



Report on Health Insurance for Members of Government of Guam Retirement Fund

Prepared for:
Government of Guam Retirement Fund

Prepared by:
Milliman, Inc.

Jay C. Ripps
FSA, MAAA

Richard A. Wright
FSA, MAAA

Tel +1 415.394.3718
jay.ripps@milliman.com

650 California Street
17th Floor
San Francisco, CA 94108-2702
USA

Tel +1 415 403 1333
Fax +1 415 403 1334

milliman.com

TABLE OF CONTENTS

INTRODUCTION	3
BACKGROUND	3
SCOPE OF MILLIMAN’S STUDY	5
FINDINGS AND RECOMMENDATIONS	6
STRUCTURE OF HEALTH INSURANCE BENEFITS FOR GOVGUAM MEMBERS	6
1. Split The Health Insurance Program Into Three Components	6
2. Rescind the Statute Regarding Equality of Active and Retiree Member Premiums	7
3. Eliminate Multiple Options Under Programs B and C	8
BIDDING PROCESS FOR GOVGUAM HEALTH INSURANCE BENEFITS	8
1. Implement a "Winner Take All" Process	8
2. Award Contracts for More Than One Year	9
3. Assure the Timely Payment of Insurance Premiums	9
4. Furnish Comprehensive Claims History with RFP	9
OTHER COST CONTAINMENT MEASURES	9
1. Self Insurance	9
2. Encourage Carrier Creativity	9
USING THE MEDICALLY INDIGENT PLAN (MIP) AS GOVGUAM HEALTH INSURANCE BENEFITS	10
DATA RELIANCE	10

INTRODUCTION

At the request of the Government of Guam Retirement Fund, in accordance with P.L 29-113, Section 78, Milliman, Inc. (“Milliman”) had conducted a study of the health insurance currently provided to Government of Guam employees and retirees, and their dependents. This report describes the results of our study.

We understand that this report may be presented to legislators, gubernatorial staff, or other Guam government officials, and that it may become part of the public record. However, Milliman does not intend to benefit and assumes no duty or liability to any third parties who receive Milliman's work in this fashion. Also, this report may be distributed only in its entirety, and it is subject to the terms of the Consulting Agreement between Milliman and the Government of Guam Retirement Fund dated October 21, 2004.

BACKGROUND

The Government of Guam (“GovGuam”) offers medical and dental insurance benefits to its employees and retirees, and their dependents. We refer to those who are eligible for such insurance “members” of the GovGuam health insurance program. Members currently have a choice of three medical plans:

1. **Calvo’s SelectCare HSA 2000**
2. **Calvo’s SelectCare HSA 1500**
3. **Calvo’s SelectCare PHIL 1000**

All three plans are comprehensive preferred provider plans. Comprehensive preferred provider plans cover a broad range of medical expenses. The plans pay a greater share of the expenses if services are obtained from a healthcare provider in the plans’ defined networks (participating providers). With respect to off-island care, the PHIL 1000 plan has participating providers only in the Philippines. The other plans also have participating providers in Hawaii, the U.S. Mainland, and Taiwan.

Each of the plans pays for a portion of medical expenses above a specified threshold, called a “deductible.” Below the threshold, members pay the entire cost of medical services. The threshold must be exceeded in a given calendar year before the plan pays; that is, a new deductible applies each year. Deductibles for each of the plans with respect to services obtained from participating providers, are as follows:

ANNUAL DEDUCTIBLES - PARTICIPATING PROVIDERS

Plan	Single Coverage (Employee Only)	Family Coverage Employee + One or More Dependents
Calvo’s SelectCare HSA 2000	\$2,000	\$6,000
Calvo’s SelectCare HSA 1500	\$1,500	\$3,000
Calvo’s SelectCare PHIL 1000	\$1,000	\$3,000

Each of the plans pays for 100% of the cost of covered medical services obtained from participating providers, after a member has paid for a maximum amount for covered medical expenses in a policy year. The maximum amounts (called “out-of-pocket” maximums) for each of the plans are as follows:

ANNUAL OUT-OF-POCKET MAXIMUMS - PARTICIPATING PROVIDERS

Plan	Single Coverage (Employee Only)	Family Coverage Employee + One or More Dependents
Calvo's SelectCare HSA 2000	\$4,000	\$12,000
Calvo's SelectCare HSA 1500	\$2,500	\$7,500
Calvo's SelectCare PHIL 1000	\$2,500	\$7,500

In addition to paying for a portion of the cost of medical services, members pay a portion of the health insurance premiums charged to GovGuam by the health insurance company [Nichido Insurance Company (Pacific) Ltd.] Active employees and retirees pay the same amounts of member premiums. The range of member premiums for FY 2009 is shown in the following table:

ANNUAL MEMBER MEDICAL PREMIUMS (ACTIVE AND RETIREE)

Plan	Single Coverage (Employee Only)	Family Coverage*
Calvo's SelectCare HSA 2000	\$0	\$988
Calvo's SelectCare HSA 1500	\$228	\$1,708
Calvo's SelectCare PHIL 1000	\$3,036	\$10,360

The Calvo's SelectCare HSA 2000 and Calvo's SelectCare HSA 1500 are structured to accommodate a Health Savings Account ("HSA") component. HSAs are tax-favored savings accounts that can be used to cover medical expenses or, if not used for that purpose, can be used as a retirement savings vehicle, much like an individual retirement account (IRA).

There is broad concern among members that, because of high deductibles and out-of-pocket maximums, medical care is not affordable even if the members are covered by a GovGuam health plan. In addition, the cost to the Government of Guam for members' health insurance – especially retirees – has increased dramatically in recent years. The range of GovGuam premiums (paid by GovGuam in addition to member premiums) for FY 2009 is shown in the following table:

* Family coverage premium shown is for coverage of families (employee, spouse, and children) where spouse is not employed by the Government of Guam.

ANNUAL GOVGUAM MEDICAL PREMIUMS (ACTIVE AND RETIREE)

Plan	Single Coverage (Employee Only)		Family Coverage*	
	Active	Retiree	Active	Retiree
Calvo's SelectCare HSA 2000	\$1,380	\$4,692	\$3,164	\$13,424
Calvo's SelectCare HSA 1500	\$1,380	\$5,448	\$3,164	\$15,812
Calvo's SelectCare PHIL 1000	\$1,380	\$6,624	\$3,164	\$19,424

As a result of these concerns, P.L. 29-113, Section 78 was enacted by the Government of Guam, as follows:

“The Retirement Fund Board of Trustees is hereby authorized to explore the possibility of obtaining reasonable health insurance rates for its members. The Retirement Fund Board of Trustees is hereby authorized to conduct a study that would examine the financial information of the prepaid health insurance companies, health care providers or other legal entities for the purpose of developing an economical and beneficial health plan for members of the Government of Guam Retirement Fund.”

The Retirement Fund Board of Trustees has engaged Milliman to perform the study of health insurance for members authorized by P.L. 29-113, Section 78.

SCOPE OF MILLIMAN'S STUDY

We reviewed the following information regarding health insurance benefits for members, provided to us by the Government of Guam:

- Descriptions of health benefits, as contained in the Government of Guam Open Enrollment Booklet for FY2009 and the GovGuam Employees Member Handbook
- A listing of medical and dental premium rates for FY2009
- A copy of the Request For Proposal (RFP) from Ms. Lourdes M. Perez, regarding health insurance coverage for FY2009 under the Government of Guam's Health Insurance Program, dated April 1, 2008 (RFP/DOA/HRD-033-08)
- Redacted copies of the responses of Calvo's SelectCare to the RFP
- A copy of the Actuarial Study of the Costs of Health Care for Government of Guam Employees, prepared by Lewis & Ellis, Inc. in December, 2006.

In addition, we reviewed Government of Guam regulations defining the Medically Indigent Plan (MIP) and summary information regarding the operations of the MIP for the third and fourth quarters of FY2008.

We have also conducted fact-finding interviews with a number of relevant stakeholders, as follows:

ORGANIZATION	INTERVIEWEE
Calvo's SelectCare	Frank Campillo
Guam Department of Administration	Leonora Candaso
Guam Department of Public Health and Social Services	Theresa Arcangel
NetCare Life & Health	Jerry Crisostomo, Troy Moylan
StayWell	Don Davis, Frank Santos
TakeCare Asia	Don Fetherman

We requested but were unable to obtain historical claim data regarding the health insurance plans offered to members. Therefore, we have not been able to quantify the potential impact of the changes we are recommending for consideration by GovGuam.

FINDINGS AND RECOMMENDATIONS

Health care is expensive, especially for retirees. There are no easy ways to reduce the costs of care to GovGuam or to members. Therefore, this report recommends consideration of difficult broad-scale changes to the structure of health benefits for members, to some of the benefits themselves, and to the process of bidding by insurance carriers to provide those benefits. In our opinion, no material reductions in costs can be achieved by minor adjustments to or refinements of the current program.

STRUCTURE OF HEALTH INSURANCE BENEFITS FOR MEMBERS

1. Split The Health Insurance Program Into Three Components

GovGuam currently provides the same benefits to all members – both actively employed and retired. While this practice has certain advantages in terms of simplicity and apparent equity, it has a fundamental flaw – namely, providing the same health benefits to people with very different health insurance needs. For example, retirees have little need for the HSA component of the current HSA 2000 and HSA 1500 plans. We note also that the Government of Guam and its employees began paying Medicare premiums starting in 1998. As a result, Government of Guam employees began accumulating quarters of Medicare-covered employment at that time.

Accordingly, we recommend that GovGuam consider splitting its Health Insurance Programs into three separate programs, as follows :

- Program A covering retirees over age 65 and certain retirees under age 65 with disabilities that qualify them for Medicare.
- Program B covering retirees who are not covered by Program A.
- Program C covering active employees.

For Program A, we recommend that GovGuam consider buying into Medicare instead of operating an independent health insurance program. Current total annual premiums for retirees, depending on which health plan the retiree is enrolled in, range from \$4,692 to \$9,660 (including both member and GovGuam premiums). It appears that total

premiums to buy into Medicare Part A and Part B, not including late enrollment penalties, range from \$1,156.80 to \$6,472.80, as follows:

Quarters of Medicare-Covered Employment	Total Annual Part A & Part B Premiums
40 or more	\$1,156.80
30-39	\$3,844.80
Fewer than 30	\$6,472.80

We do not have access to the number of quarters of Medicare-covered employment among retirees who are over age 65 or otherwise eligible for Medicare because of disability, nor do we have claim history information about those people; consequently, we cannot project the near-term financial effect of such a change, but we believe that it will be positive and that the effects of the change will grow more favorable over time.

For Program B, we recommend that GovGuam consider a health insurance benefit design with no HSA feature and benefits similar to the current Calvo’s SelectCare PHIL 1000 plan. To control costs, such a program could cover off-island care only in the Philippines. To reduce costs further, GovGuam may wish to consider paying for hospital services in Guam at a rate commensurate with what it pays in the Philippines, adjusted for differences in labor and other costs between Guam and the Philippines.

For Program C, we recommend continuation of benefit designs similar to Calvo’s SelectCare HSA 1500 or HSA 2000. To encourage participation in the plan, we recommend that GovGuam consider modest government contributions to each participating member’s HSA, perhaps on the order of \$50 per member per month.

2. Rescind the Statute Regarding Equality of Active and Retiree Member Premiums

Currently, the premium amounts paid by active employees and retirees are equal. We understand that this is a statutory requirement. The result of this requirement is that active employees pay a much higher percentage of the total premium for their health insurance than do retired employees. The extent of the difference is shown in the following table:

ANNUAL MEMBER MEDICAL PREMIUMS				
Plan	Percentage of Total Premium			
	Single Coverage (Employee Only)		Family Coverage*	
	Active	Retiree	Active	Retiree
Calvo’s SelectCare HSA 2000	0%	0%	24%	7%
Calvo’s SelectCare HSA 1500	14%	4%	35%	10%
Calvo’s SelectCare PHIL 1000	69%	31%	77%	35%

* Family coverage percentages shown are for coverage of families (employee, spouse, and children) where spouse is not employed by the Government of Guam.

If the health insurance program is split into three components as recommended in 1. above, GovGuam should consider proposing an amendment to eliminate the statutory requirement of equal member premiums for active and retired employees, because such a requirement is unnecessarily restrictive, especially on a health insurance program with separate components for active employees and retirees.

3. Eliminate Multiple Options Under Programs B and C

Multiple options are attractive because they give members more choices about their health insurance benefits. However, multiple options tend to raise overall costs, because relatively healthy members tend to select the leanest, lowest cost options, while relatively unhealthy members tend to select the broadest, richest options. The net result is higher costs to the employer in total, because insurers factor such selection patterns into their rates if there are multiple options. In addition, having multiple options results in instability among the broader coverage options, since the premiums for such options must be raised to reflect the selection effects, which tends to drive even more such selection, in an unsustainable cycle of increased adverse selection and increased premiums.

This effect is apparent in the current GovGuam health insurance program. The following table shows the ratios of active employee single coverage premiums for the PHIL 1000 option versus the HSA 1500 option, as compared to the comparable ratio in the absence of selection effects, as predicted by Milliman’s *Health Cost Guidelines* Rating Model.

	Ratio of Total Single Coverage Premium for PHIL 1000 to Total Single Coverage Premium for HSA 1500
Actual – Reflecting Selection Effects	2.75
Hypothetical – No Selection Effects	1.07

BIDDING PROCESS FOR GOVGUAM HEALTH INSURANCE BENEFITS

The bidding process for GovGuam health insurance is not working effectively. Over the years, the number of bidding carriers has diminished; now only one (Calvo’s SelectCare) remains. Among the local insurance carriers who do not bid for GovGuam health insurance benefits, despite the large size of the group, are NetCare Life & Health, Staywell, and TakeCare Asia. No non-local insurance carriers bid.

Effective competition is important to controlling the costs of Programs B and C recommended above. To restore effective competition, we recommend that GovGuam consider the following changes to the bidding process.

1. Implement a “Winner Take All” Process

Under the current process, successful bidders compete for enrollees among plan members. This has resulted in unsatisfactory financial results for some participating carriers, as they enrolled a disproportionate share of relatively unhealthy members.

To eliminate this problem, GovGuam should consider awarding the entire GovGuam health insurance program to a single insurance carrier, rather than having multiple carriers compete to sign up enrollees among plan members. In this way, the exposure to potential adverse selection among carriers is eliminated.

Implementing this change would require rescinding the clause in the current statute that requires GovGuam and successful carriers to enter into contracts that renew automatically (“continuation provision”). While intended to

assure the participation of multiple carriers, this clause has had the opposite effect and should be considered for rescission.

2. Award Contracts for More Than One Year

Carriers may be reluctant to invest the resources required to bid and implement coverage if they know they can be replaced after one year. GovGuam should consider awarding contracts for more than one year, subject to the right to terminate the contract if performance standards are not met.

3. Assure the Timely Payment of Insurance Premiums

Several carriers expressed concern that the Government of Guam did not pay its insurance premiums on time. We do not know whether this has been the case; if so, we recommend that the Government implement steps to assure that premiums are paid timely, perhaps by appropriating a year's worth of premiums in the annual budget process and placing that amount in an escrow account to be used for the sole purpose of paying premiums timely.

4. Furnish Comprehensive Claims History with RFP

Insurance carriers are likely to bid more aggressively if they have full, up-to-date claim experience information. If they do not, carriers tend to add margins to their bids to allow for more uncertainty regarding the risks they are assuming. The furnishing of claim experience will be especially useful in soliciting bids if the insurance program is split into components as recommended above.

OTHER COST CONTAINMENT MEASURES

The changes to the structure of the health insurance programs and to the bidding process are the major recommendations to reduce and control costs. There are several other possible changes that GovGuam may wish to consider which would have less impact but may be effective.

1. Self Insurance

GovGuam may wish to consider self-insurance or minimum premium arrangements in lieu of the current fully insured arrangements. Self-insured and minimum premium arrangements can avoid insurance premium taxes. They can also reduce insurance carrier risk or profit charges, since the carrier is assuming less risk under some of these arrangements than under fully insured arrangements, and they can reduce charges that carriers may make for the cost of capital required for them to assume insurance risk.

If GovGuam decides to pursue self-insurance or minimum premium arrangements, it will probably be desirable to do so using an escrow account similar to that recommended above under "Assure Timely Payment of Insurance Premiums".

2. Encourage Carrier Creativity

GovGuam should consider, as part of the RFP process, encouraging carriers to propose new medical management, disease management, and provider network arrangements, subject to GovGuam approval.

USING THE MEDICALLY INDIGENT PLAN (MIP) AS GOVGUAM HEALTH INSURANCE BENEFITS

We considered the possibility of using the MIP to administer or to substitute for the GovGuam Health Insurance Program. We specifically discussed this possibility with Ms. Theresa Arcangel, Department of Public Health and Social Services, Government of Guam. The MIP has some appeal, because it appears to offer comprehensive benefits at a low administrative cost (5-6% of benefit costs). However, we do not recommend such an approach, for the following reasons :

1. The MIP is a needs-based program. It is intended and operated to provide medical services to Guam residents who do not have the income or other financial resources to afford such services. Therefore, a substantial part of its administrative systems involve income and resource verification, which are not necessary or appropriate for the GovGuam health insurance program.
2. On the other hand, the MIP does not need or operate strong utilization review/pre-authorization procedures to control costs. Such procedures are important to controlling the costs of the GovGuam health insurance program. In general, the administrative systems and procedures required for the MIP are very different from those required for the GovGuam health insurance program.
3. The MIP is operated by the Government of Guam. As such, staffing of the program is subject to the same budget constraints and staffing procedures as other programs operated by the Government. This could lead to difficulties in administering the GovGuam health insurance program, if, for example, additional staff or other resources were required due to changes in the GovGuam health insurance program, and the resources were not available because of other budget issues/constraints.
4. Imposing on the current MIP staff the responsibility to administer the GovGuam health insurance program could imperil the efficient administration of the MIP.

DATA RELIANCE

In performing this study, we have relied on information provided to us by the Government of Guam. A list of this information is shown on page 5 of this report. We have not audited or verified this information. If the information provided to us is inaccurate or incomplete, the results of our study may likewise be inaccurate or incomplete.