

A Brief Review of Health Care Costs: 2016

Overall Plan Costs / Payouts: \$19.2 million

Our plan costs break down as follows:

- Medical: \$10.8m
- Rx (drugs): \$3.3m
- HSA/HRA funding: \$2.9m
- Various¹ \$2.2m

Overall Plan Revenue / Intake: \$18.9 million

Our plan revenues break down as follows:

- WKU contributions: \$13.7 m
 - o (\$10.8m = WKU's share of premiums)
 - o (\$2.9m = WKU's funding of HSA/HRA accts.).
- Employee-paid premiums: \$3.2m
- Investments/drug rebates etc.: ≈\$1m
- WKU Health Ins. Reserve reductions: ≈\$1m

Employee Costs:

Anthem reported to us that about \$4.2 million was spent by employees. This figure includes only out-of-pocket medical costs (OOP) associated with claims run through the plan.²

It is difficult to determine the amount of OOP costs paid by WKU-provided HSA/HRA funding as opposed to those paid by pre-tax employee contributions to HSA/HRA accounts (or post-tax dollars). A fair estimate indicates that approximately 72% of WKU-provided HRA/HSA funding offset OOP costs. As a result, one might estimate that the WKU employee cost share in 2015 was 27% and in 2016 was 28%. This amount of employee cost-share is lower than that experienced from 2004 to 2009; estimates for those years range between 31% and 35%. In sum, it appears that, while overall costs have increased, employee cost share has decreased under the new plan designs.

The Future: Our consultants (Sibson) estimate that cost inflation for combined Medical and Rx is trending at 7.5% per year. Our own performance has fluctuated around this value, sometimes widely. Large fluctuations are often the case when we see substantial plan re-designs. For example, we have seen a decrease of over 20% in total medical costs from 2014 to 2015, but an increase of over 20% in total medical costs from 2015 to 2016. Besides the changes in plan designs, a large fluctuation in high-cost medical claims (which are hard to predict) has contributed to these fluctuations.

¹ Various = Anthem fees for acting as network provider, reinsurance premiums, wellness costs, plan-design consultants (Sibson), etc.

² This figure *does not* account for employee payments for healthcare or medicine allowed by the IRS as itemized deductions but *not* covered by the plan, e.g., certain homeopathic services, compounded medications (excluded but necessary for, e.g., hormone replacement therapy), experimental treatments for some types of cancer or chronic illnesses, travel and lodging for medical treatment, etc.

A Brief Review of Health Care Costs: 2016

Given the overall predicted increase in costs of 7.5% per year, the plan will need an infusion of approximately \$1.2 million in *new money* every year. In addition, steps must be taken to stop the decline of WKU's health insurance reserve funds. With this in mind, the Benefits Committee has begun the process of making some plan design changes and premium adjustments for 2017. At this point, it is too early to provide any details of what these changes and adjustments will entail, but the Committee's work on this must be largely completed by September 1.

— Claus Ernst and Eric Kondratieff
23 April 2017