

Let's Stay Together

How nine school groups formed healthcare partnerships to weather an uncertain future



by Bill Rollings, School Office Services

Storm clouds are forming on the horizon for the future of health care. Will premiums rise above the predicted 9 percent increase next year? How will health care reform impact the cost of insurance for schools? How will the election outcomes this past November change the game?

In this uncertain time, 380 independent schools, representing over 35,000 faculty and staff, are confident they can handle the ups and downs of a volatile industry. These schools are part of nine separate groups that were created to purchase health insurance as collective entities. Although the groups were formed at different times, are different sizes, and have different organizational structures, when they describe the benefits of being a collective, they are remarkably similar.

Size Matters

The aggregate employee count in each of the nine groups is big enough to be viewed by insurance carriers as constituting a "large employer" (1,000 employees or more). By contrast, virtually all individual independent schools across the country are viewed as "small employers."

According to John Doyle, Principal of Armstrong, Doyle & Carroll (ADC), the healthcare broker for the health insurance group PAISIG (Philadelphia Area Independent School Insurance Group) of PAISBOA (Philadelphia Area Independent School Business Officers Association), "Large employers purchase insurance differently than small employers, and our group of 12,000 employees makes us one of the largest employers in Philadelphia.

"When we sit down with them, Blue Cross offers us more flexible plan designs, is willing to negotiate fees, and offers detailed information about our claims history throughout the year—perks rarely available to individual schools in the marketplace. By using the detailed claims history provided by Blue Cross, we can make informed decisions about the plans we offer. We're more than just a customer, we're really a partner with Blue Cross."

Risk Is Shared

As an aggregate group, member schools are protected from dramatic premium increases because of high medical claims the previous year. The claims history is spread out over the entire group. Don Graham, Executive

Director of the Independent School Association of the Southwest (ISAS) Trust, explains how his group provides a slight twist to the risk sharing.

"The Trust operates more like a true insurance company and rates each school based on its own experience," he says. "We mitigate the wild swings in the market to just +/- 5 percent in addition to the base rate adjustment in any one year. Schools can achieve discounts up to 20 percent below the base rate, and receive a premium load of no more than 10 percent above the base rate.

"We have been experience-rating premiums since September 2004. We have also provided a wellness program for almost that entire time period, including the last three years with the biometric screening/Naturally Slim program that is handled by Trajectory Health."

Groups Offer Stability

Health insurance carriers tend to be wary of employer groups, because they don't display much loyalty. Carriers often see the healthiest companies bail out of the group for lower premiums on their own, leaving the sickest members in the group. It's shortsighted: eventually all groups will experience a bad year.

Bob Mueller, Business Officer at Delaware Valley Friends School and President of PAISBOA, says that school groups tend to be more loyal than for-profit companies. "Schools in PAISIG demonstrate loyalty and longevity over the years," he says.

"Perhaps, because business officers have been around a long time, they understand claims costs are cyclical. Although a school may be healthy this year, high claims may be just around the corner. They also know they have a better deal in the group. With this knowledge, our group is not only stable, it's growing."

Serious Savings

Don Ludwig, President of Educators Benefits Services (EBS), says the savings achieved by his group of schools in Washington, DC and Maryland comes about in two ways:

- **Lower administrative fees.** Typically, an individual, fully insured group would pay only 70-75 percent of premium to actual claims. EBS reports that about 85 percent of premiums go to payment of claims. (Other groups report percentages as

high as 90 percent.)

- **Groups can negotiate better rates.** EBS has maintained a lower increase in premiums than the general trend in the mid-Atlantic state region over a 10-year period. (Other groups report overall savings as well.) Ludwig believes the group can negotiate lower rates and richer plans for its members than if they were on their own.

A Glossary of Healthcare Terms

High-Deductible Health Plans

(HDHPs) As the name implies, a high-deductible health plan requires participants to pay for the first \$1,200 or more of individual claims, and \$2,400 or more for families. After the deductible is met, the health plan kicks in with comprehensive coverage. Typically, the premiums of an HDHP plan are priced 15 to 20 percent below traditional PPO plans.

Health Savings Accounts (HSAs)

A health savings account is a medical savings account set up for and owned by the employee. Both the employer and the employee can invest in an HSA. HSAs receive favorable tax treatment from the IRS, and deposits made by an employee or by employer (on behalf of its employee)

can be made before payroll taxes. When employees leave the school, they take their HSAs with them. The HSA account rolls over from one year to

the next and can earn interest if an employee doesn't exhaust the account in paying for deductibles. To help employees with the initial high deductible, many participating schools contribute a significant portion of the first year's deductible into the employee's HSA.

Health Reimbursement Accounts/Arrangements (HRAs)

A health reimbursement arrangement is an employer-funded account used to reimburse employees for qualified medical expenses, including health insurance premiums. Withdrawals for nonmedical expenses are not allowed. Funding is available by employer only. No corresponding health plan is required for an HRA. An employer may choose to roll over the HRA from one year to the next or not. The employer may choose to make the HRA portable, allowing a terminated employee to take the funds with him or her. These funds likely then become taxable income.

Flexible Spending Accounts (FSAs)

A flexible spending account (FSA) uses pre-tax dollars to reimburse an employee's qualified medical expenses and some child-care expenses. Typically an employee, employer, or both make monthly contributions to an FSA. No corresponding health plan

is required for an FSA. An FSA provides benefits for both the employee and the employer. For the employee, the entire budgeted amount may be used any time during the year whether or not it has been funded. For the employer, an FSA does not roll over from one year to the next. The employee must "use it or lose it."



Looking to the Future: A New Model for Healthcare?

Interestingly, all nine groups are considering similar changes to their current plans. The first is moving to a high-deductible health plan (HDHP) coupled with a health savings account (HSA) or health reimbursement account (HRA). All nine groups are also considering adding a formal wellness program—tied to measurable objectives—to their plans.

Schools have traditionally resisted making the leap to an HDHP because faculty and staff will be faced, initially, with much higher out-of-pocket costs. (Some schools in the nine groups are currently resisting the move to an HDHP for this very reason.) The challenge lies in communicating effectively with faculty and staff so that everyone at a school begins to think about healthcare differently, rather than jumping to conclusions about the benefits and risks about transitioning to a new model.

Implementing a High-Deductible Health Plan: A Case Study

Neil Fanelli, CFO of Church Farms School and a member of PAISIG, explains how his school introduced an HDHP coupled with an HSA two years ago. In the first year, 66 of 70 eligible employees selected the new plan; 68 of 70 selected it the second year. Fanelli attributes the remarkable buy-in from his faculty and staff to three key factors.

"The first was the actual savings a new plan could bring to the staff and to the school itself," Fanelli says. "In 2008, Blue Cross priced the HDHP

more competitively compared to our existing plans. With the help of our broker, John Doyle, we were able to produce metrics that showed the potential cash savings in the short term, for both the school and our staff, with an HDHP in tandem with an HSA. The new medical plan structure provided similar coverage to our existing plan with clear immediate and long-term benefits for both staff and the school."

"The second key was the education of the entire community. Armed with the potential savings and benefits of the HDHP/HSA structure, we engaged support from the school's senior administration and eventually from the board. But even with their support, we had no desire to force, or rush, a new health insurance program on the staff."

Fanelli then formed a medical insurance focus group comprised of

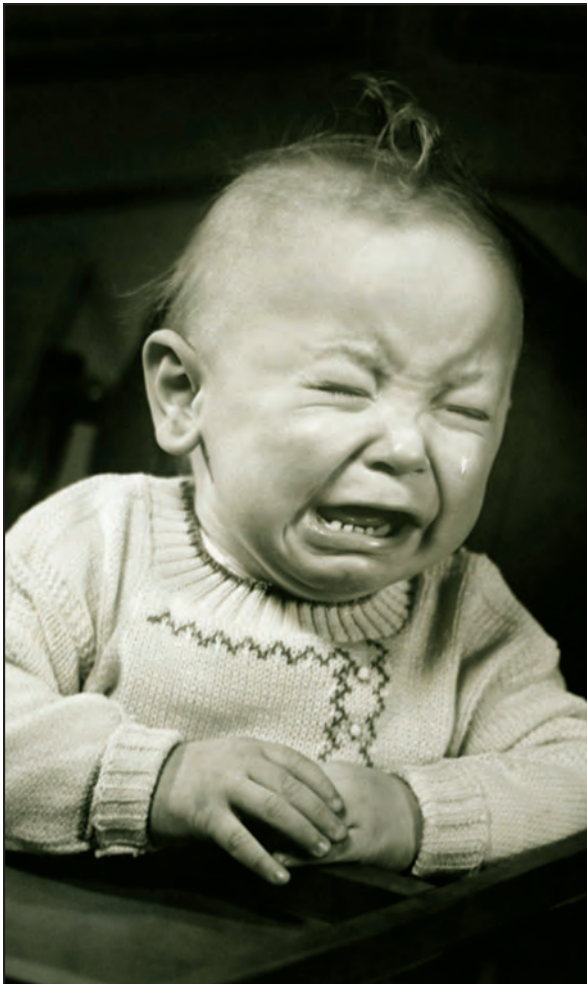


staff members from all corners of the school's community. He began an educational process discussing the hard economic realities of health care and how these realities might

eventually affect each member of the school. The focus group, which meant four times over a six-month period, explored ways to mitigate the pending "pain."

After significant deliberations, the focus group recommended an HDHP/HSA structure to the head of school. Employees would be able to choose this HDHP/HSA base plan or another traditional, more costly plan option. After the head of school adopted the recommendation, a community-wide education plan began, including multiple meetings with school staff, as well as the insurance provider and broker. "You can't give too much information to your constituents if you're thinking about making these significant philosophical and structural changes," says Fanelli.

The last hurdle was minimizing the complexity of setting up individual HSA accounts for the staff. "The



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paperwork is a potential nightmare,” says Fanelli, “but BankCorp, a partner of Independence Blue Cross, specializes in HSAs and made the process as easy as possible.”

In addition, by moving to an HDHP, the school was able to postpone a planned increase of the employee contribution to medical premium (from 10 percent to 20 percent) due to savings achieved by the switch. With its new HDHP/HSA structure (\$1,500 employee, \$3,000 family) the school achieved a 15 percent savings in medical plan costs, even after the school contributed 80 percent of the high deductible in each employee’s HSA.

Wellness Programs & Metabolic Syndrome

Wellness programs have evolved from memberships to health clubs to programs that have meaningful measurements regarding the health of employees.

Increasingly, wellness programs are using medical terminology, such as *metabolic syndrome*, to define their success. As defined by the American Heart Association, “Metabolic syndrome is a group of risk factors in one person including abdominal obesity, high cholesterol, elevated

blood pressure, and insulin resistance or glucose intolerance.

People with metabolic syndrome are at increased risk of coronary heart disease and other diseases related to plaque buildups in artery walls (e.g., stroke and peripheral vascular disease) and type 2 diabetes.” An individual with metabolic syndrome costs an employer over \$3,000 more annually on medical claims than an individual without metabolic syndrome.

Much of this disease risk is preventable and can be mitigated by implementing targeted wellness strategies. One such wellness program that delivers reversal in metabolic syndrome is delivered by Trajectory Health. Trajectory has been utilized by the ISAS Trust since 2008 and has also been hired to conduct a pilot study for PAISIG.

With metabolic syndrome prevalence rates on the rise, Austin Wilcox of Trajectory Health is a firm believer in targeting this cluster of risk.

“Within any population, a very small percentage of individuals drive a majority of medical claims,” he says. “Approximately 4 percent of individuals account for 60 percent of the total costs in a given year. In the past, it has been difficult to identify and predict next year’s high cost group,

with a majority of the 4 percent group having no prior markers of risk in their medical claims. What we now know is that an individual with metabolic syndrome has an exponentially greater likelihood of landing in the 4 percent group in the next three years. Measurably slowing the pipeline of this risk is the challenge of any effective wellness program.”

CDHP—the New HDHP

Mark S. Gaunya, Principal at Borislow Insurance and an employee benefits advisor for three of the nine school groups, is passionate about the ability of consumer-driven health plans (CDHPs), combined with wellness plans, to empower their users.

He and his business partner, Jennifer Borislow, recently co-authored a book, **Bend the Healthcare Trend: How Consumer-Driven Health and Wellness Plans Lower Insurance Costs**, to explain how they believe this trend is changing the landscape of healthcare. (**Bend the Healthcare Trend** can be purchased through the NBOA website, www.nboa.net.)

A CDHP is the combination of a lower-premium, high-deductible health plan and a healthcare account. Gaunya notes that unless the school funds a healthcare account, a CDHP is simply an HDHP.

According to Gaunya, CDHPs are built on three fundamental principles: transparency, responsibility, and opportunity. Consumers are encouraged to seek out information such as the cost of health services and the range of alternative treatments, because they are responsible for managing the funds in their healthcare accounts. Once they know the value of the health services, it’s up to them to make informed decisions about maintaining good health and using health services judiciously.

“Beyond improving the consumer’s health and general well-being,” says Gaunya, “a consumer-driven health plan allows consumers to build a

School Group	States	# of Schools	# of Covered Employees	Contact info
PAISIG Philadelphia Area Independent School Insurance Group	PA	122 (20 colleges)	12,500	Bob Mueller muellr@dvfs.org (610) 640-4150 x2390
AISNE Association of Independent Schools of New England	MA, ME, NH, RI	50	5,400	Carol Peterson carolataisne@charter.net (508) 835-0979
ISBC Independent Schools Benefits Consortium	FL, GA, IN, MO, NC, OH, TX	54	4,200	David Wright dwright@us.edu (216) 932-0400
ISAS Trust Independent School Association of the Southwest	TX, OK	22	2,700	Don Graham dgraham@isasw.org (214) 706-5459
EBS Educator Benefits Services	DC, MD	35	2,500	Don Ludwig dludwig@ebsonline.net (301) 261-2440
MAIS Maine Association of Independent Schools	ME	15	1,200	Peter Rackliffe peter.rackliffe@gouldacademy.org 207-824-7700
ISANNE Independent Schools Association of Northern New England	NH, VT	15	1,200	Jill Duncan jduncan@newhampton.org 603-677-3411
ACIS Association of Colorado Independent Schools	CO	6	1,000	Alanna Brown alanna.brown@colorado-academy.org (303) 914-2524
CAIS Connecticut Association of Independent Schools	CT	47	2,700	Doug Lyons lyons@caisct.org (860) 572-2950

medical savings account in the form of unused dollars, which can be carried forward for future healthcare expenses. It's the ownership aspect of this solution that fundamentally changes behavior for the long-term."

Although Gaunya works with only three of the nine groups, the model of a high-deductible health plan, coupled with an HSA and a wellness program is being considered or has been implemented by the other five groups.

Should You Start a Group?

Paul Catania, the Oswald Insurance broker who helped The Independent School Benefit Consortium (ISBC) form their group seven years ago, says that if a group of schools decides to form a group to purchase health

insurance, it should form a steering committee to answer some fundamental questions:

- **What value will the group provide?** Although savings may accrue from a group, schools won't necessarily choose the cheapest alternative. The committee needs to consider a number of alternatives before moving forward, such as one or several plan design options, entry requirements, and the amount of risk the group wishes to take on.
- **Who will represent the group as broker?** This can be a politically difficult question as each school already has a broker. One alternative is to consider a consul-

tant to guide the group initially – one who is focused on long-term sustainability issues and not short-term pricing.

- **Will we accept all schools interested in joining the group?** Not necessarily. State laws apply and may restrict schools that don't meet a minimum number of eligible employees from joining a group. You may need to consider the historical benefits position and overall risk of groups you plan to invite.
- **How can we ensure that the members of our group will make a commitment to remain loyal, especially in the start-up**



phase? Insurance carriers are less likely to negotiate with a group that may dissolve shortly. Remember, carriers are more often disappointed with groups that fail than groups that remain together. You may require an initial commitment of three years to ensure your group will be stable at the outset.

- **How will the group be structured?** The ISBC provides the

flexibility of an individual insured contract through United Health-care for each school, even though the group is rated together at renewal. (Other group models range from self-insured groups governed by ERISA to fully insured groups rated as a single entity but with contracts for each school.)

Where to Go From Here

As you ponder your next steps, consider discussing with your regional business officer group the pros and cons of purchasing healthcare in a collective. Contact the business officer representative of one of the nine groups (see chart) to provide you with a wealth of information about taking next steps. As we all struggle with the changing landscape of health care costs, it is encouraging to know that these nine groups have taken charge of their future.

Bill Rollings, President of School Office Services (SOS), was a teacher and an administrator in independent schools for 25 years. He founded two schools and was head of school for three years.



Bill Rollings

SOS, which he founded in 1999, provides HR and management support to 400 independent schools across the country. Bill is a Senior Human Resources Professional (SPHR) with SHRM and a Certified School Risk Manager (CRSM). He conducts management training for school groups across the country and recently partnered with The Rapid Learning Institute to create online management training for schools and universities.

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