

**HOSPITALIZATION AND SURGICAL INSURANCE
FOR STATE EMPLOYEES**

**REPORT OF THE
VIRGINIA ADVISORY LEGISLATIVE COUNCIL**

To

THE GOVERNOR

And

THE GENERAL ASSEMBLY OF VIRGINIA



SD 12, 1972

COMMONWEALTH OF VIRGINIA
Department of Purchases and Supply
Richmond
1971

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HOSPITALIZATION AND SURGICAL INSURANCE
FOR STATE EMPLOYEES

Report of the
Virginia Advisory Legislative Council

Richmond, Virginia
December 1971

To: HONORABLE LINWOOD HOLTON, *Governor of Virginia*
and
THE GENERAL ASSEMBLY OF VIRGINIA:

I. INTRODUCTION

The General Assembly of Virginia at its special session in 1971 directed the Virginia Advisory Legislative Council to study and report upon the matters set forth in House Joint Resolution No. 34, which is as follows:

Whereas, the employees of the State Police, the State Highway Department and the Alcoholic Beverage Control Board, teachers and employees of the school systems and the institutions of higher learning, employees of the health and social services departments of the governmental agencies of the State, and many other State and local government employees participate in a program which offers health and hospitalization insurance on a group basis; and

Whereas, the cost of these programs is a heavy financial burden to these employees of the State and local governments, and their families; and

Whereas, a study of such insurance programs offered in a competitive market may reveal methods of reducing the cost of such insurance to the employees; now, therefore, be it

Resolved by the House of Delegates, the Senate concurring, That the Virginia Advisory Legislative Council make a study and report on the health and hospitalization insurance programs available for adoption for the benefit of State and local government employees, the cost of each to the employees, and the desirability of the benefits offered by each. The report shall recommend programs for adoption by the State and local governments.

All agencies of the State shall assist the Council in its study. The Council shall make its study and submit its report to the Governor and the General Assembly no later than November one, nineteen hundred seventy-one.

The Council requested Russell M. Carneal, one of its members, to act as Chairman of a Committee to make the preliminary study and report its

findings. The following were appointed to serve upon the Committee with Mr. Carneal: Colonel Harold W. Burgess, Superintendent of State Police, Richmond; Clarence E. Forehand, President, South Norfolk Loan Corporation and City Councilman, Chesapeake; John W. Garber, Director of Personnel of the Commonwealth, Richmond; Robert E. Gibson, member of the House of Delegates, Chesapeake; Raymond T. Holmes, Jr., Vice-President, Virginia Commonwealth University, Richmond; and O. E. Kahn, President, Virginia State Employees Association, Inc., and Supervisor, Partnership Taxes, Department of Taxation, Richmond.

The Virginia Advisory Legislative Council and the Division of Statutory Research and Drafting made staff and facilities available to carry out this study; Wildman S. Kincheloe, Jr. and Laurens Sartoris being assigned as counsel to assist the members and the study committee.

The Committee met in executive session, heard from Mr. Garber concerning the activities of the State Health Insurance Committee, appointed to carry out the provisions of Chapter 557 of the 1970 Session of the General Assembly, and received from him copies of specifications and other data needed for putting to bid a State-financed program of health insurance for State employees (see Appendix). A representative of local government, Rick L. Hedrick, Administrative Assistant to the City Manager of Chesapeake, outlined health program problems on the local level.

The Council met, received the report of its Committee and makes its report.

II. RECOMMENDATIONS

A. An employer financed program of health insurance for State employees is imperative immediately. The recommendations of the State Health Insurance Committee and its suggested specifications for a health insurance program provide material upon which indemnifiers may bid and for the cost of which the General Assembly should provide funds.

B. Those localities which do not provide employer-financed health care programs for their employees should be encouraged to do so. The specifications for a program of health insurance developed by the State Health Insurance Committee should be made available to local governing bodies for study and consideration.

III. REASONS FOR RECOMMENDATIONS

The history of attempts to provide an employer-financed program of health insurance for State employees is long and includes an earlier study by the Council in 1946 (Senate Document No. 11). In that Report, the Council also concluded that such a program is desirable. The essential reasons for the need have not lessened with the passage of time and to quote from the earlier report:

“The cost of hospital care is a heavy burden to those in the low salary brackets and they are likely to postpone needed care until more drastic and expensive treatment is needed. Many industries are able to attract and hold employees by offering free hospitalization benefits or participating group insurance plans. The State has many employees in the low salary brackets and can ease their lot materially by defraying part of the cost of a group hospitalization insurance policy such as recommended. . . . Some states have taken this step and many businesses do so. It will materially improve the morale of low-paid State employees.”

In addition to the truths contained in the above statement, it must be realized that over the last quarter of a century it has become routine for employers to finance their employees' health care. Today the Commonwealth is

the only major employer in Virginia which does not at least contribute to the cost of its employees' health insurance. Consequently, the Commonwealth is set at a disadvantage in competing for the most qualified individuals to perform the day-to-day functions of government, and is less likely to keep such employees after they have been hired. The observation should also be made that there is a moral obligation on the part of the Commonwealth to assure that those who devote their talents and abilities to the service of Virginia are compensated adequately and are provided with such benefits as might reasonably be expected from any other employer.

The Council was most fortunate in having supplied to it valuable material from the State Health Insurance Committee. This Committee was appointed by John W. Garber, the Director of Personnel, at the direction of the Governor acting pursuant to Chapter 557, 1970 Acts of Assembly (Appendix), to develop a plan and prepare appropriate specifications that might be used to obtain competitive bids, contingent upon the availability of funds, for an employer-contributed health insurance program. The State Health Insurance Committee retained the services of a consultant, Meidinger and Associates, Incorporated, of Louisville, Kentucky, which firm prepared the requisite specifications as per the Committee's instructions (Appendix). In summary, the plan is designed to provide health care coverage between the 6010 and 7510 options now available from Blue Cross and Blue Shield of Virginia to employees with an eighty to one hundred percent (80% to 100%) contribution toward the cost of same by the Commonwealth. Any employee, at his option, and own expense, might insure his family under the same policy. The advantage of the Commonwealth's sponsoring slightly less than the total cost of the coverage is in discouraging employees who are adequately provided for under a spouse's employer-financed contract from receiving free overlapping coverage which will not benefit the employee and will cause expense to the Commonwealth.

Following the receipt of bids by the Division of Personnel, there will be available the necessary information to determine what the cost of financing the program will be. Then it becomes a matter for the General Assembly to appropriate the needed funds. For all of these reasons we urge that such appropriation be made in order to benefit the State's employees and the Commonwealth as a whole.

We are not unaware of the problems which confront local governments in providing adequate health care coverage for their employees. As a consequence of the legislative directive, testimony was heard on this matter. Most impressive was the material presented by Rick L. Hedrick, Administrative Assistant to the City Manager of Chesapeake, who related his examination of and the problems in developing a health care program for the employees of the city of Chesapeake. That City has a health plan much like that proposed in this report. The fact was stressed that a well-designed health insurance plan provided by the City for its employees has done much to foster high morale, which is conducive to a satisfactory level of work production by the employees. Needless to say, the same problems of low pay, and consequent financial hardship resulting therefrom, apply to local government employees as to State employees.

From the information before us, we can conclude that there is no simple method for structuring a workable program of group health insurance. The feeling is that this matter would be best left for each local governing body to determine for itself in the interest of its employees, thereby tailoring the program to the local need. Here it is felt that much benefit can be derived from examination of the appended specifications, and that these should be made readily available to assist counties, cities and towns in preparing suitable government-financed health care programs.

Of paramount importance is the urgent need to develop an employer-financed health care plan for the employees of the State. Should it be the pleasure of the General Assembly at a future time more fully to consider the health care of local government employees, a study could be directed for this purpose. The need has been recognized and an excellent solution is set before us in the form of the recommendations contained herein and the course of action endorsed hereby.

Respectfully submitted,

ROBERT C. FITZGERALD, *Chairman*

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APPENDIX

GROUP INSURANCE SPECIFICATIONS
FOR
COMMONWEALTH OF VIRGINIA

REPRESENTATIVE LIST OF COMPANIES ELIGIBLE TO BID

1. Aetna Life and Casualty
2. Bankers Life Insurance Company
3. American Casualty
4. Connecticut General Life
5. Continental Assurance
6. Continental Casualty
7. Equitable Assurance
8. John Hancock Mutual
9. Metropolitan Life Insurance Company
10. Travelers Insurance Company
11. Lincoln National
12. Life of Virginia
13. Mutual of Omaha
14. New York Life
15. Occidental Life
16. Prudential Insurance Company
17. Provident Life and Accident
18. Union Labor Life
19. Blue Cross-Blue Shield

COMMONWEALTH OF VIRGINIA

TO: ALL INTERESTED GROUP INSURANCE COMPANIES

The purpose of this letter is to invite you to submit a quotation of Group Insurance benefits based on the specifications which are attached.

Please note that the retention exhibits which are to be prepared must be based on the specified dollar amount of "incurred" claims. Also, please note that all questions must be answered, and that your quotation must be accompanied by a letter signed by an official of your company.

Recognizing the fact that there are very important considerations involved other than initial rates, the State will not be bound to accept the lowest bid. You should also note, that because state funds will be committed to the program we have requested that state premium taxes be expressed as a separate item in your retention. These taxes will not be a competitive consideration.

The following enclosures are included with these specifications:

Exhibit I: Format for Rate Quotation

Exhibit II: Format for Premium and Retention Distribution

Exhibit III: Format for Reserve Analysis

Attachment: Employee Census Data

It should be noted that payroll deductions for coverage under employee pay-all plans will not be allowed after the effective date of the plan described in these specifications.

Division of Personnel
Commonwealth of Virginia

INSTRUCTIONS AND CONDITIONS
FOR SUBMITTING BIDS

1. Bids shall be made in duplicate. The original shall be delivered to Meidinger and Associates, Inc., 1200 E. Broadway, Louisville, Kentucky 40204. The duplicate copy will be delivered to the Personnel Division, Commonwealth of Virginia, Richmond, Virginia. Both copies shall be delivered before 12 Noon of the day for opening (December 1, 1971).

The name and address of the bidder, the number of the bid and the date of opening shall be shown on the envelope containing each bid.

Additional data may be attached to each copy of the bid form and copies must be identical. Requests to make any change in any bid prior to opening hour shall be sent to Meidinger and Associates, Inc.

2. All prices shall be firm. Check your bid carefully because it cannot be corrected after bids are opened. Bidders shall perform at prices quoted, even if in error.
3. The State may accept or reject any or all bids. The State may waive defects in the form of the bid when no prejudice will result to the rights of any other bidder or to the public.
4. If no bid is submitted, this invitation shall be so marked and returned to Meidinger and Associates, Inc.
5. Bidders will be required to submit with their proposal a copy of their master contract(s) insuring coverages to be underwritten.

SECTION I
SPECIFICATIONS FOR THE COMMONWEALTH OF VIRGINIA
EMPLOYEE-DEPENDENT GROUP INSURANCE PROGRAM

SECTION I

SPECIFICATIONS FOR THE COMMONWEALTH OF VIRGINIA
EMPLOYEE-DEPENDENT GROUP INSURANCE PROGRAM

A. GENERAL INFORMATION FOR COMPANIES

1. *State Authority:* House Bill No. 1122, 1970 Acts of General Assembly.

“Be it enacted by the General Assembly of Virginia:

- 1) The Governor is hereby authorized to establish a plan for providing health insurance coverage, which shall include Hospitalization, Medical, Surgical and Major Medical coverage, for State employees on a basis to include State contributions.
- 2) Such contributions shall be financed through appropriations related to personnel services.
- 3) The Governor shall designate the Division of Personnel as his agent to establish and administer such plan as may be approved by him.
- 4) For the purposes of this Act, the term State employee includes State employees as defined in paragraph (5) of 51-111.10 of the Code of Virginia, employees as defined in paragraph (3) of 51-144 of the Code of Virginia, justices and judges of courts of record of the Commonwealth, members of the State Corporation Commission and Industrial Commission, and judges of regional juvenile and domestic relations, county and county juvenile and domestic relations courts of the Commonwealth.”

To clarify Item 4 above, the following Sections are quoted from the 1950 Code of Virginia and/or cumulative supplement.

Section 51-111.10, paragraph (5)—“ ‘State employee’ means any person who is regularly employed full time, on a salary basis, whose tenure is not restricted as to temporary or provisional appointment, in the service of, and whose compensation is payable, not oftener than semimonthly, in whole or in part, by the Commonwealth or any department, institution or agency thereof, including, without limitation, clerks and employees of regional juvenile and domestic relations courts, except (a) an officer elected by popular vote or, with the exception of the Auditor of Public Accounts, the clerks of the State Senate and House of Delegates elected initially after July one, nineteen hundred seventy, and the Director of the Division of Statutory Research and Drafting, by the General Assembly or either House thereof, (b) a judge of a county court, county or city treasurer, commissioner of the revenue, Commonwealth’s attorney, clerk, sheriff, sergeant or constable and, with the exception of employees of county courts, a deputy or employee of any such officer, (c) any employee of a political subdivision of the Commonwealth, and (d) a State police officer of the Department of State Police;”

Section 51-144, paragraph (3)—“ ‘Employee’ means a State police officer.”

2. Qualifications of Bidders

To be eligible to bid the insurance company must meet the following qualifications:

Commonwealth Domiciled Companies

- . Licensed in State of Virginia.
- . Group Health Insurance Earned Premium \$10,000,000. (As of last annual statement).
- . Ten years of experience in Group Insurance business.

Interstate Domiciled Companies

- . Licensed in State of Virginia.
- . Group Health Insurance Earned Premium \$100,000,000. Alternatively \$10,000,000 of premium within State of Virginia. (As of last annual statement).
- . At least one Group and Claim Office located in Virginia and/or willingness to establish Group and Claim Office in Virginia.
- . Fifteen years of experience in Group Insurance business.

3. Coverages

Hospitalization, Medical, Surgical and Major Medical.

4. Contribution Basis

Employees

State to pay 80% to 100% of premium (amount to be determined at a later date).

Dependents

100% contributory.

5. Administration and Claim Payments

State of Virginia

- . Provide monthly census information regarding deletions and additions to the plan. List will include name, payroll number, date of birth, effective date and dependency status.
- . Maintaining records of the employees covered by the insurance.
- . Compile a monthly summary of number insured, by class, so that monthly premium billings or premium adjustments can be made.
- . Each State agency will have the responsibility of designating an insurance representative to handle any State administrative function.

Insurance Company

Administration of plan will be handled by the insurance company, including:

- . Receive, approve, and pay claims (direct payment of claims between insurance company and claimant).
- . Record the total premiums and claims under the case for the annual review and redetermination of rates, dividends or rate credits.

6. *Coordination of Benefits*

Any of the following plans or programs providing benefits or services for hospital or physicians' care or treatment toward the cost of which any employer shall have contributed or with respect to which any employer shall have made payroll deductions:

- . Group, blanket, or franchise insurance;
- . Blue Cross, Blue Shield, group practice, individual practice, or any other prepayment arrangement;
- . Any labor-management trusteed plan, union welfare plan, employer organization plan, or employee benefit organization plan;
- . Any governmental program or coverage required or provided by statute.

Subrogation

When a person receives benefits from negligent party and payments have been made by the insurance company for the same treatment, the insured is obligated to refund the payments.

7. *Hospital*

An institution which meets fully every one of the following tests, namely (a) it is primarily engaged in providing for compensation from its patients and on an in-patient basis diagnostic and therapeutic facilities for the surgical and medical diagnosis, treatment, and care of injured and sick persons by or under the supervision of a staff of physicians, and (b) it continuously provides 24-hour a day nursing service by registered graduate nurses, and (c) it is not, other than incidentally, a place of rest, a place for the aged, a place for drug addicts, a place for alcoholics, or a nursing home.

8. *Employee Census Data (Attached)*

Actual Dependent census data not available, therefore, the following assumptions should be used in your premium calculations:

<i>Census Determination</i>	<i>Percentage</i>
Single	30%
Child or Children only	7%
Spouse only	18%
Family	<u>45%</u>
Total	100%

9. *Enrollment*

The insurance company will prepare enrollment literature describing the plan and will conduct the complete enrollment procedures.

. Initial Enrollment

Eligible employees must enroll (or sign a waiver card) under the program before the first day of the month coinciding with or following the effective date.

If an employee is disabled (not actively-at-work) on the effective date, his enrollment will be deferred until the first day which begins a month on which he is not disabled.

• *Subsequent Enrollment*

Employees hired subsequent to the effective date of the plan shall be eligible for enrollment the first day of the month following the month of hire, and must register either to be enrolled or not to be enrolled before or within 31 days after becoming eligible. The effective date of enrollment will be the first day of the month which begins after the employee's enrollment card is received by the State.

If an employee is disabled on that date his enrollment would otherwise be effective, his enrollment would be deferred until the first day which begins a month on which he is not disabled.

• *Changes in Enrollment—Termination and Suspension of Enrollment*

The insurance carrier selected to underwrite the medical package must have contract flexibility to conform with administrative objectives as set forth by the State of Virginia.

• *Open Enrollment*

During the first 30 days following the first anniversary date, employees who have not previously enrolled may register to enroll and employees who have enrolled may change their enrollment with respect to their dependents classification. In order to register to enroll or change enrollment as described above, however, an employee must be actively-at-work on that date he registers.

Cancellation of Enrollment or of Enrollment with Respect to Dependents

With respect to an employee, cancellation of enrollment may occur at any time. The effective date of cancellation will be the last day of the month in which he registers to terminate coverage.

An employee may cancel his enrollment with respect to his dependents at any time. The effective date of cancellation will be the last day of the month in which he registers to terminate coverage.

10. *Rate Adjustments*

Rate adjustments will become effective on the anniversary date provided six months notice is given in advance.

11. *Commissions*

The State will not appoint an Agent of Record. Based on your group insurance filings, you are to assume the minimum commission scale or, if permissible, no commissions will be payable.

12. *Mode of Premium*

Monthly.

13. *Assumed Effective Date*

Not later than July, 1972.

14. *Proposal Due Date*

December 1, 1971.

15. *Consulting Firm*

Meidinger and Associates
1004 N. Thompson Street
Richmond, Virginia

Direct Inquiries

Meidinger and Associates
1200 E. Broadway
Louisville, Kentucky 40204

Consultant

Thomas L. Tichenor

Telephone

502 583-3871

SECTION II
PLAN SPECIFICATIONS

SECTION II

PLAN SPECIFICATIONS

A. GENERAL PLAN DESIGN

<i>Benefit Component</i>	<i>Coverage</i>
1. <i>Room and Board</i>	The lessor of \$50 per day or the average semi-private room rate.
. Duration	70 days.
. Deductible	Front-end deductible of \$50 <i>per admission</i> for covered hospital charges. For same or related treatment and readmission within 14 days not subject to deductible.
2. <i>Miscellaneous</i>	Paid in full.
. Duration	Refer to above.
. Deductible	Refer to above.
3. <i>Surgical</i>	\$600 Surgical schedule.
4. <i>Maternity</i>	
. Hospitalization	7 days in full. (Not subject to \$50 deductible—Room & board limitation applies).
. Obstetrical Care:	
Normal Delivery	\$150.
Caesarean Section	\$300.
Miscarriage	\$50.
5. <i>Medical Expense</i>	\$15 the 1st day—\$10 the 2nd day—\$5 thereafter up to a maximum of \$365.
6. <i>Diagnostic, X-Ray and Laboratory Services</i>	\$100 scheduled.
7. <i>TB, Drug, Alcoholism, Nervous and Mental</i>	70 days in any 12 month period.
8. <i>Major Medical</i>	
. Aggregate Lifetime Maximum	\$20,000
. Deductible	\$ 100
. Coinsurance	80%—20%
. Automatic Restoration	\$ 2,000

B. *DETAILS OF COVERAGE*

All quotations of plan benefits shall be based upon specifications described herein. If for any reason underwriting rules preclude specification requirements, describe in detail each deviation in your quotation and indicate your reasoning therefor. Minor differences need not be indicated so long as there are no substantial differences in benefits.

1. *Underwriting Information*

(a) *Eligibility*

. *Classified Service Employees*

All full-time classified employees working a minimum of 40 hours per week.

. *Teaching and Research Employees*

All full-time employees credited with sufficient hours of work as determined by the employing agency.

. *Retired Employees*

No employees will be eligible for benefits once retired (mandatory retirement date age 70).

NOTES: Other employees by definition will be eligible to participate as spelled out in Section I, page 1 and 2 of these specifications.

Employees *may* remain employed to the end of the fiscal year in which he attains age 70 or past age 70 by statutory exception (very few employees involved).

(b) *Dependent Definition*

“Dependent” means:

- . In the case of any male or female employee, spouse or unmarried children *from* birth to 19 years of age. Unmarried children over age 19 but under 23 are eligible provided they are in school and depend primarily on the employee for support.

No person in military service will be considered a dependent.

No person will be covered as both an employee and a dependent, and no person shall be considered as a dependent of more than one employee.

The word “children” includes the employee’s own children and legally adopted children, step-children who reside in the employee’s household, children supported by the employee and permanently residing in the household of which the employee is the head and the employee’s own and legally adopted children, not residing in the employee’s household but for who the employee is financially responsible.

(c) *Effective Date of Individual Insurance*

. *Employee*

Present employees effective date will be immediately

provided that enrollment procedures mentioned previously are met.

The effective date of subsequent employees will be the 1st day of the month following the date of employment; provided, however, the employee is actively-at-work and their dependents are not confined in a hospital on the date the insurance would otherwise become effective.

. *Dependent*

Each dependent becomes eligible for insurance on the latest of the following dates:

The date of issue of the policy; (date insured makes written application for dependent coverage); or

The date he is eligible for insurance; or

The effective date of the dependents insurance under the policy; or

The date the employee first acquired a dependent.

(d) *Pre-Existing Conditions*

Waived on initial group to enroll. Covered hospital and other medical expenses for future eligible employees incurred in connection with any pre-existing conditions during the first 12 months the insurance is in force are not included as covered medical expenses. A pre-existing condition is any injury or disease for which an insured member either receives treatment or services or took prescribed drugs or medicine during the 3 month period preceding the effective date of the insurance. However, for any sickness or injury existing prior to coverage, the first benefit period may begin after 90 days without medical expense for such pre-existing conditions with this 90 day period ending on or after the effective date of coverage.

(e) *Termination of Employee Benefits*

. Termination of employment, i.e. cessation of active full-time work for the employer, in the classes eligible for insurance; or

. Modification of the contract to terminate insurance on the class of employees to which he belongs; or

. Termination of policy.

(f) *Termination of Employment*

The date of termination of employment of an employee shall be the date the employee ceases full-time work as an employee; provided, however, for the purposes of insurance under this policy,

If an employee or one of his dependents are totally disabled at the time the insurance terminates, benefits will continue to be available for expenses incurred by the disabled person during the continuation of the disability for a maximum period ending 3 months and 12 months for the Basic plan and Major Medical respectively following such termination of insurance, but in no event beyond the date the disabled person becomes covered under any other type plan providing similar benefits; or

- . If an employee ceases work pursuant to a leave of absence granted in the usual course of the employee's business, his employment shall deem to be continued for 3 months (maternity leave of absence not subject to the restriction); or
- . If an employee ceases work because of temporary lay-off, his employment shall deem to continue during such temporary lay-off but not to extend beyond 3 months; or
- . If an employee ceases full-time work because of a change to a part-time work or limited services, benefits will cease immediately.

(g) *Existing Hospital-Surgical-Medical-Major Medical Plan*

Presently, there is a State-wide plan(s) which has the following characteristics:

- . Underwriter—Blue Cross-Blue Shield, Richmond, Virginia.

. Approximate number insured—21,000.

. Type of Optional Plans—	<i>Blue Cross</i>	<i>Blue Shield</i>
	Basic	4010 series 6010 series 7510 series
	With \$50 Deductible	4010 series 6010 series 7510 series

- . Cost—No contributions toward cost of the plan is made by the Commonwealth of Virginia.

. Present Rates (3/70 through 2/71)

<i>Multiple Rating</i>	<i>B.C. Basic B.S. 4010</i>	<i>Blue Cross B.S. 6010</i>	<i>Blue Cross B.S. 7510</i>
Subscriber only	\$14.94	\$15.28	\$15.72
Subscriber & 1 minor	22.52	23.04	23.70
Subscriber & Family	35.52	36.70	38.26

With \$50 Deductible

Subscriber only	10.90	11.24	11.68
Subscriber & 1 minor	16.48	17.00	17.66
Subscriber & Family	25.66	26.84	28.40

Review of Experience (from 3/70 through 2/71)

Subscription Income	\$6,509,813.13
Paid Claims	5,959,796.77

NOTES: Above information does not include Major Medical statistics (not available).

In addition, there are employees-dependents covered under other Blue Cross-Blue Shield organizations. Number insured, claims paid, subscription income information not readily available.

(h) *Rating Basis*

Proposal should be prepared using a “composite” rating basis. Alternatively, indicate the premium for the following multiple rating basis: (i) single, (ii) child or children, (iii) spouse only, and (iv) family.

Assume for calculation purposes that 30% of the employees are single, 7% child or children, 18% spouse only and 45% family.

(i) *Definition of Benefits*

. *Room and Board Charges*

Room and board charges include the hospital’s actual charges for room and board and other charges made by the hospital in its own behalf at a daily or weekly rate for other hospital services and supplies, or which are regularly made by the hospital as a condition of occupancy of the class of accommodations used.

Intensive care shall be included as any other admission, e.g., \$50 deductible and 70 day limitation.

The proposal shall use a \$50 front-end deductible for purposes of completing the premium distribution and retention and reserve exhibits. Alternatively, submit the unit rate for a \$100 front-end deductible.

. *Miscellaneous Charges*

Miscellaneous charges include the actual charges, other than those made for room and board for services and supplies required, for and rendered in direct connection with the treatment of the individual insured. For example, the following would be considered miscellaneous charges:

- General Nursing Care
- Oxygen and Oxygen Tent
- Laboratory Services
- Electrocardiograms
- Radiological Services
- Medication and Drugs
- Other durable medical or surgical equipment used exclusively for therapeutic treatment
- Professional Ambulance Service

. *Surgical*

If, as a result of a non-occupational injury or disease, a surgical procedure is performed on an employee, etc. by a physician or physicians, the employee will be entitled to payment of the surgical fees charged by an operating physician (but not including any fee charged by a resident physician or intern of a hospital) up to the maximum amount indicated in the schedule of procedures for the surgical procedure performed. A typical 600 surgical schedule might

include the following dollar value for selective surgical procedures:

\$600 Surgical Schedule

Appendectomy		\$200
Brain Tumor		600
Tonsillectomy		80
Hemorrhoidectomy (Internal)		
Without fistulectomy		160
With fistulectomy		200
Mastectomy		
Total		100
Radical		150
Labectomy		
Total		600
Wedge Resection		450
Accidental Laceration of Skin Structures		
1 inch or less		30
More than 1 inch up to 2 inches		40
	<i>Closed</i>	<i>Open</i>
Dislocations	<i>Reduction</i>	<i>Reduction</i>
Elbow	80	200
Shoulder	70	250
Obstetrics		
Normal Delivery		150
Caesarean Section		300
Miscarriage		50
Commissurotomy or Valvotomy		600

Charges in excess of the scheduled amounts shall be reimbursed under the Major Medical plan subject to the deductible amount and coinsurance factor.

Maternity Benefits

Maternity benefits will be provided on a switch maternity basis. Benefits will be payable for pregnancy which commences while insured. Pregnancies which commenced while an individual was insured under a prior sponsored Commonwealth of Virginia medical plan will be given credit towards satisfaction of the nine month waiting period, unless benefits under the prior plan are extended. No extended maternity and obstetrical benefits provided upon termination of insurance.

Diagnostic X-Ray and Laboratory Expense Benefit

Scheduled basis.

Proposal should use a scheduled DLX benefit basis for purposes of completing the premium distribution and retention and reserve exhibits.

If an employee or one of his insured dependents incurs expenses for a laboratory or x-ray examination for diagnosis of a non-occupational injury or disease, the employee will be entitled to reimbursement for the expenses actually incurred for the examination. Where two or more examinations are involved, payment will be made for each examination, but

not more than the maximum amount specified in the plan will be paid for all examinations made during any one calendar year, whether involving related or unrelated causes.

Alternatively, submit the rate for an unscheduled DXL benefit.

Benefits will not be payable for:

Examinations received in or through a hospital except in connection with out-patient care for which no hospital expense benefit of any kind is payable on account of the examination.

Dental x-ray except in case of accidental bodily injury.

Examinations in connection with pregnancy, childbirth or miscarriage.

Medical Expense Benefit

In-hospital medical benefits will commence with the first day of confinement and will be payable up to the date of surgery. In case of surgery, no benefits will be payable for the hospital calls made by a physician other than the operating surgeon or his assistant.

Major Medical Expense Benefit

Maximum Aggregate Limit

\$20,000.

Annual Reinstatement of Benefits

At any time after benefits paid to an individual insured equal or exceed \$2,000, benefits may be restored to its full amount provided such individual has furnished (without expense to the company) such evidence of his insurability as may be required by the company; and such evidence of insurability has been approved by the company.

Automatic Annual Reinstatement

Notwithstanding the above, an automatic annual reinstatement of benefits previously paid will be made each calendar year, for each family member, but not to exceed \$2,000 of the aggregate lifetime benefit. This automatic annual reinstatement of benefits will not apply for benefits paid for treatment of drug addiction and alcoholism.

Private Room Limit

Hospital's average semi-private charge.

Deductible

An all cause, calendar year deductible will be applicable to the plan.

Family Deductible

There will be a family deductible limit of \$300 per calendar year. Expenses incurred in the last 3 months of

a calendar year may be applied toward the satisfaction of the deductible for the preceding calendar year (does not apply to family deductible).

Coinsurance Factor

The coinsurance factor will be 50% for expenses incurred for mental and nervous disabilities, drug and alcoholism, while not confined in a hospital, otherwise the coinsurance factor will be 80%.

The following items will be covered but not necessarily limited to the following Major Medical Expenses:

- a) Charges of legally qualified physician.
- b) Board and room and miscellaneous charges of a hospital. If private accommodations are used, however, the excess for the daily board and room charge over the hospital's average semi-private charge are not counted.
- c) Charges of a registered nurse other than a nurse who ordinarily resides in the employee's home or who is a member of the employee's or the employee's spouse's family.
- d) Charges for drugs and medicines obtainable only upon a legally qualified physician's prescription.
- e) Charges for diagnostic x-ray and laboratory examination.
- f) Charges for x-ray, radium and radioactive isotopes therapy.
- g) Anesthesia and oxygen.
- h) Rental of durable medical and surgical equipment such as iron lungs, wheel chairs, braces, etc.
- i) Artificial limbs and artificial eyes but not eye examinations or eye glasses or hearing aids.
- j) Professional ambulance service to and from the hospital and from one hospital to another if necessary for treatment.
- k) Charges as listed above for the following complications of pregnancy:

Extra-uterine pregnancy or complications requiring intra-abdominal surgery after termination of pregnancy.

Pernicious vomiting of pregnancy.

Toxemia with convulsions.

(j) *Medicare Benefits*

Over 65 Medicare benefits for active employees age 65 and over and for eligible spouses 65 and over will be subject to a "maintenance of benefits approach". The benefits payable under this approach will be:

- . The benefits which would be payable in the absence of Medicare under the group insurance plan

LESS

The benefits that are provided for under Medicare with respect to the charges reimbursable under the group insurance plan. Eligible for Medicare means eligible for Part A or Part B, whether or not the individual actually enrolls.

(k) *Conversion Privilege*

The plan will provide for "conversion" whenever the employee or eligible dependent is no longer eligible under the Group policy. The conversion policy will terminate when the covered individual becomes eligible for Medicare.

(1) *Exclusions*

The plan will contain the carrier's usual exclusion for services or benefits provided by government agencies.

The plan will also exclude:

- . Charges which the employee is not, in the absence of insurance, legally obligated to pay.
- . Charges in connection with occupational accidents or diseases.
- . Services or supplies not recommended and approved by a legally qualified physician.
- . Services and supplies received in connection with routine physical examinations.
- . Charges to the extent they are not reasonable and customary.
- . Services and supplies that are not necessary for treatment of injury or disease.
- . Expenses in connection with dental work or cosmetic surgery which are not necessary for the prompt repair of injuries caused by an accident occurring while insured.

SECTION III
RATE QUOTATION,
RETENTION AND RESERVE EXHIBITS

SECTION III
RATE QUOTATION,
RETENTION AND RESERVE EXHIBITS

1. Complete the Rate Quotation Exhibit I.
2. Complete Retention Exhibit II and Reserve Exhibit III.
3. Retention and Premium Distribution Instructions:
 - Premiums are to be based on the employee data attached (assuming 100% of employees insured and applicable dependent % factors previously mentioned).
 - The insurance company will prepare enrollment literature describing the plan and will conduct the complete enrollment including explaining the plan to employees prior to the effective date.
 - The policyholder will provide the insurance company on a monthly basis lists of insured employees including necessary data to determine eligibility for benefits.
 - The insurance company will provide services and facilities for settlement of claims dealing directly with employees. The insurance company will certify eligibility for benefits from the list provided by the policyholder. The insurance company will determine benefits payable, make any necessary investigations or obtain any supplemental medical verification, issue claim drafts to employees (or assign to hospital) and maintain claim files. The policyholder will *not* be involved in claim settlement in any way.
 - The charges reflected in your retention illustration should be all inclusive. All expenses in connection with the implementation and administration of the plan are to be included.
 - Bid analysis will have a Premium Tax equalization factor applied in evaluating and comparing bids of tax exempt and non-exempt carriers. However, include estimated Premium Tax in Retention charges.
 - The following Incurred Claim figure is to be used in each of the first five years—\$14,000,000.

EXHIBIT I

RATE QUOTATION FORM

<i>COVERAGE</i>	<i>UNIT RATES *</i>	<i>PREMIUM REQUIREMENTS</i>	
		<i>MONTHLY</i>	<i>ANNUAL</i>
<i>COMPOSITE RATING</i>			
<i>EMPLOYEE:</i>			
Basic Medical Plan	_____	_____	_____
Major Medical	_____	_____	_____
GRAND TOTAL	_____	_____	_____
<i>DEPENDENTS:</i>			
Basic Medical Plan	_____	_____	_____
Major Medical	_____	_____	_____
GRAND TOTAL	_____	_____	_____

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ALTERNATE RATE QUOTATION

<i>MULTIPLE RATING CLASS</i>	<i>CLASS</i> %	<i>UNIT RATES</i>	<i>PREMIUM REQUIREMENTS</i>	
			<i>MONTHLY</i>	<i>ANNUAL</i>
Single	30%	_____	_____	_____
Child or Children	7%	_____	_____	_____
Spouse Only	18%	_____	_____	_____
Family	45%	_____	_____	_____
GRAND TOTAL		_____	_____	_____

NOTES: After discounts for size of case or premium.

With respect to the alternate benefit structures requested, i.e., \$100 front-end deductible applicable to room and board benefits and unscheduled DLX benefits, separately indicate the unit rate for each coverage.

EXHIBIT II

PREMIUM DISTRIBUTION AND RETENTION ANALYSIS

	First Year		Second Year		Third Year		Fifth Year		Five Year Average	
	Dollar Amount	% of Paid Prem.	Dollar Amount	% of Paid Prem.	Dollar Amount	% of Paid Prem.	Dollar Amount	% of Paid Prem.	Dollar Amount	% of Paid Prem.
1. PAID PREMIUM DISTRIBUTION AS FOLLOWS:	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
2. RETENTION										
A. Charges										
Premium Taxes	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Commission	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Contingency Reserves	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Administration & Claim Settlement Expenses	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Other Charges, if any	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
B. Credits	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
TOTAL NET RETENTION	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
3. POOLING CHARGE	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
4. INCURRED CLAIMS	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
5. DIVIDEND OR RETROACTIVE RATE CREDIT	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
6. NET PREMIUM	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____

NOTE: Items 2, 3, 4 & 5 must equal 1.

Meidinger and Associates, Inc.
1200 E. Broadway
Louisville, Kentucky 40204

EXHIBIT III

RESERVE ANALYSIS

	<u>First Year</u>		<u>Second Year</u>		<u>Third Year</u>		<u>Five Year</u>		<u>Five Year Average</u>	
	<u>Dollar Amount</u>	<u>% of Paid Prem.</u>	<u>Dollar Amount</u>	<u>% of Paid Prem.</u>	<u>Dollar Amount</u>	<u>% of Paid Prem.</u>	<u>Dollar Amount</u>	<u>% of Paid Prem.</u>	<u>Dollar Amount</u>	<u>% of Paid Prem.</u>
<u>RESERVE</u>										
<u>A. CHARGES</u>										
<u>1. Current Year's Reserve</u>										
Pending & Incurred but Unreported Life Claims	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Waiver of Premium	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Pending & Incurred but Unreported Casualty Claims	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Other Reserves	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
TOTAL CHARGES	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
<u>B. CREDITS</u>										
<u>1. Previous Year's Reserve</u>										
Pending & Incurred but Unreported Life Claims	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Waiver of Premium	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Pending & Incurred but Unreported Casualty Claims	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Other Reserves	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
TOTAL CREDITS	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____

Meidinger and Associates, Inc.
1200 E. Broadway
Louisville, Kentucky 40204

SECTION IV
QUESTIONNAIRE

SECTION IV

QUESTIONNAIRE

1. *GENERAL*

- Explain how you would assist in and the procedures you would use in communicating the plan to the State employees.
- Confirm that your retention exhibit is based exactly on the assumptions outlined in these specifications. Any exception must be indicated.
- State your Company's policy relative to benefit payments for treatment by recognized non-medical practitioners, such as Christian Science Practitioners, Chiropractors, and others.
- If applicable, what would be the % of reimbursement of covered expenses for non-participating Hospitals? If any difference over participating Hospitals, would you be willing to waive restrictions?
- Indicate insurance company group health experience by setting forth the following:

	<i>Number of Contracts</i>	<i>Premium Income</i>
Basic Medical	_____	_____
Major Medical	_____	_____

2. *SERVICE FACILITIES*

Describe the facilities you have and the services you will provide in connection with:

The initial enrollment and continued servicing of the plan (indicate the locations and number of full-time Home Office group field specialists in the Commonwealth.

3. *ADMINISTRATION*

- Indicate the location of field claim offices handling group claims in the Commonwealth and the total number of persons settling group claims.
- Include a description of your experience in developing and administering special claim systems, particularly with regard to systems of direct payment of claims and describe in detail your claims cost-control procedures including computer printouts.
- What would be your procedure for hospitalization claim handling under the program? Be specific and chart the flow of claims from the inception to final payment. What is the estimated length of time for the claim cycle to be completed for the routine claim assuming no delay and complications.
- What arrangement or procedure could be made for the guarantee of benefits to the hospital to insure admission of the employee and/or dependents? What type of identification card would be available? Include a

sample of the types of identification cards that can be issued by your company?

- If your company should be awarded the case, approximately what length of time will be required from date the case is awarded to the date booklets, identification cards can be furnished.

4. *RATES—RETENTION, etc.*

- Explain the operation of your current dividend or distribution formula with respect to such factors as pooling of claim experience and degree of credibility, etc. as applicable to this plan.
- Approximately how soon following an anniversary date would payment of the dividend, if applicable, be made?
- How long will the initial rates be in effect considering the characteristics of the plan? Are the rates quoted to apply on the effective date though the final census data may be different? If one-half of employee assumptions materialize, what effect would it have on the unit rates, etc.?
- Indicate the basis for any advance discounts or rate reductions reflected in the billed premium.
- Do you make an additional charge of any kind in the event the group policy is terminated?

5. *RESERVES*

- Explain the nature and purpose of any reserves which will be established under the master contract. Describe the basis for calculating these reserves and the ultimate ownership of amounts held if termination occurs on or off an anniversary date.
- Do you pay interest on required reserves? At what rate? Is interest credited directly or through the dividend formula? If each or any reserve is treated differently, explain in detail.
- If the Commonwealth decides to maintain refunds, if any, paid in Special Reserves held by the carrier to offset future adverse claim fluctuations, how would you handle this reserve? What interest would be payable? In the event of cancellation of the plan, how would the reserve be disposed of?

6. *CLAIMS*

- Under your accounting system, what is your definition of paid claims in preparing your annual statement?
- What conversion charges, if any, do you include as a paid claim?
- In determining the total incurred claims, do you include any charges other than paid claim reserves?

ATTACHMENT A

1970 STATE EMPLOYEES DATA

<u>SALARY RANGE</u>	<u>MALE</u>	<u>SALARY</u>	<u>FEMALE</u>	<u>SALARY</u>	<u>TOTAL</u>	<u>TOTAL SALARY</u>
Under 3,000	6	\$ 11,680	44	\$ 120,650	50	\$ 132,330
3,000 to 4,000	2,261	8,229,624	3,573	12,927,093	5,834	21,156,717
88 4,000 to 5,000	3,668	16,616,755	6,927	31,462,173	10,595	48,078,928
5,000 to 6,000	5,978	32,687,727	5,167	28,407,390	11,145	61,095,117
6,000 to 8,000	6,724	46,255,565	3,501	24,098,541	10,225	70,354,106
8,000 to 12,000	7,081	66,748,093	2,605	23,902,393	9,686	90,650,486
12,000 to 20,000	3,098	44,586,184	449	6,147,415	3,547	50,733,599
20,000 and Over	<u>432</u>	<u>9,945,228</u>	<u>29</u>	<u>653,096</u>	<u>461</u>	<u>10,598,324</u>
TOTAL	29,248	\$ 225,080,856	22,295	\$127,718,751	51,543	\$352,799,607

ATTACHMENT A
1970 STATE EMPLOYEES DATA

MALE STATE EMPLOYEES			FEMALE STATE EMPLOYEES			TOTAL STATE EMPLOYEES		
AGE	NBR	SALARY	AGE	NBR	SALARY	AGE	NBR	SALARY
17	1	\$ 3,456	17	3	\$ 12,384	17	4	\$ 15,840
18	25	90,888	18	66	256,452	18	91	347,340
19	162	658,260	19	370	1,497,324	19	532	2,155,584
20	223	956,736	20	560	2,356,191	20	783	3,312,927
21	272	1,230,000	21	764	3,341,120	21	1,036	4,573,120
22	423	2,091,072	22	878	4,127,099	22	1,301	6,218,171
23	660	3,586,947	23	1,119	5,707,071	23	1,779	9,294,018
24	618	3,505,092	24	956	5,239,850	24	1,574	8,744,942
25	683	4,089,640	25	780	4,448,489	25	1,463	8,538,129
26	777	4,982,663	26	687	4,045,703	26	1,464	9,028,366
27	888	6,127,891	27	662	3,923,848	27	1,550	10,051,739
28	870	6,330,771	28	601	3,524,032	28	1,471	9,854,803
29	785	5,799,494	29	474	2,779,644	29	1,259	8,579,138
30	729	5,466,826	30	471	2,879,790	30	1,200	8,346,616
31	739	5,823,077	31	418	2,481,472	31	1,157	8,304,549
32	788	6,300,531	32	389	2,281,569	32	1,177	8,582,100
33	717	5,832,525	33	394	2,339,037	33	1,111	8,171,562
34	643	5,177,748	34	388	2,271,809	34	1,031	7,449,557
35	709	5,952,545	35	384	2,239,128	35	1,093	8,191,673
36	666	5,617,247	36	408	2,386,981	36	1,074	8,004,228
37	602	5,255,185	37	384	2,287,563	37	986	7,542,748
38	652	5,617,047	38	411	2,460,124	38	1,063	8,077,171
39	633	5,477,844	39	388	2,256,620	39	1,021	7,734,464
40	633	5,229,164	40	435	2,582,536	40	1,068	7,811,700
41	665	5,628,730	41	403	2,375,007	41	1,068	8,003,737
42	682	5,606,280	42	383	2,215,175	42	1,065	7,821,455
43	728	6,122,505	43	477	2,845,363	43	1,205	8,967,868
44	593	5,044,086	44	433	2,583,181	44	1,026	7,627,267
45	695	5,736,957	45	500	3,032,780	45	1,195	8,769,737
46	704	5,900,142	46	493	2,919,642	46	1,197	8,819,784
47	693	5,811,197	47	451	2,588,894	47	1,144	8,400,091
48	680	5,627,131	48	494	2,975,038	48	1,174	8,602,169
49	704	5,677,684	49	526	3,088,626	49	1,230	8,766,310
50	726	5,928,537	50	494	3,051,191	50	1,220	8,979,728
51	666	5,328,919	51	450	2,650,312	51	1,116	7,979,231
52	648	5,093,805	52	489	2,909,227	52	1,137	8,003,032
53	645	5,029,821	53	436	2,623,344	53	1,081	7,653,165
54	652	5,008,878	54	411	2,514,045	54	1,063	7,522,923
55	629	4,644,513	55	407	2,362,550	55	1,036	7,007,063
56	606	4,661,610	56	398	2,373,277	56	1,004	7,034,887
57	635	4,978,169	57	399	2,444,069	57	1,034	7,422,238
58	590	4,571,468	58	369	2,269,819	58	959	6,841,287
59	591	4,420,265	59	335	2,058,351	59	926	6,478,616
60	600	4,687,101	60	323	2,082,397	60	923	6,769,498
61	481	3,773,554	61	283	1,703,267	61	764	5,476,821
62	429	3,282,603	62	230	1,469,660	62	659	4,752,263
63	373	3,114,755	63	180	1,171,322	63	553	4,286,077
64	271	2,247,548	64	156	1,039,635	64	427	3,287,183
65	243	2,102,241	65	126	908,490	65	369	3,010,731
66	153	1,343,929	66	76	513,235	66	229	1,857,164
67	93	880,239	67	74	484,370	67	167	1,364,609
68	74	692,666	68	35	240,560	68	109	933,226
69	46	383,466	69	39	252,728	69	85	636,194
70	41	410,680	70	19	125,244	70	60	535,924
71	13	112,728	71	15	112,436	71	28	225,164
73	1	26,000	79	1	7,680	73	1	26,000
						79	1	7,680

29,248 \$225,080,856

22,295 \$127,718,751

51,543 \$352,799,607

