FRANKLIN-ESSEX-HAMILTON

SCHOOL DISTRICTS

HEALTH INSURANCE CONSORTIUM

A HISTORY OF COOPERATION

1981
EVENT # 1
LEAVING THE STATEWIDE SYSTEM

In the late 1970's the problem was that all schools in the statewide plan were in the same rating pool and those in rural areas such as us were paying for the higher costs of health care in downstate urban areas.

Prior to taking any action, all bargaining groups were involved in the discussions. Contract addenda “sign offs” were obtained from bargaining units with certain stipulations:

- It was agreed that the Plan Administrators for an alternately funded health care plan would be Blue Cross & Blue Shield of Utica-Watertown, Inc. However, the parties agreed that the Governing Body of the plan, with the consent of the Associations in the group, could change the Plan Administrator.

- **It was also agreed that benefit levels in place at the time of the agreement would remain in place.**

1991
EVENT # 2
FORMING A COOPERATIVE UNDER GENERAL MUNICIPAL LAW.

Section 5 of the General Municipal Law allows school districts to join together to provide collectively those services they are allowed to provide individually.

On July 1, 1991, the BOCES and nine component school districts formed a consortium under general municipal law which was called the **Franklin-Essex-Hamilton School Districts Health Insurance Consortium** and adopted an alternative funding arrangement to take advantage of specific cost containment opportunities.

Employee groups allowed this organizational change since all health benefits remained the same as they had been in 1981 as well as the Drug Co-Pays and Major Medical Deductibles as follows:

Drug Co-Pay - $.50 Generic / $1.00 Brand Name

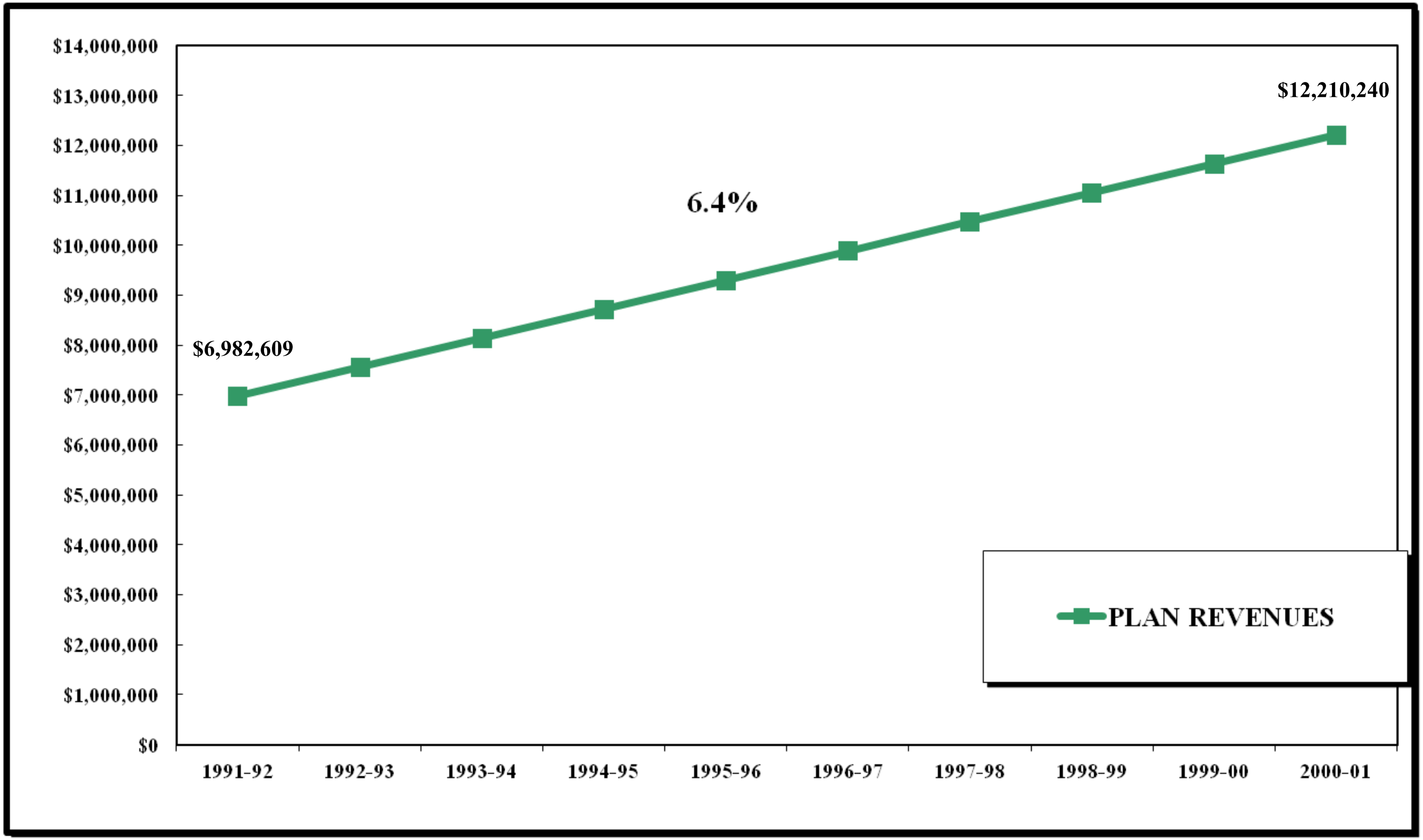
Major Medical Deductible - $75.00 Single / $225.00 Family

1995
EVENT # 3
FORMING THE JOINT GOVERNING BOARD

With health care costs rising faster than general inflation and at a rate above most wage agreements, districts became more aggressive in seeking partial payment of premiums at the local bargaining tables. Employees naturally resisted these efforts and negotiations often became quite heated.

Projected Annual Revenues vs. Expenditures Trend Line

Prepared October 1996



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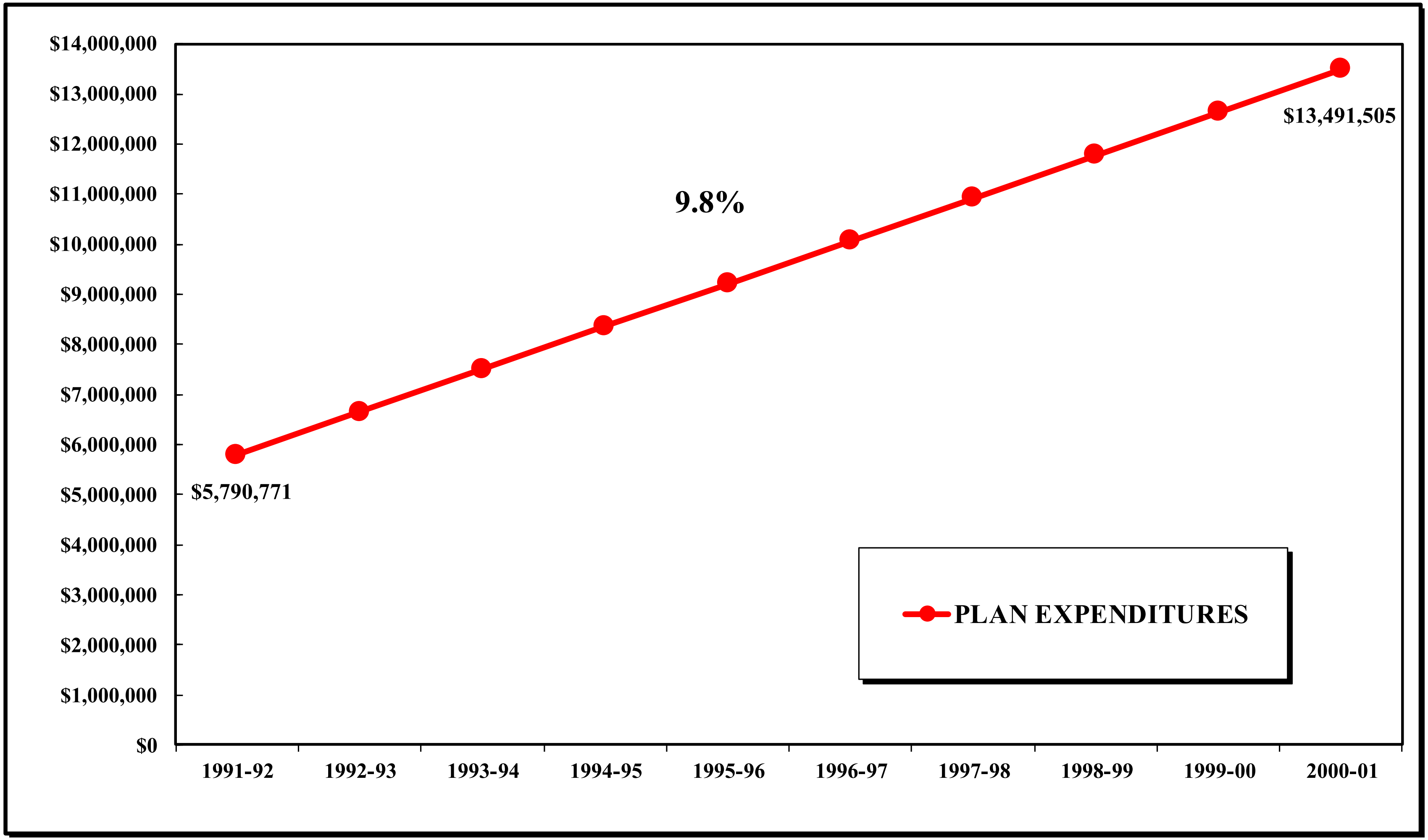
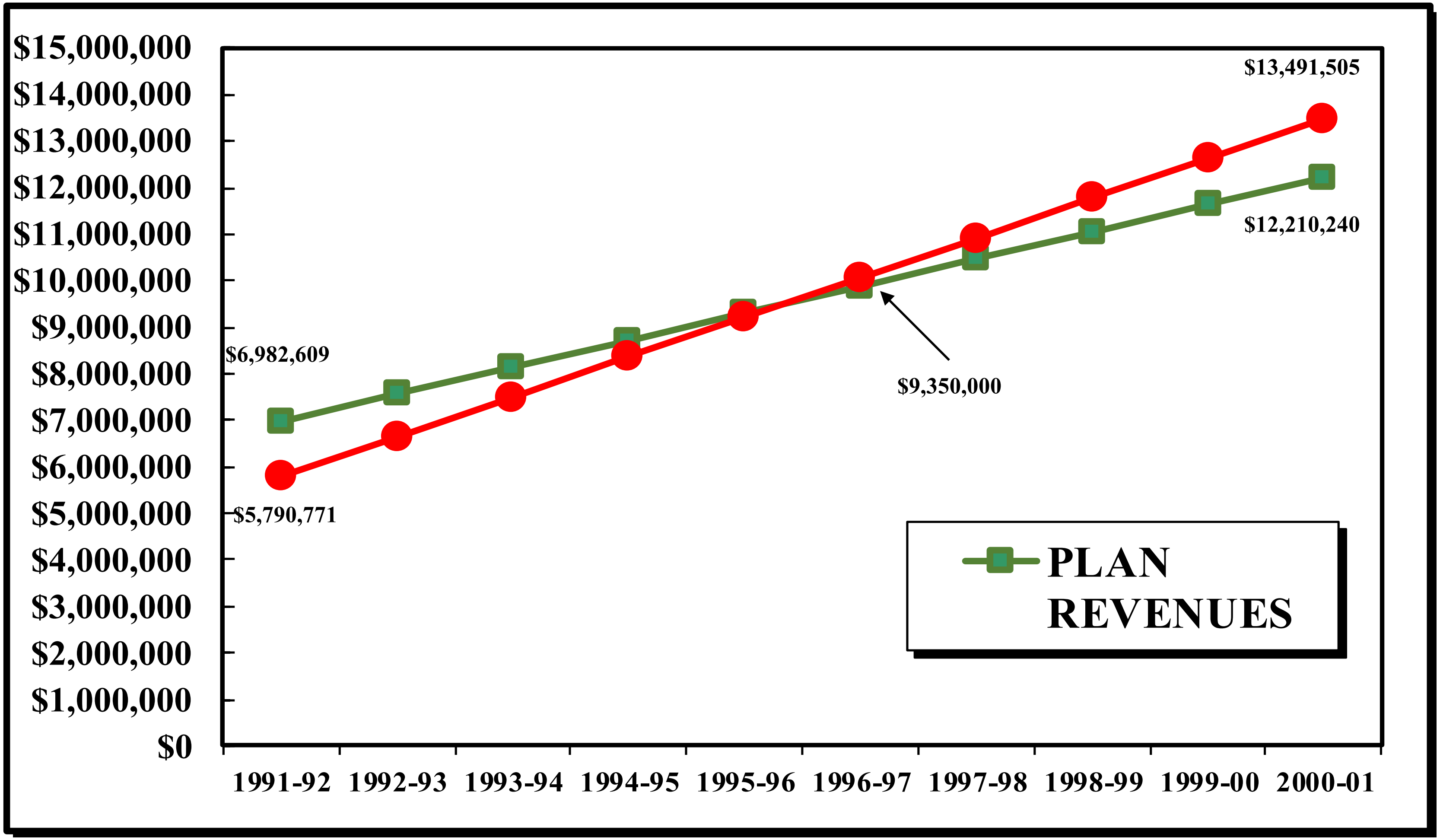


Projected Annual Revenues vs. Expenditures Trend Line

Prepared October 1996



In the fall of 1995, a group of district representatives and employee representatives met to explore alternative approaches.

Regional Health Insurance Discussions

District Goals:

- Immediate cost savings
- Long range cost control
- Elimination of dual coverage within consortium
- Shared ownership/employee cost sharing

Employee Goals:

- Joint governance structure
- Preservation of existing benefits
- Moratorium on health insurance bargaining at the local table

Summary of Agreement

- **Establishment of a joint governance board to make decisions about all aspects of the health insurance plan within carefully defined parameters.**

- **An immediate increase in the drug co-pay and major medical deductibles.**

- **Modification of dual coverage within the Consortium to provide the same level of benefit to eligible employees while sharing costs equally between the affected school districts.**

Summary of Agreement (cont'd.)

- **A moratorium on health insurance bargaining expiring July 1, 2002.**
- **Establishment of an IRS Section 125 Plan (Flex Spending).**
- **Provision for a "triggering event" which would necessitate the Joint Governing Board to act.**

Memorandum of Understanding

1. The parties are currently investigating the proper legal vehicle which must be established in order to effect the intended governance structure. Once that is determined, it is the intent of the parties to take any and all necessary actions to put this joint governance structure in place. Meanwhile, a joint board will be created as defined above. **Any decisions made by this joint board will come before the current Board of Directors with the understanding that said decisions shall be approved.**

Memorandum of Understanding (cont'd.)

2. **Reserves and surpluses during the initial period commencing July 1, 1996 and further referenced in item 14 will be maintained as follows:**

   A. Reserves – equal to 25% of Projected Annual Claims

   B. Unencumbered Surplus – 7% of Projected Premiums

   The governing board of the consortium specified in item 1 above shall determine the allocation and use of funds in excess of reserves and/or unencumbered surplus amounts/percentages. It is agreed and understood that no new benefits will be added to the plan prior to July 1, 1999 except as mandated by law.

Memorandum of Understanding (cont'd.)

5. **The "triggering event" which would necessitate the governing board to act by March 1, 1999 effective on July 1, 1999 for the 1999-2000 school year and on March 1, for any school year thereafter would be a projected diminishment of reserves and surpluses below the agreed upon levels as specified in item 2** above determined by the Plan's Consultant and subject to independent verification should a majority vote of the governing body demand such, after a premium increase equivalent to the Bureau of Labor Statistics for Northeastern United States Medical CPI for the latest 12 month period available as of March 1 in any given year has been applied in any applicable plan year (school fiscal year).

Memorandum of Understanding (cont'd.)

7. **Parties ratifying this Memorandum of Understanding as outlined in item 15 hereby agree to simultaneously incorporate this Memorandum of Understanding into their respective Collective Bargaining Agreements.**

8. **Any "other" agreements entered into by the respective parties that are in conflict with the terms or intents of the agreement reached in this negotiation shall be amended to incorporate the terms and/or intent of said agreement as necessary and/or appropriate.**

MEMORANDUM OF UNDERSTANDING DETAILS

November 1996

Seven-year moratorium on health insurance bargaining at the local district level

The premium equivalents for 96-97 were increased 4% over 95-96 rates and those rates frozen for 97-98 and 98-99.

Major medical deductibles increased from $75/individual & $225/family to $150/$450.

Drug co-pays increased from $.50 generic & $1.00 brand to $3.00 & $5.00

Drugs available by mail with no co-pay

Total Annual Value $1,000,000

FAMILY PREMIUM RATES

		Advertised % Increase	Actual % Increase
1995-1996	$5,784		
1996-1997	$6,012	4.00%	3.94%
1997-1998	$6,108	0.00%	1.60%
1998-1999`	$6,120	0.00%	0.20%

May 1999

Medical rate of inflation is 4.8% and an increase in district contributions matching that keeps reserves at the required levels.

FAMILY PREMIUM RATES

		Advertised % Increase	Actual % Increase
1995-1996	$5,784		
1996-1997	$6,012	4.00%	3.94%
1997-1998	$6,108	0.00%	1.60%
1998-1999`	$6,120	0.00%	0.20%
1999-2000	$6,423	4.80%	4.95%

2000
EVENT #4
THE FIRST REAL TEST FOR THE JOINT GOVERNING BOARD

Medical inflation rate is 3.9% and an increase in district contributions of that amount leaves us far short of required reserves-$1,800,000 on a one-year basis. After an independent auditor verifies the figures, employers and employees agree that an arbitrator is needed to determine the meaning of the triggering event language.

Arbitration Decision

Dennis J. Campagna, Esq. March 16, 2000

1. Pursuant to the ratified Memorandum of Understanding governing the operation of the Franklin-Essex-Hamilton Health Insurance Consortium, and beginning with the 1999-2000 school (fiscal) year, the participating districts are **not** limited, in their contribution for premium increases, to the Medical CPI under those circumstances where, the Governing Board, acting as a result of the existence of a "triggering event", **has determined that additional contributions by participating school districts are required, necessary and proper, for the continued well being of the Consortium, and the efficient delivery of services to its constituents.**

2. **Pursuant to the ratified Memorandum of Understanding, the MOU vests the Governing Board with full authority to take whatever action(s) it deems necessary, legal and proper, as fiduciaries of the Fund, to insure the continued existence of the Consortium, and the efficient delivery of benefits to its constituents, during those times when it is required to act as a result of the existence of a "triggering event".** Such action may not include a unilateral action by the Governing Board to dissolve the Consortium, without the mutual agreement by and between the parties to the MOU, and the required ratification by constituent members.

RECORD OF DECISIONS

October 2000

Not settled until well in to the new fiscal year and then by a 15-3 vote

Introduced three tier drug co-pay structure and deductible for drugs

Drug deductible $25/individual
Drug co-pay at retail increased to $8.00/$15.00/$30.00
Drug co-pay at mail initiated at $5.00/$10.00/$20.00

Acknowledged the right of the Board of Directors to set premiums if the JGB fails to do so by March 1st

Total Annual Value $800,000

Premium equivalents increased 18% for 00-01 and 10% for 01-02

This was intended to be a four-year deal, but that required an extension of the moratorium which we could not accomplish at this time. There seemed to be a mutual agreement that multiple year deals involving plan design changes were better than annual changes in benefits.

Arbitration Decision

James R. Markowitz – January 23, 2001

Because I find that item 9 clearly contemplates that the Joint Board may change health insurance benefits, I need not reach the issues raised by either party regarding the Wesman Award or the Compagna Award. For the same reason I need not analyze the bargaining history leading to the execution of the MOU or the negotiations preceding the Joint Board's resolution of October 26, 2000. **Suffice it to say that through item 9 of Appendix G, the collective bargaining agreement contains authority for the Joint Board to alter health insurance benefits. Because of this the District's decision to abide by the Board's resolution did not violate the parties' contract.** The grievance is, therefore, denied.

RECORD OF DECISIONS (cont'd.)

February 2002

Moratorium extended until June 30, 2004

Annual maximum out of pocket for drug spend introduced at $1,000

Ambulance coverage increased from flat $50 to be paid as major medical claim, that is subject to the deductible and co-insurance features of our plan. Air ambulance service also covered but at the ground ambulance amounts.

Cardiac rehabilitation Phase II coverage added - also subject to deductible and co-insurance.

Total Annual Cost Est. $100,000

Premium equivalents for 02-03 and 03-04 increased by 7.6%

FAMILY PREMIUM RATES

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1997-1998	$6,108	0.00%	1.60%
1998-1999`	$6,120	0.00%	0.20%
1999-2000	$6,423	4.80%	4.95%
2000-2001	$7,632	18.00%	18.82%
2001-2002	$8,400	10.00%	10.06%
2002-2003	$9,048	7.60%	7.71%
2003-2004	$9,744	7.60%	7.69%

2004
EVENT #5
WAS THE 2000 DEAL A ONE TIME ACHIEVEMENT OR COULD WE BUILD ON IT?

The increase in the Medical CPI required the districts to raise their contributions by $775,000, but this still left a huge deficit-$2,400,000 on a one-year basis. A multiple year approach seemed to be the way to go.

RECORD OF DECISIONS (cont'd.)

January 2004

Moratorium extended another three years to June 30, 2007

Mail order drug co-pays increased to $16/$30/$60

Hospital in-patient deductible of $50 introduced

Total Annual Value $480,000

Premium equivalents of 04-05, 05-06, and 06-07 increased by 9.7%

Without actually stated it, the "split the difference" philosophy of 2000 became more one of 'keep the employee cost share the same"

FEH INSURANCE CONSORTIUM

RATE HISTORY

	FAMILY	ADVERTISED % INCREASE	ACTUAL % INCREASE
1995-96	$5,784		
1996-97	$6,012	4.00%	3.94%
1997-98	$6,108	0.00%	1.60%
1998-99	$6,120	0.00%	0.20%
1999-00	$6,423	4.80%	4.95%
2000-01	$7,632	18.00%	18.82%
2001-02	$8,400	10.00%	10.06%
2002-03	$9,048	7.60%	7.71%
2003-04	$9,744	7.60%	7.69%
2004-05	$10,680	9.70%	9.61%
2005-06	$11,712	9.70%	9.66%
2006-07	$12,852	9.70%	9.73%

2005
EVENT #6
SERIOUS SHORTFALL IN REVENUE DUE TO FAULTY ASSUMPTONS ON CENSUS.

The plan put in place in January of 2004 turned out to be severely inadequate. Revised revenue figures show a large decrease in reserves, such that they would fall below the required amount.

RECORD OF DECISIONS (cont'd.)

February 2006

Districts assess themselves $1,000,000 to make up revenue shortfall

Presidents of 22 bargaining units and their advisors meet and agree on a first step to bring Medicare rates closer to what they should be on a paid claims basis by allowing a 15% increase in those rates.

2007
EVENT #7
When the negotiations to create the MOU and the JGB first started, the school boards bought into the philosophy “Better to pay 100% of something under control than 90% of something out of control.” Despite that, several districts were under mounting pressure to gain some measure of employee premium share.

Medical CPI was 4.2% and a premium contribution increase of that magnitude left a deficit of $2,232,940 on a one-year basis. It could have been solved by districts increasing premiums by another $1,000,000 and employees agreeing to plan design changes valued at the same amount. Even in multiple year scenarios, the numbers were huge.

RECORD OF INDECISIONS

December 2006

Concept of 10% employee cost share through deductible and co-pays collapses under magnitude of cost – in excess of $2,000,000 over three years

(Over $3,000,000 for years 4-6)

February 2007

Some districts insisting on employee premium share.

Employees insisting they could not legally approve such an arrangement.

Negotiations broke down with districts looking for $900,000 and employees willing to agree to $300,000 in plan design changes.

Both sides recognized it meant the end of the moratorium. Many members feared it also meant the end of a functioning joint governing board.

2010
EVENT # 8
THE FORCED MOVE TO CLASSIC BLUE

It became clear to the JGB that this change provided significant additional benefits to subscribers and therefore increased district claims costs. After agreeing upon a value of $400,000 for those improved benefits a plan was developed to, essentially, split the cost between employees and employers.

Plan design changes were agreed to as follows:

- Deductible from $150/$450 to $200/$600
- MOOP from $400/$400 to $200/$600.
- Hospital inpatient co-pay from $50 to $200
- Retail formulary $15 to $17
- Retail non-formulary $30 to $32
- Mail formulary $30 to $34
- Mail non-formulary $60 to $64.
- Generic co-pay incentive program
- Evidence based plan design for diabetes

FEH INSURANCE CONSORTIUM

RATE HISTORY

	FAMILY	ADVERTISED % INCREASE	ACTUAL % INCREASE
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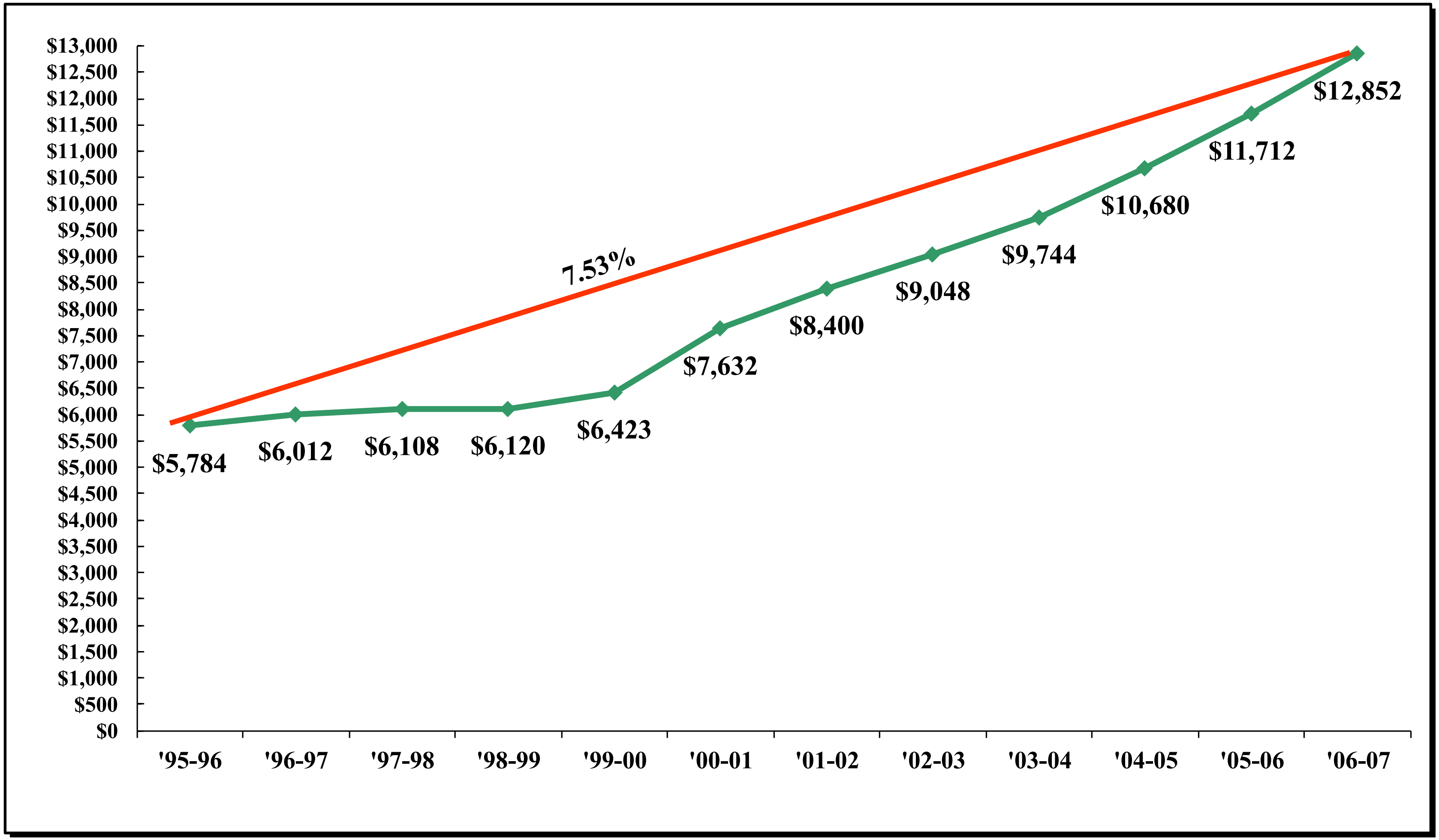
2002-03	$9,048	7.60%	7.71%
2003-04	$9,744	7.60%	7.69%
2004-05	$10,680	9.70%	9.61%
2005-06	$11,712	9.70%	9.66%
2006-07	$12,852	9.70%	9.73%
2007-08	$14,232	11.40%	11.05%
2008-09	$14,736	5.00%	3.54%
2009-10	$16,248	10.50%	10.26%
2010-11	$17,424	7.00%	7.24%
2011-12	$19,872	12.00%	14.05%

Premium Trend

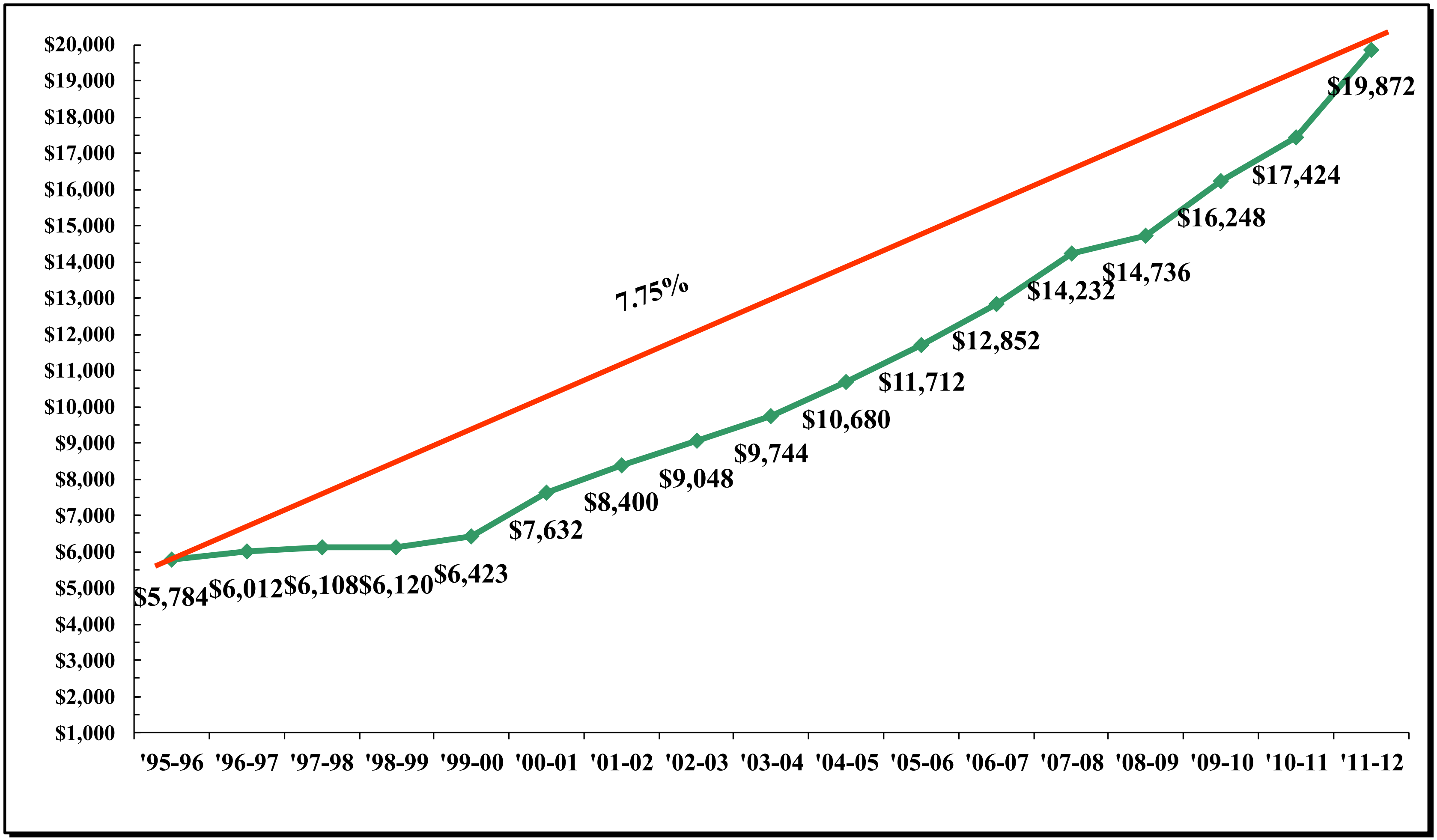
Annual Family Premium

Prepared November 2005



Premium Trend Projections

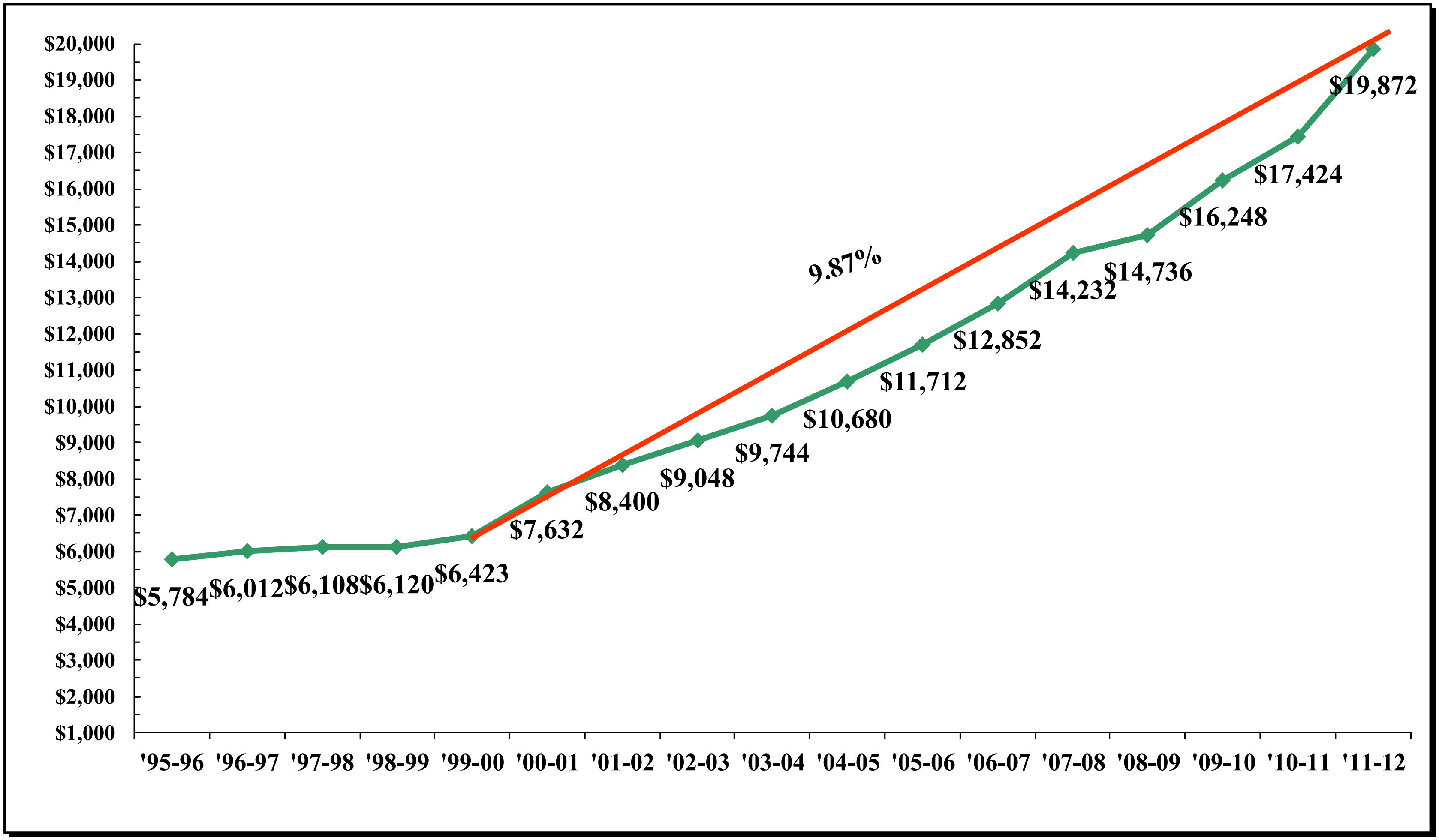
Annual Family Premium



Premium Trend Projections

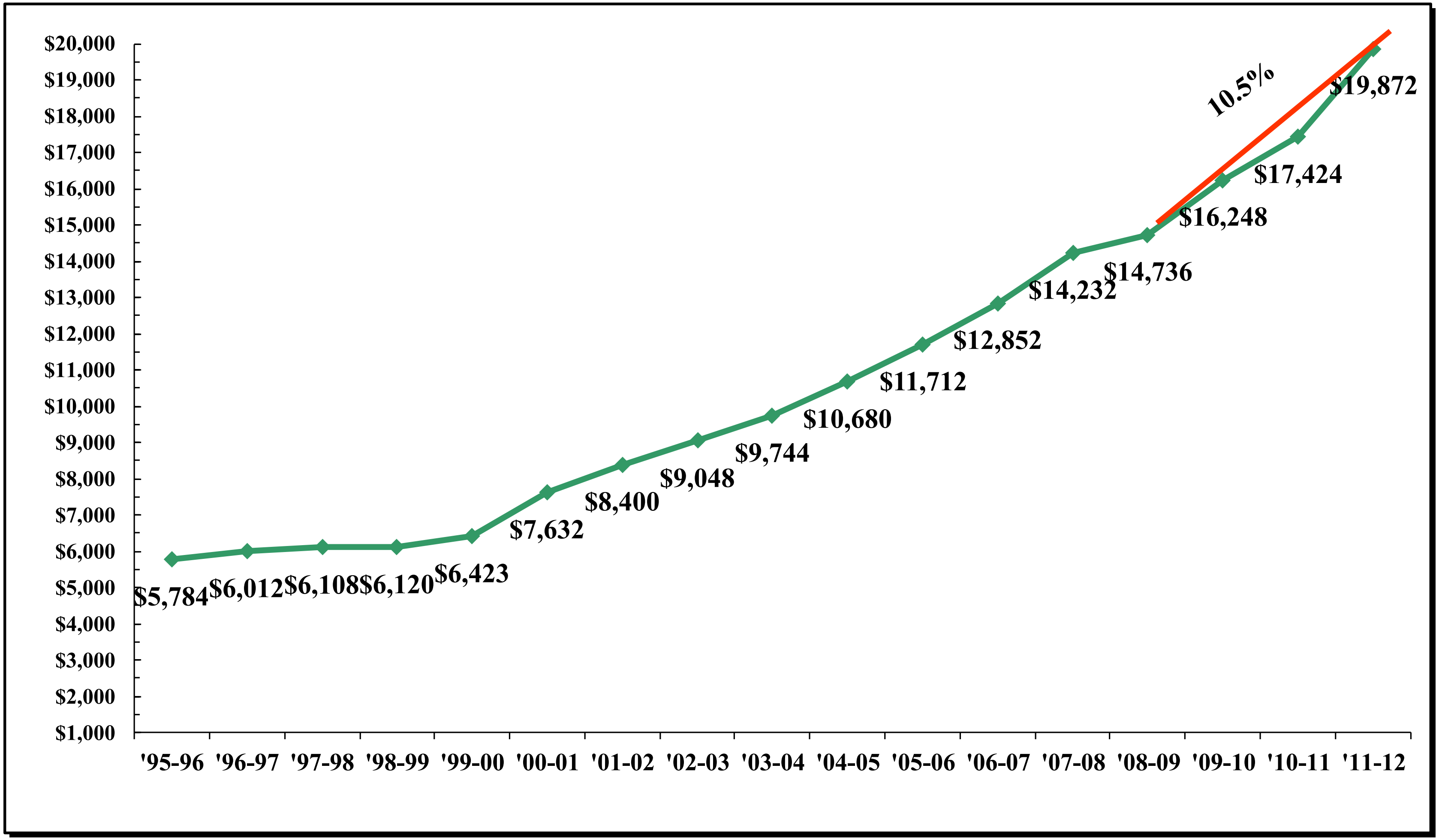
Annual Family Premium

Prepared November 2005



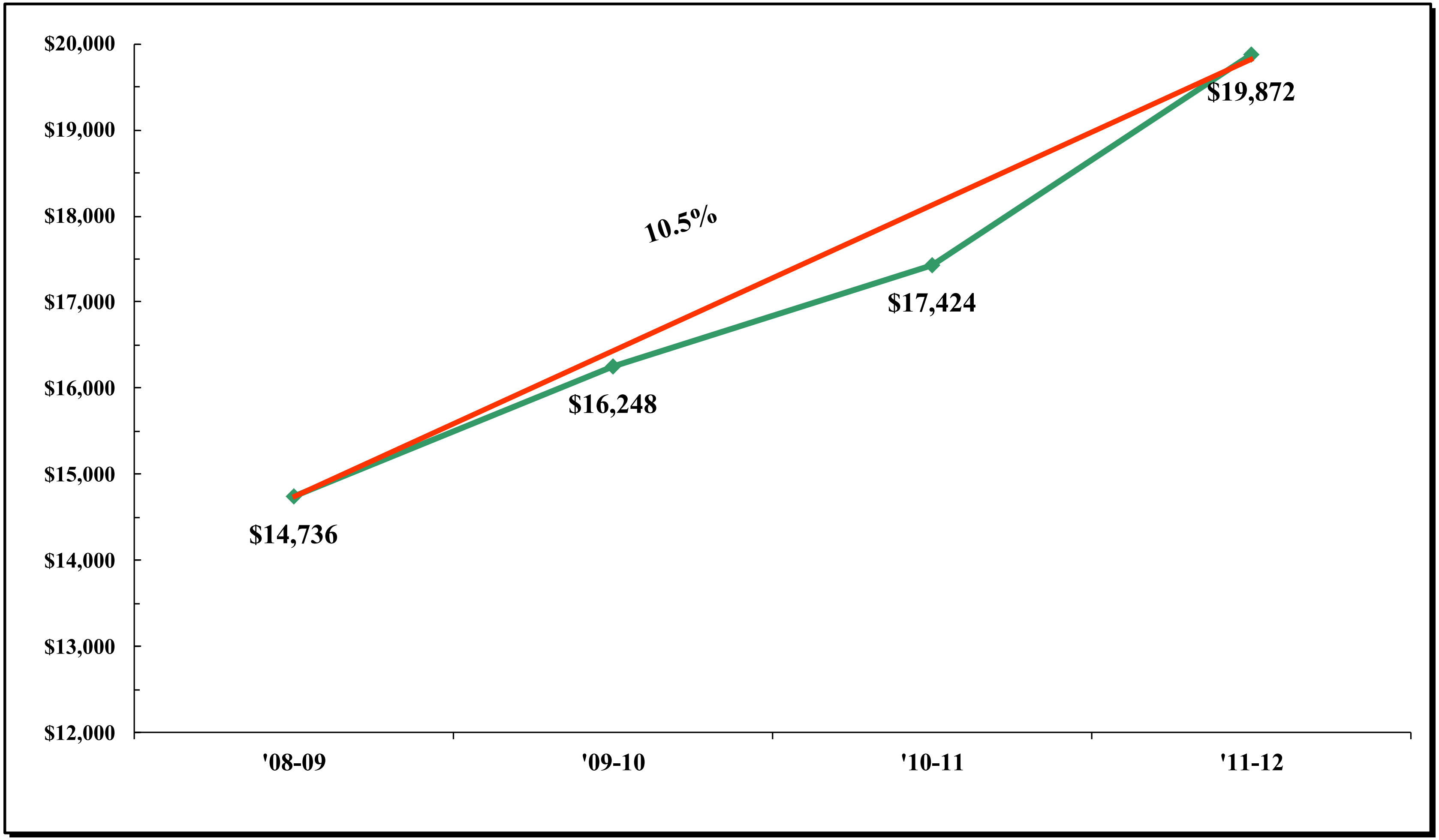
Premium Trend Projections

Annual Family Premium



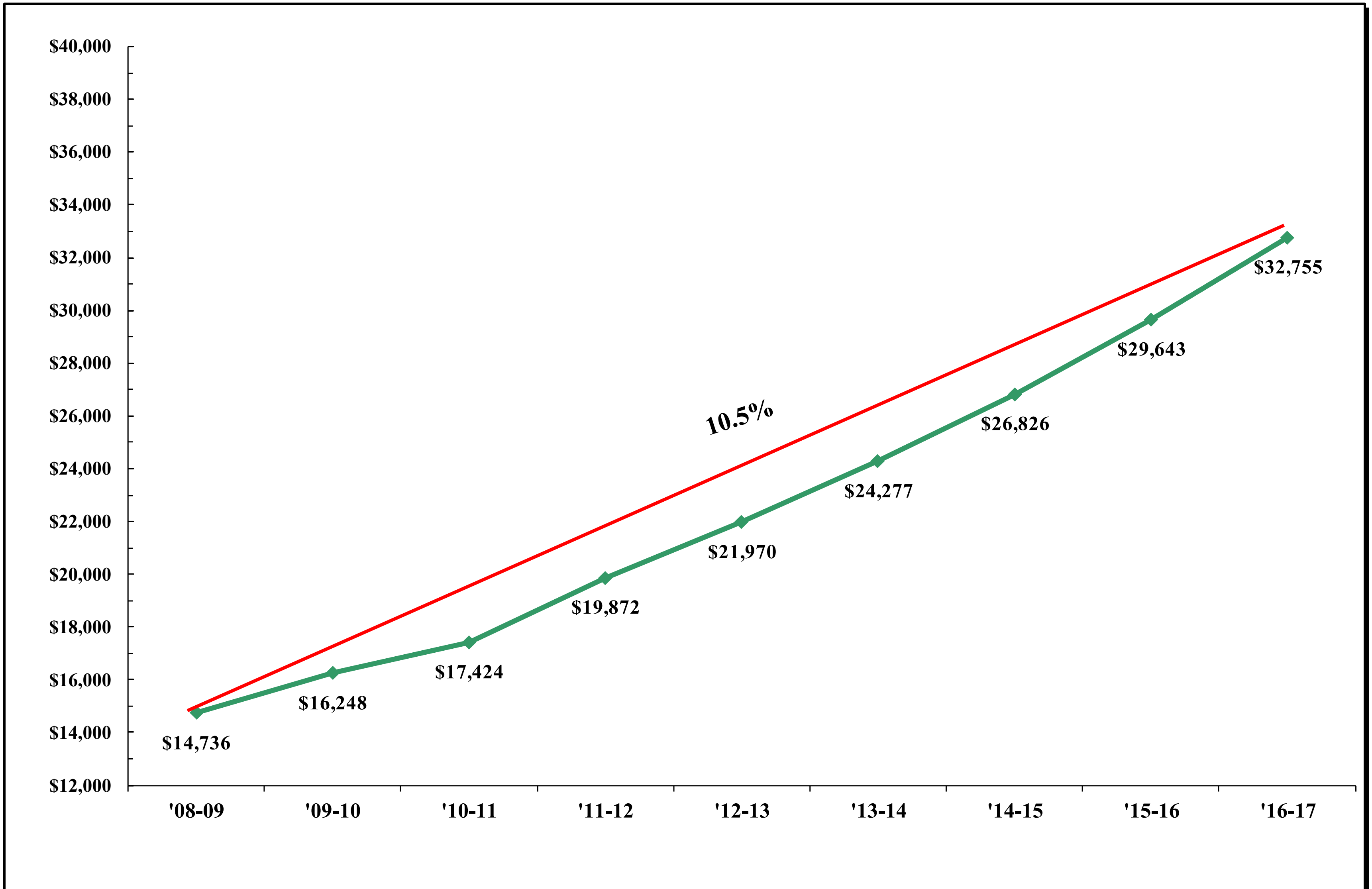
Premium Trend Projections

Annual Family Premium

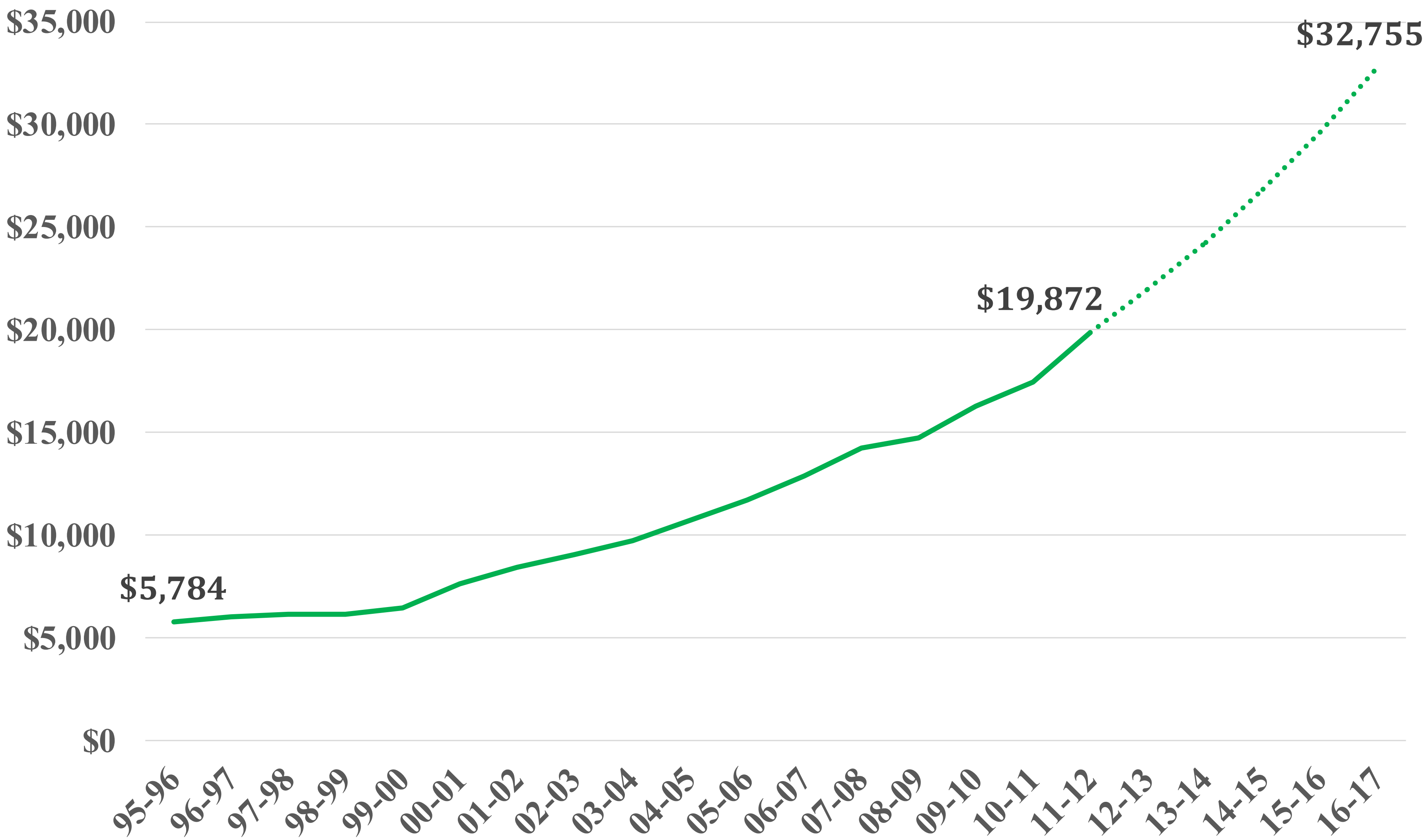


Premium Trend Projections

Annual Family Premium



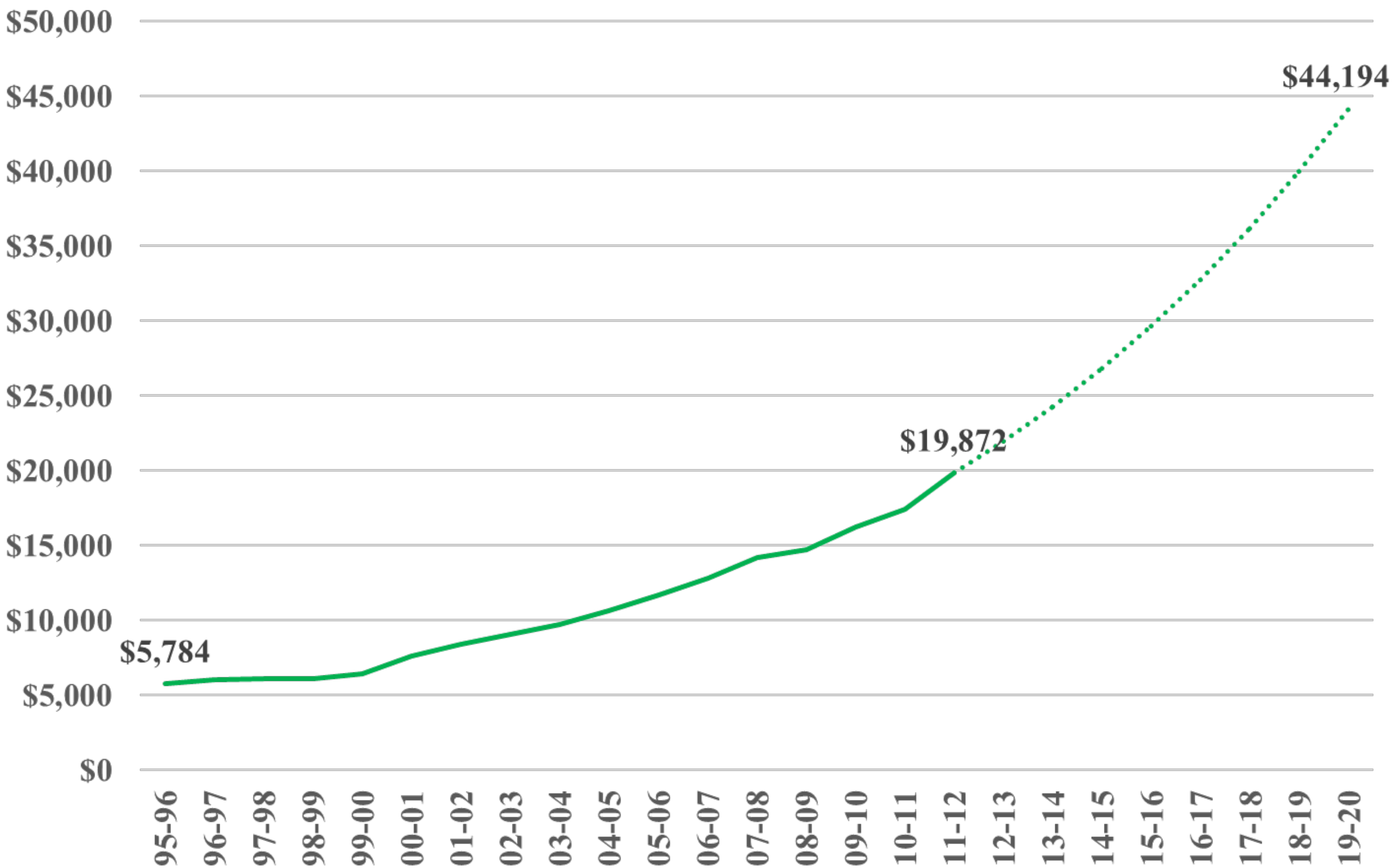
Premium Trend History and Projections



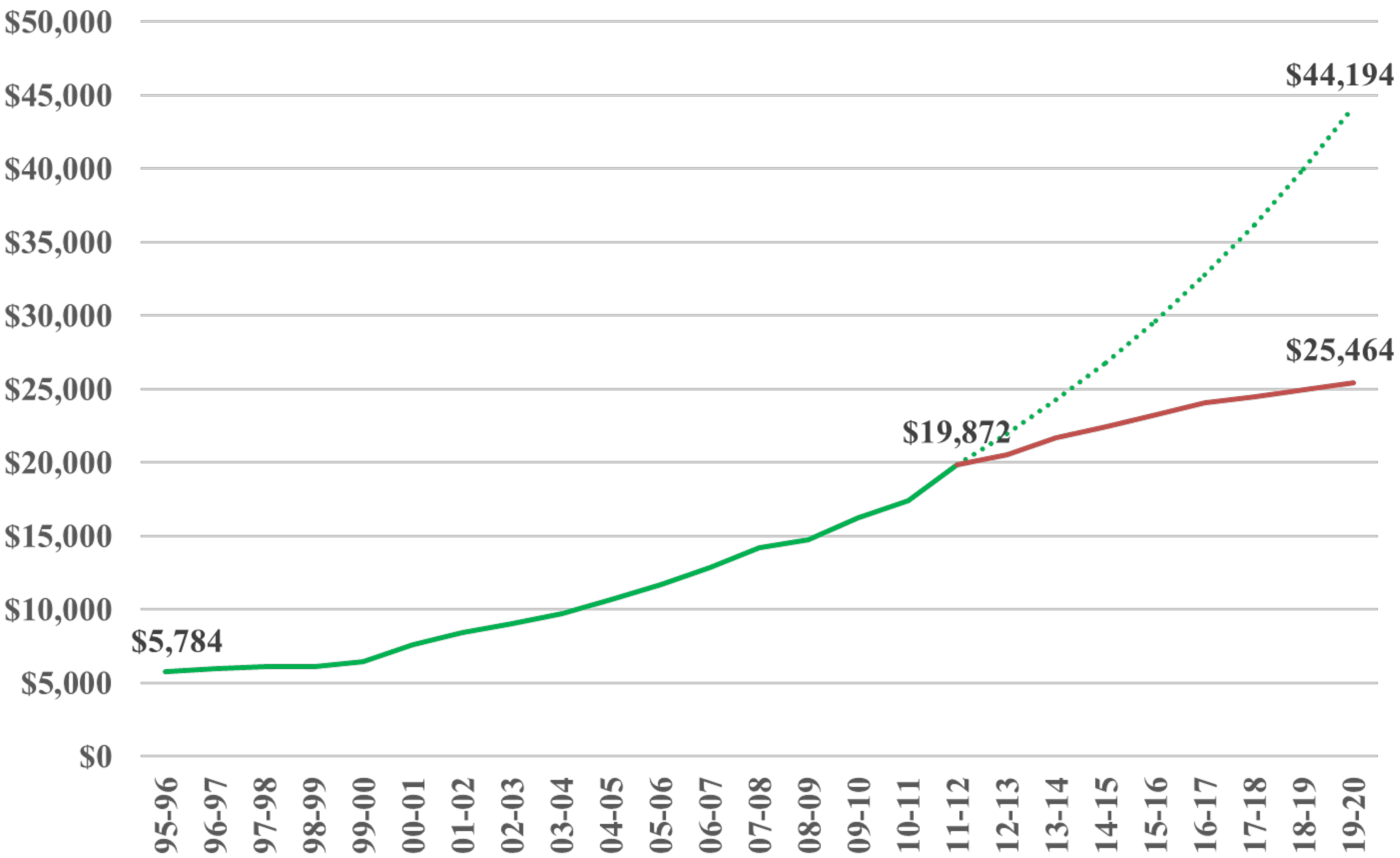
EVENT # 9
WILL THERE BE ONE?

The numbers on the previous slide are at least as disturbing as the ones we looked at in 1995 and may provide the incentive for another bold joint effort to control costs for employees and employers.

Premium Trend History and Projections

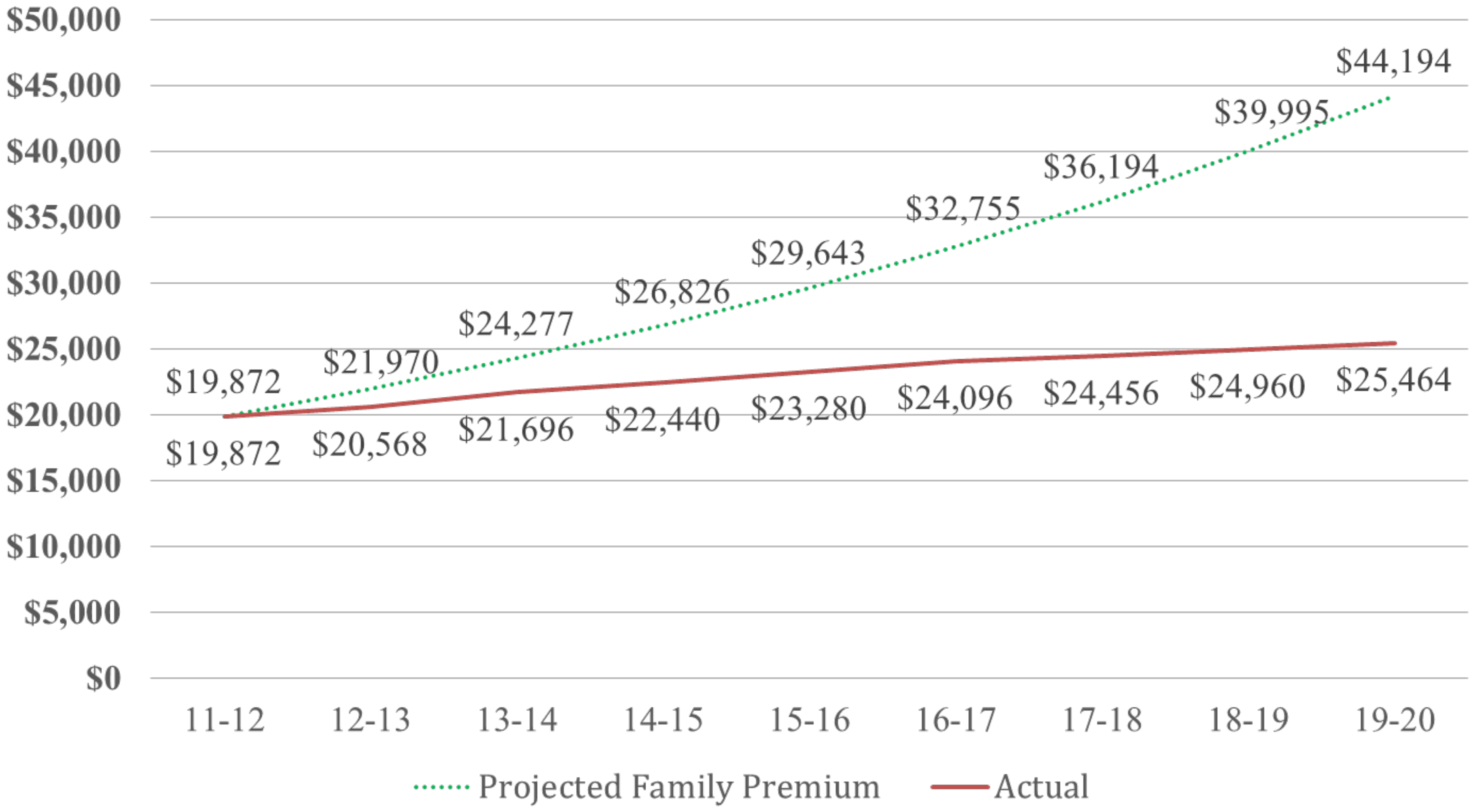


Premium Trend History and Projections



Family Premiums 2011-2020

Projections versus Actual



JGB DECISIONS 2010-11

- Apply for Early Retiree Drug Subsidy-estimated value $950,000
- Add Caremark Pharmacy Advisory Program-estimated value $17,000
- Add Enhanced Safety Monitoring Investigations

JGB DECISIONS 2011-2012

- Approve move from ERDS to EGWP- estimated value $500,000
- Approve Specialty Drug Step Therapy (RA)

JGB DECISIONS 2012-2013

- Add Generic Incentive Program-Nexium and Crestor-estimated value $3,000
- Add Infertility and MS to Specialty Drug Step Therapy

JGB DECISIONS 2013-2014

- Approve Generic Step Therapy Program-estimated value $170,217
- Approve BUDCO to do Dependent Eligibility Audit-est. value $1,137,853
- Defeat Mandatory Mail (13-4-1)-estimated value to Consortium $55,000, to members $129,000

JGB DECISIONS 2014-2015

- Approve Prior Authorization for compounds in excess of $500-estimated value $35,000
- Again defeat Mandatory Mail (12-5-1)-estimated values as before
- Defeat diabetic supplies at zero copay (8-9-1)
- Approve Excellus Case Management Program

JGB DECISIONS 2015-2016

- Approve Smart 90 Program-estimated value $188,185
- Approve ESI Inflation Protection Program
- Approve Oncology Care Value Program

JGB DECISONS 2016-2017

- Approve Excellus Telemedicine Program
- Approve ESI Inflammatory Conditions Care Value Program-estimated value $30,000
- Approve ESI Market Events Protection Plan
- Approve ESI Limited Advanced Utilization Management (AUM) Plan-estimated value $275,000
- Approve KPCM Pharmacy Care Management Preferred-value range stated at $249,707 to $306,229
- Approve Generic Diabetic meds at zero co-pay-estimated cost $28,452

JGB DECISIONS 2017-2018

- Approve ESI MS Care Value Program
- Approve ESI Hepatitis-C Care Value Program

JGB DECISIONS 2018-2019

- Defeat extending Smart 90 to the EGWP population-estimated cost $27,000
- Approve ESI AUM Preferred Program-estimated value $475,696
- Approve SaveOn Specialty Program-estimated value $331,000

STOP LOSS HISTORY

Plan Year	Specific Deductible	Est. Premium*	Recovery	Net Cost	Loss Ratio
2010/11	$175,000	$638,463	$574,403	$64,060	90%
2011/12	$185,000	$671,046	$632,683	$38,363	94%
2012/13	$185,000	$725,007	$1,144,886	($419,879)	158%
2013/14	$185,000	$796,973	$403,488	$393,485	51%
2014/15	$200,000	$774,297	$1,534,025	($759,728)	198%
2015/16	$200,000	$898,911	$925,173	($26,262)	103%
2016/17	$200,000	$992,060	$1,318,636	($326,576)	133%
2017/18	$250,000	$982,178	$1,776,705	($794,527)	181%
2018/19 (9 Mo)	$250,000 (w/lasers)	$943,064	$944,441	($1,377)	100%
Total		**$7,421,999**	**$9,254,440**	**($1,832,441)**	**125%**

STOP LOSS AND BUDGET PERFORMANCE

RECOVERIES (CASH BASIS)

Plan Year	YEAR END	Budgeted	Better than budget	% of B P	Budget Performance	
2010/11	$574,403	$0	$574,403	69%	$ 828,853	
2011/12	$632,683	$0	$632,683	20%	$ 3,237,246	
2012/13	$1,144,886	$0	$1,144,886	26%	$ 4,353,078	
2013/14	$403,488	$0	$403,488	8%	$ 4,871,668	
2014/15	$1,534,025	$0	$1,534,025	70%	$ 2,203,010	
2015/16	$925,173	$0	$925,173	589%	$ 156,989	
2016/17	$1,318,636	$0	$1,318,636	121%	$ 1,085,440	
2017/18	$1,776,705	$300,000	$1,476,705	33%	$ 4,532,646	
2018/19	$1,470,165	$300,000	$1,170,165	469%	$ 249,410	est
2019/20		$500,000			$ (2,743,388)	est

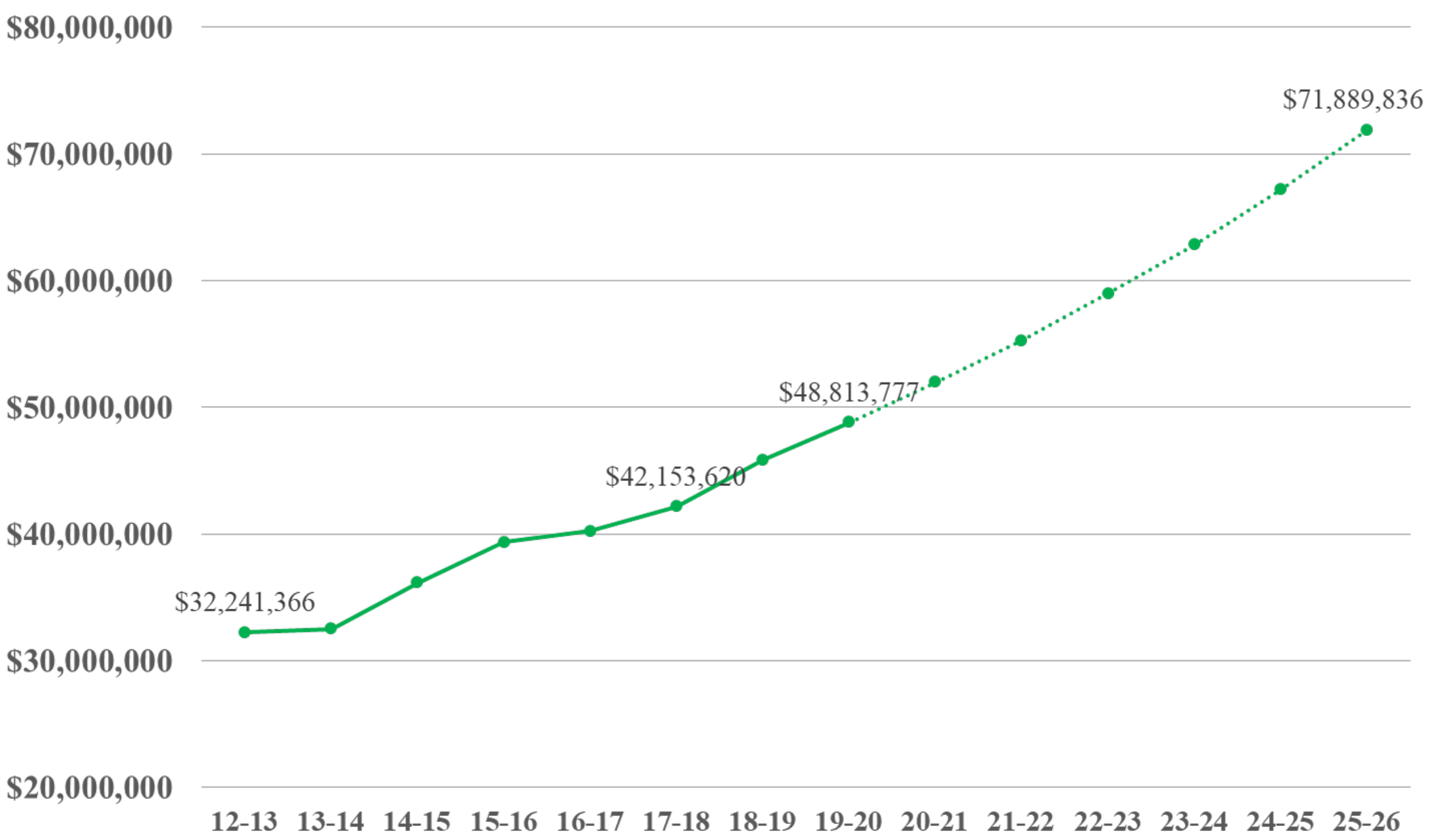
DRUG REBATES AND BUDGET PERFORMANCE

Plan Year	Budgeted Rebates	Actual Rebates	Variation	% of B P	Total Budget Performance
2011/12	$250,000	$565,448	$315,448	10%	$3,237,246
2012/13	$250,000	$714,087	$464,087	11%	$4,353,078
2013/14	$250,000	$1,023,959	$773,959	16%	$4,871,668
2014/15	$500,000	$872,609	$372,609	17%	$2,203,010
2015/16	$500,000	$1,188,670	$688,670	439%	$156,989
2016/17	$900,000	$241,539	-$658,461	-61%	$1,085,440
2017/18	$1,000,000	$4,886,866	$3,886,866	86%	$4,532,646
2018/19	$1,900,000				
2019/20	$2,000,000				
			$5,843,178	29%	$20,440,077

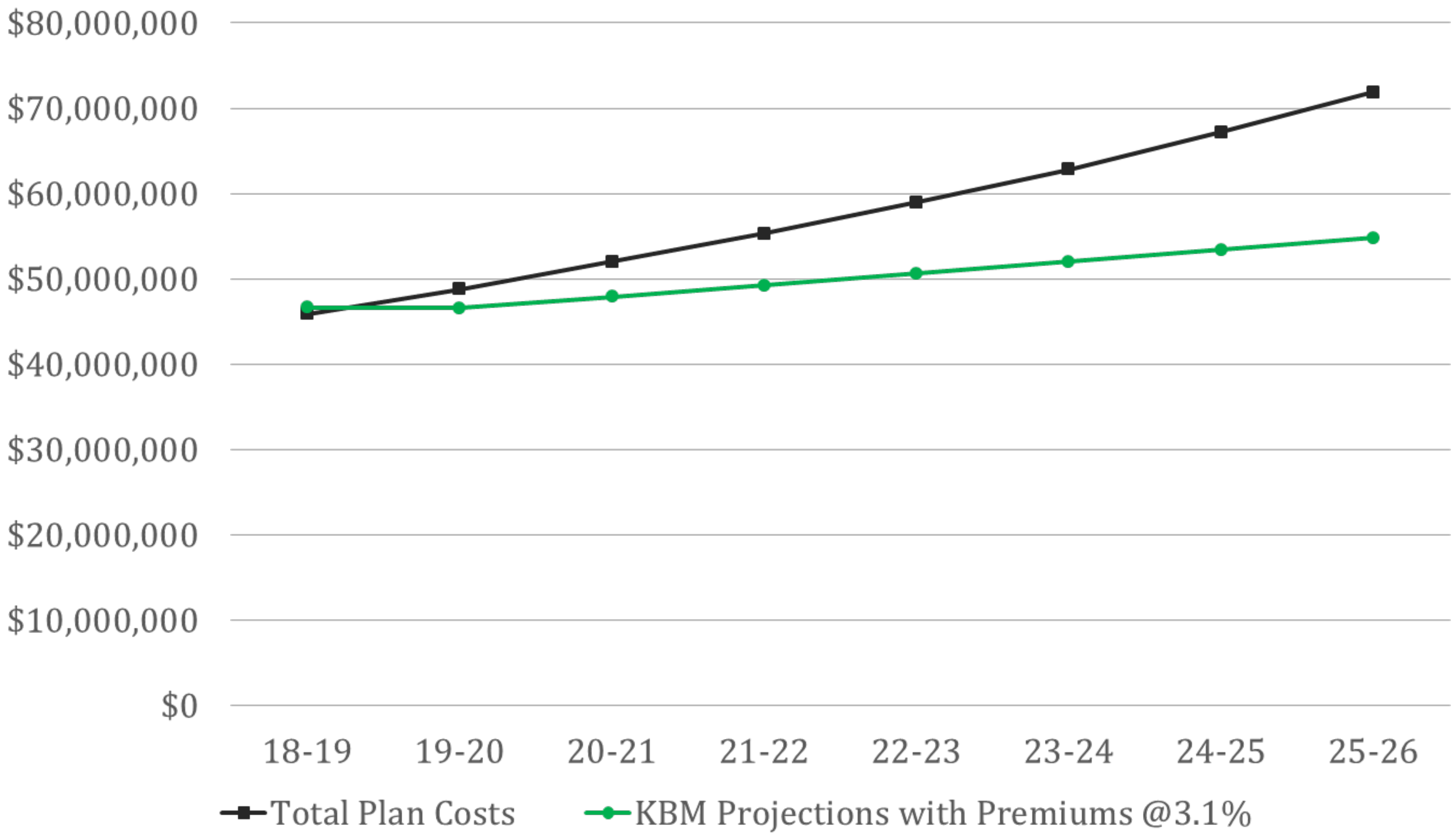
COMBINED IMPACT ON BUDGET PERFORMANCE

Plan Year	Stop Loss Recoveries Better than budget	Drug Rebates Better than budget	Sum of the variations	% of B P	Total Budget Performance
2011/12	$632,683	$315,448	$948,131	29%	$3,237,246
2012/13	$1,144,886	$464,087	$1,608,973	37%	$4,353,078
2013/14	$403,488	$773,959	$1,177,447	24%	$4,871,668
2014/15	$1,534,025	$372,609	$1,906,634	87%	$2,203,010
2015/16	$925,173	$688,670	$1,613,843	1028%	$156,989
2016/17	$1,318,636	-$658,461	$660,175	61%	$1,085,440
2017/18	$1,476,705	$3,886,866	$5,363,571	118%	$4,532,646
			$13,278,774	65%	$20,440,077

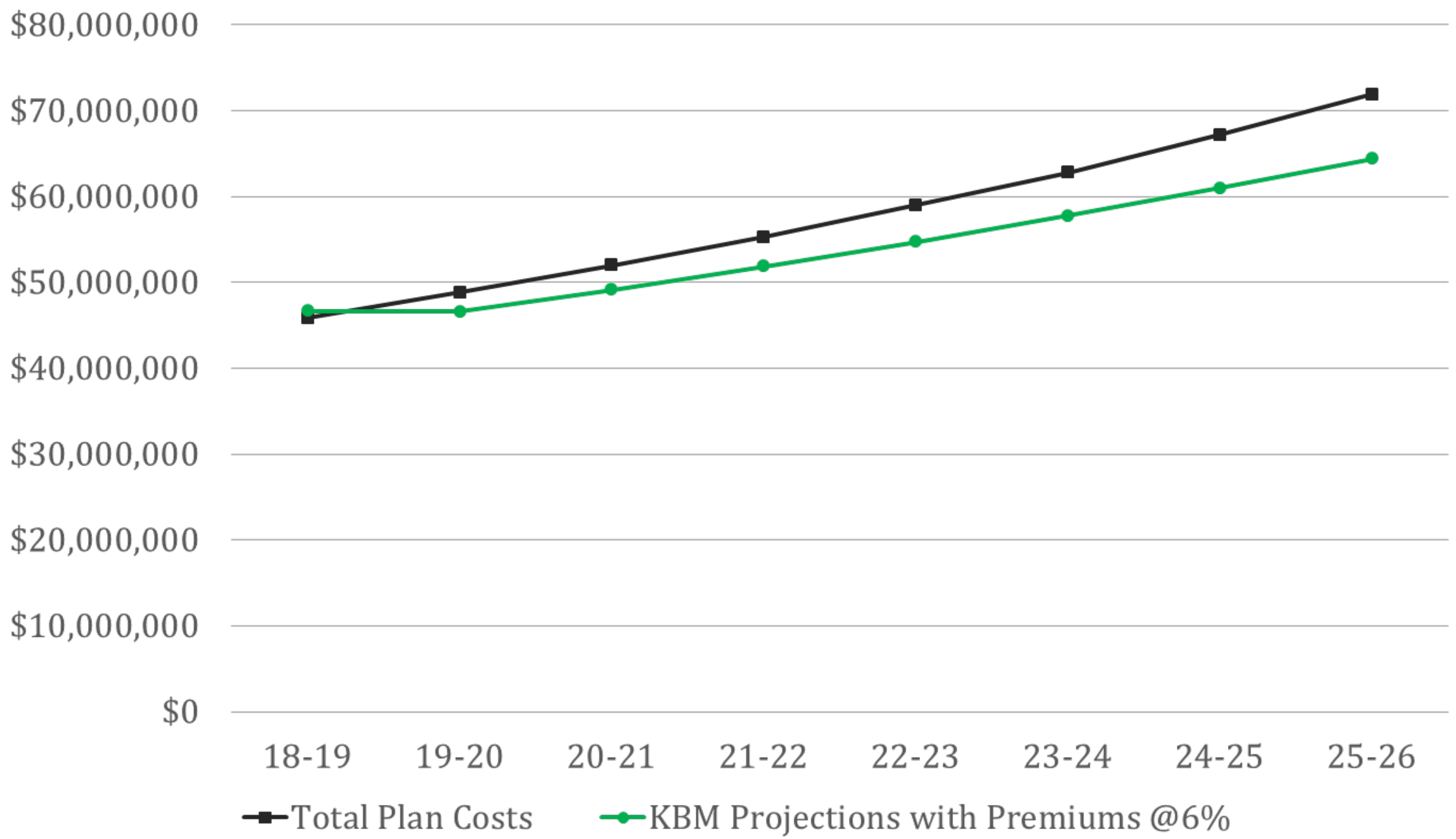
Total Plan Costs



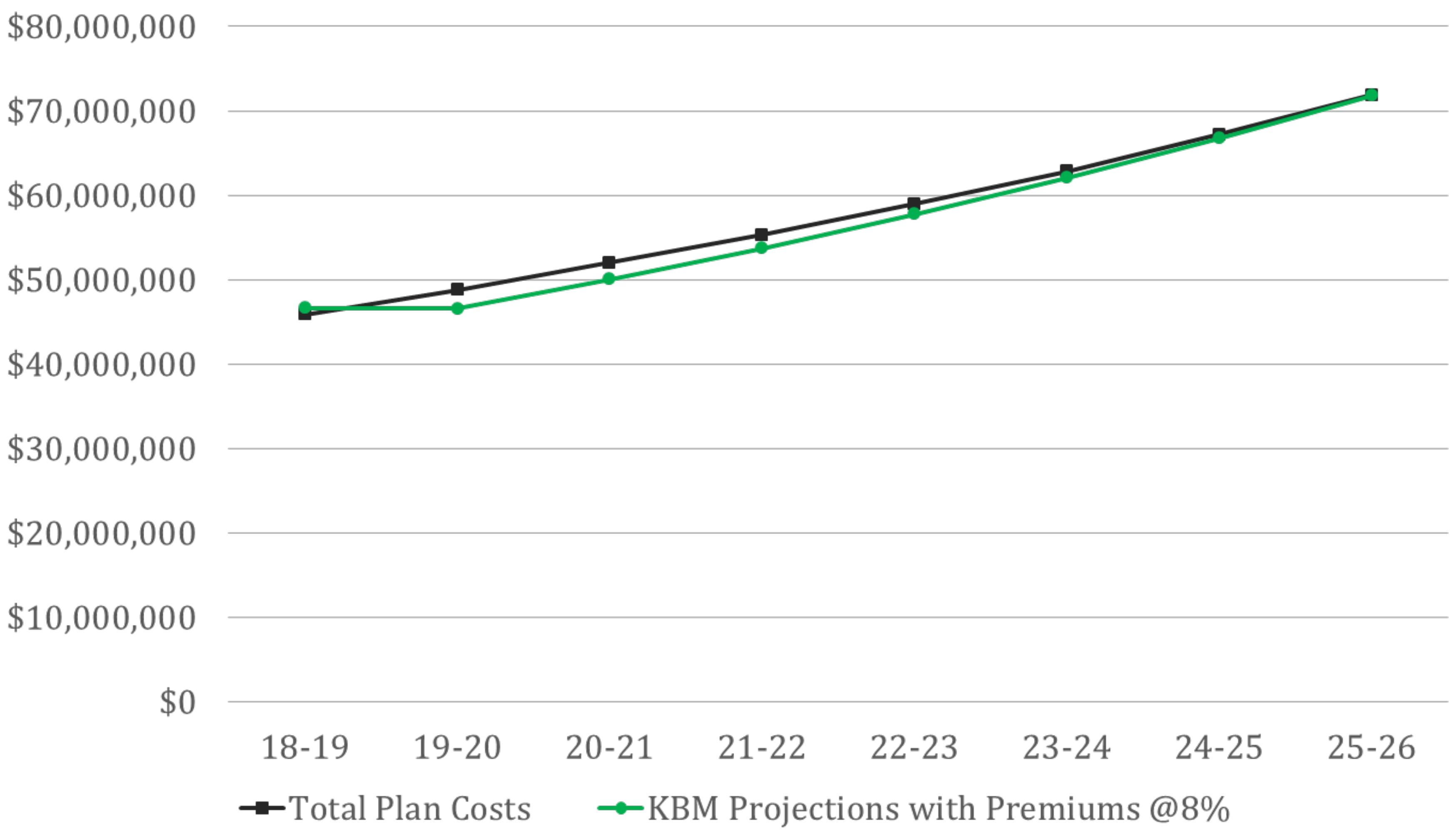
Total Plan Costs and KBM Projections with Premiums @3.1%



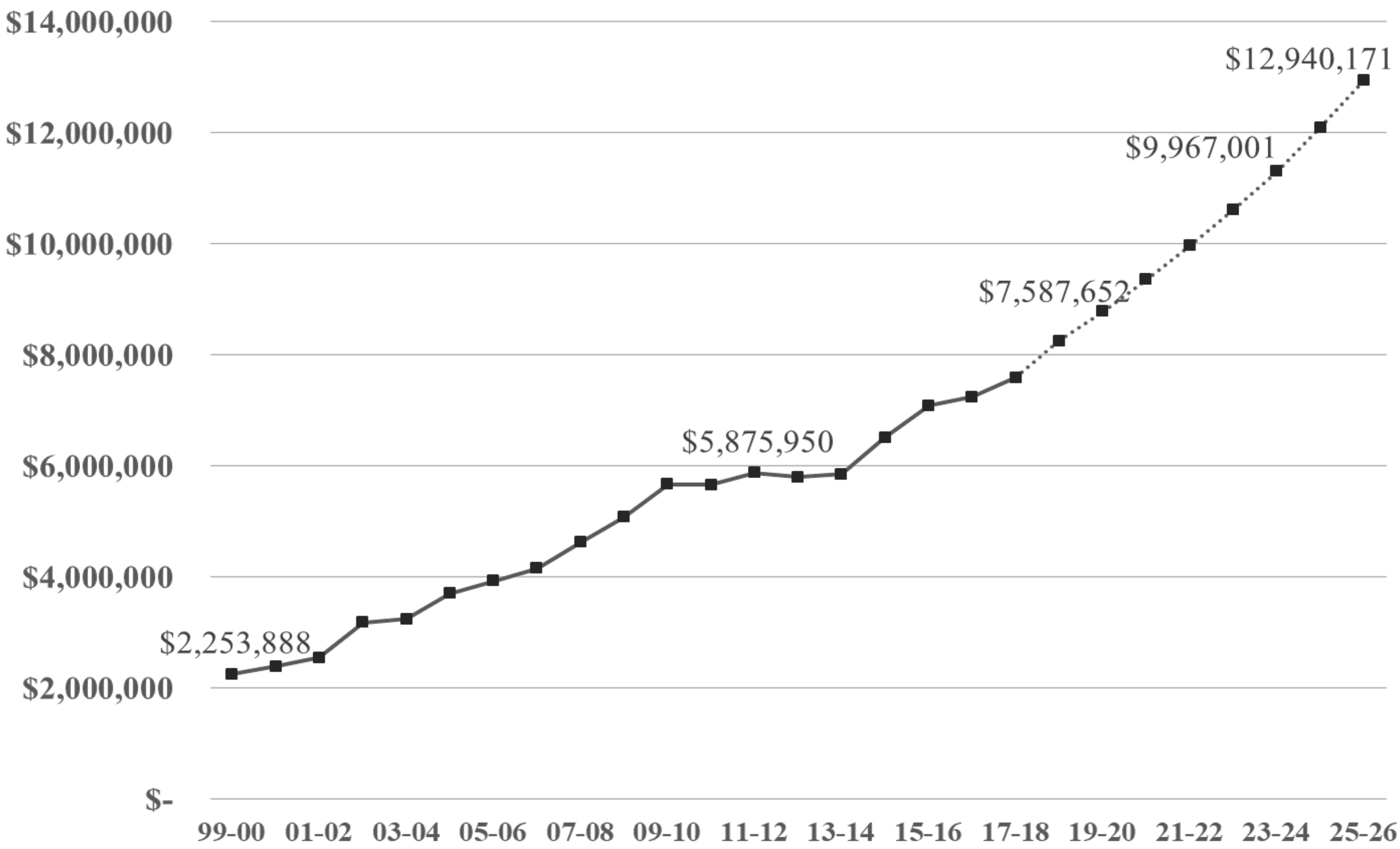
Total Plan Costs and KBM Projections with Premiums @6%



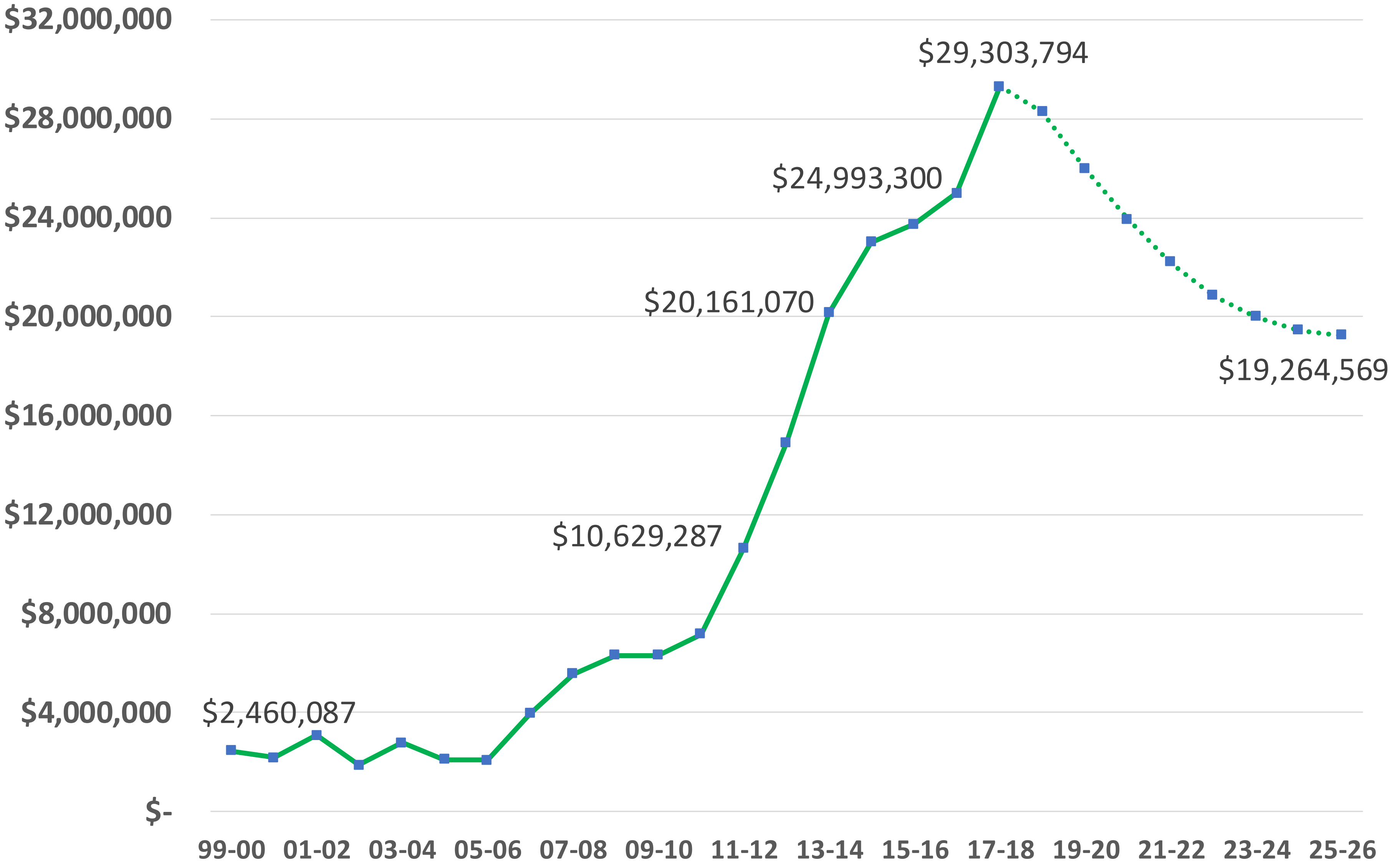
Total Plan Costs and KBM Projections with Premiums @8%



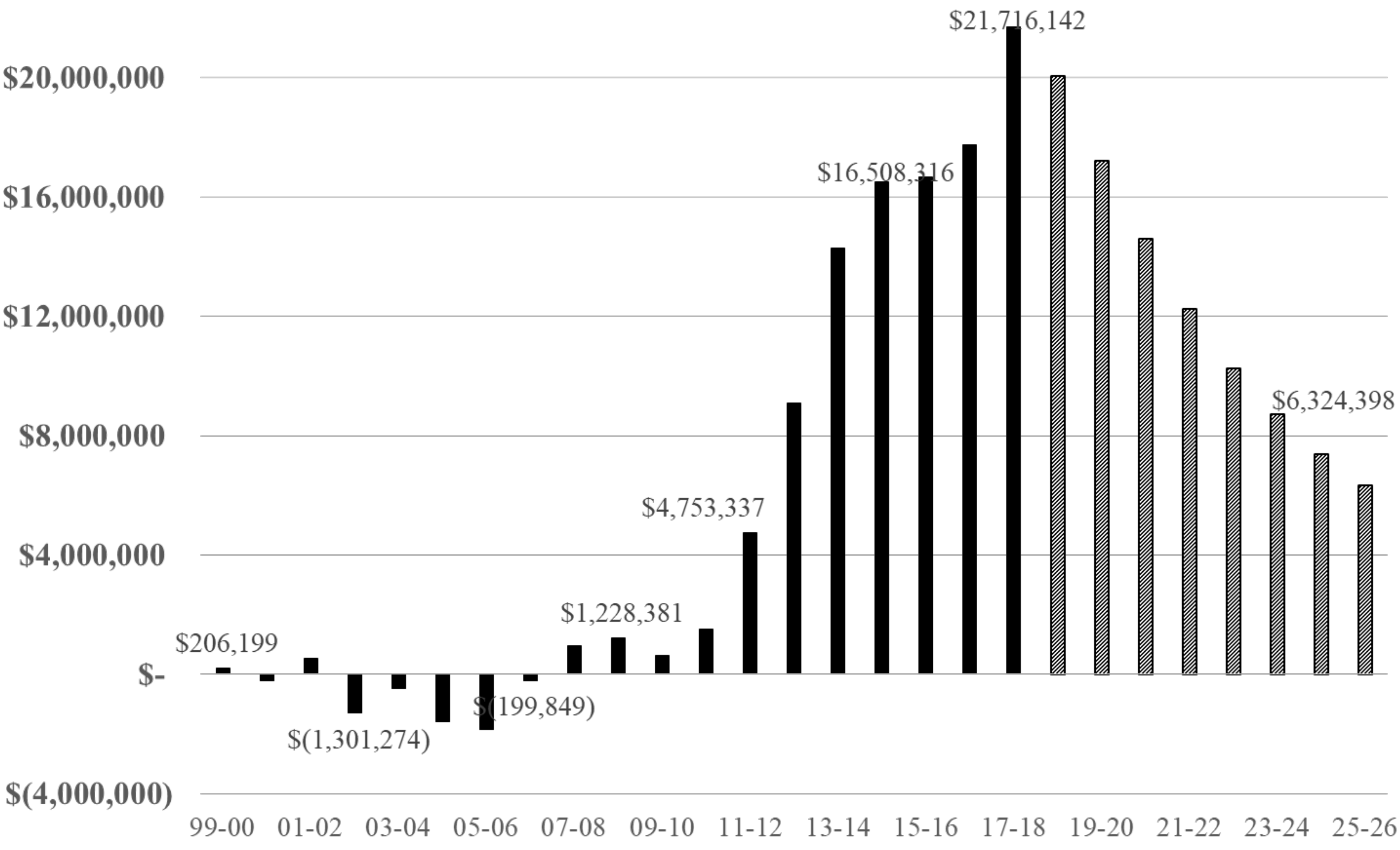
18% Reserve with Future Cost and Revenue Projections



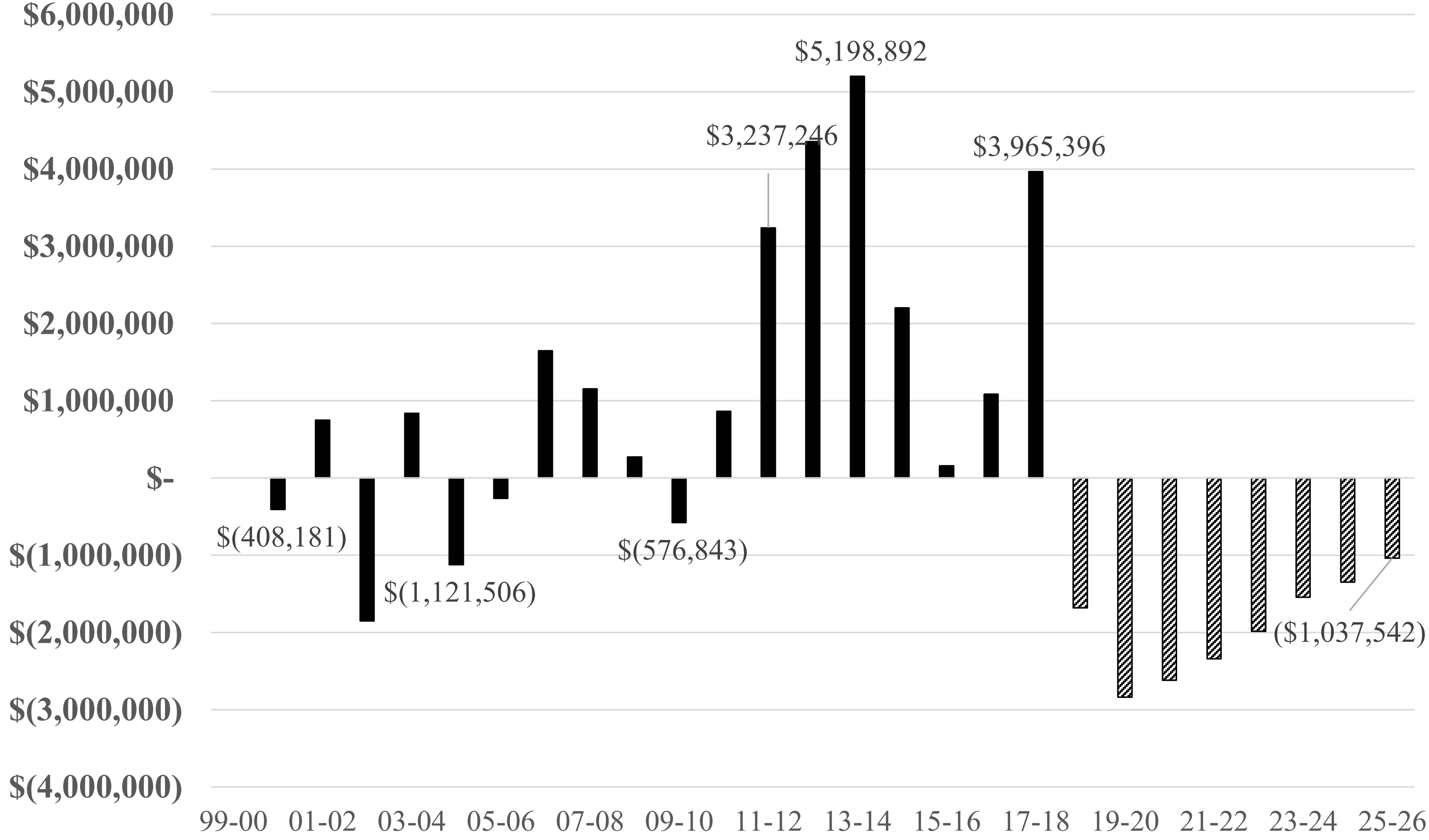
Fund Balance with Future Projections



Equity with Future Projections



Equity Change with Future Projections



JGB DISCUSSIONS

- From 2011 to 2013 there were at least five meetings where the possibility of restoring the moratorium and/or equalizing premium share took place.
- From 2015 to 2017 the were at least four meetings where the possibility of somehow further empowering the JGB took place.