

October 2, 2009

To: Members of the Vassar Faculty and Administration

From: The Benefits Committee

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We are writing to report on our deliberations regarding cost containment options for health and retirement benefits for faculty and administrators. Our discussions began last March, at the request of the President on behalf of the Priorities and Planning Committee. We held intensive meetings last spring to understand research conducted by Leslie Power, Benefits Manager, and we gave her direction for further study over the summer. We have met four times this fall, once in joint session with the Faculty Compensation Committee, and we would now like to share the proposals that are developing with faculty and administrators.

There will be open meetings on October 8 at 8 AM in the College Center Multi-Purpose Room and October 9 at 3 PM in Room 200 Rockefeller Hall to discuss possible proposals, respond to questions, and identify areas for further research and analysis. In the final budget for 2010/11 the reduction in spending for benefits will have to be considered in the larger picture of overall compensation. The President has made it clear that compensating the people who work at the college appropriately and competitively is a priority.

The table below summarizes the major categories of employee benefits for faculty and administrators:

| Benefit | Current Annual College Cost |
|---------------------------------------|------------------------------------|
| Retirement plan | \$6,237,000 |
| Health insurance | 4,287,000 |
| Dependent Tuition Benefit | |
| At Vassar (100% tuition remission) | 1,002,000 |
| At other colleges (50% of VC tuition) | 862,000 |
| Disability insurance | 135,000 |
| <u>Life Insurance</u> | <u>103,000</u> |
| Total | \$12,626,000 |

Our work focused primarily on health insurance and contributions to the 403b defined contribution pension plan. We also briefly discussed tuition benefits, but chose not to pursue any strategy for immediate cost savings in this area, given the need for advance notice and savings to pay for the cost of college.

Health Insurance

We believe that there is a potential strategy for realizing cost savings that may benefit some employees and their families as well as the College. This expectation is based, in part, on an expected steep rise in the cost of the MVP HMO, currently estimated to rise by more than 18%, according to the MVP representative who works with Vassar.¹ The proposal, developed by Human Resources and vetted with our committee, the Faculty Compensation Committee, the Committee on Priorities and Planning, and the Senior Officers is to offer a second Blue Cross/ Blue Shield plan (its Exclusive Provider Option, or "EPO" plan) as a substitute for the MVP HMO. The attached exhibit shows the projected 2010 college and employee costs for the PPO, HMO and EPO. The

¹ MVP has advised that they will not release actual rates until November, which in itself presents a major problem for Vassar's normal timetable for open enrollment period, when choices can be made about medical coverage.

BC/BS EPO provides a clear lower-premium alternative for families, while the premium cost of the HMO is expected to rise above the PPO.

By offering the Empire EPO as a network-based substitute for the HMO, we can consolidate the faculty and administrative employees of Vassar College into one group for the purpose of sharing risk. The BC/BS network of providers and hospitals includes doctors and hospitals across the country, whereas MVP offers only a *regional network*. Our expectation is that some employees who currently choose the BC/BS PPO in order to get wider coverage than that provided by MVP may choose the EPO instead, which has the same network as the PPO and has a lower premium or fixed cost. The EPO does not, however, cover out-of-network care, that is, care provided by non-BC/BS participating service providers around the country. The attached FAQ explains the differences between the BC/BS PPO and EPO and the MVP HMO. We support the proposal that this substitution of the EPO for the HMO take place on January 1, 2010. We expect the final decision to be made after the open meetings on October 8 and 9, in time for the Open Enrollment period in November.

Differences between MVP and Blue Cross/ Blue Shield

We have assessed both networks of doctors, hospitals, and other providers; asked MVP members for feedback on their doctors' acceptance of BC/BS insurance; and determined how many MVP primary care physicians accept BC/BS. Based on this research, we conclude that locally, there is substantial provider network parity between MVP and Blue Cross. Outside of Dutchess and Ulster Counties, the Blue Cross/Blue Shield national network is far broader than MVP's. Network participation by individual doctors changes slightly every year, but the BC/BS network is the largest in the country. We do not know of any hospital that is not a BC/BS provider hospital.

MVP has offered a children's dental benefit which is not available under BC/BS. That is the primary loss of coverage under the proposed switch. However, some MVP members may find a gain of coverage in two areas: Blue Cross covers eyewear in addition to eye exams, and dependent children on Blue Cross can remain on their parents' plan until age 23 even if they are not students.

The EPO will have a lower monthly premium and a slightly higher copay per doctor's visit. The PPO will have a higher premium and a slightly lower co-pay. The PPO also offers out-of-network coverage after you have paid a deductible of \$500/year.

Based on the premium quotes the College received, this switch from MVP to the BC/BS EPO will save the college an estimated \$67,000 annually beginning in January of 2010.

Possible Future Changes in Health Insurance (January 2011 at the earliest)

Having both the BC/BS EPO and PPO plans in place will allow the college to offer employees plans with exactly the same network of health care providers but differentiated by pricing strategy and the option to seek care out of the network. Since 94% of all claims from those who enroll in the PPO are paid to network providers, it may well be possible for a large number of employees who enroll in the PPO to switch to the EPO, which will allow them savings without any effect on their health care. If there were to be a greater cost differential in premium between the two plans in 2011, employees may be more motivated to take a close look at the suitability of the EPO for their health-care needs.

This leads to a second policy change the College could consider that would generate more substantial cost savings, if that is needed to meet the financial plan objectives that are being discussed. The policy change would be to provide the current level of subsidy to the EPO as a percentage of cost – 85% (single) and 70% (dependent.) The PPO subsidy would be the same dollar amount as that of the EPO and employees would thus pay a higher percentage of the more expensive PPO monthly premium. By increasing the price differential, there would be a

motivation to examine whether an employee's health care needs could be met within the network. This might well lead to savings for both the college and the individual. It also means, however, that those who elect the PPO would pay a higher amount of their premium for the combination of lower co-pays at point of service and the option to seek care out of network, subject to a deductible and co-insurance.

This possible second change will require discussion, and so this proposal, if it is approved, would take effect no earlier than January, 2011, to allow time for full consideration. We estimate that the savings the college would achieve through this kind of change is approximately \$550,000 annually. However, those savings could be greater or smaller, depending on what percentage of the EPO premium the college would contribute. We recognize that this step has to be coordinated with other strategies for reducing spending on compensation for continuing faculty and administrators.

Retirement Contributions

Vassar has one plan design for all faculty and administrators, which has been in place for a number of years. To participate, employees must have completed one year of service and be 26 years of age or more. The contribution schedule is as follows: 7% from age 26 to 29, 11% from age 30 to 39, and 14% from age 40 on. A number of people have suggested that changing the percentage of the college's contribution might be the fairest way of controlling compensation growth.

The Benefits Committee is considering various changes in the contribution formula; for example, possibly reducing the 14% rate by 1 or 2 percentage points. If the rate were reduced by two percentage points to 12%, the Benefits Manager estimates that the college would save approximately \$750,000 per year.

Our initial review of these options has included a study of the plan designs used by peer colleges. We have also begun to study, with the Faculty Compensation Committee, how certain changes might impact AAUP standing of faculty compensation. Cutting the top rate by 2% would have reduced the full professors standing by one level in 2008/09 – from 8th to 9th overall, excluding the estimated value of post-retirement health insurance (which would raise Vassar's standing, but is not counted under AAUP's reporting rules). The associate professors would have fallen by two ranks from 6th to 8th, and there would have been no change to the assistant professors, ranked 16th out of 21.

A subgroup drawn from FCC and the Benefits Committee (David Kennett, Paul Ruud, Tom Porcello, Rachel Kitzinger, Leslie Power, and Betsy Eismeier) will examine possible changes in the retirement contribution rates with consideration for the adequacy of the retirement savings that can be created over time, and will report back to the two committees. This is an ongoing discussion, and no timeline has been established.

Attachments: EPO information in Q and A format
Projected 2010 health insurance premium costs

Empire Blue Cross EPO: Questions and Answers

What does EPO stand for? Exclusive Provider Organization. Our current plan is a PPO: Preferred Provider Organization.

Are we keeping the current Empire PPO plan? Yes. All faculty and administrators will have the choice of either Empire Blue cross plan: the PPO or EPO. If you are currently covered via the MVP HMO, you will need to choose one of the Blue Cross plans. If you are on the Empire PPO, you should evaluate whether the less-expensive EPO option would work for you.

What is the difference between an EPO and a PPO? A PPO provides co-pay based coverage for providers in the plan's network, and coverage after a \$500 deductible for providers *not* in the plan's network. An EPO provides the co-pay based, in-network coverage only: there is no coverage for out-of-network providers, except for emergency or urgent care, The network for both plans is the same.

Is that the only difference between Vassar's current PPO plan and the EPO? In order to make the monthly payments for the EPO a lower-cost option, Vassar has selected higher co-pays for two services on the EPO: An office visit costs \$20, versus \$15 on the PPO, and prescription drugs (generic/formulary brand/non-formulary brand) are \$10/\$25/\$50, whereas the PPO drug co-pays are \$10/\$20/\$40. One other change involves physical therapy: the EPO provides 60 visits per year, and the PPO provides 90.

I have the Empire PPO now. How would my care differ in the EPO?

Hospital Care: All U.S. hospitals currently accept Blue Cross insurance, and the inpatient copay of \$250 is the same on both plans, so hospital care would not be affected.

Outpatient Care (Doctor visits, lab tests, etc.) If you have currently been paying a co-pay (\$15) for office visits and haven't had to pay a deductible or submit claim forms, the providers you are using are in the Blue Cross network, so nothing would change in your current situation if you switched to the EPO, except that your copay would be \$20 instead of \$15. If you see a doctor who does not accept Blue Cross, you are currently paying a deductible of \$500 and receiving coverage for 80% of the doctor's costs above that \$500. In the EPO, the full cost of all visits to that doctor would be your responsibility.

Prescription Drugs: If you take generic medications, there is no cost difference between the EPO and PPO. If you use brand-name drugs, you will pay \$5 to \$10 more per order on the EPO (see above.)

I have the MVP HMO now. How would my care differ in the EPO? In the EPO, you do not need to select a Primary Care Physician or obtain referrals for specialists. The great majority of local doctors participate in both MVP and Blue Cross, so in most cases your visits will be covered with similar copays. More hospitals and specialists in Westchester County and New York City accept the Blue Cross EPO than the MVP HMO, so you would have a bigger list of providers to choose from, including doctors in other states. If someone in your family lives in another state, the Blue Cross EPO may be a good option for you due to this nationwide network feature.

There are a small number of doctors currently used by Vassar employees who are on the MVP provider list but not in the Blue Cross provider network. You would not have coverage for their services under the EPO.

What about emergency or urgent care? Coverage for emergency/urgent care, either in the U.S. or abroad, is the *same* on all plans: PPO, EPO, HMO.... Call the plan within 48 hours of your emergency care, and you will receive full coverage less a \$50 co-payment.

Are there differences between the EPO and PPO in terms of whether a certain procedure, condition, treatment or medication is covered? No. In the EPO, you may pay a higher copay or have a lower annual physical therapy visit limit, but you would not be denied any treatment or medication you would have received in the PPO. There is no pre-existing condition limitation on either plan.

What matters is not the treatment but *who* provides it: if the doctor is not on the Blue Cross provider list, the EPO will not cover your visits to that doctor. In the PPO, after you have paid \$500 in any calendar year, those visits would be covered at 80%.

How should I evaluate the importance of being able to select providers outside the Blue Cross network? Here are some points to consider:

- If you and your family have rarely or never had to pay a deductible and 20% coinsurance – if your care involves only copays – your doctors are in-network your coverage would be the same in the EPO. Even considering higher EPO copays, you may save money by opting for the EPO.
- How important is it to you to have coverage for more than one or two visits from a non-Blue Cross doctor? If you see a doctor who does not accept Blue Cross, you may want to consider how often each year you are likely to see her/him. For one or two visits, you would not see much difference between the PPO and EPO, because the PPO will not pay for her/his services until you've paid \$500. It is only for charges over \$500 that the PPO contributes to the cost.

How good is the Blue Cross network? The evaluation of the network is necessarily subjective: if you or your doctor believe that "Specialist X" is the best resource for your condition, and Specialist X is a not a Blue Cross provider, you may feel that the Blue Cross network is inadequate for you. Therefore, you may be the best judge of the quality of the network.

That said, the current Blue Cross network is comprehensive:

- All U.S. hospitals accept Blue Cross, including Memorial Sloan Kettering Cancer Center, New York Presbyterian, Beth Israel-Deaconess, the Mayo Clinic, Brigham & Women's, Westchester Medical Center, Albany Medical Center, and many more leading treatment centers across the country as well as in Dutchess County.
- The network includes tens of thousands of providers within a 100-mile radius of New York alone, both for primary care (internal medicine, pediatrics, nurse practitioners) and specialty care (oncologists, cardiologists, neurologists, etc.)
- The network is national.
- Vassar PPO members get most of their care in-network: last year, of a total of 14,708 visits, 14,245, or 97%, were in-network. These figures include all types of providers *except* mental health.

For mental health outpatient counseling, Vassar members were about as likely to use out-of-network providers (51% of visits) as in-network providers. Employees or their dependents who are patients of a non-network mental health provider may be better off in the PPO, despite its higher monthly cost: the out-of-network PPO coverage may be cost-effective for you.

If you anticipate wanting to arrange *non-emergency, elective* procedures abroad, you may benefit from the PPO's out-of-network coverage. Again, emergency and urgent care coverage is the same on the PPO and EPO, both in the U.S. and abroad.

If I join the EPO for 2010 and don't like it for any reason, can I switch back to the PPO? You can, at next year's Open Enrollment, for 2011. There are no pre-existing condition exclusions or limitations involved in switching between the plans.

Health Plan Cost Forecast: 2010

Rate estimates revised 9/24/09

1. Total Monthly Premium

| | Empire PPO | MVP HMO: Estimate ** | Empire EPO |
|------------|---------------|-------------------------|---------------|
| Single | \$624 | \$632 | \$559 |
| Parent-Ch. | \$1,110 | | \$995 |
| 2-Adult | \$1,252 | \$1,264 | \$1,122 |
| Family | \$1,686 | \$1,684 | \$1,511 |

2. Employee Monthly Cost

| | Empire PPO | MVP HMO: Estimate ** | Empire EPO |
|------------|---------------|-------------------------|---------------|
| Single | \$94 | \$95 | \$84 |
| Parent-Ch. | \$333 | | \$299 |
| 2-Adult | \$376 | \$379 | \$337 |
| Family | \$506 | \$505 | \$453 |

** MVP HMO local community rates are not in yet, but our rep estimates a "18% or more" increase. Model shows a 19% increase.