



Opt Out

Feb. 16, 2010

Wendy Edwards, Director of Operations

Executive Summary

This report presents information on

- Cafeteria Plan provision
- Opt out considerations
- Payment and distribution
- Member feedback on dental enrollment
- Options for Board consideration
- Staff recommendation

Analysis

The attached document, presented at the Jan. 20, 2009, Board meeting, explains the need for PEBB to offer employees cash for opting out of benefits to maintain its 125 Cafeteria Plan status. The member must have other creditable coverage to opt out. A chart in the attachment document shows opt-out actions taken by the Board 2000-2009.

In considering the opt-out option, the Board considers the potential for adverse impacts:

- It could encourage state employees to choose coverage through employees in other employers' plans, shifting cost to those employers.
- It could encourage healthier employees to choose lesser coverage, leaving those with more-serious conditions in the PEBB pool, which could result in increased premium for the remaining members.

The current opt-out payment of \$387 gives 60 percent (\$233) to the employee and 40 percent (\$154) to reserves in the PEBB Stabilization Account. In 2009, reserves received \$3,821,050 in opt-out payments.

Current policy requires members who opt of medical benefits to enroll in a dental plan and the \$5,000 basic life insurance. Payroll deducts premiums for these benefits from the member's share of \$233. The member receives the remaining amount as taxable income.

Some employees who opt out of medical and have other creditable dental coverage express the preference not to enroll in PEBB dental. Dual dental coverage does not provide coordination of benefits.

When all PEBB dental plans were fully insured, PEBB received a rate advantage if all employees enrolled in dental. With self-insurance of all but the Kaiser and Willamette dental plans, this rate advantage no longer applies.

The Jan. 15, 2010, census shows 12,843 employees are enrolled in fully insured dental plans, and 38,750 employees are enrolled in a self-insured dental plan. It also shows that 1,839 members

opt out of medical benefits, and of that amount, 79 percent are enrolled in a self-insured dental plan, and 21 percent are enrolled in a fully insured dental plan.

Options for Board Consideration
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Question: Should the 2010 opt-out payment level and percentage distribution remain the same for 2011 and for the 2012 RFP?

Question: Should policy and rule allow members with both creditable medical and dental coverage to opt-out of both PEBB medical and dental enrollment?

Recommendation

Staff recommendation will be provided at the Mar. 2010 meeting.



**Opt Out
Jan. 20, 2009
Wendy Edwards, Director of
Operations**

Executive Summary

To maintain its 125 Cafeteria Plan status, PEBB must offer members a choice of cash or benefits. PEBB rules allow members to opt out for cash when they have other group medical coverage. The Board may choose the level of opt-out cash annually. When PEBB began, SEBB had a structure in place for opt-out. The Board initially moved that structure forward and established a set formula in 2001. For 2006, it modified the structure, which continues to date. During its Nov. 2008 Board planning meeting, the Board discussed opt out and asked staff for analysis. Staff recommends the Board maintain the current opt-out structure through 2010 as PEBB prepares to issue a request for proposals (RFP) for a self-insured medical plan in 2011.

Analysis by Year

Years	Actions on Opt Out
2000	Introduced a new opt-out program using SEBB formula as base with adjustment for market trends. Formula calculated at 88 percent of premium for 2000, 58 percent for 2001, and 33 percent for 2002.
2001	Formula set at 2000 state contribution rate for employee-only tier (\$387) with 60 percent paid to the employee, 40 percent to PEBB stabilization fund.
2002	Unchanged
2003	Unchanged (~\$4 adjustment)
2004-2005	Unchanged
2006	Moved to flat opt-out amount (\$233) with change of contribution structure in collective bargaining agreements that no longer used tiers
2007-2009	Unchanged

Staff Recommendation

Staff recommends continuing the current opt out structure until we address the issue in our self-insurance RFP.

Rationale

Continuing the current opt out structure will offer a needed level of predictability and stability for members, agencies, carriers and the Board. It allows PEBB to move forward with status quo renewals and achieve predictable information for 2010 as we move to fully self-insure beginning 2011.

The Board has not identified the issue of opt out as a tier 1 issue in its planning processes.

To address this issue now would require work-order requests to our consultant. This would impact current work load and funding available to meet other work plan deliverables.

Changing the opt-out structure may impact member choice and participation, plan assumptions and projections, and agency budgets. It could also have an effect on the stabilization account as PEBB moves to self-insurance.

History of Board Discussions

Priority Discussions

The Board discussed where the issue of opt out should fall on its list of priorities:

Nov. 14, 2005

Dec. 20, 2005

Jan. 17, 2006

Nov. 20, 2007

Motions and Recommendations

Policy recommendation, approved Jan. 16, 2001. Include in the continuum of choice an opportunity for employees with other group insurance to opt out of medical plans. The dollars associated with this program will be determined annually based on PEBB's health policy and plan management strategies.

Sept. 19, 2001, Plan Design Subcommittee Meeting Minutes. The opt-out formula remains at 60/40 percent and, if decision makers adopt deficit funding, there is no enrollment scenario that creates cash back.

June 18, 2002, Board Meeting Minutes. Using the same formula that exists in 2002 for opt outs results in a slight decrease to cash back employees receive. In 2002, a single employee currently receives \$178.54; that will change to \$174.69 in 2003.

July 15, 2003, Board Meeting Minutes. Diane Lovell reviewed the 2004 Structure Comparison draft. The structure document reflects no change in plan type. The outcome of contribution tiers is unknown at this time. The continuum of plan choices reflects the Board's work. Opt out and cash back options are unchanged. The ordering of medical and dental benefit deductions is unchanged.

July 19, 2005, Board Meeting Minutes. Collective bargaining agreement language require the Board to adopt a new opt out methodology. Diane Lovell moved to accept the recommendation that the 2006 opt out amount available to full-time employees will be \$233.00. The mandatory dental and life insurance premiums will be deducted from the employee portion; with the balance going to the employee as taxable income. The PEBB stabilization fund will receive \$154.00. Part-time employees will receive a prorated share based on the percent of full-time hours worked. Rich Peppers seconded the motion. Hearing no further discussion, the motion passed unanimously.

June 20, 2006, Board Meeting Minutes. Peter Callero moved to continue the current payment structure for those employees choosing to opt-out of medical coverage because of the availability of other group insurance. Members who are eligible and choose to opt out of medical coverage will receive a monthly payment of \$233 (prorated for part-time employees according to hours worked compared to full-time). The cost of their mandatory dental and basic life premiums will be deducted from that amount pretax. The balance will be added to their monthly pay as taxable income. Paul McKenna seconded the motion. The motion passed unanimously.

May 8, 2007, Board Meeting Minutes. Rich Peppers moved to continue the current payment structure for those employees choosing to opt-out of medical coverage because of the availability of other group insurance. Members who are eligible and choose to opt out of medical coverage will receive a monthly payment of \$233 (prorated for part-time employees according to hours worked compared to full-time). The cost of their mandatory dental and basic life premiums will be deducted from that amount pretax. The balance will be added to their monthly pay as taxable income. Sue Nelson seconded the motion. Diane Lovell stated that this item is also scheduled for Board attention in the fall. Hearing no further discussion, the motion passed unanimously.

June 17, 2008, Board Meeting Minutes, Plan Design Recommendations. Shall PEBB continue the current payment structure for those employees choosing to opt-out of medical coverage because of the availability of other group insurance? If so, members who are eligible and choose to opt out of medical coverage will receive a monthly payment of \$233 (prorated for part-time employees according to hours worked compared to full-time). The cost of their mandatory dental and basic life premiums will be deducted from that amount pretax. The balance will be added to their monthly pay as taxable income.