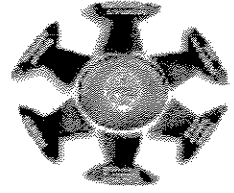




Eddie Baza Calvo
Governor
Ray Tenorio
Lieutenant Governor

DEPARTMENT OF ADMINISTRATION
(DIPATTAMENTON ATMENESTRASION)
DIRECTOR'S OFFICE

(Ufisinan Direktot)
Post Office Box 884 * Hagåtña, Guam 96932
TEL: (671) 475-1101/1250 * FAX: (671) 477-6788



Benita A. Manglona
Director
Anthony C. Blaz
Deputy Director

AUG 14 2013

HRD No. OG-13-727

TO: Speaker Judith T. Won Pat, 32nd Guam Legislature

FROM: Government of Guam Health Insurance Negotiating Team

SUBJECT: Health Insurance Negotiations for FY 2014

32-13-688
Office of the Speaker
Judith T. Won Pat, Ed.D.
Date: 8/14/13
Time: 10:00am
Received by: [Signature]

Hafa Adai!

The Government of Guam Health Insurance Negotiating Team (Negotiating Team), supported by the expertise of Hay Group benefits consulting team, successfully completed the FY 2014 Health Insurance Negotiating Process in accordance with the group health insurance benefits law for employees and retirees found at Chapter 4 of Title 4, Guam Code Annotated and hereby presents the findings for the government of Guam Health Insurance Program for FY 2014.

This process, as provided in law, required each offeror to submit an **Exclusive** offer, and a **Non-Exclusive** offer. The exclusive offers assumed that there would only be one insurer, providing a single contract for group health insurance, made available to government employees and retirees.

The non-exclusive offers assumed that there would be up to 3 contracts negotiated for group health insurance. Each of the 3 insurers were required to offer the exact same plan designs but with rates that can vary but only within a certain parity level (provided by the team to each vendor). This will ensure that all vendors have an equal opportunity to attract enrollees.

Four offerors submitted both an exclusive offer and a non-exclusive offer. Consistent with the provisions of the Request for Proposals, the Negotiating Team evaluated the four exclusive offers and ranked these offers. The Negotiating Team also evaluated the four non-exclusive offers, and ranked these offers. Prior to negotiations, one offeror withdrew.

The Negotiating Team proceeded to negotiate three best and final offers from the remaining three offerors for a single exclusive contract. Then the Negotiating Team negotiated three best and final offers from the three offerors for a non-exclusive contract. Finally, the Negotiating Team, using the factors identified in the Request for Proposals, evaluated the three best and final offers for an exclusive contract, and ranked those best and final offers, selecting the top ranked offer as the one to be recommended to the Governor for consideration.

Guam law requires the Negotiating Team to forward the most economical and beneficial health insurance proposal plan for Government of Guam employees and retirees to the Governor in the form of one exclusive contract and up to three non-exclusive contracts for group health insurance. The Governor then must consider and award an exclusive contract or three non-exclusive contracts.

The financial results for each of the two approaches are as follows:

I. CURRENT ANNUAL PREMIUMS FOR FY 2013

Total premiums for medical, drug and dental based on current enrollments are as follows and these premiums include both Gov Guam payments and Employee and Retiree contributions.

Medical & Prescription Drugs	\$68,362,248
Dental	<u>\$6,085,725</u>
Total	\$74,447,973

It should also be noted that the above premiums are not final as both the FY 2012 and FY 2013 plan years include a “Participating Contract Agreement” that will be calculated and paid out, as appropriate at the end of April 2014 in accordance with the current contract. This agreement protects GovGuam from over paying premiums each year. If there is a short fall, GovGuam is only required to include the short fall in the next plan year rates, if they continue with the same vendor.

II. PLAN DESIGN IMPROVEMENTS – negotiated for both approaches

Required as part of RFP, the team asked all the bidders to include in their base prices several plan improvements. All of these plan changes have created higher benefits for GovGuam and their rate adjustments are included in the rates and total premiums shown below.

These changes include:

- Improvements to preventive care and annual maximums to unlimited as required by PPACA;
- Chiropractic and Acupuncture physicians will be treated as any other physician;
- Wellness and Disease Management programs and cash incentives available to all members;
- Coverage for Robotic Suites as medically necessary;
- Coverage has been added for Sleep Studies and C Pap machines;
- The current residency requirement of 90 days has been extended to the IRS requirement of 183 days;
- A 4th drug Tier for Specialty drugs has been added with a \$60 copayment

- Gym membership has been re-included for all employees and retirees and their dependents, as part of the overall benefit program; and
- For the Exclusive Option only - a Medicare Supplement Plan for Retirees over age 65 (who have Medicare Parts A & B) is available that provides more benefit coverage than the 1500 and 2000 plan at a reduced premium cost to both GovGuam and the retiree. Retirees that elect the Medicare Supplement plan may also obtain dental coverage under the basic plan in order to have both medical and dental insurance, similar to the current available options.

One additional item needs to be noted that will apply to either option selected. At present, there is a provision in the PPACA legislation to impose on an Employer an annual fee on health insurance premiums effective for CY 2014. This fee is to be paid by the insurance companies based on premiums collected. The effective date is yet to be confirmed by the Federal Government. Guam may have an overriding situation that would mean that payment is not needed at all. Since these issues are still unresolved, for purposes of the rates and costs noted below, this fee has been excluded.

III. EXCLUSIVE OPTION

This approach will continue the current exclusive arrangement where only one vendor is utilized for coverage. If this approach is accepted, the plan includes:

- All plan design improvements as listed in Section II;
- A Medicare Supplement plan which reduces costs for retirees and Government of Guam;
- Continue the protection of the Participating Agreement which protects the Government by requiring an annual settlement and return of any excess premiums which were paid. The FY 2014 agreement would only require a 90 day run-out of claims and payment at the end of January 2015 instead of April as in FY 2013. Additionally only 50% of any deficit could be included in the next years rates if the same vendor is continued for FY 2015;
- The Participating Agreement offered by the exclusive vendor provides a 13% retention rate, allowing for Target Experience to be calculated by multiplying total premiums earned by 87% (as opposed to 86%), and resulting in a higher Participating Contract rebate for FY 2014 (or lower deficit if Actual Experience is a negative amount);
- Overall annual savings of \$18,700,000 from the current annual costs of \$74,500,000 which would directly benefit Government of Guam, the employees and retirees financially as well as through improved benefits; and

Summary of estimated results are in the following chart and the proposed rates are attached.

Exclusive

Part 3 (1+2+3) Medical, Drug and Dental	
FY 2013 Annual Premium (Current Plans)	\$74,447,973
Exclusive Premiums (Medical & Dental)	\$59,016,300
Sleep Apnea & CPAP	\$287,073
183 Day IRS Test	\$0
4th Tier Specialty Drug	\$154,066
GYM (PEPM Basis)	\$686,722
Med. Supp. Premium Impact	(\$4,441,049)
Total Exclusive (All-in)	\$55,703,113
Total Annual Savings from Current	(\$18,744,860)

IV. NON-EXCLUSIVE OPTION

This approach will allow each employee or retiree to choose from up to three different insurance plans while maintaining a consistent core plan design.

This approach would:

- Include all plan design improvements as listed in Section II;
- Eliminate the availability of the Medicare Supplement Plan and thereby forego reduction of costs to retirees and the Government of Guam by \$4,441,049;
- Reduce the overall costs for GovGuam by \$1,000,000 assuming that each vendor successfully enrolls 1/3 of the population. However, if the actual enrollment varies significantly from this 1/3 estimate, more or less costs may be incurred. Until enrollment is completed, there is no way to estimate the actual costs; and
- Continue the protection of the Participating Agreement which protects the Government by requiring an annual settlement and return of any excess premiums which were paid. The FY

2014 agreement would only require a 90 day run-out of claims and payment at the end of January 2015 instead of April as in FY 2013. Guarantees 14% retention for each insurer, for the plan and allowing for Target Experience to be calculated by multiplying total premiums earned by 86% and resulting in a higher Participating Contract rebate for FY 2014 (or lower deficit if Actual Experience is a negative amount).

Summary of estimated results are in the following chart and the proposed rates are attached.


NON-EXCLUSIVE

Part 3 (1+2+3) Medical, Drug & Dental	[A] (1/3)	[B] (1/3)	[C] (1/3)	[A + B + C] Total Gross 100%
Total FY 2013 Premium (Current Plans) assuming 1/3 each	\$24,815,991			\$74,447,973
Total Part 3 (1+2+3) Proposed 1/3 each	\$22,852,968	\$23,551,020	\$26,983,301	\$73,387,289
Increase/(Decrease) If each get 1/3	(\$1,963,023)	(\$1,264,971)	\$2,167,310	(\$1,060,684)
% Change	-7.9%	-5.1%	8.7%	-1.4%
Total 100% current Premium	\$74,447,973			
Non-Exclusive Premium if 100% Enrollment to one vendor	\$68,558,904	\$70,653,060	\$80,949,903	

V. PHASE VI CONSIDERATIONS

- A. Accept all Negotiating Team negotiated terms and rates as submitted.
- B. Maintain the ratio of current government and employee/retiree contributions for both the 1500 and 2000 plan.
- C. Government should pay 100% of the Medicare Supplement Plan F and reimburse retirees that purchase Medicare Part D and a Medicare Part D supplement similar to the program that reimburses retirees that purchase Medicare Part B. The total annual cost to purchase Part D and a supplemental plan per retiree is \$468. There are approximately 800 retirees currently enrolled in Medicare Parts A & B in the health insurance program.
- D. Attached is a memo from Hay Group attesting to the fair and reasonableness of all final negotiated rates.

Senseramente,


 BENITA A. MANGLONA, Director
 Department of Administration

Memo

To:	GovGuam Negotiation Team		
From:	Marie R. Dufresne		
Date:	August 5, 2013	Ref:	
cc:	Benita Manglona, Director DOA	Enc:	
Subject:	FY 2014 GovGuam Health Insurance Negotiations		

Negotiation Team,

It has been a great opportunity to again work with Gov Guam, DOA and this negotiating team to review and assist you in negotiating the options for FY 2014.

After review of all of the information provided by the vendors, your various discussions and interviews with each vendor, we believe that the final negotiated rates and negotiated plan designs you have agreed to with the insurers are fair and reasonable given our years of experience both in this business and with GovGuam specifically.

Please feel free to contact me or any of the team members listed below with any questions which might arise.

Sincerely,



Marie R. Dufresne
Senior Principal
469-232-3865
Marie.dufresne@haygroup.com

Cindy Chung
Consultant
469-232-3849
Cindy.chung@haygroup.com

Justin Caruthers
Consultant
469-232-3880
Justin.caruthers@haygroup.com