



Overview of Kansas State Employee Health Plan  
for  
Joint Committee on Health Policy Oversight  
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Mr. Chairman and members of the committee, my name is Doug Farmer and I am the Director of the State Employee Health Plan within the Kansas Health Policy Authority. I am here today to provide you with an overview and update on several improvements to the State Employee Health Plan (SEHP), to discuss current operations, and to provide you with details of plan design changes that will take place for the 2009 Plan Year (PY).

### General Overview

The SEHP provides medical, prescription drugs, dental and vision coverage for active state employees, retirees and certain non-state employees that are allowed coverage under KSA 108-1-1. The Plan currently has a total of 53,430 contracts covering 92,972 lives. Of the total lives covered, 73.4% are active state employees, 13.0% are active non-state employees, 12.3% are retirees, and 0.3% are covered under COBRA.

The SEHP is newly self-insured, as of PY 2008. This means that the SEHP assumes the financial risk for all lives covered under the plan. This also means that the plan is not paying for any profit that private insurers would incur if the state's products were fully insured. The SEHP enters into contracts with private companies to provide administrative services for all of our members. Our contract with each company affords us access to their network of providers, as well as network discounts. These providers process all claims submitted by our members, according to guidelines established jointly with the SEHP and the individual providers. The SEHP then pays all claims that are submitted on behalf of our members.

For PY 2008, medical coverage is purchased through Blue Cross and Blue Shield of Kansas, Preferred Health Systems and Coventry. Dental coverage is purchased from Delta Dental, and vision coverage is purchased through Superior Vision. Prescription drugs are purchased through Caremark.

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Attachment A contains a chart that breaks down our membership by plan type, carrier, and member type. Attachment B contains a list of all non-state contracts, and the number of lives covered under each.

## **Financing**

### ***Cash Flow***

Health care expenses are financed from a combination of employee contributions and employer contributions. For a single member the funding mix is approximately 95% employer funded and 5% employee funded. For a member with dependents, the mix is approximately 55% employer funded (from the previous 45%) and 45% employee funded. This change was made in PY 2008 to reflect changes in the market place and to help families afford our health insurance plan.

In PY 2004, revenue and expenditure projections showed that the Plan's fund balance was expected to go negative. At that time, employee rates were increased by 15%, which brought the fund out of a negative balance scenario. However, the result was that revenues began outpacing annual expenditures in PY 2005. Any revenues in excess of expenditures that accrue to the fund are referred to as the "reserve fund."

The KHPA has devised a plan to bring balance to the revenue and expenditure relationship, and appropriately deal with the current reserve balance. The current reserve balance represents a 56% reserve in relation to projected PY 2009 expenditures. In order to remain actuarially sound, the SEHP should maintain a minimum reserve of 15%. Our goal is to keep our reserves at 15%. For planning purposes the KHPA projects health care expenditures out 10 years. Analysis by our actuary indicates that health care costs are expected to increase an average of between 6.5% and 12% each year over the next ten years. Given the significant reserve balance, the KHPA has elected to base plan projections on the most conservative expected cost growth, 6.5%. As shown in the chart in Attachment C and the graph in Attachment D, the current projection would bring the reserve fund to a 15% level by PY 2014 and would maintain stable rate increases for employees.

### **Plan Year 2007-2008**

The SEHP Plan Year runs from January to December. We are presently seven months into PY 2008. Significant changes took place between PY 2007 and PY 2008. Specifically, the design for PY 2008 drove most of our members into Plan A, which is a rich benefit in comparison to the cost to the employee. In PY 2007 health care costs totaled \$321.6 million, with an average monthly expenditure of \$26.8 million. For PY 2008, the KHPA projects total expenditures of \$349.1 million. Through the first seven months of PY 2008, expenditures total \$211.9 million, or \$30.3 million per month.

### ***Employee Rates***

In an effort to stabilize rates for our members, the KHPA has proposed a long term strategy of setting member rate increases in accordance with projected health care cost increases. Because of the spurious nature of past rate-to-cost relationships, the employee contribution has fallen below the trend in cost increases. Specifically, the last two years have reflected no increase in employee rates, while costs have increased 5.7%. In order to align the cost to employees with the projected cost of care, the KHPA currently recommends setting rates increases at 7.5% each year for the next ten years given expected health care inflation. The KHPA believes that this plan responsibly uses the reserve that has built up in the fund, and ensures that Kansas State Employees will be safeguarded from double digit rate increases for the foreseeable future.

### ***Wellness***

In January of this year, the KHPA implemented a comprehensive wellness program aimed at improving the overall health status of the SEHP membership. The expectation is that improved health status

will lead to increasing the quality of life for our members and decreasing health care costs to the Plan. This is also consistent with the health reform goals recommended by the KHPA, specifically to pay for prevention and incentivize positive health behaviors.

There are a vast number of different wellness models. Nearly every health care service provider now offers wellness as an “add-on” service to their plans. In order to maintain some consistency in approaching our membership with a wellness offering, the KHPA decided that a single provider would be most efficient and effective. Since the administration of a wellness plan is very labor intensive, the KHPA recommended and the Health Care Commission concurred that the State should contract with an outside vendor to provide all of the wellness plan’s components. Through an RFP, the KHPA contracted with a company called Health Dialog to complete a three year wellness offering.

The wellness program provides for three general interactions: Personal Health Assessment, Health Screening and Health Coaching. The single most important outcome of the wellness program is engaging members to be aware of, and in control of, their own health.

The *Personal Health Assessment (PHA)* is an on-line screening tool that provides an overall health score to members who answer a series of questions about their behaviors and current health awareness. Members whose PHA exposes a particular health risk are guided toward a number of resources to help manage their condition. For the current PY, members were offered a \$50 gift card as an incentive to participate in the PHA. To date, more than 13,000 plan members have completed the PHA.

The *Health Screening* is a screening that takes place between a member and a nurse. This year, 52 health screening were offered at 37 locations throughout the state, including several locations targeted for our more rural members, such as Ulysses, Norton and Garden City. These screenings are testing for a number of health risks, including obesity, diabetes, and hypertension. Following each screening, members sit with a nurse to review their individual results and to learn of possible interventions. This year, more than 9,000 members received screenings. For those State employees who were not able to attend, we strongly encouraged follow up.

The *Health Coaching* program offers one-on-one interactions between plan members and nurses. These interactions include dealing with acute health conditions; managing chronic conditions and lifestyle management such as weigh control or quitting smoking. The coaching is non-scripted and each meeting takes the form of a two way conversation. Coaches provide a number of interventions to help our members improve their health status on an on-going basis. To date, nearly 4,000 members have used the services of a health coach. The benefit of coaching is that members get personally involved with a health care professional that can meet on the member’s schedule, and who will help the member remain accountable for their own health status.

## **Plan Year 2009**

### ***Non-Tobacco Discount***

In an effort to decrease the number of individuals who smoke in Kansas, beginning in PY 2009, SEHP members will be able to receive a \$40 per month non-tobacco use premium discount. In order to be eligible, a member must either not use tobacco, or be a current tobacco user that will complete a tobacco cessation program through our wellness provider. The discount will be available for active employees and direct bill retirees. The discount is designed to provide non-tobacco users with an incentive to remain non-tobacco users, and to provide an incentive for tobacco users to quit. Given that tobacco use is the number one cause of death in Kansas, the KHPA Board has placed a high priority on reducing the number of Kansans who smoke in an effort to improve the overall health of Kansans – and to decrease rising health care costs.

### ***Plan A, B & C Design Changes***

One of the KHPA's primary objectives is to provide choice in health plans for members of the SEHP. By providing a variety of coverage options, our hope is to provide the best value for each individual member based upon their needs. To that end, the plan will offer three plans for active employees during PY 2009. These plans are referred to as Plan A, Plan B, and Plan C.

Our goal is that Plan A will be the "standard" health plan, and will be adopted by the majority of our plan members. Plan B is designed to be attractive to members with multiple dependents. Plan C is the consumer-driven coverage option, and is a qualified high deductible health plan with a Health Savings Account. For Plans A and B, members will be able to choose from the following providers: Blue Cross and Blue Shield of Kansas; Preferred Health Systems; Coventry; and UMR a united Health Care Company. For Plan C, members will have all of the same carrier options, except Blue Cross and Blue Shield of Kansas.

***Plan A.*** In PY 2008, 96.4% of our contracts are for Plan A coverage. That particular statistic indicates that we do not currently have a structure that is providing for adequate plan choice. Further, the relationship between the actuarial value of the plan and the premium cost is distorted. In order to bring balance to our plan options, we have made the following changes to Plan A for PY 2009:

- An annual deductible of \$50 per person and \$100 per family will be added to services other than preventive care treatment which is covered at 100%, and office visits that are subject to co-pay.
- Member coinsurance will increase from ten (10) percent to twenty (20) percent. The annual coinsurance maximum will increase from \$1,000 to \$1,100 per person and \$2,000 to \$2,200 per family. After the coinsurance maximum is met, eligible services are covered at one hundred (100) percent for the remainder of the calendar year.

***Plan B.*** In PY 2008, 3.2% of our contracts are for Plan B coverage. Because of the pricing structure, Plan B was not an attractive offering this year. In order to provide for a valuable option for our members, we made the following changes to Plan B for PY 2009:

- The premiums have been adjusted to more directly represent the plans' actuarial values compared to Plan A. On average, Plan B coverage will be 5% less expensive than its Plan A counterpart.
- The office visit co-pay for dependent children under age eighteen (18) will be reduced to \$10 for a primary care provider (PCP) and \$25 for a specialist. These co-pays are 50% less than they are under Plan A. The adult co-pays will remain unchanged at \$20 for a PCP and \$40 for a specialist.
- The member responsibility for coinsurance will decrease from thirty-five (35) percent to thirty (30) percent. The coinsurance maximums will remain unchanged at \$2,200 per person and \$4,400 per family.

***Plan C.*** This plan consists of a Qualified High Deductible Health Plan and a Health Savings Account (HSA). In the current PY, there are 186 individuals that have chosen to participate in Plan C. In order to make this plan a more viable option, the following changes have been made for PY 2009:

- Preventive Care Services will be covered at one hundred (100) percent like Plans A & B. The previous \$450 cap for these services is being removed.
- The coinsurance for network services remains at twenty (20) percent. The out of pocket maximum is reduced from \$5,000 to \$3,000 for single and from \$10,000 to \$6,000 for family. The out of pocket maximum is made up of the deductible and member coinsurance paid for services. After the out of pocket maximum is met, eligible services are paid at one hundred (100) percent for the remainder of the calendar year.
- The coinsurance for non-network services will increase from forty (40) to fifty (50) percent. The out of pocket maximum is reduced from \$6,000 to \$3,650 for single and from \$12,000 to \$7,300 for family.
- There is no longer a lifetime benefit maximum.

## Senate Bill 81

During the 2008 Legislative Session there was much discussion focused on increasing the utilization of the Qualified High Deductible Health Plan. Along those lines, 2008 SB 81 required the following:

*“Commencing with the 2009 PY that begins January 1, 2009 if a state employee elects the high deductible health plan and health savings account, the State’s employer contribution shall equal the State’s contribution to any other health plan offered by the state. The cost savings to the state for the high deductible health plans shall be deposited monthly into the employee’s health savings account up to the maximum annual amount allowed.”*

Presently, the state contributes \$401.06 for each full time employee regardless of their plan choice (Plan A, B or C). From that amount, Plan C members receive HSA contributions of \$37.50 per pay period for single members and \$56.25 for members with dependents. The state contributes \$319.46 for each part time employee regardless of their plan choice (Plan A, B, or C). From that amount, Plan C members receive HSA contributions of \$28.13 per pay period for single members and \$42.19 per pay period for members with dependents. As the requirements of SB 81 are already being met, the KHPA does not intend to take any additional action.

## ATTACHMENT A

### Medical Counts as of August, 08 2008

	Contracts	Dependents	Total Covered Lives
State Active	36,420	32,761	69,181
Non-State Active	6,028	6,025	12,053
Retiree	10,767	697	11,464
COBRA	215	59	274

### Medical Contracts by Coverage as of August, 08 2008

	State Active	Non-State	Retiree	Cobra	Medicare	Medicare
Single	19787	3,107	1,633	175	8,502	1
Member & Dependents	16633	2,921	434	37	198	2

### Contracts By Carrier as of August, 08 2008

	Blue Cross of KS	Preferred Health	Coventry Health Care
Plan A	38,558	4,326	1,196
Plan B	1,400	23	40
Qualified High Deductible	0	0	178
<b>Total</b>	<b>39,958</b>	<b>4,349</b>	<b>1,414</b>

<b>Kansas Senior Plan C</b>	
Part D Drug	4,731
No Drug	2,460
	0
<b>Total</b>	<b>7,191</b>

<b>Coventry Advantra</b>	
PFFS w/Drug	210
PFFS no Drug	41
Advantra	267
<b>Total</b>	<b>518</b>

## ATTACHMENT B

### Non-State Groups

Group Name	Enrollment
Central Heights	70
Weskan	21
Hill City	62
Lyndon	48
Cloud County CC	124
Osborne	52
Waconda	52
Comanche County	54
Labette CC	104
Greenbush	420
Longton	30
Lebo/Waverly	80
McLouth	67
Coffeyville	212
Concordia	211
Stockton	42
Quinter	64
Victoria	47
Marysville	145
Colby CC	121
Washington	50
Erie	135
Syracuse	58
Hays	524
W.Solomon Valley	12
Logan	37
Fort Scott CC	117
Marmaton Valley/Moran	51
Moundridge	56
Twin Valley/Bennington	62
Cheylin/Bird City	25
Jefferson West/Meriden	110
Onaga	44
Hartford	3
Medicine Lodge	20
Dickinson County	94
Medicine Lodge	2
Osage City	35
Riley County	139
Pottawatomie County	130
Canton	5
Kensington	2
Lyndon	9
Satanta	3
Marshall County	70
Alta Vista	3
Rawlins County	47
Rush County	48
Stanton County	54
Sumner County	152
Effingham	2

### Non-State Groups

Group Name	Enrollment
Greenwood County	75
Caldwell	8
Sedan	12
Lindsborg	26
Ness City	7
Chautauqua County	42
Logan County	31
Lyons	27
South Hutchinson	17
Wabaunsee County	47
Atchison County	140
Ellsworth County	57
Westwood	13
Clearwater	14
Lincoln County	56
Victoria	6
Burlingame	15
Enterprise	5
Toronto	3
Jackson	102
La Cygne	10
Atchison	109
Soldier	15
Washington	12
Weir	4
Alma	7
Elk County	47
Doniphan County	72
City of Troy	15
Riley Co.Extension Council	4
Shawnee Co. Extension Council	5
Trego County Extension Council	1
Scott County Extension	1
Central Kansas Extension Dist 3	4
Coldwater-Wilmore Library	1
Geary County Extension	2
Leavenworth County EX	1
Cherokee County Ex	1
Reno County EX	2
Marshall County Ex	1
Horton Public Library	1
Frank Carlson Library	3
River Valley Ext #4	6
Dickinson County Ext	2
Anthony Public Library	1
Meadowlark Extension	3
Sumner Regional Medical Center	136
Newman Regional Health	480
Graham County Hospital	92
Sumner County Hospital Dist. #1	30
Eligible and not enrolled	

## ATTACHMENT C

**Kansas Health Policy Authority  
Reserve Calculation  
Medical, Pharmacy, Dental and Vision**

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015
Beginning Reserve Balance									
Reserve earning interest	10,714,357	11,269,253	11,832,715	12,424,351	13,045,569	13,697,847	14,382,739	15,101,876	84,497,562
Reserve not earning interest	182,228,577	212,101,985	205,260,781	178,511,551	151,158,700	126,110,550	103,824,104	84,491,869	0
<b>BEGINNING BALANCE</b>	<b>192,942,934</b>	<b>223,371,238</b>	<b>217,093,497</b>	<b>190,935,902</b>	<b>164,204,269</b>	<b>139,808,397</b>	<b>118,206,844</b>	<b>99,593,745</b>	<b>84,497,562</b>
Total Employer Contributions	228,190,918	245,000,000	250,512,500	265,625,938	285,547,883	306,963,974	329,986,272	354,735,242	387,037,519
Total Participant Contributions	120,300,650	97,273,114	104,175,269	112,465,324	120,360,396	128,833,569	137,911,791	147,638,878	158,061,794
<b>TOTAL CONTRIBUTIONS</b>	<b>348,491,568</b>	<b>342,273,114</b>	<b>354,687,769</b>	<b>378,091,261</b>	<b>405,908,279</b>	<b>435,797,543</b>	<b>467,898,063</b>	<b>502,374,120</b>	<b>545,099,313</b>
<b>Total Plan Expenses</b>	<b>321,610,398</b>	<b>349,114,318</b>	<b>381,436,999</b>	<b>405,444,113</b>	<b>430,956,429</b>	<b>458,083,988</b>	<b>487,230,299</b>	<b>518,225,397</b>	<b>551,188,630</b>
<b>Ending Available Balance (Reserve Balance)</b>	<b>223,371,238</b>	<b>217,093,497</b>	<b>190,935,902</b>	<b>164,204,269</b>	<b>139,808,397</b>	<b>118,206,844</b>	<b>99,593,745</b>	<b>84,497,562</b>	<b>82,633,124</b>
<b>Reserve Balance as % of Annual Expenditures</b>	69.5%	62.2%	50.1%	40.5%	32.4%	25.8%	20.4%	16.3%	15.0%
Employee Rate Increase	0.0%	0.0%	5.0%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Employer Rate Increase	0.0%	0.0%	4.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
	EE		7.1%	8.0%	7.0%	7.0%	7.0%	7.1%	7.1%
	ER		2.3%	6.0%	7.5%	7.5%	7.5%	7.5%	9.1%

ATTACHMENT D

Reserve Balance Projection

