REPORT OF THE
DEPARTMENT OF PERSONNEL AND TRAINING

State Employee Health Benefit Plan Feasibility Study

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA



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COMMONWEALTH OF VIRGINIA
RICHMOND
1989

COMMONWEALTH OF VIRGINIA
STATE EMPLOYEE HEALTH BENEFIT PLAN
FEASIBILITY STUDY

EXECUTIVE SUMMARY

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October 1988

COMMONWEALTH of VIRGINIA

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December 15, 1988

TO: The Honorable Gerald L. Baliles
Governor of Virginia

and

The General Assembly of Virginia

The 1988 Appropriation Act requested the Department of Personnel and Training to commission a comprehensive study of the health insurance needs of state retirees, local employees, constitutional officers and their employees and teachers.

Enclosed for your review and consideration is the report that has been prepared by the Martin E. Segal Company in response to this request.

Respectfully submitted,

Chong M. Pak

Chong M. Pak

EXECUTIVE SUMMARY

Introduction and Background

This report provides a summary of the most significant elements of the findings contained in the accompanying report titled A Study of the Feasibility of Expanding the State Employee Health Benefits Program. The study was commissioned by the General Assembly of the Commonwealth of Virginia in response to growing concern over the rapidly increasing cost and limited availability of health care coverage for a variety of public employee groups throughout the State. This summary is intended to complement the full text by highlighting the central themes expressed in that report.

The specific groups identified for inclusion in this study included employees of school districts and local governments, constitutional offices, part-time employees and finally, retirees.

Methodology and Findings

Using survey techniques to elicit information from local government entities throughout the State, and demographic data provided by VSRS, we obtained input from 247 employers representing over 163,000 employees. In addition, personal visits were made to obtain the input of nineteen groups including towns, cities, counties and school districts, and other interested parties such as the

Virginia Education Association, Virginia School Board Association, Virginia Municipal League, Virginia Association of Counties, the Compensation Board, the Virginia Governmental Employees Association, and others, to gain a clear understanding of the prevailing attitudes of various groups.

The specific comments of these groups and the detailed analysis of survey responses by type and size of the employing entity are presented in the report. The critical findings are as follows:

1. There is widespread interest in joining the State Employee Health Benefits Program or a similar consolidated program. This interest is directed to securing greater rate stability through pooling claims experience, and to reducing administrative and retention charges through economies of scale.

2. The average premiums paid by all groups with health care programs were roughly equivalent to the cost of the State Employee Health Benefits Program for similar coverage classes. Wide variations exist, however, when plan costs are analyzed by employer size and plan design.

3. Because of the diverse scope of benefit plan coverage and the wide variation in public employers' willingness and ability to pay for coverage, extensive participation as dependant upon the provision

of a range of benefit plans with a corresponding range of premium rates.

4. The widespread interest in participating in some form of statewide program is generally tempered by a "wait-and-see" attitude that would allow prospective new groups to fully weight the cost and benefits of such a plan before committing to enrollment.

Citing these among other factors, we have determined that sufficient interest exists to conclude that the creation of an expanded State Program or a consolidated public employee health benefits program is conditionally feasible. The conditional aspect of its feasibility will depend upon the plan design which will impact participation. Ultimately, the cost efficiency of an expanded program is directly related to the level of participation.

Policy Consideration

Should the General Assembly authorize expanded participation in a State Program, the range of options for the State varies from simply expanding the current program, to the creation of a full scale program designed to maximize resources allocated to health care coverage. Using the limited approach, small plans in particular would benefit by allowing them to achieve a reduction in costs currently being paid out as part of their annual administration or retention charges. This option could be expanded to any or all of the study target groups in any of a variety of combinations. If only small plans with

poor experience participate, however, adequate safeguards would need to be adopted to prevent the costs of the State program from being negatively effected by rising costs of benefits and the addition of staff necessary to perform administrative functions not presently required.

Alternatively, were the State to adopt a broad-based program, it should contain cost and quality controls and be designed to encourage the greatest possible participation in order to achieve the greatest long-term savings. The report provides a detailed review of policy considerations inherent in the development of such a program. Legislative issues, structural considerations (both design and administrative), alternatives for placement of administrative responsibility (ranging from an expansion of resources assigned to the Department of Personnel and Training, to potential involvement by VSRS to the creation of an entirely new agency) are among the issues explored. Financial incentives to encourage participation are also discussed.

Retiree Benefits

The other major focus of the report involved an actuarial analysis of the cost of retiree health care coverage. Retiree health care is one of the most serious public policy issues of our time. Medicare has been restructured recently and plan design changes have been proposed for adoption by the State program.

Given the increasing interest in this topic we were asked to examine the cost of both the cash-flow or "pay-as-you-go" approach currently in use and a prefunding approach. Retiree health care costs are generally examined in two categories under age 65 and 65 and over. At present, the State pays no direct subsidy for either group. Nevertheless, retirees under age 65 benefit tremendously from the pooling of their premium rates with the entire active employee population, even though their average costs are as much as 50% greater. The value of that indirect subsidy has been determined to be approximately $2.4 million in 1989 and it will grow to $5.6 million by 1998.

For retirees over age 65 we were asked to calculate the cost of providing some form of relief from increasing costs using a service based subsidy. The subsidy which was developed proposes a contribution equal to $1 per year of service per month indexed by 5% per year as a partial hedge against inflation. The annual cost of that subsidy is projected to be $4.6 million in 1989 and to rise to $8.9 million in 1998 on a pay-as-you-go basis. These estimates equal approximately 0.3% of payroll in 1989, rising slightly to 0.4% of payroll in 1998.

The contrast between the costs of pay-as-you-go and a prefunding approach are clearly demonstrated by looking at the same benefit subsidy on a prefunded basis. Using a level amortization approach which provides for equal annual payments over each of the next 40 years, the cost of prefunding this benefit is equal to 0.8% of payroll in 1989, falling slightly to 0.7% of payroll in 1998, due to expected expansion of the State payroll. If an alternative amortization

method is used which calls for contribution of a constant percentage of payroll over the 40 year period, the constant percentage is 0.7%.

Other Items

Our report concludes with a possible implementation schedule (assuming the adoption of the most ambitious approach to expanding the State program). Supplementing the report is a set of Appendices which provides detailed analysis of the material discussed throughout the report. In addition, two special sections are provided. The first offers guidance on the possible implementation of a flexible compensation program to permit payment of employee contributions on a pre-tax basis. The second attempts to set forth the requirements necessary for a consolidated plan to comply with Section 89 of the Internal Revenue Code.

COMMONWEALTH OF VIRGINIA
STATE EMPLOYEE HEALTH BENEFIT PLAN
FEASIBILITY STUDY

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SPECIAL ACKNOWLEDGEMENTS

Any study of this magnitude requires the cooperation of a great many people. In this case the efforts of hundreds of people were necessary to collect the data which served as the basis of the most crucial aspects of the study. Although designed as simply as possible, in most cases completion of the survey required the respondent to research historical coverage and contribution files. Our sincere appreciation goes out to the policy makers and staff of the local municipalities and school districts who completed and returned the survey forms in a timely manner.

A second group which deserves recognition were the elected and appointed officials and staff, and other interested parties who took time from their busy schedules to meet with members of the survey team and lend their own special perspective to the study so that we might better understand and represent their needs in the report. These people were selected to ensure broad participation by a full range of interested and potentially effected groups. Special attention was paid to obtaining a representative cross-section of opinions both geographically and by size, in addition to seeking input from special interest groups including educators, municipal and county governments and Constitutional Officers. The specific concerns of these groups are described in the text of this report.

We would like to thank Becky Covey, Senior Legislative Fiscal Analyst for the Joint Legislative Audit Review Committee, for her patient explanation of the intricacies of the school aid reimbursement formula.

A special acknowledgement is also due to the efforts of the Virginia Supplemental Retirement System which, under the direction of Glen Pond and Wallace G. Harris, provided the primary source of demographic information used to develop cost and ultimate potential participation projections.

Finally, we would especially like to express our appreciation to the Department of Personnel and Training, specifically to Dr. Chong M. Pak, Director, and Anthony C. Graziano, Manager, State Employee Health Benefits Program, whose general guidance, assistance in the identification of available resources and overall comprehension of the State Employees Health Benefit Program facilitated the timely completion of this study.

MARTIN E. SEGAL COMPANY

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I. BACKGROUND AND INTRODUCTION

A. BACKGROUND

Over the past several years, a variety of issues related to health care coverage for public employees have surfaced. These issues have ranged from the basic question of availability of coverage through employer sponsored health plans, to growing concern over escalating costs which have called into question the continued viability of employer financed programs as traditionally structured.

These issues have crossed all groups of public employees, from school teachers to deputy sheriffs to municipal employees. Elected officials at the local level have attempted to respond to the growing burdens employee health benefit programs have placed on their budgets through changing the design of their programs - often by encouraging employees to use managed care options such as Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs). More often, these design changes have taken the form of benefit reductions, either by eliminating specific covered benefits, discontinuing traditional indemnity programs, or by imposing cost shifting measures such as larger deductible or copayment requirements. Despite these actions, public employers throughout the Commonwealth continue to experience premium rate increases of twenty to eighty percent or more.

In recent years, organizations representing various interest groups have begun to voice concerns over these trends to elected officials at the state level.

Most prominent have been groups representing school employees, but other groups representing governmental employees and constitutional officers have cited similar concerns.

In 1987 and 1988, the General Assembly appointed subcommittees to hold hearings on these issues. During the course of these hearings it was suggested that the State Employee Health Benefit Program, which has benefited through greater premium rate stability from the pooling advantages of a larger group, could be expanded to permit other groups of public employees to join that Program. As a result of input derived from these hearings and expressions of interest from other groups, this study was commissioned to formally investigate the feasibility of expanding the State Employee Health Benefits Program to include other groups of public employees.

Conducted under the direction of the Department of Personnel and Training, the specific scope of the study was defined to include an analysis of the feasibility of including the following groups in the State Employee Health Benefits Program:

- Employees of School Districts;
- Employees of Local Political Jurisdictions (Counties, Cities, Towns and other Political Jurisdictions);
- Constitutional Officers and their employees;
- Retired employees; and
- Part-time employees.

This report summarizes the findings of the feasibility study. Additionally, it provides an overview of the primary policy considerations which require attention should implementation of a statewide, consolidated program ultimately be authorized by the General Assembly.

For ease of reference the report is organized in the following sequence:

I. BACKGROUND AND INTRODUCTION

II. DATA COLLECTION ACTIVITIES

III. POLICY CONSIDERATIONS

Legislative and Compliance Considerations
Structural Considerations
Administrative Management Responsibility
Funding Issues

IV. RETIREE BENEFITS - A SPECIAL STUDY

V. PROJECTED IMPLEMENTATION SCHEDULE

VI. APPENDICES

B. NATIONAL TRENDS

The extent to which health benefits coverage is provided to state employees throughout the nation is the subject of an annual survey conducted by the Martin E. Segal Company. A copy of the summary of survey results for 1988 appears as an appendix to this report (see Appendix A).

All fifty (50) states surveyed in the Martin E. Segal Company's 1988 Survey of State Benefit Plans currently contribute some amount towards employee only

coverage. The actual amount of contribution varies from 50% to 100%. The average state contribution for this coverage is 90.86% of premium, which is reduced to 72.51% for employee and family coverage. As of January 1988, 26 states contributed towards the cost of retiree only coverage for individuals over age 65 (with Medicare coverage) in amounts ranging from 6.5% to 100% of premium.

Recent experience suggests that health care inflation is becoming more of a problem for state plans. The average total cost for employee only coverage increased by 22% to $100.31 from $82.09 between 1987 and 1988. This can be compared to the 5.3% increase between 1986 and 1987. The cost of employee and family coverage averaged $219.01 in 1988, up 16% from 1987, and the average cost of providing retiree coverage increased by 21% to $65.90.

Although these averages do not fully reflect the wide diversity of design and costs in state employee health benefits plans, several significant trends are revealed. First, because health care costs are continuing to rise at higher rates than in the past, states are absorbing increasing amounts in order to subsidize a constant percentage of the cost of these benefits. Second, in order to limit the budget impact, state employee health benefit plan sponsors have begun utilizing a wide variety of cost management techniques including new cost-effective plan designs and alternative delivery systems such as Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs). As of January 1988, 45 of the 50 states surveyed offered one or more HMO options to state employees.

Several states also provide health care coverage to local government and school employees including California, New York and New Jersey. Due to constraints in the data collection methodology, which excluded local employees, comparative data is unavailable with which to determine the cost impact of these other groups on the State plans.

C. REGIONAL PRACTICES

Eligibility and Coverage

By examining the benefit plans of several neighboring states, a sense of perspective can be gained for drawing baseline comparisons with the current State Employee Health Benefits Program. The following provides a brief analysis of several key elements of three plans (Maryland, North Carolina and South Carolina) as they compare with the State of Virginia. South Carolina extends benefit eligibility to active and retired employees of the State and Public Schools. North Carolina covers active and retired State employees and teachers on a non-contributory basis and permits permanent part-time employees to enroll on a fully contributory basis.

Financial Considerations

Managed Care

Consistent with national trends, each of the four states currently offer HMO options with penetration rates which range from a low of 14% in Virginia to a high of 36% in Maryland (see Table 1 - Participants In State Employee Health Benefit Plans).

Premiums and Contributions

Using rates in effect as of January 1988 for comparative purposes, Maryland is the only contributory plan of the four with respect to Employee Only coverage (see Table 2 - Monthly Contributions To Selected State Employee Health Benefit Plans). The average total monthly premium for Employee Only coverage is $88.22 for the four states with the total monthly premium for the State of Virginia being $82.28.

The State of Virginia subsidizes 71% of the premium for Employee and Family coverage with North Carolina subsidizing the least of the four at 41.7% and Maryland subsidizing the most at 74.1%. The average monthly premium for Employee and Family coverage is $208.23 compared to that of the State of Virginia which is $206.38.

With respect to Retiree Only coverage (defined as covering retirees over age 65 and who are eligible for Medicare coverage), the State of Virginia was the only one out of the four that does not subsidize any of that cost. Maryland subsidizes 76% of the cost with North and South Carolina both contributing 100% of the premium. The average monthly premium for this coverage is $62.75 compared to that of the State of Virginia at $50.24.

The Commonwealth of Virginia State Employee Health Benefits Program provides a comprehensive plan of benefits to approximately 87,000 active full-time employees of the State. Retired State employees are eligible for coverage by paying the full cost of benefits. Retirees who are under age 65 and not otherwise eligible for coverage under the federal Medicare program are required

to pay an amount equivalent to the sum of the employee plus employer contributions for similar coverage provided to active employees. The combined rating for premium purposes, therefore, contains a degree of subsidization of this group by active employees since pre-65 retirees tend to incur health care expenses at a rate considerably higher than active employees. A detailed analysis of the cost of retiree benefits and the subsidy factors appears elsewhere in this report.

Retires who are eligible for Medicare benefits must also pay the full cost of the supplemental benefit plan provided by the State. These benefit may be provided through the State Plan administered by Blue Cross and Blue Shield of Virginia or they may elect coverage under an HMO. In the past, this Medicare "carve out" plan has been closely tied to paying amounts not covered by Medicare such as deductibles and copayments. Due to the recent enactment of Medicare catastrophic coverage, however, changes designed to provide services not previously covered (such as basic dental and vision care and hearing screening, as well as a prescription drug card) are being planned to provide a more meaningful benefit for the resources expended.

Active Employees may also elect coverage from Blue Cross and Blue Shield administered programs or choose from among several HMO options. The option selected will determine the cost to the employee. For Employee Only coverage during the period from July to December 1988, the employee contribution varied from $0 for standard coverage to $10.88 per month. The State's contribution for employee only coverage was $92. Family coverage was available to employees at an out-of-pocket cost ranging from $53 to $93.90, with the State contribu-

ting $163.30. A full distribution of rates by coverage type and delivery option is shown in Appendix B.

Benefits

North Carolina and South Carolina offer what is in essence a standard self-insured benefit package administered by Blue Cross and Blue Shield. Both also have various managed care programs covering such things as Pre-Admission Authorization, Ambulatory Surgery, Second Surgical Opinion and Pre-Admission Testing. North Carolina does not currently have a dental plan, whereas South Carolina does.

In contrast, the State of Maryland health benefit program has become more of a state-of-the-art plan, incorporating flexible benefit options in the form of both health care and dependent care spending accounts as well as optional benefits such as:

1. Catastrophic Health Expense Plan
2. Dental Plan
3. Life Insurance Plan
4. Long Term Care Plan
5. Personal Accident and Dismemberment Plan
6. Prescription Drug Plan

State Of Virginia
Bordering State Plan Comparison
Virginia, Maryland, North Carolina and South Carolina

Participants In State Employee Health Benefit Plans
As Of January 1988

Table 1

State	Employees	Retirees	Total	HMO Participation Number Offered	Employees Number	Employees Percentage
Virginia	86,900	17,900	104,800	6	12,000	14
Maryland	65,000	16,000	81,000	11	23,200	36
North Carolina	199,900	60,200	260,100	3	40,200	20
South Carolina	127,400	27,800	155,200	6	24,000	19

Monthly Contributions To State Employee Health Benefit Plans
January 1988

Table 2

EMPLOYEE ONLY COVERAGE

State	Cost To Employee	Cost To State	Total Cost	Percent Paid By State
Virginia	0	82.28	82.28	100
Maryland	20.22	78.52	98.74	79.5
North Carolina	0	93.82	93.82	100
South Carolina	0	78.03	78.03	100

EMPLOYEE AND FAMILY COVERAGE

State	Cost To Employee	Cost To State	Total Cost	Percent Paid By State
Virginia	59.86	146.52	206.38	71
Maryland	50.40	196.44	246.84	74.1
North Carolina	131.24	93.82	225.06	41.7
South Carolina	76.60	78.03	154.63	50.5

RETIREE ONLY COVERAGE (Over 65 With Medicare)

State	Cost To Employee	Cost To State	Total Cost	Percent Paid By State
Virginia	50.24	0	50.24	0
Maryland	12.33	38.98	51.31	76
North Carolina	0	71.42	71.42	100
South Carolina	0	78.03	78.03	100

II. DATA COLLECTION ACTIVITIES

Recognizing the lack of a centralized, comprehensive data base which could provide information concerning health care plan design and costs for any of the affected groups, the primary data source regarding health benefits currently being provided to employees was identified as the local jurisdictions and school districts themselves. Accordingly, health benefits questionnaires were designed and distributed to request information concerning:

- whether benefits are currently being offered to present and retired employees;
- the number of persons enrolled;
- the cost (both in terms of employee and employer contributions);
- the extent to which cafeteria or flexible spending accounts are available;
- the specific benefits provided by the plans; and
- the level of interest in participating in a consolidated health benefit plan under several scenarios.

In an attempt to simplify the questions posed to each group, four separate questionnaires were distributed to school districts and local political jurisdictions. The questionnaires were selected based on whether or not the employing entity participates in the Virginia Supplemental Retirement System (VSRS). Those entities that do not participate in VSRS were asked to supply age, sex, retirement, and disability information for the purpose of assembling a complete demographic profile of that population. Employers that participate

in VSRS were spared those census questions. For those groups (which represent the substantial majority of employees), demographic information was supplied by VSRS, whose assistance and cooperation is gratefully acknowledged.

A total of 427 questionnaires were distributed among every school district, county, city, towns with populations greater than 500 and other local jurisdictions (such as sanitation districts). A total of 247 responses (58%) were returned. The employer groups that responded to the questionnaire represent approximately 163,799 employees distributed as follows:

Table 3

Distribution of Employees by Type and Employer Group

Local Government		
Full-time employees	54,352	
Part-time employees	4,481	
Constitutional Officers	6,364	
Retired employees	8,464	
Subtotal	73,661	45.0%
School Districts		
Full-time employees	71,243	
Part-time employees	10,103	
Retired employees	8,792	
Subtotal	90,138	55.0%
Combined Totals		
Full-time employees	125,595	
Part-time employees	14,584	
Constitutional offices	6,364	
Retirees	17,256	
Total	163,799	100.0%

Table 4 shows the same employee population by city, county and other governmental entities and by size. Small employers are those with less than 100 employees, medium sized employers are those with 100 to 750 employees and large are those with more than 750 employees.

Table 4

Number of Employees by Political Entity and Size

City	Small	Medium	Large	Total
Constitutional Officers	39	805	694	1,538
Full Time Employees	433	8,925	21,202	30,560
Part Time Employees	31	2,102	2,222	4,335
Retirees	1	1,337	4,004	5,342
TOTALS	504	13,169	28,122	41,795
County				
Constitutional Officers	1,919	1,168	1,199	4,286
Full Time Employees	2,130	17,041	65,887	85,058
Part Time Employees	441	2,467	6,320	9,228
Retirees	141	755	8,519	9,415
TOTALS	4,631	21,431	81,925	107,987
Others				
Constitutional Officers	155	23	362	540
Full Time Employees	1,716	2,078	6,183	9,977
Part Time Employees	258	264	479	1,001
Retirees	123	2,498	2,243	2,499
TOTALS	2,252	2,498	9,267	14,017
GRAND TOTALS	7,387	37,098	119,314	163,799

A. DEMOGRAPHIC INFORMATION

Age and sex distribution data covering all active and retired participants in the state retirement program as of June 30, 1987 was also obtained from the VSRS on active and retired participants. VSRS reported information on 237,774 employees (See Table 5).

Active Employees

According to the VSRS Active Employee Data, as of June 30, 1987, school employees represent 42% of the total number of all employees while state employees comprise 36% and others (local governments) make up 22% (See Table 6). Those employees categorized as state employees are almost evenly divided between male and female workers. As might be expected, 3 out of 4 school district employees are female. This contrasts with the mix of other local government employees which is approximately 60% male to 40% female. Overall, females outnumber males in the VSRS covered population by a margin of 59% (139,450) to 41% (98,324).

Age and Sex Distribution of Active and Retired Employees Covered by VSRS by Employer Tpye

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AGE BRACKETS	MEDIAN AGE	STATE EMPLOYEES MALE	STATE EMPLOYEES FEMALE	STATE EMPLOYEES TOTAL	SCHOOL EMPLOYEES MALE	SCHOOL EMPLOYEES FEMALE	SCHOOL EMPLOYEES TOTAL	OTHER EMPLOYEES MALE	OTHER EMPLOYEES FEMALE	OTHER EMPLOYEES TOTAL	TOTAL EMPLOYEES MALE	TOTAL EMPLOYEES FEMALE	TOTAL EMPLOYEES TOTAL
<20	20	12	18	30	7	13	20	25	8	33	44	39	83
20-24	22	1,170	1,596	2,766	419	1,246	1,665	1,549	825	2,374	3138	3667	6,805
25-29	27	3,799	5,731	9,530	1,971	6,635	8,606	4,502	2,808	7,310	10272	15174	25,446
30-34	32	5,906	7,830	13,736	3,047	9,816	12,863	5,616	3,712	9,328	14569	21358	35,927
35-39	37	6,900	7,497	14,397	4,158	13,885	18,043	5,574	3,400	8,974	16632	24782	41,414
40-44	42	6,749	6,382	13,131	4,347	14,122	18,469	4,254	2,860	7,114	15350	23364	38,714
45-49	47	5,486	4,698	10,184	3,364	11,078	14,442	3,140	2,172	5,312	11990	17948	29,938
50-54	52	4,741	3,832	8,573	2,821	8,182	11,003	2,614	1,467	4,081	10176	13481	23,657
55-59	57	4,076	3,154	7,230	2,280	6,437	8,717	2,201	1,175	3,376	8557	10766	19,323
60-64	62	2,955	2,194	5,149	1,400	3,854	5,254	1,529	843	2,372	5884	6891	12,775
65-69	67	737	513	1,250	367	979	1,346	399	271	670	1503	1763	3,266
>=70	70	87	45	132	43	103	146	60	36	96	190	184	374
UNKNOWNS		4	7	11	7	12	19	8	14	22	19	33	52
TOTALS		42,622	43,497	86,119	24,231	76,362	100,593	31,471	19,591	51,062	98,324	139,450	237,774
AVERAGE AGES		42.98	40.46	41.71	43.17	42.60	42.74	39.90	39.70	39.82	42.04	41.53	41.74
PERCENT OF TYPE		49.49%	50.51%	100.00%	24.09%	75.91%	100.00%	61.63%	38.37%	100.00%	41.35%	58.65%	100.00%

PERCENT BY BRACKET

AGE BRACKETS												
<20	0.03%	0.04%	0.03%	0.03%	0.02%	0.02%	0.08%	0.04%	0.06%	0.04%	0.03%	0.03%
20-24	2.75%	3.67%	3.21%	1.73%	1.63%	1.66%	4.92%	4.21%	4.65%	3.19%	2.63%	2.86%
25-29	8.91%	13.18%	11.07%	8.13%	8.69%	8.56%	14.31%	14.33%	14.32%	10.45%	10.88%	10.70%
30-34	13.86%	18.00%	15.95%	12.57%	12.85%	12.79%	17.85%	18.95%	18.27%	14.82%	15.32%	15.11%
35-39	16.19%	17.24%	16.72%	17.16%	18.18%	17.94%	17.71%	17.35%	17.57%	16.92%	17.77%	17.42%
40-44	15.83%	14.67%	15.25%	17.94%	18.49%	18.36%	13.52%	14.60%	13.93%	15.61%	16.75%	16.28%
45-49	12.87%	10.80%	11.83%	13.88%	14.51%	14.36%	9.98%	11.09%	10.40%	12.19%	12.87%	12.59%
50-54	11.12%	8.81%	9.95%	11.64%	10.71%	10.94%	8.31%	7.49%	7.99%	10.35%	9.67%	9.95%
55-59	9.56%	7.25%	8.40%	9.41%	8.43%	8.67%	6.99%	6.00%	6.61%	8.70%	7.72%	8.13%
60-64	6.93%	5.04%	5.98%	5.78%	5.05%	5.22%	4.86%	4.30%	4.65%	5.98%	4.94%	5.37%
65-69	1.73%	1.18%	1.45%	1.51%	1.28%	1.34%	1.27%	1.38%	1.31%	1.53%	1.26%	1.37%
>=70	0.20%	0.10%	0.15%	0.18%	0.13%	0.15%	0.19%	0.18%	0.19%	0.19%	0.13%	0.16%
UNKNOWNS	0.01%	0.02%	0.01%	0.03%	0.02%	0.02%	0.03%	0.07%	0.04%	0.02%	0.02%	0.02%
TOTALS	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

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Table 6
Extract From Virginia Supplemental Retirement System
Active Employee Data by Sex and Employer Group
as of June 30, 1987

	Number of employees	% of total state employees	% of all employees
State Employees:			
Male	42,622	49%	18%
Female	43,497	51%	18%
Total	86,119	100%	36%
School District Employees:			
Male	24,231	24%	10%
Female	76,362	76%	32%
Total	100,593	100%	42%
Other Employees:			
Male	31,471	62%	14%
Female	19,591	38%	8%
Total	51,062	100%	22%
Grand Totals:			
Total Male	98,234		41%
Total Female	139,450		59%
Total All Employees	237,774		100%

When the active VSRS population is analyzed by age bracket (see Table 7), the demographic effect of the baby boom becomes apparent. Almost half (48.8%) of the entire VSRS workforce is currently between the ages of 30 and 44. The 30

to 44-year-old employees tend to have higher dependency ratios resulting in higher per employee health care costs.

Table 7
Percentage of Active Male and Female Employees Covered by VSRS by Age Bracket

Age Bracket	% of Male Employees	% of Female Employees	% Total
< 20 - 29	13.68	13.54	13.59
30 - 44	47.35	49.84	48.81
45 - 54	22.55	22.55	22.55
55 - 64	14.68	12.66	13.50
65 +	1.74	1.41	1.55
	100.00	100.00	100.00

Table 7 also depicts that 13.5% of total VSRS active employees (32,098 employees) are in the early retirement years of 55 - 64. This is the group which will require retiree health care coverage within the next 10 years.

Retired Employees

A similar distribution of retirees receiving benefits from VSRS is provided in Table 8.

The single largest grouping of retirees is the retired school district employees which represents 48% of all persons receiving benefits from VSRS. Retired State employees comprise 40% of the total with the remaining 12% coming from the local jurisdictions.

Table 8
Extract From Virginia Supplemental Retirement System
Sex Distribution Extract for Retired Employees of the State, Local Governments and School Districts

	Number of Retirees	Percentage of Retirees by Group	Percentage of All Retirees
State Retirees			
Male	10,401	52%	21%
Female	9,651	48%	19%
Total	20,052	100%	40%
School District Retirees			
Male	4,804	20%	10%
Female	19,135	80%	38%
Total	23,939	100%	48%
Other Retirees			
Male	3,793	63%	8%
Female	2,195	37%	4%
Total	5,988	100%	12%
Grand Totals			
Male	18,998		38%
Female	30,981		62%
Total All Retirees	49,979		100%

The overall population is 62% female, a fact which is greatly influenced by the heavy concentration of women (80%) in the school district grouping. A more detailed analysis of age and sex distributions among these groupings appears in Appendix C.

B. ANALYSIS OF SURVEY RESPONSES BY TYPE AND SIZE OF POLITICAL ENTITY

Political Entities Responding to the Questionnaire

There were 162 questionnaires returned from local government entities. Local government employees comprise 45% (73,661) of the total number of employees represented in the survey. There were 85 surveys returned from school districts which account for 90,138 employees (55%). For comparative purposes, we have divided the respondents from both local governments and school systems into small (less than 100 employees), medium (100 to 750 employees) and large (more than 750 employees) employer groupings.

A complete summary of the specific responses by employer type and size appears in the appendices (see Appendix D1 through 3).

Extent of health benefits provided

According to the survey results a total of 205 (83%) respondents reported that they provide benefits to employees of either the local jurisdiction or school district while 42 (17%) responded that they do not.

Of the local governments surveyed, 130, or 80%, of the survey respondents replied that they did provide health benefits to employees of the local jurisdiction while 32, or 20%, stated that they did not. For the school districts, 75, or 88%, provide benefits to local employees while 10, or 12%, of school districts responded no to this question. While this number differs slightly from that obtained through surveys conducted by other groups such as the VEA, no attempt was made to reconcile the discrepancy since the response

rate (while less than 100%) was sufficient to produce a satisfactory level of confidence and, for most analytical purposes, only plans which confirmed the existence of a health benefit plan were included. In the Insurance Coverage Study for 1987-88 prepared by the VEA, 128 of 132 school divisions were reported to pay all or part of the health care premium for teachers.

Eligibility and Enrollment Comparisons

Overall, responses from the survey indicate that 78.6% of the total employees are eligible to enroll in health benefit programs (see Table 9). Of the total eligibles, 65.4% are actually enrolled in a health benefit programs. There is an inverse relationship, however, between the employer's size and the percentage of enrollment, with small employers showing a 70.9% enrollment rate among employees, medium-size employers showing enrollment at the rate of 66.8% and large employers reporting enrollment at a rate of 45.5%. For part-time employees who are eligible for health benefit plans, there appears to be a direct relationship between eligibility and employer size. Among the part-time employees who work for small employers 20.0% are eligible, while the percentages for medium and large employers are 34.0% and 53.5% respectively.

Of full-time employees among small and medium size employers, approximately 3 out of 4 employees are enrolled in healthcare plans. Among large employers responding, approximately 1 in 2 employees are enrolled.

Table 9
Number of Employees Eligible and Enrolled in
Health Benefit Programs

Small-Size Employer Group

	# Ees	# Eligibles	# Enrolled
Full-Time	6,392	5,741	4,961
Part-Time	730	146	128
Retirees	265	223	152
Total	7,387	6,110	5,241

Medium-Size Employer Group

	# Ees	# Eligibles	# Enrolled
Full-Time	30,040	30,107	22,488
Part-Time	4,833	1,647	1,094
Retirees	2,225	1,448	1,184
Total	37,098	33,202	24,766

Large-Size Employer Group

	# Ees	# Eligibles	# Enrolled
Full-Time	95,527	77,030	50,737
Part-Time	9,021	4,827	924
Retirees	14,766	7,561	2,577
Total	119,314	89,418	54,238

Total - All Groups

	# Ees	# Eligibles	# Enrolled
Full-Time	131,959	112,878	78,186
Part-Time	14,584	6,620	2,166
Retirees	17,256	9,232	3,893
Total	163,799	128,730	84,245

Local Governments

For local governments (excluding school districts) full-time employees comprised 74% of the total number of employees reported in the survey.

Retirees, Constitutional Officers, and part-time employees accounted for 12%, 8% and 6%, respectively, of the total.

Summary totals for local government respondents appear in Appendix D. Most significant among these summary findings are:

- 32 (19.75%) of the local jurisdictions which responded provide no health benefits coverage for their employees;

- About 32% of all full-time local government employees are not eligible to enroll in a health benefits program of any type;

- 23.6% of the Constitutional Officers are not eligible to enroll in a health benefit program of any type;

- 92.5% of the Constitutional Officers who are eligible to enroll are enrolled in the local jurisdiction health benefit plan;

- Only 37% of all part-time employees are eligible to enroll in an employer-sponsored health benefit program;

- Only 28.2% of retired local government employees are eligible to enroll in an employer-sponsored health benefits plan (length of service restrictions that are in place in 38% of the plans which provide retiree coverage may be, in part, responsible for this number);

- Virtually all (99.3%) local government retirees who are eligible to enroll in a health plan are enrolled.

School Districts

In reviewing the responses from School Districts as a group, there were a tota of 85 responses received -- 21 from city school systems, 59 from counties and from "other" systems.

Approximately 79% of all school district employees are in full-time positions. As expected, of the full-time school district employees, 74% work for a county and 22% for a city. City school districts utilize part-time employees more often than county school districts.

Summary responses for school districts surveyed appear in Appendix E. Highlights of the school system responses included:

- 75 systems indicated that they provide health coverage to their employees;

- Employees* eligible to enroll and actually enrolled as a percentage of the total employees can be shown as follows:

Table 10

Percentage of School District Full-Time, Part-Time and Retired Employees Eligible For and Enrolled In Health Benefits Programs

	Total	Eligible	%	Enrolled	%
Full-Time Employees	71,243	70,965	(99.6)	42,336	(59.4)
Part-Time Employees	10,103	4,976	(49.3)	957	(9.5)
Retirees	8,792	6,845	(77.9)	1,522	(17.3)
Total	90,138	82,786	(91.8)	44,815	(49.7)

*Includes retirees

- The significant discrepancy between persons enrolled and those employed may be at least partially attributable to the sex distribution of employees (predominantly female) and their ability to obtain coverage through their spouse's plan at no cost or at a reduced cost.

- 30 school systems offer flexible benefit plans to enable their employees to offset a portion of their out-of-pocket premium expenses by deferring a portion of their income through a Section 125 plan. (There is no discernible difference between savings estimated for school employees and those estimated for local government employees.)

Retiree Health Coverage

The number of respondents which provide retiree coverage was 161, or 65%, of the total. Of these 161 groups, 42% reported that their retiree health coverage program contained length of service or other restrictions on the provision of this retiree coverage. Overall, there was some difference in the incidence of restrictions on retiree coverage between local governments and school districts with 38% of local governments and 31% of school districts reporting some restrictions.

Large employers providing retiree health care benefits place more restrictions on those benefits than do smaller employers. Of the large employers offering retiree benefits, 48% reported length of service or other restrictions as opposed to 32% of the small employers responding. However, among medium-sized employers offering retiree benefits, local governments reported more restrictions (45%) than did schools (32%) and other entities (36%). Of retirees among small employers, 57.4% are enrolled in health care plans.

Flexible Benefit or Cafeteria Plans

Of the 247 respondents to the survey, 64 (25.9%) reported offering a Flexible Benefit or Cafeteria Plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on a pre-tax basis. Thirty-four school systems and thirty local governments responding reported the existence of a Section 125 plan.

Of the 64 entities reporting a Flexible Benefit or Cafeteria Plan, only 10 were described as Full Flexibility programs, with the balance offering some combination of premium reduction and limited flexible benefits features.

Overall, employers reported that 48.6% of the total number of employees eligible for health benefits have elected to participate in a Section 125 Plan.

The enrollment may be somewhat suppressed from what might otherwise be expected as the result of employer contributions equal to 100% of the Employee Only premium cost. For single employees covered by such plans, there is no out-of-pocket expense to defer and, consequently, no reason to enroll.

The reported average monthly savings realized per employee who participated in the Section 125 Plan in 1987 was $32 per month for the employee. Employers also reported savings of $27 per month for the employer (including employer FICA). This estimate appears unrealistically high, however, and may more likely be an indication that the true savings are an area in which employers simply have not captured sufficient data to provide an accurate estimate of their true savings.

C. PLAN DESIGN AND COSTS

The plan design and cost information presented below was taken from an analysis of survey responses from 254 school districts and local government employers. The results of our calculations provide an indication of overall plan costs and

size throughout the state. However, we caution that these results should not be used with regard to differences among various regions of the state.

The survey questionnaire requested paid and/or incurred claims experienced for each of the plans reported. Because of the high degree of inconsistency in responses (and in a number of cases, lack of available data to report) we have determined that a more reliable substitute for claims experience should be used.

For consistency, therefore, we have substituted premium costs for claims experience as the cost measure for purposes of this study. Total premium costs for a plan is defined as the total of the reported employer plan contributions plus the employee contributions. Of course, the actual cost for a particular plan will be the result of its claims experience, reserves, retention, and administrative costs, as well as the funding policy and methodology established by the sponsors of that plan. We believe, however, that for the purposes of this analysis, the total employer and employee paid premiums represent a reasonable proxy for the actual funding cost of a program.

We have analyzed each of the responses according to the type of plan provided to employees (Base Plan only, Base plus major medical, Comprehensive major medical, and HMO), as well as by size of employer, and by political jurisdiction (city, county or other) and type of employer (school district or local government).

Each of the plans reported by respondents to the survey was categorized into one of four primary types. Those four are defined as follows:

Base Plan Only - This category refers to a program offering hospital benefits and some scheduled or "reasonable and customary charge" surgical and medical benefits. In this type of plan, there is no major medical coverage provided.

Base Plus Major Medical - In addition to the Base Plan Only benefits, including hospital benefits and surgical and medical benefits, which are scheduled or paid according to reasonable and customary charge, this category of plans offers a level of major medical coverage including participation by the employee in the cost through a deductible and co-insurance.

Comprehensive Major Medical - This category of plan provides an upfront deductible with co-insurance, typically at 80%. The employee usually has an out-of-pocket maximum cost for the year, after which the plan pays 100%.

HMO Plans - This category includes all types of Health Maintenance Organizations reported, as well as any specialized Preferred Provider Organizations (PPOs).

Each plan reported by an employer responding to the survey was included in the analysis provided there was sufficient coverage and premium information

disclosed about the plan to allow it to be analyzed. In the event that either cost or coverage information was missing or could not be verified through the employer, the plan was excluded from the analysis. Therefore, the summary totals may not directly agree with those which appear elsewhere in this report. If the responding employer maintains more than one plan of the same type (e.g., two HMO plans), those multiple plans were consolidated on a weighted average basis and treated as a single plan. If an employer reported multiple plans of different types (e.g., a Blue Cross 75-10 Plan and an HMO), each plan was counted as a separate plan. Of the 247 responses to the survey, a total of 254 plans were identified and analyzed.

Only benefits provided to full-time employees were analyzed. As noted above, many responding employers extend health care benefits to part-time employees, but often the coverage is provided on a different cost or coverage basis. In addition, responding employers were inconsistent in identifying premium rates and plans for part-time employees.

Scope and Coverage of Plans

This analysis is based on 254 plans of various types reported by employers responding to the survey. Local governments accounted for 59% (150 plans) of the plans while school districts plans made up the remaining 41% (104 plans). The total number of employees covered by these 254 plans is 103,488.

The plans sponsored by school districts responding to the survey averaged 377 participants while those for local governments averaged 201 participants. This

was due in part to the fact that more of the larger school districts across the state responded in time for inclusion in the data base, than did large local governments.

Of all the employers surveyed, the average number of covered employees in a plan was 273. Those electing Employee Only coverage averaged 149 (54.6%), while coverage was selected for Employee and one (1) Dependent by an average of 31 (11.4%) of the participants and for Family Coverage by an average of 93 (34.1%) of the participating employees. (See Table 11)

School districts reported a higher percentage of employees electing "Employee Only" coverage than did local governments. When viewed in light of the demographic analysis presented earlier from this survey, the higher "Employee Only" coverage might be a result of the fact that 76% of the school workforce is female, while the local government distribution of employees is almost evenly divided between males and females. Especially for employees who contribute 100% of the Employee Only premium, many of the employees electing "Employee Only" coverage in School District plans may be covered already as dependents under a spouse's plan.

TABLE 11

Average Participation in Plans by Coverage Class and Employer Type

	School Districts	Local Governments	Combined
I. Average Number of Participants			
Employee Only Coverage	220	100	149
Employee and (1) Dependent	36	28	32
Family Coverage	121	73	93
Total for Plan	377	201	273
II. Coverage Level Percentages			
Employee Only Coverage	58.4%	49.8%	54.6%
Employee and (1) Dependent	9.5	13.9	11.4
Family Coverage	32.1	36.3	34.1
Total for Plan	100.0	100.0	100.0
III. Number of Plans	104	150	254

Plan Costs

This section of the report presents our analysis of the cost aspects of the plans covered by the survey. We have examined monthly premium costs for school districts and local governments for four types of plans - Base Plan Only, Base Plus Major Medical, Comprehensive Major Medical and HMO plans (see Appendix H, 1-5). Detailed analyses by size of employer and by political jurisdiction (cities, counties, other) are also included in Appendix I.

Overall Premium Costs

The overall total average monthly premiums for plans reported in the survey are as follows:

TABLE 12

Average Monthly Premiums by Coverage Class and Employer Type

Coverage	School Districts	Local Governments	Combined
Employee Only Coverage	$ 86.36	$ 90.72	$ 88.93
Employee and (1) Dependent	129.87	157.14	145.98
Family Coverage	223.26	233.85	229.51

Thus, if projected into a single plan for approximately 103,00 employees, all surveyed plans would have total monthly premiums of $88.93 for Employee Only coverage, $145.98 for Employee and one (1) Dependent coverage and $229.51 for Family Coverage.

In general, school district rates are less than those reported for local governments. For all types of plans combined, local government plan rates exceeded school district rates for Employee Only coverage by 5.0% ($90.72 versus $86.36). Similarly, local governments reported average premiums of $157.14 for Employee plus one (1) Dependent versus $129.87 for school districts, a difference of 21.0%. On Family Coverage, local government rates were 4.7% higher at $233.85 for school districts.

Analysis by Plan Type

Variations were reported in premium costs among the four different plan types analyzed. Table 13 details these variations by level of coverage for each of the plan types. School district and local government combined rates are also shown.

The Base Plan Only was least costly in terms of premiums. It is probably also the most limited in coverage, having no major medical features included. Because various levels of base plans are consolidated into this category, it is difficult to relate variations in the actual coverage provisions of this type of plan.

Monthly premiums for the Employee Only HMO plans reported on the survey ranked second in overall cost only to plans offering basic hospitalization plus major medical coverages. In fact, for Employee plus one (1) Dependent coverage, HMO plans ranked as the most expensive alternative for both schools and local governments. Caution should be exercised in interpreting this finding, however, since it may be disproportionately influenced by the inclusion of PPOs such as the Blue Cross/Blue Shield Key Care Plan (which may be rated based on experience or on a cost-plus administrative expense basis), rather than the customary community rating system used by federally-qualified HMOs.

TABLE 13

Average Monthly Premium Rates by Coverage Class and Level of Coverage

	School Districts	Local Governments	Combined
Employee Only			
Base Plan Only	$ 75.70	$ 88.41	$ 82.19
Base Plus Major Medical	91.67	94.42	93.05
Comprehensive Major Medical	82.22	90.90	89.34
HMO	95.86	89.13	90.99
All Types	86.36	90.72	88.93
Employee & One (1) Dependent			
Base Plan Only	$111.25	$150.67	$131.38
Base Plus Major Medical	134.47	160.34	147.41
Comprehensive Major Medical	124.19	154.46	149.01
HMO	149.57	163.10	159.37
All Types	129.87	157.14	145.98
Family			
Base Plan Only	$189.31	$229.29	$209.73
Base Plus Major Medical	242.03	237.25	239.64
Comprehensive Major Medical	220.28	232.65	230.42
HMO	241.43	236.21	237.65
All Types	223.26	233.85	229.51

Analysis by Size

Generally, larger employers paid a higher percentage of the total premium for employee coverage than did the smaller employers in the survey (see Table 14 and Appendix I). Those larger employers paid an average of 82.96% of the total Employee Only premium, as compared to just under 75% paid by the smaller employers. Local government employers of all sizes provided a larger subsidy on Employee Only coverage than did school districts. Small school districts

reported a particularly low employee only subsidy at 45.14% of the total premium.

There was not a corresponding differential among large, medium and small employers in the percentage of subsidy for Employee plus One (1) Dependent Coverage and for Family Coverage. Large employers pay roughly the same percentage of the Family Coverage premium (49.64%) as do small employers (49.41%).

The total monthly premium amount for all Employers for Employee Only coverage, shown in Appendix I, is slightly lower for the large employers ($91.78) than it is for small employers ($98.80). Middle-sized employers reported the lowest Employee Only total monthly premium at $85.70. It is possible that the higher rates for the small employers are the result of a higher retention rate charged by carriers for small contracts while the increase in total monthly premium for the large employers over the medium-sized employers may be a result of a generally higher level of benefits offered.

TABLE 14

Percentage of Monthly Premiums Paid by Employer
By Size And Type

	Small	Medium	Large
Schools & Governments Combined			
Employee Only Coverage	74.88%	79.58%	82.96%
Employee and One (1) Dependent	61.30	59.29	63.90
Family Coverage	49.41	45.39	49.64
School Districts			
Employee Only Coverage	45.14%	72.14%	80.25%
Employee and One (1) Dependent	30.93	53.59	58.01
Family Coverage	17.49	36.33	43.98
Local Governments			
Employee Only Coverage	76.50%	88.09%	86.34%
Employee and One (1) Dependent	62.76	64.89	70.13
Family Coverage	51.16	55.69	56.46

Comparison to Current State Health Plan Premiums

Most employers responding to the survey are contributing less than the current state contribution for health care coverages (see Table 15). For all local government and school district plans combined, 84% contributed less than the $92.00 per month current State contribution for Employee Only coverage. For Employee plus One (1) Dependent coverage and for Family Coverage for which the State pays $163.30, those percentages are 75% and 68%, respectively. Only 18% of the local governments provide an employer contribution for Employee Only coverage at least as great as that provided by the State. Even fewer school districts (13%) provide an employer contribution as great as the State

contribution for Employee Only coverage. Graphs A, B and C show the distribution of employer contributions for local governments, schools and combined groups for each typed of coverage. In addition, the following table details the various contribution levels and the number of plans contributing less than the State contributes. For purposes of this table, there were 244 valid plan responses received through the survey. It should be noted that the State Employee Health Benefits Program currently has no separate category for the Employee and One (1) Dependent Coverage which prevails among other public plans throughout the Commonwealth.

TABLE 15

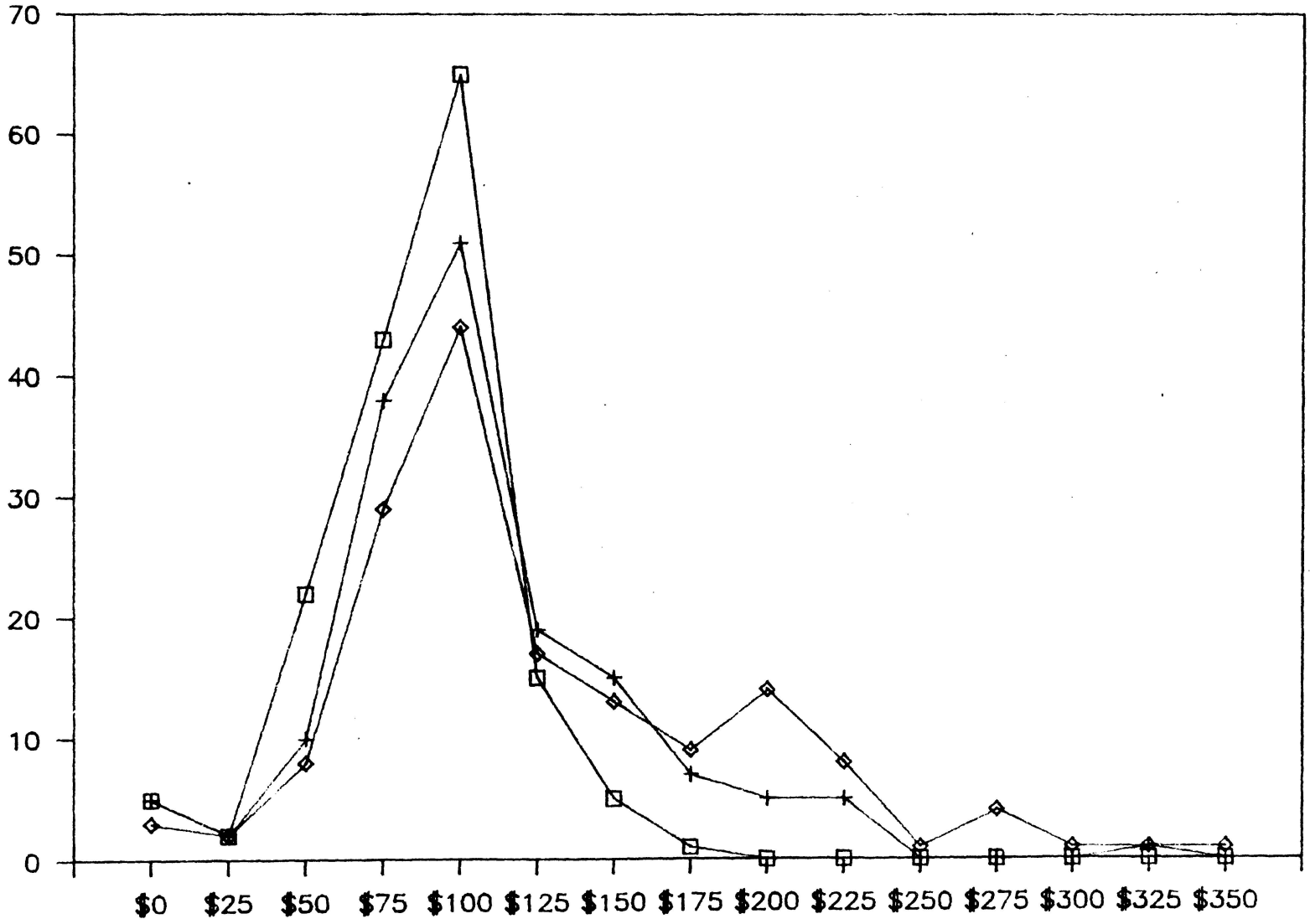
Comparison of State and Local Employer Contribution Rates

Type of Coverage	Percentage of Employers Contributing Less than State Contribution — Percent of Total	Percentage of Employers Contributing at State Contribution Level or Higher — Percent of Total
I. Local Government Plans		
Employee Only	82%	18%
Employee + One (1) Dependent*	70%	30%
Family	62%	38%
II. School District Plans		
Employee Only	87%	13%
Employee + One (1) Dependent*	85%	15%
Family	79%	21%
III. Local Government and School District Plans Combined		
Employee Only	84%	16%
Employee + One (1) Dependent*	75%	25%
Family	68%	32%

* The State presently has only two rate classes - Employee Only and Family. For comparative purposes, the Family rate was used for both Employee + One (1) Dependent and Family coverage.

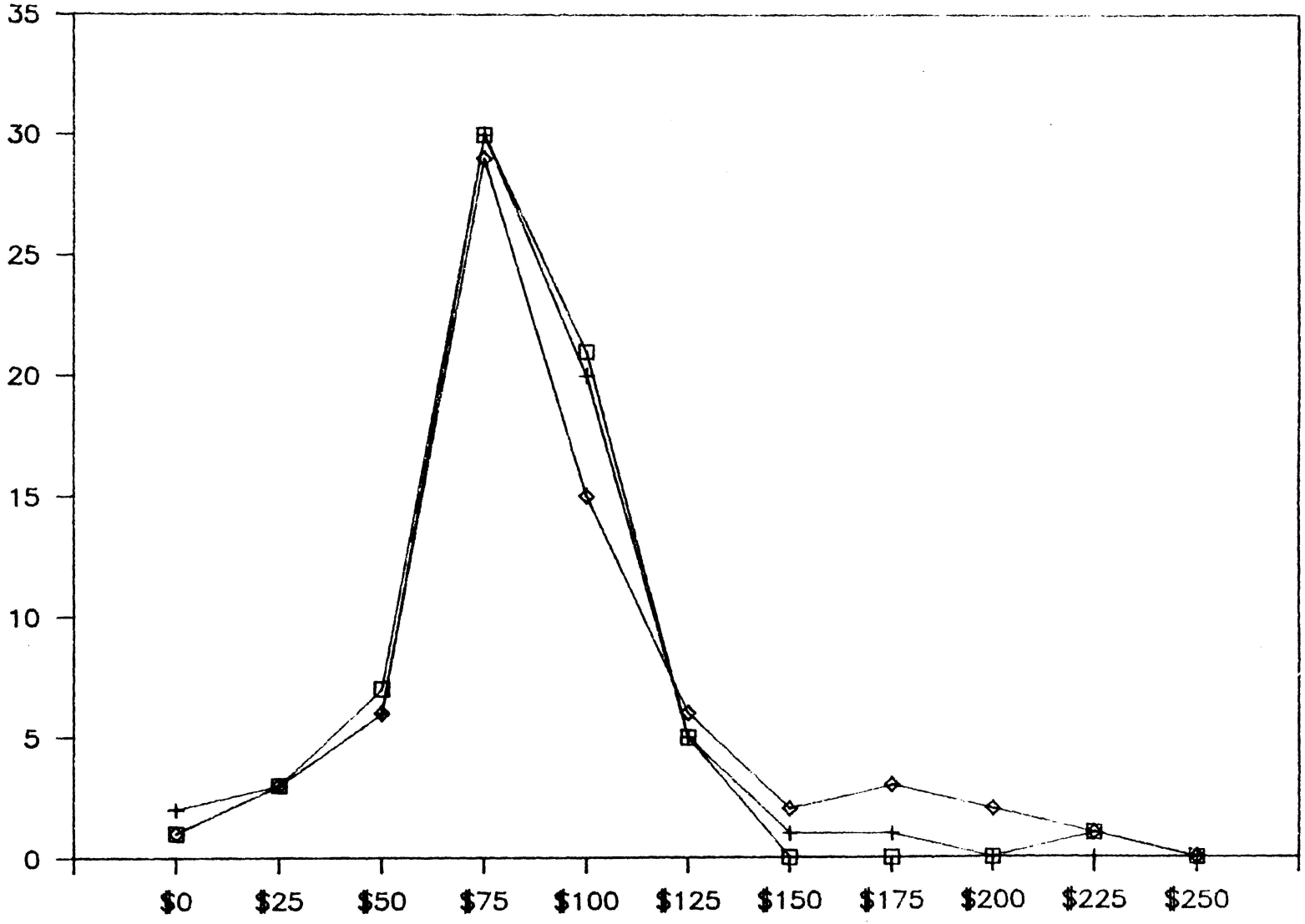
Graph A

Employer Contributions/Local Government



Employee Only	+ Employee Plus One	◇ Family

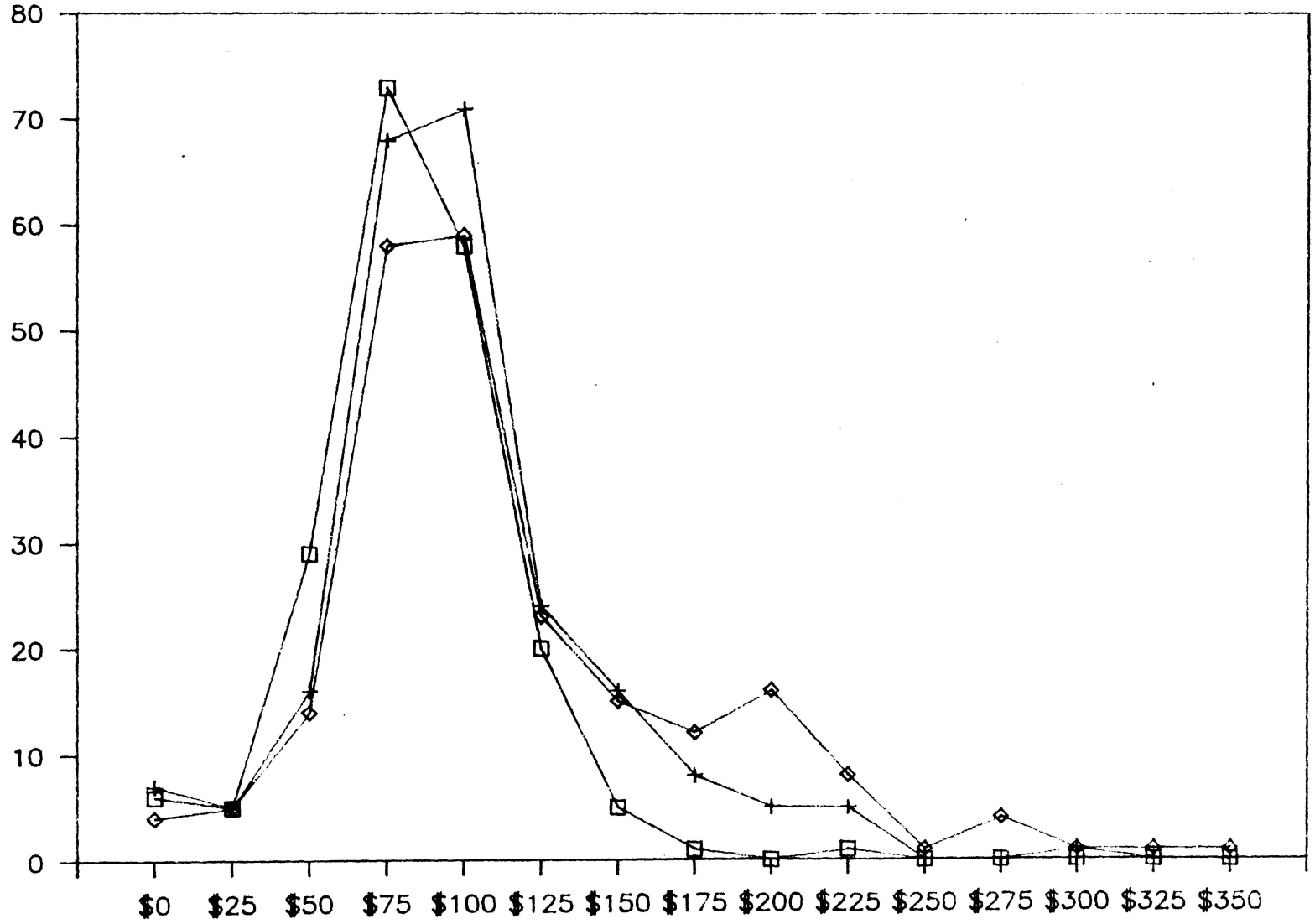
Employer Contributions/School Districts



I	Employee Only	+	Employee Plus One	◇	Family

Employer Contributions Combined

Schools and Local Government



I	Employee Only	+	Employee Plus One	◇	Family

D. LEVEL OF INTEREST IN PARTICIPATION

One key measurement of the feasibility of an expanded State Employee Health Benefits Program is whether the potential participating employers express an active interest in participation. Accordingly, the level of interest in participating in a consolidated program was another area in which the groups were polled. Overall, a weighted average of employer responses indicates the greatest degree of interest was expressed in including active employees in such a plan at present contribution rates. (See Appendix J). Similarly, respondents indicated greater interest in including retirees and part-time employees if their contribution rates remained the same. The level of interest indicated dropped for each group when questioned about participating at higher premium rates than they are currently paying, even if such a move may be to obtain better benefits.

Overall, school districts appeared somewhat more interested in participating than did local governments, although their respective positions on participating remained constant according to the employee groupings and costs as noted in the preceding paragraph.

When examined according to size, all groups expressed a positive interest in participating if the contribution rates remained the same. Other observations include:

- The small employers expressed more interest in covering all groups in the State Employee Health Benefit Plan, (if the contribution rate remained the same), than did the medium and large-size employers.

- On the other hand, large and medium-size employers expressed the greatest level of interest in the involvement of active full-time and part-time employees (if presently covered) at present contribution rates.

- None of the employer groups by size favored the involvement of active full-time and part-time employees in order to expand coverage to part-time employees or obtain the level of benefits provided by the State Employee Health Benefit Plans if it required higher contribution rates.

- All sizes of employer groups were moderately in favor of the involvement of active full-time employees and retirees (if presently covered) at present contribution rates.

- Based on the survey results, if employers had their choice between including retired or part-time employees, all employers of all size groups favored the inclusion of retirees before part-time employees.

- Finally, the small employer was slightly less interested in participating than medium and large-size employers, when asked

whether they would be willing to pay a higher contribution rate in order to expand coverage to retired employees.

E. OTHER PERSPECTIVES

In addition to the survey, comments were sought from a cross section of potential participants in an expanded program through a series of meetings which included representatives of the following groups:

- o City of Alexandria Public Schools
- o Arlington County
- o Town of Blacksburg
- o Fairfax County
- o Fairfax County Public Schools
- o City of Lynchburg
- o City of Newport News
- o City of Norfolk
- o City of Richmond
- o City of Roanoke
- o City of Virginia Beach
- o City of Virginia Beach Public Schools
- o Compensation Board
- o Department of Personnel and Training
- o Virginia Education Association
- o Virginia Governmental Employees Association
- o Virginia Municipal League

- Virginia School Boards Association
- Virginia Supplemental Retirement System

These groups were selected in part to ensure the participation and inclusion of opinions of the largest groups of potential participants who may be covered under a consolidated program, if one were to be created. In addition, a number of the largest employers were selected for specific attention because of the unique set of circumstances they have faced.

Examples of problems recently encountered include:

- The City of Richmond incurred a $2.5 million deficit by the end of the 1987 in its Blue Cross/Blue Shield sponsored Preferred Provider Organization known as KeyCare. In response, the City was required to pay off the deficit and increase the employee contribution necessary to fund the plan for Employee Only Coverage from $22.02 to $80.62; for Employee and One Minor Dependent Coverage from $122.48 to $293.16; and for Employee and Family Coverage the cost to the employee rose from $148.24 to $367.36 between 1987 and 1988.

- The City of Lynchburg was presented with a proposed increase in health care premiums of 70.6% (including recovery of a $500,000 deficit) in recent negotiations with their health care insurer, in order to maintain their level of benefit coverage. After making plan design changes, requiring employee contributions and separating out

the deficit to be handled separately, the rate increase was reduced to 44%.

- The City of Norfolk, for financial reasons, has discontinued offering employees traditional indemnity coverage, and instead provides its employees with coverage through their choice of managed care programs (HMOs or PPOs).

- After several years of changing plan carriers and continuing rate increases, the City of Virginia Beach could not find an insurance carrier willing to bid on an indemnity plan for its employees. When rates substantially increased again for the managed care plans which are available, employees responded by picketing City Hall.

While each municipality contacted had their own perspective on health care costs and delivery systems, not all had experienced similar horror stories. Furthermore, not all view the creation of a consolidated program as something in which they are interested in participating. The latter observations were most commonly put forth by the larger public employers in the Northern Virginia area where there is skepticism over whether a consolidated plan could match their current plan design. Although not rejecting the idea without careful study, some of these employers have observed that the pooling aspects of a consolidated plan will be most beneficial to smaller employers.

In the course of the on-site discussions, each entity visited was asked to comment on their view of the advisability of the proposed consolidated approach

to providing health benefits coverage. Each was also asked about how they might structure conditions of participation to assure broad participation in the Plan. In addition, each was given an opportunity to offer additional comments on the project.

The comments offered were extensive; too much so to repeat in total here. Nonetheless, there were several common themes which were repeated by several groups which require close examination. These can be summarized as follows:

- There is a general sense that enthusiasm for the concept is dampened by a "wait-and-see" attitude regarding the specific cost and coverage details of a consolidated plan;

- Local Governments and School Districts are concerned over loss of control in a statewide plan and virtually all expressed the feeling that participation would be contingent upon having input into the major policy decisions affecting the Plan;

- Local Governments and School Districts are concerned about their ability to make an independent choice regarding whether participation is right for them;

- Local Governments, School Districts and Constitutional Officers expressed concern over the shrinking list of alternatives among carriers and the general trend away from indemnity coverage, citing

examples of unsuccessful bidding experiences when carriers refused to make quotes;

- o There was essentially universal agreement among potential participating employers that premium rate stabilization would be a primary consideration in assessing participation in a consolidated plan;

- o Many groups are concerned about the level of service which would be provided in claims processing, inquiries and problem resolution;

- o Some groups stated they would like to see a plan design which covers preventive care (routine physicals, etc.) and which recognizes other efforts to maintain healthy lifestyles through the rate structure;

- o Several groups described in detail how they have suffered extremely large deficits in their traditional indemnity and self-insured plans due to increased utilization, inflation and, to a lesser degree, adverse selection precipitated by attrition of workers to lower cost managed care programs;

- o Many of the groups contacted are concerned that a single statewide premium would shift a disproportionate share of plan costs from high cost areas to lower cost areas (causing rates to be non-competitive), and have noted the need for multiple rates;

- Most groups made the point that they would look favorably upon a subsidy for employee health care coverage and would see such a subsidy as an inducement to participation in a consolidated program; and

- There was general acceptance of the need to place restrictions on the ability of participating employers to enter or withdraw from the Plan. Among the options cited were five-year initial enrollment periods with five-year renewals, or a three-year initial enrollment period with a mandatory two- or three-year advance notice for withdrawal thereafter.

INTERESTED PARTIES

As noted above, in addition to meetings held with elected and appointed officials and staff within the local government and school jurisdictions, meetings were also held with other interested parties. Among their concerns were the following:

1. Constitutional Officers whose interests were communicated through the Compensation Board:

   - Are concerned over the availability of coverage, limited choices;

- Are concerned over the disparity of employer contributions across the State and the relative effect of this disparity on total compensation;

- Would like to see the State specifically recognize the cost of health care in their reimbursement formula; and

- Would like to see universally required coverage for all Constitutional Officers in the State.

2. The Virginia School Boards Association (VSBA), representing school districts throughout the State:

- Questions whether participation would be mandatory or voluntary;

- Advocates separate rating pools for school employees and other groups (i.e. Constitutional Officers) to avoid dilution of one group's expected poor experience, thereby adversely affecting other groups with better experience;

- Would support mandatory participation in a consolidated program if the State will contribute the difference in cost above the schools' current program;

- Strongly supports active utilization and cost monitoring activities as a means of controlling escalating costs;

- o Recognizes the need for varying premium rates by area, but opposes experience rating; and

- o Pointed out the diverse definitions of "part-time" employees used by school districts and noted the coverage categories used by districts can be equally diverse.

3. The Virginia Education Association (VEA):

- o Related the fact that the recent increases in health premiums appear to be falling disproportionately on the shoulders of employees whose contribution requirements are continuing to soar;

- o Expressed concern over districts which provide little or no employer contributions for health care coverage;

- o Is supportive of a statewide, state-funded health care program for teachers, but recognizes the practical difficulties of seeing this objective realized in the immediate future;

- o Voiced frustration over competing objectives which pit the need to increase salaries for competitive reasons against the growing employee contributions required for health care coverage;

- Noted the rising crescendo of members voicing despair over increased premium rates from all over the state (except in Fairfax where the employer pays 75% to 100% of the premium);

- Would support the inclusion of teachers in the State Employee Health Benefits Programs;

- Is opposed to standardizing plan design to consolidate all coverage for teachers if it results in a reduction in benefits to any specific group;

- Believe that a cafeteria plan of benefits is an alternative which would be beneficial;

- Expressed concern over the level of service provided by the present State health carrier;

- Related a commonly held belief among teachers that increased competition in this insurance market would be beneficial;

- Expressed concern over the adequacy of reports provided by Blue Cross and Blue Shield as a useful way of determining the true costs of their plans;

- Stated its interest in having the State pay some portion of retiree health costs;

- Has traditionally endorsed independently sponsored pooled group plans, specifically the Blue Cross/Blue Shield Educators' Program. When negotiations over pooling policies and premium rates broke down two years ago, however, the endorsement was discontinued; and

- Questioned the payment of commissions through the VSBA sponsored Premier Plan underwritten by Blue Cross and Blue Shield.

4. The Virginia Municipal League (VML), which represents 41 cities, 179 towns and 15 urban counties:

   - Sees the availability of coverage, the level of premiums and the rate of annual increases as the greatest concerns to local governments and school districts;

   - Recognizes certain advantages from pooled group arrangements and, having tried unsuccessfully to establish their own polling groups about two years ago, have initiated discussions with Blue Cross and Blue Shield regarding how such groupings could be established to encourage municipal participation. That project has been placed "on-hold" pending the outcome of this feasibility study;

- Perceives the development of premium levels as a major regional problem to be addressed to avoid the prospect of having lower cost areas subsidize higher cost urban and suburban areas;

- Suggests adoption of a surcharge to groups which enter after the initial enrollment period, or which leave the program;

- Believes age-banded premium rates present a barrier to the employee's ability to pay for coverage;

- Supports the concept of making benefit coverage available to part-time employees;

- Is concerned that social service employees funded under Title XX are not overlooked in developing eligibility criteria for an expanded program. It was felt that this group's unique status may cause them to "fall through the cracks";

- Cites the success of the 8-year-old, $9.5 million VML workers compensation plan, which covers 278 local subdivisions, as an example of the results which can be obtained through collective efforts;

- Would like to work with the State in the formation of a consolidated program; and

- Is committed to development of an independently sponsored pooled group arrangement for its constituents if the State decides not to pursue a statewide consolidated plan.

5. The Virginia Governmental Employees Association (VGEA), which represents 14,000 State employees, municipal employees and Constitutional Officers:

- Has targeted better health care benefits for state employees (full and part-time) and retirees as a primary organizational objective;

- Opposes cost increases to state employees, as well as any reduction in current benefits;

- Believes that retirees should continue to receive health coverage beyond retirement, financed in the same manner as for active employees;

- Is sensitive to the emerging trends towards job-sharing and believes that a distinction should be made between part-time positions and full-time positions which are shared by two people. This distinction would include entitlement to various employee benefits;

- Is concerned that simply opening the State Employee Health Benefits Program to other groups could be detrimental to the financial stability of the State Program;

- Expressed concerns over the ability of what is perceived to be an over-extended administrative staff under the current program to respond to the needs of an expanded program;

- Voiced skepticism over the manageability of a statewide program, citing their perception of the present VSRS programs as unmanageable because of the viewpoints and political considerations of the large number of employers involved; and

- Believes that the best approach would involve separate programs for each of the major groups rather than one large group.

6. The Virginia Association of Counties, representing Counties throughout the Commonwealth:

- Has major concerns over increases in the cost of health benefits;

- Reports that a number of counties have been unable to find insurance companies willing to quote for their insurance business;

- Believes that freedom to choose a health plan which meets their needs is something employees have come to expect;

- Is concerned about the way a consolidated plan would be required to fund its reserves;

- Notes that counties are reporting rate increases of 30 - 50% and have had to tap contingency funds in order to cover deficits and mid-year premium increases; and

- Has begun to study formation of a pooled group plan for its members, should the State opt not to pursue formation of a consolidated program.

F. SUMMARY OF DATA ANALYSIS

Based on all of the evidence cited above, it is reasonable to conclude that there is a substantial level of interest in the creation of a statewide health plan which would allow the participating entity to purchase a benefit plan consistent with their perceived needs, at rates which offer greater stability over time. Interest appears to be greatest to participate in a plan which would permit employers to become involved for their active employees at their present contribution rates. There is also evidence of interest in expanding coverage to retirees, but that interest declines somewhat if contributions above current levels are required. Interest in covering part-time employees

ranks third, with a similar reaction to coverage of this group at higher than current contribution rates, as was shown for active and retired employee groups.

Virtually no employer type distinguished between coverage for Constitutional Officers and other employees, consistent with the statutory mandate to treat them the same.

In comparing the average monthly premiums paid (combined premiums including both employee and employer contributions), the average Employee Only rates for the most similar coverage to that provided by the State (Base Plan Major Medical) is $93.05 compared with the State rate of $92.00. Family Coverage under similarly comparable plans average $239.64 versus $230.00 paid by the State.

When reviewed separately, school district rates for the coverage are somewhat lower at $91.67 than the State rate for Employee Only coverage, while the family rates at $242.03 are higher. Local governments paid $94.42 and $237.25 respectively, both slightly higher than the State rate.

When the issue of size is imposed, the combined average premiums of the smaller employees are greater for each category than the State totals, while for medium and large employers (which cover the bulk of the employees), premium rates paid on average are below the State amounts. If the indicators of greatest interest based on costs remaining constant are overlaid upon the total premiums paid out by those groups,it becomes evident that significant enrollment in a

consolidated plan will be feasible only if a range of plans and costs are offered to the various employer groups. It is reasonable to conclude, however, that such a program is feasible with the potential for significant savings of public funds in the future.

The implications of this conclusion with respect to the basic question posed in this feasibility study are significant. In its simplest form, the question can be stated "Is it feasible to permit any or all of these other groups of public employees to enroll in the State Employee Health Benefits Program?"

For reasons which will be discussed in the following sections of this report, an unqualified yes or no answer to that question would be misleading. Clearly the charter of the existing plan could be legislatively amended to simply permit local participation in the State program. This action would enable local groups to benefit from administrative economies of scale which would have the potential to positively impact their costs. Because plan costs include benefit payment costs, however, it would be necessary to structure such a program to take into consideration a number of significant items, including, but not limited to:

(1) the impact of adverse selection on the State program;

(2) the impact on their own benefit costs if rated in a pooled group which is separate from the State program, but which includes other local groups; and

(3) the level of participation which could be expected.

As noted in Appendix J, for groups paying less than the current cost of the State program, the interest in such an approach rated a total of 2.73 on a scale of 5, where 5 indicated greatest interest. This appears to be a direct function of their concerns over cost.

Each of these elements needs to be examined independently in order to determine their true cost impact for local groups (including School Districts) and to evaluate whether the administrative cost savings may be offset by these other elements.

Such an approach would also have an impact upon the current State Employee Health Benefits Program. Additional administrative functions not presently required, but which are enumerated later in this report, would necessitate expanding staff resources dedicated to the State program. Depending upon the number of employing entities which would choose to participate and the numbers of employees they represent, the additional administrative costs may result in higher costs overall.

Understanding the inverse relationship between the number of employees which ultimately may be covered and the cost of coverage per covered employer, the following sections of this report examine policy issues which need to be addressed, focusing on those which would provide the most cost effective program and encourage maximum participation.

III. POLICY CONSIDERATIONS

Having established the existence of significant interest in the establishment of a statewide health plan, a number of important policy considerations need to be addressed. While the specific decisions regarding these matters are most appropriately addressed by the governing authority selected to make such decisions, it is useful to identify the primary issues which must be resolved under most, if not all, possible scenarios.

These policy areas include the following:

Legislative and Compliance Considerations;
Structural Considerations;
Administrative Management Responsibility;
Funding Issues.

A. LEGISLATIVE AND COMPLIANCE CONSIDERATIONS

Enabling Legislation

The importance of this ingredient in the success of the overall program cannot be overstated. Among the specific items which should be included in the legislation are:

1. Enabling language authorizing the creation of a statewide public employee health benefit trust;

2. Designation or creation of a governing authority charged with responsibility for managing the administration of the trust, including the expenditure of funds necessary to pay benefits, hire staff and engage the services of other professional advisors and vendors, as necessary, for the prudent administration of the Plan(s) of benefits provided and investing plan assets in a prudent manner;

3. Rules defining the composition and/or selection process for the governing authority, and its duties and responsibilities;

4. Authority for the creation of a benefits structure which permits multiple plans of benefits to be provided, and which places authority for establishing the various benefit and contribution levels with the governing authority;

5. General rules defining the groups eligible for participation in the Plan(s);

6. Language which provides for the incorporation of the existing State Employee Health Benefits Plan into the consolidated program;

7. Authority to enable the governing body to amend the Plan to comply with existing and future governmental statutes and regulations affecting the Plan; and

8. Authority for the creation of a qualified Section 125 Plan for covered employees to pay for their portion of health care coverage, and for benefit alternatives provided outside the basic plan of benefits (either through greater or lesser deductibles, or specific benefits not presently provided through the State Plan).

Statutory Compliance

Although health benefit plans adopted by public employers are not subject to the same federal reporting and disclosure requirements as plans in the private sector, from time to time the federal government imposes requirements on plans which, if ignored, may have tax implications for covered employees. An example of such federal intrusion can be seen in section 89 of the Internal Revenue Code, brought about by the Tax Reform Act of 1986.

Enacted both as a means of ensuring that benefit plans do not discriminate in favor of highly compensated employees and as a revenue enhancement measure, section 89 requires that plans provided to private and public employees pass both qualification and non-discrimination tests if these benefits are to be provided on a tax-free basis. Specific requirements for determining how a consolidated plan would comply with the section 89 obligations have been developed and appear in Appendix K. As noted above, however, the ability to amend the consolidated plan to comply with federal statutes, as necessary to protect the tax-free status of benefits provided therein, should be delegated to the designated governing authority as part of the enabling legislation. This would permit such changes to be made without encumbering the legislative calendar of the General Assembly with pro forma exercises.

B. STRUCTURAL CONSIDERATIONS

The two most crucial considerations of any new program which can mean the difference between success and failure are the plan design and its administration. Plan design represents not only the benefit plan composition, but also the control elements which permit the available revenue to be used to maximize the efficiency of expenditures made for covered benefits.

Plan Design

Because of the diversity among the potential participating groups, and their respective needs, abilities and willingness to pay for coverage, it will be necessary to offer several levels of benefits at varying contribution rates. It is important, however, to include adequate controls to maximize the value of the services provided for the money spent across all benefit levels.

Although the different needs and cost considerations are important in terms of participation, the key aspects of design shall, in fact, stress the similarities. Among others, adequate inpatient coverage, incentives to use outpatient services in lieu of inpatient care where medically appropriate, and coverage of a variety of less expensive alternatives to acute care facilities for surgery, rehabilitative services and treatment of the chronically and terminally ill, are all important aspects of design which must be included to provide adequate, yet cost effective coverage.

Each of the benefit plan alternatives would begin with a core of benefits, including these common elements, then build upon that foundation (providing enhancements or adding ancillary services) using a "building blok" approach. The number of variations should initially be kept to a minimum, for administrative ease, but could be expanded over time as the plan becomes more mature. The scope of coverage selected would then form the basis for establishing rates.

Cost Management

While good plan design can create proper opportunities in which cost effective care can be provided, utilization must be monitored and a system must be developed to enable the plan to identify and utilize providers whose costs and practice patterns are consistent with the goals of providing high quality care at reasonable costs.

Utilization Review

Among the elements of a comprehensive utilization review program in brief are:

- Pre-admission certification - requires a covered participant to obtain advance approval of non-emergency admissions to rule out inappropriate admissions and redirect participants to other appropriate levels of care, if indicated;

- Admission review - verifies the need for emergency admissions, psychiatric admissions (these are usually of an urgent or emergency nature) and admissions which did not receive a pre-admission review;

- Concurrent review - monitors lengths of stay while the patient is still hospitalized. This allows the reviewers to play a role in managing the patient's care along with the attending physician so that only appropriate services are being rendered;

- Discharge planning - identifies alternative forms of care for individuals who no longer require the services of an acute care facility. Most patients recover much sooner in their own homes. If a discharge to home is warranted, the patient could receive home health care services at a fraction of the cost of an inpatient stay;

- Exclusion of weekend admissions - excludes emergency or maternity admissions; and

- Ambulatory review - extends the review of care provided beyond the classic inpatient setting to include review of the quantity, appropriateness and quality of care provided in outpatient facilities, ambulatory care clinics and physicians' offices.

The implementation of the above programs would assist in the control of hospital expenses because the utilization of services provided would be reviewed prior to, or at the time of, the admission. Pre-admission and concurrent review programs have been shown time and again to achieve maximum cost management controls. These programs should be kept as simple as possible, however, for the participant's sake. For example, a telephone-based system has

proven to be the most effective for patient compliance with these programs while a paper program tends to result in confusion and non-compliance.

In conjunction with a comprehensive utilization review program, adoption of a Large Case/Catastrophic Management program would identify potentially high risk patients at the time of admission or during the concurrent review process. A Case Management program identifies cost-effectiveness, and alternative options to acute care hospitalization. Catastrophic management encompasses a process whereby a patient with chronic, catastrophic or recurrent illness receives medically necessary and appropriate health care in the most cost effective, comfortable and personally sensitive environment possible.

Preferred Provider Organization (PPO)

Utilization review and case management are most effective when they are part of an integrated health care network. Such a network would include both inpatient and ambulatory care providers ranging across the full spectrum of health care. This is not synonymous with full free choice, however, since other effective cost management requires close control of the provider network to assure both the cost and quality of the delivery system. This can be effectively managed through the use of Preferred Provider Organizations (PPO).

A PPO consists of a contractual relationship between a select group of health care providers and a purchaser(s). Were this approach adopted, the consolidated Program could make use of existing networks in areas where they have proven track records (filling in the gaps in other areas such as the central part of the State where no effective PPOs are operating) or create a

statewide network of its own. With a current employee population in excess of 100,000 active and retired employees and statewide presence, The Commonwealth of Virginia is in a very advantageous position for negotiating competitive rates with providers in Virginia. The potential for a consolidated program which could exceed 200,000 employees is even greater. Consequently, the State may want to consider the benefits of a PPO plan as the primary health care delivery system for all of their active and retired employee health benefit programs.

PPOs have become the fastest growing health care delivery system because they combine the best of the fee-for-service and HMO models of care. More and more employers are turning to the PPO concept because of the documented savings they achieve and the relative freedom of choice of providers that PPOs allow employees.

Currently, more than 50% of all hospitals and 60% of all physicians in the U.S. are members of PPO networks. The main incentive for their participation is economic because of the oversupply of physicians and hospital beds. Financial incentives then direct patients to the preferred providers. The employer in turn receives reduced rates for their employees' health care.

Generally, a PPO contains the following characteristics:

- a limited panel of physicians, hospitals, freestanding facilities and other providers;

- a prospectively negotiated payment (usually based on a fee for service);

- employee choice in using the preferred panel of providers;

- prompt payment of claims;

- financial incentive for employee to use the preferred plan; and

- stringent utilization review and quality assurance programs in place to monitor providers.

Provider Panel. When developing a provider panel, the needs of the employees must be met or the panel will not be used. For example, the number and types of primary care and specialty physicians, their locations and their reputations will affect employee participation. Only reputable community hospitals should be included in the panel. In addition, all participating providers must meet certain licensure and accreditation requirements and maintain these in order to be considered for and remain a member of the panel.

Pre-Negotiated Payment. Although the General Assembly could conceivably mandate a "most favorable discount" requirement which would require that providers grant the consolidated program discount arrangements not less than the best discount being offered to other payors, it is likely such action would be counter productive. A voluntary network of providers which recognize the economic wisdom of participating in a program which represents such a large

block of consumers will produce more positive long-term results. Reimbursement for physician services is most cost effective when a fixed-fee method is used. On the hospital side, a discount from charges is quickly becoming the least preferred method for employers and other purchasers while per diems, DRGs and per-case payments are proving to be more cost effective for employers.

Employee Choice. Unlike an HMO, the employee has the choice to go outside of the panel for care. Depending upon the design of the benefit plans, however, financial disincentives such as increased deductibles and/or co-payments are common. In addition, the administrative burdens of claims submission and the financial pinch caused by providers who require payment at the time of service also await employees who choose to use a non-panel provider for their health care.

One of the most common reasons that employees use non-panel providers is because their personal physician is not a member of the panel. Many PPOs will often allow long-time physicians of patients to enroll in the PPO as long as they meet all of the accreditation requirements, agree to the administrative and fee requirements and agree to follow the PPO's utilization review and quality assurance programs. Employees need to be made aware of this flexibility in the PPO model.

Prompt Payment. In exchange for a fixed-fee schedule or per diem etc., the provider is reimbursed, depending on the claims payor, between 5 and 30 days after receipt of a claim. Naturally, this turnaround time and improved cash flow is very attractive to providers, especially the hospitals, since Medicare

and some other payees have either terminated or delayed their bi-weekly interim payments.

Financial Incentives. Most PPOs are structured so that patients have certain financial incentives to use the panel of providers. For example, some plans waive the co-payment or deductible amount while others offer additional benefits such as an annual physical or a service currently not covered under the employer's plan.

Utilization Review (UR) and Quality Assurance (QA). The Utilization Review (UR) and Quality Assurance (QA) components of a PPO are probably the most important of all of the characteristics. In a PPO environment, stringent utilization and quality assurance controls are relatively easy to administer because the patient and provider population under observation is relatively small. In addition, PPO providers who know that they are being scrutinized and can be terminated from participation for abuses, will be more cognizant of the necessity and appropriateness of any procedures and/or services that they order.

Aside from the elimination of both unnecessary hospital admissions and health care services and the promotion of cost effective alternatives to hospitalization, the utilization review program should include a measure of the quality of care being provided to patients. Managed care systems that establish particular provider panels and offer incentives for patients to use the panel may be held responsible for the selection of providers. Therefore, it is wise for the PPO to establish measures of quality assurance that will be

applicable to all providers. These measures should provide for organization, quality and clinical controls. Criteria norms are available from a number of sources for both inpatient and outpatient quality assurance review.

Measuring the quality of care has generally taken three forms: Structural measures, Process measures and/or Outcome Measures. Structural measures consist of resource inputs such as a hospital's ratio of nurses to patients or a physician's certification status within his/her specialty. Process measures refer to whether a physician or nurse provided treatment that conformed with recognized standards of care. Outcome measures then would include, for example, hospital death rates, infection rates and patient satisfaction levels.

Experience has shown that it is not sufficient to simply obtain this information from the providers. The PPO must verify the quality of all care information submitted to them.

Should the development of a consolidated program be authorized, these elements should be carefully considered as an effective means of cost control for any plan of benefits adopted.

Administrative Functions

In addition to design considerations, a consolidated health benefits plan which cuts across multiple agencies and involves a variety of employee groups (becoming in essence a multiple or multiemployer plan), has very clear administrative requirements. These can be met through direct or third-party

administration, and are essential to the successful management of the program. Among the most significant considerations are:

1. Adequate eligibility controls -

   The most effective cost management feature of any health benefit plan is accomplished through ensuring that benefits are provided only to those persons who meet the defined eligibility criteria set forth for coverage. Such controls include:

   a. well defined rules governing the conditions under which groups may participate;

   b. clearly articulated eligibility criteria for

      1) employees;

      2) dependent spouses;

      3) dependent children;

      4) disabled dependents;

      5) retired employees; and

      6) survivors of employees and retired employees.

   c. a central point of entry for enrollment;

   d. a central, consolidated eligibility data base capable of

      1) tracking eligible participants;

      2) identifying terminated participants eligible for COBRA continuation coverage; and

      3) generating lists of eligible persons for service providers, other vendors and to audit claims paid by insurance companies, etc.....; and

e. a means of educating staff in all participating employment situations about all aspects of this program and monitoring performance for compliance with the rules.

2. Comprehensive Financial Services including:

   a. income collection, record keeping and delinquency tracking;

   b. investment management;

   c. actuarial/underwriting services; and

   d. government compliance and reporting.

3. Claims Processing Services including:

   a. claims adjudication;

   b. claims payment;

   c. participant record keeping; and

   d. appeals resolution procedures.

4. Utilization Review and Cost Management Services including:

   a. review of the necessity, appropriateness and quality of the care provided to employees;

   b. use of alternative systems of health care delivery such as HMOs and PPOs; and

   c. Data collection (cost and utilization) by:

      1) benefit item

      2) group

      3) provider type

      4) specific provider

5. Communications services including:

   a. Participant communications such as:

      1) summary plan descriptions;

      2) understandable claims and enrollment forms; and

      3) ongoing employee health care communications.

   b. Employer communications such as:

      1) clear enrollment instructions/procedures;

      2) reporting instructions/forms; and

      3) on-going communications.

   c. training services for liaison staff in related organizations.

6. Legal Services to provide advice on matters involving litigation (actual or actionable) and on legal aspects of compliance with state and federal statutes and regulations.

As noted above, any of the alternative administrative structures will require that these items be given prompt and serious attention. Although far from exhaustive, each of the items listed is sufficiently important to warrant attention.

Risk and Conditions of Participation

Risk

As discussed above, a primary contributing factor to the initiation of this study was the growing concern expressed by groups throughout the Commonwealth

over rapidly escalating costs related to the operation of their health benefit programs. Understandably, many of the most vocal groups were those who had experienced the most significant rate increases, and could be expected to be among the most interested in joining an expanded statewide plan.

In examining this situation more closely, however, it becomes clear that the groups which have experienced the greatest increases and which would benefit most from the pooling advantages of a larger group are those which have had the worse claims experience overall. If these groups alone were to elect to join an expanded statewide plan, this "adverse selection" would likely drive up the cost of the overall program; in effect, causing that program to subsidize the poor claims experience of these new entrants by spreading the cost over the whole population. One means of limiting this risk of exposure created by adverse selection is through structuring the rules of participation to limit the ability of participating groups to opt out of participation and re-enroll at a later date to limit "shopping" by participating groups.

Conditions of Participation

The notion of limiting the ability of a group to enter or withdraw from a pooled benefit plan is not unique. Legislative mandate has been used to require participation in and prohibit withdrawals from VSRS for retirement and life insurance benefits for State employees and teachers. Other political subdivisions are free to elect participation, but once in, withdrawals are prohibited.

Similar conditional mandates could be imposed upon certain groups with respect to participation in a health benefit program. If, however, the same standard of voluntary participation but no withdrawal used by VSRS would be imposed for local government health plans, it could be counterproductive, keeping groups with acceptable to good claims experience from entering due to the substantial risk of being pooled only with groups with poor experience, thereby driving up future costs.

Consequently, two choices are left. The first is unconditional mandatory participation for any specific group or for all groups. This approach would effectively reduce the Plan's exposure to adverse selection but it may be unnecessary overkill. Various municipal and other interest groups have expressed the opinion that the wide disparity among groups across the state in their current plan costs and design would provoke significant opposition from the groups who currently provide extensive benefit plans and are large enough to have benefited from economies of scale without sacrificing their independence.

Alternatively, a plan which makes withdrawals difficult, but not impossible and which offers incentives to participating employers and employees, would be broadly supported. In addition, a mandatory element requiring participation for groups whose health plans are non-existent or substandard (as measured against a defined minimum benefit level) could be included, consistent with the standard applied for voluntary participation in VSRS programs. Such mandatory minimum coverage would be required for all employees of a given group, presumably with some minimum level of employer contribution, again to protect

against adverse selection. This could be accomplished without significant new revenues for some specific groups (such as school teachers for whom the portion of the State reimbursement formula attributable to health benefit coverage could be paid directly to the health plan rather than to non-complying school districts). Financing for other groups, such as Constitutional Officers, would require reallocation of revenues, designation of a portion of the State reimbursement formula, or new revenues to provide such coverage.

In reviewing the concerns expressed by local government and school district officials, a common inducement to join a consolidated plan was a subsidy of some sort. While this reflects a common recognition that competition for tax dollars is growing continually more acute, it is essential that the indirect subsidy provided through economies of scale can produce the same result as a direct subsidy -- namely, a reduction in the capital outlay required to maintain the health benefit program. This subject will be revisited below under the topic of financing.

With regard to the specific conditions under which entities may join or withdraw from participation in the program, several options are available. These would include:

- An initial period of enrollment shall be offered with a suggested time frame of 2-3 years with no option or with penalties imposed on groups which opt to join thereafter;

- An initial enrollment period could be created of a specified number of years (e.g., 5 years) during which withdrawal would be prohibited. Thereafter, the group could opt to continue for an additional specified enrollment period of several years;

- Employees could be permitted to enroll at any time but would be required to commit to withdrawal a minimum of X years (3-5) in advance of actually doing so;

- Enrollment during the initial period could be rewarded by permitting these early groups to withdraw with a shorter notice period than required for groups who enroll after the initial period; and

- Reenrollment after withdrawal could be prohibited or limited to one time with 3-5 years between the date of withdrawal and the date of reentry.

Any of these alternatives, individually or in combination, could be viable (as can many others). The important considerations to keep in mind are that groups should be encouraged to enroll as early as possible to broaden the pooling base and lessen the effect of adverse selection. Incentives for joining should be built in, as should disincentives to discourage withdrawal. Finally, rather than prohibit groups from withdrawing, the imposition of a waiting period following the decision to withdraw will:

(1) prevent unanticipated reductions from the pool while providing employers with the reassurance that they are not saddled with a program that is neither responsive nor efficient (should such a situation arise); and

(2) Allowing, but discouraging withdrawals creates a built-in safeguard for participating groups, forcing the governing authority to adopt administrative practices which ensure that the program remains an efficient, cost effective plan which is competitive with other groups in order to retain its participation base.

C. ADMINISTRATIVE MANAGEMENT RESPONSIBILITY

In examining the administrative alternatives available to handle a consolidated program of parallel plans, the first logical alternative to consider is an extension of the present administrative structure for the State Employee Health Benefits Program. This could be accomplished through significantly expanding the resources dedicated by the Department of Personnel and Training to the health benefits program. This approach may provide the fastest implementation. Nevertheless, the participation of other groups will result in pressures to become more directly involved in the policy making process in ways which may not be consistent with existing administrative practices for this or any other State agency. This is likely to occur if local funding is required to pay a significant portion of the cost of the program, and may become particularly acute if the financial or numeric participation from other entities

collectively surpasses the number of State employees in the program or its overall financial support.

In the event this alternative is determined to be the most desirable, careful attention must be directed to building a broad-based, representational "steering committee" (or some similar structure) to ensure that the special needs of each group have a voice in the decision making process.

A second alternative would be for the Commonwealth to encourage the creation of one or more risk pools sponsored by voluntary, non-profit associations. The purpose of these risk pools would be to achieve more favorable rate stabilization and produce the additional combined purchasing leverage to induce the development of better cost and utilization management techniques. It is noted that such a plan already exists for school districts and others sponsored by the Virginia Association of Counties and the Virginia Municipal League are in the discussion stages. This approach avoids administrative complexity for the State but also fails to address some of the more serious problems of broad availability of coverage for the employees of less affluent counties. Also, because participation is voluntary, the risk pools could be abandoned when the carrier or employer sees unfavorable experience. The full faith of a State-sponsored program would not be present.

A third alternative which would address the issue of providing representation without fully sacrificing the existing structure would be to spin-off responsibility for the consolidated State/Local Employee Health Benefit Program to a related agency (such as VSRS) which is already equipped to manage similar

large-scale benefits programs. This approach could capitalize on administrative efficiencies, but would require careful negotiations to ensure that the new consolidated health program would receive appropriate status and resources in the new "host" organization.

A fourth alternative would be the establishment of a separate agency whose sole function would be administration of the consolidated program. Although initially the most expensive and the slowest to implement, this alternative would reflect the level of importance appropriate to a plan of this size which represents such a significant expenditure of public funds.

D. FUNDING ISSUES

The final area of concern to be addressed is perhaps the most crucial. Obviously, the financial considerations of providing employee health benefit coverage will be a, if not the, primary consideration for groups to whom a consolidated program is offered.

Premium Rating

There are several approaches to the development of premium rating structures which could be applied to a consolidated program. At the extremes are a single statewide rate for each plan of benefits and individual experience rating by group. The first approach would be unacceptable to prospective participating employers who would view the level premium as a means of having the low cost

areas subsidize the urban and suburban areas' high costs. The second approach would be administratively cumbersome and would reduce some of the positive effects of pooling.

Because the ultimate decisions on premium rates are inextricably linked to the determination of plan design, it is reasonable to review some of the elements that should be considered, In addition to design, these include, but are not limited to:

- o regional cost differentials;
- o demographic characteristics (age, sex) of the specific group as compared with overall group norms;
- o significant experience variations;
- o employer group (County government, local government, schools); and
- o number of covered employees (employer size).

As noted in the discussion of plan costs, the current average cost of Employee Only and Family coverages paid by employers and employees closely approximate contributions required for coverage under the State program. Therefore, it is reasonable to conclude that the feasibility of a consolidated program is not contingent upon State subsidies or sources of financing other than employer and employee contributions. Merely approximating these costs, however, is not sufficient to ensure that such a program would attract significant levels of participation to be successful. Employers concerned about participation in policy making decisions as well as the bottom line costs will require incentives to join a consolidated program if all other conditions remain equal.

Incentives

Based on the results of the survey discussed above, it is clear that any statewide plan will be receiving contributions from both employers and employees. Consequently, in designing a plan which is acceptable to the universe of groups who may elect to participate, incentives must be built in for both the employer and for employees.

In reviewing the subject of incentives, the first group which requires attention to encourage participation is that group of entities which currently provides no coverage or which provides a lesser plan than that provided by the minimum coverage available under any of the consolidated programs. Such incentives could include a requirement that any State funds paid to such entities (including the portion of per capita reimbursements to school districts) which are intended to pay for any portion of health benefits coverage, be contributed directly to the consolidated plan, unless the employing entity elects to opt out by providing proof of available equivalent coverage for its employees.

Many of the affected groups have expressed interest in having the State either directly or indirectly subsidize the costs of providing health coverage to their employees. As noted above, the creation of a consolidated program in which small groups may participate carries the potential for direct savings (an indirect subsidy) through administrative efficiencies of scale. The employer cost analysis presented above indicates that smaller groups could benefit the greatest due to their current relative per employee cost.

Other groups have identified the objective of a fully subsidized program, shifting essentially all of the cost burden to the Commonwealth. Methods of funding in which existing funds identified as monies paid in recognition of healthcare expenses can be redirected have also been discussed.

The extent to which the Commonwealth is willing or able to appropriate funds for a consolidated program is, in many ways, no different from the process local officials must endure when competing interests are presented. Consequently, it would appear that difficult choices must be made, but it would also seem that compromise may present the best alternative.

Direct subsidies would require sophisticated formulas for implementation to ensure equitable distribution. These formulas would almost certainly be the source of contention in themselves. On the other hand, a lack of financial investment in such a program may give the appearance that the program does not have the support of the group which created it. A reasonable compromise could be a commitment by the State to defray a portion of the program's administrative costs through a direct allocation to the program. This would produce several positive results, including:

- an additional direct reduction in costs of coverage;
- an inducement to enroll in the program to take advantage of the subsidy; and

- a message would be conveyed that the program is viable, thereby encouraging groups to enroll.

Many of the groups which responded to the survey currently find both employee and employer incentives through the use of I.R.C. Section 125 cafeteria plans which allow employees to defer a portion of their income for payment of the employee share of health care premiums on a pre-tax basis. By doing so, the net cost to the employee is reduced, and the employer's cost may also be reduced by lowering the required F.I.C.A. contribution. Because these programs are simple to design and administer, and provide a tangible benefit to the employees, they should be encouraged for use by all employers (including the Commonwealth) which do not currently offer them. A proposed draft plan which would permit State employees to take advantage of tax savings available under this provision of the Code is enclosed as Appendix L.

Funding Vehicle

The financial vehicle to be used by the consolidated program will depend upon the structure selected. In all likelihood, the first step would involve legislative action to create a statewide health benefits program. Although the creation of such a trust is not federally mandated for a government sponsored employee benefit plan in the manner which applies to other plans which are subject to ERISA, it is eminently reasonable to do so. As a common repository the fund would be in a position to receive contributions from the Commonwealth for all State employees and from the other participating groups, to establish,

hold, and manage the investment of reserves, and to pay claims and administrative fees.

If administrative responsibility for the consolidated program were assigned to an existing agency like VSRS, creation of a separate trust may not be required as it may be possible to create a separate reserve account within the retirement trust. Nevertheless, even in this case creation of a separate trust should be considered to highlight the differing nature of a health benefits trust fund (e.g. investment strategy appropriate to health benefits trust funds stresses short-term investments in comparison to a pension fund which has long-term investment goals).

Reserves

A final consideration is the issue of reserves. Insured programs routinely include provisions for the establishment of contingency and incurred claims reserves which are built into insurance premiums. If the General Assembly were to proceed with the creation of a consolidated program, a method of accruing adequate reserves would need to be determined. To the extent that reserves currently held for the State Employee Health Benefit Program could be made available to the new consolidated Program, the necessity to frontload the required contribution to fund the reserves could be lessened. As an alternative, other measures of security could also be considered, such as having the Commonwealth guarantee contingencies. This latter approach should be considered as a stop-gap measure until such time as adequate reserves can be amortized through premiums.

IV. RETIREE BENEFITS - A SPECIAL STUDY

A. OVERVIEW

CONTEMPORARY ISSUES

The social policy issues associated with providing adequate retire health care coverage have been among the most sensitive problems of our times. There is virtually universal agreement that adequate coverage should be provided to older persons and that such coverage should be obtainable at affordable rates. That, however, is where the consensus ends. Who should pay the price? The extent to which the burden should be shared among the individual, the government and employers is a question which is being asked with increasing frequency as costs continue to accelerate.

The issue is growing in complexity. What was once a minor cost item buried in the personnel budget is now becoming a major consideration on corporate financial statements and in governmental budgets. The accounting profession has begun to issue draft standards which will result in the recognition of retiree health care liabilities on corporate financial statements. Similar action is expected for public employers in the future. In addition, the federal government is placing more of the burden for retiree health care on employers. Among employers, the question of whether rights to health benefits should be subject to pension style vesting appears to be taking hold in many areas.

Given this background, employers are understandably concerned about establishing safeguards that will provide adequate protections to employees in their retirement years without jeopardizing the financial well-being of the employing entity. The Commonwealth of Virginia has expressed its concern by commissioning this portion of the study to specifically study the cost implications of providing adequate yet affordable safeguards for providing retiree health benefits.

In our study, we analyze the problem from two perspectives. First, we focus on the cash flow implications of pay-as-you-go financing. Then, we assess the costs and relative advantages and disadvantages of pre-funding such benefits.

Summary

Health program costs for State retirees are expected to be about $15 million dollars in 1989, rising to over $30 million within 10 years. This represents a range of 0.9% to 1.4% of projected payroll. With the exception of any indirect subsidy built into the premium rating structure which pools non-Medicare retirees with active employees, this cost is borne by the retirees themselves through their contributions. Retirees age 65 and over pay the entire cost for their benefits. Consequently, the State has no current liabilities for this group. Nevertheless, recent changes in Medicare which will directly affect the design of the supplemental coverage for post-65 retirees have focused attention on this issue more intensely than before.

In response, two schemes for providing retirees with an explicit subsidy have been analyzed. One provides a fixed subsidy, the other provides a subsidy which increases over time at a constant rate, somewhat below the anticipated medical cost trend projections. In 1989 they would both cost at most 0.3% of payroll. The fixed subsidy would decrease over 10 years to 0.2% of payroll while the other would increase to 0.4% of payroll. More dramatically, however, the erosive effect of inflation on the fixed subsidy benefit would produce a 50% reduction over 10 years while the net impact of inflation on the increasing subsidies would represent a 15% decrease in purchasing power over the same 10 years.

As a final step, taken in the context of the overall study examining the feasibility of expanding the State Employee Health Benefits Program to employees of local governments and school districts, we expanded our analysis to include these groups as well. As a result, we determined that if State, school district and other local government retirees were combined, the program would more than double in size, approaching close to $100 million in 10 years. This number would be even larger if, due to a subsidy, more people enrolled

Details of our analysis for the State retirees are contained in this report. We discuss the assumptions and data underlying our calculations as well as financing and funding questions. The calculations for retirees of local governments and school districts are included in Appendix M.

B. BASIS FOR ACTUARIAL CALCULATIONS

The study takes into account various cash flow scenarios for post-retirement health care benefits. Current retirees and active employees who will retire in the future are included in the calculation. In order to perform the necessary actuarial calculations, certain assumptions were necessary. This section reviews the data and assumptions used as the basis for our actuarial calculations.

Retiree/Employee Data

Detailed data was obtained on members of the Virginia Supplemental Retirement System (VSRS) as of June 30, 1988. As of that date, a total of 49,979 pensioners were receiving pension benefits from the VSRS. State of Virginia retirees numbered 20,052, or 40%, of the total. School District retirees accounted for 23,939 pensioners, or 48%, of the total and other localities comprised 5,988 pensions or 12% of the total. Other highlights of the data are summarized below and in Table 16:

- State retirees are almost evenly split between male and females (52% male, 48% female).

- 21% of all pensioners are under age 65.

Table 16

Retiree Data

Current Retirees	Male Number	Male %	Female Number	Female %	Total Number	Total % of Total
Under 65	2,240	53	1,983	47	4,223	21
65 and Over	8,161	52	7,668	48	15,829	79
Total	10,401	52	9,651	48	20,052	100

Of the 20,052 State pensioners under VSRS, 11,800, or 59%, are currently contributing toward the retiree health benefit program having the highlights summarized below.

- There is no significant difference in the percentage of male retirees versus female retirees enrolled under the health benefit program.

- 1245 males, or 20%, are under age 65 while 996, or 17%, of the females are less than age 65.

- 60% of those eligible retirees over age 64 elected coverage while 53% of those under age 65 have elected some form of coverage.

Assumed Retirement Ages

To maintain consistency throughout the calculations, the same assumptions were made about State employee retirement ages as those used in the most recent VSRS pension valuation. Those assumed retirement ages are shown in Table 17.

Table 17
Assumed Retirement Ages

Age	Annual Rate Male	Female	Age	Annual Rate Male	Female
55-59	2.0%	3.0%	65	60.0	65.0
60	3.5	3.5	66	47.0	47.0
61	5.0	5.0	67	36.0	36.0
62	25.0	30.0	68	36.0	36.0
63	15.0	15.0	69	38.0	38.0
64	14.0	14.0	70	100.0	100.0

Withdrawal and Disability Rates

Withdrawal and disability rates are assumed to be zero.

Mortality Rates

The 1971 Group Annuity Mortality Table was used for pre- and post-retirement groups. Life expectancies are shown below for each fifth year from ages 40 to 80.

Table 18
Mortality Rates

Age	Expected Years of Life Remaining Male	Female
40	36.0	42.0
45	31.3	37.3
50	26.9	32.6
55	22.7	28.0
60	18.8	23.5
65	15.1	19.2
70	11.9	15.3
75	9.2	11.8
80	7.0	8.9

Medical Cost Trend

Retiree health benefit cost computations are very sensitive to the assumed rates of medical cost trends. The term "medical cost trend", as used here, is a composite of costs representing expected changes in utilization and new medical technology. For this study, we have used a 10% medical cost trend adjustment factor for pre-65 benefits and 8% for post-64 benefits. A lower post-64 trend rate was used because only a minor portion of the post-64 plan design (prescription drugs) is inflation-sensitive.

Effect of Medicare Catastrophic Coverage Act

The Medicare Catastrophic Coverage Act of 1988, which President Reagan signed on July 1, 1988, represents the largest expansion of the Medicare program since its inception in 1965. Included in the law is a provision for coverage for outpatient prescription drugs. This additional benefit duplicates a feature of the Commonwealth of Virginia retirement health plan for post-65 retirees.

With the exception of certain immunosuppressive drugs and home intravenous therapy drugs which are covered in 1990, Medicare coverage for outpatient prescription drugs begins in 1991. The catastrophic drug deductible is $600 for 1991 and $652 for 1992 (indexed after 1992). The coinsurance is 50% in 1991, 40% in 1992 and 20% thereafter. Stated another way, in 1991, Medicare pays 50% of outpatient prescription drug costs over $600. In 1992, Medicare

picks up 60% of the cost over $652. After 1992, Medicare will pay 80% of the cost in excess of the catastrophic drug deductible for the year.

To account for this progressive increase in prescription drug coverage under Medicare, and the corresponding duplication of benefits with the State retiree health program, we have made applicable adjustments to the premiums for 1991 and thereafter.

Assumed Average Current Cost Per Retiree

Annual premiums were used as a surrogate for costs. This was necessary due to the limited availability of actual costs data. Based on our experience, premium levels generally approximate cost levels to a degree which is satisfactory for planning studies of this nature.

The cash flow analysis for retiree health benefits assumes that the average per retiree premiums for calendar year 1989 are as shown in Table 19:

Table 19
Annual Premium Per Retiree*

	Annual Premium
Pre-65	
Male Retiree	$3,440
Female Retiree	2,504
Per Retiree	3,003
Past-64	
Male Retiree	$ 812
Female Retiree	711
Per Retiree	763

*Includes averaged costs for family coverage.

These annual premiums, which include Family Coverage, are based on the current State retirees who have enrolled for post-retirement health benefits. For calculation purposes, the annual premiums used for pre-65 retirees were rated by age as well as sex. For post-64 retirees a constant rate was used. The age breakdowns were based on the report entitled "Age Banded Contribution for Medical Benefits" prepared for the Commonwealth of Virginia.

C. CASH FLOW ANALYSIS

Based on the data and assumptions outlined in the previous section, we have calculated a 10-year cash flow for providing post-retirement health benefits to State Retirees.

Program as a Whole

To establish a benchmark for comparison, we calculated the cost for the entire program of health benefits offered to State retirees on a 10 year cashflow basis. Table 20 shows estimated costs for State retiree health care independent of the source of funds to pay those costs. We used current enrollment levels for State retirees (53% for pre-65 retirees and 60% for post-64 retirees). The per retiree costs do not change at exactly the trend rate due to changes in the demographic mix.

Table 20
Full Program Costs Independent of Source of Funds

Year	Full Program Costs (in millions) Pre-65	Post-64	Total	Annual Cost per retiree Pre-65	Post-64
1989	$ 7.2	$ 7.6	$14.8	$3,003	$ 763
1990	8.5	8.6	17.1	3,356	824
1991	9.5	9.0	18.5	3,720	824
1992	10.0	10.0	20.0	4,089	875
1993	10.2	11.0	21.2	4,471	912
1994	11.1	12.2	23.3	4,933	985
1995	12.1	13.5	25.6	5,438	1,064
1996	13.3	15.0	20.3	5,989	1,149
1997	14.6	16.5	31.1	6,596	1,240
1998	16.1	18.1	34.2	7,265	1,339

Next, we calculated the maximum cost exposure under the current program. Table 21 shows how large the program costs could be if every eligible State retiree enrolled in the program. This scenario might only happen if retirees did not have to pay any part of the cost; nonetheless, it is helpful to have knowledge of the potential upper limits of cost for the retiree health program. For purposes of this projection, we have assumed that the average cost of those not currently enrolled is the same as those enrolled. In reality, that additional coverage cost is likely to be smaller, due to the tendency for those who need and can afford the coverage most to be the ones who enroll first.

Table 21
Maximum Program Costs With 100% Enrollment

Year	Maximum Program Costs (in millions) Pre-65	Post-64	Total
1989	$13.7	$12.7	$ 26.5
1990	16.0	14.4	30.4
1991	18.0	15.0	33.0
1992	18.9	16.7	35.6
1993	19.2	18.3	37.5
1994	20.9	20.3	41.3
1995	22.8	22.5	45.3
1996	25.0	24.9	49.9
1997	27.5	27.5	55.0
1998	30.3	30.2	60.5

Indirect Subsidy

Current State Retirees who enroll for post-retirement health benefits pay all or a large portion of their total benefits costs. Covered retirees who are ag 65 and over have a separate and distinct benefit plan and pay the full cost of coverage for that plan. On the other hand, retired State employees who are under age 65 can continue coverage under the State plan which covers active employees. These retirees have the same benefits as active employees and pay contribution equal to the composite per employee cost experienced by the Commonwealth overall. Because the pre-65 retirees covered by the State plan have higher average costs than the average cost of all active State employees, the State plan provides an indirect subsidy to those retirees.

Based on the age banded rate data, we have determined that the cost for retirees under age 65 is about 50% higher than the overall composite per employee cost and, therefore, the Commonwealth is subsidizing approximately 33%, or $993, of the annual cost for 1989.

It is expected that the percent of indirect subsidy will change only slightly over the ten year time horizon projected in this study. Assuming the active population remains stable, the composite per employee cost is expected to change only due to medical care cost trends. Changes in the demographic mix of the under 65 retirees will affect their per retiree costs which will, in turn, cause the indirect subsidy to change somewhat.

One caution regarding expansion of the State Health Benefit Plan to include retirees of other political jurisdictions should be noted.

Should the current State plan with its existing contribution rates be expanded to include the School District and other local retirees currently covered by VSRS, those retirees would also receive a subsidy from the State plan. Financial arrangements between the Commonwealth and the local jurisdictions participating would need to be made to avoid such an unintended subsidy.

Table 22 exhibits the costs of the indirect subsidy. The table calculates the subsidy as the difference between the contributions required for under age 65 State retirees based on the composite active employee average cost (Total Over 65 Contributions) and the age rated costs for that same group (Expected Pre-65 costs).

Table 22
Indirect Subsidy Analysis

Year	Total Pre-65 Contributions (in millions)	Expected Pre-65 Costs (in millions)	Indirect Subsidy (in millions)	Percent of Expected Pre-65 Costs
1989	$ 4.8	$ 7.2	$ 2.4	34%
1990	5.6	8.5	2.9	34
1991	6.2	9.5	3.3	35
1992	6.5	10.0	3.5	35
1993	6.7	10.2	3.5	34
1994	7.3	11.1	3.8	34
1995	7.9	12.1	4.2	35
1996	8.7	13.3	4.6	35
1997	9.5	14.6	5.1	35
1998	10.5	16.1	5.6	35

Explicit Subsidy

We have been asked to determine the effect of an explicit subsidy which provides length of service related benefits but limits the Commonwealth's expenses. An example of such a scheme would entail the Commonwealth contributing $1 per month for each year of service up to a maximum of $30 per month.

Table 23 shows the Commonwealth's costs under this scheme. To approximate the costs for other levels of monthly contributions, the desired dollars per month amount should be multiplied by the $1 per month costs shown.

In Table 23 we have assumed 100% enrollment. For consistency, the percentages shown are with respect to the maximum program cost shown in Table 21 earlier in this section. It is expected that the enrollment percentages would vary depending on the Commonwealth's contribution level increasing as the contribution level increases. If the average per retiree cost of the additional

enrollees is about the same as for current retirees, the percentages shown in the exhibit will not be affected by the enrollment level.

Table 23
Explicit Subsidy Analysis

Year	Cost to State of Each Cost per Year of Service Contribution (in millions)			Contribution as a Percent of Full Program Cost		
	Under 65	Over 64	Total	Under 65	Over 64	Total
1989	$1.0	$3.6	$4.6	7.2%	28.1%	17.3%
1990	1.0	3.7	4.8	6.4	26.1	15.7
1991	1.0	3.9	4.9	5.8	26.1	15.0
1992	1.0	4.1	5.1	5.3	24.5	14.3
1993	.9	4.3	5.2	4.8	23.5	14.0
1994	.9	4.4	5.3	4.4	21.8	13.0
1995	.9	4.6	5.5	4.0	20.2	12.0
1996	.9	4.7	5.6	3.6	18.7	11.1
1997	.9	4.8	5.7	3.3	17.3	10.3
1998	.9	4.8	5.7	3.0	16.0	9.5

Table 23 also shows that the contribution as a percent of cost decreases substantially over time. To offset this negative affect, the State might consider increasing the contribution annually. A 5% increase each year would reduce the inflationary erosion seen in keeping the percent of cost contributed by the Commonwealth constant. This is demonstrated in Table 24.

Table 24
Explicit Study Cost With Inflationary Adjustment
Expressed in Terms of the Cost per $1 per Year
of Service and Percentage of Full Program Cost

Year	$ (in millions)	Percent
1989	$4.6	17.3%
1990	5.0	16.5
1991	5.5	16.5
1992	5.9	16.6
1993	6.4	17.0
1994	6.8	16.5
1995	7.3	16.1
1996	7.8	15.7
1997	8.4	15.2
1998	8.9	14.7

Analysis as a Percent of Payroll

Payroll growth for State Employees is dictated by State policy, unlike growth in health benefits costs which is determined by factors beyond the State's control. Based on discussions with the State staff, it is projected that payroll will grow at 4% annually, assuming the size of the active employee population remains the same. As mentioned before, we are assuming trend rates of 10% for pre-65 benefits and 8% for post-64 benefits. In addition, costs will increase due to aging and increases in the number of retirees. These factors imply that the post- retirement costs will grow faster than the growth in payroll.

Table 25 compares the two contribution schemes, the indirect subsidy and the projected program costs as percentages of payroll. They are presented together for ease of comparison.

Table 25
Full Costs and Costs of Indirect and Explicit Subsidies
As A Percent of Active Payroll

Year	Full Cost of Program Regardless of Source of Payment			Indirect* Subsidy
	Pre-65	Post-64	Total	
1989	0.4%	0.4%	0.9%	.1%
1990	0.5	0.5	0.9	.2
1991	0.5	0.5	1.0	.2
1992	0.5	0.5	1.0	.2
1993	0.5	0.5	1.0	.2
1994	0.5	0.6	1.1	.2
1995	0.5	0.6	1.2	.2
1996	0.6	0.7	1.2	.2
1997	0.6	0.7	1.3	.2
1998	0.6	0.7	1.4	

Explicit Subsidy

Year	Contribution of $1 Per Month Per Year of Service			Contribution Per $1 of Per Year Service With Inflationary Adjustment
	Under 65	Over 64	Total	
1989	.1%	.2%	.3%	.3%
1990	.1	.2	.3	.3
1991	.1	.2	.3	.3
1992	.1	.2	.3	.3
1993	.1	.2	.3	.3
1994	.0	.2	.3	.3
1995	.0	.2	.3	.3
1996	.0	.2	.2	.3
1997	.0	.2	.2	.3
1998	.0	.2	.2	.4

*Included in projected cost.

D. PREFUNDING ISSUES

The Commonwealth of Virginia pays for retiree health benefits on a pay-as-you-go basis. Almost every other employer does exactly the same thing. Pay-as-you-go financing is the least expensive approach.

The accounting profession is reviewing its rules and in the future will probably require employers to account for the cost of retiree health benefits during the working lifetime of the employee. This does not mean that employers must set aside assets to cover these costs (i.e., pre-fund) but rather accountants will require employers to expense the cost of a pro rata portion of the expected future benefit, discounted for interest, mortality and other effects. These expenses will reduce profits, at least on paper.

The amounts that employers expense for post-retirement health will have to be accumulated with interest on the balance sheet as a liability. To the extent that there are no corresponding assets, the surplus will be reduced or eliminated.

The problems with pay-as-you-go financing are:

(1) It provides no security to the retiree should the employer go out of business.

(2) Costs are not allocated properly. Customers (or taxpayers) do not pay for the full cost of the product or service they receive.

(3) Retiree medical costs are subject to fluctuations due to demographic shifts unrelated to the current workforce.

Application to the Commonwealth

Item (1) above clearly does not apply to the Commonwealth, as the likelihood of its going out of business is nil. The other items have very little impact in the current situation because the State's liability under the current program is limited to the indirect subsidy (if there is any liability at all). The costs of the indirect subsidy are very small as compared to the costs for active employees and the retiree contributions in which they are buried.

If, however, a new explicit subsidy is introduced, the Commonwealth may want to consider pre-funding in whole or in part.

Approaches to Prefunding

Although the accounting profession will be setting specific expensing standards for post-retirement health benefits, the Commonwealth may find that another prefunding method does a better job of meeting its needs. What follows is a general description of available methods.

Basically, prefunding methods differ because of the way they answer two questions.

(1) To what time period will the costs be allocated?

(2) How will costs allocated to prior time periods and not yet expensed or funded be amortized?

We have already mentioned that accountants will be requiring allocation over the working lifetime of the employee. Other ways of answering question 1 are allocation over the last ten years of service, or full allocation on the date of retirement. The latter approach is called terminal funding.

The second question arises in almost every case when a funding or expensing method is first established. First of all, there is the liability for all people who are already retired at that point. Secondly, costs may be allocated with respect to the past service of currently active employees. When combined, these two amounts are called the past service liability.

Analysis of Prefunding Costs for the Commonwealth

The costs of prefunding health care benefits for retirees of the Commonwealth have been determined as follows:

Assumptions

The same assumptions used in the cash flow analysis were used in the prefunding analysis. In addition, a expected return on investments of 8% was assumed and the long-term trend rate after year 10 was assumed to be 8%.

Actuarial Funding Method

The past service liabilities for current retirees represent the actuarial present value of health benefits expected to be paid to current retirees over their projected lifetimes.

For active employees who will retire in the future, the projected unit credit actuarial cost method was used to determine the employer funding costs for retiree health benefits. Under this actuarial funding method, the contributions required to provide for each employee's expected post-retirement health benefits are spread over the employee's working career so that, upon retirement, the benefits are fully prefunded. For the example, if an employee is expected to work 20 years, one-twentieth of the value of the anticipated future benefits is attributable to each year of service. That component of the total annual employer funding cost is called the normal cost. We have expressed the normal cost as a constant percentage of salary.

If an employee has already worked 10 years of a potential 20-year career, annual normal cost payments for the next 10 years will not be sufficient to fully pay for the benefits. Half of the value of future benefits in this

instance is attributable to past service. This past service liability is equal to the normal costs over the prior 10 years, accumulated with interest. Separate amortization of the past service liability, plus the payment of the annual normal costs, will be sufficient to fund all future benefits. After the past service liability is amortized, the annual contribution requirement decreases to normal cost only.

Results

As in the cash flow study, we have performed both separate and combined analyses for the State, School Districts and other local governments. The results of the analysis for State retirees are discussed here while tables for all groups are included in the Appendices. We have also shown the costs for the full cost of the program, the implicit subsidy costs and the two contribution schemes. The first contribution scheme, called level contribution, assumes a payment of $1 per month for each year of service toward retiree health benefits. The second contribution scheme increases the contribution by 5% annually and is referred to as a growing contribution.

Past Service Liabilities

Table 26 shows the past service liability for current retirees and active employees who will retire in the future. The past service liability for the

retiree health program in effect as of January 1, 1989 for State retirees is $634 million.

Amortization Payments

Table 27 shows the annual payments required to amortize the past service liabilities for retiree health benefits. For example, to amortize the full cost of the State's past service liability, a payment of $49.3 million would need to be made annually for the next 40 years.

Table 28 shows the amortization as a percent of salary. For example, to amortize the same full cost of the State's past service liability as above, a payment of 1.7% of annual salary would need to be made for the next 40 years.

Normal Costs

The normal costs are an ongoing payment towards the cost of retiree health benefits. These payments are made annually as long as active employees exist. Table 29 shows the first year normal cost for the full cost of the State plan as it applies to future State retirees as $90.7 million, or 5.0%, of payroll. All future years would be at 5.0% of payroll.

Total Annual Costs

Table 30 shows the costs for the next 10 years under both amortization schedules. In addition, the prefunding costs are contrasted with the pay-as-you-go costs to exhibit the cost differentials. Note that, while the first year cost under pay-as-you-go is one-sixth of the full cost pre-funding in Exhibit H, by the tenth year the pay-as-you-go cost is one-third the cost of the full cost prefunding.

Table 26

PAST SERVICE LIABILITIES (IN MILLIONS)

		FULL COST OF PROGRAM COMBINED STATE AND EMPLOYEE CONTRIBUTION	INDIRECT SUBSIDY	CONSTANT CONTRIBUTION OF $1 PER YEAR OF SERVICE	CONTRIBUTION OF $1 PER YEAR OF SERVICE WITH INFLATIONARY ADJUSTMENT
STATE	-RETIREES	$ 251.6	$ 20.8	$ 31.6	$ 44.4
	-ACTIVES	383.2	47.9	12.2	35.0
	-TOTAL	634.8	68.7	43.8	79.4

Table 27

AMORTIZATION OF PAST SERVICE LIABILITIES (IN MILLIONS) AS A CONSTANT DOLLAR AMOUNT

	FULL COST OF PROGRAM COMBINED STATE AND EMPLOYEE CONTRIBUTION	INDIRECT SUBSIDY	CONSTANT CONTRIBUTION OF $1 PER YEAR OF SERVICE	CONTRIBUTION OF $1 PER YEAR OF SERVICE WITH INFLATIONARY ADJUSTMENT
STATE	$ 49.3	$ 5.3	$ 3.4	$ 6.2
% OF SALARY	2.7%	0.3%	0.2%	0.3%

1. The amortization period was assumed for 40 years.

2. The dollar amount of the amortization of past services liability will remain constant in each of the 40 years of the amortization period.

3. The percent of salary is for the first year only. Assuming a growth in salary, the % of salary will decrease in each subsequent year.

Table 28

NORMAL COST OF FUNDING RETIREE BENEFIT ACCRUALS

	NORMAL COST (IN MILLIONS)			
CONTRIBUTION	FULL COST OF PROGRAM COMBINED STATE AND SUBSIDY	INDIRECT SERVICE	CONSTANT CONTRIBUTION OF $1 PER YEAR OF ADJUSTMENT	CONTRIBUTION OF $1 PER YEAR OF SERVICE WITH INFLATIONARY EMPLOYEE
STATE	$ 90.7	$ 10.9	$ 3.6	$ 9.1
% OF SALARY	5.0%	0.6%	.2%	0.5%

NOTES:

1. The percent of salary shown is a constant for future years.

2. The dollar amount shown is for the first year only. As payroll increases, so will this cost.

Table 29

COST OF AMORTIZATION OF PAST SERVICE LIABILITIES EXPRESSED AS A CONSTANT PERCENT OF SALARY
(IN MILLIONS)

	FULL COST OF PROGRAM COMBINED STATE AND EMPLOYEE CONTRIBUTION	INDIRECT SUBSIDY	CONSTANT CONTRIBUTION OF $1 PER YEAR OF SERVICE	CONTRIBUTION OF $1 PER YEAR OF SERVICE WITH INFLATIONARY ADJUSTMENT
STATE	$30.2	$3.3	$2.1	$ 3.8
% OF SALARY	1.7%	0.2%	0.1%	0.2%

1. The amortization period was assumed to be 40 years

2. The dollar amount of the amortization at past service liabilities is for the first year only. Assuming growth in payroll, the dollar amount will increase in each subsequent year.

3. The pecent of salary for the amortization of past service liabilities will remain constant for the 40 year amortization period.

Table 30

Ten Year Funding Levels (Normal Cost and Amortized Combined Cost)

State (Level Amortization, in Millons)

Year	Full Cost of Program Combined State and Employee Contributions	Indirect Subsidy	Constant Contribution of $1 Per Year of Service	Contribution of $1 Per Year of Service With Inflationary Adjustment
1	$140.0	$16.2	$7.0	$15.2
2	143.6	16.7	7.2	15.6
3	147.4	17.1	7.3	16.0
4	151.3	17.6	7.5	16.4
5	155.4	18.1	7.6	16.8
6	159.7	18.6	7.8	17.2
7	164.1	19.1	8.0	17.6
8	168.7	19.7	8.2	18.1
9	173.4	20.2	8.4	18.6
10	178.4	20.8	8.6	19.1

State (Growing Amortization, in Millons)

Year	Full Cost of Program Combined State and Employee Contributions	Indirect Subsidy	Constant Contribution of $1 Per Year of Service	Contribution of $1 Per Year of Service With Inflationary Adjustment
1	$120.9	$14.2	$5.7	$12.0
2	125.7	14.7	5.9	13.4
3	130.8	15.3	6.2	13.9
4	136.0	15.9	6.4	14.5
5	141.4	16.6	6.7	15.0
6	147.1	17.2	6.9	15.6
7	153.0	17.9	7.2	16.3
8	159.1	18.6	7.5	16.9
9	165.5	19.4	7.8	17.6
10	172.1	20.1	8.1	18.3

Notes

1. Level amortization costs have the past service liability spread over 40 years at equal costs for each year.

2. Growing amortization costs have the past service liability spread over 40 years with cost remaining a constant percentage of payroll. Consequently, as payroll costs increase the annual contribution required will also increase.

V. PROPOSED IMPLEMENTATION SCHEDULE

In the event the General Assembly chooses to authorize the creation of a state-wide Public Employee Health Benefits Program, the following represents a tentative timetable for the development and implementation, beginning with the authorization granted by the passage of legislation by the General Assembly.

Significant variations can be expected from this schedule, depending upon the administrative authority and structures ultimately selected. This schedule provides a somewhat optimistic assessment of the required implementation schedule.

	Month Number
Development and approval of Plan	1 - 3
Development of a plan specific rate structure (standard mix of age, sex) and related adjustment factors (age, sex and location)	4 - 5
Development of administrative specifications	2 - 3
Administration selection Bid specifications, solicitations, review, interview, selection and negotiation with administrative agent (TPA, or insurance co.) or insurance carrier	4 - 7
Communications (multiphase, to potential participating groups and employees)	8 - 18
Enrollment -- Participating groups will be phased in over 12 months or more to coincide with expiration of insurance contracts with existing carriers and/or open enrollment periods.	12 - 24
Development of custom design PPO networks for specific service categories	12 - 36
Implementation of coverage	12 - 24

COMMONWEALTH OF VIRGINIA
STATE EMPLOYEE HEALTH BENEFIT PLAN
FEASIBILITY STUDY

APPENDICES

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APPENDICES LIST

Appendix A: Martin E. Segal Company's 1988 Survey of State Benefit Plans

Appendix B: Health Benefits Outline 1988

Appendix C: VSRS Retiree Distribution By Age, Sex and Employer Type

Appendix D: Survey Summaries By Employer Type

Appendix E: Local Government Survey Responses By Size

Appendix F: School System Responses By Size

Appendix G: Combined Summary Responses By Size

Appendix H: Average Contribution Rates for Health Benefits Coverage By Class of Coverage and Payment Source

Appendix I: Analysis of Contributions for Health Benefits By Payment Source and By Political Division According to Size

Appendix J: Interest Indicator Summaries By Size and Political Division

Appendix K: Application of Internal Revenue Code Section 89 to a Consolidated Public Employee Health Benefit Program

Appendix L: A Proposed Flexible Benefits Plan Under IRC Section 125

Appendix M: Retiree Health Benefit Costs for State, School, Local and Combined Groups

Appendix A

STATE EMPLOYEE HEALTH BENEFIT PLANS - 1988

STATE EMPLOYEE HEALTH BENEFIT PLANS - 1988

1988 UPDATE OF MARTIN E. SEGAL COMPANY'S SURVEY OF STATE EMPLOYEE HEALTH BENEFIT PLANS

Table 1 - Plan Participants as of January 1988

Table 2 - Monthly Contributions for Employee Only Coverage: January 1987 and January 1988

Table 3 - Monthly Contributions for Employee and Family Coverage: January 1987 and January 1988

Table 4 - Monthly Contributions for Retiree Only Coverage (Over 65 with Medicare): January 1987 and January 1988

TABLE 1

PARTICIPANTS IN STATE EMPLOYEE HEALTH BENEFIT PLANS
AS OF JANUARY 1988

STATE	EMPLOYEES COVERED BY PLAN [a]	RETIREES COVERED BY PLAN [b]	HMO PARTICIPATION		
			NUMBER OF HMOs OFFERED	EMPLOYEES ENROLLED IN HMOs	
				NUMBER	PERCENT
ALABAMA	30,400	6,700	1	2,600	9%
ALASKA	11,900	9,200	0	0	0
ARIZONA	37,000	2,000	5	26,600	72
ARKANSAS	18,100	3,500	0	0	0
CALIFORNIA [c]	199,200	76,100	26	139,400	70
COLORADO	22,900	[d]	8	13,700	60
CONNECTICUT	53,000	16,000	8	5,500	10
DELAWARE	25,500	7,000	2	8,100	32
FLORIDA	104,800	11,600	42	37,000	35
GEORGIA	155,000	30,500	3	12,100	8
HAWAII	35,600	20,000	3	10,400	29
IDAHO	13,300	2,000	2	600	5
ILLINOIS	116,100	45,000	23	70,300	61
INDIANA	31,700	0 over 65	6	15,500	49
IOWA	23,600	7,900	8	4,100	17
KANSAS	34,900	6,900	5	13,800	40
KENTUCKY	113,900	19,000	10	47,800	42
LOUISIANA	80,100	26,100	9	34,100	43
MAINE	15,600	6,500	0	0	0
MARYLAND	65,000	16,000	11	23,200	36
MASSACHUSETTS	91,300	39,300	17	48,200	53
MICHIGAN	58,800	21,100	21	24,600	42
MINNESOTA	49,200	7,500	9	20,900	42
MISSISSIPPI	41,000	4,600	0	0	0
MISSOURI	32,400	5,400	10	6,000	19
MONTANA	9,900	1,600	0	0	0
NEBRASKA	13,000	0	3	3,000	23
NEVADA	14,100	1,800	2	4,500	32
NEW HAMPSHIRE	9,700	4,600	3	700	7
NEW JERSEY	251,000	44,800	19	61,900	25
NEW MEXICO	20,000	2,500	2	4,000	20
NEW YORK [c]	241,000	77,600	28	67,600	28
NORTH CAROLINA	199,900	60,200	3	40,200	20
NORTH DAKOTA	14,000	2,100	5	4,600	33
OHIO	45,600	[d]	38	28,100	62
OKLAHOMA	37,700	6,500	5	9,400	25
OREGON	27,400	3,000	7	8,300	30
- BUBB PLAN	16,500	2,700	5	8,600	52
PENNSYLVANIA	92,000	44,400	25	12,400	13
RHODE ISLAND	17,800	11,200	3	5,000	28
SOUTH CAROLINA	127,400	27,800	6	24,000	19
SOUTH DAKOTA	10,900	600	0	0	0
TENNESSEE	58,900	2,500	2	4,400	7
TEXAS	110,500	24,200	18	41,600	38
UTAH	12,500	3,800	2	2,900	23
VERMONT	6,000	1,800	1	200	3
VIRGINIA	86,900	17,900	6	12,000	14
WASHINGTON	71,300	15,500	12	23,000	32
WEST VIRGINIA	82,600	18,400	3	1,500	2
WISCONSIN	53,500	13,500	27	41,000	77
WYOMING	10,000	1,700	1	300	3

[a] Approximate total number of covered employees, including employees enrolled in HMOs.

[b] Approximate total number of covered retirees.

[c] Participants shown are State employees and retirees only (i.e., figures exclude local employees and retirees).

[d] Retired State employees are covered by a separate health benefit plan for all retired members of the statewide public employees retirement system.

TABLE 2

MONTHLY CONTRIBUTIONS TO STATE EMPLOYEE HEALTH BENEFIT PLANS
JANUARY 1987 AND JANUARY 1988

EMPLOYEE ONLY COVERAGE

STATE	COST TO EMPLOYEE		COST TO STATE		TOTAL COST		PERCENT OF TOTAL COST PAID BY STATE	
	1987	1988	1987	1988	1987	1988	1987	1988
ALABAMA	0	0	125.00	142.00	125.00	142.00	100.0%	100.0%
ALASKA [a].....	0	0	222.60	309.76	222.60	309.76	100.0	100.0
	0	0	237.75	347.81	237.75	347.81	100.0	100.0
ARIZONA	1.00	1.00	86.78	92.48	87.78	93.48	98.9	98.9
ARKANSAS	9.26	9.26	70.00	80.00	79.26	89.26	88.3	89.6
	28.20	34.88	70.00	80.00	98.20	114.88	71.3	69.6
CALIFORNIA	0	0	77.22	78.39	77.22	78.39	100.0	100.0
	54.78	58.03	88.00	92.00	142.78	150.03	61.6	61.3
COLORADO	10.00	24.00	55.12	55.12	65.12	79.12	84.6	69.7
CONNECTICUT	0	0	100.80	100.80	100.80	100.80	100.0	100.0
DELAWARE	0	0	77.08	92.42	77.08	92.42	100.0	100.0
	20.30	24.34	77.08	92.42	97.38	116.76	79.2	79.2
FLORIDA [b].....	15.18	15.18	65.20	65.20	80.38	92.30	81.1	70.6
GEORGIA	13.60	14.70	68.55	81.98	82.15	96.68	83.4	84.8
	23.40	24.50	68.55	81.98	91.95	106.48	74.6	77.0
HAWAII	18.22	20.76	27.34	31.16	45.56	51.92	60.0	60.0
IDAHO	0	0	69.52	69.52	69.52	69.52	100.0	100.0
ILLINOIS	0	0	73.32	78.72	73.32	78.72	100.0	100.0
INDIANA	1.58	1.58	72.45	72.45	74.03	74.03	97.9	97.9
IOWA	0	0	75.06	84.00	75.06	84.00	100.0	100.0
KANSAS	0	1.00	92.55	111.47	92.55	112.47	100.0	99.1
KENTUCKY	0	0	69.79	79.71	69.79	79.71	100.0	100.0
LOUISIANA	39.52	48.20	39.52	48.20	79.04	96.40	50.0	50.0
MAINE	0	0	72.92	80.80	72.92	80.80	100.0	100.0
MARYLAND	11.51	20.22	65.25	78.52	76.76	98.74	85.0	79.5
	22.37	27.55	65.25	78.52	87.62	106.07	74.5	74.0
MASSACHUSETTS ...	11.65	14.66	104.84	131.93	116.49	146.59	90.0	90.0
MICHIGAN	11.12	5.58	100.14	105.68	111.26	111.26	90.0	95.0
MINNESOTA	0	0	69.70	77.72	69.70	77.72	100.0	100.0
MISSISSIPPI	0	0	72.00	72.00	72.00	72.00	100.0	100.0

[a] State pays composite rate rather than separate rates for single and family coverage.
[b] Total cost for January 1988 is higher than sum of employee and State rates; difference is currently being paid out of group insurance fund surplus.

TABLE 2 (Cont'd.)

EMPLOYEE ONLY COVERAGE (CONT'D.)

STATE	COST TO EMPLOYEE 1987	COST TO EMPLOYEE 1988	COST TO STATE 1987	COST TO STATE 1988	TOTAL COST 1987	TOTAL COST 1988	PERCENT OF TOTAL COST PAID BY STATE 1987	PERCENT OF TOTAL COST PAID BY STATE 1988
MISSOURI	0	0	69.00	89.00	69.00	89.00	100.0	100.0%
MONTANA	0	0	97.60	97.60	97.60	97.60	100.0	100.0
NEBRASKA	0	0	41.25	43.85	41.25	43.85	100.0%	100.0
	11.26	12.47	44.47	46.64	55.73	59.11	79.8	78.9
NEVADA	0	0	129.20	136.00	129.20	136.00	100.0	100.0
NEW HAMPSHIRE ...	0	0	78.01	82.05	78.01	82.05	100.0	100.0
NEW JERSEY	0	0	65.89	73.46	65.89	73.46	100.0	100.0
NEW MEXICO	16.55	19.01	49.63	57.01	66.18	76.02	75.0	75.0
	26.48	30.41	39.70	45.61	66.18	76.02	60.0	60.0
NEW YORK	8.64	12.11	77.86	121.54	86.50	133.65	90.0	90.9
	10.06	14.38	91.99	141.93	100.63	156.31	91.4	90.8
NORTH CAROLINA...	0	0	63.82	93.82	63.82	93.82	100.0	100.0
NORTH DAKOTA	0	0	60.00	68.00	60.00	68.00	100.0	100.0
OHIO	25.50	28.35	68.95	80.70	94.45	109.05	73.0	74.0
OKLAHOMA	0	0	115.31	92.00	115.31	92.00	100.0	100.0
OREGON	0	0	90.68	97.14	90.68	97.14	100.0	100.0
- BUBB PLAN	0	0	153.59	168.43	153.59	168.43	100.0	100.0
PENNSYLVANIA	0	0	56.15	64.05	56.15	64.05	100.0	100.0
	0	0	70.03	72.68	70.03	72.68	100.0	100.0
RHODE ISLAND	0	0	96.71	107.76	96.71	107.76	100.0	100.0
SOUTH CAROLINA...	0	0	67.27	78.03	67.27	78.03	100.0	100.0
	7.58	8.80	67.27	78.03	74.85	86.83	89.9	89.9
SOUTH DAKOTA	0	0	53.42	59.10	53.42	59.10	100.0	100.0
TENNESSEE	11.70	15.21	46.82	60.87	58.52	76.08	80.0	80.0
TEXAS	0	0	66.29	84.89	66.29	84.89	100.0	100.0
UTAH	8.25	8.49	74.25	76.42	82.50	84.91	90.0	90.0
VERMONT	10.85	12.29	43.40	49.14	54.25	61.43	80.0	80.0
VIRGINIA	0	0	78.36	82.28	78.36	82.28	100.0	100.0
WASHINGTON	0	0	64.52	66.46	64.52	66.46	100.0	100.0
WEST VIRGINIA ...	0	0	79.95	80.62	79.95	80.62	100.0	100.0
WISCONSIN [c]....	16.29	24.81	77.02	87.38	93.31	112.19	82.5	77.9
WYOMING	0	0	100.00	100.00	100.00	100.00	100.0	100.0

[c] Contributions vary by benefit plan and by county. State pays lesser of 90% of standard plan rate or 105% of lowest cost HMO in employee's county. Rates shown in table are for standard plan in Dane County (Madison).

TABLE 3

MONTHLY CONTRIBUTIONS TO STATE EMPLOYEE HEALTH BENEFIT PLANS
JANUARY 1987 AND JANUARY 1988

EMPLOYEE AND FAMILY COVERAGE

STATE	COST TO EMPLOYEE		COST TO STATE		TOTAL COST		PERCENT OF TOTAL COST PAID BY STATE	
	1987	1988	1987	1988	1987	1988	1987	1988
ALABAMA	90.00	102.25	125.00	142.00	215.00	244.25	58.1%	58.1%
ALASKA	0	0	222.60	309.76	222.60	309.76	100.0	100.0
	0	0	237.75	347.81	237.75	347.81	100.0	100.0
ARIZONA	65.30	69.24	164.64	175.64	229.94	244.88	71.6	71.7
ARKANSAS	33.20	33.20	70.00	80.00	103.20	113.20	67.8	70.7
	89.20	107.22	70.00	80.00	159.20	187.22	44.0	42.7
CALIFORNIA	0	0	198.26	217.59	198.26	217.59	100.0	100.0
	139.29	142.49	219.00	233.00	358.29	375.49	61.1	62.1
COLORADO	119.00	144.88	55.12	55.12	174.12	200.00	31.7	27.6
CONNECTICUT	50.46	50.46	217.96	218.54	268.42	269.00	81.2	81.2
DELAWARE	0	0	189.60	227.32	189.60	227.32	100.0	100.0
	48.78	58.50	189.60	227.32	238.38	285.82	79.5	79.5
FLORIDA [a].....	55.64	55.64	122.80	122.80	178.44	205.48	68.8	59.8
GEORGIA	39.80	43.00	122.05	136.08	161.85	179.08	75.4	76.0
	59.46	62.66	122.05	136.08	181.51	198.74	67.2	68.5
HAWAII	56.03	63.88	84.05	95.80	140.08	159.68	60.0	60.0
IDAHO	63.40	63.40	69.52	69.52	132.92	132.92	52.3	52.3
ILLINOIS	67.18	65.08	82.98	85.72	150.16	150.80	55.3	56.8
	123.02	123.02	86.62	94.06	209.64	217.08	41.3	43.3
INDIANA	36.66	36.66	178.01	178.01	214.67	214.67	82.9	82.9
IOWA	59.12	59.12	113.54	135.36	172.66	194.48	65.8	69.6
KANSAS	158.12	174.06	92.55	111.47	250.67	285.53	36.9	39.0
KENTUCKY	97.00	111.10	69.79	79.71	166.79	190.81	41.8	41.8
LOUISIANA	90.96	110.96	90.96	110.96	181.92	221.92	50.0	50.0
MAINE	52.82	58.24	130.30	143.96	183.12	202.20	71.2	71.2
MARYLAND	33.83	50.40	191.73	196.44	225.56	246.84	85.0	79.6
	61.27	68.72	191.73	196.44	253.00	265.16	75.8	74.1
MASSACHUSETTS ...	25.61	32.31	230.47	290.78	256.08	323.09	90.0	90.0
MICHIGAN	31.16	15.58	280.52	296.10	311.68	311.68	90.0	95.0
MINNESOTA	8.92	9.96	150.08	167.34	159.00	177.30	94.4	94.4
MISSISSIPPI	89.70	89.70	72.00	72.00	161.70	161.70	44.5	44.5

[a] Total cost for January 1988 is higher than sum of employee and State rates; difference is currently being paid out of group insurance fund surplus.

TABLE 3 (Cont'd.)

EMPLOYEE AND FAMILY COVERAGE (CONT'D.)

STATE	COST TO EMPLOYEE 1987	COST TO EMPLOYEE 1988	COST TO STATE 1987	COST TO STATE 1988	TOTAL COST 1987	TOTAL COST 1988	PERCENT OF TOTAL COST PAID BY STATE 1987	PERCENT OF TOTAL COST PAID BY STATE 1988
MISSOURI	151.75	167.25	69.00	89.00	220.75	256.25	31.3	34.7%
MONTANA	57.60	57.60	115.00	115.00	172.60	172.60	66.6	66.6
NEBRASKA	0	0	147.68	155.12	147.68	155.12	100.0%	100.0
	39.95	44.26	159.23	165.51	199.18	209.77	79.9	78.9
NEVADA	83.90	100.90	129.20	136.00	213.10	236.90	60.6	57.4
NEW HAMPSHIRE ...	0	0	210.62	221.53	210.62	221.53	100.0	100.0
NEW JERSEY	0	0	160.56	178.45	160.56	178.45	100.0	100.0
NEW MEXICO	42.40	48.64	127.19	145.91	169.59	194.55	75.0	75.0
	67.84	77.82	101.75	116.73	169.59	194.55	60.0	60.0
NEW YORK	33.70	52.83	153.12	261.24	186.86	314.07	82.0	83.2
	39.16	60.20	183.32	296.91	217.02	357.11	84.5	83.1
NORTH CAROLINA...	89.28	131.24	63.82	93.82	153.10	225.06	41.7	41.7
NORTH DAKOTA	0	0	168.00	191.00	168.00	191.00	100.0	100.0
OHIO	61.13	67.99	165.27	193.52	226.40	261.51	73.0	74.0
OKLAHOMA	108.00	108.00	115.31	92.00	223.31	200.00	51.6	46.0
OREGON	0	- 0	141.74	151.80	141.74	151.80	100.0	100.0
- BUBB PLAN	0	0	153.59	168.43	153.59	168.43	100.0	100.0
PENNSYLVANIA	0	0	140.81	165.30	140.81	165.30	100.0	100.0
	0	0	187.92	208.23	187.92	208.23	100.0	100.0
RHODE ISLAND	0	0	235.66	278.13	235.66	278.13	100.0	100.0
SOUTH CAROLINA...	66.02	76.60	67.27	78.03	133.29	154.63	50.5	50.5
	77.88	90.34	67.27	78.03	145.15	168.37	46.3	46.3
SOUTH DAKOTA	123.62	123.62	53.42	59.10	177.04	182.72	30.2	32.3
TENNESSEE	29.22	37.99	116.89	151.96	146.11	189.95	80.0	80.0
TEXAS	88.36	123.59	87.00	102.00	175.36	225.59	49.6	45.2
UTAH	21.82	23.36	196.39	210.25	218.21	233.61	90.0	90.0
VERMONT	30.11	34.09	120.45	136.34	150.56	170.43	80.0	80.0
VIRGINIA	57.00	59.86	139.54	146.52	196.54	206.38	71.0	71.0
WASHINGTON	0	0	183.56	189.08	183.56	189.08	100.0	100.0
WEST VIRGINIA ...	0	0	187.95	188.62	187.95	188.62	100.0	100.0
WISCONSIN [b] ...	28.74	47.84	199.35	226.26	228.09	274.10	87.4	82.5
WYOMING	115.00	112.32	100.00	100.00	215.00	212.32	46.5	47.1

[b] Contributions vary by benefit plan and by county. State pays lesser of 90% of standard plan rate or 105% of lowest cost HMO in employee's county. Rates shown in table are for standard plan in Dane County (Madison).

TABLE 4

MONTHLY CONTRIBUTIONS TO STATE EMPLOYEE HEALTH BENEFIT PLANS
JANUARY 1987 AND JANUARY 1988

RETIREE ONLY COVERAGE (Over 65 with Medicare)

	COST TO RETIREE		COST TO STATE		TOTAL COST		PERCENT OF TOTAL COST PAID BY STATE	
STATE	1987	1988	1987	1988	1987	1988	1987	1988
ALABAMA	0	0	60.00	68.15	60.00	68.15	100.0%	100.0%
ALASKA	0	0	165.00	140.25	165.00	140.25	100.0	100.0
ARIZONA	73.84	78.64	0	0	73.84	78.64	0	0
ARKANSAS	43.00	49.45	0	0	43.00	49.45	0	0
CALIFORNIA	0	0	54.05	50.00	54.05	50.00	100.0	100.0
	18.31	18.97	88.00	92.00	106.31	110.97	82.8	82.9
COLORADO [a]	0	0	87.01	87.01	87.01	87.01	100.0	100.0
	87.01	87.01	0	0	87.01	87.01	0	0
CONNECTICUT	22.93	11.49	34.38	45.99	57.31	57.48	60.0	80.0
DELAWARE	3.40	4.08	33.16	39.76	36.56	43.84	90.7	90.7
	22.72	27.24	33.16	39.76	55.88	67.00	59.3	59.3
FLORIDA [b].....	55.30	55.30	0	0	55.30	64.18	0	0
GEORGIA	13.60	14.70	68.55	81.98	82.15	96.68	83.4	84.8
	23.40	24.50	68.55	81.98	91.95	106.48	74.6	77.0
HAWAII	0	0	53.64	57.92	53.64	57.92	100.0	100.0
IDAHO	58.00	60.00	0	0	58.00	60.00	0	0
ILLINOIS	0	0	73.32	78.72	73.32	78.72	100.0	100.0
INDIANA	-	-	-	-	-	-	-	-
IOWA	35.10	42.58	0	0	35.10	42.58	0	0
KANSAS	44.13	59.71	0	0	44.13	59.71	0	0
KENTUCKY [c].....	0	0	54.15	63.75	54.15	63.75	100.0	100.0
	54.15	63.75	0	0	54.15	63.75	0	0
LOUISIANA	20.62	25.14	20.62	25.14	41.24	50.28	50.0	50.0
MAINE	0	0	36.00	39.08	36.00	39.08	100.0	100.0
MARYLAND	9.35	12.33	52.99	38.98	62.34	51.31	85.0	76.0
	25.07	20.00	52.99	38.98	78.06	58.98	67.9	66.1
MASSACHUSETTS ...	6.20	8.73	55.84	78.59	62.04	87.32	90.0	90.0
MICHIGAN	0	0	75.57	75.57	75.57	75.57	100.0	100.0
MINNESOTA	51.28	85.69	0	0	51.28	85.69	0	0
MISSISSIPPI	34.50	34.50	0	0	34.50	34.50	0	0

[a] Colorado PERA pays % based on years of service: 0% for less than 6 to 100% for 20 or more.

[b] State pays $1/mo. for each year of service up to $30/mo. Total cost for January 1988 is higher than retiree cost; difference is currently being paid out of group insurance fund surplus.

[c] State pays % based on years of service: 0% for less than 4, 25% for 4-9, 50% for 10-14, 75% for 15-19, and 100% for 20 or more.

TABLE 4 (Cont'd.)

RETIREE ONLY COVERAGE (CONT'D.)

STATE	COST TO RETIREE 1987	COST TO RETIREE 1988	COST TO STATE 1987	COST TO STATE 1988	TOTAL COST 1987	TOTAL COST 1988	PERCENT OF TOTAL COST PAID BY STATE 1987	PERCENT OF TOTAL COST PAID BY STATE 1988
MISSOURI	32.25	36.00	4.50	4.50	36.75	40.50	12.2	11.1%
	58.50	64.95	4.50	4.50	63.00	69.45	7.1	6.5
MONTANA	51.00	51.00	0	0	51.00	51.00	0	0
NEBRASKA	-	-	-	-	-	-	-	-
NEVADA	56.89	56.89	34.81	41.61	91.70	98.50	38.0%	42.2
NEW HAMPSHIRE ...	0	0	44.02	49.97	44.02	49.97	100.0	100.0
NEW JERSEY [d] ..	0	0	45.00	50.97	45.00	50.97	100.0	100.0
	45.00	50.97	0	0	45.00	50.97	0	0
NEW MEXICO	52.69	64.26	0	0	52.69	64.26	0	0
NEW YORK [e][f] .	10.06	12.11	90.57	121.54	100.63	133.65	90.0	90.9
		14.38		141.93		156.31		90.8
NORTH CAROLINA...	0	0	48.58	71.42	48.58	71.42	100.0	100.0
NORTH DAKOTA	50.00	66.00	0	0	50.00	66.00	0	0
OHIO	0	0	53.29	66.94	53.29	66.94	100.0	100.0
OKLAHOMA	45.90	45.90	0	0	45.90	45.90	0	0
OREGON	40.21	50.15	0	0	40.21	50.15	0	0
- BUBB PLAN	53.92	60.28	0	0	53.92	60.28	0	0
PENNSYLVANIA	0	0	49.09	58.92	49.09	58.92	100.0	100.0
	0	0	60.24	67.32	60.24	67.32	100.0	100.0
RHODE ISLAND	41.37	41.37	0	0	41.37	41.37	0	0
SOUTH CAROLINA...	0	0	67.27	78.03	67.27	78.03	100.0	100.0
	7.58	8.80	67.27	78.03	74.85	86.83	89.9	89.9
SOUTH DAKOTA	56.24	57.35	0	0	56.24	57.35	0	0
TENNESSEE	31.89	44.64	0	0	31.89	44.64	0	0
TEXAS	0	0	66.29	84.89	66.29	84.89	100.0	100.0
UTAH	60.00	32.00	0	0	60.00	32.00	0	0
		60.00		0		60.00		0
VERMONT	4.45	5.03	17.78	20.13	22.23	25.16	80.0	80.0
VIRGINIA	39.96	50.24	0	0	39.96	50.24	0	0
WASHINGTON	38.86	40.04	0	0	38.86	40.04	0	0
WEST VIRGINIA ...	23.97	24.44	0	0	23.97	24.44	0	0
WISCONSIN [e][g].	65.32	79.81	0	0	65.32	79.81	0	0
WYOMING	54.12	46.41	0	0	54.12	46.41	0	0

[d] State pays 100% for retirees with 25 or more years of service; retirees with less than 25 years pay full cost.

[e] Sick leave credits may be used by retirees to pay premiums.

[f] State pays total cost for employees who retired before 1983.

[g] Rates shown are for standard plan.

Appendix B

HEALTH BENEFITS
OUTLINE - 1988

Health Benefits Outline 1988

April 15 through May 16, 1988 is the Open Enrollment period for state employees. Open Enrollment is the one time during the year, with only a few exceptions, when you can change from Employee-Only to Family coverage or change from one health benefits plan to another. Any changes you make now will be effective July 1 through December 31, 1988. There will be an Open Enrollment in October, 1988 for coverage effective January 1 through December 31, 1989.

This benefits outline is a quick reference to those plans and services available to you this year through the State Employee Health Benefits Program. It is not all-inclusive and you should not rely on it as a complete description of benefits. It is intended to help you compare the benefits offered by the different plans. Not all of the plans included in this outline are available to every state employee. The options available to you depend on where you live or work. Please refer to SourceBook '87 for those plans that are available to you, or ask your benefits administrator.

Your agency benefits administrator and the plan representatives are available to help you with your decision. Telephone numbers for the carriers are on page 5.

You may not be familiar with all of the terms used in this outline. The *UCR* or usual, customary and reasonable allowance, is a dollar figure based on the actual charge patterns of providers of care with similar education in a given geographic area. The allowance is typically set high enough to pay 90 percent of the charges in the area for a particular procedure. *Copayment* means the amount you are required to pay in connection with a given health service, and *deductible* means a specific dollar amount you must incur before the plan will pay any additional amount for covered services. If you have any questions about information in this benefits outline, consult your agency benefits administrator or the plan representative.

Remember, Open Enrollment is April 15 through May 16 of this year. If you are satisfied with your current coverage and do not want to change plans or coverage, you need to do nothing—you will automatically continue in the plan you are in. If you want to change from Employee-Only coverage to Family coverage within the same health benefits plan, you must file an application. If you want to change from one health benefits plan to another, an application must be submitted to your agency benefits administrator before the close of business on May 16 and cannot be withdrawn after that time. Applications are available from your agency benefits administrator.

Plan	For Questions or Service Call:
Blue Cross and Blue Shield **Standard Plan** **KeyCare** **Cost Awareness**	(804) 355-8506 in Richmond or 1-800-552-2682 toll-free anywhere in Virginia. Out-of-state toll-free 1-800-341-0800. Normal business hours are 8:30 a.m. - 4:00 p.m., except the area closes for training each Wednesday at 2:00 p.m.
Equicor Health Plan	Richmond: (804) 273-1150 or 1-800-533-1708 (8:00 a.m. - 5:00 p.m., Monday - Friday) Hampton Roads: (804) 498-1555
Group Health Association	(202) 966-4357 (7:30 a.m. - 7:15 p.m., Monday - Thursday and 7:30 a.m. - 5:15 p.m., Friday)
HMO PLUS	In Norfolk (804) 622-5122 (8:30 a.m. - 4:00 p.m., Monday - Friday)
Maxicare	(804) 245-3200 (on Peninsula) (804) 466-8484 (Southside)
Network Health Plan	Marketing — (703) 573-8500 (8:30 a.m. - 5:00 p.m., Monday - Friday) Member Services — (703) 849-8644 (8:30 a.m. - 5:00 p.m., Monday - Friday)
PruCare of Richmond	(804) 323-0909 (9:00 a.m. - 5:00 p.m., Monday - Friday)

BENEFITS FOOTNOTES

1. PruCare Plus allows members an option to the HMO benefits shown. Members may use non-network providers any time they choose subject to an annual $200 deductible and 20 percent co-insurance. Preventive services are generally not covered and psychiatric benefits are more restricted under this coverage. Claim forms for non-network services are required. SourceBook 87 has a more complete description of PruCare Plus, or you may call the carrier.

2. Group Health Association also offers a basic option which generally requires a $10 copayment for physician visits. Except for this copayment, the extent of benefits and services covered are the same under both high and basic options.

3. Pre-Admission Review is required under all plans. HMOs have the most rigorous requirements in line with their emphasis on providing care outside the hospital.

4. Under the Standard Plan, hospital days in excess of 120 will be covered under Major Medical, subject to the annual Major Medical deductible and to 20 percent co-insurance. Payment under Major Medical changes to 100 percent of UCR after the out-of-pocket expense limit of approximately $1,160 is incurred.

5. Except for the Standard Plan and HMO PLUS, all plans offer dental benefits. The Blue Shield dental benefit offered with KeyCare and Cost Awareness allows members to use any dentist, but encourages the use of Blue Shield participating dentists by promising payment in full in many cases and no claim forms. This benefit covers the most often-used procedures, but does not cover some of the most expensive procedures. The range of services covered by this program is described in the plan's brochure.

   HMO dental benefits are offered through relatively few named dentists. There is no coverage for services unless the services are delivered or directed by the plan's dentist. Also the plan may require all members of the family to use a single plan dentist. Finally there are numerous copayments for most services and the amounts of these copayments vary from plan to plan, although, like the Blue Shield dental benefit available under KeyCare and Cost Awareness, basic diagnostic services are generally provided without copayments or deductibles. There are no waiting periods for pre-existing conditions under any dental plan, but HMO plans may have some restrictions on work in progress and on previously installed prosthetic devices. The only way to get a complete picture of an HMO dental benefit is to contact the plan and carefully review the list of participating dentists and schedule of copayments.

6. Family planning services and contraceptive prescription drugs are covered services under HMO programs, including HMO PLUS, but are not covered services under the Standard Plan, Cost Awareness or KeyCare. (The drugs may be covered if prescribed for medical conditions and not for family planning purposes.)

July-December 1988
Monthly Premiums

		STATEWIDE			RICHMOND		TIDEWATER			N. VIRGINIA		
	ACTIVE EMPLOYEES	STANDARD	KEY CARE OR COST AW		PRUCARE	EQUICOR	HMO +	MAXICARE	EQUICOR	GHA STD	GHA HI	NETWORK
EMPLOYEE ONLY	YOU PAY	$ 0 00	$ 1 00	$ 1 00	$ 5 44	$ 6 86	$ 5 98	$ 3 54	$ 6 86	$ 0 00	$ 10 88	$ 7 10
	STATE PAYS	$ 92 00	$ 92 00	$ 92 00	$ 92 00	$ 92 00	$ 92 00	$ 92 00	$ 92 00	$ 86 52	$ 92 00	$ 92 00
	TOTAL PREMIUM	$ 92 00	$ 93 00	$ 93 00	$ 97 44	$ 98 86	$ 97 98	$ 95 54	$ 98 86	$ 86 52	$102 88	$ 99 10
FAMILY COVERAGE	YOU PAY	$ 66 70	$ 69 20	$ 69 20	$ 82 92	$ 83 70	$ 81 64	$ 75 04	$ 83 70	$ 53 00	$ 93 90	$ 84 46
	STATE PAYS	$163 30	$163 30	$163 30	$163 30	$163 30	$163 30	$163 30	$163 30	$163 30	$163 30	$163 30
	TOTAL PREMIUM	$230 00	$232 50	$232 50	$246 22	$247 00	$244 94	$238 34	$247 00	$216 30	$257 20	$247 76
FAMILY COVERAGE BOTH SPOUSES STATE EMPLOYEES	YOU PAY	$ 46 00	$ 48 50	$ 48 50	$ 62 22	$ 63 00	$ 60 94	$ 54 34	$ 63 00	$ 32 30	$ 73 20	$ 63 76
	STATE PAYS	$184 00	$184 00	$184 00	$184 00	$184 00	$184 00	$184 00	$184 00	$184 00	$184 00	$184 00
	TOTAL PREMIUM	$230 00	$232 50	$232 50	$246 22	$247 00	$244 94	$238 34	$247 00	$216 30	$257 20	$247 76
CARVE OUT EMPLOYEE ONLY	YOU PAY	$ 0 00	$ 5 28	$ 5 28	$ 6 90	$ 6 06	$ 3 58	$ 2 12	$ 6 06	$ 0 00	$ 6 52	$ 4 26
	STATE PAYS	$ 55 20	$ 55 20	$ 55 20	$ 55 20	$ 55 20	$ 55 20	$ 55 20	$ 55 20	$ 55 20	$ 55 20	$ 55 20
	TOTAL PREMIUM	$ 55 20	$ 60 48	$ 60 48	$ 62 10	$ 61 26	$ 58 78	$ 57 32	$ 61 26	$ 55 20	$ 61 72	$ 59 46
EMPLOYEE WITH CARVE OUT & DEPENDENT WITH FULL	YOU PAY	$ 44 34	$ 50 62	$ 50 62	$ 56 68	$ 57 26	$ 53 90	$ 50 00	$ 57 26	$ 38 86	$ 55 22	$ 55 70
	STATE PAYS	$102 86	$102 86	$102 86	$102 86	$102 86	$102 86	$102 86	$102 86	$102 86	$102 86	$102 86
	TOTAL PREMIUM	$147 20	$153 48	$153 48	$159 54	$160 12	$156 76	$152 86	$160 12	$141 72	$158 08	$158 56
EMPLOYEE WITH FULL & DEPENDENT WITH CARVE OUT	YOU PAY	$ 26 60	$ 32 88	$ 32 88	$ 38 94	$ 39 52	$ 36 16	$ 32 26	$ 39 52	$ 21 12	$ 37 48	$ 37 96
	STATE PAYS	$120 60	$120 60	$120 60	$120 60	$120 60	$120 60	$120 60	$120 60	$120 60	$120 60	$120 60
	TOTAL PREMIUM	$147 20	$153 48	$153 48	$159 54	$160 12	$156 76	$152 86	$160 12	$141 72	$158 08	$158 56
EMPLOYEE & DEPENDENT BOTH WITH CARVE OUT	YOU PAY	$ 26 60	$ 37 16	$ 37 16	$ 40 40	$ 38 72	$ 33 76	$ 30 84	$ 38 72	$ 26 60	$ 39 64	$ 35 12
	STATE PAYS	$ 83 80	$ 83 80	$ 83 80	$ 83 80	$ 83 80	$ 83 80	$ 83 80	$ 83 80	$ 83 80	$ 83 80	$ 83 80
	TOTAL PREMIUM	$110 40	$120 96	$120 96	$124 20	$122 52	$117 56	$114 64	$122 52	$110 40	$123 44	$118 92
	RETIREE											
	RETIREE ONLY FULL	$ 92 00	$ 93 00	$ 93 00	$ 97 44	$ 98 86	$ 97 98	$ 95 54	$ 98 86	$ 86 52	$102 88	$ 99 10
	RETIREE ONLY COMPLIMENTARY	$ 57 28	$ 60 48	$ 60 48	$ 62 10	$ 61 26	$ 58 78	$ 57 32	$ 61 26	N/A	$ 60 10	$ 59 46
	RETIREE & DEPENDENT, ONE FULL & ONE COMPLIMENTARY	$149 28	$153 48	$153 48	$159 54	$160 12	$156 76	$152 86	$160 12	N/A	$162 98	$158 56
	RETIREE & DEPENDENT BOTH COMPLIMENTARY	$114 56	$120 96	$120 96	$124 20	$122 52	$117 56	$114 64	$122 52	N/A	$120 20	$118 92
	FAMILY FULL COVERAGE	$230 00	$232 50	$232 50	$246 22	$247 00	$244 94	$238 34	$247 00	$216 30	$257 20	$247 76

NA Not Available

Benefits	BC/BS Standard Plan	BC/BS Cost Awareness	BC/BS KeyCare	PruCare (See footnote 1 on back)	Equicor	HMO Plus	MaxiCare	GHA (See footnote 2 on back)	Network
Inpatient Care Hospital Care in Semi-Private Room for Illness including Surgery Injury or Pregnancy (See footnote 3 on back)	120 days per confinement after $100 deductible (See footnote 4 on back)	365 days per confinement after $100 deductible	365 days per confinement after $100 deductible	100 percent	100 percent	100 percent	100 percent	100 percent	100 percent
Hospital Care in Semi-Private for Mental and Nervous Alcohol or Drug Abuse	120 days per calendar year after $100 deductible per confinement Additional days covered at 80 percent UCR after deductible	30 days per calendar year after $100 deductible per confinement	30 days per calendar year after $100 deductible per confinement	100 percent up to 30 days per calendar year	100 percent up to 30 days per calendar year	100 percent up to 30 days per year for mental and nervous illness Unlimited for alcohol or drug abuse	100 percent up to 30 days per calendar year	100 percent up to 30 days per calendar year	100 percent up to 30 days p calendar year
Skilled Nursing Home Care in Semi-Private Room	120 days per confinement payment limited to $65 per day	100 days per confinement	100 days per confinement	100 percent up to 100 days per calendar year	100 percent up to 100 days per calendar year	100 percent up to 100 days per calendar year	100 percent up to 100 days per calendar year	100 percent up to 100 days per calendar year	100 percent up to 100 days p calendar year
Inpatient Professional Services for Illness Surgery Injury Pregnancy Mental Illness and Skilled Nursing Care	120 days per confinement (except up to 45 days for Psychiatric and Substance Abuse) with additional days covered at 80 percent UCR after deductible	365 days per hospital and 100 days per Skilled Nursing Home confinement Psychiatric and Substance Abuse covered up to 30 days per calendar year	365 days per hospital and 100 days per Skilled Nursing Home confinement Psychiatric and Substance Abuse covered up to 30 days per calendar year	100 percent subject to day limits for mental and nervous illness and skilled nursing care	100 percent subject to day limits for mental and nervous illness and skilled nursing care	100 percent subject to day limits for mental and nervous illness and skilled nursing care	100 percent subject to day limits for mental and nervous illness and skilled nursing care	100 percent subject to day limits for mental and nervous illness and skilled nursing care	100 percent subject to day limi for mental and nervous illnes and skilled nursing care
Outpatient Institutional Care Hospital Care for Accidental Injuries and Medical Emergencies	Accidental Injuries Covered at UCR if treated within 72 hours	Covered after $30 deductible	Covered after $30 deductible	Covered if life threatening or approved in advance $25 copayment per visit if not admitted to hospital	$25 copayment per visit if not admitted to hospital	Covered if life threatening or approved in advance $25 copayment per visit if not admitted to hospital	Covered if life threatening or approved in advance $25 copayment if not admitted to hospital	100 percent if life threatening or approved in advance	Covered if life threatening or approved in advance $25 copayment per visit if not admitted t hospital
Home Health Care Visits	Covered at ULR for 90 approved visits per calendar year	Up to 90 approved visits per calendar year $10 deductible only for visits by a doctor	Up to 90 approved visits per calendar year $10 deductible only for visits by a doctor	100 percent when approved in advance	100 percent when approved in advance	100 percent when approved in advance	100 percent when approved in advance	100 percent when approved in advance	100 percent when approved i advance
Outpatient Physician & Professional Services (See footnote 5 on back) Illness or Injury	Accidents Surgery and Diagnostic Tests Covered at UCR Other conditions including medical emergencies covered at 80 percent UCR after deductible	$10 deductible per visit and 10 percent copayment for X rays lab tests and certain shots	$10 deductible per visit and 10 percent copayment for X rays lab tests and certain shots	$3 copayment per visit to primary care physician	$3 copayment per visit to primary care physician	$3 copayment per visit	100 percent	100 percent	$5 copayment to primary car physician ($10 after hours)
Preventive Care	Not covered	Well baby care through age 5 100 percent for common immunizations $10 deductible per office visit and 10 percent copayment for diagnostic tests	Well baby care through age 5 100 percent for common immunizations $10 deductible per office visit and 10 percent copayment for diagnostic tests	$3 copayment per visit to primary care physician	$3 copayment per visit to primary care physician	100 percent for periodic physicals well baby care and pediatric exams	100 percent	100 percent	$5 copayment to primary care physician
Prescription Drugs & Insulin (See footnote 6 on back)	Covered at 80 percent UCR after deductible (except contraceptives)	Covered at 80 percent after deductible (except contraceptives)	Covered at 80 percent after deductible (except contraceptives)	$3 copayment per prescription	$3 copayment per prescription	$3 copayment per prescription	$3 copayment per prescription	$4 copayment per prescription	$3 copayment per prescription
Diagnostic Tests & Laboratory	100 percent UCR	10 percent copayment	10 percent copayment	100 percent	100 percent	100 percent	100 percent	100 percent	100 percent
Outpatient Psychiatric Services	First 50 visits covered at 80 percent UCR after deductible and visits 51 70 covered at 50 percent	$10 deductible per visit up to $2 000 in benefits per calendar year	$10 deductible per visit up to $2 000 in benefits per calendar year	Upon referral $5 per session for the first 25 sessions $15 per session for session 26 50	First visit at 100 percent upon referral from primary care physician Visits 2 50 $15 copayment per visit	Upon referral $15 copayment per visit up to 50 visits	Upon referral $15 copayment per visit up to 50 visits per year	Upon referral 100 percent for up to 50 visits	Upon referral $15 copayment per visit up to 50 visits

Appendix C

VSRS RETIREE DISTRIBUTION
BY
AGE, SEX AND EMPLOYER TYPE

VSRS RETIREE DISTRIBUTION
BY
AGE, SEX AND EMPLOYER TYPE

VSRSRET2.WK1

AGE BRACKET	MEDIAN AGE	STATE RETIREES			SCHOOL RETIREES			OTHER RETIREES			ALL RETIREES		
		MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL
<20	20	1	0	1	0	0	0	1	0	1	2	0	
20-24	22	0	1	1	0	2	2	0	0	0	0	3	
25-29	27	2	4	6	1	1	2	2	2	4	5	7	1
30-34	32	17	7	24	0	6	6	5	6	11	22	19	4
35-39	37	28	29	57	7	20	27	20	7	27	55	56	11
40-44	42	65	41	106	22	46	68	53	10	63	140	97	23
45-49	47	91	73	164	24	60	84	58	19	77	173	152	32
50-54	52	148	117	265	49	133	182	85	23	108	282	273	55
55-59	57	473	445	918	319	818	1,137	227	119	346	1,019	1,382	2,40
60-64	62	1,415	1,266	2,681	807	2,267	3,074	567	305	872	2,789	3,838	6,62
65-69	67	2,983	2,601	5,584	1,364	4,200	5,564	1032	592	1624	5,379	7,393	12,77
70-74	72	2,542	2,241	4,783	1,083	4,002	5,085	897	483	1380	4,522	6,726	11,24
75-79	77	1,538	1,440	2,978	631	3,307	3,938	510	300	810	2,679	5,047	7,72
80-84	82	745	805	1,550	321	2,615	2,936	209	179	388	1,275	3,599	4,87
85-89	87	272	436	708	139	1,160	1,299	92	120	212	503	1,716	2,21
90-94	92	57	114	171	28	389	417	23	27	50	108	530	63
95-99	97	19	30	49	8	89	97	11	2	13	38	121	15
>=100	100	5	1	6	1	20	21	1	0	1	7	21	2
UNKNOWNS		0	0	0	0	0	0	0	1	1		1	
TOTALS		10,401	9,651	20,052	4,804	19,135	23,939	3793	2195	5988	18,998	30,981	49,97
AVERAGE AGE		68.95	69.11	69.02	68.58	70.00	69.71	67.65	68.99	68.14	68.59	69.65	69.2

VSRS RETIREE DISTRIBUTION
BY
AGE, SEX AND EMPLOYER TYPE

AGE BRACKET	MEDIAN AGE	STATE RETIREES			SCHOOL RETIREES			OTHER RETIREES			ALL RETIREES		
		MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL
<20	20	0.01%	0.00%	.00%	0.00%	0.00%	0.00%	0.03%	0.00%	0.02%	0.01%	0.00%	.00%
20-24	22	0.00%	0.01%	.00%	0.00%	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.01%	0.01%
25-29	27	0.02%	0.04%	0.03%	0.02%	0.01%	0.01%	0.05%	0.09%	0.07%	0.03%	0.02%	0.02%
30-34	32	0.16%	0.07%	0.12%	0.00%	0.03%	0.03%	0.13%	0.27%	0.18%	0.12%	0.06%	0.08%
35-39	37	0.27%	0.30%	0.28%	0.15%	0.10%	0.11%	0.53%	0.32%	0.45%	0.29%	0.18%	0.22%
40-44	42	0.62%	0.42%	0.53%	0.46%	0.24%	0.28%	1.40%	0.46%	1.05%	0.74%	0.31%	0.47%
45-49	47	0.87%	0.76%	0.82%	0.50%	0.31%	0.35%	1.53%	0.87%	1.29%	0.91%	0.49%	0.65%
50-54	52	1.42%	1.21%	1.32%	1.02%	0.70%	0.76%	2.24%	1.05%	1.80%	1.48%	0.88%	1.11%
55-59	57	4.55%	4.61%	4.58%	6.64%	4.27%	4.75%	5.98%	5.42%	5.78%	5.36%	4.46%	4.80%
60-64	62	13.60%	13.12%	13.37%	16.80%	11.85%	12.84%	14.95%	13.90%	14.56%	14.68%	12.39%	13.26%
65-69	67	28.68%	26.95%	27.85%	28.39%	21.95%	23.24%	27.21%	26.97%	27.12%	28.31%	23.86%	25.55%
70-74	72	24.44%	23.22%	23.85%	22.54%	20.91%	21.24%	23.65%	22.00%	23.05%	23.80%	21.71%	22.51%
75-79	77	14.79%	14.92%	14.85%	13.13%	17.28%	16.45%	13.45%	13.67%	13.53%	14.10%	16.29%	15.46%
80-84	82	7.16%	8.34%	7.73%	6.68%	13.67%	12.26%	5.51%	8.15%	6.48%	6.71%	11.62%	9.75%
85-89	87	2.62%	4.52%	3.53%	2.89%	6.06%	5.43%	2.43%	5.47%	3.54%	2.65%	5.54%	4.44%
90-94	92	0.55%	1.18%	0.85%	0.58%	2.03%	1.74%	0.61%	1.23%	0.84%	0.57%	1.71%	1.28%
95-99	97	0.18%	0.31%	0.24%	0.17%	0.47%	0.41%	0.29%	0.09%	0.22%	0.20%	0.39%	0.32%
>=100	100	0.05%	0.01%	0.03%	0.02%	0.10%	0.09%	0.03%	0.00%	0.02%	0.04%	0.07%	0.06%
UNKNOWNS		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.05%	0.02%	0.00%	.00%	.00%
TOTALS		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Appendix D

SURVEY SUMMARIES BY EMPLOYER TYPE

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
Analysis Based on 85 Responses

1. Type of political entity covered by school district:

	# of responses
A. City ==›	21
B. County ==›	59
C. Other ==›	5

---

2. Number of employees by category.

		Number
A. School District employees (full-time) including instructional and non-instructional employees.	=========›	71,243
B. Part-time employees (if your recognize distinctions among the groups who work less than full-time, please define and break out.	=========›	10,103
C. Retirees	=========›	8,792
	Total	90,138

---

3. Are health benefits provided to any employees of the school district?

A. NO ==› 10

B. Yes ==› 75

---

4. Number of employees eligible to enroll in health benefits programs:

A. Full-time School District employees	=========›	70,965
B. Part-time employees	=========›	4,976
C. Retirees	=========›	6,845
	Total	82,786

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
Analysis Based on 85 Responses

5. Number of employees enrolled in health benefits programs:

A. Full-time School district employees	=========›	42,336
B. Part-time employees	=========›	957
C. Retirees	=========›	1,522
	Total	44,815

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	48
B. Yes	===›	22
C. No retiree coverage	===›	10

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No	==›	55
Yes	=›	30

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	21
B. Health premiums and other specific groupings	===›	9
C. Full flexibility among all benefit choices permitted under law.	===›	4

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 56.35%

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
Analysis Based on 85 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee ===> 32

B. For the employer (including employer F.I.C.A. contribution). ===> 28

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	9	2	18	20	35	3.83
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	21	10	24	16	13	2.88
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	16	3	19	13	33	3.52
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	26	17	18	11	12	2.60
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	9	4	20	16	35	3.76
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	20	15	23	10	16	2.85

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Government
Analysis Based on 162 Responses

1. Type of political entity covered:

	# of responses
A. City ==›	29
B. County ==›	62
C. Other ==›	71

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========›	6,364
B. Local employees (excluding School District employees).	=========›	54,352
C. Part-time employees (more than 17-1/2 hours)	=========›	4,481
D. Retirees	=========›	8,464
	Total	73,661

---

3. Are health benefits provided to any employees of the local jurisdiction?

A. No ==› 32

B. Yes ==› 130

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========›	4,861
B. Local employees	=========›	37,052
C. Part-time employees	=========›	1,644
D. Retirees	=========›	2,387
	Total	45,944

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Government
Analysis Based on 162 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	==========›	4,496
B. Local employees	==========›	31,354
C. Part-time employees	==========›	1,209
D. Retirees	==========›	2,371
	Total	39,430

---

6. If your plan provides retiree coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	56
B. Yes	===›	35
C. No retiree coverage	===›	43

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No	==›	128
Yes	=›	34

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	22
B. Health premiums and other specific groupings	===›	17
C. Full flexibility among all benefit choices permitted under law.	===›	6

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 40.94%

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Government
Analysis Based on 162 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee ===› 31

B. For the employer (including employer F.I.C.A. contribution). ===› 26

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	21	5	30	21	70	3.78
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	45	19	49	16	17	2.60
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	46	5	31	24	35	2.98
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	72	23	34	8	6	1.97
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	34	8	25	27	49	3.34
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	60	19	39	13	11	2.27

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
Analysis Based on 247 Responses

1. Type of political entity covered:

	# of responses
A. City ==›	50
B. County ==›	121
C. Other ==›	76

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========›	6,364
B. Full-time employees	=========›	125,595
C. Part-time employees (more than 17-1/2 hours)	=========›	14,584
D. Retirees	=========›	17,256
	Total	163,799

---

3. Are health benefits provided to any employees of the school district?

A. No ==› 42

B. Yes ==› 205

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========›	4,861
B. Full-time employees	=========›	108,017
C. Part-time employees	=========›	6,620
D. Retirees	=========›	9,232
	Total	128,730

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
Analysis Based on 247 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	==========>	4,496
B. Full-time employees	==========>	73,690
C. Part-time employees	==========>	2,166
D. Retirees	==========>	3,893
	Total	84,245

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===>	104
B. Yes	===>	57
C. No retiree coverage	===>	53

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No	==>	183
Yes	=>	64

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===>	43
B. Health premiums and other specific groupings	===>	26
C. Full flexibility among all benefit choices permitted under law.	===>	10

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===> 48.64%

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
Analysis Based on 247 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===›	32
B. For the employer (including employer F.I.C.A. contribution).	===›	27

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	30	7	48	41	105	3.80
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	66	29	73	32	30	2.70
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	62	8	50	37	68	3.18
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	98	40	52	19	18	2.20
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	43	12	45	43	84	3.50
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	80	34	62	23	27	2.48

Appendix E

LOCAL GOVERNMENT SURVEY RESPONSES BY SIZE

Appendix E-1

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Cities with less than 100 employees
Analysis Based on 6 Responses

1. Type of political entity covered:

	# of responses
A. City ==>	6
B. County ==>	0
C. Other ==>	0

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========>	39
B. Local employees (excluding School District employees).	=========>	433
C. Part-time employees (more than 17-1/2 hours)	=========>	31
D. Retirees	=========>	1
	Total	504

---

3. Are health benefits provided to any employees of the local jurisdiction?

A. No ==> 1

B. Yes ==> 5

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========>	34
B. Local employees	=========>	361
C. Part-time employees	=========>	4
D. Retirees	=========>	1
	Total	400

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Cities with less than 100 employees
Analysis Based on 6 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	=========>	25
B. Local employees	=========>	321
C. Part-time employees	=========>	2
D. Retirees	=========>	1
	Total	349

---

6. If your plan provides retiree coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===>	0
B. Yes	===>	2
C. No retiree coverage	===>	4

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==>	5
Yes =>	1

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===>	0
B. Health premiums and other specific groupings	===>	0
C. Full flexibility among all benefit choices permitted under law.	===>	1

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===> 13.50%

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Cities with less than 100 employees
Analysis Based on 6 Responses

0. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===>	0
B. For the employer (including employer F.I.C.A. contribution).	===>	0

---

1. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	0	0	2	1	3	4.17
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	1	2	2	1	0	2.50
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	2	0	1	0	1	2.50
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	3	1	1	0	0	1.60
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	1	0	0	1	2	3.75
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	1	1	2	0	0	2.25

Appendix E-2

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Cities with >= 100 employees but < 750
Analysis Based on 19 Responses

1. Type of political entity covered:

	# of responses
A. City ==>	19
B. County ==>	0
C. Other ==>	0

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========>	805
B. Local employees (excluding School District employees).	=========>	5,364
C. Part-time employees (more than 17-1/2 hours)	=========>	563
D. Retirees	=========>	537
	Total	7,269

---

3. Are health benefits provided to any employees of the local jurisdiction?

A. No ==> 1

B. Yes ==> 18

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========>	793
B. Local employees	=========>	5,127
C. Part-time employees	=========>	143
D. Retirees	=========>	474
	Total	6,537

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Cities with >= 100 employees but < 750
Analysis Based on 19 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	=========>	1,101
B. Local employees	=========>	4,391
C. Part-time employees	=========>	722
D. Retirees	=========>	503
	Total	6,717

---

6. If your plan provides retiree coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===>	8
B. Yes	===>	6
C. No retiree coverage	===>	3

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

	No ==>	10
	Yes =>	9

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===>	6
B. Health premiums and other specific groupings	===>	5
C. Full flexibility among all benefit choices permitted under law.	===>	2

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===> 28.93%

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Cities with >= 100 employees but < 750
Analysis Based on 19 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===>	56
B. For the employer (including employer F.I.C.A. contribution).	===>	49

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	5	0	4	4	6	3.32
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	8	2	5	2	2	2.37
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	6	0	4	3	6	3.16
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	11	3	1	3	1	1.95
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	5	1	4	4	5	3.16
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	8	3	3	3	2	2.37

Appendix E-3

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Cities with more than 750 employees
Analysis Based on 4 Responses

1. Type of political entity covered:

	# of responses
A. City ==>	4
B. County ==>	0
C. Other ==>	0

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========>	694
B. Local employees (excluding School District employees).	=========>	8,744
C. Part-time employees (more than 17-1/2 hours)	=========>	253
D. Retirees	=========>	2,157
	Total	11,848

---

3. Are health benefits provided to any employees of the local jurisdiction?

A. No ==> 1

B. Yes ==> 3

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========>	624
B. Local employees	=========>	7,784
C. Part-time employees	=========>	85
D. Retirees	=========>	425
	Total	8,918

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Cities with more than 750 employees
Analysis Based on 4 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	========>	547
B. Local employees	========>	7,217
C. Part-time employees	========>	55
D. Retirees	========>	356
	Total	8,175

---

6. If your plan provides retiree coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===>	1
B. Yes	===>	1
C. No retiree coverage	===>	2

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

	No ==>	1
	Yes =>	3

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===>	3
B. Health premiums and other specific groupings	===>	2
C. Full flexibility among all benefit choices permitted under law.	===>	1

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===> 39.25%

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Cities with more than 750 employees
Analysis Based on 4 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===>	8
B. For the employer (including employer F.I.C.A. contribution).	===>	2

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	0	2	0	0	2	3.50
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	1	1	0	0	1	2.67
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	1	1	0	0	2	3.25
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	2	0	1	0	1	2.50
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	0	2	0	0	2	3.50
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	1	1	1	0	1	2.75

Appendix E-4

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Counties with less than 100 employees
Analysis Based on 44 Responses

1. Type of political entity covered:

	# of responses
A. City ==>	0
B. County ==>	44
C. Other ==>	0

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========>	1,919
B. Local employees (excluding School District employees).	=========>	1,982
C. Part-time employees (more than 17-1/2 hours)	=========>	436
D. Retirees	=========>	132
	Total	4,469

---

3. Are health benefits provided to any employees of the local jurisdiction?

A. No ==> 3

B. Yes ==> 41

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========>	1,905
B. Local employees	=========>	1,785
C. Part-time employees	=========>	108
D. Retirees	=========>	163
	Total	3,961

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Counties with less than 100 employees
Analysis Based on 44 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	========>	1,558
B. Local employees	========>	1,618
C. Part-time employees	========>	32
D. Retirees	========>	108
	Total	3,316

---

6. If your plan provides retiree coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===>	17
B. Yes	===>	12
C. No retiree coverage	===>	11

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==>		33
Yes =>		11

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===>	5
B. Health premiums and other specific groupings	===>	4
C. Full flexibility among all benefit choices permitted under law.	===>	1

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===> 28.11%

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Counties with less than 100 employees
Analysis Based on 44 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===>	20
B. For the employer (including employer F.I.C.A. contribution).	===>	8

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	2	2	10	4	24	4.10
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	10	9	16	5	2	2.52
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	6	4	12	5	13	3.38
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	17	11	10	3	1	2.05
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	4	3	8	8	18	3.80
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	14	6	13	6	3	2.48

Appendix E-5

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Counties with >= 100 employees but < 750
Analysis Based on 13 Responses

1. Type of political entity covered:

	# of responses
A. City ==>	0
B. County ==>	13
C. Other ==>	0

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========>	1,168
B. Local employees (excluding School District employees).	=========>	2,870
C. Part-time employees (more than 17-1/2 hours)	=========>	509
D. Retirees	=========>	147
	Total	4,694

---

3. Are health benefits provided to any employees of the local jurisdiction?

A. No ==> 2

B. Yes ==> 11

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========>	830
B. Local employees	=========>	3,850
C. Part-time employees	=========>	92
D. Retirees	=========>	26
	Total	4,798

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Counties with >= 100 employees but < 750
Analysis Based on 13 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	==========>	721
B. Local employees	==========>	1,916
C. Part-time employees	==========>	36
D. Retirees	==========>	27
	Total	2,700

---

6. If your plan provides retiree coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===>	5
B. Yes	===>	3
C. No retiree coverage	===>	4

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==>	9
Yes =>	4

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===>	2
B. Health premiums and other specific groupings	===>	3
C. Full flexibility among all benefit choices permitted under law.	===>	1

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===> 35.00%

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Counties with >= 100 employees but < 750
Analysis Based on 13 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===>	10
B. For the employer (including employer F.I.C.A. contribution).	===>	12

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	4	0	3	2	4	3.15
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	6	1	3	1	2	2.38
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	6	0	4	2	1	2.38
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	7	1	4	0	1	2.00
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	4	0	3	2	4	3.15
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	6	1	4	1	1	2.23

Appendix E-6

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Counties with more than 750 employees
Analysis Based on 5 Responses

1. Type of political entity covered:

	# of responses
A. City ==>	0
B. County ==>	5
C. Other ==>	0

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	==========>	1,199
B. Local employees (excluding School District employees).	==========>	27,693
C. Part-time employees (more than 17-1/2 hours)	==========>	2,012
D. Retirees	==========>	3,049
	Total	33,953

---

3. Are health benefits provided to any employees of the local jurisdiction?

A. No ==> 1

B. Yes ==> 4

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	==========>	450
B. Local employees	==========>	13,666
C. Part-time employees	==========>	995
D. Retirees	==========>	1,189
	Total	16,300

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Counties with more than 750 employees
Analysis Based on 5 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	========>	368
B. Local employees	========>	12,019
C. Part-time employees	========>	268
D. Retirees	========>	1,295
	Total	13,950

---

6. If your plan provides retiree coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===>	0
B. Yes	===>	1
C. No retiree coverage	===>	1

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==>	1
Yes =>	4

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===>	3
B. Health premiums and other specific groupings	===>	2
C. Full flexibility among all benefit choices permitted under law.	===>	0

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===> 21.00%

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Counties with more than 750 employees
Analysis Based on 5 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===>	2
B. For the employer (including employer F.I.C.A. contribution).	===>	8

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	3	0	0	1	1	2.40
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	3	0	1	0	1	2.20
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	3	0	0	1	1	2.40
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	3	0	1	0	1	2.20
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	3	0	0	1	1	2.40
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	3	0	1	0	1	2.20

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Others with less than 100 employees
Analysis Based on 59 Responses

1. Type of political entity covered:

	# of responses
A. City ==>	0
B. County ==>	0
C. Other ==>	59

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========>	155
B. Local employees (excluding School District employees).	=========>	1,594
C. Part-time employees (more than 17-1/2 hours)	=========>	244
D. Retirees	=========>	116
	Total	2,109

---

3. Are health benefits provided to any employees of the local jurisdiction?

A. No ==> 19

B. Yes ==> 40

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========>	100
B. Local employees	=========>	1,369
C. Part-time employees	=========>	20
D. Retirees	=========>	45
	Total	1,534

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Others with less than 100 employees
Analysis Based on 59 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	========>	78
B. Local employees	========>	1,145
C. Part-time employees	========>	92
D. Retirees	========>	27
	Total	1,342

---

6. If your plan provides retiree coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===>	20
B. Yes	===>	5
C. No retiree coverage	===>	17

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==>	59
Yes =>	0

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===>	1
B. Health premiums and other specific groupings	===>	0
C. Full flexibility among all benefit choices permitted under law.	===>	0

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===> 49.00%

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Others with less than 100 employees
Analysis Based on 59 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===>	0
B. For the employer (including employer F.I.C.A. contribution).	===>	0

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	3	1	10	8	25	4.09
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	14	2	17	5	8	2.80
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	19	0	7	12	7	2.73
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	24	5	13	1	1	1.86
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	14	2	7	10	12	3.09
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	23	5	12	2	2	1.98

Appendix E-8

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Others with >= 100 employees but < 750
Analysis Based on 10 Responses

1. Type of political entity covered:

	# of responses
A. City ==>	0
B. County ==>	0
C. Other ==>	10

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========>	23
B. Local employees (excluding School District employees).	=========>	1,829
C. Part-time employees (more than 17-1/2 hours)	=========>	154
D. Retirees	=========>	125
	Total	2,131

---

3. Are health benefits provided to any employees of the local jurisdiction?

A. No ==> 3

B. Yes ==> 7

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========>	23
B. Local employees	=========>	1,527
C. Part-time employees	=========>	38
D. Retirees	=========>	64
	Total	1,652

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Others with >= 100 employees but < 750
Analysis Based on 10 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	========>	23
B. Local employees	========>	1,437
C. Part-time employees	========>	2
D. Retirees	========>	39
	Total	1,501

---

6. If your plan provides retiree coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===>	4
B. Yes	===>	5
C. No retiree coverage	===>	1

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==>		9
Yes =>		1

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===>	1
B. Health premiums and other specific groupings	===>	0
C. Full flexibility among all benefit choices permitted under law.	===>	0

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===> 36.00%

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Others with >= 100 employees but < 750
Analysis Based on 10 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===>	0
B. For the employer (including employer F.I.C.A. contribution).	===>	0

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	4	0	0	1	4	3.11
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	2	2	2	2	1	2.78
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	2	0	2	1	4	3.56
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	4	2	2	1	0	2.00
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	2	0	2	1	5	3.70
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	3	2	2	1	1	2.44

Appendix E-9

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Others with more than 750 employees
Analysis Based on 2 Responses

1. Type of political entity covered:

	# of responses
A. City ==>	0
B. County ==>	0
C. Other ==>	2

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	==========>	362
B. Local employees (excluding School District employees).	==========>	3,843
C. Part-time employees (more than 17-1/2 hours)	==========>	279
D. Retirees	==========>	2,200
	Total	6,684

---

3. Are health benefits provided to any employees of the local jurisdiction?

A. No ==> 1

B. Yes ==> 1

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	==========>	102
B. Local employees	==========>	1,583
C. Part-time employees	==========>	159
D. Retirees	==========>	0
	Total	1,844

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Others with more than 750 employees
Analysis Based on 2 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	=========>	75
B. Local employees	=========>	1,290
C. Part-time employees	=========>	0
D. Retirees	=========>	15
	Total	1,380

---

6. If your plan provides retiree coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===>	1
B. Yes	===>	0
C. No retiree coverage	===>	0

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

	No ==>	1
	Yes =>	1

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===>	1
B. Health premiums and other specific groupings	===>	1
C. Full flexibility among all benefit choices permitted under law.	===>	0

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===> 0.00%

Commonwealth of Virginia Health Benefits Survey
Table 2 - Local Governments
For Others with more than 750 employees
Analysis Based on 2 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee ===> 0

B. For the employer (including employer F.I.C.A. contribution). ===> 0

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	0	0	1	0	1	4.00
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	0	0	2	0	0	3.00
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	1	0	1	0	0	2.00
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	1	0	1	0	0	2.00
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	1	0	1	0	0	2.00
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	1	0	1	0	0	2.00

Appendix F

SCHOOL SYSTEM RESPONSES BY SIZE

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Cities with less than 100 employees
Analysis Based on 0 Responses

1. Type of political entity covered by school district:

	# of responses
A. City ==›	0
B. County ==›	0
C. Other ==›	0

---

2. Number of employees by category.

		Number
A. School District employees (full-time) including instructional and non-instructional employees.	=========›	0
B. Part-time employees (if your recognize distinctions among the groups who work less than full-time, please define and break out.	=========›	0
C. Retirees	=========›	0
	Total	0

---

3. Are health benefits provided to any employees of the school district?

A. NO ==› 0

B. Yes ==› 0

---

4. Number of employees eligible to enroll in health benefits programs:

A. Full-time School District employees	=========›	0
B. Part-time employees	=========›	0
C. Retirees	=========›	0
	Total	0

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Cities with less than 100 employees
Analysis Based on 0 Responses

5. Number of employees enrolled in health benefits programs:

A. Full-time School district employees	=========›	0
B. Part-time employees	=========›	0
C. Retirees	=========›	0
	Total	0

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	0
B. Yes	===›	0
C. No retiree coverage	===›	0

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==›		0
Yes =›		0

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	0
B. Health premiums and other specific groupings	===›	0
C. Full flexibility among all benefit choices permitted under law.	===›	0

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 0.00%

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Cities with less than 100 employees
Analysis Based on 0 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===›	0
B. For the employer (including employer F.I.C.A. contribution).	===›	0

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	0	0	0	0	0	***.**
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	0	0	0	0	0	***.**
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	0	0	0	0	0	***.**
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	0	0	0	0	0	***.**
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	0	0	0	0	0	***.**
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	0	0	0	0	0	***.**

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Cities with ›= 100 employees but ‹ 750
Analysis Based on 16 Responses

1. Type of political entity covered by school district:

	# of responses
A. City ==›	16
B. County ==›	0
C. Other ==›	0

---

2. Number of employees by category.

		Number
A. School District employees (full-time) including instructional and non-instructional employees.	=========›	3,561
B. Part-time employees (if your recognize distinctions among the groups who work less than full-time, please define and break out.	=========›	1,539
C. Retirees	=========›	800
	Total	5,900

---

3. Are health benefits provided to any employees of the school district?

A. NO ==› 1

B. Yes ==› 15

---

4. Number of employees eligible to enroll in health benefits programs:

A. Full-time School District employees	=========›	5,461
B. Part-time employees	=========›	143
C. Retirees	=========›	302
	Total	5,906

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Cities with >= 100 employees but < 750
Analysis Based on 16 Responses

5. Number of employees enrolled in health benefits programs:

A. Full-time School district employees	=========>	3,909
B. Part-time employees	=========>	64
C. Retirees	=========>	262
	Total	4,235

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===>	10
B. Yes	===>	4
C. No retiree coverage	===>	1

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No	==>	13
Yes	=>	3

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===>	0
B. Health premiums and other specific groupings	===>	2
C. Full flexibility among all benefit choices permitted under law.	===>	0

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===> 45.00%

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Cities with ›= 100 employees but ‹ 750
Analysis Based on 16 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===›	8
B. For the employer (including employer F.I.C.A. contribution).	===›	0

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	3	1	4	2	6	3.44
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	5	1	5	2	3	2.81
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	3	0	4	2	7	3.63
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	4	3	5	0	4	2.81
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	3	1	3	3	6	3.50
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	6	1	3	1	5	2.88

Appendix F-3

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Cities with more than 750 employees
Analysis Based on 5 Responses

1. Type of political entity covered by school district:

	# of responses
A. City ==›	5
B. County ==›	0
C. Other ==›	0

---

2. Number of employees by category.

		Number
A. School District employees (full-time) including instructional and non-instructional employees.	=========›	12,458
B. Part-time employees (if your recognize distinctions among the groups who work less than full-time, please define and break out.	=========›	1,969
C. Retirees	=========›	1,847
	Total	16,274

---

3. Are health benefits provided to any employees of the school district?

A. NO ==› 1

B. Yes ==› 4

---

4. Number of employees eligible to enroll in health benefits programs:

A. Full-time School District employees	=========›	12,393
B. Part-time employees	=========›	108
C. Retirees	=========›	451
	Total	12,952

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Cities with more than 750 employees
Analysis Based on 5 Responses

5. Number of employees enrolled in health benefits programs:

A. Full-time School district employees	=========›	10,498
B. Part-time employees	=========›	32
C. Retirees	=========›	370
	Total	10,900

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	1
B. Yes	===›	3
C. No retiree coverage	===›	1

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==›		2
Yes =›		3

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	3
B. Health premiums and other specific groupings	===›	0
C. Full flexibility among all benefit choices permitted under law.	===›	0

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 11.25%

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Cities with more than 750 employees
Analysis Based on 5 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee ===> 21

B. For the employer (including employer F.I.C.A. contribution). ===> 11

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	1	0	1	1	2	3.60
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	2	0	0	2	1	3.00
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	2	0	1	0	2	3.00
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	3	1	0	0	1	2.00
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	1	0	1	1	2	3.60
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	1	1	1	1	1	3.00

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Counties with less than 100 employees
Analysis Based on 3 Responses

1. Type of political entity covered by school district:

	# of responses
A. City ==›	0
B. County ==›	3
C. Other ==›	0

---

2. Number of employees by category.

		Number
A. School District employees (full-time) including instructional and non-instructional employees.	=========›	148
B. Part-time employees (if your recognize distinctions among the groups who work less than full-time, please define and break out.	=========›	5
C. Retirees	=========›	9
	Total	162

---

3. Are health benefits provided to any employees of the school district?

A. NO ==› 0

B. Yes ==› 3

---

4. Number of employees eligible to enroll in health benefits programs:

A. Full-time School District employees	=========›	65
B. Part-time employees	=========›	0
C. Retirees	=========›	9
	Total	74

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Counties with less than 100 employees
Analysis Based on 3 Responses

5. Number of employees enrolled in health benefits programs:

A. Full-time School district employees	=========›	138
B. Part-time employees	=========›	0
C. Retirees	=========›	11
	Total	149

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	3
B. Yes	===›	0
C. No retiree coverage	===›	0

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==›		2
Yes =›		1

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	1
B. Health premiums and other specific groupings	===›	0
C. Full flexibility among all benefit choices permitted under law.	===›	0

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 13.00%

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Counties with less than 100 employees
Analysis Based on 3 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===›	0
B. For the employer (including employer F.I.C.A. contribution).	===›	5

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	0	0	0	2	1	4.33
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	1	0	1	0	1	3.00
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	2	0	0	1	0	2.00
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	3	0	0	0	0	1.00
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	1	0	0	1	1	3.33
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	2	0	0	0	1	2.33

Appendix F-5

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Counties with ›= 100 employees but ‹ 750
Analysis Based on 39 Responses

1. Type of political entity covered by school district:

	# of responses
A. City ==›	0
B. County ==›	39
C. Other ==›	0

---

2. Number of employees by category.

		Number
A. School District employees (full-time) including instructional and non-instructional employees.	==========›	14,171
B. Part-time employees (if your recognize distinctions among the groups who work less than full-time, please define and break out.	==========›	1,958
C. Retirees	==========›	608
	Total	16,737

---

3. Are health benefits provided to any employees of the school district?

A. NO ==› 7

B. Yes ==› 32

---

4. Number of employees eligible to enroll in health benefits programs:

A. Full-time School District employees	==========›	12,196
B. Part-time employees	==========›	1,172
C. Retirees	==========›	574
	Total	13,942

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Counties with ›= 100 employees but ‹ 750
Analysis Based on 39 Responses

5. Number of employees enrolled in health benefits programs:

A. Full-time School district employees	=========›	8,730
B. Part-time employees	=========›	244
C. Retirees	=========›	345
	Total	9,319

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	22
B. Yes	===›	7
C. No retiree coverage	===›	6

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==›	28
Yes =›	11

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	8
B. Health premiums and other specific groupings	===›	2
C. Full flexibility among all benefit choices permitted under law.	===›	1

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 64.10%

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Counties with >= 100 employees but < 750
Analysis Based on 39 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===>	26
B. For the employer (including employer F.I.C.A. contribution).	===>	36

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	4	0	9	10	15	3.84
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	8	6	10	9	5	2.92
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	6	2	9	7	14	3.55
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	9	8	8	8	5	2.79
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	3	1	11	7	16	3.84
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	7	8	11	6	6	2.89

Appendix F-6

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Counties with more than 750 employees
Analysis Based on 17 Responses

1. Type of political entity covered by school district:

	# of responses
A. City ==›	0
B. County ==›	17
C. Other ==›	0

---

2. Number of employees by category.

		Number
A. School District employees (full-time) including instructional and non-instructional employees.	=========›	38,194
B. Part-time employees (if your recognize distinctions among the groups who work less than full-time, please define and break out.	=========›	4,308
C. Retirees	=========›	5,470
	Total	47,972

---

3. Are health benefits provided to any employees of the school district?

A. NO ==› 1

B. Yes ==› 16

---

4. Number of employees eligible to enroll in health benefits programs:

A. Full-time School District employees	=========›	38,088
B. Part-time employees	=========›	3,280
C. Retirees	=========›	5,453
	Total	46,821

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Counties with more than 750 employees
Analysis Based on 17 Responses

5. Number of employees enrolled in health benefits programs:

A. Full-time School district employees	=========›	17,084
B. Part-time employees	=========›	532
C. Retirees	=========›	450
	Total	18,066

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	9
B. Yes	===›	8
C. No retiree coverage	===›	0

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==›		9
Yes =›		8

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	5
B. Health premiums and other specific groupings	===›	3
C. Full flexibility among all benefit choices permitted under law.	===›	1

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 37.70%

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Counties with more than 750 employees
Analysis Based on 17 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===›	39
B. For the employer (including employer F.I.C.A. contribution).	===›	14

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	1	1	4	3	8	3.94
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	3	3	6	3	2	2.88
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	2	1	5	2	7	3.65
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	5	4	4	3	1	2.47
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	1	2	4	2	8	3.82
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	3	4	6	2	2	2.76

Appendix F-7

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Others with less than 100 employees
Analysis Based on 2 Responses

1. Type of political entity covered by school district:

	# of responses
A. City ==›	0
B. County ==›	0
C. Other ==›	2

---

2. Number of employees by category.

		Number
A. School District employees (full-time) including instructional and non-instructional employees.	=========›	122
B. Part-time employees (if your recognize distinctions among the groups who work less than full-time, please define and break out.	=========›	14
C. Retirees	=========›	7
	Total	143

---

3. Are health benefits provided to any employees of the school district?

A. NO ==› C

B. Yes ==› 2

---

4. Number of employees eligible to enroll in health benefits programs:

A. Full-time School District employees	=========›	122
B. Part-time employees	=========›	14
C. Retirees	=========›	5
	Total	141

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Others with less than 100 employees
Analysis Based on 2 Responses

5. Number of employees enrolled in health benefits programs:

A. Full-time School district employees	=========›	78
B. Part-time employees	=========›	2
C. Retirees	=========›	5
	Total	85

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	1
B. Yes	===›	0
C. No retiree coverage	===›	1

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==›	0
Yes =›	2

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	2
B. Health premiums and other specific groupings	===›	2
C. Full flexibility among all benefit choices permitted under law.	===›	1

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 39.25%

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Others with less than 100 employees
Analysis Based on 2 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===›	0
B. For the employer (including employer F.I.C.A. contribution).	===›	0

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	0	0	0	1	1	4.50
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	2	0	0	0	0	1.00
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	1	0	0	0	1	3.00
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	2	0	0	0	0	1.00
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	0	0	0	1	1	4.50
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	1	1	0	0	0	1.50

Appendix F-8

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Others with ›= 100 employees but ‹ 750
Analysis Based on 1 Responses

1. Type of political entity covered by school district:

	# of responses
A. City ==›	0
B. County ==›	0
C. Other ==›	1

---

2. Number of employees by category.

		Number
A. School District employees (full-time) including instructional and non-instructional employees.	=========›	249
B. Part-time employees (if your recognize distinctions among the groups who work less than full-time, please define and break out.	=========›	110
C. Retirees	=========›	8
	Total	367

---

3. Are health benefits provided to any employees of the school district?

A. NO ==› 0

B. Yes ==› 1

---

4. Number of employees eligible to enroll in health benefits programs:

A. Full-time School District employees	=========›	300
B. Part-time employees	=========›	59
C. Retirees	=========›	8
	Total	367

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Others with >= 100 employees but < 750
Analysis Based on 1 Responses

5. Number of employees enrolled in health benefits programs:

A. Full-time School district employees	=========>	260
B. Part-time employees	=========>	26
C. Retirees	=========>	8
	Total	294

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===>	0
B. Yes	===>	0
C. No retiree coverage	===>	1

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No	==>	0
Yes	=>	1

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===>	1
B. Health premiums and other specific groupings	===>	0
C. Full flexibility among all benefit choices permitted under law.	===>	0

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===> 0.50%

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Others with >= 100 employees but < 750
Analysis Based on 1 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===>	30
B. For the employer (including employer F.I.C.A. contribution).	===>	20

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	0	0	0	0	1	5.00
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	0	0	0	0	1	5.00
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	0	0	0	0	1	5.00
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	0	0	0	0	1	5.00
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	0	0	0	0	1	5.00
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	0	0	0	0	1	5.00

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Others with more than 750 employees
Analysis Based on 2 Responses

1. Type of political entity covered by school district:

	# of responses
A. City ==›	0
B. County ==›	0
C. Other ==›	2

---

2. Number of employees by category.

		Number
A. School District employees (full-time) including instructional and non-instructional employees.	==========›	2,340
B. Part-time employees (if your recognize distinctions among the groups who work less than full-time, please define and break out.	==========›	200
C. Retirees	==========›	43
	Total	2,583

---

3. Are health benefits provided to any employees of the school district?

A. NO ==› 0

B. Yes ==› 2

---

4. Number of employees eligible to enroll in health benefits programs:

A. Full-time School District employees	==========›	2,340
B. Part-time employees	==========›	200
C. Retirees	==========›	43
	Total	2,583

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Others with more than 750 employees
Analysis Based on 2 Responses

5. Number of employees enrolled in health benefits programs:

A. Full-time School district employees	=========›	1,639
B. Part-time employees	=========›	57
C. Retirees	=========›	71
	Total	1,767

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	2
B. Yes	===›	0
C. No retiree coverage	===›	0

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==›		1
Yes =›		1

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	1
B. Health premiums and other specific groupings	===›	0
C. Full flexibility among all benefit choices permitted under law.	===›	1

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 20.00%

Commonwealth of Virginia Health Benefits Survey
Table 1 - School District
For Others with more than 750 employees
Analysis Based on 2 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===›	20
B. For the employer (including employer F.I.C.A. contribution).	===›	18

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	0	0	0	1	1	4.50
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	0	0	2	0	0	3.00
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	0	0	0	1	1	4.50
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	0	1	1	0	0	2.50
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	0	0	1	1	0	3.50
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	0	0	2	0	0	3.00

Appendix G

COMBINED SUMMARY RESPONSES BY SIZE

Appendix G-1

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Cities with less than 100 employees
Analysis Based on 6 Responses

1. Type of political entity covered:

	# of responses
A. City ==›	6
B. County ==›	0
C. Other ==›	0

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========›	39
B. Full-time employees	=========›	433
C. Part-time employees (more than 17-1/2 hours)	=========›	31
D. Retirees	=========›	1
	Total	504

---

3. Are health benefits provided to any employees of the school district?

A. No ==› 1

B. Yes ==› 5

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========›	34
B. Full-time employees	=========›	361
C. Part-time employees	=========›	4
D. Retirees	=========›	1
	Total	400

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Cities with less than 100 employees
Analysis Based on 6 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	=========›	25
B. Full-time employees	=========›	321
C. Part-time employees	=========›	2
D. Retirees	=========›	1
	Total	349

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	0
B. Yes	===›	2
C. No retiree coverage	===›	4

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

	No ==›	5
	Yes =›	1

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	0
B. Health premiums and other specific groupings	===›	0
C. Full flexibility among all benefit choices permitted under law.	===›	1

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 6.75%

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Cities with less than 100 employees
Analysis Based on 6 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===›	0
B. For the employer (including employer F.I.C.A. contribution).	===›	0

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	0	0	2	1	3	4.17
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	1	2	2	1	0	2.50
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	2	0	1	0	1	2.50
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	3	1	1	0	0	1.60
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	1	0	0	1	2	3.75
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	1	1	2	0	0	2.25

Appendix G-2

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Cities with >= 100 employees but < 750
Analysis Based on 35 Responses

1. Type of political entity covered:

	# of responses
A. City ==>	35
B. County ==>	0
C. Other ==>	0

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	==========>	805
B. Full-time employees	==========>	8,925
C. Part-time employees (more than 17-1/2 hours)	==========>	2,102
D. Retirees	==========>	1,337
	Total	13,169

---

3. Are health benefits provided to any employees of the school district?

A. No ==> 2

B. Yes ==> 33

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	==========>	793
B. Full-time employees	==========>	10,588
C. Part-time employees	==========>	286
D. Retirees	==========>	776
	Total	12,443

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Cities with >= 100 employees but < 750
Analysis Based on 35 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	=========>	1,101
B. Full-time employees	=========>	8,300
C. Part-time employees	=========>	786
D. Retirees	=========>	765
	Total	10,952

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===>	18
B. Yes	===>	10
C. No retiree coverage	===>	4

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No	==>	23
Yes	=>	12

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===>	6
B. Health premiums and other specific groupings	===>	7
C. Full flexibility among all benefit choices permitted under law.	===>	2

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===> 36.97%

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Cities with ›= 100 employees but ‹ 750
Analysis Based on 35 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===›	32
B. For the employer (including employer F.I.C.A. contribution).	===›	24

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	8	1	8	6	12	3.37
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	13	3	10	4	5	2.57
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	9	0	8	5	13	3.37
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	15	6	6	3	5	2.34
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	8	2	7	7	11	3.31
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	14	4	6	4	7	2.60

Appendix G-3
Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Cities with more than 750 employees
Analysis Based on 9 Responses

1. Type of political entity covered:

	# of responses
A. City ==›	9
B. County ==›	0
C. Other ==›	0

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========›	694
B. Full-time employees	=========›	21,202
C. Part-time employees (more than 17-1/2 hours)	=========›	2,222
D. Retirees	=========›	4,004
	Total	28,122

---

3. Are health benefits provided to any employees of the school district?

A. No ==› 2

B. Yes ==› 7

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========›	624
B. Full-time employees	=========›	20,177
C. Part-time employees	=========›	193
D. Retirees	=========›	876
	Total	21,870

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Cities with more than 750 employees
Analysis Based on 9 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	=========›	547
B. Full-time employees	=========›	17,715
C. Part-time employees	=========›	87
D. Retirees	=========›	726
	Total	19,075

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	2
B. Yes	===›	4
C. No retiree coverage	===›	3

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

	No ==›	3
	Yes =›	6

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	6
B. Health premiums and other specific groupings	===›	2
C. Full flexibility among all benefit choices permitted under law.	===›	1

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 25.25%

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Cities with more than 750 employees
Analysis Based on 9 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee ===› 14

B. For the employer (including employer F.I.C.A. contribution). ===› 6

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	1	2	1	1	4	3.56
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	3	1	0	2	2	2.88
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	3	1	1	0	4	3.11
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	5	1	1	0	2	2.22
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	1	2	1	1	4	3.56
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	2	2	2	1	2	2.89

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Counties with less than 100 employees
Analysis Based on 47 Responses

1. Type of political entity covered:

	# of responses
A. City ==›	0
B. County ==›	47
C. Other ==›	0

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========›	1,919
B. Full-time employees	=========›	2,130
C. Part-time employees (more than 17-1/2 hours)	=========›	441
D. Retirees	=========›	141
	Total	4,631

---

3. Are health benefits provided to any employees of the school district?

A. No ==› 3

B. Yes ==› 44

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========›	1,905
B. Full-time employees	=========›	1,850
C. Part-time employees	=========›	108
D. Retirees	=========›	172
	Total	4,035

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Counties with less than 100 employees
Analysis Based on 47 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	=========›	1,558
B. Full-time employees	=========›	1,756
C. Part-time employees	=========›	32
D. Retirees	=========›	119
	Total	3,465

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	20
B. Yes	===›	12
C. No retiree coverage	===›	11

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No	==›	35
Yes	=›	12

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	6
B. Health premiums and other specific groupings	===›	4
C. Full flexibility among all benefit choices permitted under law.	===›	1

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 20.56%

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Counties with less than 100 employees
Analysis Based on 47 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===›	10
B. For the employer (including employer F.I.C.A. contribution).	===›	6

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	2	2	10	6	25	4.11
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	11	9	17	5	3	2.56
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	8	4	12	6	13	3.28
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	20	11	10	3	1	1.98
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	5	3	8	9	19	3.77
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	16	6	13	6	4	2.47

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Counties with >= 100 employees but < 750
Analysis Based on 52 Responses

1. Type of political entity covered:

	# of responses
A. City ==>	0
B. County ==>	52
C. Other ==>	0

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========>	1,168
B. Full-time employees	=========>	17,041
C. Part-time employees (more than 17-1/2 hours)	=========>	2,467
D. Retirees	=========>	755
	Total	21,431

---

3. Are health benefits provided to any employees of the school district?

A. No ==> 9

B. Yes ==> 43

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========>	830
B. Full-time employees	=========>	16,046
C. Part-time employees	=========>	1,264
D. Retirees	=========>	600
	Total	18,740

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Counties with ›= 100 employees but ‹ 750
Analysis Based on 52 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	=========›	721
B. Full-time employees	=========›	10,646
C. Part-time employees	=========›	280
D. Retirees	=========›	372
	Total	12,019

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	27
B. Yes	===›	10
C. No retiree coverage	===›	10

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

	No ==›	37
	Yes =›	15

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	10
B. Health premiums and other specific groupings	===›	5
C. Full flexibility among all benefit choices permitted under law.	===›	2

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 49.55%

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Counties with >= 100 employees but < 750
Analysis Based on 52 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===>	18
B. For the employer (including employer F.I.C.A. contribution).	===>	24

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	8	0	12	12	19	3.67
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	14	7	13	10	7	2.78
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	12	2	13	9	15	3.25
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	16	9	12	8	6	2.59
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	7	1	14	9	20	3.67
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	13	9	15	7	7	2.73

Appendix G-6

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Counties with more than 750 employees
Analysis Based on 22 Responses

1. Type of political entity covered:

	# of responses
A. City ==›	0
B. County ==›	22
C. Other ==›	0

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========›	1,199
B. Full-time employees	=========›	65,887
C. Part-time employees (more than 17-1/2 hours)	=========›	6,320
D. Retirees	=========›	8,519
	Total	81,925

---

3. Are health benefits provided to any employees of the school district?

A. No ==› 2

B. Yes ==› 20

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========›	450
B. Full-time employees	=========›	51,754
C. Part-time employees	=========›	4,275
D. Retirees	=========›	6,642
	Total	63,121

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Counties with more than 750 employees
Analysis Based on 22 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	=========›	368
B. Full-time employees	=========›	29,103
C. Part-time employees	=========›	800
D. Retirees	=========›	1,745
	Total	32,016

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	9
B. Yes	===›	9
C. No retiree coverage	===›	1

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

	No ==›	10
	Yes =›	12

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	8
B. Health premiums and other specific groupings	===›	5
C. Full flexibility among all benefit choices permitted under law.	===›	1

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 29.35%

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Counties with more than 750 employees
Analysis Based on 22 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee ===› 20

B. For the employer (including employer F.I.C.A. contribution). ===› 11

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	4	1	4	4	9	3.59
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	6	3	7	3	3	2.73
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	5	1	5	3	8	3.36
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	8	4	5	3	2	2.41
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	4	2	4	3	9	3.50
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	6	4	7	2	3	2.64

Appendix G-7

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Others with less than 100 employees
Analysis Based on 61 Responses

1. Type of political entity covered:

	# of responses
A. City ==›	0
B. County ==›	0
C. Other ==›	61

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========›	155
B. Full-time employees	=========›	1,716
C. Part-time employees (more than 17-1/2 hours)	=========›	258
D. Retirees	=========›	123
	Total	2,252

---

3. Are health benefits provided to any employees of the school district?

A. No ==› 19

B. Yes ==› 42

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========›	100
B. Full-time employees	=========›	1,491
C. Part-time employees	=========›	34
D. Retirees	=========›	50
	Total	1,675

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Others with less than 100 employees
Analysis Based on 61 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	=========›	78
B. Full-time employees	=========›	1,223
C. Part-time employees	=========›	94
D. Retirees	=========›	32
	Total	1,427

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	21
B. Yes	===›	5
C. No retiree coverage	===›	18

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==›		59
Yes =›		2

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	3
B. Health premiums and other specific groupings	===›	2
C. Full flexibility among all benefit choices permitted under law.	===›	1

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 44.13%

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Others with less than 100 employees
Analysis Based on 61 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===›	0
B. For the employer (including employer F.I.C.A. contribution).	===›	0

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	3	1	10	9	26	4.10
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	16	2	17	5	8	2.73
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	20	0	7	12	8	2.74
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	26	5	13	1	1	1.83
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	14	2	7	11	13	3.15
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	24	6	12	2	2	1.96

Appendix G-8

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Others with >= 100 employees but < 750
Analysis Based on 11 Responses

1. Type of political entity covered:

	# of responses
A. City ==>	0
B. County ==>	0
C. Other ==>	11

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	==========>	23
B. Full-time employees	==========>	2,078
C. Part-time employees (more than 17-1/2 hours)	==========>	264
D. Retirees	==========>	133
	Total	2,498

---

3. Are health benefits provided to any employees of the school district?

A. No ==> 3

B. Yes ==> 8

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	==========>	23
B. Full-time employees	==========>	1,827
C. Part-time employees	==========>	97
D. Retirees	==========>	72
	Total	2,019

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Others with ›= 100 employees but ‹ 750
Analysis Based on 11 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	=========›	23
B. Full-time employees	=========›	1,697
C. Part-time employees	=========›	28
D. Retirees	=========›	47
	Total	1,795

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	4
B. Yes	===›	5
C. No retiree coverage	===›	2

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No	==›	9
Yes	=›	2

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	2
B. Health premiums and other specific groupings	===›	0
C. Full flexibility among all benefit choices permitted under law.	===›	0

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 18.25%

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
Others with >= 100 employees but < 750
Analysis Based on 11 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===>	15
B. For the employer (including employer F.I.C.A. contribution).	===>	10

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	4	0	0	1	5	3.30
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	2	2	2	2	2	3.00
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	2	0	2	1	5	3.70
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	4	2	2	1	1	2.30
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	2	0	2	1	6	3.82
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	3	2	2	1	2	2.70

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Others with more than 750 employees
Analysis Based on 4 Responses

1. Type of political entity covered:

	# of responses
A. City ==›	0
B. County ==›	0
C. Other ==›	4

---

2. Number of employees by category.

		Number
A. Constitutional Officers and their employees (Sheriff, Commissioner of Revenue, etc).	=========›	362
B. Full-time employees	=========›	6,183
C. Part-time employees (more than 17-1/2 hours)	=========›	479
D. Retirees	=========›	2,243
	Total	9,267

---

3. Are health benefits provided to any employees of the school district?

A. No ==› 1

B. Yes ==› 3

---

4. Number of employees eligible to enroll in health benefits programs:

A. Consitutional Officers and their employees.	=========›	102
B. Full-time employees	=========›	3,923
C. Part-time employees	=========›	359
D. Retirees	=========›	43
	Total	4,427

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Others with more than 750 employees
Analysis Based on 4 Responses

5. Number of employees enrolled in health benefits programs:

A. Constitutional Officers and their employees	=========›	75
B. Full-time employees	=========›	2,929
C. Part-time employees	=========›	57
D. Retirees	=========›	86
	Total	3,147

---

6. If your plan provides returee coverage, does your health benefit program contain length of service or other restrictions on provisions of health benefits to retirees?

A. No	===›	3
B. Yes	===›	0
C. No retiree coverage	===›	0

---

7. Do you presently have a flexible benefit or cafeteria plan (under Section 125 of the Internal Revenue Code) which provides for payment of employee health benefit contributions on pre-tax basis?

No ==›		2
Yes =›		2

---

8. If you presently have a Section 125 plan, please indicate what benefits may be paid through its salary reduction provisions:

		# YES
A. Health insurance premiums for employee and dependent	===›	2
B. Health premiums and other specific groupings	===›	1
C. Full flexibility among all benefit choices permitted under law.	===›	1

---

9. What percentage of employees eligible for health benefits have elected to participate in the Section 125 plan? ===› 10.00%

Commonwealth of Virginia Health Benefits Survey
Table 3 - Summary Reports (all groups)
For Others with more than 750 employees
Analysis Based on 4 Responses

10. What were the average monthly savings realized per employee who participated in the Section 125 plan in 1987?

A. For the employee	===›	10
B. For the employer (including employer F.I.C.A. contribution).	===›	9

---

11. Assuming the result of this feasibility study is a determination that local jurisdictions would be given an opportunity to participate in the State Employee Health Benefit Plan, indicate your level of interest in participation (1 being least interested through 5 most interested) under each of the following:

	RANGE					
	1	2	3	4	5	AVG
A. Involvement of active full-time employees at present contribution rates.	0	0	1	1	2	4.25
B. Involvement of active full-time employees at higher contribution rates to obtain level of benefits provided by State health benefits plans.	0	0	4	0	0	3.00
C. Involvement of active full-time and part-time employees (if presently covered) at present contribution rates.	1	0	1	1	1	3.25
D. Involvement of active full-time and part-time employees at higher contribution rates to expand coverage to part-time employees or obtain level of benefits provided by State health benefits plan.	1	1	2	0	0	2.25
E. Involvement of active full-time employees and retirees (if presently covered) at present contribution rates.	1	0	2	1	0	2.75
F. Involvement of active full-time employees and retirees at higher contribution rates to expand coverage to retired employees or obtain level of benefits provided by State health benefits plan.	1	0	3	0	0	2.50

Appendix H

AVERAGE CONTRIBUTION RATES FOR HEALTH BENEFITS COVERAGE BY CLASS OF COVERAGE AND PAYMENT SOURCE

Appendix H-1

Commonwealth of Virginia Health Benefits Study
Analysis of Contributions and Coverage
By Plan Type

ALL PLANS	School Districts	Local Governments	Combined
# of Plans	104	150	254
No. of Covered Employees	377	201	273
Employee Only	220	100	149
Employee & (1) Dependent	36	28	31
Family	121	73	93
Monthly Employer Contribution per Employee			
Employee Only	$65.14	$77.29	$72.32
Employee & (1) Dependent	71.15	102.35	89.57
Family	86.62	124.57	109.03
Monthly Employee Contribution per Employee			
Employee Only	$21.23	$13.42	$16.62
Employee & (1) Dependent	58.73	54.79	56.40
Family	136.64	109.28	120.48
Total Monthly Premium Rate			
Employee Only	$86.36	$90.72	$88.93
Employee & (1) Dependent	129.87	157.14	145.98
Family	223.26	233.85	229.51
Percentage of Premium Paid by Employer			
Employee Only	75.42%	85.20%	81.31%
Employee & (1) Dependent	54.78%	65.13%	61.36%
Family	38.80%	53.27%	47.50%
Percentage of Premium Paid by Employee			
Employee Only	24.58%	14.80%	18.69%
Employee & (1) Dependent	45.22%	34.87%	38.64%
Family	61.20%	46.73%	52.50%

Commonwealth of Virginia Health Benefits Study
Analysis of Contributions and Coverage
By Plan Type

BASE PLAN ONLY	School Districts	Local Governments	Combined
# of Plans	23	24	47
No. of Covered Employees	446	122	281
Employee Only	264	58	159
Employee & (1) Dependent	40	10	25
Family	142	54	97
Monthly Employer Contribution per Employee			
Employee Only	$51.33	$75.20	$63.52
Employee & (1) Dependent	53.55	99.08	76.80
Family	62.93	123.22	93.72
Monthly Employee Contribution per Employee			
Employee Only	$24.37	$13.21	$18.67
Employee & (1) Dependent	57.70	51.59	54.58
Family	126.38	106.07	116.01
Total Monthly Premium Rate			
Employee Only	$75.70	$88.41	$82.19
Employee & (1) Dependent	111.25	150.67	131.38
Family	189.31	229.29	209.73
Percentage of Premium Paid by Employer			
Employee Only	67.81%	85.06%	77.28%
Employee & (1) Dependent	48.13%	65.76%	58.46%
Family	33.24%	53.74%	44.69%
Percentage of Premium Paid by Employee			
Employee Only	32.19%	14.94%	22.72%
Employee & (1) Dependent	51.87%	34.24%	41.54%
Family	66.76%	46.26%	55.31%

Appendix H-3

Commonwealth of Virginia Health Benefits Study
Analysis of Contributions and Coverage
By Plan Type

BASE PLUS MAJOR MEDICAL	School Districts	Local Governments	Combined
# of Plans	64	64	128
No. of Covered Employees	312	234	273
Employee Only	187	114	151
Employee & (1) Dependent	30	29	30
Family	95	91	93
Monthly Employer Contribution per Employee			
Employee Only	$68.94	$83.86	$76.40
Employee & (1) Dependent	72.45	104.86	88.66
Family	88.42	118.37	103.40
Monthly Employee Contribution per Employee			
Employee Only	$22.73	$10.56	$16.65
Employee & (1) Dependent	62.02	55.48	58.75
Family	153.61	118.88	136.25
Total Monthly Premium Rate			
Employee Only	$91.67	$94.42	$93.05
Employee & (1) Dependent	134.47	160.34	147.41
Family	242.03	237.25	239.64
Percentage of Premium Paid by Employer			
Employee Only	75.20%	88.82%	82.11%
Employee & (1) Dependent	53.88%	65.40%	60.14%
Family	36.53%	49.89%	43.15%
Percentage of Premium Paid by Employee			
Employee Only	24.80%	11.18%	17.89%
Employee & (1) Dependent	46.12%	34.60%	39.86%
Family	63.47%	50.11%	56.85%

Commonwealth of Virginia Health Benefits Study
Analysis of Contributions and Coverage
By Plan Type

COMPREHENSIVE MAJOR MEDICAL	School Districts	Local Governments	Combined
# of Plans	9	41	50
No. of Covered Employees	499	118	187
Employee Only	273	61	99
Employee & (1) Dependent	38	10	15
Family	188	47	72
Monthly Employer Contribution per Employee			
Employee Only	$62.09	$72.33	$70.49
Employee & (1) Dependent	71.65	98.42	93.60
Family	86.53	130.52	122.60
Monthly Employee Contribution per Employee			
Employee Only	$20.13	$18.57	$18.85
Employee & (1) Dependent	52.54	56.04	55.41
Family	133.75	102.13	107.82
Total Monthly Premium Rate			
Employee Only	$82.22	$90.90	$89.34
Employee & (1) Dependent	124.19	154.46	149.01
Family	220.28	232.65	230.42
Percentage of Premium Paid by Employer			
Employee Only	75.52%	79.57%	78.90%
Employee & (1) Dependent	57.69%	63.72%	62.81%
Family	39.28%	56.10%	53.21%
Percentage of Premium Paid by Employee			
Employee Only	24.48%	20.43%	21.10%
Employee & (1) Dependent	42.31%	36.28%	37.19%
Family	60.72%	43.90%	46.79%

Commonwealth of Virginia Health Benefits Study
Analysis of Contributions and Coverage
By Plan Type

HMO	School Districts	Local Governments	Combined
# of Plans	8	21	29
No. of Covered Employees	251	329	307
Employee Only	156	167	164
Employee & (1) Dependent	37	62	55
Family	58	100	88
Monthly Employer Contribution per Employee			
Employee Only	$78.19	$77.78	$77.89
Employee & (1) Dependent	86.93	107.05	101.50
Family	108.61	126.16	121.32
Monthly Employee Contribution per Employee			
Employee Only	$17.67	$11.35	$13.09
Employee & (1) Dependent	62.64	56.05	57.87
Family	132.82	110.05	116.33
Total Monthly Premium Rate			
Employee Only	$95.86	$89.13	$90.99
Employee & (1) Dependent	149.57	163.10	159.37
Family	241.43	236.21	237.65
Percentage of Premium Paid by Employer			
Employee Only	81.57%	87.27%	85.61%
Employee & (1) Dependent	58.12%	65.63%	63.69%
Family	44.99%	53.41%	51.05%
Percentage of Premium Paid by Employee			
Employee Only	18.43%	12.73%	14.39%
Employee & (1) Dependent	41.88%	34.37%	36.31%
Family	55.01%	46.59%	48.95%

Appendix I

ANALYSIS OF CONTRIBUTIONS FOR HEALTH BENEFITS PAYMENT SOURCE AND BY POLITICAL DIVISION ACCORDING TO SIZE

Commonwealth of Virginia Health Benefits Study
Analysis of Contributions and Coverage
By Size and Political Jurisdiction

Schools and Governments Combined

	Cities			Counties			Other			Total		
	< 100	> 100 but < 750	> 750	< 100	> 100 but < 750	> 750	< 100	> 100 but < 750	> 750	< 100	> 100 but < 750	> 750
# of Plans	3	37	26	27	54	45	38	13	11	68	104	82
No. of Covered Employees	67	160	774	28	144	593	30	109	611	42	138	659
Employee Only	43	89	420	15	76	305	13	57	310	24	74	345
Employee & (1) Dependent	7	11	102	4	14	63	2	10	95	4	12	87
Family	17	60	252	9	54	225	15	42	206	14	52	228
Monthly Employer Contribution per Employee												
Employee Only	$70.70	$73.30	$80.93	$69.13	$65.09	$71.89	$77.69	$66.59	$82.21	$73.99	$68.20	$76.14
Employee & (1) Dependent	78.65	79.65	90.46	70.55	72.91	91.41	121.65	78.99	128.27	99.46	76.07	96.05
Family	100.92	100.83	104.66	82.08	90.34	112.93	157.67	84.20	136.64	125.15	93.30	113.49
Monthly Employee Contribution per Employee												
Employee Only	$43.30	$8.80	$17.96	$36.61	$25.07	$16.26	$14.98	$10.79	$7.61	$24.82	$17.50	$15.64
Employee & (1) Dependent	51.63	33.04	52.23	78.34	66.39	54.43	52.65	47.94	58.42	62.80	52.22	54.27
Family	148.11	96.90	136.21	176.30	129.15	106.72	92.35	85.96	99.69	128.14	112.28	115.13
Total Monthly Premium												
Employee Only	$114.00	$82.11	$98.89	$105.74	$90.16	$88.15	$92.67	$77.39	$89.82	$98.80	$85.70	$91.78
Employee (1) Dependent	130.28	112.70	142.69	148.88	139.31	145.84	174.30	126.93	186.69	162.27	128.29	150.32
Family	249.03	197.73	240.87	258.38	219.49	219.66	250.02	170.16	236.33	253.29	205.58	228.62
Percentage Premium Paid by Employer												
Employee Only	62.02%	89.28%	81.84%	65.38%	72.19%	81.56%	83.83%	86.05%	91.53%	74.88%	79.58%	82.96
Employee (1) Dependent	60.37%	70.68%	63.39%	47.38%	52.34%	62.68%	69.80%	62.23%	68.71%	61.30%	59.29%	63.90
Family	40.53%	50.99%	43.45%	31.77%	41.16%	51.41%	63.06%	49.48%	57.82%	49.41%	45.39%	49.64
Percentage Premium Paid by Employee												
Employee Only	37.98%	10.72%	18.16%	34.62%	27.81%	18.44%	16.17%	13.95%	8.47%	25.12%	20.42%	17.04
Employee (1) Dependent	39.63%	29.32%	36.61%	52.62%	47.66%	37.32%	30.20%	37.77%	31.29%	38.70%	40.71%	36.10
Family	59.47%	49.01%	56.55%	68.23%	58.84%	48.59%	36.94%	50.52%	42.18%	50.59%	54.61%	50.36

APPENDIX I-2

Commonwealth of Virginia Health Benefits Study
Analysis of Contributions and Coverage
By Size and Political Jurisdiction

School Districts

	Cities			Counties			Other			Total		
	< 100	> 100 but < 750	> 750	< 100	> 100 but < 750	> 750	< 100	> 100 but < 750	> 750	< 100	> 100 but < 750	> 75
# of Plans	0	21	13	3	34	29	1	1	2	4	56	4
No. of Covered Employees	0	160	1,784	67	168	571	38	169	820	35	166	1,05
Employee Only	0	104	1,265	41	85	292	22	101	490	21	97	68
Employee & (1) Dependent	0	16	240	13	16	51	4	20	98	6	17	13
Family	0	40	279	13	67	228	12	48	232	8	52	24
Monthly Employer Contribution per Employee												
Employee Only	$0.00	$65.94	$86.80	$35.56	$58.40	$72.41	$50.00	$59.57	$61.46	$39.17	$61.25	$76.1
Employee & (1) Dependent	0.00	65.05	90.77	35.56	62.26	81.74	50.00	59.57	61.46	39.17	63.26	83.4
Family	0.00	74.14	99.04	35.56	74.07	106.73	50.00	59.57	61.46	39.17	73.84	102.4
Monthly Employee Contribution per Employee												
Employee Only	$0.00	$13.83	$15.26	$50.44	$29.55	$20.93	$39.09	$29.53	$9.58	$47.60	$23.65	$18.7
Employee & (1) Dependent	0.00	36.19	57.86	89.12	65.72	63.07	82.47	72.90	39.01	87.46	54.77	60.4
Family	0.00	111.72	152.03	185.26	139.01	121.20	183.38	173.81	123.41	184.79	129.40	130.4
Total Monthly Premium												
Employee Only	$0.00	$79.77	$102.06	$86.00	$87.95	$93.34	$89.09	$89.10	$71.04	$86.77	$84.90	$94.9
Employee (1) Dependent	0.00	101.24	148.63	124.68	127.98	144.81	132.47	132.47	100.47	126.63	118.03	143.9
Family	0.00	185.86	251.07	220.82	213.08	227.93	233.38	233.38	184.87	223.96	203.24	232.8
Percentage Premium Paid by Employer												
Employee Only	0.00	82.66%	85.05%	41.35%	66.40%	77.58%	56.12%	66.86%	86.51%	45.14%	72.14%	80.2
Employee (1) Dependent	0.00	64.25%	61.07%	28.52%	48.65%	56.45%	37.74%	44.97%	61.17%	30.93%	53.59%	58.0
Family	0.00	39.89%	39.45%	16.10%	34.76%	46.88%	21.42%	25.52%	38.24%	17.49%	36.33%	43.9
Percentage Premium Paid by Employee												
Employee Only	0.00	17.34%	14.95%	58.65%	33.60%	22.42%	43.88%	33.14%	13.49%	54.86%	27.86%	19.7
Employee (1) Dependent	0.00	35.75%	38.93%	71.48%	51.35%	43.55%	62.26%	55.03%	38.83%	69.07%	46.41%	41.9
Family	0.00	60.11%	60.55%	83.90%	65.24%	53.17%	78.58%	74.48%	66.76%	82.51%	69.67%	56.0

Appendix I-3

Commonwealth of Virginia Health Benefits Study
Analysis of Contributions and Coverage
By Size and Political Jurisdiction

Local Government

	Cities			Counties			Other			Total		
	< 100	> 100 but < 750	> 750	< 100	> 100 but < 750	> 750	< 100	> 100 but < 750	> 750	< 100	> 100 but < 750	> 750
# of Plans	3	16	13	24	20	16	37	12	9	64	48	38
No. of Covered Employees	67	200	756	24	136	603	30	108	559	40	148	639
Employee Only	43	108	344	13	66	298	13	56	233	23	77	292
Employee & (1) Dependent	7	13	100	3	12	93	2	10	109	4	12	101
Family	17	79	312	8	58	212	15	42	217	13	60	247
Monthly Employer Contribution per Employee												
Employee Only	$70.70	$82.97	$75.06	$73.33	$76.47	$70.94	$78.44	$67.18	$86.82	$76.16	$76.31	$76.11
Employee & (1) Dependent	78.65	98.82	90.14	74.92	91.02	108.94	123.59	80.61	143.12	103.23	91.02	110.60
Family	100.92	135.86	110.28	87.89	118.00	124.18	160.58	86.25	153.35	130.52	116.02	126.33
Monthly Employee Contribution per Employee												
Employee Only	$43.30	$2.20	$20.66	$34.88	$17.46	$7.79	$14.33	$9.23	$7.17	$23.39	$10.32	$12.05
Employee & (1) Dependent	51.63	28.91	46.60	76.99	67.54	38.76	51.84	45.86	62.73	61.26	49.24	47.12
Family	148.11	77.45	120.39	175.18	112.39	80.48	89.89	78.64	94.42	124.60	92.31	97.44
Total Monthly Premium												
Employee Only	$114.00	$85.17	$95.72	$108.21	$93.93	$78.73	$92.77	$76.41	$93.99	$99.56	$86.63	$88.16
Employee (1) Dependent	130.28	127.73	136.74	151.91	158.56	147.70	175.43	126.47	205.85	164.49	140.26	157.72
Family	249.03	213.31	230.67	263.07	230.39	204.66	250.47	164.89	247.77	255.13	208.32	223.77
Percentage Premium Paid by Employer												
Employee Only	62.02%	97.42%	78.42%	67.77%	81.41%	90.11%	84.55%	87.92%	92.37%	76.50%	88.09%	86.34
Employee (1) Dependent	60.37%	77.37%	65.92%	49.32%	57.40%	73.76%	70.45%	63.74%	69.53%	62.76%	64.89%	70.13
Family	40.53%	63.69%	47.81%	33.41%	51.22%	60.68%	64.11%	52.31%	61.89%	51.16%	55.69%	56.46
Percentage Premium Paid by Employee												
Employee Only	37.98%	2.58%	21.58%	32.23%	18.59%	9.89%	15.45%	12.08%	7.63%	23.50%	11.91%	13.66
Employee (1) Dependent	39.63%	22.63%	34.08%	50.68%	42.60%	26.24%	29.55%	36.26%	30.47%	37.24%	35.11%	29.87
Family	59.47%	36.31%	52.19%	66.59%	48.78%	39.32%	35.89%	47.69%	38.11%	48.84%	44.31%	43.54

Appendix J

INTEREST INDICATOR SUMMARIES BY SIZE AND POLITICAL DIVISION

Appendix J-1

INTEREST INDICATOR SUMMARIES
BY SIZE AND POLITICAL JURISDICTION

QUESTION	RANGE						
	1	2	3	4	5	Sample Size	Average
11A							
Cities <100	0	0	2	1	3	6	4.17
Counties <100	2	2	10	6	25	45	4.11
Others <100	3	1	10	9	26	49	4.10
Sub-Total	5	3	22	16	54	100	4.11
Cities >=100, <750	9	1	9	6	13	38	3.34
Counties >=100, <750	9	0	15	15	27	66	3.77
Others >=100, <750	4	0	0	2	6	12	3.50
Sub-Total	22	1	24	23	46	116	3.60
Cities >750	1	2	1	1	4	9	3.56
Counties >750	4	1	4	4	9	22	3.59
Others >750	0	0	1	1	2	4	4.25
Sub-Total	5	3	6	6	15	35	3.66
Grand Total	32	7	52	45	115	251	3.81
11B							
Cities <100	1	2	2	1	0	6	2.50
Counties <100	11	9	17	5	3	45	2.56
Others <100	16	2	17	5	8	48	2.73
Sub-Total	28	13	36	11	11	99	2.64
Cities >=100, <750	14	3	10	5	6	38	2.63
Counties >=100, <750	16	10	18	13	9	66	2.83
Others >=100, <750	2	2	4	2	2	12	3.00
Sub-Total	32	15	32	20	17	116	2.78
Cities >750	3	1	0	2	2	8	2.88
Counties >750	6	3	7	3	3	22	2.73
Others >750	0	0	4	0	0	4	3.00
Sub-Total	9	4	11	5	5	34	2.79
Grand Total	69	32	79	36	33	249	2.73

Appendix J-2

QUESTION	RANGE						
	1	2	3	4	5	Sample Size	Average
11C							
Cities <100	2	0	1	0	1	4	2.50
Counties <100	8	4	12	6	13	43	3.28
Others <100	20	0	7	12	8	47	2.74
Sub-Total	30	4	20	18	22	94	2.98
Cities >=100, <750	11	0	8	5	14	38	3.29
Counties >=100, <750	14	2	17	11	22	66	3.38
Others >=100, <750	2	0	2	2	6	12	3.83
Sub-Total	27	2	27	18	42	116	3.40
Cities >750	3	1	1	0	4	9	3.11
Counties >750	5	1	5	3	8	22	3.36
Others >750	1	0	1	1	1	4	3.25
Sub-Total	9	2	7	4	13	35	3.29
Grand Total	66	8	54	40	77	245	3.22
11D							
Cities <100	3	1	1	0	0	5	1.60
Counties <100	20	11	10	3	1	45	1.98
Others <100	26	5	13	1	1	46	1.83
Sub-Total	49	17	24	4	2	96	1.89
Cities >=100, <750	18	5	6	3	6	38	2.32
Counties >=100, <750	20	13	15	11	7	66	2.58
Others >=100, <750	4	3	3	1	1	12	2.33
Sub-Total	42	21	24	15	14	116	2.47
Cities >750	5	1	1	0	2	9	2.22
Counties >750	8	4	5	3	2	22	2.41
Others >750	1	1	2	0	0	4	2.25
Sub-Total	14	6	8	3	4	35	2.34
Grand Total	105	44	56	22	20	247	2.22

QUESTION	RANGE						
	1	2	3	4	5	Sample Size	Average
11E							
Cities <100	1	0	0	1	2	4	3.75
Counties <100	5	3	8	9	19	44	3.77
Others <100	14	2	7	11	13	47	3.15
Sub-Total	20	5	15	21	34	95	3.46
Cities >=100, <750	9	2	7	8	12	38	3.32
Counties >=100, <750	8	2	17	11	28	66	3.74
Others >=100, <750	2	0	3	2	6	13	3.77
Sub-Total	19	4	27	21	46	117	3.61
Cities >750	1	2	1	1	4	9	3.56
Counties >750	4	2	4	3	9	22	3.50
Others >750	1	0	2	1	0	4	2.75
Sub-Total	6	4	7	5	13	35	3.43
Grand Total	45	13	49	47	93	247	3.53
11F							
Cities <100	1	1	2	0	0	4	2.25
Counties <100	16	6	13	6	4	45	2.47
Others <100	24	6	12	2	2	46	1.96
Sub-Total	41	13	27	8	6	95	2.21
Cities >=100, <750	14	4	7	5	8	38	2.71
Counties >=100, <750	15	13	20	9	9	66	2.76
Others >=100, <750	3	2	4	1	2	12	2.75
Sub-Total	32	19	31	15	19	116	2.74
Cities >750	2	2	2	1	2	9	2.89
Counties >750	6	4	7	2	3	22	2.64
Others >750	1	0	3	0	0	4	2.50
Sub-Total	9	6	12	3	5	35	2.69
Grand Total	82	38	70	26	30	246	2.53

Appendix K

APPLICATION OF INTERNAL REVENUE CODE SECTION 89 TO A CONSOLIDATED PUBLIC EMPLOYEE HEALTH BENEFIT PROGRAM

Appendix K

Application of Internal Revenue Code Section 89
To the Consolidated Virginia State Employee Health Benefits Program

The new qualification and non-discrimination requirements contained in Section 89 of the Internal Revenue Code apply to health and welfare plans effective for plan years beginning on or after January 1, 1989. These requirements affect most health and welfare plans maintained by employers of all types, including government entities.

This report examines the application of the Section 89 requirements to the Virginia State Employee Health Benefits Program should that plan be expanded to include local jurisdiction and school district employers in addition to the Commonwealth of Virginia. The report is organized into four major sections. First, we provide an overview of Section 89, including its development by Congress and the current status of pending changes to the tests. Second, we review the qualification requirements contained in Section 89(k), which include plan documentation and communication requirements. Third, we examine the non-discrimination tests specified by Section 89 and discuss how those tests apply when there are multiple employers under a single health program. The fourth section deals with the administrative requirements for compliance with Section 89 from the State Employee Health Benefits Program's perspective.

OVERVIEW

Section 89 of the Internal Revenue Code was added as part of the sweeping changes in tax law brought about by the Tax Reform Act of 1986. The general

objectives of Congress were to establish distinct plan qualification requirements and to discourage discrimination in favor of highly compensated employees. Congress was also concerned with raising tax revenues. The requirements of Section 89 reflect Congress' use of tax law to achieve a social policy of extending better health and welfare benefits to the middle and lower income employees. This social policy would be accomplished by requiring additional taxes on the benefits received by highly compensated employees in excess of certain prescribed limitations.

Under prior law, health and welfare benefits provided by an employer were excludable from the employee's taxable income as long as they met certain non-discrimination rules. Because the tax-free treatment for various types of benefit plans evolved over many years, there were different rules and standards governing non-discrimination in each type of plan. Sanctions to the employees or to the employer for noncompliance also varied by plan type. The Tax Reform Act of 1986 introduced a basic change to the previous health and welfare non-discrimination requirements - namely, the concept of taxability of all or a portion of the benefits made available to highly compensated employees. Taxable excess benefits to the highly compensated are triggered if the plan provided by the employer fails to comply with standard non-discrimination requirements governing all types of plans.

The original version of the Section 89 requirements left many unanswered questions regarding actual employer and employee situations. Recently, Congress approved technical corrections to Section 89 which increases the testing methodology options available and which gives employers broader ability

to aggregate various plans for testing. Other technical corrections clarify the determination of highly compensated individuals and the dates for testing plans for compliance, and provide alternatives for determining the values of the benefits provided.

Section 89 requires compliance in two major areas: plan qualification and non-discrimination. First, the plan must meet certain qualification requirements with regard to its documents and communications to employees. Second, to the extent that the benefits provided under the plan to highly compensated individuals are greater than specified limits in excess of the benefits made available to non-highly compensated individuals, taxable income to the highly compensated employees is created and must be reported by the employer.

PLAN QUALIFICATION

Section 89(k) of the Internal Revenue Code requires that the plans covered by this section must comply with the following:

- The Plan must be in writing.
- The employee's rights under the plan must be legally enforceable.
- Employees must receive reasonable notice of the benefits under the plan.

- The plan must be for the exclusive benefit of employees.

- The plan must be established with the intention of being maintained for an indefinite period of time.

To the extent that a plan fails to meet these requirements, the benefits provided are taxable to all participants. If such benefits are part of a tax-exempt VEBA trust under Section 501(c)(9), the VEBA trust could lose its tax-exempt status and be subject to tax on income derived from the reserves to provide benefits.

Because the Consolidated State Program would include more employers than just the Commonwealth of Virginia, care must be taken to define the program as separate plans for each participating employer. One employer entering or leaving the state plan, whose plan does not meet the qualification requirements, could jeopardize the entire Consolidated State Program. We will now look at issues involved and the State's responsibility from each aspect of Section 89(k).

Plan is in Writing

The State must maintain written plan documents governing the Consolidated State Program. In most instances, there will be a number of documents and contracts governing the operation and application of a health benefits plan. Such documents may include insurance carrier policies, third-party administrator

servicing agreements, legal contracts, descriptions of benefits and other written plan documents. While written guidance from the Treasury Department is not yet published, Treasury has indicated verbally that its intent is to require that at least one plan document will incorporate by reference the policies and contracts normally associated with a health benefit plan.

Because there will be multiple employers included in the Consolidated Program, the written document for the program should be designed in a manner which will facilitate the addition or change of employers without requiring amendment of the primary plan instruments. Plan adoption agreements to be executed by the sponsoring employer and the appropriate party representing the Consolidated Program would accomplish this objective.

The various carriers and providers of services to the Consolidated Program would likely change from time to time. Therefore, the plan document for the program should be sufficiently flexible to allow administrative changes without a complete redrafting of the instrument. Changes of primary indemnity carrier or claims paying agent or stop-loss insurer, for example, should be easily incorporated by amendment rather than requiring redrafting of the instrument.

The Consolidated Program should maintain complete documents not only with regard to the plan covering state employees, but also with respect to the adoption agreements and other legal instruments covering other eligible employers adopting the plan.

Employees' Rights are Legally Enforceable

According to the staff explanation of the Tax Reform Act of 1986, Congress intended that a plan will generally not be considered legally enforceable if it is discretionary with the employer. In other words, if the employer is allowed to exercise discretion as to the benefits paid (e.g., final determination of whether a particular medical claim is paid), then the plan is not legally enforceable and the participating employees have no ability to compel payment for the promised benefit.

This qualification generally should pose no problem for the employers adopting the Consolidated Program unless those employers are given an ability to interpret plan provisions and make discretionary judgements as to whether a particular benefit is paid. The applicability of this requirement with regard to the State itself as an employer should be examined. Procedures should be established or reconfirmed which assure that claims decisions are made in a manner which complies with this requirement and with regulatory guidance when it is issued.

Employees Must Receive Reasonable Notice of Benefits

This requirement generally refers to the communication of benefits to the employees eligible and covered under the plan. Guidelines for Section 89 are not yet issued, although there has existed the long-standing communication requirement imposed by ERISA for all types of health and welfare plans.

The Consolidated Program will need to provide suitable vehicles for communicating required notifications of benefits. This is not a simplistic issue since each employer participating in the Consolidated Program would likely be providing a different mix of benefit levels available under the program. The communication tools would necessarily be modular in order to accommodate these variations in design. In formulating the overall design for an expanded program, the State should take into account the complexity of that design as it must be communicated to employees. Small variations in plan design elements can result in a myriad of different options to be communicated to employees at participating employers.

The question must be addressed as to who bears the responsibility for communicating the benefits. Normally, that responsibility falls to the plan sponsor who is also the employer. But when an employer participates in a plan containing multiple employers, such as the Consolidated Program, to what extent does the sponsoring employer retain full responsibility for communication of the benefit? Conversely, what role would the state program be required to assume in the direct communication with the employees?

Control of the communications process should be maintained to assure that all employees and employers participating in the Consolidated Program receive consistent levels of benefits communication. However, direct communication from the plan to the employees requires that the administrators of the Program to be able to identify the coverage level provided to each employee. If employers are allowed to specify different levels of coverage for their employees under the State plan, the process of communicating on a direct basis

is made exceedingly complex. Alternatively, the State plan could rely on the participating employers to actually communicate the benefit provisions to eligible and participating employees. This would not be a new process for those employers who have been responsible for providing plan communications to their own employees in the past. However, the State plan would then have little ability to control the quality and thoroughness of the communications process. In developing an expanded state health benefits program, it therefore becomes important to strike a reasonable administrative balance between the level of sophistication the state health plan must maintain in order to communicate benefits to employees of participating employers and the State plan's need to control the communication process.

Exclusive Benefit of Employees

The "exclusive benefit" concept has been applicable to benefit plans for many years. The concept is well known with regard to qualified retirement plans but has not been considered a key concept for health and welfare plans in the past. Now Section 89(k) requires that any employer maintaining a benefit plan covered by Section 89 must maintain that plan for the exclusive benefit of its employees. Employee coverage is also deemed to include coverage provided to related persons other than the employee, presumably to acknowledge the provision of benefits to spouses and dependents under a health care plan.

This concept is straightforward with regard to plans covering only a single employer. However, in the case of a plan which covers more than one employer,

the rules become more complex. Section 89(k)(4) states that when a plan exists to which contributions are made by more than one employer, for purposes of the exclusive benefit rule, each employer shall be treated as an employee of all other employers. Thus, it follows that if one employer administers the plan in a non-qualifying manner with regard to the exclusive benefit of employees, all employees for all employers under the plan are affected.

The central issue involves the employer's ability to intercede to have an otherwise denied benefit paid. In the Consolidated Program, sufficient administrative and fiduciary controls must be put in place to avoid discretionary benefit decisions by an employer with regard to his or any other employees.

Established for Permanency

In order to meet the permanency requirement, a plan must be ongoing and established for an indefinite period of time. No specific guidelines regarding permanency have yet been issued under Section 89.

In the case of the Consolidated Program under which there are numerous distinct employers participating, a differentiation must be made between withdrawal from the state program and termination of the benefits plan. The state plan probably has no need for concern about the permanency requirement with regard to each of the adopting employers under the program. However, detailed records regarding the entry and withdrawal from state programs should be maintained in

order to substantiate that an employer's plan was in existence during the years in which it participated in the state program.

General Discussion

One of the key issues which must be resolved regarding the expanded state health program is whether the program is comprised of one plan or many plans of participating employers.

The State plan should also be concerned about the qualification of a participating employer's plan at the time of its entry into or withdrawal from the state program. This is particularly true with regard to the exclusive benefit requirement under which the actions of one employer could jeopardize the qualification of all of the employers under the plan.

Procedures for adoption of appropriate documents should be established and the documents should be flexible in their design in order to allow additional employers to adopt the program and to allow various carriers and providers of service to be changed without requiring major document revisions.

NON-DISCRIMINATION REQUIREMENTS

Section 89 imposes a complex series of tests designed to demonstrate that the health plan provides benefits in a non-discriminatory manner.

Because the tests are complex and the data required to perform the tests is extensive, possibly the best understanding can be attained by looking at the process step by step. A chart of the interrelationship of the tests is also provided.

Step 1 - Determine the Non Excludable Employees

Section 89 allows a plan to exclude from non-discrimination testing certain groups of employees. Generally, for the State Health Benefits Plan, those excludable employees would include:

- New employees who have not completed 6 months of service (or the eligibility period for the plan, if that is less than 6 months)

- Part-time employees (defined as those who normally work less than 17 1/2 hours per week)

- Seasonal employees who normally do not work more than 6 months during any year (or a lesser amount if the State plan's definition of Seasonal is less than 6 months)

- employees who have not attained age 21 (unless they can be eligible before age 21)

- Employees included in a collective bargaining agreement covering health benefits, if no collectively-bargained employees are eligible for coverage under the State plan.

- Non-resident aliens who received no earned income from sources within the United States.

Step 2 - Determine the Highly Compensated Employees

Highly compensated State employees would include those who meet one or more of the following characteristics for either the current year or the previous (lookback) year:

Lookback year:

- Annual pay $75,000* or more; or
- $50,000* pay and in highest 20% of employees; or
- $45,000 pay and officer (up to 50)

Current year:

- Among the 100 highest paid and
- Annual pay $75,000* or more; or
- $50,000* pay and in highest 20% of employees; or
- $45,000 pay and officer (up to 50)

(*Indexed)

As an alternative, the Technical Corrections and Miscellaneous Revenue Act allows an employer to use compensation of $50,000 (not indexed) instead of the $75,000 or $50,000 and top 20% criteria.

As indicated from these tests, determination of highly compensated status is a dynamic process. In certain cases even terminated or retired participants will be considered highly compensated in years for which they had no direct compensation.

Step 3 - Determine the Plans to be Tested and Values

Under Section 89, a plan is described as a distinct level of benefits. Therefore, within a seemingly simple health benefit program numerous "plans" can exist. For example, employee coverage under an indemnity plan would likely have a different level of coverage and premiums than an HMO. Each is a different "plan". The employee may be able to cover his dependents under the program. The coverage for the dependents only (excluding the employee) constitutes a "plan" under Section 89 and must be tracked separately.

Generally, each level of benefits must be determined and identified as a "plan" to be tested. This task requires exacting measurements and comparisons of coverage level, employer contributions and employee pre-tax and post-tax contributions.

The value for each plan must then be established. For health plans, value is defined as the value of the coverage. At the present time there is no definitive regulatory guidance regarding the establishment of values for a plan; however there is pending guidance that would allow the use of COBRA rates

as the basis for determining plan values or for establishing the actuarial value for the plan.

Step 4 - Determine Eligibles/Participants by Plan

For each plan identified for testing, the number of non-excluded employees, eligible employees, eligible family units, family units with affidavits, participants and participating family units must be determined. These categories must also identify how many of those included are highly compensated versus non-highly compensated.

The results of this step allow the non-discrimination tests to be performed.

Step 5 - Test for Non Discrimination

Once the employees under each plan have been categorized and the values of each plan determined, the actual tests can be performed. The tests should be performed in the following order:

1. 80% Coverage Test - Are at least 80% of the Non-Highly Compensated Employees (NHCs) covered under each plan?

$$\text{Formula: } \frac{\text{Number of NHCs Covered by this Plan}}{\text{Total Non-Excluded NHCs}} \geq 80\%$$

Since the passage of Technical Corrections, it is permissible to aggregate plans that have comparable values (generally within 90% of each other) in order

to meet this requirement. In addition, a safe harbor provision in the Technical Corrections treats as comparable those Plans that are available to all employees in the group on the same terms and between which Employee costs do not vary by more than $100 (indexed).

If the 80% test is not passed, then the following tests must be performed:

2. 50% Eligibility Test - Are at least 50% of those eligible for each plan Non-Highly Compensated Employees?

   Formula: $\frac{\text{Eligible NHCs}}{\text{Total Eligibles (HC + NHC)}} \geq 50\%$

3. 90%/50% Eligibility Test - Are at least 90% of the Non-Highly Compensated employees eligible to participate in a plan of the same type sponsored by the employer, and do they have available to them under that plan an employer provided benefit equal to at least 50% of the largest benefit available to a Highly Compensated employee?

   Formula: $\frac{\text{Number NHCs eligible for a Plan}}{\text{Non-excluded NHCs}} \geq 90\%$

   $\frac{\text{NHCs eligible for 50\% of largest HC Benefit}}{\text{Total Non-excluded NHCs}} \geq 90\%$

4. 75% Benefits Test - Is the average benefit provided to Non-Highly Compensated Employees under all plans of the same type at least 75% of the average benefit provided to the Highly Compensated Employees?

   Formulas = $\frac{\text{Aggregate Employer Benefits for HCs}}{\text{Number Non-Excluded HCs}}$ = Average HC Benefit

   $\frac{\text{Aggregate Employer Benefits for NHCs}}{\text{Number Non-Excluded NHCs}}$ = Average NHC Benefit

   $\frac{\text{Average NHC Benefit}}{\text{Average HC Benefit}} \geq 75\%$

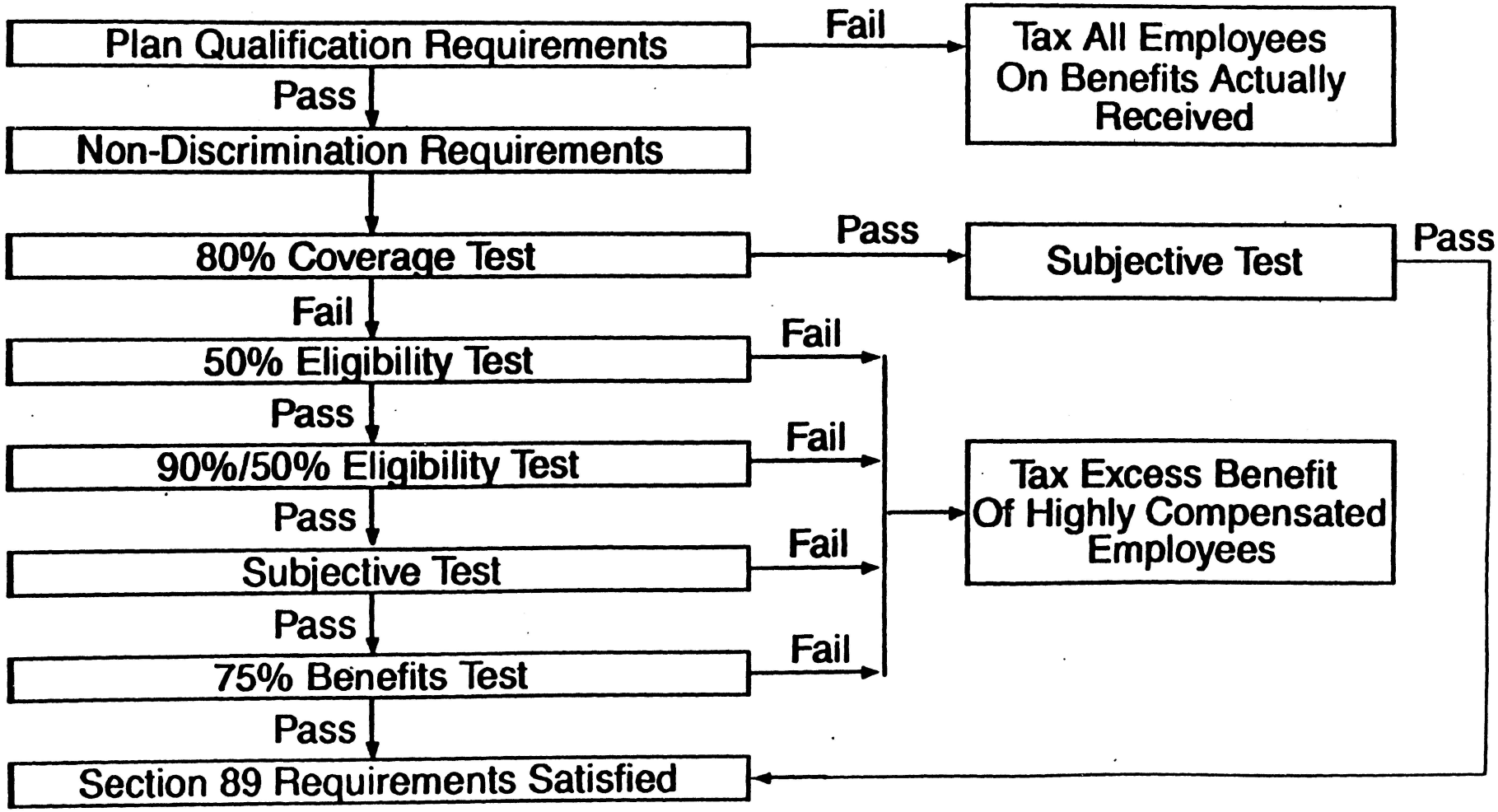
Step 6 - Determine Excess Benefit

Should the plans tested fail any of the tests except the 80% test, the amount of excess benefit of the Highly Compensated employees must be determined. Generally, the amount of taxable excess benefit is the value of the plan that would have had to be purchased with employee after-tax dollars in order to cause the plan to comply with all the tests. If a plan fails the eligibility tests, then all of the value of the plan becomes taxable to the Highly Compensated Employees. If a plan fails the benefits test, a portion of the value will become taxable. The calculation must be made for each Highly Compensated Employee for each plan that fails to qualify.

Step 7 - Report the Excess Benefit

The employer must report any taxable excess benefits for Highly Compensated Employees on the W-2 form for the employee's tax year in which the plan's testing year ends. Should reportable excess benefits not be reported, the employer is subject to a penalty tax at the highest individual rate multiplied by the excess benefit amount not properly reported for each employee not reported.

Section 89: Testing Sequence



ADMINISTRATION

For any employer attempting to document good faith compliance with Section 89, a major concern should be the additional levels of administrative effort required to perform the tests. Certainly the State will find that more complexity and more extensive information files on each employee result from the application of these requirements to its current State Employee Health Benefits Plan. When considered in light of an expanded plan allowing other qualified employers to participate, the complexity increases even more.

This section of the report examines the administrative functions which must be provided in order to satisfy the Section 89 tests for a Consolidated State Employee Health Programs. Issues relating to administration of the program are discussed and recommendations are given, where possible, in the absence of regulatory guidance. Finally, preliminary lists of data required to be collected and distributed as presented.

Issues

The administrative environment in which the Consolidated State Program operates is not unlike that of an insurance company handling the administration for its health plan clients and its own employees. For its own employees, the State must gather information sufficient for testing under Section 89, just like any other employer. On the other hand, the Consolidated Program should not, and really cannot, take responsibility for collecting data and testing the plans of the other participating employers. The Consolidated Program does not have an

employment relationship with these other employees. Also, the State's Program may be only a part of a municipality's health benefit program. Nevertheless, the Consolidated State Program must be able to report pertinent data on a timely basis to each of the participating employers with respect to their employees covered under the plan. Thus the Consolidated Program assumes a dual role: data collector for the State employees and data provider for other employees.

Data for administration of the program will be coming from a variety of personnel and payroll systems, some of which may lack compatibility with the State's system. Provisions must be made to receive and coordinate data on participating employees in such a manner that the information needed by those employers for Section 89 testing can be provided on a timely basis. Currently, there appears to be no requirement that the State Program provide data on the participating employees to the employers in the program. However, from a practical point of view, the State should want to provide full information and reporting to encourage continued membership by the participating employers.

Establishment of values for the various "plans" (levels of benefits) is likely to become an ongoing, detailed process, especially in an environment which allows each participating employer to offer different levels and mixes of benefits. The methodology for establishing the plan values should be constructed for consistency and compliance with regulatory guidelines.

Comprehensive charts showing the values of each plan benefit should be developed. Whether actuarially established or developed from Adjusted COBRA

Rates, the plan values must be included in reporting back to the employers in order to allow those employers to complete the testing process.

Data to be Collected

To perform the non-discrimination tests of Section 89 on State employees in the State Employee Health Benefits Program, the following data needs to be collected and maintained for each employee whether or not that employee is a participant in the program:

1. Social Security Number
2. Name
3. Employee I.D. Number
4. Location Code Number
5. Sex
6. Date of Birth
7. Date of Hire
8. Date of Transfer
9. Date of Termination
10. Date Break in Service Began
11. Date Break in Service Ended
12. Dependent Status (existence of dependents, other core coverage, spouse, children with other core coverage)
13. Sworn Statement on File (re: family status and other core coverage)
14. Date of Sworn Statement
15. Employment types (e.g., exempt/non-exempt)
16. Employment Classification (e.g., permanent full-time/part-time, etc.)
17. Employment Status (e.g., active, non-vested terminated, vested terminated, HC terminated, retiree, COBRA, transfer, etc.)
18. Scheduled Hours Worked
19. Leased Employee Status
20. Union/Non Union
21. Citizenship (e.g., US Citizen, Non-Resident Alien, Resident Alien)
22. Leave of Absence Status (e.g., Military with pay, other with pay, without pay, etc.)
23. Key Employee Status
24. Highly Compensated Status (e.g., pay over $75,000, pay over $50,000 and in top 20% by pay, current year, prior year, etc.)
25. Highly Compensated Over Age 55
26. Determination Year Compensation (current year)

26.a) W-2 Compensation
26.b) Annual Rate of Pay
26.c) Bonus/Overtime

26.d) Other Compensation
26.e) Compensation prior to Section 125 Salary Reduction
26.f) Compensation prior to Section 457 or 403(b) or 401(k) Salary Reduction
27. Lookback Year Compensation (Prior year)
27.a) W-2 Compensation
27.b) Annual Rate of Pay
27.c) Bonus/Overtime
27.d) Other Compensation
27.e) Compensation prior to Section 125 Salary Reduction
27.f) Compensation prior to Section 457 or 403(b) or 401(k) Salary Reduction
28. Plan numbers (assigned) for which employee and dependent are eligible (Note: Each level of benefits is considered a different plan)
29. Employee's Status at beginning of Determination year for <u>each plan</u> (e.g., participant, non participant)
30. Original eligibility date for each plan
31. Date of change in coverage (each change is recorded)
32. Employee's new Status Code for each plan after change in coverage (e.g., participant, non participant)
33. Employee Contributions - pre-tax
34. Employee Contributions - post-tax
35. Flexible Spending Account contributions/amount
36. Benefit Claims Paid

This data will normally come from more than one source. Usually personnel information is contained in a personnel system while payroll and contribution data for the applicable years is maintained through a separate payroll system. Claims information must be obtained from the claims paying agent for the program. In addition, certain data such as the existence and dates of sworn statements regarding family status and other core coverage must be collected manually and entered.

Statistical sampling can make the mechanics of performing some of these tests somewhat easier; however, the Highly Compensated Employees must be tracked in order to report excess benefit levels on their W-2s at the end of the year.

The State should take into account in its budgeting and resource planning the need to collect and maintain this information on its employees.

Data to be Provided to Other Participating Employers

In addition to collecting data on State employees, the State Employee Health Benefits Program must be able to provide information to the various other participating employers about their employees who are covered by the program. The State Program will not have sufficient data to perform the nondiscrimination tests for those other employers, but will nevertheless need to provide plan, coverage and value information on a timely basis. As it is conceivable that the testing dates and determination years for participating employers could vary from that used by the State, the combined program would need the flexibility to generate reports on a cycled or as needed basis through the year.

The major data elements about each participant which should be provided to participating employers include:

1. Social Security Number
2. Name
3. Employer Number
4. Employee I.D. Number
5. Location Code Number
6. Sex
7. Date of Birth
8. Date of Hire
9. Date of Transfer/Termination
10. Date Break in Participation Began
11. Date Break in Participation Ended
12. Plan Numbers (assigned) for which employee and dependent are eligible
    (note: each level of benefits is considered a different plan)

13. Employee's status at beginning of Determination Year for each plan
14. Original eligibility date for each plan
15. Original participation date in each plan
16. Date of change in coverage (each change is recorded)
17. Employee's new Status Code for each plan after change in coverage (e.g. participant, non participant)
18. Employee contributions - pre-tax
19. Employee contribution - post-tax
20. Employer contributions
21. Flexible Spending Account contributions/amount
22. Benefit Claims Paid

In most cases the original source for this data will be the enrollment or change documents. Thus, the ability to collect the data accurately from a distributed workforce involving a large number of different employers becomes a critical issue.

In general, the Consolidated State Program must act as a third party administrator for health plans, especially with regard to the accuracy and timeliness of data. Computerized input of basic employee information should be encouraged, as should the electronic reconciliation of contributions transmitted. The records for the State Health Benefits Program should at all times be kept separate from the records for participating employers.

Appendix L

A PROPOSED FLEXIBLE BENEFIT PLAN UNDER IRS SECTION 125

APPENDIX L

Explanation of Flexible Benefits Under Section 125 of the Internal Revenue Code

As the cost of health benefits coverage continues to rise, employees are being asked to contribute more each year to the cost of providing coverage for themselves and their families. This has created an economic burden for many employees which has resulted in some cases in a reluctance to elect dependent coverage.

While the subsidy provided by the Commonwealth for dependent coverage has shielded State employees from some of the extreme hardship faced by other public employees, the federal tax code provides an excellent means of reducing the financial burden of dependent coverage for the employee. This can be accomplished through a salary deferral arrangement which allows employees to pay benefit costs on a pre-tax basis. This allowance is made through a "cafeteria" or "flexible benefit" plan pursuant to Section 125 of the Internal Revenue Code.

In this section we present a brief explanation of flexible benefit plans and have enclosed a proposed draft plan document for the creation of a simplified flexible benefit plan known as a "premium pass through" plan.

This is a basic plan which allows employees to realize the tax savings referenced above. It is not a "full-flex" plan which would include a more sophisticated cafeteria approach to employee benefits, but it may serve as a basis for future expansion.

Also included are selected employee communications materials including a draft letter to employees, a sample paycheck stub which shows the effect of the flexible approach to compensation on take home pay, and a general information handout which may be useful in helping supervisory staff answer general questions.

Technical Information

A cafeteria plan (or "flexible benefit plan") is a written plan that allows participants to choose among two or more benefits which may be cash or qualified benefits. Proposed regulations provide that the plan must offer at least one nontaxable benefit and cash. The plan must be maintained by the Employer for the exclusive benefit of Employees. The term Employee includes former employees (although the plan may not be established primarily for their benefit) but does not include self-employed individuals.

In years beginning after December 31, 1988, the plan must also meet the following requirements: (1) the Employees' rights under such plan must be legally enforceable; (2) reasonable notification of plan benefits must be provided to Employees; (3) the plan must be maintained for the exclusive benefit of Employees; and (4) the plan must be established with the intention of maintaining it for an indefinite period. In addition, the definition of a flexible benefits plan is expanded to provide that cash does not have to be one of the choices.

A qualified benefit is any benefit which is specifically excluded from the gross income of the Employees (except educational assistance programs, scholarships, van pooling, or excludable fringe benefits). A flexible benefits plan can offer group term life insurance (which is includable in income only because it exceeds the excludable limit or covers a spouse or children), qualified legal services, dependent care assistance, and accident and health plans.

A flexible benefits plan generally cannot include any arrangement that provides for deferred compensation, except it can offer Employees covered by a profit-sharing or stock bonus plan that has a qualified cash or deferred arrangement an election to have the Employer contribute to the plan.

Since a flexible benefits plan cannot generally offer a benefit which defers the receipt of compensation, participants are not permitted to carry over unused benefits or contributions from one plan year to another.

In years beginning after December 31, 1988, a qualified benefit may also include any other benefit permitted by regulation. Also, in such taxable years, a cafeteria plan maintained by an educational organization with a regular curriculum and an on-site faculty and student body can allow participants to elect post-retirement life insurance coverage under certain conditions.

Appendix L-2

COMMONWEALTH OF VIRGINIA

FLEXIBLE COMPENSATION PLAN

October 1988

COMMONWEALTH OF VIRGINIA

Flexible Compensation Plan

ARTICLE I

PURPOSE

This document constitutes the Commonwealth of Virginia Flexible Compensation Plan. The Plan is established pursuant to Section 125 of the Internal Revenue Code pertaining to cafeteria plans. The purpose of the Plan is to enable Employees to direct the Employer to purchase coverage for them in exchange for an equivalent reduction in the amount of compensation that would otherwise be payable to such Employees.

ARTICLE II

DEFINITIONS

1. "Benefit Cost" means the cost of benefit coverage under one (or more) of several health benefit plans approved by the Commonwealth which an Employee is required, as a condition for coverage, to defray. The amount of the Benefit Cost shall be determined by the Employer in accordance with the terms of the State Employee Health Benefit Program or any contracts negotiated with insurance carriers, Health Maintenance Organizations, or other similar entities.

2. "Benefit Coverage" means the Medical or Dental insurance coverage provided by the Employer. The coverages and conditions for eligibility are described in the Summary Plan Description Booklet for each respective Plan.

3. "Carrier" means any insurance carrier, Health Maintenance Organization (HMO), Preferred Provider Organization (PPO), third party administrator, or health care provider with which the Commonwealth contracts for Benefits.

4. "Code" means the Internal Revenue Code of 1986 as amended.

5. "Commonwealth" means the Commonwealth of Virginia.

6. "Employee" means any person designated as full-time permanent staff of the Employer, who has been designated by the Employer as an Employee under this definition, excluding persons employed on a special or consulting basis, persons compensated on a commission or fee basis, temporary agency personnel and independent contractors.

7. "Employer" means the Commonwealth of Virginia.

8. "Plan" means the Commonwealth of Virginia Flexible Compensation Plan, which is set forth in this document and is intended to constitute a separate written plan for the exclusive benefit of Employees, under which all participants have the opportunity to select benefit coverage.

9. "Plan Year" means a twelve-month period ending on December 31, during which benefit coverage is provided.

ARTICLE III

PARTICIPATION

Section 1. Eligibility

Each Employee is eligible to participate under this Plan. Eligibility for the purpose of coverage shall be determined under the terms of the State Employee Health Benefits Program.

Section 2. Enrollment Election

An Employee may elect, on a form approved by the Employer, health care coverage in accordance with the terms of the respective agreements with selected carriers, and shall have benefit costs paid in accordance with the terms of this Plan.

Section 3. Revocation of Election

Once an Employee elects coverage, such elections may not be voluntarily revoked prior to the end of the Plan Year. However, an Employee may change his election after coverage has commenced and make a new election with respect to the remainder of the Plan Year if the new election is on account of and consistent with a change of family status, such as, marriage, divorce, legal separation, death of a spouse or child, birth or adoption of a child or dependent leaving the household as the result of a custody agreement, or the employment change of the spouse which effects his/her eligibility for benefits under another employer's group benefit plan.

Section 4. Change in Election

Prior to January 1 of each year an employee may change or revoke coverage under any specified Plan effective for the next Plan Year.

ARTICLE IV

COMPENSATION REDUCTION

Section 1. Benefit Cost

The regular, fixed basic compensation of an Employee who has elected coverage shall be reduced by the amount of benefit cost.

Section 2. Leave of Absence or Retirement - Suspension of Compensation Reduction

If the Employee is permitted to maintain coverage during an authorized leave of absence or retirement, then compensation reduction for Benefit Cost shall be suspended during such leave of absence; provided, however, that coverage may be maintained during the leave of absence at the Employee's expense under the terms of the State Employee Health Benefits Program.

Section 3. Maximum Compensation Reduction

In no event shall the regular fixed basic compensation of an Employee be reduced in excess of the amounts required as Benefit Cost.

ARTICLE V

GENERAL PROVISIONS

Section 1. Administration

The Plan shall be administered in accordance with Code Section 125 by the Employer.

Section 2. Plan Records

The records of the Plan shall be maintained on the basis of the Plan Year.

Section 3. Employment Rights

Employment rights of an Employee shall not be deemed to be enlarged or diminished by reason of the establishment of the Plan, and the Employee shall not have any right to be retained in the service of the Employer that he or she would not otherwise have.

Section 4. Amendment and Termination

The Employer reserves the right to amend or terminate this Plan any time. No such amendment, however, shall diminish or eliminate any claim for any benefit to which a Participant shall have become entitled under the Plan.

* * * * *

Adopted _____

Dear (Insert Employee Name):

We are pleased to announce the start of a new flexible benefit program. The Commonwealth of Virginia Flexible Compensation Program has been created to allow all employees who are eligible for health benefits coverage to elect to pay for dependent health insurance coverage with pre-tax dollars. By electing to participate in this program, you can reduce your overall tax liability and actually increase your monthly take-home pay.

As an employee of the Commonwealth, you have available to you health benefit coverage through one of several health care programs. Depending upon the plan of benefits you select, you may be required to contribute a portion of the total premium cost. If you elect to have coverage on your dependents, you must also contribute a portion of the cost of dependent coverage.

In the past, any share of the benefit cost which you paid was deducted from your net pay. Your net pay is the amount of your pay after taxes. Now, under the new Flexible Compensation Program, the benefit cost that you pay can be reduced from your "gross pay." Your gross pay is the amount of money you earn before taxes are taken out.

As the cost of providing health care coverage continues to rise, this program has been designed to offer you an alternative to help cushion the impact of this rising cost as it affect your actual take-home pay.

The tax advantages of paying your health insurance premium on a pre-tax basis are clearly shown in the enclosed material. You should be aware, however, that your decision to defer income in this manner means that your compensation level of record will be the reduced amount for purposes of reporting to Social Security. Consequently, if your reduced salary level is below the Social Security maximum, it may slightly lower the amount of your Social Security benefits that you could receive when you retire. The approximate impact of this reduction is also illustrated in the enclosures.

If you are contemplating retirement in the near future, please contact [_____] for more specific information concerning your situation. Your election **will not affect** your benefit accrual under the Virginia Supplemental Retirement System as contributions are required to be made on your pre-deferral compensation level. Also, your decision will not affect future salary adjustments which may be based on a percentage of salary.

The rules of participation are really quite simple:

1. The election to participate must be given prior to the beginning date of the Plan Year (January 1) or commencement of coverage, if coverage starts in mid-year. This decision can not be made retroactively.

2. The decision cannot be rescinded unless there is a change in family status, such as:

   a. marriage, divorce or legal separation;

   b. death of a spouse or child;

   c. birth or adoption of a child;

   d. change of residence of a dependent as the result of a custody agreement; or

   e. employment change of the spouse which affects his/her eligibility for benefits under another group benefit plan.

3. The amount of the salary reduction must be made in a specific amount and it cannot be changed during the year (except under the circumstances described in item 2. above.) This applies even though for any reason the employee contribution rates are raised or lowered.

4. You may elect to change the amount of the salary reduction or to terminate participation before the commencement date of each new Plan Year.

If you decide that you wish to participate in the flexible benefits program you can execute the appropriate authorization on the enclosed form. If you choose not to participate but still desire to have dependent coverage, you should indicate that preference on the election form and the deduction will continue to be made from your net (after tax) pay.

Any questions you may have concerning this program should be directed to _____.

Appendix L-4

General Information

Flexible Compensation Plan

I. EFFECT OF FLEXIBLE COMPENSATION

The effect of paying benefit costs on a before - tax basis is:

A. Employee's gross salary is reduced by the amount of benefit cost normally deducted from the employee's net salary.

B. Employee's taxes paid (and withheld) are reduced because the gross salary is reduced.

C. Employee's take-home pay increases because taxes are reduced.

D. Employer and employee Social Security FICA taxes are reduced because the employee's gross salary is reduced (unless new and old gross salaries are both above the Social Security maximum).

E. Employee's future Social Security benefits may be slightly reduced because the employee's gross salary subject to the FICA tax is reduced unless salary reduction takes place above the Social Security maximum.

F. Will also slightly reduce other gross salary based plans (pension, etc.) unless employer redefines gross salary within these plans.

II. RULES

Some rules which apply to adopting a valid Flexible Compensation Plan are:

A. A Flexible Compensation Plan assumes there is some employee choice among benefit or cash alternatives. The choice occurs in the plan when the employee chooses:

1. to cover his or her dependents for benefits, and have the employee portion of benefit cost paid out of the employee's gross salary, or

2. not to elect to cover his or her dependents (to take his or her full salary including benefit cost in cash).

B. Prior to a Plan Year effective date or prior to commencement of coverage for an employee whose coverage starts in mid year, the employee must decide if he/she wants to continue to cover his/her dependents. The decision can not be made retroactively. The decision cannot be rescinded, unless there is a change in family status, such as,

1. marriage, divorce, legal separation,

2. death of a spouse or child,

3. birth or adoption of a child,

4. dependent leaving household as the result of a custody agreement, or

5. employment change of the spouse which affects his/her eligibility for benefits under another group benefit plan.

C. The amount of the salary reduction must be made in a specific amount and it cannot be changed during the year. For example, assume the dependent premium rate is $100 and this amount was applicable on the effective date of the Flexible Compensation Plan. The salary for each employee who elected dependent coverage would be reduced by $100. If later in the plan year, a decision was made to implement some benefit changes, perhaps adding life coverage for dependents - which would increase the employee share of the benefit cost by $2.50, this additional cost of $2.50 could not be subtracted from the employee's gross salay in mid-plan year. This additional $2.50 would have to be paid by the employee in after tax dollars. No change to the specific allocation of $100 can be made during the year (except for the circumstances described in B above).

In the above example, the additional $2.50 cost could be included in the salary reduction amount beginning at the start of the next Plan Year.

D. If the benefit cost were reduced for some reason, e.g., due to an increase in the deductible in mid-plan year, and the employee share of the dependent benefit cost was reduced by $6.00, this $6.00 reduction in benefit cost could not be added back to the employee's gross income. The employee has to forfeit any amount not used for benefit cost during the year. A change in the salary reduction amount can only become effective at the beginning of the next Plan Year.

III. AREAS OF CONCERN

You should be aware of two items which could be of concern regarding the Flexible Compensation Plan.

A. The reduction in the employee's gross salary in some cases could conceivably make the employee's salary fall below minimum wage guidelines. If any employees fall in this category legal counsel should be asked for an opinion.

B. A Flexible Compensation Plan could become invalid (lose preferential tax status) if it discriminates to the advantage of your highly compensation employees. For example, a plan could be found discriminatory if the highly compensated employees disproportionately choose non-taxable benefits (dependent coverage) while other employees choose taxable benefits (cash).

This material has been prepared to assist you in providing a valuable benefit for your employees.

You should be aware that Government regulations are ever changing and that these plans are currently being scrutinized. Subsequent laws and regulations could change the favorable tax treatment of Flexible Compensation Plans. We will monitor any change and inform you accordingly.

Appendix L-5

COMMONWEALTH of VIRGINIA

GLEN D. POND
DIRECTOR

BOARD OF TRUSTEES
CHARLES B. WALKER, CHAIRMAN
STUART W. CONNOCK
MARK T. FINN
J. AUBREY HOUGHTON
RAY C. HUNT, JR.
WALTER J. MIKA, JR.
S. BUFORD SCOTT

Virginia Supplemental Retirement System

1200 East Main Street
RICHMOND, VIRGINIA

MAILING ADDRESS:
POST OFFICE BOX 3-X
RICHMOND, VIRGINIA 23207

TELEPHONE (804) 786-3831

October 28, 1987

NOV 2 1987

VSRS Directive 87-4

TO: Personnel and Finance Officers of Public School Boards and Political Subdivisions Participating in the VSRS

SUBJECT: Cafeteria Plans Established Under Section 125 of the Internal Revenue Code

Questions have arisen as to the appropriate creditable compensation to be reported to the VSRS for retirement and group life insurance purposes by employers that have established or are considering establishing a cafeteria plan under Section 125 of the Internal Revenue Code.

In the past, those employers making inquiries were advised that retirement and group life insurance should be calculated on the "reduced" amount of salary for those individuals participating in cafeteria plans. The VSRS has been requested by several sources to review this policy.

Based on our review, the previous policy has been reversed. Members who are participating in cafeteria plans which result in a salary reduction should have their VSRS retirement contributions and group life insurance premiums calculated on the gross salary amount, not the salary after the reduction has taken place.

Any questions concerning the appropriate creditable compensation to be reported should be addressed to Mrs. Rose Mary Smith at 804-786-8785, ext. 107.

Thank you for your attention to this matter.

Sincerely,

Glen D. Pond
Director

GDP:rlp

RECEIVED
NOV 16 1987
MARTIN E. SEGAL COMPANY

MARTIN E. SEGAL COMPANY

Appendix L-6

Effect of Flexible Compensation Program on Take Home Pay

Assumptions:

$21,000 gross annual salary

$807.69 biweekly gross salary

Married, Two children

Standard Plan, Family Coverage

Salary Distribution	Without Flexible Compensation	With Flexible Compensation
Gross Salary	$807.69	$776.91
FICA	57.75	55.55
Federal Tax	81.00	75.00
State Tax	31.00	29.00
Health Care	30.78	30.78
Net Take Home Pay	$607.16	$617.36

NET SAVINGS PER PAYCHECK	$ 10.20
NET SAVINGS ANNUALLY	$265.20

Appendix M

RETIREE HEALTH BENEFIT COSTS FOR STATE, SCHOOL, LOCAL AND COMBINED GROUPS

Appendix M-1

STATE, SCHOOL, LOCAL AND COMBINED
PAST SERVICE LIABILITIES (IN MILLIONS)

		FULL COST OF PROGRAM COMBINED STATE AND EMPLOYEE CONTRIBUTION	INDIRECT SUBSIDY	CONSTANT CONTRIBUTION OF $1 PER YEAR OF SERVICE	CONTRIBUTION OF $1 PER YEAR OF SERVICE WITH INFLATIONARY ADJUSTMENT
STATE	-RETIREES	$ 251.6	$ 20.8	$ 31.6	$ 44.4
	-ACTIVES	383.2	47.9	12.2	35.0
	-TOTAL	634.8	68.7	43.8	79.4
SCHOOL	-RETIREES	271.3	15.4	47.5	66.6
	-ACTIVES	516.5	69.4	27.9	77.2
	-TOTAL	787.8	84.8	75.4	143.8
LOCAL	-RETIREES	88.7	9.5	13.5	19.1
	-ACTIVES	224.7	25.7	8.8	26.7
	-TOTAL	313.4	35.2	22.3	45.8
COMBINED	-RETIREES	$ 611.6	$ 45.7	$ 92.6	$ 130.1
	-ACTIVES	1,124.4	143.0	48.9	138.9
	-TOTAL	1,736.0	188.7	141.5	269.0

Appendix M-2

AMORTIZATION OF PAST SERVICE LIABILITIES (IN MILLIONS) AS A CONSTANT DOLLAR AMOUNT FOR STATE, SCHOOL, LOCAL AND COMBINED EMPLOYEE GROUPS

	FULL COST OF PROGRAM COMBINED STATE AND EMPLOYEE CONTRIBUTION	INDIRECT SUBSIDY	CONSTANT CONTRIBUTION OF $1 PER YEAR OF SERVICE	CONTRIBUTION OF $1 PER YEAR OF SERVICE WITH INFLATIONARY ADJUSTMENT
STATE	$ 49.3	$ 5.3	$ 3.4	$ 6.2
% OF SALARY	2.7%	0.3%	0.2%	0.3%
SCHOOL	61.2	6.6	5.9	11.2
% OF SALARY	2.7	0.3	0.3	0.5
OTHER	24.3	2.7	1.7	3.6
% OF SALARY	2.4	0.3	0.2	0.3
COMBINED	134.8	14.7	11.0	20.9
% OF SALARY	2.6	0.3	0.2	0.4

1. The amortization period was assumed for 40 years.

2. The dollar amount of the amortization of past services liability will remain constant in each of the 40 years of the amortization period.

3. The percent of salary is for the first year only. Assuming a growth in salary, the % of salary will decrease in each subsequent year.

Appendix M-3

COST OF AMORTIZATION OF PAST SERVICE LIABILITIES OF STATE, SCHOOL, LOCAL AND COMBINED EMPLOYEE GROUPS EXPRESSED AS A CONSTANT PERCENT OF SALARY
(IN MILLIONS)

	FULL COST OF PROGRAM COMBINED STATE AND EMPLOYEE CONTRIBUTION	INDIRECT SUBSIDY	CONSTANT CONTRIBUTION OF $1 PER YEAR OF SERVICE	CONTRIBUTION OF $1 PER YEAR OF SERVICE WITH INFLATIONARY ADJUSTMENT
STATE	$30.2	$3.3	$2.1	$ 3.8
% OF SALARY	1.7%	0.2%	0.1%	0.2%
SCHOOL	37.5	4.0	3.6	6.8
% OF SALARY	1.6	0.2	0.2	0.3
OTHER	14.9	1.7	1.1	2.2
% OF SALARY	1.5	0.2	0.1	0.3
COMBINED	82.5	9.0	6.7	12.8
% OF SALARY	1.6	0.2	0.1	0.3

1. The amortization period was assumed to be 40 years

2. The dollar amount of the amortization at past service liabilities is for the first year only. Assuming growth in payroll, the dollar amount will increase in each subsequent year.

3. The pecent of salary for the amortization of past service liabilities will remain constant for the 40 year amortization period.

Appendix M-4

NORMAL COST OF FUNDING RETIREE BENEFIT ACCRUALS FOR STATE, SCHOOL OTHER AND COMBINED EMPLOYEE GROUPS

	FULL COST OF PROGRAM COMBINED STATE AND EMPLOYEE CONTRIBUTION	INDIRECT SUBSIDY	CONSTANT CONTRIBUTION OF $1 PER YEAR OF SERVICE	CONTRIBUTION OF $1 PER YEAR OF SERVICE WITH INFLATIONARY ADJUSTMENT
STATE	$ 90.7	$ 10.9	$ 3.6	$ 9.1
% OF SALARY	5.0%	0.6%	.2%	0.5%
SCHOOL	129.4	13.6	4.5	13.6
% OF SALARY	5.7%	0.6%	0.2%	0.6%
OTHER	50.1	6.1	2.0	6.1
% OF SALARY	4.9%	0.6%	0.2%	0.6%
COMBINED	270.2	30.6	10.2	28.8
% OF SALARY	5.3%	0.6%	0.2%	0.6%

NOTES:

1. The percent of salary shown is a constant for future years.

2. The dollar amount shown is for the first year only. As payroll increases, so will this cost.

Appendix M-5

Cost of Direct and Indirect Subsidies
Using Level and Growing Amortization Methods

State Employees (Level Amortization, in Millons)

Year	Full Cost of Program Combined State and Employee Contributions	Indirect Subsidy	Constant Contribution of $1 Per Year of Service	Contribution of $1 Per Year of Service With Inflationary Adjustment
1	$140.0	$16.2	$7.0	$15.2
2	143.6	16.7	7.2	15.6
3	147.4	17.1	7.3	16.0
4	151.3	17.6	7.5	16.4
5	155.4	18.1	7.6	16.8
6	159.7	18.6	7.8	17.2
7	164.1	19.1	8.0	17.6
8	168.7	19.7	8.2	18.1
9	173.4	20.2	8.4	18.6
10	178.4	20.8	8.6	19.1

State Employees (Growing Amortization, in Millons)

Year	Full Cost of Program Combined State and Employee Contributions	Indirect Subsidy	Constant Contribution of $1 Per Year of Service	Contribution of $1 Per Year of Service With Inflationary Adjustment
1	$120.9	$14.2	$5.7	$12.0
2	125.7	14.7	5.9	13.4
3	130.8	15.3	6.2	13.9
4	136.0	15.9	6.4	14.5
5	141.4	16.6	6.7	15.0
6	147.1	17.2	6.9	15.6
7	153.0	17.9	7.2	16.3
8	159.1	18.6	7.5	16.9
9	165.5	19.4	7.8	17.6
10	172.1	20.1	8.1	18.3

Notes

1. Level amortization costs have the past service liability spread over 40 years at equal costs for each year.

2. Growing amortization costs have the past service liability spread over 40 years with cost remaining a constant percentage of payroll. Consequently, as payroll costs increase the annual contribution required will also increase.

Appendix M-6

Cost of Direct and Indirect Subsidies
Using Level and Growing Amortization Methods

School Employees (Level Amortization, in Millons)

Year	Full Cost of Program Combined State and Employee Contributions	Indirect Subsidy	Constant Contribution of $1 Per Year of Service	Contribution of $1 Per Year of Service With Inflationary Adjustment
1	$190.6	20.2	10.4	24.8
2	195.7	20.7	10.6	25.3
3	201.1	21.3	10.8	25.9
4	206.7	21.9	11.0	26.5
5	212.5	22.5	11.2	27.1
6	218.6	23.2	11.4	27.7
7	224.9	23.8	11.6	28.4
8	231.4	24.5	11.8	29.1
9	238.3	25.2	12.1	29.8
10	245.3	26.0	12.3	30.6

School Employees (Growing Amortization, in Millons)

1	166.8	17.7	8.1	20.5
2	173.5	18.4	8.4	21.3
3	180.5	19.1	8.8	22.1
4	187.7	19.9	9.1	23.0
5	195.2	20.7	9.5	23.9
6	203.0	21.5	9.9	24.9
7	211.1	22.3	10.3	25.9
8	219.6	23.2	10.7	26.9
9	228.3	24.2	11.1	28.0
10	237.5	25.1	11.6	29.1

Notes

1. Level amortization costs have the past service liability spread over 40 years at equal costs for each year.

2. Growing amortization costs have the past service liability spread over 40 years with cost remaining a constant percentage of payroll. Consequently, as payroll costs increase the annual contribution required will also increase.

Appendix M-7

Cost of Direct and Indirect Subsidies
Using Level and Growing Amortization Methods

Local Employees (Level Amortization, in Millons)

Year	Full Cost of Program Combined State and Employee Contributions	Indirect Subsidy	Constant Contribution of $1 Per Year of Service	Contribution of $1 Per Year of Service With Inflationary Adjustment
1	74.4	8.9	3.8	9.7
2	76.4	9.1	3.9	9.9
3	78.5	9.4	3.9	10.2
4	80.7	9.6	4.0	10.5
5	82.9	9.9	4.1	10.7
6	85.3	10.2	4.2	11.0
7	87.7	10.5	4.3	11.3
8	90.2	10.8	4.4	11.6
9	92.9	11.1	4.5	11.9
10	95.6	11.5	4.6	12.3

Local Employees (Growing Amortization, in Millons)

1	65.0	7.8	3.1	8.3
2	67.6	8.1	3.2	8.6
3	70.3	8.4	3.4	9.0
4	73.1	8.8	3.5	9.3
5	76.0	9.1	3.6	9.7
6	79.1	9.5	3.8	10.1
7	82.2	9.9	3.9	10.5
8	85.5	10.3	4.1	10.9
9	88.9	10.7	4.2	11.4
10	92.5	11.1	4.4	11.8

Notes

1. Level amortization costs have the past service liability spread over 40 years at equal costs for each year.

2. Growing amortization costs have the past service liability spread over 40 years with cost remaining a constant percentage of payroll. Consequently, as payroll costs increase the annual contribution required will also increase.

Appendix M-8

Cost of Direct and Indirect Subsidies
Using Level and Growing Amortization Methods

All Groups (Level Amortization, in Millons)

Year	Full Cost of Program Combined State and Employee Contributions	Indirect Subsidy	Constant Contribution of $1 Per Year of Service	Contribution of $1 Per Year of Service With Inflationary Adjustment
1	405.0	45.3	21.2	49.7
2	415.8	46.5	21.6	50.9
3	427.0	47.8	22.0	52.1
4	438.7	49.1	22.5	53.3
5	450.9	50.5	22.9	54.6
6	463.5	51.9	23.4	56.0
7	476.7	53.4	23.9	57.4
8	490.4	55.0	24.4	58.8
9	504.6	56.6	25.0	60.3
10	519.4	58.3	25.5	61.9

All Groups (Growing Amortization, in Millons)

1	352.7	39.6	16.9	41.6
2	366.8	41.2	17.6	43.3
3	381.5	42.8	18.3	45.0
4	396.8	44.6	19.1	46.8
5	412.6	46.3	19.8	48.7
6	429.1	48.2	20.6	50.6
7	446.3	50.1	21.4	52.7
8	464.2	52.1	22.3	54.8
9	482.7	54.2	23.2	57.0
10	502.0	56.4	24.1	59.2

Notes

1. Level amortization costs have the past service liability spread over 40 years at equal costs for each year.

2. Growing amortization costs have the past service liability spread over 40 years with cost remaining a constant percentage of payroll. Consequently, as payroll costs increase the annual contribution required will also increase.