

MEMORANDUM

February 1, 2011

TO: Councilmembers

FROM: Karen Orlansky, Director
Office of Legislative Oversight

SUBJECT: **Follow-up to OLO Report on Achieving a Structurally Balanced Budget:
Answers to Questions about the Cost of Health Benefits for Active Employees**

This memo responds to Councilmembers' requests for additional information on the current costs of agency health benefits, including a comparison of health premium costs in County Government and Montgomery County Public Schools. It addresses the following questions:

- What is each agency's average annual premium cost per health plan enrollee¹?
- What are each agency's annual total health premiums by plan and level of coverage?
- What are the major factors that affect an agency's health benefit costs?
- What is the impact of the County Government's practice of including retirees in the employee "pool" for calculating health plan premiums?

Summary of Findings on Premium Comparisons Among Agencies

An updated analysis of agency premiums and enrollment using FY11 data shows that:

- County Government and MCPS both have higher average health plan premiums and higher per enrollee costs compared to M-NCPPC and Montgomery College.
- In 2011, MCPS pays \$557 (or 5%) more per health plan enrollee compared to County Government. Specifically, given current employer/employee cost share arrangements, MCPS pays an average annual health plan premium of \$11,701 per enrollee while the County Government pays \$11,144.
- In 2011, the annual total health premium per enrollee in County Government (agency plus employee share) is \$2,203 (or 17%) higher compared to MCPS. Specifically, the total average health premium per enrollee in County Government is \$14,866 compared to \$12,663 in MCPS.
- A factor that complicates a comparison of premium rates between MCPS and County Government is that the County Government includes retirees in its calculation of premiums, while MCPS does not. Data from the County's actuaries show that if retirees were excluded from the County Government's active employee pool, the difference between the County Government's and MCPS' total average annual health premium for active employees would be lowered to \$595 (or 5%). In other words, the inclusion of retirees "explains" about 73% of the County Government's higher total premium.

¹ Throughout this memo, "enrollee" refers to each active employee enrolled in an agency's health plan, not including dependents who are also covered by the plan.

Note on Health Benefit Cost Data. OLO’s Part II appendix includes a document (beginning on page 99), prepared by CountyStat in March 2010, that lists average monthly employer-paid premiums for health benefits across nine local government organizations, including County Government and MCPS. These data showed that the employer portion of the average monthly premium for plans offered by County Government was higher than the average premium for plans offered by MCPS.

In response to questions generated by these data, OLO researched their source and learned that the information (which had been initially compiled for the County Government’s Office of Human Resources by a consultant) relied upon 2010 rate data from the County Government and 2009 rate data from MCPS. Due to the steady annual increases in health care costs experienced in recent years, a comparison that uses cost data from two different years is problematic.

OLO apologizes for any confusion that including the CountyStat report in the appendix may have caused. Please note that OLO did not use these data for any of our issue paper calculations of projected costs or savings. Further, because we were able to access 2011 data for both County Government and MCPS, this follow-up memorandum serves as a more up-to-date and reliable comparison of the average health premium costs for each agency. As summarized above, the more current data indicate that the County Government’s total average premium is higher than MCPS’, but that the dollar amount paid per enrollee by the County Government is actually lower than that paid per enrollee by MCPS.

A. Multiple Variables Influence an Agency’s Annual Health Premiums

When looking at health plan premiums, there are three components to examine: the total premium; the share of the premium paid by the agency; and the share of the premium paid by the employee. As reviewed in OLO’s Part II report (page C-1), there are differences among how each agency currently structures their employee health benefits. Variables that influence the total health care costs paid by the agency and employee include:

- **Plan Design and Administration.** Each agency offers multiple health plans and contracts out plan administration to multiple insurance carriers who have a network of doctors an employee can use for care. Each plan structures features such as co-pays, deductibles, and out-of-pocket maximums differently. As a result of plan design, two health plans with similar names in different agencies are not the same plans.
- **Employee Eligibility and “Pool” of Enrollees.** Each agency establishes eligibility criteria for access to health benefits based on factors such as the number of hours worked, e.g., full-time vs. part-time. Based on the eligibility criteria and workforce demographics, each agency has a different “pool” of employees who choose to enroll in health benefit plans. Additionally, Montgomery County Government and M-NCPPC include retirees and active employees in the same “pool” for calculating the premiums, while MCPS and the College do not.
- **Levels of Coverage.** Each agency generally allows employees to choose among three different levels of insurance coverage: self (covers only the employee); self+1 (covers the employee and one eligible dependent); and family (covers the employee and all eligible dependents). Montgomery College does not offer the self+1 coverage option.
- **Premium Cost Share Arrangements.** On an annual basis, agencies determine the health care costs for their particular “pool” of employees in each plan and calculate per person charges, or premiums, that cover these costs. The annual premiums calculated for each agency vary by plan and level of coverage. The employer/employee cost share arrangements also vary by agency, and in some cases, by employee group or health plan within the agency.

B. Average Annual Premium per Health Plan Enrollee

For each of the four tax supported agencies, Table 1 (on the next page) shows the average annual premiums for medical and prescription plans per enrollee. This table uses 2011 premium rates and January 2011 enrollment figures.² In sum, the data indicate the following:

- County Government and MCPS both have higher average health plan premiums and higher per enrollee costs compared to M-NCPPC and Montgomery College.
- In 2011, MCPS pays \$557 (or 5%) more per health plan enrollee compared to County Government. Specifically, given current employer/employee cost share arrangements, MCPS pays an average health plan premium of \$11,701 per enrollee while the County Government pays an average health plan premium of \$11,144 per enrollee.
- In 2011, the annual total health premium per enrollee in County Government (agency plus employee share) is \$2,203 (or 17%) higher compared to MCPS. Specifically, the total average health plan premium per enrollee in County Government is \$14,866 compared to \$12,663 per enrollee in MCPS.

Inclusion of retirees in active employee “pool” for health premiums. A factor that complicates any comparison of premium rates between MCPS and County Government is that the County Government includes retirees in its calculation of premiums, while MCPS does not. As a result, active employees in County Government pay a higher premium than they would if they were in a separate pool.

In order to provide a more “apples-to-apples” comparison of Montgomery County Government and MCPS average premiums, the County’s actuaries were asked to estimate what the premiums for each County Government plan would be if they were calculated for active employees only, without including the County’s retirees. The data show the following:

- If retirees were excluded from the County Government’s active employee pool, the average annual total premium for active employees would be reduced from \$14,866 to \$13,258, a reduction of \$1,608.
- An average total premium of \$13,258 is still higher than MCPS’ average total premium of \$12,663, but the difference would be \$595 (5%) instead of \$2,203 (17%).

In other words, these data from the actuaries suggest that the County Government’s practice of including retirees in with the active employees’ pool for calculating premiums “explains” about 73% of the difference in average annual premiums between MCPS and County Government. More analysis by the agencies’ health experts would be required to discern what other factors (for example, details of plan design or use experience), explain the rest of the cost difference.

² To calculate the average premium for medical and prescription plans, OLO calculated a total premium cost for all enrollees based on actual enrollment in different health plans and levels of coverage (i.e., self, self+1, family), and then divided by the total number of enrollees.

Table 1. 2011 Average Annual Premium per Enrollee

	Premium Cost	Agency Share	Employee Share
County Government – Choice and Select			
Medical Plan*	\$10,871	\$8,641	\$2,230
Prescription Drug Plan	\$3,995	\$2,503	\$1,492
Medical and Prescription Combined	\$14,866	\$11,144	\$3,722
MCPS**			
Medical Plan	\$9,748	\$9,077	\$671
Prescription Drug Plan	\$2,915	\$2,624	\$291
Medical and Prescription Combined	\$12,663	\$11,701	\$962
Montgomery College			
Medical and Prescription Combined	\$10,730	\$7,999	\$2,731
M-NCPPC			
Medical Plan	\$7,295	\$6,201	\$1,094
Prescription Drug Plan	\$2,284	\$1,941	\$343
Medical and Prescription Combined	\$9,579	\$8,142	\$1,437

*Although the Kaiser medical and prescription drug plan is combined for County Government, OLO’s calculation uses a separate premium so it is comparable to the averages in other agencies.

**MCPS average does not include Closed POS Plan.

Source: OLO calculations using Calendar Year 2011 premium rates and January 2011 enrollment data provided by each agency.

C. 2011 Annual Premium Costs by Plan and Level of Coverage

Table 2, beginning on the next page, lists each agency’s calendar year 2011 medical and prescription plans, current cost share arrangements, and enrollment and total premium data for each level of coverage, showing both the cost paid by the agency and the employee. These are the data used to calculate an estimate of the average annual premium shown in Table 1 (above).

The data show that the cost of medical and prescription plans vary both across and within the agencies by plan type and level of coverage.

Table 2. 2011 Annual Premiums by Plan and Level of Coverage (per enrollee)

Agency and Plan	Current Cost Share	2011 Enrollment	Premium	Agency Cost	Employee Cost
County Government (Choice)*					
Carefirst High POS Medical	80% Agency 20% Employee	Individual 1,349	\$5,500	\$4,400	\$1,100
		Self + 1 1,036	\$9,513	\$7,611	\$1,903
		Family 2,008	\$16,019	\$12,815	\$3,204
Carefirst Standard POS Medical	80% Agency 20% Employee	Individual 117	\$5,114	\$4,092	\$1,023
		Self + 1 78	\$8,847	\$7,078	\$1,770
		Family 89	\$14,897	\$11,918	\$2,980
Kaiser HMO Medical & Prescription	80% Agency 20% Employee	Individual 361	\$5,728	\$4,583	\$1,146
		Self + 1 209	\$10,769	\$8,615	\$2,154
		Family 372	\$16,955	\$13,564	\$3,391
UHC Select HMO Medical	80% Agency 20% Employee	Individual 387	\$4,691	\$3,753	\$938
		Self + 1 324	\$9,019	\$7,215	\$1,804
		Family 684	\$14,338	\$11,470	\$2,868
Caremark Standard Prescription	80% Agency 20% Employee	Individual 633	\$1,461	\$1,168	\$292
		Self + 1 506	\$2,702	\$2,162	\$541
		Family 1,252	\$4,187	\$3,350	\$837
Caremark High 4/8 Prescription	53% Agency** 47% Employee	Individual 934	\$2,193	\$1,168	\$1,024
		Self + 1 698	\$4,056	\$2,162	\$1,895
		Family 1,063	\$6,286	\$3,350	\$2,936
Caremark High 5/10 Prescription	54% Agency** 46% Employee	Individual 277	\$2,164	\$1,168	\$996
		Self + 1 224	\$4,004	\$2,162	\$1,842
		Family 452	\$6,205	\$3,350	\$2,855
MCPS					
Carefirst POS Medical	90% Agency 10% Employee	Individual 547	\$5,021	\$4,519	\$502
		Self + 1 369	\$10,044	\$9,039	\$1,004
		Family 664	\$13,666	\$12,299	\$1,367
UHC Open POS Medical	90% Agency 10% Employee	Individual 1,511	\$5,281	\$4,753	\$528
		Self + 1 1,194	\$10,564	\$9,507	\$1,056
		Family 2,315	\$14,373	\$12,936	\$1,437
Carefirst HMO Medical	95% Agency 5% Employee	Individual 1,017	\$3,520	\$3,344	\$176
		Self + 1 662	\$6,614	\$6,284	\$331
		Family 1,320	\$10,837	\$10,295	\$542
Kaiser HMO Medical	95% Agency 5% Employee	Individual 1,051	\$4,722	\$4,486	\$236
		Self + 1 896	\$9,417	\$8,946	\$471
		Family 1,418	\$13,645	\$12,963	\$682
UHC HMO Medical	95% Agency 5% Employee	Individual 1,605	\$4,623	\$4,392	\$231
		Self + 1 1,696	\$8,684	\$8,250	\$434
		Family 2,679	\$14,227	\$13,516	\$711
Caremark Prescription	90% Agency 10% Employee	Individual 4,933	\$1,685	\$1,516	\$168
		Self + 1 4,203	\$3,367	\$3,030	\$337
		Family 7,144	\$4,155	\$3,739	\$415
Kaiser Prescription	90% Agency 10% Employee	Individual 1,043	\$736	\$662	\$74
		Self + 1 894	\$1,469	\$1,322	\$147
		Family 1,413	\$2,127	\$1,914	\$213

Table 2, continued. 2011 Annual Premiums by Plan and Level of Coverage (per enrollee)

Agency and Plan	Current Cost Share	2011 Enrollment		Premium Cost	Agency Share	Employee Share
Montgomery College						
CIGNA PPO – Medical & Prescription	75% Agency 25% Employee	Individual	163	\$5,862	\$4,397	\$1,466
		Family	137	\$15,831	\$11,873	\$3,958
CIGNA POS – Medical & Prescription	75% Agency 25% Employee	Individual	263	\$6,157	\$4,618	\$1,539
		Family	413	\$16,568	\$12,426	\$4,142
Kaiser HMO – Medical & Prescription	75% Agency 25% Employee	Individual	214	\$4,367	\$3,275	\$1,092
		Family	233	\$11,790	\$8,843	\$2,948
M-NCPPC						
UHC POS Medical	85% Agency 15% Employee	Individual	112	\$3,516	\$2,989	\$527
		Self + 1	81	\$7,032	\$5,977	\$1,055
		Family	141	\$10,548	\$8,966	\$1,582
CIGNA EPO Medical	85% Agency 15% Employee	Individual	30	\$3,804	\$3,233	\$571
		Self + 1	23	\$7,608	\$6,467	\$1,141
		Family	43	\$11,412	\$9,700	\$1,712
UHC EPO Medical	85% Agency 15% Employee	Individual	90	\$3,444	\$2,927	\$517
		Self + 1	57	\$6,888	\$5,855	\$1,033
		Family	91	\$10,332	\$8,782	\$1,550
Caremark Prescription	85% Agency 15% Employee	Individual	228	\$1,104	\$938	\$166
		Self + 1	158	\$2,208	\$1,877	\$331
		Family	273	\$3,312	\$2,815	\$497

*The table shows enrollment and premium rates for the County Government Choice Group members, which represent approximately 90% of active employees enrolled in the County Government’s health plan. For Select Group members, the available plans and total premium cost remain the same, but the agency share is 4% lower and the employee share is 4% higher due to a 76/24 cost share arrangement.

**For the Caremark High Option plans, the County pays the same amount as for the standard plan and the employee pays the rest of the premium.

c: Steve Farber