Lakes Country Service Cooperative

Health Insurance Plan
Informational Workshops

March 25, 2011
Health Care Overview
Where Does the Average American's Health Insurance Dollar Go?

*Includes prevention, disease management, care coordination, investments in health information technology and health support.
Based on PricewaterhouseCoopers’ analysis, Factors Fueling Rising Health Costs 2008, © America’s Health Insurance Plans
Where Does the Average Minnesotan’s Health Insurance Dollar Go?

Administrative Costs

- 10¢

Drugs 14¢  Outpatient 17¢  Hospital/Inpatient 23¢  Physician/Professional 36¢

- 10¢- 90¢

Source: MN Department of Health, Health Economics Program, 2008, numbers adjusted and rounded to the nearest whole number
Where Does Your Lake Country Service Cooperative School Health Insurance Dollar Go?

Information taken from 2008 Lakes Country School Data, rounded to the nearest whole number.
All Physicians per 100,000 Residents, 2006
Dartmouth Atlas of Healthcare:
Medicare Reimbursements per Enrollee,
by Hospital Referral Region, 2007
• Care of Chronic Illness:

  • Caring for people with chronic disease accounts for more than 75% of health care spending.

  • As chronic disease progresses, the amount of care delivered and the costs associated with this care increase dramatically.

  • About 9 out of 10 deaths are associated with just 9 chronic illnesses, including congestive heart failure, chronic lung disease, cancer, coronary artery disease, renal failure, peripheral vascular disease, diabetes, chronic liver disease, and dementia among the Medicare population.
**PriceWaterhouse Coopers:**

**Factors Fueling Rising Health Care Costs, 2007**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth In Premiums</td>
<td>6.1%</td>
</tr>
<tr>
<td>General Inflation</td>
<td>2.8%</td>
</tr>
<tr>
<td>Health Care Price Increases Above Inflation</td>
<td>1.6%</td>
</tr>
<tr>
<td>Cost Shifting</td>
<td>31.3%</td>
</tr>
<tr>
<td>Higher Prices Technologies</td>
<td>25.0%</td>
</tr>
<tr>
<td>Reduced Provider Competition</td>
<td>43.8%</td>
</tr>
<tr>
<td>Increased Utilization</td>
<td>1.7%</td>
</tr>
<tr>
<td>Aging</td>
<td>29.4%</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>35.3%</td>
</tr>
<tr>
<td>New Treatments</td>
<td>35.3%</td>
</tr>
<tr>
<td>More Invasive Diagnostic Testing/Defensive Medicine</td>
<td>17.6%</td>
</tr>
<tr>
<td>Increased Consumer Demand</td>
<td>0.0%*</td>
</tr>
</tbody>
</table>

*Confirmed in report*
Growth In Medical Costs

The biggest inflators of the 2011 medical trend will be in provider costs, which make up 81% of the medical benefit.

- Cost-shifting from Medicare is expected to increase as hospitals see their rates cut for the first time after seven years of increases that nearly matched or exceeded inflation increases.

- Provider consolidation is increasing, which is expected to increase their bargaining power. The number of physicians involved in mergers or acquisitions in 2009 was 2,910, nearly twice that of 2008. In addition, 2010 has seen record activity as well. Payment changes, embedded in the federal health reform law, also encourage models that align financial incentives among providers.

- Spurred by stimulus funding that begins in 2011 and Medicare penalties that begin in 2015, hospitals will invest billions of dollars into certified electronic health record (EHR) systems.

Source: Behind the Numbers, Price WaterhouseCoopers’ Health Research Institute
2008 Average
Administrative Charges

Lakes Country: 6.2%
MN: 10.2%
USA: 13.7%
2008 Average Administrative Charges

PEIP, SEGIP and Resource Administrative Expenses – Fiscal Year 2008
### Public Employees Insurance Program

#### Development Information

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Required Contribution and Investment Revenue Earned:</strong></td>
<td>$13,439,000</td>
<td>$25,031,000</td>
</tr>
<tr>
<td><strong>2. Unallocated Expenses</strong></td>
<td>$1,505,000</td>
<td>$2,037,000</td>
</tr>
</tbody>
</table>

“Line 2 of this report lists Unallocated Expenses, which include all PEIP’s direct expenses (e.g. administrative and carrier charges) and indirect expenses (e.g. underwriting expenses, salaries and benefits). In fiscal year 2008, PEIP’s administrative expenses were $1,505 million, while premium and investment income totaled $13,439 million. As a percentage of premium, PEIP administrative expenses were 11.2% in fiscal year 2008.”

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2. Unallocated Expenses</strong></td>
<td>$1,505,000</td>
<td>$2,037,000</td>
</tr>
<tr>
<td><strong>1. Required Contribution and Investment Revenue Earned:</strong></td>
<td>$13,439,000</td>
<td>$25,031,000</td>
</tr>
<tr>
<td><strong>Administrative Expenses as a percentage of premium:</strong></td>
<td>11.2%</td>
<td>8.1%</td>
</tr>
</tbody>
</table>

*Report in Letter from Tom Hanson to Bert McKasy, dated: November 17, 2009, Updated Report 2011*
2010 Average Administrative Charges

<table>
<thead>
<tr>
<th>SEGIP</th>
<th>Lakes Country</th>
<th>PEIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.0%</td>
<td>5.5%</td>
<td>8.1%</td>
</tr>
<tr>
<td>8.0%</td>
<td>7.0%</td>
<td></td>
</tr>
</tbody>
</table>
Minnesota, Massachusetts and United States: Health Insurance Coverage of the Total Population

### Average Annual Firm and Worker Premium Contributions and Total Premiums for Covered Workers for Single and Family Coverage by Plan Type, 2010

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Single</th>
<th>Family</th>
<th>Total Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HMO</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>$1,028*</td>
<td>$4,102</td>
<td>$5,130</td>
</tr>
<tr>
<td>Family</td>
<td>$4,357</td>
<td>$9,768</td>
<td>$14,125</td>
</tr>
<tr>
<td><strong>PPO</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>$905</td>
<td>$4,219</td>
<td>$5,124</td>
</tr>
<tr>
<td>Family</td>
<td>$3,823</td>
<td>$10,210</td>
<td>$14,033</td>
</tr>
<tr>
<td><strong>POS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>$974</td>
<td>$4,265</td>
<td>$5,239</td>
</tr>
<tr>
<td>Family</td>
<td>$5,195*</td>
<td>$8,018*</td>
<td>$13,213</td>
</tr>
<tr>
<td><strong>HDHP/SO</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>$632*</td>
<td>$3,839*</td>
<td>$4,470*</td>
</tr>
<tr>
<td>Family</td>
<td>$3,522</td>
<td>$8,861*</td>
<td>$12,384*</td>
</tr>
<tr>
<td><strong>ALL PLANS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>$899</td>
<td>$4,150</td>
<td>$5,049</td>
</tr>
<tr>
<td>Family</td>
<td>$3,997</td>
<td>$9,773</td>
<td>$13,770</td>
</tr>
</tbody>
</table>

* Estimate is statistically different from All Plans estimate by coverage type.

Group Health Insurance Pooling
Group Health Insurance Pooling

- Common Plans and Common Rates
- Experience Rated Groups
- Purchasing Groups or Pools
**Lakes Country Service Cooperative**  
**School Pool Advantages**

- Open access plans
- Low administrative charges
- Low stop loss charges
- One pharmacy manager
- Low network access fees
- High case pooling

- Pool refunds to pool members
- Multiple plan alternatives
- Self funded arrangement
- Pooling claims experience
- Pool minimum/maximum
- Advisory committee
Open Access Health Plans

• Today you can go to any doctor (and specialist) anywhere in the Blue Cross network, whenever you want. This includes primary care, specialty care, and second opinions.

• PPO’s
  • “Preferred Provider Organizations (PPO) are plans that offer an insured the freedom to utilize either a designated panel of providers or their provider of choice.” (BCBS of MN, includes 95% of providers, BCBS providers of other states)

Source: Group Insurance by William F. Bluhm
Managed Care
Gate Keeper Health Plans
(Primary Care Clinics, Limited Referrals, Tiered Networks, HMO’s)

- Gate Keeper arrangements (including HMO Plans) offer Primary Care clinic designation, limited referrals to specialists, and tiered networks
- HMO
  - “The general philosophy of the HMO is that providers control the utilization of health care, and in the end, consumers have little input into the purchasing decisions.”
  - “However, in order to receive coverage, an insured would have to follow specific guidelines (including having all care managed by a primary care physician who would provide referrals to specialists as necessary.)”
  - “The only covered exception to requiring use of the primary care physician would be in the event of an emergency. HMO’s typically have restrictive provider networks involving a small proportion of physicians and hospitals in a given community.”

Source: Group Insurance by William F. Bluhm
## Commercial Enrollment in Minnesota’s HMO’s, 2003 to 2009

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>All HMO's</td>
<td>719,730</td>
<td>606,319</td>
<td>492,440</td>
<td>417,084</td>
<td>391,717</td>
<td>360,564</td>
<td>318,285</td>
</tr>
<tr>
<td>Change from Previous Year</td>
<td>-15.8%</td>
<td>-18.8%</td>
<td>-15.3%</td>
<td>-6.1%</td>
<td>-8.0%</td>
<td>-11.7%</td>
<td></td>
</tr>
</tbody>
</table>

All HMO’s include BCBS Blue Plus, First Plan, Group Health, HealthPartners, Medica, Preferred One, Sanford, UCare

Source: Minnesota MDH Department of Health
# February 2011 Managed Care Enrollment Total Summary

<table>
<thead>
<tr>
<th>Program Totals</th>
<th>Blue Plus</th>
<th>Health Partners</th>
<th>Itasca Medical Care</th>
<th>Medica</th>
<th>Metropolitan Health Plan</th>
<th>PrimeWest Health</th>
<th>South Country Health Alliance</th>
<th>UCare</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>MinnesotaCare</td>
<td>60,380</td>
<td>21,269</td>
<td>1,711</td>
<td>43,623</td>
<td>2,956</td>
<td>2,477</td>
<td>2,370</td>
<td>29,939</td>
<td>164,725</td>
</tr>
<tr>
<td>PMAP</td>
<td>70,792</td>
<td>39,395</td>
<td>3,921</td>
<td>101,032</td>
<td>13,511</td>
<td>15,758</td>
<td>18,650</td>
<td>82,147</td>
<td>345,206</td>
</tr>
<tr>
<td>MSC Plus</td>
<td>2,682</td>
<td>1,185</td>
<td>130</td>
<td>2,714</td>
<td>679</td>
<td>798</td>
<td>723</td>
<td>2,565</td>
<td>11,476</td>
</tr>
<tr>
<td>MSHO</td>
<td>10,148</td>
<td>2,900</td>
<td>472</td>
<td>9,786</td>
<td>674</td>
<td>2,174</td>
<td>1,795</td>
<td>8,966</td>
<td>36,915</td>
</tr>
<tr>
<td>SNBC</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1,620</td>
<td>492</td>
<td>278</td>
<td>743</td>
<td>2,065</td>
<td>5,198</td>
</tr>
<tr>
<td>PINs</td>
<td></td>
<td></td>
<td></td>
<td>355</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>355</td>
</tr>
<tr>
<td><strong>Total Enrollment</strong></td>
<td><strong>144,002</strong></td>
<td><strong>64,749</strong></td>
<td><strong>6,234</strong></td>
<td><strong>159,130</strong></td>
<td><strong>18,312</strong></td>
<td><strong>21,485</strong></td>
<td><strong>24,281</strong></td>
<td><strong>125,682</strong></td>
<td><strong>563,875</strong></td>
</tr>
</tbody>
</table>

Source: Department of Health, Minnesota, Managed Care Enrollment Figures
State Employee Group
Insurance Plan
SEGIP
State Employee Group Insurance Plan (SEGIP)

- SEGIP is the largest single employer group health purchaser in the state, serving all three branches of state government, Minnesota State Colleges and Universities, and quasi-state agencies such as the Minnesota Historical Society.

- SEGIP provides employee insurance to state employees, retirees, and dependants – over 120,000 covered lives statewide.

- The overall cost of administering SEGIP health benefits is approximately 7.0% of total premium costs versus industry standard of 10 – 15%. SEGIP receives 1.0% for internal administrative costs and the remainder is health plan fees.

- SEGIP spends over $600 million in insurance benefits for State of MN employees.

Source: Minnesota Management & Budget, 2010-2011 Biennial Budget
• Through negotiations, state agencies contribute 100% of single and 90% of family coverage, 2010 and 2011.

• Nationally, employers on average contributed 82% of single premiums and 71% of family premiums in 2010.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2010. – All Plans
### State Employees (SEGIP)

**Employer/Employee Health Insurance Contributions**

<table>
<thead>
<tr>
<th></th>
<th>Employer Contributions</th>
<th>Employee Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$16,000</td>
<td>$12,000</td>
</tr>
<tr>
<td>Family</td>
<td>$14,000</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

*Notes: The graph illustrates the contributions made by employers and employees for single and family health insurance plans.*
Health Plan Demographics

- Logically, employers with higher premium contributions results in keeping healthy families on the employers health insurance plans, helping improve medical claims experience for the group.

- SEGIP membership enrollment shows 47% employees (including retirees) and 52% dependents on the health plan.

- Some Lakes Country pool members have similar demographics, but many pool members are left with a small percentage of dependents on the health plan.

SEGIP Health Plan Membership, 2007 - 2008

• MnSCU has reached a tentative settlement with the Minnesota College Faculty.
  • Financial Provisions:
    1. No across the board increases in each year.
    2. No step increases in either year.
    3. Employer and employee contributions will remain at the CY ‘09 levels for CY ‘10.
    4. Premiums are estimated to increase by approximately 6.7% in CY ‘11.

Source: Subcommittee on Employee Relations Legislative Coordination Commission, June 23, 2009
• Contingency Reserves
  • “The Reserves have grown due to lower than expected annual claim expenses. At the end of 2007, the reserves were 24 percent of the annual expenses and 31 percent at the end of 2008.

• The program’s actuaries estimate that a Contingency Reserve equal to 16.7 percent of the annual claim expenses will adequately ensure the solvency of the fund.

• To achieve this goal a five-year plan was implemented to bring reserves to this desired level.

• Under this plan, the annual premium increase will be set lower than anticipated as necessary to cover cost increases.”
**SEGIP Premiums 2010 - 2011**

- Evidence Shows
  - The SEGIP no rate change in premiums for 2010 and 2011 were likely the result of a number of factors, including:
    - State employees accepting a wage freeze and state agencies agreeing to pick up the cost of premium increases in 2010 (better demographics)
    - A State SEGIP five year plan to set rates lower than anticipated to spend down reserves
    - Economic recession:
      - Lower medical claims

Source: Subcommittee on Employee Relations Legislative Coordination Commission, June 23, 2009
SEGIP Average Premium Increases 2000 - 2011 (8.30%)
Lakes Country Average Pool Premium Increases 2000 – 2011* (6.41%)

*2011 Based on Current Predicted Cost Trend
Public Employee Insurance Program (PEIP)
Public Employees Insurance Program (PEIP)

- PEIP is available to local units of government within Minnesota including counties, cities, townships, school districts, and other jurisdictions.
- 62 public employer groups, representing more than 11,000 employees, solicited bids from the Public Employees Insurance Program (PEIP) during FY 2010.
- As of July 2010, 67 public sector employer groups in Minnesota participated in PEIP. These include 21 school districts, 32 cities and townships, two counties, and 12 other units of government (watershed districts, Housing Redevelopment Authorities, etc.)

Source: Minnesota Management & Budget, 2012-13 Biennial Budget Report, 10/12/2010
## PEIP Participating Groups and Employees, 2003 - 2010

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td># of groups</td>
<td>137</td>
<td>123</td>
<td>107</td>
<td>89</td>
<td>85</td>
<td>73</td>
<td>57</td>
<td>67</td>
</tr>
<tr>
<td>Change vs. previous year</td>
<td>0%</td>
<td>(10%)</td>
<td>(13%)</td>
<td>(17%)</td>
<td>(4%)</td>
<td>(14%)</td>
<td>(22%)</td>
<td>17%</td>
</tr>
<tr>
<td># of employees</td>
<td>3632</td>
<td>2950</td>
<td>2304</td>
<td>1671</td>
<td>1600</td>
<td>1400</td>
<td>1257</td>
<td>3258</td>
</tr>
<tr>
<td>Change vs. previous year</td>
<td>(7%)</td>
<td>(19%)</td>
<td>(22%)</td>
<td>(27%)</td>
<td>(4%)</td>
<td>(12%)</td>
<td>(10%)</td>
<td>159%</td>
</tr>
</tbody>
</table>

Source: Minnesota Management & Budget, 2012-13 Biennial Budget Report, 10/12/2010
The average number of employees per group is 48, with groups ranging from one to more than 1,400.

PEIP’s viability and overall impact in the market are determined to a large extent by the number of participating employee groups and the number of individuals covered by the program.

Source: Minnesota Management & Budget, 2012-13 Biennial Budget Report, 10/12/2010
Lakes Country Service Cooperative
Federal Health Care Reform

• Employers and Employees will have choices
  • Employer mandate to provide health plans with affordable rates
  • Individual mandate to purchase health insurance coverage (individually, through their employer, or an Exchange)
  • Exchanges for employers and individuals
Lakes Country Service Cooperative School Pool

- Lakes Country School Pool lower administrative charges in 2008 of 6.2% compared to SEGIP at 7.0% and PEIP at 11.2%

- Lakes Country School Pool lower administrative charges in 2010 of 5.5% compared to SEGIP at 6.0% and PEIP at 8.1%

- Lakes Country School Pool lower average premium increases of 6.4% compared to SEGIP average premium increases of 8.3% from 2000 to 2011
• Minnesota Service Cooperatives Minimum Premium Self Funded Arrangement is the most efficient Health Care Pooling platform created for School Districts in Minnesota

• Approximately 250 School Districts, 60 Counties, and over 350 Cities and Other Governmental Agencies with over 55,000 employees and 100,000 members collectively belong to Minnesota Service Cooperative’s Health Pools. The Pools negotiate low administrative charges, stop loss rates, provider discounts, and other health plan arrangements on behalf of all pool members, employees and family members.

• Menu of plan choices (up to 3 plans per pool member)
  • First Dollar Plans
  • Tiered Network, managed care plans
  • Consumer Directed plans
  • Group Medicare Supplement Plans over 65
Thank You

Thank you for the opportunity to present this information. If you have questions or need more information please call Jill Bartlett Lakes Country Service Cooperative at 218-739-3273.

The information provided in this report has been provided for the purpose as a general overview and is an un-audited summary using several sources of data which are subject to changes and variations.