 2

Concerns: Use of Reserve

Dorothy Anderson

- Faculty concerns arose after March 9, 2015 BOR approval to use reserve to offset I&G budget deficit
- Request by President to obtain legal opinion from external legal counsel regarding appropriate use of reserve
- May 13, 2015: External legal opinion obtained on drawing on health insurance reserve supporting UNM's use of the reserve, and also recommending creating a reserve policy to govern reserve decisions
- September 29, 2010: Previous external legal opinion on UNM Medical Plan supported UNM's use of the reserves

Concerns: Use of Reserve

Dorothy Anderson

- **May 20, 2015: Internal Legal Opinion**

  "I have reviewed the opinions of outside legal counsel regarding this question and done my own analysis of the application law. I have concluded that the University could move that money as it did without violating any fiduciary duty owed to UNM employees who were fund participants and that the fund participants did not own the funds that were withdrawn… The basis of the legal analysis is that while the amounts that employees who are fund participants paid into the Reserve are plan assets that can be used for no other purpose than for health benefits, any interest earned on them and other monies that formed the basis of the Reserve have no such legal restrictions."

FY16 Premiums and Premium Holiday for Active Employees

Dorothy Anderson

FY16 Health Benefit Premiums Set

- BCBS: Average increase of 4.9%
- UNMH: Average decrease of 2.1%
- Presbyterian: Remain flat 0%

Premium Holiday: Active Employees

- Response to BOR concern
  - Offset cost incurred by blending pre-65 retirees
  - No annual increase by legislature
- December 2015: No collection of health premiums *for active employees only*

History of UNM as a Self-Insured Employer

Compiled by the Division of Human Resources for the Board of Regents of the University of New Mexico

June - July 2015

FISCAL YEAR 2006 – MOVING TOWARD SELF-INSURANCE

Request for Proposal (RFP) Goals

On March 14, 2005, Vice President for Human Resources (VPHR) Susan Carkeek presented recommendations to the Board of Regents (BOR) based on the outcome of a medical plan RFP process. The goals of the RFP were to:

1. Provide UNM employees, retirees, and their dependents a comprehensive health insurance benefit with access to major provider networks including Lovelace, Presbyterian, and UNM Health Sciences Center (HSC) providers.
2. Incent utilization of UNM HSC providers.
3. Contain rising health care costs – UNM had experienced double-digit premium increases in the last four years.

Minimum Premium Contract and Dividend Sharing Agreement

The recommendation was to enter into a minimum premium plan with Lovelace Health Plan, and an experience rated/dividend sharing agreement with UnitedHealthcare. These agreements remained a fully insured funding arrangement, but allowed UNM to receive a refund of all savings realized by the two carriers, with the intent to use any savings to develop a reserve for moving to a self-insured funding arrangement.

Three-Tier Medical Plan

Partly due to changes in the local market (the Lovelace purchase of Cimarron's commercial business), and as a result of developing an incentive to utilize UNM HSC providers, a three-tier plan design was implemented for both carriers:

- Tier 1 – LoboCare (UNM HSC Providers)
- Tier 2 – In-network
- Tier 3 – Out-of-network

Added Salary Contribution Tier

In May 2005, the BOR approved an increase of the UNM contribution for employees with annual salaries between $25,000 and $34,999, from 60% to 70%. An additional open enrollment opportunity was given to employees in this salary range.

Update to the Board of Regents

On May 9, 2006, VPHR Carkeek presented an update to the BOR. Contracts with Lovelace and UnitedHealthcare were working well, and an anticipated $1.5 million in savings would go toward the $4 million reserve for self-insurance, in the hope of beginning to self-insure medical benefits in another year.

VPHR Carkeek also reported that 23.6% of medical dollars were being paid to UNM HSC providers, which was a 30% increase from previous years.

FISCAL YEARS 2007 AND 2008 – BENEFITS CONSULTANT CHANGES AND FINANCIAL ANALYSIS

RFP Issued for New Benefits Consultant

UNM's benefits consultant up until FY07 had been Mercer. The local office closed due to the retirement of UNM's primary consultant, Steve Chreist. As a result, an RFP was released in fall 2006, and UNM entered into an agreement with Gallagher Benefits Services, Inc. (GBS) effective January 1, 2007.

GBS Continued Self-Insurance Evaluations

In conjunction with GBS, HR evaluated the feasibility of self-insurance for UNM's medical and dental plans for FY08. After presenting to the Finance and Facilities Committee (F&F), the decision was made to not self-insure the medical plan for FY08, but to re-evaluate self-insuring the medical plan for the following fiscal year.

Based on GBS's projected cost savings, HR made the decision to self-insure UNM's dental plan for FY08. HR worked with GBS to renew UNM's medical plan on an insured basis. During the renewal process, GBS determined the experience rating/dividend sharing provisions with UnitedHealthcare were costing UNM rather than providing savings, and the provisions were discontinued for FY08.

UNM remained under a minimum premium plan contract with Lovelace. Medical plan rate increases for FY07 averaged in the double-digits, ranging from approximately 9% on the UnitedHealthcare plan, to approximately 12% on the Lovelace plan.

Financial Analyst Hired

In November 2006, the Benefits department hired a Financial Analyst to begin identifying reserve funds and necessary financial practices for self-insuring the medical plan for FY08.

FISCAL YEAR 2009 – FUNDING CONCERNS

Medical Proposal RFP

In the fall of 2007, UNM released an RFP for medical proposals with a July 1, 2008 effective date, requesting bids under three financing options:

- Fully insured
- Minimum premium
- Self-insured administrative services only with stop-loss insurance

RFP Selection and Recommendation to the Board of Regents

Ten RFP responses were received, and five finalists were selected and interviewed. At the BOR Executive Session, held February 15, 2008, the RFP Committee presented and received approval on the recommendation for UNM to contract with Lovelace and Presbyterian on an insured basis for FY09. Employees were provided with no increase in contributions for the Lovelace plan over the previous year, and an average of a 7.5% increase in contributions for the Presbyterian plan over the previous year's UnitedHealthcare rates.

Funding Concerns

Providing coverage on an insured basis was projected to generate $3 to $3.5 million in additional reserves, and provide time to build a self-insurance reserve during FY09. As discussed in the March 12, 2008 BOR meeting minutes, Regent Koch had concerns about remaining insured for FY09 and potential increases in premiums for FY10. EVP Harris addressed Regent Koch's concerns by stating money had been budgeted to develop the necessary reserve for moving to a self-insured plan for FY10.

Cost Containment Strategies

UNM's dental plans in FY08 were self-insured. UNM did not change carriers, plan design, or employee premium contributions. The transition to self-insuring dental was transparent to employees.

HR partnered with UNM Hospital (UNMH) to outsource COBRA administration to a third party, which reduced the overall cost of COBRA administration.

In an effort to continue to educate UNM's employee population about their benefits, HR hosted two town hall meetings to help employees understand self-insurance, and to provide information about benefits being offered.

FISCAL YEAR 2010 – SELF-INSURANCE ACHIEVED

Campus-Wide Survey

In preparation for self-insuring medical insurance plans with an effective date of July 1, 2009, the Benefits department and the Employee Health Promotion Program released a campus-wide survey in the summer of 2008. Based on survey results, medical and prescription drug coverage were the two benefits valued most by the campus population, and lower premiums and out-of-pocket costs were the most valued aspect of medical and prescription drug coverage.

In September 2008, HR convened an RFP Committee with representation from Faculty Senate, Branch Campuses, Staff Council, Financial Services, Risk Services, UNMH, UNM's benefits consultant, and Purchasing. The RFP Committee drafted an RFP for medical benefits, prescription drug benefits, and stop-loss insurance.

HR requested bids under two financing options:

- Fully insured
- Self-insured administrative services only with stop-loss insurance

Three plan design changes were recommended:

- Reduced copay for mail-order prescriptions
- Zero copay for diabetic supplies
- Increased copay for emergency room visits

Self-Insurance Success

VPHR Helen Gonzales presented the RFP Committee's recommendations to the BOR at the March 20, 2009 meeting, which were to:

- Self-insure UNM's medical plans for FY10
- Contract with Lovelace and Presbyterian as Third Party Administrators (TPAs)
- Contract with Express Scripts for prescription drug coverage
- Contract with stop-loss carriers to limit UNM's claims liability

The BOR approved the recommendation for a July 1, 2009 effective date. The successful negotiation and implementation of a self-insured medical plan represented the culmination of a multi-year objective by UNM that began in FY05. Effective July 1, 2009, UNM began offering a self-insured medical plan utilizing two TPAs, and a prescription drug plan utilizing a single pharmacy benefits manager.

Projected Savings and Advantages

Savings were projected to be $4.5 to $5 million in FY10, as a result of switching from two fully insured plans to a self-insured plan. The savings projection was based on an estimated $1.5 million decrease in administrative costs, as well as saving $3.4 million in additional premiums that UNM would have to pay if we continued to offer two insured plans. This savings was intended to provide additional reserves to fund claims run-out in the future. The previous medical carriers were retained as the TPAs. In FY10, when the projected medical trend was approximately 10%, UNM did not increase employee medical or prescription drug premiums.

Advantages to UNM employees as a result of self-insuring the medical plan included:

- Reduced expenses, which allowed for no increase in premiums for FY10, and allowed for increased reserves throughout the year
- Easy transition, due to no change in health insurance carriers
- More flexibility in plan design
- Less confusion about prescription drug formularies
    - When UNM previously offered two insured plans, if an employee switched from one medical carrier to the other, a drug on the prior carrier's formulary might not be included on the new medical carrier's formulary. By contracting with one pharmacy benefits

manager, the employee had access to the same formulary no matter which TPA the employee enrolled in.

Development of Policies and Plan Documents

Regent Policy 3.7 defining UNM as a “hybrid covered entity” under the Health Insurance Portability and Accountability Act (HIPAA) was drafted, and the final version was adopted on December 14, 2010. The Chancellor of UNM HSC was determined to be responsible for the compliance of the “hybrid covered entity” for the “health care components” designated by the BOR. Additionally, the Chancellor for UNM HSC named Sophia Collaros as the Privacy Officer for the health care components.

The Benefits department, Office of University Counsel, and UNM’s Privacy Officer negotiated and executed administrative services only contracts and business associate agreements with Lovelace and Presbyterian. Additionally, stop-loss policies were implemented using Highmark for the Presbyterian population and ING for Lovelace. Individual stop-loss deductibles were set at $300,000.

The Benefits department worked with Lovelace and Presbyterian to develop and finalize Participant Benefit Booklets (PBB). Appeals and grievances processes were identified and explained in the PBB. The TPAs administered level one and level two appeals. Under an insured medical plan, the NM Department of Insurance is typically the level three appeal entity, but it does not have oversight for self-insured plans. The Benefits department worked with the Office of University Counsel to identify a level three appeals process using the American Arbitration Association.

As a self-insured employer, UNM became responsible for providing notices to employees under HIPAA, such as the Notice of Privacy Practices, notices under the Newborns and Mothers Health Protection Act of 1996, the Women’s Health and Cancer Rights Act, and other required notices.

FISCAL YEAR 2011 – ADDRESSING COSTS AND NEW REGULATIONS

Continued Increase in Claims Costs and Budget Summit

Self-insuring UNM’s medical plan helped to contain costs by keeping UNM’s administrative costs at approximately 6%. By comparison, the Affordable Care Act (ACA) allowed a maximum of 15% for insured plans. Even though administrative costs were reduced, UNM’s claims costs continued to increase. Claims costs account for approximately 94% of the total plan costs. In preparation for FY11, Human Resources began communicating the challenges of the rising cost of health care. Two UNM Today articles were published in March and April of 2010, expressing the challenges of increasing health care costs and the balanced approach of slightly increasing premiums and copays to offset the increase in costs.

VPHR Helen Gonzales presented these challenges and the measures taken by HR to meet the challenges at the Budget Summit on April 2, 2010. UNM was able to keep premium increases for FY11 low, at an average of 2% as opposed to the expected national average of 8%.

Additionally, VPHR Gonzales presented future concerns at the Budget Summit. These concerns included the cost of retiree health care, the unknown cost to implement the ACA, and continued increases in medical and pharmacy claims. VPHR Gonzales addressed the concerns of the cost of retiree health care by convening a taskforce in FY11 to study the issue for FY12. This taskforce explored options including:

- Evaluation of cost sharing based on utilization (pre-65 retiree costs were being subsidized by active employees)
- Moving new hires to NM Retiree Health Care Authority
- Evaluation of trends at peer institutions

Dependent Eligibility Audit

Another cost containment strategy mentioned in VPHR Gonzales's Budget Summit presentation, and implemented in the fall of 2010, was UNM's first dependent eligibility audit. The audit was conducted by a partnership between the Benefits department and Healthcare Analytics, a division of GBS. During the first phase, all employees with dependents on the medical plan were required to provide an online attestation of eligibility.

During the second phase, a 5% statistically valid sample of employees were required to provide proof documents for their dependents. As a result of the dependent eligibility audit, UNM was projected to save $243,000 in the first year and $975,000 in claims costs over a five-year period.

To ensure that UNM's TPAs were accurately administering UNM's medical plans, Healthcare Analytics also conducted an audit of claims paid by Lovelace and Presbyterian.

Affordable Care Act (ACA) Implementation

FY11 was dedicated in large part to beginning implementation of the ACA legislation. On July 1, 2010, the Benefits department submitted an application for the Early Retiree Reinsurance Program (ERRP) established under the ACA. UNM's application was approved on August 31, 2010. Under the ERRP, $5 billion was set aside to reimburse employers for specific early retiree claims. Under the program, UNM received approximately $450,000 in reimbursements during FY11 and FY12. While the ERRP was intended to continue until January 1, 2014, the funds were depleted early, and on December 13, 2011, the Centers for Medicare & Medicaid Services announced the reimbursement requests for claim service dates after December 31, 2011 would be denied. More information regarding the ERRP can be found at: https://www.cms.gov/CCIIO/Programs-and-Initiatives/Insurance-Programs/Early-Retiree-Reinsurance-Program.html.

FISCAL YEAR 2012 – PLAN ENHANCEMENTS AND DESIGN CHANGES

A Transitional Year for the UNM Medical Plan

In preparation for FY12, VPHR Gonzales presented FY12 changes at the Budget Summit on March 28, 2011. The Budget Summit presentation set the expectation that FY12 would be a transitional year for the UNM Medical Plan. VPHR Gonzales presented several strategies to be implemented in FY12, to continue to ensure the financial solvency of the UNM Medical Plan:

- UNM's premium structure was realigned to reflect claims utilization
  - Premiums were based on utilization among coverage tiers (employee, employee and spouse, employee and child, and family)
  - Premiums were based on utilization of each TPA (Lovelace and Presbyterian)
  - Premiums were based on utilization between active and pre-65 retiree populations

- UNM began to move away from a health maintenance organization model to a consumerism model and
  - Plan design was based on the cost of each network (LoboCare, in-network, and out-of-network)
  - Plan design was changed to use copays for higher frequency services (e.g., primary and specialist office visits, urgent care)
  - Plan design was changed to use coinsurance for lower frequency services (e.g., inpatient hospital, outpatient surgical procedures, and high cost diagnostics)

- Consumerism and value-based decision making were promoted, which
  - Reduced total out-of-pocket maximums by combining LoboCare and in-network Tier 2 out-of-pocket maximums
  - Combined deductibles for LoboCare and in-network Tier 2
  - Patients could use both LoboCare and in-network services without meeting multiple deductibles and out-of-pocket maximums

- Under plan design enhancements
  - Dependent coverage was offered to age 26, irrespective of marital status or other coverage accessibility
  - Preventive services that previously required a copay no longer required a copay

- Other miscellaneous changes were made, including
  - Implementation of ACA required appeal process utilizing independent review organizations, and compliance with rescission language
  - Implementation of the Retiree Health Care Taskforce recommendations, effective July 1, 2011

        - Included a 5% contribution shift for FY12 and then a 1% contribution shift each year until FY17, resulting in a 50% contribution to retiree health benefits in FY17
        - Experience rating retiree premiums was reviewed but not implemented, due to the substantial increase in premiums retirees would experience
    - Implementation of medical plan coinsurance changes for Tier 1 LoboCare providers, effective July 1, 2011

As presented by VPHR Gonzales, national medical and prescription drug trends reflected an 8% increase in FY12. Self-insuring allowed UNM to monitor and minimize cost increases. With plan design changes and modest premium increases, HR was able to minimize cost increases to UNM employees and to the University. Overall, there was a 0% increase to budgeted costs for UNM health insurance.

Plan Design Changes Communicated and Presented Prior to and During Open Enrollment

In 2011, the Benefits department conducted a number of presentations and sent many notifications regarding plan design changes. All information was available on the HR website.

- Open enrollment emails (initial notice and reminders) total: 9
- Presentations conducted: 13
- UNM articles: 2
- Home address mailing: 1

Ongoing Communication and Presentations of Plan Design Changes

FY12 also included significant ongoing communications due to the changes made during open enrollment. On August 31, 2011, an email was sent to all benefits-eligible employees clarifying issues expressed in an August 29, 2011 Daily Lobo article. The Benefits department taught approximately 15-20 classes through Employee and Organizational Development in September 2011 reiterating the reasons for the plan design changes made in FY12, and educating UNM employees on how to best use the UNM Medical Plan. Additionally, the Benefits department was invited by five separate departments to present plan design changes. Finally, VPHR Gonzales presented an update to the F&F Committee on October 11, 2011 that recapped the March 28, 2011 Budget Summit presentation and provided future strategies for mitigating costs.

FISCAL YEAR 2013 – COMMUNICATION AND PARTNERSHIPS

Campus Communications – Forums, Presentations, and UNM Today

VPHR Gonzales presented at six forums in March of 2012 discussing the challenges of maintaining a generous medical plan with a choice of provider networks in the face of escalating health care costs. These presentations also demonstrated the UNM Medical Plan funding gap that was projected for FY13.

In April 2012, a UNM Today article was written communicating the medical plan increases, as well as the decision to adjust the salary tier premium contribution schedule. The article made the following points:

- The cumulative increase in health care costs for UNM's self-insured medical plan for the previous three years was approximately 25%, and projections for FY13 were 10.8%. By responding thoughtfully and aggressively to increasing health care costs, UNM's annual premium increases had been held, on average, to less than 1% per year over those same three years, largely through the use of fund reserves to offset the gap between the cost of claims and premiums collected, as well as through plan design changes in FY12 that attached part of the cost of certain types of care to individual utilization.

- With both claims and costs rising, the UNM medical plan now faced a substantial gap in funding. With premium increases and plan design changes being the only available tools to meet that challenge, UNM decided not to implement further changes in plan design for FY13. To assure the UNM medical plan was adequately funded, premiums were increased on average by approximately 8.5% in FY13. At the same time, the salary tier contribution schedule, or split, was adjusted. UNM contributed 80% (the maximum the State of New Mexico allows) of the premium for full-time active employees earning less than $35,000 per year, 70% for those earning $35,000 to $49,999, and 60% of the premium for employees earning $50,000 or more per year.

Open enrollment presentations addressed modifiable costs that employees had control over, such as lack of physical activity, obesity, high blood pressure, and tobacco use. Conservative estimates by the Wellness Council of America showed that modifiable costs accounted for 25% - 50% of an organization's entire health care bill.

Professional Fee Schedule and Internal HSC Partnerships

Although plan design changes were not made for FY13, HR implemented a new professional fee schedule with the UNM Medical Group in September 2012. The new fee schedule was a preferred fee schedule for UNM employees and dependents, which was a cost containment measure for professional services dispensed by UNM HSC providers. Additionally, HR explored a partnership with UNM's College of Pharmacy.

The Benefits department also partnered with the UNM Medical Group to continue to offer Albuquerque Health Partners as a network provider for UNM employees, when Albuquerque Health Partners dropped from the Lovelace provider network. Processes were established with Meritain Health, UNM Medical Group's contracted TPA for paying ABQ Health Partner claims, and with Healthcare Analytics for out-of-pocket maximum aggregation of ABQ Health Partner claims and other UNM Medical Plan claims.

Stop-Loss RFP

In May 2012, Purchasing determined the Benefits department needed to release a stop-loss RFP. Stop-loss carriers will not typically provide a quote greater than 90 days prior to the beginning of the plan year, and the Benefits department received a quote from only the incumbent, Highmark. On June 7, 2012, the BOR approved Highmark with a $500,000 deductible for FY13. Regents Koch and Chalmers advised to begin stop-loss bids earlier in the future to be more competitive.

FISCAL YEAR 2014 – NEW REQUESTS FOR PROPOSALS AND REGULATORY ADJUSTMENTS

RFPs for Self-Insured Medical Plan and Pharmacy Benefits Manager

In October 2012, HR released an RFP for self-insured medical and a separate RFP for a pharmacy benefits manager for prescription drug management with an expected effective date of July 1, 2013. An RFP Committee was formed with representation from the Benefits department, faculty and staff representatives appointed by the Faculty and Staff Benefits Committee, Financial Services, and Purchasing. The medical RFP only included self-insured funding options. Six proposals were received, and the committee provided qualitative scores while GBS performed the network pricing review analysis.

The pharmacy benefits manager RFP incorporated provisions for potential partnership with the College of Pharmacy, and reviewed both traditional and pass through contract pricing arrangements. Nine proposals were received. RFP Committee members provided qualitative scores, and the GBS national pharmacy practice performed pricing analysis.

Based on overall cost, the RFP Committee recommended Lovelace and Presbyterian as the medical TPAs and Express Scripts as the pharmacy benefits manager. The RFP Committee recommendation was presented by Interim VPHR Jewel Washington to the F&F Committee on February 7, 2013, and approved by the BOR on February 11, 2013. Lovelace premiums did not increase, and Presbyterian premiums increased by approximately 9.5%.

Stop-Loss RFP Released

A stop-loss RFP was released as a two-phase approach, based on the June 7, 2012 F&F Committee recommendation to start the process earlier and get more competitive bids. The RFP was released in February 2013 with qualitative questionnaires due by March 8, 2013, proposed pricing due by April 5, 2013, and final quotes due by April 29, 2013. Five stop-loss quotes were received. Chief Procurement Officer (CPO) Bruce Cherrin, Interim VPHR Jewel Washington, and Director of Benefits Elaine Phelps presented the recommendation to the F&F Committee on May 3, 2013 and the BOR approved it on May 14, 2013. Sun Life was the chosen carrier and the individual deductible was increased to $600,000, resulting in a savings of $750,000 in premiums for FY14.

In FY14, UNM's benefits consultant analyzed UNM medical plan costs associated with UNMH utilization to explore negotiation of a UNMH/UNM medical plan preferred fee schedule contract. The analysis confirmed that claims costs at UNMH in general were not higher than claims costs at Presbyterian Hospital or Lovelace Hospital.

ACA Compliance

UNM was required by the ACA to provide a Notice of Availability of Marketplace Coverage to all employees. Additionally, a detailed Summary of Benefits and Coverage (SBC) was developed. The ACA required the SBC to be available for current employees during UNM's spring open enrollment, and available for new hires and newly eligible employees effective July 1, 2013.

Plan design changes included an enhancement to women's preventive health in compliance with the ACA, as well as changes to copays for prescription drugs.

BlueCross BlueShield of New Mexico (BCBS) Purchase of Lovelace Health Plan

In the fall of 2013, BCBS announced the purchase of the Lovelace Health Plan. BCBS received regulatory approval of the purchase for a June 1, 2014 effective date. The Lovelace ASO contract was assigned to BCBS and the Lovelace enrollees were transitioned to BCBS effective June 1, 2014.

FISCAL YEAR 2015 – STAYING COMPETITIVE

Medical RFP Released to Ensure Competitive Pricing

With the changes in the market due to the BCBS purchase of Lovelace Health Plan, effective June 1, 2013, a medical RFP was released mid-December of 2013 for a July 1, 2014 effective date, to ensure the most competitive pricing was received for FY15. The RFP Committee included representation from Benefits, Faculty and Staff Benefits Committee, Financial Services, and GBS. Five proposals were received. The RFP Committee's recommendation was to award three TPAs:

1. BCBS
2. Presbyterian Health Plan
3. UNM HSC (UNM Health)

The RFP Committee recommendation was presented to the F&F Committee on March 7, 2014, by CPO Bruce Cherrin and Interim VPHR Jewel Washington. It was approved by the BOR on March 10, 2014.

Plan Design Changes

In order to meet budgetary goals, the following plan design changes were analyzed and presented to the BOR by John Hatz, GBS Consultant, on April 8, 2014. The BOR approved the changes, resulting in budget neutral medical costs for FY15:

- Increased deductibles
- Increased out-of-pocket maximums
- Increased copays
- Changes to further incent the use of LoboCare
- Provided protection for employee out-of-pocket costs by aggregating amounts paid for deductibles, copays, coinsurance, and prescription drug copays toward the annual out-of-pocket maximum

Positive Enrollment

Due to the changes in the number of TPAs, a positive enrollment was performed during the open enrollment period. All employees who wanted medical coverage had to enroll, as there were no rollovers. Approximately 40-50 presentations were given by the Benefits department and HR staff at main and branch campuses explaining the open enrollment choices and the plan design changes.

ACA Implementation

ACA regulatory requirements included payment of a Patient Centered Outcomes Research Institute fee, and a Transitional Reinsurance fee.

History of VEBA and Insurance Reserve

Compiled by the Division of Human Resources for the Board of Regents of the University of New Mexico

June - July 2015

Governmental Accounting Standards Board Statement No. 45

In June 2004, the Governmental Accounting Standards Board issued Statement No. 45: "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB 45). GASB 45 established standards for the measurement, recognition, and reporting of Other Postemployment Benefits (OPEB), expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This requirement was effective for fiscal years beginning after December 15, 2006, which for UNM was FY08. The impact to UNM is that the University is now required to reflect the OPEB expense and the related long-term liability known as the Actuarial Accrued Liability (AAL) in its financial statements.

To perform this actuarial analysis, in 2007, UNM retained the APEX Management Group, a division of Gallagher Benefits Services, Inc. From 2010 through 2014, UNM retained Healthcare Analytics Consulting, a division of Arthur J. Gallagher, and in 2015 UNM retained Aon Hewitt. The actuarial analysis results are listed below for each fiscal year.

FISCAL YEAR	OPEB Expense	Actuarial Accrued Liability	VEBA Assets	Unfunded Actuarial Accrued Liability
FY08	$2,918,000	$ 91,344,000	$0	$ 91,344,000
FY09	$2,918,000	$ 91,344,000	$0	$ 91,344,000
FY10	$5,855,000	$131,868,000	$0	$131,868,000
FY11	$5,855,000	$131,868,000	$0	$131,868,000
FY12	$5,589,000	$152,643,000	$0	$152,643,000
FY13	$ 7,000	$ 94,156,000	$0	$ 94,156,000
FY14	$3,341,000	$ 94,680,000	$ 4,282,653	$ 90,397,347
FY15 Est.	$4,000,000	$101,500,000	$11,225,000	$ 90,275,000
FY16 Est.	$ Pending	$ Pending Actuaries	$18,150,000	$ Pending

The Board of Regents (BOR) determined that this additional long-term liability could have an impact on UNM's bond rating, which determines the interest rate on new bonds issued.

Retiree Health Care Taskforce Development of Post-Retirement Benefits Plan

On August 24, 2010, Employee Benefits and Services Director Elaine Phelps, informed the Faculty and Staff Benefits Committee (FSBC) that in response to rising unfunded liability projections for the retiree health care plan, Human Resources proposed to establish a broad based campus committee to look at the current benefits and make recommendations on options to keep the plan solvent. At the subsequent FSBC meeting held September 13, 2010, Vice President for Human Resources (VPHR) Helen Gonzales reported that the Retiree Health Care Taskforce would be convened in October 2010 and report recommendations by July 1, 2011. On March 8, 2011, VPHR Gonzales reported to the FSBC that the taskforce had agreed on two recommendations:

1. New hires, beginning on July 1, 2011 and after, must work 20 years and be 60 years old to be eligible for post-retirement benefits, or be 65 years old and have worked seven years to be eligible.
2. Retirees will pay premiums more in line with their experience.

At the time, retirees under 65 paid 40% and UNM paid 60%. On July 1, 2011, retirees began paying 45% and there was to be an additional 1% shift each year for five years until the ratio reached 50%/50%.

FISCAL YEAR	Retiree Premium Allocation	UNM Premium Allocation
FY11	45%	55%
FY12	46%	54%
FY13	47%	53%
FY14	48%	52%
FY15	49%	51%
FY16	50%	50%

On December 11, 2012, President Frank informed the FSBC of a resolution and request by the BOR to have the committee appoint a new Retiree Health Care Taskforce to prepare a report with recommendations on how to "achieve a reduction or elimination of the unfunded actuarial accrued liability and its impact on the finances of the University of New Mexico." The taskforce began meeting on December 18, 2012, and completed its efforts with its report dated February 21, 2013. Deputy Dean of UNM Libraries Fran Wilkinson and Utilities Engineer Hans Barsun presented to the Audit and Compliance Committee of the BOR, the taskforce's three recommended options, which would result in a reduction of the AAL ranging from 33% to 50%. After much discussion, the Audit and Compliance Committee requested that the FSBC rework its recommendations to achieve a 50% or better liability reduction, phase in the changes over several fiscal years, preserve the current salary tiers, and finalize the details of the Voluntary Employee Benefits Association (VEBA) plan.

VEBA is an employee-funded, employer-funded, or jointly employee/employer-funded trust formed and regulated under Section 501(c)(9) of the Internal Revenue Service (IRS) (Code); Treasury Regulation Treas. Reg. & 1.501(c)(9)-2(c)(9)-3(d).

On March 26, 2013, the FSBC reviewed the revised recommendations. First, establishment of a VEBA plan to provide access to post-retirement benefits with contributions to reach 1% employee and 1% UNM by FY16 as detailed in the table below:

FISCAL YEAR	Employee Contribution	UNM Contribution
FY14	1/2%	1/2%
FY15	3/4%	3/4%
FY16	1%	1%

Second, phase-in 65 and over retiree premium allocations to result in a retiree allocation of 70% and UNM allocation of 30% as detailed in the table below:

FISCAL YEAR	Retiree Premium Allocation	UNM Premium Allocation
FY14	50%	50%
FY15	60%	40%
FY16	70%	30%

Third, phase-in pre-65 retiree premium allocations to result in a retiree allocation of 60% and UNM allocation of 40% as detailed in the table below. Premiums will be based on the total retiree rated experience:

FISCAL YEAR	Retiree Premium Allocation	UNM Premium Allocation
FY14	50%	50%
FY15	55%	45%
FY16	60%	40%

On April 5, 2013, the Finance and Facilities Committee approved the revised recommendations presented by Deputy Dean Wilkinson and Utilities Engineer Barsun. On April 9, 2013, Deputy Dean Wilkinson and Utilities Engineer Barsun presented the Retiree Health Care Taskforce revised recommendations to the BOR, which included the establishment of a VEBA. After much discussion, the BOR approved the recommendations, and requested that administration develop a phased-in approach to mitigate the impact to pre-65 retirees. Human Resources developed a five-year phased-in approach for the pre-65 retirees, which is detailed in the table below:

FISCAL YEAR	Retiree Premium Allocation	UNM Premium Allocation
FY14	40%	60%
FY15	45%	55%
FY16	50%	50%
FY17	55%	45%
FY18	60%	40%

Implementation of the VEBA Plan

As previously mentioned, the VEBA plan was approved by the BOR on April 9, 2013. For UNM, the purpose of VEBA is to partially fund health care benefits for eligible UNM employees upon their retirement. Current UNM employees who do not opt-out of the VEBA contribute a percentage of their salary, matched by a UNM contribution, by (after tax) payroll deduction. Employees who choose to opt-out of the VEBA will be allowed to enroll during the open enrollment period following the fifth year after they opted-out. Contributions to the VEBA are not refundable. By IRS definition, VEBA funds must be used to fund health care or similar benefits for trust members. VEBA funds may not be borrowed against but may be dissolved with funds distributed to the members, as specified by the IRS.

Funding was identified to cover the costs of establishing the VEBA. UNM contributions of 1/2% in the first year (which were to increase to 3/4% in the second year and 1% in the third year) would be matched by current employees who do not opt-out of VEBA. Approximately 2% of annual salaries and wages (excluding student wages), based on FY15 actuals as of January 31, 2015, is $8.5 million. Any UNM contribution toward the VEBA would be reduced for any employees choosing to opt-out of retiree health care benefits participation. The major benefit of the VEBA is to reduce the unfunded AAL of $152.6 million (as of the July 2011 actuarial valuation report), and adequately prefund retiree health care benefits.

The purpose of the VEBA is to provide employees with access to subsidized post-retirement health and dental benefits. The subsidy will be based on VEBA service credits either grandfathered or earned. Employees hired prior to July 1, 2013, who never opted out are provided 25 grandfathered VEBA service credits. All employees who opted in to VEBA will earn one service credit for each year of participation.

On March 9, 2015, Executive Physician-in-Chief Michael Richards and VPHR Dorothy Anderson presented 12 recommendations developed by a Health Plan Committee to the BOR, which were approved and passed by a unanimous vote. Two of the recommendations included a 20% blending of the pre-65 retirees claims experience effective July 1, 2015, together with a continuation of the progressive shifting in premium rates from UNM to the pre-65 retirees. This recommendation results in increased premiums to active employees (an average of 2.5%). In order to mitigate this increase, the recommendation included a deferral of the scheduled 1/4% increase in VEBA contributions for FY16.

The second item recommended for action was the elimination of post-retirement health benefits for employees newly hired to UNM, with an effective date on or after July 1, 2015. The elimination of post-retirement benefits for new hires was proposed in order to continue to manage the AAL that is assessed according to GASB 45. This recommendation results in a discontinuation of the VEBA plan *for new hires only*, effective July 1, 2015.

The current details of the VEBA are listed in the table below:

FISCAL YEAR	Active Faculty & Staff Opted-In to the VEBA Trust	Faculty & Staff Opted-Out of the VEBA Trust	VEBA Assets	UNM/Employee Contribution Rate
FY14	5,946	777	$ 4,282,653	1/2%
FY15	5,845	588	$11,225,000 Est.	3/4%
FY16	N/A	N/A	$18,150,000 Est.	3/4%

Establishment of the Health Insurance Reserve

On March 14, 2005, Mercer, UNM's Human Resources consultant, presented the results of the "Medical Plan Request for Proposals" to the BOR. The three product options included fully insured, minimum premium, and self-insured. The self-insured option was not immediately available, as this option would require that the University have reserves available in the first year.

It was determined that in order for the University to become self-insured, UNM would need an $8M reserve, $4M in immediate reserves, and $4M to be accumulated as a result of the initial year of self-insurance having immature claims experience.

On May 9, 2006, VPHR Susan Carkeek reported to the BOR that Human Resources had a goal of creating a reserve of $4M, which would fund UNM's entry into self-insured health insurance. She estimated that by the end of the fiscal year, UNM would have accumulated about $1.5M due to savings from moving to a minimum premium plan with Lovelace and from savings associated with UnitedHealthcare's reduced administrative service only fees.

Beginning in FY07, Human Resources accumulated funds into the reserve from various sources, including immature claims experience in the initial year of self-insurance, life insurance reserve funds, health insurance net operations, and interest earnings. Disbursements from the reserve included a withdrawal of $1.25M in FY10 to the Instructional & General fund, a withdrawal of $2.5M in FY15 to the Instructional & General fund, a withdrawal of $500K to HSC, and a payment of $723K to the federal government for transitional reinsurance fees. See table on next page for details by fiscal year.

Actuarial reserve analysis reports were prepared each fiscal year by Healthcare Analytics, which included recommendations for reserve balance ranges. The FY15 actuarial reserve analysis report will be prepared by Aon Hewitt during the first quarter of FY16. See the table below for low and high recommendations:

FISCAL YEAR	INSURANCE RESERVE BALANCE JUNE 30	RESERVE FUND DRAW-DOWN	ACTUARIES RESERVE BALANCE LOW RANGE	ACTUARIES RESERVE BALANCE HIGH RANGE
FY07	$ 2,823,770	$0	$ N/A	$ N/A
FY08	$ 4,557,067	$0	$ N/A	$ N/A
FY09	$ 8,496,827	$0	$ N/A	$ N/A
FY10	$16,533,884	$1,250,000	$14,400,000	$16,700,000
FY11	$17,085,947	$0	$15,600,000	$18,100,000
FY12	$16,857,384	$0	$16,700,000	$19,200,000
FY13	$20,626,007	$0	$17,900,000	$20,600,000
FY14	$22,555,358	$0	$18,300,000	$21,200,000
FY15 Est.	$19,000,000	$3,000,000	$ N/A	$ N/A
FY16 Est.	$16,000,000	$0	$ N/A	$ N/A

THE UNIVERSITY *of* NEW MEXICO

Current State of UNM Health Insurance

Compiled by the Division of Human Resources for the Board of Regents of the University of New Mexico

June - July 2015

JULY 2014 – HEALTH PLAN COMMITTEE

Health Plan Committee Role and Recommendations

In July 2014, at the request of President Frank, a Health Plan Committee (HPC) was created to evaluate the University of New Mexico's current healthcare benefits and bring forward possible plan changes by December 2014. The HPC was comprised of 25 members from main campus and the Health Sciences Center (HSC) representing all facets of the UNM community including functional experts, active faculty and staff, and UNM retirees. Representatives were also included from Gallagher Benefit Consultants and the Office of University Counsel. A health plan steering committee comprised of Chancellor Roth, EVP Harris, VP Lovell, VPHR Anderson, and Executive Physician-in-Chief Richards was created to oversee the work of the HPC. The HPC was given the charge of:

1. Researching and making recommendations for consolidation and integration
2. Recommending a plan design that includes the following attributes: affordable, reduced cost, high-quality health care, sustainable, contemporary, and attractive to former, current, and future employees
3. Ensuring recommendations were cost neutral

Based on discussions during initial meetings, the charge of the HPC was further clarified to reflect comments and concerns from committee members to design a plan that:

1. Did not create an excise tax risk (ACA – Cadillac tax)
2. Was financially sustainable
3. Was manageable and represented some consolidation
4. Had minimal disruption while preserving choice
5. Promoted value and improved health

In order to meet the charge of the HPC by the December 2014 timeframe, two sub-committees were formed. One team evaluated plan design opportunities for UNM employees, and the other team looked at plan consolidation opportunities for UNM, UNMH, Sandoval Regional Medical Center, and UNM Medical Group. The teams took into account the following considerations:

1. Evaluate the contribution strategy
2. Consider network design and management
3. Evaluate health improvement options
4. Consider value-based programs

The HPC met a number of times between August and November of 2014 to consider numerous options before VPHR Anderson and Executive Physician-in-Chief Richards made recommendations to the Finance & Facilities Committee (F&F) on November 11, 2014, during the Executive Session. Following the Executive Session, when the meeting was re-opened, Regent Gallegos requested that a ballot be created to allow active faculty and staff to vote on the HPC's recommendations. The HPC recommendations moved forward as an informational item to be presented to the Board of Regents on November 14, 2014 by VPHR Anderson and Executive Physician-in-Chief Richards. The following items were presented as recommendations to the Board based on a consensus of the HPC:

1. Increase engagement in disease management and wellness programs.
2. Continue collaborative efforts with UNM School of Pharmacy and explore other options to reduce Rx costs with improved service.
3. Full evaluation of a dedicated clinic/facility for student, employee, retiree, and dependent use only.
4. UNM, UNM Medical Group, Sandoval Regional Medical Center and UNM Hospital join to expand collective purchasing.
5. In FY16, evaluate plan designs with more incentives to increase LoboCare utilization.
6. In FY16, evaluate decreasing the number of third party administrators (TPAs) administering UNM's medical plan.
7. In FY16, defer the planned .25% Voluntary Employee Benefits Association (VEBA) contribution increase for VEBA participants.
8. In FY16 and FY17, evaluate implementing a high deductible health plan and health savings account.
9. In FY16, partially blend pre-65 retiree experience (20%) with active employee experience and continue with 5% premium contribution rate shifts as scheduled:
    a. FY16: Retiree 50% and UNM 50%
    b. FY17: Retiree 55% and UNM 45%
    c. FY18: Retiree 60% and UNM 40%

The following item was presented to the Board with an understanding that it was discussed by the HPC but was not being presented as a consensus item:

10. Eliminate post-retirement health benefits for individuals hired effective after June 30, 2015.

Regent Gallegos requested additional information be provided to the Board, and Regent Koch requested that Faculty Senate President Pyle, and Staff Council President Delgado-Riley bring feedback from their constituent groups regarding the recommended changes, specifically the partial blending of pre-65 retiree experience with active employee experience.

Constituent Support for Partial Blending of Pre-65 Claims Experience

On December 9, 2014, Faculty Senate and Staff Council representatives contacted Human Resources and indicated that both groups of constituents had a large majority of their representatives vote in favor of the partial blending of the pre-65 claims experience with active employee experience. Following receipt of this information, on December 10, 2014, Chancellor Roth and EVP Harris distributed a memo to the HPC with copies to the Board of Regents, President Frank, Provost Abdallah, Faculty Senate President Pyle and Staff Council President Delgado-Riley regarding the recommendation. The memo indicated that based on the presentation to the Board of Regents and the feedback provided by Faculty Senate and Staff Council, UNM would be moving forward with implementation of the HPC recommendations.

During the Advisor comments portion of the Board of Regents meeting on December 12, 2014, Faculty Senate President Pyle indicated that 54% of the senators voted, with a majority voting in favor of the partial blending of the pre-65 retiree experience. Staff Council President Elect Jarrett Hines-Kay provided an update indicating that Staff Council had voted unanimously for the partial blending of the pre-65 claims experience with the active employee experience.

JANUARY 2015 – USE OF RESERVES

Change of Benefits Consultant

Gallagher Benefit Services (GBS), a subsidiary of Arthur J. Gallagher & Co., served as the benefits consultant for UNM from January 2007 until December 1, 2014. In August 2014, as part of the standard procurement process, an RFP for a benefits consultant was released. The RFP Committee included the Benefits department, HSC Finance & Administration, and Purchasing. Five proposals were received, and based on RFP Committee scoring, three finalists were interviewed. Aon Hewitt was the highest scoring finalist and was awarded the contract on December 1, 2014. Shortly after, UNM Administration requested that Aon Hewitt review the reserve balances and provide suggestions regarding appropriate use of them.

Dependent Audit

In the spring of 2015, the Benefits department contracted with Aon Hewitt to perform a comprehensive dependent verification audit. The audit was performed by Aon Hewitt from April 1 – June 16, 2015, and 100% of employees covering dependents on any UNM medical plan were required to provide proof of dependency documents. As a result of the audit, effective July 15, 2015 an estimated $635,000 in annual savings has been projected. The overall cost of the audit was $83,150.

Memo from Aon Hewitt Consultant Regarding Use of Health Plan Reserve

On February 6, 2015, EVP for Aon Hewitt Risk Solutions Eric Weinstein, provided a letter to UNM Administration stating that the health plan reserve held by the University could be used for a number of items including:

- Run-out claims and administrative costs;
- Unexpectedly high claims in a given year;
- Stabilizing premiums/contributions during years of high costs; and
- Stabilizing premiums/contributions during years of low budgets or funding levels.

The letter further stated that if the reserve were used to stabilize premiums, Aon Hewitt would strongly recommend that the premiums be set appropriately and that UNM not artificially suppress premium rates, thus creating a perceived long-term reserve commitment.

Drawdown of Reserve by $3M and Integrity of Reserve Fund

Following receipt of the memo, UNM made a request to Aon Hewitt regarding the possible use of the reserve to offset the UNM budget shortfall for FY15. The question posed asked about the possible drawdown of the reserve from $22M to $19M, and possible concerns related to adequate reserve balances. Specifically, UNM intended to utilize $2.5M of the reserve to offset the FY15 Instruction & General (I&G) budget deficit with an additional $500K to HSC Administration. Aon Hewitt indicated that the reserve was adequate to allow a drawdown of $3M without compromising the integrity of the self-insured plan.

On February 23, 2015, UNM and HSC Administration met to discuss the possible drawdown of the reserve. At that time, it was agreed that a total drawdown of $3M from the self-insured reserve would be proposed for CY15. This amount would include $2.5M for UNM main campus to balance the FY15 Instruction & General (I&G) budget and $500K for HSC Administration, pending approval by the Board of Regents, as required. Additionally, in order to increase employee utilization of HSC providers it was agreed that the reserve would be used to reduce premiums for UNM Health participants for FY16 and FY17.

F&F and BOR Approvals for HPC Recommendations and Revised FY15 Budget

On February 3, 2015, the *Review and Possible Approval of the Health Plan Committee Recommendations* was placed on the F&F Agenda to be presented by VPHR Anderson and Executive Physician-in-Chief Richards. All recommendations from the HPC were presented to F&F, which resulted in significant discussion by the F&F committee members, UNM Administration, and the various constituent groups. Based on the discussion and the requests for additional information, Regent Koch held the agenda item in F&F committee until additional information could be provided in response to questions and concerns.

On March 3, 2015, Chancellor Roth, VPHR Anderson, and Executive Physician-in-Chief Richards returned to the F&F Committee to present additional information and request approval of the Health Plan Committee recommendations. During this presentation, Chancellor Roth requested approval of 20% blending of the pre-65 retirees claims experience effective July 1, 2015 to continue with the progressive shifting in premium rates from UNM to the pre-65 retiree.

The second item recommended for action was the elimination of post-retirement health benefits for employees hired new to UNM with an effective date on or after July 1, 2015. The elimination of post-retirement benefits for new hires was proposed in order to continue to manage the actuarial accrued liability that is assessed according to GASB 45. Chancellor Roth and EVP Harris asked that Human Resources evaluate premiums to ensure they were set appropriately. They also requested that Human Resources evaluate the potential of modifying existing spousal/partner coverage and explore a possible spousal/partner surcharge.

Due to no anticipated pay increases for FY16, Regent Koch, Chair of the F&F Committee, expressed concern over the increase in health insurance premiums due to the blending of claims experience for active employees with pre-65 retirees. Regent Koch requested that Administration evaluate premiums for active employees to determine if there was an opportunity to reduce their out-of-pocket costs.

The HPC recommendations were passed by a unanimous vote of the F&F Committee.

During this meeting, Agenda Item 9. *Approval of FY 2014/2015 Budget Revision* was presented by AVP Cullen to the F&F Committee. AVP Cullen presented a revised budget to F&F that was based on the

1.5% decline in enrollment, resulting in a total budget shortfall of almost $2.7M in tuition and $900K in fees. In an effort to balance the FY15 I&G budget and still maintain the University's central reserve of 3%, which is the minimum amount recommended by the Higher Education Department, the University presented a revised budget that included use of $2.5M from the health care self-insurance reserve. The revised FY15 budget was approved by a unanimous vote of the F&F committee members.

Both agenda items were then moved forward for a vote by the full Board of Regents on March 9, 2015. VPHR Anderson and Executive Physician-in-Chief Richards presented the HPC recommendations that were passed by a unanimous vote by the Board. AVP Cullen's request for approval of the revised FY15 budget, which included using $2.5M from the health plan reserve, was passed by a vote of 4 to 2.

Health Insurance Rates and Premium Holiday for Active Employees

In response to Regent Koch's request during the March 3, 2015 F&F meeting to ease the premium increase that many active employees will encounter beginning July 1, 2015, Human Resources began evaluating the possibility of a health insurance premium holiday in December 2015. Pre-65 retirees participating in the UNM health plan were excluded from consideration of the December premium holiday since the intent of the holiday is to offset the increase in premiums that current employees are incurring due to the partial blending of pre-65 claims experience. The approximate cost for not collecting active employee health contributions for one month is $1.77M. Human Resources received approval from President Frank and EVP Harris to proceed in announcing a one-time premium holiday for active employees for the month of December 2015. On April 28, 2015 an announcement was emailed to the University community announcing the new premium rates for all participants and the upcoming premium holiday for active employees only. New premiums resulted in an overall average increase in premiums for active employees of 2.5% and an average decrease for pre-65 retirees of 20%.

External Legal Opinions, Recent and Former

After the approval by the Board of Regents on March 9, 2015 to use the reserve to offset the FY15 budget shortfall, President Frank began to receive a number of inquiries from the Faculty Senate regarding the legality of utilizing the health insurance reserve for this purpose. Although Administration had received guidance from Aon Hewitt indicating that they did not believe there was any prohibition on the use of the reserve, Aon Hewitt representatives did state that they were not legal counsel and could not provide a legal opinion on this matter. President Frank requested that Human Resources, in collaboration with the Office of University Counsel, obtain an outside legal opinion to ensure the appropriateness of this expenditure.

On April 20, 2015, Human Resources met with Julie Neerken, an attorney with the Rodey Law Firm, to discuss the situation and solicit an official legal opinion regarding legal requirements related to the use of the health plan reserve and to identify appropriate uses of the reserve. On May 13, 2015, Ms. Neerken provided a legal opinion. Subsequent to this, Human Resources located a previous legal opinion dated September 29, 2010 from external legal counsel, Jennifer Stone, also with the Rodey Law Firm, to former University Counsel Lee Peifer.

Internal Legal Summation and Creation of Reserve Policy

Following receipt of both legal opinions, current University Counsel Cole reviewed both opinions and independently conducted her own legal research. On May 20, 2015, University Counsel Cole sent VPHR Anderson a memo stating:

> I have reviewed the opinions of outside legal counsel regarding this question and done my own analysis of the applicable law. I have concluded that the University could move that money as it did without violating any fiduciary duty it owed to UNM employees who were fund participants and that the fund participants did not own the funds that were withdrawn.
>
> The basis of the legal analysis is that while the amounts that employees who are fund participants paid into the Reserve are plan assets that can be used for no other purpose than for health benefits, any interest earned on them and other monies that formed the basis of the Reserve have no such legal restrictions.

The legal opinion obtained from Ms. Neerken indicated that the University would be well-served to adopt a funding policy with respect to the reserve fund, such that employee contributions are fixed at a certain dollar amount, adjusted annually, and the amount of necessary employer subsidy varies depending on the medical and dental benefits experience. Human Resources, in consultation with the UNM Policy Office, is currently in the process of creating a Board of Regents Policy to this effect.