



The University of Oklahoma

OU Contribution Strategy and Health Insurance Options Committee

April 18, 2007

In response to the university's critical challenge to ensure employees have access to affordable, quality healthcare, President Boren announced in April that the university will take action to review and redesign its healthcare benefits delivery strategy. As noted in his letter to faculty and staff, President Boren has established a panel – the OU Contribution Strategy and Health Insurance Options Committee – made up of experienced faculty and staff to manage the comprehensive review.

This is the first in a series of communications you can expect to receive from the Committee. In this first memorandum to faculty and staff, we will: 1) Provide background information on the healthcare challenges we face; 2) Describe the Committee's purpose and the scope of our review; 3) Provide a high-level timeline for the Committee's deliverables and milestones.

For ongoing updates about the Committee's progress and to review answers to frequently asked questions, we encourage you to visit the Committee's web site at www.ou.edu/healthcareoptions.

Background on the University's Healthcare Challenges - The University, like virtually all employers in the public and private sectors across the country, is faced with managing the effects of staggering employee healthcare cost increases. Since 2001, we've seen our premiums for employee-only medical coverage more than double, increasing the university's average cost per covered employee from \$2,040 in 2001 to \$4,236 in 2007. Premiums for employee and dependent coverage have increased substantially, as well, rising from an average cost of \$3,360 per year in 2001 to \$9,336 per year in 2007.

During this time, the university has paid the full cost for employee-only coverage premiums (meaning, those enrolled in employee-only medical coverage are not required to make a contribution toward their medical benefit premiums from their regular paychecks). Employees who elect the university's family coverage must pay the full premium to enroll their dependents. Due to the high costs to enroll dependents in the university's health insurance plans, many employees have chosen to seek coverage elsewhere, or in some cases, go without coverage for their dependents.

Employees' out-of-pocket costs for medical benefits have increased, as well. We've seen our plan deductibles and the share of costs we are required to pay at the point of care (e.g., copayments for doctor's office visits and for prescription drugs) rise steadily over the past few years. These increases have affected employees in different ways – healthy employees who use plan benefits infrequently may not have experienced a significant increase in their expenses. However, those who are more frequent users of plan benefits due to illness, a chronic health condition, or a health "event" such as surgery, are likely feeling the effects of our plans' higher out-of-pocket expense requirements. *The bottom line: The University is paying more for our employees' healthcare benefits, and you are paying more, too, as you seek care.*

Healthcare Cost Drivers - Healthcare costs continue to rise for many reasons, including higher costs at the point of care (e.g. for a doctor's visit); the use of high-tech equipment for medical diagnosis and care; advances in prescription drug solutions; an increase in the prevalence of obesity and associated health conditions; consolidation in the healthcare industry; and increases in medical liability costs for providers. Employee demand for the highest quality medical services and prescription drugs continues to increase as well. Given this environment, it follows that the university can expect healthcare costs to continue to increase for the foreseeable future.

Indeed, with these trends in mind it is important to point out a reality in the healthcare economy: ***An employer's health insurance premium costs are directly correlated to its employees' use of its healthcare programs.*** Employers with a high number of healthy individuals enrolled in their plans are able to negotiate more favorable premiums with their medical plan providers. However, employers with a less-healthy population, who utilize benefits more frequently can be faced with dramatically higher premium costs.

The university has taken some steps to mitigate the impact of our ongoing healthcare cost increases. Our Human Resources professionals continue to negotiate aggressively with our healthcare vendors to secure the best possible health insurance premiums. And, as noted above, we have made some changes in our medical benefits, such as higher deductibles and copayment amounts, to help hold the line on premium increases.

Yet, in spite of this aggressive management of our programs, it is clear that cost increases of the magnitude we've experienced since 2001 cannot be sustained.

The Impact of Employee Health and Lifestyle Choices - Employers at the national level, including our peer institutions such as Purdue University, University of Michigan and University of Iowa, are taking a close look at the employee health and wellness side of the equation. They are exploring to what extent their employees' health status and lifestyle choices affect not only their healthcare costs, but also the overall productivity and well-being of their employee communities.

Understanding an employee population's health risk factors is a critical input for this review. (Risk factors are conditions and behaviors that increase your chances of developing a more serious disease. For example, obesity can lead to heart disease, type 2 diabetes, stroke and some cancers. The most common employee health risk factors include: 1) Smoking, 2) Obesity, 3) High blood pressure, 4) Sedentary lifestyle, 5) High lipids/cholesterol, 6) Stress/anxiety/depression.

To begin to moderate these employee health risks, many employers are building health management programs and incentives into their healthcare strategies, including employee prevention and wellness programs or disease management programs. This approach is beginning to recognize real results. For example, a recent study on the economic return of employer health promotion initiatives indicated that over a 3-4 year period, employers reduced healthcare costs by 26% and in addition, reduced employee absenteeism by 27% (Larry Chapman, Art of Health Promotion, July/August 2005.).

Given this emerging data, the Committee is clearly interested in exploring the possible outcomes that employee health management programs might have for the university.

The Committee's Purpose and Scope of Work - In spite of the university's healthcare cost challenges, the university embraces its responsibility for providing employees with access to quality, affordable healthcare. In addition, we understand that we must offer a competitive level of health insurance benefits that attracts and retains outstanding employees. However, to sustain the university's ability to support these critical commitments, it is imperative that we focus attention on healthcare issues, explore alternatives, and look for ways to stabilize our healthcare cost situation.

To this end, the OU Contribution Strategy and Health Insurance Options Committee is charged with reviewing and analyzing our current healthcare plan designs, our healthcare plan funding strategies, our competitive position, and the possible effects that employee wellness programs and incentives might have on our current healthcare trends.

The Committee has begun work on two critical areas:

1. **A review of OU's contribution strategy and health insurance options.** We are exploring the best designs for the university's healthcare insurance premiums and benefit plans. Our work will include a comparative analysis of OU's programs against the programs offered by similar major universities, health sciences centers and selected local employers that we compete with for talented employees. In addition, because many of the challenges and problems encountered by the university in managing our healthcare benefits reflect the problems experienced at the national level, we must also develop an understanding of national trends, policies, and legislation.
2. **A review of OU employee health status and health management options.** We are working to understand the university's employee health risk factors. We will analyze to what extent these risks and associated health conditions impact our healthcare costs and consider the possible effects that introducing employee health, wellness and intervention initiatives might have on our employees' health outcomes.

In completing this work, we intend to engage others from the university community and outside experts to provide expertise and feedback. This will help to ensure we build the broadest possible perspective into the recommendations and decisions that affect all of us.

Committee Members - Refer to the Committee's web site www.ou.edu/healthcareoptions for a complete list of members.

Timing of the Committee's Review - The Committee is scheduled to meet every two to three weeks over the next six months, and to issue our initial report in fall 2007. We will provide faculty and staff with monthly briefings on our progress throughout the course of our work. Be sure to refer to the Committee's web site www.ou.edu/healthcareoptions for announcements and updates.

Providing Your Feedback to the Committee - The Committee is committed to communicating with you throughout all phases of our healthcare review. We appreciate the feedback we've received from employees across the university over the past few weeks, and we will continue to welcome your ideas and input to this process. We will provide you with answers to the most frequently raised questions and issues through the Committee's web site www.ou.edu/healthcareoptions on an ongoing basis. If you have questions or wish to express your views with the Committee, feel free to e-mail HealthcareOptions@ou.edu.